Network Homes

Value for Money Statement

For 2015/2016

Because good homes
make everything possible

Introduction

Our industry regulator, the Homes and Communities Agency, requires all housing associations to publish an annual Value for money self-assessment statement to our stakeholders. We are regulated partly against a value for money (VFM) Standard, with a specific expectation that we will report on:

- Our absolute and comparative costs for delivering specific services
- The value for money gains we have made or expect to make and how these have/will be realised over time
- The return on our assets, measured against our organisational objectives

The regulator also expects us to set out our approach to value for money comprehensively and clearly.

Aside from the regulatory requirement, Network recognises that there are sound business reasons for delivering excellent value for money. Improved efficiency, economy and effectiveness help us to increase our financial resources and quality of service, which supports our ability to increase provision of new homes and drive up customer satisfaction.

2015/16 was our final year operating under the Network Housing Group structure of four separate operating housing associations and a parent company. In April 2016 we amalgamated the group structure into a single housing association, Network Homes, with a single wholly-owned subsidiary, SW9, managing our homes at Stockwell Park in Lambeth through a management agreement. This is important context for this year's value for money self-assessment.

Our strategic approach to value for money

Our strategic approach to value for money

Network has improved its financial performance and service quality in each of the last five years. For 2015/16, on a like for like basis with last year's accounts, we made a net surplus of £103m (2014/15: £49.2m), with an operating margin of 39.2% (2014/15: 35.5%).

Under the new FRS102 accounting standard our surplus for 2015/16 was £155m (the £52m increase was due mainly to mark to market adjustments relating to elimination of the optionality in loans with Barclays plc). In 2011/12 our net operating surplus was £8.8m and our operating margin was 22%. So in five years we have increased our annual surplus more than tenfold and almost doubled our operating margins.

In the light of changes in government policy during 2015/16, our revised financial model ensures we will maintain strong margins each year, with a minimum 32% operating margin by 2021. Our plans will be geared towards exceeding this if we possibly can.

Increasing financial strength is one of our four strategic objectives. It allows us to invest more in new homes, in our existing homes and in driving up the quality of our customer service. It also provides resilience during times of economic or political uncertainty, such as we have seen this year. Financial strength underpins our overall organisational strategy therefore and is crucial to value for money.

Organisational strategy

Our four strategic organisational objectives are:

- Maximising growth within our resources
- Delivering first class customer service
- Increasing financial strength
- Building a great organisation

The last two objectives are vital in enabling the first two.

Each of our objectives has a linked ambition:

- Growth ambition: Produce 1,000 new homes a year
- Customer service ambition: 90% overall customer satisfaction
- Financial strength ambition: Increase borrowing capacity by £450m
- Great organisation ambition: A Sunday Times Top 100 Company to Work For

Our Board re-affirmed these objectives in a revised Five Year Strategy 2016-21, adopted for Network Homes this year, and these will therefore guide our business and value for money approach going forward. They are challenging ambitions and require us to ensure our value for money is strong.

These objectives and ambitions have a number of impacts on our approach to VfM.

Development approach

Because we aim to maximise growth, the Board takes a robust view of 'sweating our assets' to deliver new homes. We are prepared to take measured risks to ensure we make as strong a contribution as we can to meeting housing needs. During 2015/16, the Board reviewed its risk appetite and we updated our risk management framework.

For example, the government's decision to impose a reduction in social rents of 1% a year from 2016-2020 will reduce Network's income by around £45 million over the four years. We will absorb that fall in revenues by reducing operating costs and increasing efficiency to maintain our operating margins, so we can maintain our development programme unchanged from before the government's decision. This is indicative of our commitment to maximising growth, even in difficult circumstances. We completed 945 homes in 2015/16, producing a 6.3% increase in our overall portfolio of homes.

We operate a cross-subsidy model for development, with significant volumes of market sales and shared ownership helping to support our development of sub-market homes to rent. This is essential in an era of low grant rates if we are to continue providing homes for people who are most in housing need.

We completed 945 homes in 2015/16, producing a 6.3% increase in our overall portfolio of homes.

Our strategic approach to value for money

Our development programme for 2015-18 is split roughly one third market sale/rent, one third shared ownership, and one third homes for sub-market rent. We are also the second largest recipient of government housing grant in London and have a significant grant-funded programme in Hertfordshire, which supports our capacity to deliver homes for sub-market rent and shared ownership.

We are continually looking for ways to improve our development procurement and construction methods, and for partnerships that will allow us to get the right balance between risks and rewards, costs and benefits. We also focus on a relatively tight operational area, based around a number of 'core' boroughs that will enable our management services to operate in an efficient manner. This approach is outlined in detail in our new Growth Strategy 2016-21.

Customer service approach

Value for money is also crucial in helping us to achieve our customer service ambition. While our customer service performance has improved 7% since 2012/13 to 80% overall, we have a considerable distance to go to reach our 90% target and the Board is focused on continuing our improvement year on year.

Value for money requires a balance between the cost and quality of services. We consult with residents about their priorities, measure our performance regularly internally and through benchmarking with our peer group of broadly similar housing associations, and make investment decisions accordingly.

