Value for Money Statement

For 2016/2017

Because good homes
make everything possible

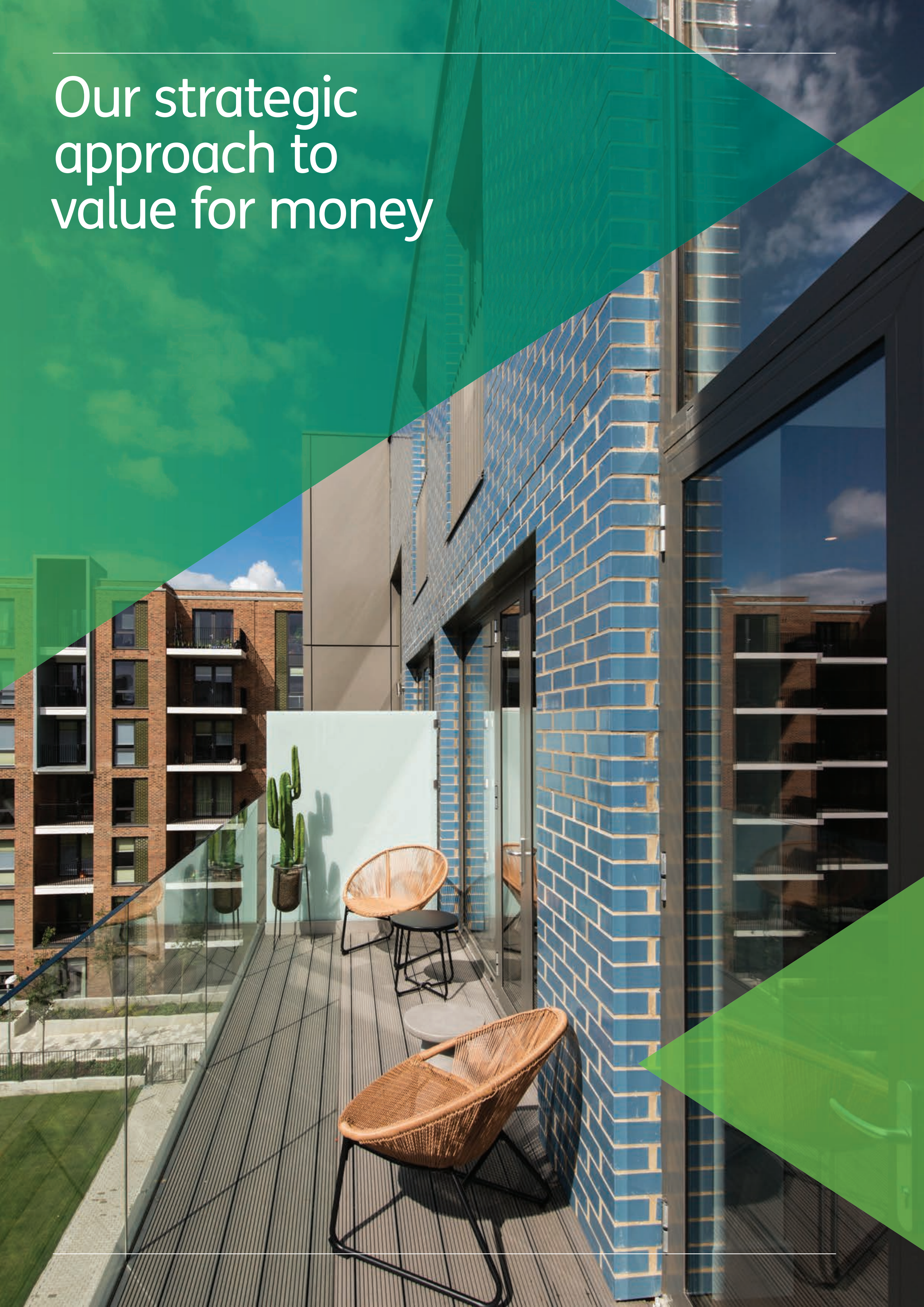
Introduction

Our industry regulator, the Homes and Communities Agency, requires all housing associations to publish an annual Value for Money Statement for our stakeholders. We are regulated partly against a Value for Money (VfM) Standard, with a specific expectation that we will report:

- A comprehensive and clear view of our strategic approach to value for money;
- The return on our assets, measured against our organisational objectives;
- Our absolute and comparative costs for delivering specific services; and
- The value for money gains we have made or expect to make, and how these are realised over time.

