Value for Money Strategy 2019-20

Contents

1 Introduction

1.1 One of Hexagon's six major corporate objectives is 'to change our ways of working to achieve maximum value for money by working smarter'.

1.2 This is important because:

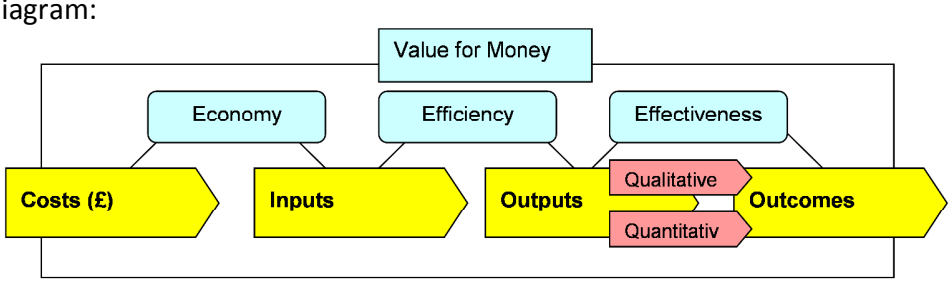
- Residents pay their rent and service charges in the expectation that we will make the best use of these to fulfil Hexagon's objectives;
- Our main source of income (rents from tenanted properties) is currently constrained by a formula that reduces it by 1% a year for the next year. We have to ensure that costs are constrained to secure Hexagon's long term future; and
- Our regulators place great emphasis on value for money and require Hexagon to report on value for money every year.

1.3 Progress on the previous year's VFM strategy is reported to the Board each September.

2 Hexagon's Approach to Value for Money

2.1 What is Value for Money (VFM)?

2.1.1 Hexagon has adopted a definition of VFM as the relationship between economy, efficiency and effectiveness, as illustrated by the following diagram:



2.1.2 ***Economy*** is the price paid for what goes into providing a service, for example, the build cost of new homes per square metre.

2.1.3 ***Efficiency*** is a measure of productivity – how much you get out in relation to what is put in. For example, the efficiency of services such as void turnaround. Efficiency is primarily associated with the process and delivery of procurement.

2.1.4 ***Effectiveness*** is a measure of the impact achieved and can be quantitative or qualitative. For example, how many people gained employment through using our community investment service (quantitative); satisfaction levels among different sections of the community with tenant participation arrangements (qualitative), and so on. Effectiveness is primarily associated with the outcomes for customers.

2.1.5 VFM is high when there is an optimum balance between all three – relatively low

costs, high productivity and successful outcomes.

2.2 How does Hexagon seek to achieve and monitor VFM?

2.2.1 Hexagon adopts a number of techniques to achieve VFM:

- Working to a **corporate plan** which sets out corporate objectives for the forthcoming three years, including VFM themes and targets;
- Using a **30 year financial forecast** to test the financial feasibility of major decisions;
- Setting an **annual budget** which reflects the corporate objectives and is in accordance with the VFM targets;
- Having a clear **asset management strategy** to ensure that we make the best use of our housing assets;
- **Maximising our income**, in balance with our social objectives;
- Working to a defined **treasury management policy** to ensure that borrowing costs and risk are efficiently managed;
- Having a Community Investment Strategy to help deliver **social value** (see 4.1, p8);
- Improving our **business systems** through the use of information and communications technology (ICT); and
- Understanding and managing business **risks.**

3 How are we doing compared to our peers?

3.1 HouseMark and Other Benchmarking Data

3.1.1 Hexagon uses HouseMark to benchmark general needs and overhead activities. Activity-specific benchmarks are used where these are available such as DLA Piper, which is used by Human Resources and SDS Catalyst, which is used by Development.

3.1.2 The results of HouseMark benchmarking for 2017/18 (see **Figure 1**, below) are shown below. The benchmarking group used is London associations who have submitted data in either 2016/17 or 2017/18 – this is changed from 2016/17[1] which makes comparisons difficult with previous years. The group previously used was a shrinking one due to:

- irregular submissions to HouseMark;
- stock size increasing to over 7500; and
- mergers;

The new group is the one that we will use going forward and includes a much bigger range of London associations.

3.1.3 It is also worth noting that the indicators used in dashboard have been amended for 2017/18 with:

[1] The group previously used was London HAs with <7500 homes

- Reduced numbers within the basket (HouseMark's decision, not ours);
- Customer Service and Community investment have been added; and
- Major and Planned work has been removed.