During 2015/16, as part of our governance changes as we moved towards amalgamation, we created new resident-led Local Panels in each of our main operating areas, and a new organisation-wide Residents' Panel, comprising representatives from the Local Panels. These groups meet regularly with senior managers and directors to scrutinise performance and provide guidance on resident service priorities. They also provide a clear link into Board members and Network's formal governance structures.

We know that to meet our customer service ambition we need to invest more in key areas of our service. During 2015/16 we invested further in IT systems and infrastructure, repairs and maintenance and our customer service centre, established in 2014/15. Further significant investments are planned for the coming years. The ultimate purpose of these investments is to help us drive down costs in future while improving the quality of service.

The quality and approach of our staff is also vital to achieving our customer service goals. In 2015/16 we developed a three year People & Culture Agenda based around improving leadership and management quality, employee engagement, and our employer offer, geared to building a great organisation. We are investing significantly to ensure our staff are enabled to deliver first class customer service. We have already harmonised terms and conditions for all staff and embarked on major training and engagement programmes.

Our customer service performance has improved 7% since 2012/13 to 80% overall.

We are investing significantly to ensure our staff are enabled to deliver first class customer service.

We are now able to move forward as a single organisation with a single brand, which will have multiple value for money benefits.

Our strategic approach to value for money

Driving value for money by simplifying our structure

A key driver of our value for money approach in recent years has been concerted moves to simplify Network's management and governance structures. This feeds directly into our strategic objectives of increasing financial strength and building a great organisation.

In 2012/13 Mitali Housing left the Group and we disbanded Solon Community Network. In 2013/14 we implemented our 'Fit for the Future' change programme which unified our management structure and identified £6m of rolling operating cost savings. We realised £5m of those savings for the first time during 2014/15 and we instituted a fundamental governance review that year, acting on the Group Board's May 2014 'in principle' decision to consolidate the group structure.

In May 2015 we disbanded our five separate boards and established a single Common Board for Network. This led to an overall reduction of 17 board members within the Group and reduced board servicing costs. An immediate quantifiable financial benefit of moving to one board has been a reduction in overall board remuneration of £26,000 between 2013/14 and 2015/16, despite recruiting new high quality members and paying board members more in acknowledgement of their increased responsibilities and expertise.

The final push to amalgamate Network's four separate operating housing associations and the parent body has occupied a considerable amount of senior management and Board time during 2015/16.

The legal amalgamation was achieved in April 2016 with the establishment of Network Homes. We are now able to move forward as a single organisation with a single brand, which will have multiple value for money benefits.

We are implementing more consistent ways of working, our decision-making is faster, we have greater strategic and cultural clarity, and we expect to be able to reduce costs in a number of ways. Obvious examples include in design and marketing, board servicing and administration, accounting practice, legal costs, and organisation-wide procurement contracts.

But more fundamentally our structural change allows us to critically re-examine our overall management and maintenance costs and this process has already begun.

Importantly, a single balance sheet, with a (historical cost) value of £1.4bn, as well as providing a small increase in overall financial capacity, delivers much greater resilience in the event of financial shocks and therefore instils greater confidence for existing and future investors and other stakeholders.

Additional operating cost savings of £1.1m are in our business plan for 2016/17, building to £2m a year by 2020/21.

Our approach to mergers and acquisitions

We have considered the Government's and the HCA's statements about housing association efficiency and the potential benefits of sector consolidation, together with the increased momentum now clearly within the sector towards mergers.

Network has recognised the scale of policy change within our operating environment and the importance of ensuring we are able to deliver our core purpose of building homes and providing services efficiently and effectively. We amalgamated our group structure partly in response to these changes and conducted merger talks with Catalyst Housing during 2014/15, which we were unable to conclude successfully. We will continue to consider whether our size may adversely affect our competitiveness or limit the opportunities available to us, and whether merger may represent the best way for us to achieve greater value for money and achieve economies of scale within our cost base.

We have set out clear criteria for considering any merger opportunities within our new Growth Strategy 2016-21. These include strong geographic, cultural and operational synergies. The Network Board has not signed up to the National Housing Federation's 'merger code' as we believe it is too prescriptive. However, during 2016/17 we will develop and publish a prospectus which sets out our position and appetite for merger.

The Network Board recognises its duty to consider what will best deliver our organisational objectives. So it will consider any compelling offers made which may fulfil our criteria, including from smaller housing associations looking for a partner to support their ambitions. We will develop pro-active approaches to others only where we can identify clear, compelling and tangible benefits from any possible arrangement. But the Board does not believe there is any pressing reason to seek an early merger.

Our strategic approach to value for money

Our focus following the end of the talks with Catalyst Housing has been on dealing with pressing strategic and operational issues and delivering the structural amalgamation so important to our future success.

The new Network Homes is financially strong and we have a sizeable development programme and pipeline. We are ambitious for our customers and we want to complete the process of delivering the first class customer service and great organisation central to our strategic objectives.

We remain committed to reducing our costs through internal efficiency and effective partnerships. This is essential for sound business reasons, because it creates the best outcome for our organisation, our customers, and will meet our regulatory requirement.