Aside from the regulatory requirement, Network Homes 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 build more homes and drive up the satisfaction of our customers.

Our strategic approach to value for money



Our strategic approach to value for money

Network Homes has made substantial improvements to its financial performance and service quality over the last five years. In 2016/17 we made a net surplus including sales of £51.8m, with an operating margin of 31.1%. In 2012/13 our net operating surplus was £17.8m and our operating margin was 25%.

In 2016/17 we've seen a decrease in our surplus, margin and turnover, but we expected this. 2015/16 was an exceptional year and represented the peak of a development cycle. Turnover in 2016/17 dropped by 28.1%, mainly due to a reduction of income from sales. 2016/17 still represents a very solid financial performance, with turnover and surplus higher than in any other year except 2015/16.

Income has been affected by changes in government policy announced in the last two years which have now come into effect, such as the social rent reduction. In light of these changes to policy, we have revised our financial models to ensure we maintain strong margins with the aim of achieving a minimum 32% operating margin before sales by 2021.

Increasing and maintaining 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 ongoing economic or political uncertainty, such as we have seen this year and can expect to continue at least until the culmination of Brexit negotiations. Financial strength underpins our corporate strategy and is crucial to value for money.

Organisational strategy

Our four strategic objectives are:

- Maximising growth within our resources;
- Delivering first class customer service;
- Increasing financial strength; and
- 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 100 Best Company to Work For.

Our Board defined these objectives in the Five Year Strategy 2016-21 and these therefore guide our business and value for money approach. 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

The Network Homes development programme continues to demonstrate the scale or our ambition, both in terms of the size and number of developments and the diversity of housing options we offer. We maximise growth by 'sweating our assets'. We are also prepared to take measured risks to ensure we make as strong a contribution as we can to meeting housing need.

The Government's decision in 2015 to impose a reduction in social sector rents of 1% a year is affecting revenue streams. Between 2016 and 2020 analysis shows that Network Homes' income will reduce by around £45m.

Financial strength underpins our corporate strategy and is crucial to value for money

Our strategic approach to value for money

We are absorbing that fall in revenue by reducing operating costs and increasing efficiency, with the aim of achieving operating margins at or above 32% by 2021. This will allow us to protect our development pipeline and underlines our commitment to maximising growth, even in difficult circumstances.

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

Network Homes is halfway through delivering the 2015-18 Affordable Homes Programme. This is split roughly one third market sale or rent, one third shared ownership, and one third homes for social or affordable rent. We are the second largest recipient of government housing grant in London and we have a significant grant funded programme in Hertfordshire, which supports our capacity to deliver homes for shared ownership and sub-market rent.

The Network Homes Board has been able to invest an additional £20m in the bid for the 2016-21 GLA programme, with funds generated as part of the unusually high surplus in 2015/16. Our bid will deliver 1,052 affordable homes for £45.7m subsidy. Network Homes has recently also been confirmed as one of the Mayor's Strategic Partners in development, committing us to a minimum of 60% affordable housing on our developments through the programme, and enabling the construction of a further 700 homes additional to those in the bid.

We are continually looking for ways to improve our development procurement and construction methods. We will use modern methods of construction on our Press House development, and have an ambition to build more homes using offsite manufacturing over the next few years. We are looking for partnerships that will allow us to get the right balance between risks and rewards, costs and benefits. We focus on a relatively tight operational area, based around a number of core boroughs that will enable our housing management services to operate in an efficient manner. This approach is described in more detail in the Growth Strategy 2016-21.

Approach to customer service

Value for money is also crucial in helping us to achieve our customer service ambition. We finished 2016/17 with overall customer satisfaction for the year at 85.4%. There is still some way to go to meet our overall ambition of 90% satisfaction, and the Board is focussed on continuing to improve. However, this beats our target for the year of 82% and represents an improvement of over 5% compared to the previous year. In 2012/13 overall customer satisfaction was at 73%, demonstrating that our investments and actions to improve our services are working.