Figure 1 - HouseMark Dashboard for Hexagon compared with London Housing Associations

3.1.4 The position is quite mixed:

- Three areas are in the 'relatively good performance, low cost' quadrant – customer service, rent arrears and collection and neighbourhood management;
- Voids and lettings are in the 'relatively poor performance, low cost quadrant';
- Tenancy management and responsive repairs are high cost and on the cusp of the 'relatively good performance, high cost quadrant.'
- Resident involvement is in the high cost, low performance quadrant, but only just.

3.1.5 In order to move into good performance/low cost in all areas, we would need to:

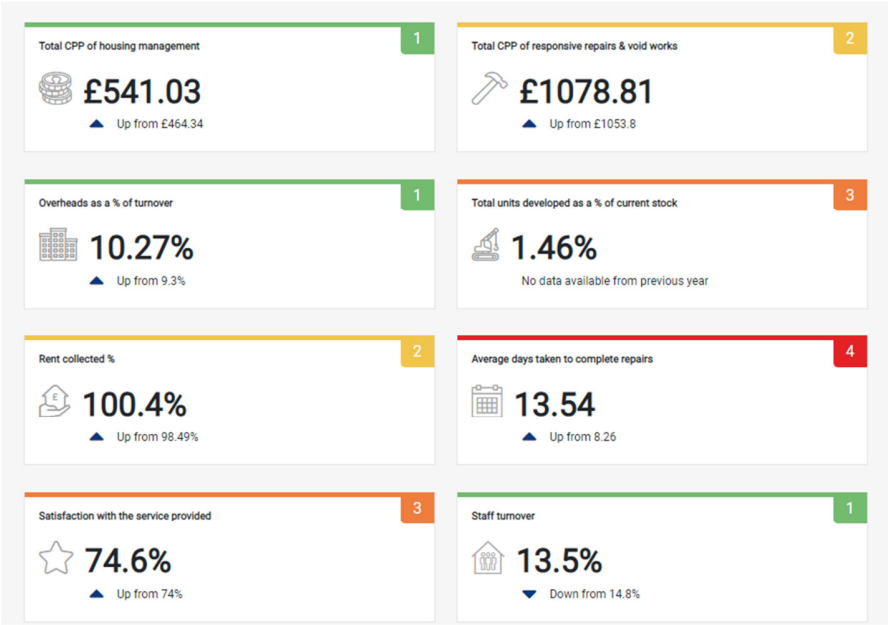
- Increase **resident satisfaction with the last repair**, with views being taken into account and overall **satisfaction with the landlord**[2]**;**
- **Reduce spend on repair work slightly**;
- Reduce **void rent loss**; and
- Reduce our costs on Resident Involvement;

Performances targets have already been set by the Board on the measures listed above that are shown in **bold**.

3.1.6 2017/18 was a year of transition from one format of data presentation to another for HouseMark, the dashboard above can be added to in a different format which is

[2] Overall satisfaction appears low because of the group benchmarked it excludes those landlords who don't submit data to HouseMark or only do so irregularly The Sector Scorecard, see **Error! Reference source not found.**, shows Hexagon's performance to be better than the median on this.

below.