We have achieved very strong finances and development performance, and much improved governance. We are investing substantially in our business and have made a good start in improving asset management and customer services. Achieving the best possible standards for our customers is our top priority at present.

At the time of this statement, the Network Board was not considering any merger approaches.

New Value for Money Strategy

In May 2016 the Network Homes Board adopted a new Value for Money Strategy. This re-stresses the linkages between our strategic objectives, annual planning framework, performance measurement and excellent value for money. The strategy takes account of the 1% real terms cut in rents for 2016-2020 and other operating challenges housing associations are facing.

It details a 'menu' of potential strategic and operational value for money assessments we can undertake, depending on the relevance of each item year to year, and it introduces new processes to embed value for money assessment more systematically through our new single organisation. Finally, it identifies key VFM indicators for us to measure, linked to each of our four strategic objectives. This new strategy will guide our VFM approach for the future.

Our progress will be reviewed by the Executive Leadership Team on a quarterly basis and by the Residents' Panel and Network Board every six months.

A new Growth Strategy, Asset Management Strategy, IT Strategy and annual planning framework are in place for Network Homes, and an updated Customer Service Strategy will follow this year.

With our Five Year Strategy providing the overall directional lead, these strategies will support our ability to meet our strategic objectives while delivering value for money from 2016/17.

Understanding the costs of providing our services

Understanding the costs of providing our services

In June 2016 our regulator, the HCA, published an analysis of costs spent per property managed for each of the largest 350 housing associations in England. This was based on data provided through our regular standard reporting to the HCA between 2005 and 2015. As such it does not take into account data for 2015/16. However, it is an extremely useful additional source for helping Network to unlock where we may need to seek improvements in how we operate.

In the early months of 2016 we had begun, in any case, to analyse our costs in more detail as part of our preparations for operating as a single housing association from April 2016 and with a view to understanding where our consolidated organisation could make further value for money gains. Our work was primarily based on Housemark comparative data with our peer group of London's largest housing associations.

The HCA analysis indicated that about 50% of variable costs between housing associations were explainable. For example, high levels of supported and/or older people's housing, operating in expensive parts of the country, and a number of other factors, were all associated with justifiable additional costs.

Using the HCA analysis as a base, we have carried out further analysis which takes into account our own specific circumstances in relation to the factors that the HCA recognises as causing legitimate extra costs. For example, the majority of our homes, offices and staff are based in London, the most expensive part of the country in which to operate. Parts of the Group also manage above average numbers of supported and older people's homes.

We have linked our additional analysis to the HCA analysis to present a clearer picture of our costs relative to the rest of the sector. In the table below, the HCA's figures are shown first and our figures, incorporating our explainable extra costs, are shown next to them. These are colour coded according to whether we are above or below the sector median cost.

	Homes managed in HCA assessment	Network headline social housing cost per home £000s	Network cost per home incorporating legitimate extra costs £000s	Sector median costs per home £000s
Network Stadium HA	**8,940**	**4.93**	**4.46**	**3.55**
Riversmead HA	**4,552**	**3.12**	**2.92**	**3.55**
London Strategic Housing	**2,974**	**8.16**	**7.91***	**3.55**
Community Trust Housing	**1,556**	**3.29**	**2.66**	**3.55**
Network Housing Group	**18,022**	**4.84**	**4.46**	**3.55**

**NOTE: removing unavoidable initial leasing costs reduces the London Strategic Housing operating costs to £2,560 per home, well below median costs. See commentary below.*

Understanding the costs of providing our services

It can be seen from the table that London Strategic Housing (LSH) has a significant distorting impact on our costs. Adjusted for the initial costs of leasing temporary accommodation, shown within the LSH figures, Network's overall costs fall from £4,460 per home to £3,780 per home. This is still a little above the median for the sector but is well below the sector higher quartile cost of £4,300 per home.

LSH focuses on homes for key workers and temporary housing for homeless people leased from private sector landlords. This is an important specialist service which we run for social purposes and in partnership with local authority partners who have a high need to find homes for homeless people in order to meet their statutory duties.

The HCA's analysis shows that £5,600 of the costs per home for LSH are 'other'. Our analysis has identified that these are the lease contract costs paid to the landlord to acquire their property for a period of time for letting. When these costs are stripped out of the equation, the headline cost per home for LSH falls to £2,560 per home on the HCA's analysis or £2,310 on our adjusted analysis – within the lower quartile of sector costs.

For social purposes and to support key local authority partners, we believe private sector leasing is a reasonable business for Network to undertake. This business is reviewed on an annual basis to consider its overall viability. Before allocation of corporate overheads LSH continues to make a surplus. However, we are currently assessing the financial strength and sustainability of the LSH business on a scheme by scheme basis to ensure this remains a sensible and viable business for Network to conduct. It is worth noting, however, that if we were to stop leasing temporary housing, a sizeable element of the corporate overhead currently allocated to LSH would be divided between other parts of the business, increasing per home costs in those areas.

Generally, what the HCA analysis tells us is that our management costs per home are relatively high, while our maintenance costs per home are relatively low compared to the sector. This is in line with our own previous benchmarking. During 2015/16, before exceptional items (explained below), we reduced our housing management costs per home, while our maintenance costs increased as we invested significantly in the service to improve customer satisfaction with repairs.