One area where performance has dipped compared to last year is customer satisfaction with the repairs service. In 2015/16 a satisfaction rate of 82.3% was achieved; last year this fell to 80.6%. In November 2016 we mobilised a new responsive repairs contract with Wates Living Space, involving new ways of working and contract terms bespoke to Network Homes. While it is disappointing to see a slight drop in satisfaction, this is not unusual as new ways of working are formalised with a different contractor. Overall performance is now improving, so over time we are confident the service our customers receive will be of a very high quality.

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.

In early 2017 we launched a newly developed Customer Service Strategy, based on five principles driving our approach:

- Having the right culture internally;
- Providing an accessible service;
- A more personal service;
- A high quality service; and
- An added value service.

We will work to these principles through a four tiered hierarchy of provision. By 2020 we have a target of 50% of customer transactions being self-serviced online, with 80-90% of transactions resolved online or through a single enquiry to the Customer Service Centre. The remaining 10-20% of transactions will require specialist input – this could be from a specialist team, or it could mean offering an intensive service to a minority of customers who need more support to sustain their tenancies. We believe this approach will offer good value for money, through top quality service provision and focussing more intensive resourcing towards the customers that need the most support.

Our strategic approach to value for money

The success of this model depends on our IT platforms being adequate to deliver services to the quality required by our staff and our customers. We are building this capacity through our IT business transformation programme with £7.7m of investment over the next three years.

One of the first steps towards meeting our customer service ambitions was the launch of a basic self service portal, in June 2016. While this will evolve over time, it already allows customers to make a rent payment, update personal information, and monitor the progress of repairs. By the end of 2016/17 over 1,300 customers were registered to use the self service portal, with more joining each month. To date there have been 4,606 visits to the portal, with just over a third paying rent, a third viewing communal repairs and just under a third raising a request for a repair.

Infrastructure upgrades have been made to the telephony platform, to pave the way for introducing two new products in 2017/18. Queue buster technology will allow customers to hold their place in a queue or receive a call back at a convenient time, while speech analytics software will allow improved analysis of the calls we receive, as well as flagging key words of concern when they are used by customers.

Through this investment our service is modernising and making it simpler for customers to engage with us.

A simpler structure

A key driver of Network's approach to value for money in recent years has been the concerted steps taken to simplify our management and governance structures. Between 2013/14 and 2016/17 we took £5m off the cost base through the Fit for the Future change programme and subsequent fundamental governance review. April 2016 marked the completion of the legal amalgamation with the new Network Homes brand instituted from May 2016.

Since then we have been able to move forward as a single organisation, with a single brand, which has had multiple value for money benefits. We are implementing more consistent ways of working, our decision making is faster, and we have greater strategic and cultural clarity. We expect to be able to reduce costs by achieving improved economies of scale, for example with board servicing and administration and accounting practice. We have identified additional cost savings linked to our structure of around £1.1m. Specific gains are detailed in section 4 of this document, but particularly notable savings are:

- Reduction in interest negotiated on restructured financial instruments of £388,650 per year.
- Saving of £100,000 against consultancy costs in 2016/17, with further savings planned for 2017/18.
- £200,000 saved through the re-procurement of the group insurance policy contract.

The structural changes have allowed us to critically re-examine our overall management and maintenance costs. In early 2017 we carried out detailed research to understand the key factors underpinning our costs and performance, based on comparative benchmarking data collated by Housemark.

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Our strategic approach to value for money

Three priority areas have been identified with a review of each to be led by members of the Executive Leadership Team.

We now have a single balance sheet, with a (historical cost) value of £1.5bn. The new structure, as well as providing a small increase in overall financial capacity, delivers greater resilience in the event of financial shocks and therefore instils greater confidence for existing and future investors.

In early 2017 an independent perceptions survey was carried out with Network Homes' main stakeholders, with very strong results. The organisation's profile and reputation was seen as much improved compared to the last survey in 2015 and positive perceptions rose across almost every area of our business. Many responded very positively that the new branding and improved structure demonstrate a focus on ambition, quality and efficiency. These changes are clearly bringing added value in addition to the cost savings seen through the balance sheet.

