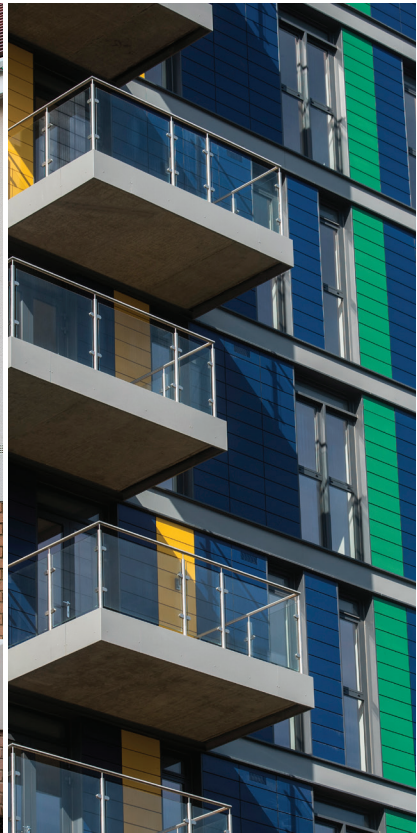


NETWORK HOUSING GROUP

# OUR APPROACH TO VALUE FOR MONEY

FOR THE YEAR ENDED 31 MARCH 2015





## UNDERSTANDING VALUE FOR MONEY IN NETWORK HOUSING GROUP

Network Housing Group has improved its financial performance and its service quality every year for the last five years.

We have a multifaceted approach to value for money which encompasses both major initiatives like Fit for the Future as referenced below and also integrates value for money disciplines into strategy development and day to day service planning and delivery.

First principles are set in our Five Year Strategy which sets strategic aims for both service delivery and financial performance. Network is a developing housing association and this means maximising resources available for developing new homes in a range of tenures through effective and economic organisation of our services. We operate a cross-subsidy model for development which undertakes build for private sale to support our development of sub market rented homes. Our sales programme this year has been exceptional, achieving a surplus of £11.9m, a 42% margin on sales receipts.

This does not mean development at the expense of quality of service to the customer. Excellent services is another plank of our Five Year Strategy supported by systematic service reviews and programmes of continuous improvement. We increase our financial strength to ensure that we are able to continue to develop and support quality homes and services. Financial strength is both the objective and result of our value for money approach.

We understand that to achieve value for money we must meet or exceed the service standards agreed with our customers by using a level of resources appropriate to the standard we are aiming to deliver. We consult with residents about their priorities in terms of balancing cost with service levels, benchmark extensively against other providers and tailor services to local circumstances and regulatory requirements where necessary.

Network Housing Group has taken a rigorous and self-critical approach to assessing the cost and quality of our services. Through 2013/14 we implemented a major change programme, 'Fit for the Future' (F4F), which critically reviewed 18 different areas of service delivery and corporate structure. In 2014/15 we have implemented the action plan consequent from these reviews. This included collapsing the separate governance structures of our Group into a Common Board able to make and implement service decisions more quickly and more easily and creating a new unitary management structure for the Group as a whole.

Implementation of the outcomes of F4F proceeded throughout 2014/15 and achieved £5 million of banked and recurring savings against 2013/14 costs. Significant contributions to these savings came from staff (£1.2m), repairs (£2.2m) and other non-pay costs (£1.6m).

Completion of the F4F programme, the adoption of a consolidated governance structure, and our Five Year Strategy built around use of resources and customer service, has created a new baseline for the Group's value for money self-assessment and forward strategy. Having achieved significant cost reductions the organisation has also made targeted investment in service improvement, deploying some of the gains made into increased staffing in the Customer Service Team, development of the Asset Management Strategy and staffing in both planned and preventative maintenance. Additional investment of £0.9m was made in these areas of activity and has contributed to notable service and resident satisfaction improvements noted below.

This additional investment in services has been possible while maintaining a development performance which saw Network achieve first position in the Inside Housing published national table of percentage addition to stock in year 2014/2015, and while improving

operating margin progressively from 17.2% in 2011 to 35.5% this year.