Overall, we intend to maintain the internal pressure on reducing costs, even though some parts of the business already have lower quartile costs. However, it is crucial that we understand areas of higher cost properly before taking action. We have a clearly stated intention to invest in particular parts of our business to drive up customer satisfaction performance and these investments need to be made against an effective understanding of our cost base.

Latest performance benchmarking

The table on the next page sets out our relative performance in a number of key service areas, along with benchmarking data for key areas of cost and on our financial performance.

Adjusted for explainable factors, Network's costs per home are £3,780, close to the sector median.

Understanding the costs of providing our services

Financial perspective	2016*	2015*	NHG % change from 2015 – 2016	G15 % change from 2014 – 2015
Operating surplus before housing sales (£m)	30.8	42.3	(27)	12
Surplus on housing sales (£m)	91.2	27.4	233	38
Interest payable (£m)	29.6	27.4	8	0
Operating margin on social housing letting (%)	25.0**	32.1	(22)	1
Maintenance cost per home (£)	1,197	1,148	4	3
Management cost per home (£)	1,497	1,218	23	7
Voids and bad debts (£m)	2.3	2.1	10	0
Interest cover (incl. sales) (%)	437	284.1	54	24
Interest cover (exc. sales) (%)	412	254.6	62	24
Total debts per unit (£'000)	35.9	40.2	(11)	(3)

**NOTE: 2015/16 is a transition year in accounting from the UK GAAP method of stating accounts to the new FRS102 standard. NHG results above have been prepared on FRS 102 basis. The G15 results are for the previous year and not restated to FRS102, but based on the old UK GAAP. The figures are not directly comparable therefore, but are the best available currently.*

*** The reduction in social lettings operating margin for 2015/16 is largely explained by exceptional costs this year: A £3.95m one-off payment into the Social Housing Pension Scheme to help reduce the scheme deficit and a £2.66m impairment required under FRS102 as a result of the 1% cut in social housing rents from April 2016. These are reflected in our management cost per home figures.*

Resident (Customer) Perspective				
Indicator	2016	2015	G15 bench mark	
			Upper quartile	Median
Overall customer satisfaction (%)	80.1	79.7	n/a	n/a
Resident satisfaction – with overall repairs (%)	77.9	79.7	90.1	84
Current rent arrears (%)	3.6	4.1	3.6	3.9
Average re-let time (standard re-lets) (days)	31.4	28.5	25.8	33.6
Percentage of residents very or fairly satisfied with quality of new home (new build only) (%)	87.2	91.1	88%	87%

Understanding the costs of providing our services

Governance				
Indicator	2016 (based on units in management)	2016 (based on total no of units)	2015 (based on units in management)	2015 (based on total no of units)
Chief executive remuneration per home (£)	10.2	9.9	10.1	9.8
Board Chair's remuneration per home (£)	1.1	1.1	1.3	1.3
Total Board members remuneration per home (£)	6.4	6.1	7.4	7.25

We have had an exceptionally strong year financially, with improvements in many of our key metrics. While much of this is driven by superb performance in property sales (£91m surplus on sales), it is important to emphasise that Network is not dependent on sales to make a surplus. Our operating surplus excluding all sales in 2015/16 was nearly £31m. Debt per property has reduced, interest cover and gearing have improved.

During the year, and after in-depth discussions with our benchmarking agency, Housemark, regarding how other housing associations allocate their costs, we took the decision to re-allocate certain costs between management and maintenance. Most notably, we re-allocated a proportion of our customer service centre costs to maintenance, as many enquiries are repairs related. This had the impact of increasing overall maintenance costs per property.

Even so, our management costs per property were impacted heavily by a one-off payment into the Social Housing Pension Scheme (SHPS) to reduce the defined benefit scheme deficit. Staff costs were also higher as we invested in improving our service. We go into more detail about investment to support future success in the next section of this report.

Customer satisfaction was 80%, a slight improvement on 2014/15. While this is reasonable performance for a largely London-based housing association, we have set a target for overall customer satisfaction this year of 82% as a stepping stone to our 90% ambition. For the first quarter of 2016/17, we were averaging 81% overall satisfaction. Satisfaction with our customer service centre performance is running at 88%, with resolution of enquiries at first contact of 79%. Our customer service centre was named as one of the top 10 in the UK from more than 370 organisations in the UK Contact Centre awards in May 2016.

We are reporting satisfaction with repairs as having decreased slightly year on year, though this masks a difficult first half of the year and much improved performance in the second half, with overall repairs satisfaction in March 2016 at 82%.

Our rent arrears performance is better than the peer group average and we have improved our position during the year. This included strong performance improvement in our CTH subsidiary, where we were shortlisted for a national award for our income collection improvements.

Average re-letting times for homes have increased slightly, though we are still performing at better than the G15 median. Void and bad debts has increased slightly, partly due to the loss of an income guarantee from one of our NHS partners.