Our people and culture

An engaged and effective workforce is vital to achieving our customer service goals. As of July 2017 we are midway through the three year People & Culture Agenda which is based around improving leadership and management quality, employee engagement, and our employer offer, to build a great organisation.

We continue to invest significantly to ensure our staff can deliver first class customer service. During the last year all staff (including new starters) have attended training in the Mary Gober customer service method, which focusses on equipping staff with the capability to take ownership, be resilient and communicate positively in a solution oriented manner. We have implemented the ROCKSTAR leadership and management training programme for managers at all levels of the organisation. This should ensure all staff receive the support and guidance they need to work to the best of their ability, and that all managers feel equipped to manage the performance of their teams.

We are now implementing a 360 degree feedback programme for all managers including the Chief Executive.

Benefits of this investment in our people are already coming to fruition. The gains made in overall customer satisfaction illustrate the positive impact of the People & Culture Agenda. Staff sickness is down from 9.8 in the previous year to an average of 7.5 days lost per employee. Although slightly above our internal target of 7 days, this compares favourably with the average days for the g15 of 8.7. In financial terms this represents a between years reduction in the cost of absence worth £104,525.

Staff turnover ended the year on 18.7%, compared to a 2015/16 figure of 23.8%. This met the internal target of 20% and can be compared to the g15 benchmark of 22.8%.

Reductions in staff turnover indicate that the workforce feel more invested in the organisation and its success, and that there are internal opportunities to develop. It also reduces expenditure associated with staff turnover, such as recruitment or the cost of temporary appointments to fill posts.

Our strategic approach to value for money

We can see the return on investment through the results in the 2016/17 Best Companies staff survey results. Significant gains were made compared to the previous year. 10% more staff completed the survey, with results showing improvements across all 8 categories of the survey, the most significant being a 13% improvement in confidence in our leadership. In 2017/18 our focus will be on continuing to drive up staff engagement and achieving the Sunday Times 100 Best Companies to Work For standard.

Mergers and acquisitions

Both the Government and the HCA have made statements about housing association efficiency and the potential benefits of consolidation through mergers. Looking around the sector there has clearly been an increased momentum towards these aims, with several high profile mergers completed both within the g15 and more widely.

We have considered these statements and recognise the scale of policy change within our operating environment. Both underline the importance of making sure we can and do deliver our core purpose of building homes and providing services in an efficient and effective way. The changes we've been through over the last few years, particularly the collapse of the group structure, have been in response to these changes.

We continue to consider whether our size may adversely affect our competitiveness or limit the opportunities available to us, and whether merging may represent the best way for us to achieve greater value for money through economies of scale.

We have set out clear criteria for considering any merger opportunities within the Growth Strategy 2016/21. These include strong geographic, cultural and operational synergies. The Network Homes Board did not sign up to the National Housing Federation's 'merger code' as we believed it to be too prescriptive. However we have developed a prospectus which sets out our position and appetite for mergers to the wider sector. We are also in the process of developing a set of criteria which will guide early decision making on whether to proceed with possible acquisitions of stock. This will be agreed and finalised during 2017/18 and should also support opportunities for inorganic growth.

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

We are already achieving strong finances and development performance, and much improved governance. We have been investing substantially in the business and have made a strong start in improving asset management and customer services.

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

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 between now and 2020, and other operating challenges housing associations are facing.

It details a 'menu' of potential strategic and operational value for money assessments that we can undertake, depending on the relevance of each

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Our strategic approach to value for money

item year to year, and it introduces new processes to embed value for money assessment more systematically through our organisation. Finally, it identifies key value for money indicators for us to measure, linked to each of our four strategic objectives.

Adoption of the strategy has led to considerable change. The more structured reporting protocols, through one central point of coordination, are improving consistency. We have a much better understanding of our costs, which gives the potential for ever more progress on efficiency. An internal communications campaign and alignment with the people and culture agenda is embedding a culture where everyone at Network Homes is responsible for ensuring good value for money.