### **Board management of Value for Money (VfM)**

At Board level the new corporate governance structure will ensure that there is continued scrutiny of financial performance and continued improvement in VfM delivery, balanced with NHG's aspiration to provide excellent services to all our customer groups.

Whilst day to day management of services rests with the Group Executive Management Team (GEMT), they are accountable to the Group Board through the Group's board and committee structures.

The Customer Services Committee considers performance against service targets and provides a forum for regional resident panels to influence policy, including use of resources or raising performance issues at Group Board level.

Performance and front line operations are scrutinised through a wide range of key performance indicators, including business critical measures such as income collection, voids management, repairs performance and complaints management. The committee also takes a strategic lead in overseeing the Group's implementation of its Customer Services Strategy, with ongoing measures through monthly consumer and transactional satisfaction surveys, carried out for the Group by Voluntas and also by using Bright Navigator software to track call centre performance.

The Chair of the Customer Services Committee is also a Member of the Group Investment Committee, which has responsibility for investment decisions and for ensuring a balance between the need to invest in existing stock and services and maximising investment in new homes.

The third plank of scrutiny is provided by our Audit and Risk Committee, which in addition to considering management accounting and audit information in detail, also receives a range of financial health reports, including spend by contractor and project tracking of the F4F savings targets. This committee also considers any control failures resulting in financial loss or near misses to ensure that lessons are learned and processes improved for the future. As noted above, there have been no significant control failures in 2014/15.

The Audit and Risk Committee also scrutinises the development of the value for money strategy, which supports the Five Year Strategy. This is being updated to reflect the new consolidated structure of the Group and the recent changes in the operating environment created by the new government and will be published on our website in late 2015.

These three sub-committees report directly to the Group Board, enabling the Group Board to meet the regulatory requirement to have a strategy for VfM and mechanisms for ensuring it is delivered.

### **VfM delivered and future plans**

#### **Operating performance**

Network Housing Group's business plan is structured around improved financial performance, business growth and continuous efficiency gains.

Our operating surplus, rent arrears management and rent void performance have all improved during the year. Similarly, maintenance and service costs are showing positive performance results.

Management cost per unit has increased. This is the result of additional costs incurred in establishing stronger teams and processes in Asset Management and our Customer Service

Centre and new IT infrastructure to support these in our drive for improved customer satisfaction.

There is an inevitable trade-off between these additional costs and benefits now being derived. For example, residents' satisfaction with the quality of their homes has improved and is better than our peer Group average. We also achieved a strong improvement in average re-let days and our performance is now upper quartile within the G15.

### Customer relationship management (CRM) system and use of technology

Our investment in IT in the year was £796k. This has not yet translated into cash savings but has contributed to improvement in customer

service and provides a platform for our digital access to services strategy, which will be delivered in the next two years.

### Optimising return on assets

Registered providers are required to demonstrate that they understand the returns on assets employed and to have strategies for optimising future returns.

**The Group has assessed the operating performance of different asset classes as set out below.**

	Operating surplus		Capital deployed		ROCE		Variance
	2015	2014	2015	2014	2015	2014	
			NBV	NBV	By NBV	By NBV	By NBV
	£'000		£'000				
CTH	1,514	1,136	49,681	34,733	3.0%	3.3%	(0.3%)
LSH	3,226	2,391	39,737	39,331	8.1%	6.1%	2.0%
RIV	10,850	8,917	140,226	124,556	7.7%	7.2%	0.5%
Stadium	25,883	21,742	581,712	512,319	4.4%	4.2%	0.2%
<b>Group stats</b>	<b>41,958</b>	<b>34,775</b>	<b>821,202</b>	<b>722,777</b>	<b>5.1%</b>	<b>4.8%</b>	<b>0.3%</b>

2014/15	General rented £'000	Sheltered housing £'000	Shared ownership £'000	Hostels £'000	Short stay £'000	Key workers £'000	TOTAL £'000
Turnover	72,268	12,397	7,644	4,923	21,261	9,182	127,675
Operating surplus	28,493	4,873	3,607	1,249	2	3,734	41,958
Operating margin 2014/15	39.4%	39.3%	47.2%	25.4%	-	40.7%	32.9%
Operating margin 2013/14	35.4%	30.3%	49.7%	15.4%	1.2%	34.9%	28.9%

For our social housing we aim to achieve operating margins above 35%. The 4% improvement in 2014/15 to 32.9% delivers good progress towards this goal, and further improvement is planned for 2015/16. In particular, we are closely analysing our future plans for short stay tenancies.