The percentage of residents satisfied with the quality of new homes fell slightly in 2015/16. Basically, we have seen an increase in neutral ('neither satisfied nor dissatisfied') responses in our satisfaction surveys. However, dissatisfaction also fell. Just 1.5% of new residents in 2015/16 said they were dissatisfied/very dissatisfied compared to 3.2% in 2014/15.

Our customer service centre was named one of the top 10 in the UK from more than 370 organisations in May 2016.

Getting the best out of our assets

Getting the best out of our assets

Network now owns and manages over 20,550 homes. We are constantly considering ways to improve the management of these assets to ensure we can deliver the greatest number of new homes each year within our financial capacity and that our existing properties are well maintained and provide good homes for our customers.

Development performance

During 2015/16 we completed 945 homes, including 701 affordable homes for rent or shared ownership. We invested £46m in new homes.

In the past two years we have invested £169m in new development activity and completed 1,500 homes. We have the capacity and ambition to deliver 1,000 new homes a year consistently. This year we maintained our programmes and pipelines despite the 1% reduction in social rents for 2016-2020. This is a substantial commitment.

We have conducted comparative analysis between Network's scale of development and other G15 housing associations in London (our peer group of associations). We have also considered how our development performance stands up against the current and anticipated performance of several of the proposed big new mergers within the sector.

This work shows that, accounting for relative size, Network is developing at around the same rate or better than most of our larger peers, and this will be the case over the next five years even against the very large new merged associations, based on their published plans.

In 2014/15, according to Inside Housing magazine, pro-rata to our size, we delivered the biggest increase in stock of any housing association in England. We increased our stock in 2015/16 by a substantial 6.3%.

As indicated, the Network Board believes maximising development within our resources is core to our business purpose and we therefore 'sweat our assets' hard to ensure we are doing all we can to produce as many new homes as possible each year, without taking undue risks.

This year we completed 239 homes for market sale – by far our biggest ever market sale programme – and our first five homes for market rent. Our surplus from sales in 2015/16 (including shared ownership) was £91.2m and this is a huge sum now available to reinvest in new homes, existing homes and services.

Through the deals struck during 2015/16 with prestigious developers, Stanhope and Quintain, we will grow our market rent portfolio over the next three years and this should deliver additional money to reinvest in our social purpose.

Asset management

During 2015/16 the asset management team and our contractors completed more than 56,000 day to day repairs on our properties and we continued with our substantial planned maintenance programme on specific schemes. In total, we invested £30.6m in our existing homes, a 10% increase on 2014/15.

Following the creation of the new centralised asset management directorate at the start of 2014/15, the team has continued to consolidate improved performance during 2015/16.

Taking March 2015 performance compared to March 2016 figures, we have moved from 72.23% repairs satisfaction to 82.31% satisfaction, a 10% improvement. We had some difficult months during the first two thirds of the year as we took concerted action to tackle poor quality contractor services, but performance improved significantly in the later part of the year. The percentage of repairs completed within target time improved 7% during 2015/16 to over 93%.

Accounting for relative size, Network is developing at around the same rate or better than most of our larger peers.

Getting the best out of our assets

A new repairs contract for Network Homes is being let during 2016/17 with much clearer requirements and performance measures. The contract terms are bespoke to Network Homes and specifically designed to ensure excellent performance is encouraged while delivering strong value for money. For example, the contractor will be charged for each missed appointment, for void rent losses beyond the agreed dates, and for 100% of the cost of engaging a third party to carry out remedial works where contractual performance is poor. The estimated annual saving on voids repairs alone, compared to the current contract is £485,000. A major incentive for the contractor is the possibility of being awarded £5 million in planned works contracts if their performance is good.

The central asset management team, created in 2014/15, is now operating effectively with much stronger procedures and contract management in place and we expect performance to improve further during 2016/17. We have set a repairs satisfaction target for this year of 85%.

During the year we commissioned Savills to undertake a financial and sustainability analysis of our housing stock to inform our asset management strategy. This reported in May 2016 and showed that the vast majority of our homes have a strong financial performance. Just two properties had a negative Net Present Value (NPV). Around 13% of the stock had NPVs where the 1% reduction in rents over the next four years means we will need to monitor financial performance closely. Overall, however, Savills reported that Network's benchmark NPVs are above the regional benchmarks for London and the South East.

In the run up to the creation of Network Homes, we developed a new Asset Management Strategy 2016-21. Following that, a Strategic Asset Management Working Group, meeting quarterly, is now developing our approach to active asset management. The group has already set a clear framework of criteria for all future options appraisals and is examining our stock in a number of non-core localities to consider whether we wish to retain the homes or use the potential proceeds from these assets in a different way.

This work links closely with our new Growth Strategy 2016-21 and our strategic objectives of maximising growth, delivering first class customer service, and increasing financial strength.

Investing in improved performance

We have chosen to make substantial investments in our business to support our objective of achieving 90% customer satisfaction. We are investing strongly in asset management and repairs, digital service and customer contact, IT systems,

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Getting the best out of our assets

infrastructure and processes, and developing our people to ensure quality of personal service to the customer is right. These investments totalled £1.95m in 2015/16, with a further £4m budgeted for 2016/17. This is about ensuring we are operating as a modern, dynamic business, delivering services in the way and to the quality our customers will expect from us.