Progress is reviewed by the Executive Leadership Team on a quarterly basis and by the Network Homes Board every six months.

Sector scorecard

A number of housing associations, led by Home Group, have developed a new 'sector scorecard' of value for money metrics which can be used to compare performance between providers. This will be piloted in 2017/18 and in future may become one of the principal methods of assessing value for money in social housing. Network Homes has signed up to participate in the pilot.

The table to the right shows our performance last year on these measures compared to the g15 benchmark for 2015/16 (the latest figures currently available).

	Measure	Network Homes 2016/17*	g15 benchmark 2015/16
	Business Health		
1	Operating Margin: Overall Social Housing Lettings	 31% 26%	 32% 36%
2	EBITDA MRI (as a % of interest)	203%	190%
	Development		
3	Units Developed**	468	781
4	Units Developed as % of units owned	3%	2%
5	Gearing	49%	45%
	Outcomes Delivered		
6	Customer Satisfaction	85%	76%
7	£s invested for every £ generated from operations: - in new housing supply - in communities	 £1.19 £0.57	 £1.20 n/a
	Effective Asset Management		
8	Return on capital employed	4.1%	4.5%
9	Occupancy	98.5%	n/a
10	Ratio of responsive repairs to planned maintenance spend	0.62	0.64
	Operating Efficiencies		
11	Headline social housing cost per unit - Management cost - Service charge - Maintenance cost - Major repairs - Other social housing cost	£5,614 £1,768 £722 £802 £1,285 £1,037	£4,690 £1,278 £613 £1,084 £855 £860
12	Rent collected	98%	98%
13	Overheads as a % of adjusted turnover	12.7%	11.7%

**The definitions used for the sector scorecard pilot differ from those used as standard within the sector to calculate similar VfM metrics in previous years, meaning that these measures are unlikely to be directly comparable to the g15 benchmark.*

***For most developing associations in the g15, 2015/16 represented a peak year in development cycles, and this has had an impact on some of the measures outlined above.*

Understanding the costs of providing our services

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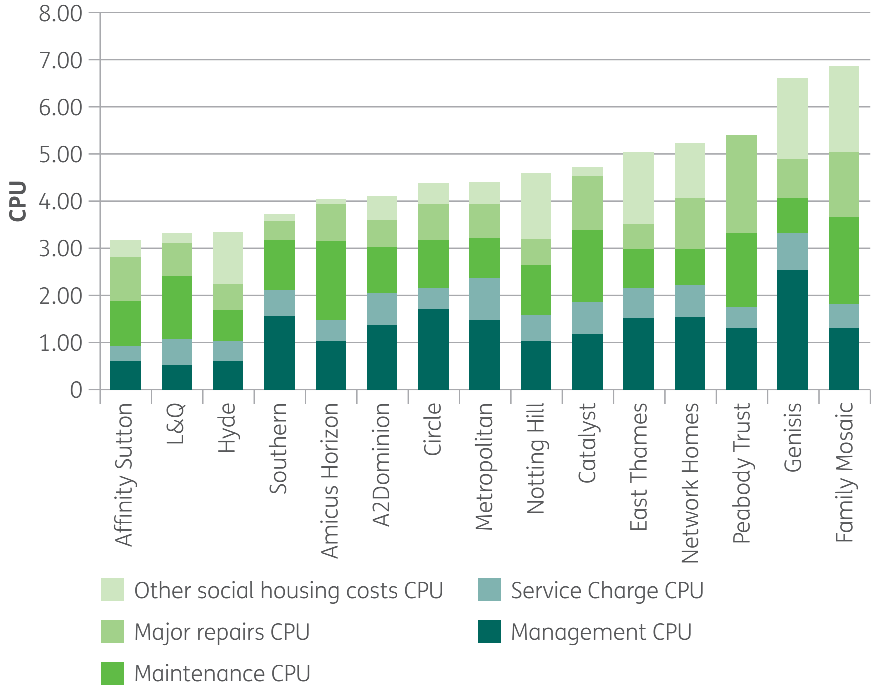
Last year's VfM Statement included our initial commentary and analysis in response to the publishing of the HCA's comparative cost per unit (CPU) analysis in June 2016. In 2016/17 we refined the methods by which we scrutinise our costs and have begun to see a return on a number of investments designed to improve the service. In areas of high relative cost we are undertaking a fundamental review of the service in order to ensure VfM.