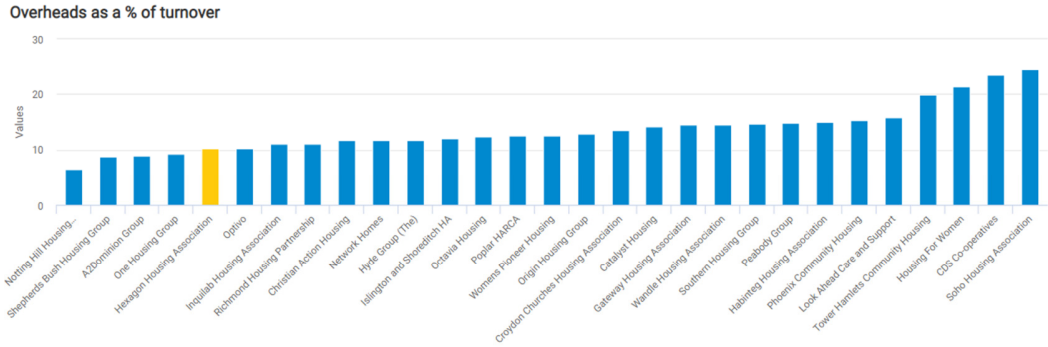


3.1.7 It is much more configurable in terms of

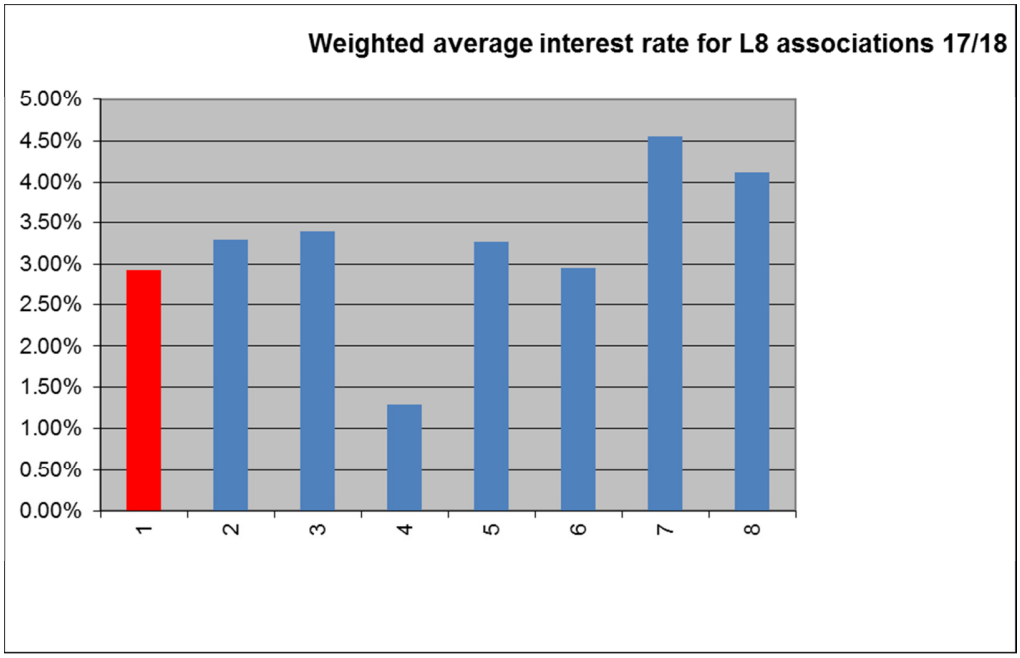
- The indicators that appear on the front of the dashboard; and
- The benchmarking group that can be selected.

The detail of the 2017/18 HouseMark benchmarking exercise will be considered in detail by the Performance Management Committee in May 2019.

3.1.8 Hexagon's overhead costs are lower (as a percentage of turnover) than in most of the peer group; Hexagon is the yellow bar in the chart below.



3.1.9 HouseMark no longer collects data on average interest rate paid, so we no longer have a benchmark measure for Treasury Management. All we have is the comparison with our L8 peer group, which has Hexagon with the second lowest rate for 17/18.



3.2 Sector Scorecard Data

3.2.1 The Sector Scorecard is a set of 18 indicators that were piloted to benchmark efficiency across the sector in 2016/17 with the Regulator using a subset of 9 of these from 2017/18. The indicators are split across five categories of

- Business health;
- Development (capacity and supply);
- Outcomes delivered;
- Effective asset management; and
- Operating efficiencies.

Some of the indicators have sub-divisions so there are 23 indicators in total. Previously, there was no provision to tailor the Sector Scorecard benchmarking by geography or landlord data; this has now changed with the addition of a 'dynamic peer group' feature. This report therefore uses comparisons with HAs and HA (LSVTs) in London. Data was submitted by 63 housing associations through HouseMark, although not every organisation submitted data for every indicator.

3.2.2 The summary results for Hexagon are as follows[3]:

[3] It is not clear why the Overheads as a% of turnover is missing, we have contacted HouseMark to rectify this; similarly the Development data was missing although this has been manually input.