These investments will reduce the number of calls taken by our contact centre (currently over 240,000 a year), reduce complaints, enable us to deliver more 'right first time' contacts, cutting down on unproductive repeated staff contacts, enable a level of digital self-service for customers, and reduce time spent on each interaction (for example, through the implementation of mobile working for housing managers).

These substantial 'invest to save' initiatives are indicative of our commitment to the 90% satisfaction ambition. Ultimately, they will lead to a need for fewer staff in certain parts of the business and reduced non-pay costs. However, in the short-term they will have an impact on our overall returns and costs.

Return on capital employed

The tables below show our return on capital employed across the four operating associations within Network Housing Group and the turnover, surpluses and margins achieved within the different types of home we own and manage.

During the year, Network had two major one-off expenses: £3.95m as a one-off payment into the Social Housing Pension Scheme to reduce the scheme deficit, and £2.66m as a required impairment under FRS102 relating to the introduction of the 1% real terms rent cut for social and affordable rented properties from 2016. Both of these items were accounted for under the social lettings area. Excluding these two items, the operating margin for social lettings increases from 25.0% to 30.6%. A £1.5m deficit (after corporate overhead allocation) on our temporary housing operations accounts for the remainder of the reduction in margin (excluding sales) compared to 2014/15. The position on temporary housing is covered in more detail in the 'understanding costs' section above.

	Operating surplus – Social housing letting			Capital employed			Return on capital employed			Variance
	2016	2015	2015	2016	2015	2015*	2016	2015	2015*	
				NBV	NBV	NBV	NBV	NBV	NBV	NBV
	£'000			£'000						
CTH	613	1,444	1,514	83,683	73,712	49,681	0.7%	2.0%	3.0%	-1.3%
LSH	1,319	3,370	3,226	44,213	44,183	39,737	3.0%	7.6%	8.1%	-4.6%
RIV	11,449	11,056	10,850	183,582	173,193	140,226	6.2%	6.4%	7.7%	-0.2%
Stadium	20,949	27,575	25,883	1,094,523	1,100,323	581,712	1.9%	2.5%	4.4%	-0.6%
Group	34,674	43,929	41,958	1,417,248	1,401,257	821,202	2.4%	3.1%	5.1%	-0.7%

These comparatives are based on the previous UK GAAP which was replaced by FRS 102.

Getting the best out of our assets

2015/16 Social housing letting	General rented (£'000)	Sheltered housing (£'000)	Shared ownership (£'000)	Hostels (£'000)	Short stay/ temporary (£'000)	Key workers (£'000)	Total (£'000)
Turnover	82,118	12,537	8,599	5,200	20,334	9,181	137,969
Operating surplus/ (deficit)	22,035	5,405	3,719	1,680	(1,459)	3,161	34,541
Operating margin	26.8%	43.1%	43.2%	32.3%	-7.2%	34.4%	25.0%
Operating margin (2014/15)	37.7%	37.2%	46.3%	24.6%	0.2%	41.1%	32.1%
Operating margin (2014/15) previous UK GAAP	39.4%	39.3%	47.2%	25.4%	0.0%	40.7%	32.9%

Value for money gains made and expected

Value for money gains made and expected

Delivering value for money gains is a continual process. There is more to it than simply making year on year cash savings. The potential benefit of savings to our business and to the customer has to be weighed against the risk of poorer service if costs are cut too aggressively. And, as we have indicated, we also want to invest to achieve improved service performance and support customers to fulfil their potential and aspirations.

The earlier sections of this self-assessment have already shown a range of value for money gains achieved during 2015/16 and anticipated, together with how we are planning to invest in the future of our business for the benefit of customers.

In this section, to go beyond these broader strategic gains, we have identified a number of the larger operational value for money gains we have achieved and which we expect to achieve in the coming years. We have aimed to show how these relate to our four strategic objectives.

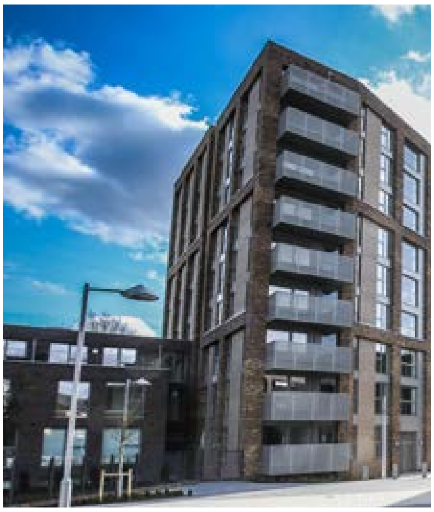
Maximising growth within our resources

Our development directorate is using a range of mechanisms to improve value for money and ensure resources are focused productively and potential waste is eliminated.

Innovation in construction procurement is a key tool. We are looking to use modern methods of construction (MMC) on the redevelopment of Press House in Wembley and will analyse its effectiveness in reducing costs before potentially rolling this out on other schemes. We are involved in a G15 group assessing the benefits of MMC through collaboratively working.