## Restructured asset management

As part of our plans to improve the way we manage our assets, a new Group Asset Management (AM) Team was established at the beginning of the financial year to take responsibility for all asset management related services across the Group.

Performance management of contractors has been significantly improved and is now much more consistent, while the relationship with some poorly performing contractors has been terminated.

Both contractor performance and customer satisfaction have improved. Policies and procedures have been reviewed and updated and a new customer offer has been introduced to raise and standardise the level of service across the Group.

The introduction of the new Group-wide Customer Service Centre in June 2014 has improved access to repairs services and enabled collection of detailed, consistent performance feedback on contractors, improving our performance monitoring.

Network Housing Group's 2014/15 best practice stock condition survey means it currently has one of the most extensive and up-to-date stock condition asset records amongst its G15 peers. The survey was based on a 70% survey of internal dwellings and 100% survey of blocks with common parts. Added to 30% of intelligent cloned data at street and block level, this has created a complete survey data record.

The Group is now using the latest version of Integrated Housing Solutions (IHS) asset management database, populated with the completely new stock data set. Interim findings from the stock survey have already been used to more accurately inform and allow a 'just

in time' strategy to be adopted around our planned maintenance programming to improve VfM for 2015/16.

The new stock asset management data will be central to the preparation of a new Group Asset Management (AM) Strategy during 2015/16. The project is based on defining what type of organisation Network wants to be and how an AM strategy would support this. The new strategy will be integral to our ability to drive VfM in the management of our assets for the future.

## Active asset management

Whilst the stock condition survey will underpin a comprehensive strategy for active asset management, during its completion NHG has continued to proactively review current schemes for renewal needs and development opportunities. During 2014/15 in addition to previously existing schemes we have gained approval for the redevelopment of three schemes in the East Herts district area which will result in improved quality and higher density homes in these areas. We have also identified major development opportunities in the replacements of temporary accommodation buildings in Brent and increased development around our key workers sites. These initiatives demonstrate NHG's active commitment to making best use of the resources that we have to provide as many homes of good quality as we can within the resources that we have available.

## Benchmarked performance

We continue to monitor performance by comparison with our peers. The following table shows our performance over the past two years and demonstrates how we compare with our peers within the housing sector (the G15 Group), where information is available.



## RESIDENT (CUSTOMER) PERSPECTIVE

Indicator	2015	2014	G15 benchmark	
			Upper quartile	Median
Resident satisfaction (%)	79.7	79.2	92.1	83.3
Current rent arrears (%)	4.1	5.8	3.7	3.8
Average re-let time (standard re-lets) (days)	28.5	37.9	28.3	33.7
Percentage of residents very or fairly satisfied with quality of new home (new build only) (%)	92.8	84.1	88.5	86.6

## COMMERCIAL/COMPETITIVE

Indicator	2015	2014	NHG % change from 2014 - 2015	G15 % change from 2013 - 2014
Operating surplus before housing sales (£m)	67.3	46.3	45	12
Surplus on housing sales (£m)	8.1	3.0	171	50
Interest payable (£m)	26.7	26.9	(1)	4
Operating margin on social housing letting (%)	33	29	14	5
Maintenance cost per home (£)	953	980	(3)	2
Management cost per home (£)	1,542	1,311	18	(4)
Voids and bad debts (£m)	1.8	3.6	(50)	0
Interest cover (incl. sales) (%)	325	235	38	17
Interest cover (exc. sales) (%)	294	223	32	13
Total debts per unit (£'000)	46.8	42.7	10	3

## GOVERNANCE

Indicator	2015	2014
Chief executive remuneration per home (£)	8.9	8.8
Board Chair's remuneration per home (£)	1.3	0.9
Board members' remuneration per home (£)	4.5	3.3

Net growth in stock numbers through development was offset by stock rationalisation as a result of our decision to exit the private retirement leasehold sector.