Area	Indicator	Hexagon	Top Q	Median	Bottom Q	Hexagon Quartile
Business Health	Operating margin	22.35%	30.77%	27.31%	22.34%	3
	Operating margin (social housing lettings)	27.05%	36.24%	28.00%	23.56%	3
	Interest Cover EBITDA (MRI) (as a percentage of interest)	293.04%	213.34%	181.31%	137.00%	1
Development Capacity & Supply	New supply delivered (social housing units)	56	376	56	20	M
	New supply delivered (social housing units) - as a % of stock	1.30%	1.87%	1.19%	0.53%	2
	New supply delivered (non-social housing units)	0	175	32	0	N/A
	New supply delivered (non-social housing units) - as a % of stock	0	1.03%	0.27%	0.00%	N/A
	Gearing	41.76%	48.08%	38.92%	34%	2
Outcomes Delivered	Customers very or fairly satisfied with the overall service provided (GN and Hfop)	74.60%	82.29%	74%	72.71%	2
	Reinvestment %	6.29%	6.45%	5.05%	3.67%	2
Effective Asset Management	Return on capital employed (ROCE)	1.94%	3.83%	3%	2.69%	4
	Occupancy	99.82%	99.84%	99.66%	99%	2
	Ratio of responsive repairs to planned maintenance spend	0.42	0.9	0.68	0.47	1
Operating Efficiencies	**Headline social housing cost per unit - split into:**	£5,020	£4,375	£4,840	£6,662	3
	Management cost per unit	£670	£926	£1,194	£1,578	1
	Service charge cost per unit	£281	£551	£756	£1,129	1
	Maintenance cost per unit	£1,258	£878	£1,127	£1,353	3
	Major repairs cost per unit	£1,893	£606	£815	£1,163	4
	Other social housing costs - cost per unit	£918	£204	£319	£941	3
	Rent collected	100.40%	100.59%	99.97%	99.56%	2
	Overheads as a percentage of adjusted turnover	N/A	9.29%	11.46%	13.43%	N/A

3.2.3 Regulatory Indicators (see black highlight above)

- **Return on Capital Employed** – this is the only one inside the bottom quartile; for the 2016/17 data officers undertook a large amount of work to understand this better and as was reported to the Board in September 2018
    - Hexagon does not deliver a low surplus per unit; but
    - We do have a high cost of assets (predominately property costs) per unit.
- In our attempts to try to understand this indicator better we have found that that in 2016/17 almost all the associations with the highest cost of assets less liabilities per social housing unit were medium-sized developing London HAs like Hexagon – all but one of which had all or the vast majority of their stock within London. To 'improve' our performance we would have had to increase our surplus by £6.4 m.
- One other factor that is likely to have an impact is the value of shared ownership staircasing, Hexagon was relatively late to developing shared ownership and compared with many other social landlords has relatively small numbers of units. This will in turn impact on staircasing amounts which are included in numerator of the equation. The precise impact of this will be difficult to work out.
- The two **operating margin indicators** are both below the median but do not reflect the one off costs of Brickfields Cottages, without Brickfields our performance would be above the median.
- The headline social housing costs per unit is driven by the Major Repairs cost per unit – the reasons for being high are explored in 3.2.4, below.

3.2.4 Non -Regulatory Indicators (see black highlight above)

- **Major Repairs Cost Per Unit** – this is the only metric below the lowest quartile, the reasons for this are a combination of three factors

- The denominator is the number of units managed, which does not take into account the number of homes managed by Co-ops and other agencies on our behalf which are atypical for our size;
- The figure does not exclude the unusual costs of Brickfields Cottages; and
- As with repairs costs, being a London landlord with a large percentage of Victorian and Edwardian homes tends to increase costs.

3.2.5 Three non-Regulatory metrics are below the median

- The social housing costs per unit are largely driven by major repairs costs (see 3.2.4, above);
- Maintenance costs per unit – from the work undertaken so far HouseMark our works and commissioning costs are higher than the benchmark; and
- Other Social Housing Costs – as with major repairs, this doesn't fully take into account the number of homes managed by Co-ops and other agencies on our behalf.

3.3 Where we intend to focus our VFM efforts this year

3.3.1 Based on the evidence from benchmarking data, we intend to focus on improving performance, with particular reference to reducing rent arrears and void rent loss and on improving resident satisfaction with responsive repairs and reducing costs in that area.

4 Value for Money Themes in the Corporate Plan

4.1 The Board has agreed a suite of strategic level Value for Money themes and measures which cover all of the Association's activities:

Theme	Measure
Restricting operating costs (including major repairs and void losses) per social housing unit	Operating cost per social housing unit
Restricting growth of interest costs per social housing unit	Interest paid as a percentage of average borrowings
Effective asset management	Return on capital employed
Maximising development (within our capacity)	Units developed as a percentage of units owned
Maximising development (within our capacity)	£m distance from an interest cover breach
Maximising development (within our capacity)	Cumulative surplus on outright sales
Improving resident satisfaction	% satisfied with last repair
Delivering social value	Average SAP rating of properties
Delivering social value	Annual social value delivered per £ spent on employment initiatives

4.2 These measures have been chosen because they encompass everything that the Association spends, but also include the most readily available measures of outcome

(new homes, resident satisfaction and social value). Definitions of each measure are included in Appendix 1.