Our joint venture with Hills on the 441 home scheme at 243 Ealing Road in Alperton, detailed in a case study last year, completed fully in 2015/16, over a year ahead of our original schedule, with fixed construction costs and earlier than anticipated sales proceeds. Overall, we assess the benefit achieved through the nature of this procurement at £4.98m. We are actively pursuing other similar arrangements for pipeline schemes.

At Thrayle House in Stockwell, where we are redeveloping 177 homes, we are trialling Building Information Management (BIM Level 2) to help closely monitor the design and build and assess the ongoing benefit for building maintenance of a much closer understanding of component usage. Again, we will roll this out, if, as we expect, it proves successful.



Cash savings have to be weighed against the risk of poorer service if costs are cut too aggressively. We also want to invest in improved service performance.

This year we have made a range of specific efficiencies, including:

Action	Value for money gain	Cashable/non-cashable
Improved purchasing deals, eg. with kitchen, tiling suppliers	£18,000	Cashable. Ongoing deals. £15,000 additional saving targeted for 2016/17
Lower valuation costs for bulk orders	£66,744 – despite large increase in sales volumes from 243 to 559	Cashable. Ongoing. £30,000 saving targeted for 2016/17
Re-using show house furniture in different schemes	£89,000	Cashable Ongoing. £30,000 savings targeted for 2016/17
Use of 8 procurement frameworks – fees from opening use to local authorities and other HAs	£51,000	Cashable. Ongoing. £55,000 saving targeted for 2016/17
Training/employment of 26 apprentices across 3 regeneration schemes and within development team	Unquantified	Non-cashable. Gain for customers. Many apprentices were Network residents

Value for money gains made and expected

Looking ahead

A number of the types of gains achieved during 2015/16 will flow through to 2016/17, although the amounts are likely to be different, as indicated.

In addition, at the current time, further expected VFM gains for the year include:

- 243 Ealing Road ground rent sale – £1m in income generated
- Staff salary cost underspend of £325,000 against planned budget (one-off 8% benefit to development team cashflow)

We are exploring add-on deals from our relationships in the Build to Rent market with Stanhope and Quintain, which may provide substantial additional income gain for Network. We would expect to be able to report on these next year, including the level of added value achieved.

Delivering first class customer service

This is the area of our business where we are currently investing most heavily to deliver future gains, many of which will not be cashable but will offer considerable added value for our customers. Much of this is detailed elsewhere in this report and linked directly to our ambition to move overall customer satisfaction from the current 80% to 90% by 2021.

Better procurement

Through improved procurement of contracts as they come up for renewal, the following rolling annual gains in value for money have been secured this year:

Contract	Annual saving	Contract start & length	Cashable/non-cashable
Cleaning & grounds maintenance – older person's schemes	£35,000	Apr 2015 – 3 years	Cashable
SW9 Cleaning & grounds maintenance	£75,000	Oct 2015 – 3 years	Cashable
Utility – gas	£195,000	Apr 2015 – 2 years	Cashable – indicative. Based on actual usage
Out of Hours contact	£27,000	Sept 2015 – 4 years	Cashable
Fire risk assessment	£58,390	June 2015 – 4 years, extendable to 6 years	Cashable
Lifts	Unquantified	Nov 2015 – 5 years	Cashable, but undetermined. The new contract is comprehensive to avoid previous issue of additional charges being levied for certain jobs

Value for money gains made and expected

A new cleaning and grounds maintenance contract for our Out of London homes will create annual savings of £100,000 a year from 2017.

As future contracts come up for renewal, wherever possible, these will be let on an organisation-wide basis following our amalgamation. This will allow us to drive greater economies of scale and added value to deliver both cashable and non-cashable benefits.

Corporate Social Responsibility

Our 'Network Cares' programme continues to produce a range of social, economic and environmental benefits for our residents and society. During 2015/16 these included:

- £800,000 in additional income from previously unclaimed benefits entitlements, where our welfare benefits advisors supported residents to make claims
- 32 residents supported into employment and 105 participating in employment training and support, delivering £208,000 of social value, measured through the HACT Social Value Tool
- £400,000 spent on environmental and wellbeing improvements on 35 estates through our '360' project, working to priorities agreed with residents. The social value was not measured in 2015/16 but we are using the HACT tool to do so in 2016/17
- 75 home visits and 4 advice surgeries to help reduce fuel poverty, including provision of LED light bulbs, energy monitors, new radiator panels, and information packs
- Creating new partnerships and helping fund local agencies, including Brent Law Centre, Alperton Children's Centre, Hertford Community Voluntary Service, Healthwatch Lambeth, and Future Living
- Volunteering by Network staff, including raising over £20,000 for Sports Relief through acting as a call centre for 772 donations

We are currently working to identify those of our residents at most risk from the introduction of Universal Credit and the latest plans for welfare cuts, which will come into operation over the next two years. This will allow us to target support effectively and, from a business point of view, help to protect our income.

Looking ahead

We have identified expected savings of £115,000 in non-staff asset management budgets for 2016/17 and a further £384,000 in asset management staffing and non-pay costs from 2017/18.

On the housing management side, we are proposing target savings against planned budgets of £600,000 across 2016/17 and 2017/18.