## Other headline performance

### Treasury management

Efficient and effective treasury management has made a helpful contribution to cost control, with the overall weighted average cost of capital being reduced by 0.2% year on year.

Also, a wide range of treasury related legal work, which was previously done by lawyers, is now being done in-house by a paralegal officer with a resultant cost saving of circa £50k in the year.

### Asset quality

The Group now has an almost complete set of Standard Assessment Procedure (SAP) information held in Reduced Data SAP (RdSAP) 2009 format within the asset database, providing easy reference and reporting on energy efficiency. A new Environmental Improvement Strategy will be launched in 2015/16, targeting resources on improving the thermal efficiency of existing stock to reduce carbon emissions and target fuel poverty.

The new asset management team has worked closely with NHG's development team to establish new and comprehensive Employer's Requirements for new schemes. Lessons learnt from previous developments have been used to ensure new developments use building components that will maximise life cycle cost benefits while maintaining a balance of what is affordable so that schemes are economically viable.

Over 1,200 new homes have or will come into management during 2014/15 and 2015/16. The key stock data and asset records of these new developments are captured and recorded on the Group's stock condition database for further maintenance and contract planning. We are also undertaking a number of regeneration schemes after reviewing both the financial and non-financial performance of the stock.

The asset management team has worked closely with the housing management team to develop a new Older Persons Strategy. Each sheltered housing block has been assessed for its long term viability or for its redevelopment potential.

### Procurement

We created a new centralised in-house procurement team in September 2014. This is achieving considerable savings, partly through not using consultants to manage procurement exercises. A new procurement strategy for 2015/16 has been agreed by the Group Board along with a new procurement plan. We are adopting a mixed approach to procurement, using local, specialist compliance and industry leading contractors. It is now possible for us to let single larger contracts that cover all parts of the Group leading to efficiencies, improved services and better value for money.

Procurement for the development programme has been through competitive process from appointed framework contractors and consultants. Delivery of the programme through a period of significant build cost inflation increases has been contained within original scheme approvals.

### Development performance and standards

Developing new affordable homes is a core part of our objectives and a key way in which we deliver social value. Network has focused strongly on delivering VfM through development activity in recent years, and this year, as already indicated, we produced over 1,200 new homes for affordable rent or shared ownership, our largest ever development programme. This demonstrates our willingness to commit resources and undertake measured risks to maximise our contribution to meeting the housing crisis in London and the Home Counties.

Network is currently leading on four large scale regeneration projects in London and Hertfordshire - in Stockwell, Kilburn, Ealing and Hertford. This type of transformative regeneration is key to sustaining communities, improving residents' life chances, and sustaining value within our assets for the future, and is consequently a key element of our development and asset management VfM approach.

We are continuously striving to improve the standards of our development, whilst reducing the costs of delivering new homes. The case study on the following page is one example of how we undertake this process.





## VALUE FOR MONEY CASE STUDY

243 EALING ROAD, ALPERTON IS A 441 HOME DEVELOPMENT ALONGSIDE THE GRAND UNION CANAL AND OPPOSITE OUR EXISTING SCHEMES AT PEPPERMINT HEIGHTS AND GRAND UNION HEIGHTS. WE HAVE DELIVERED 187 AFFORDABLE HOMES SO FAR AT THIS SCHEME, WITH A FURTHER 254 HOMES FOR PRIVATE SALE TO FOLLOW IN PHASES THROUGHOUT 2015.

**We procured the scheme in partnership with Hill Partnership Ltd as a joint arrangement with no separate entity being set up. This means that we are sharing the risks and rewards with Hill, on a 50/50 basis.**

**We have seen tremendous benefits from this approach with improved quality, faster programme delivery and reduced costs, due to the added incentives for the contractor.**

### **DELIVERY TIME**

All affordable blocks at this development were delivered ahead of or in line with programme, enabling timely grant drawdown from the GLA.