4.3 As part of the Corporate Plan for 2017-20, the Board has agreed targets for these measures over the next three years. These are set out in Appendix 2. The next section of this strategy summarises the most important actions from departments' workplans to deliver improvements during 19/20.

5 Value for Money Initiatives for 2019/20

5.1 The following actions to deliver value for money improvements will be taken in 19/20. These actions will contribute to achieving the 19/20 VFM targets set out in the 17/20 Corporate Plan (see Appendix 2).

	VFM Theme	Team Leading or Responsible	Initiative
1	Restricting operating costs (including major repairs and void losses) per social housing unit	Business Improvement	Review non-rental debt collection
2	Delivering social value	Development	Achieve overall average SAP rating of 85 on schemes handing over in 18/19 (85.88 was achieved in 2017/18).
3	Delivering social value	Community Investment	Actively engage and recruit residents to the Employment and Skills Programme and getting some into employment
4	Delivering social value	Development	Achieve the GLA CO2 reduction target required for all 15/18 & 16/21 schemes
5	Restricting operating costs (including major repairs and void losses) per social housing unit	Neighbourhood Services	Achieve average void turnaround for "Unlettable" and "Major works" voids of 50 days and "Package Improvement Voids" of 70 days (In 2017/18 performance was 74 & 108 days respectively)

	VFM Theme	Team Leading or Responsible	Initiative
6	Restricting operating costs (including major repairs and void losses) per social housing unit	Neighbourhood Services	Supported housing units: achieve re-let target of 82 days through review of referral process with LA stakeholders (82 days in 2017/18)
7	Restricting operating costs (including major repairs and void losses) per social housing unit	Neighbourhood Services	Keep under review viability concerns for supported schemes impacted by ending of LA supported void loss agreements, taking action to mitigate potential income loss.
8	Improving resident satisfaction	Neighbourhood Services	In consultation with local residents pilot on-site caretaker service for Parkspring Court
9	Restricting operating costs (including major repairs and void losses) per social housing unit	Rents & Revenue	Achieve GN social rented and market related rent arrears target of 5.6% TBC based on year end position (2017/18 performance was 5.7% for social rented & 6.4% for market related)
10	Restricting operating costs (including major repairs and void losses) per social housing unit	Rents & Revenue	Achieve Supported Housing Arrears target of 2.5% based on previous target achieved. (Performance was 2.2%in 2017/18)
11	Restricting operating costs (including major repairs and void losses) per social housing unit	Rents & Revenue	Maximise APA applications to facilitate direct payment of housing costs for Universal Credit (UC) claimants wherever possible Encourage all UC other claimants to enter into regular direct payment (DD/CPA) method linked to monthly payment dates.
12	Restricting operating costs (including major repairs and void losses) per social housing unit	Resident Involvement	Develop communications methods including digital communications with residents across a range of platforms
13	Restricting operating costs (including major repairs and void losses) per social housing unit	Responsive Repairs	Carry out a review of the current term contract to investigate the possibility of moving to a Price Per Property model

	VFM Theme	Team Leading or Responsible	Initiative
14	Restricting operating costs (including major repairs and void losses) per social housing unit	Responsive Repairs	Review all contracts outside of the Responsive Repairs Contracts
15	Delivering social value	Stock Improvement	Work with Resident Involvement (RI) Team on residents' training for resident Green Champions. RI to organise training to assist with lifestyle changes with other residents in terms of sustainability.
16	Effective asset management	Stock Improvement	Portfolio Management - using Net Present Value (NPV) tool to establish the performance of the stock in terms of future investment in individual homes.
17	Effective asset management	Stock Improvement	Carry out work in line with consultant's recommendations on subsidence monitoring reports, to ensure that Hexagon's insurance liabilities are minimised, using the NPV tool (see above) to assess VFM for all subsidence related units.
18	Maximising development (within our capacity)	Development	Identify and secure land for grant funded homes

There are more value for money initiatives in the 2019/20 departmental workplans, but those above are considered the most important.