Increasing financial strength

We have evidenced the very considerable gains in Network's financial strength in recent years elsewhere in this report, alongside the crucial value for money benefits this brings in our ability to fulfil our social objectives.

Value for money gains made and expected

Specific value for money gains related to finance we can show this year include:

Action	Value for money gain	Cashable/non-cashable
Negotiation of amalgamation consent fees with lenders. Numerous fees negotiated down	The total cost of £150,000 to secure all consents was £100-150,000 below our estimate of costs	Cashable, one-off saving
Negotiation of reduced legal fees for amalgamation by requiring all lenders to use the same lawyers	£84,500	Cashable, one-off saving
Break cost negotiations to trade out of LOBOs for fixed rate lending resulted in reduction of 24 basis points in interest costs	£180,000 Further discussions underway in light of Barclays later decision to waive LOBO trade out costs	Cashable, annual savings
Reduction in margin negotiated on extension of a borrowing facility for two years	£300,000 interest cost reduction a year if fully drawn	Cashable, for two years
New £50m borrowing facility from Clydesdale Bank to support delivery of 3,000 new homes	Added value	Non-cashable. Gain for customers through provision of new homes

Looking ahead

We expect to deliver £1.1 million of additional savings this year, rising to £2 million a year by 2020/21. Many of this year's anticipated savings are identified elsewhere in this report.

The greater rigour we are introducing in our value for money processes and measurement during 2016/17, through our new VFM Strategy, should enable us to identify and capture additional savings and added value, with staff becoming more consistently focused on delivering better value for money. This should be evidenced by next year's self-assessment.

Building a great organisation

The consolidation of the group structure into a single organisation, Network Homes, is a strong step towards building a great organisation, and the potential value benefits of this are shown earlier in this report. We are investing in our new brand and in our people to ensure that Network's profile and reputation grows within our marketplace and this will support new business winning, customer satisfaction and our attraction to high calibre people as an employer.

The reduction in Board membership and administration and servicing costs has delivered a productivity gain of approximately £250-300,000 a year. In particular, the executive and other senior managers now have more time to focus on operational management of the business, and this should begin to drive further benefits this year.

We have now moved the administration of all Board and committee meetings to BoardPad. This will reduce the resource and cost associated with meeting administration further going forward. Over time, we will look to extend BoardPad use to certain internal management meetings.

We achieved a freeze in insurance premium rates across all policies in 2015/16 and this has continued into 2016/17. We are managing risk better, resulting in fewer claims. As Insurance Premium Tax has risen from 6% to 9.5% this year, this represents a notional gain of a minimum £10,400.

Value for money gains made and expected

Looking ahead

We are targeting net savings within the People & Culture directorate budget of £77,000 (1.3%) during 2016/17 and 2017/18. A further 10% of the budget during 2016/17 will be moved between headings to deliver improved value on the spend. Within our wider corporate services, we have identified savings for 2016/17 in pay and non-pay costs of £598,000 (6.8% of budget).

In addition, we are examining the value for money benefit of establishing an in-house legal team to reduce our expenditure on legal fees. While this would not obviate the need to take external advice on certain issues, we estimate the savings could be in the region of £100,000 in the first year, rising to £300,000 by the end of the second year. This takes into consideration the costs associated with establishing the team.

We are targeting a reduction in staff sickness per employee to seven days this year. We believe this is achievable as a result of the already improved One Network culture we are developing, with greater benefits expected to flow through our clearer strategy, brand and employee training and engagement programmes. Achieving the seven day goal would create an improved productivity benefit of £192,000, based on average salaries and additional staff time worked.

As a result of amalgamation, we have reduced staffing costs in the Marketing & Communications team by nearly £50,000, centralising the team and moving to more generic roles. The single operating association and brand has allowed us to reduce non-pay marketing & communications expenditure by £20,000 for 2016/17, at the same time as we intend to deliver a higher public profile and increased influence for Network Homes externally. This represents added value.

We have used the savings to help establish a new Strategy & Research team. In a more complex, unpredictable, risky and competitive marketplace this will help improve our market intelligence, support business cases and bidding processes, and provide the underpinning for more evidence based decision making. This will support our ability to win new business and increase our influence in the market.

We estimate the savings from establishing an in-house legal team rising to £300,000 by the end of the second year.

Conclusion

Within this report we have outlined in considerable detail our strategic approach to value for money, our costs per property and comparative performance, how we are using our assets, and the value for money gains we have made and expect to make.

We have been clear about how our amalgamation as a single operating organisation will benefit us for the future and why we are investing significant sums now to ensure the future success of our business and specifically to meet our strategic objectives. We have highlighted areas for improvement, as well as showing our achievements.

We have made apparent our appetite for maximising development of new affordable homes to contribute as much as we can to new housing supply, in spite of the 1% cut in social and affordable rents, which will take £45m out of our income to 2020. And we have shown our commitment for driving customer satisfaction to new heights, despite performing better as an organisation now than we ever have before.

Network is much stronger as an organisation than it was just three years ago, and we are clear about our future direction and strategy. Improving value for money will remain a vital part of that strategy, as our new VFM Strategy testifies. We have more to do, but we are making strong progress.

Network Homes

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