In addition, our procurement route on this project allowed us to bring forward the private sale blocks in the programme. This is because we have much greater control over the balance between sales rate and construction than we would in a more standard design and build contract.





243 EALING ROAD  
ALPERTON  
Brent



We were initially due to complete the last block in 2017, but are now scheduled to complete the project by the end of 2015/16. The financial benefits include earlier sales proceeds and fixing construction costs at current rates.

A further benefit is that it minimises the period of on-going disruption to the lives of the residents who have already moved into their new homes.

### CONSTRUCTION COST

The construction contracts at 243 Ealing Road use a 'net-cost model' for pricing. This means that the partners only pay the pure underlying cost of construction without the risk premium that would be factored into pricing under a design and build contract.

Pre-construction, our cost consultants reported that under a fixed-price design and build contract their estimated build cost for the affordable homes would be £18.0m. Under the net cost model, the agreed contract sum was in fact £16.3m (a difference of £1.7m). In addition, further savings were made through the on-site procurement process to bring the estimated final account to around £15.5 million.

### QUALITY

The build quality has been of the highest standard. The joint venture approach has enabled us to tap into our contractor's supply chain and benefit from their purchasing power to reduce costs whilst increasing quality. This means we have been able to develop a project which does not differentiate between affordable and private housing, which is important to our residents. All of our entrances have an identical specification, regardless of tenure. The landscaping includes communal gardens and play areas that are open to all residents.

**As a result of the above, the scheme was nominated for the Evening Standard New Homes Awards 2015 in the 'Best First Time Buyer Home' Category.**



## SOCIAL BENEFITS

### WELFARE ASSISTANCE

Our welfare advice service continues to go from strength to strength. A team of two officers was set up in the previous financial year and since then they have assisted our residents with housing benefit applications and in maximising their benefit claims. In addition we created a partnership with Brent Community Law Centre which offers debt advice to residents.

Residents across the Group have achieved a benefit of over £1m since the commencement of the service. In 2014/15 the welfare advice service supported 166 residents across the Group to generate income of £673k.

As part of our assistance in reducing the impact of welfare benefit reforms, we have provided training to our residents on budget management.

### COMMUNITY INVESTMENT

This was the second year of Network Stadium's 360 Programme following 2013/14's successful pilot. The 12-month pilot targeted neighbourhoods with the lowest resident satisfaction scores in an attempt to improve standards to the quality of the other Network estates. The 2014/15 programme was opened up to all estates including older person's schemes.

The key objectives of the programme were to increase resident satisfaction, particularly with regard to reducing anti-social behaviour, and to improve communal areas and the environment surrounding our properties. We also introduced a focus on the wellbeing of residents through our Wellbeing Satisfaction Surveys, allowing us to measure the impact of the programme on residents' happiness.

During the year 37 different estates benefitted from the programme with a total of £342k being spent on improvements.

A new partnership with Groundwork Hertfordshire Trust and Groundwork London resulted in 36 residents finding employment and 110 residents in total supported with work-related information, advice and guidance.

Eight young people aged 16-23, graduated from Riversmead's second Green Team initiative, after completing a 16 week training programme in landscaping. Run in partnership with Groundwork Hertfordshire, the programme aims to help young people get back into employment or further education by developing their skills in landscaping whilst gaining practical on-the-job work experience on projects in the community.

Riversmead also utilised apprenticeships and work experience placements to provide high quality paid work whilst helping to develop the skills of local residents.

During the year we introduced the HACT (Housing Association Charitable Trust) Social Value Toolkit as a way of better measuring the financial benefits derived from our substantial annual discretionary investments into our communities. We would expect to see the first results from this during 2015/16.

### CULTURAL CHANGE

During 2014/15 we introduced a new set of behaviours for our people, designed to support cultural change and improved efficiency and effectiveness in our work. The programme is known as HART:

**Hungry** - we want to do more and do it better

**Accountable** - we take responsibility and get things done

**Respectful** - towards our customers and colleagues

**Together** - we act as one team, working towards common objectives

The **HART** concept has been well received by staff and will help our efforts to drive continuous improvement in our services and better Value for Money throughout the organisation.