6 Embedding value for money throughout the organisation

6.1 The following strategies have proved helpful and will be retained:

- Each area of activity within Hexagon provides an annual report to the Directors Group which includes a section on efficiency reporting and strategies for improvement;
- Lifetime costs are considered in procurement decisions, including the design of new homes and the specification of building components for home improvements;
- Directors Group requires that every departmental workplan include at least one pro-active value for money initiative every year; and
- At least two written quotes are required for purchases above £10,000, with a full tender for purchases above £20,000.

7 How progress against this strategy will be monitored

7.1 Progress in delivering value for money will be reported in different ways:

Level	Method
Board	Annual report on how the budget helps to deliver the targets
Board	Annual report on progress against the financial business plan
Board	Quarterly management accounts and treasury update
Board	Quarterly performance indicators
Directors' Group (DG)	Annual analysis of HouseMark benchmark results
DG	Monthly management accounts
DG	Monthly performance indicators
Residents	Quarterly performance indicators considered by Performance Review Group
Residents	Maintenance performance indicators considered by Repairs Panel

7.2 There will be further reporting on progress against this value for money strategy:

Level	Method	When?
Board	Annual report on progress against the strategy as part of the VFM self-assessment	September
DG	Annual report from each department	Throughout the year
Residents	Annual report to all residents, a specific section on Hexagon's website.	September

Appendix 1– Definitions of Value for Money measures

1. Operating cost per social housing unit

The HCA derives a similar figure from our financial statements for the sector –wide unit cost analysis, but theirs does not include bad debt or void costs, it includes charges for support services that are fully funded by local authorities and does not align units with costs for nursing home and agency managed units. The definition proposed here corrects these issues. The HCA definition is shown alongside for comparison.

	Included in Hexagon definition	Included in HCA definition
Operating costs		
Management	Y	Y
Bad debts	Y	
Voids	Y	
Service charges	Y	Y
Responsive maintenance	Y	Y
Planned maintenance	Y	Y
Major repairs - revenue	Y	Y
Major repairs - capital	Y	Y
Other - lettings	Y	Y
Charges for support services		Y
Accomodation managed by agents		Y
Development administration	Y	Y
Other - social housing activities	Y	Y
Social housing units		
Directly managed	Y	Y
Agency managed		
Care homes		Y
100% leasehold units		Y

2. Interest paid as a percentage of average borrowings

Annual interest payable before capitalised interest/ average loan balance throughout the year (measured monthly)

3. Return on capital employed *

Annual operating surplus/ (Total fixed assets + total current assets - total creditors at end of the year)

4. Units developed as a percentage of units owned *
New homes completed in the year (any tenure)/ homes owned at the end of the year

5. £m distance from an interest cover breach
The monetary difference between the annual average interest cover ratio as defined by the Lloyds loan agreement and 110%

6. Cumulative surplus on outright sales
Cumulative sales income from outright sales less costs of sales, adjusted for actual interest cost to the Group, starting from 1 April 2017

7. % satisfied with last repair**
For all repairs, where the resident has provided satisfaction feedback, the % of repairs where the resident reported they were satisfied with the repair.

8. Average SAP rating of properties
Average energy efficiency rating of homes owned by Hexagon, using SAP 12 definition.

9. Annual social value of generated by employment initiatives
Annual social value of employment support activities delivered by Community Investment team for each £ spent, using HACT social value model

* These definitions are taken from a pilot scheme to align VFM indicators across the social housing sector
** This is the definition used in our responsive repairs contracts

Appendix 2 - Value for money targets in the Corporate Plan

The Board has agreed the following three year targets for each of the strategic VFM measures:

Year to	2017	2018	2019	2020
Operating costs per directly managed social housing unit (£/ unit)	4221	4460	4534	4537
Weighted interest rate	3.18%	3.71%	3.57%	3.53%
Return on capital employed	2.1%	2.1%	2.0%	1.8%
Units developed as a % of units owned	0.7%	3.0%	2.3%	2.2%
£m distance from an interest cover breach (cannot be less than £5.1m)	10.5	11.5	11.2	11.6
Cumulative return on outright sale schemes (£'000)	0	728	1046	1046
% satisfied with last repair	81%	88%	89%	90%
Average SAP rating of properties	71.05	71.9	72.6	73.5
Annual social value delivered per £ spent on employment initiatives	Not yet available	£2.50	£3.00	£3.25