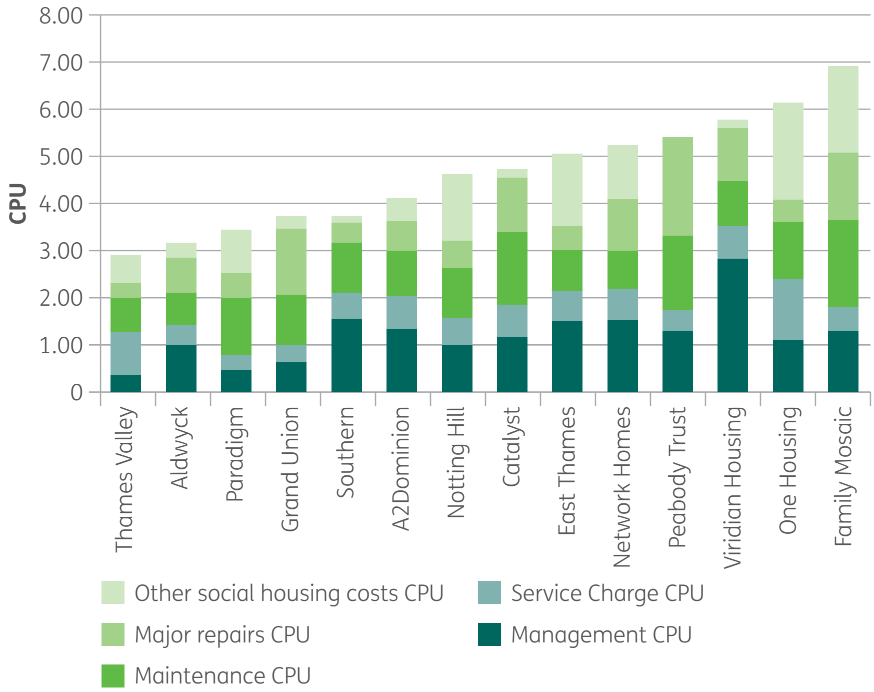
The chart opposite shows how our 2015/16 CPU (the most recently available data) compares to our g15 peers. As can be seen, our headline CPU is the fourth most expensive within this group, at £5,240.

Taking on board the recommendations of the HCA for the usage of their analysis – that the results be used to identify a relevant peer group for comparison – we have identified a bespoke peer group based upon a 'similarity score', incorporating the factors identified through the HCA regression results. As displayed opposite, we are the fifth most expensive landlord amongst this peer group. When splitting the headline CPU by cost group, the factors underlying our relative high cost are consistent amongst both peer groups.

2015/16 CPU for g15 housing associations



2015/16 CPU for bespoke peer group



Understanding the costs of providing our services

The 'Other social housing costs' group for Network Homes is high relative to our peers. As discussed in last year's Statement, the majority of these costs are lease contract costs paid to landlords as part of our private sector leasing (PSL) portfolio. Our internal analysis suggests that if the lease contract costs of all the g15 organisations are removed from their respective CPUs, Network Homes would have a CPU of £4,100 and would be at the median within this peer group.

Through the provision of temporary accommodation, the PSL portfolio produces a social benefit and assists our local authority partners in meeting their statutory obligations. A review of the portfolio during 2016/17 reaffirmed our commitment to providing this specialist service, as it aligns with our strategic objectives and social purpose. Nevertheless, the review also produced a number of recommendations to make the service more cost-effective, which were approved by the Board. These included converting our homes to a more profitable leasing arrangement and increasing the management fees we charge.

Overall, our headline CPU increased between 2014/15 and 2015/16. The primary source of this increase was a rise in maintenance costs, although this was from a low base as we had the third lowest maintenance costs amongst the g15. Roughly a quarter of the increased cost resulted from a reallocation of a proportion of management costs to maintenance in transitioning to the new FRS102 accounting standard. Moreover, increased investment has coincided with improved performance; 100% compliance in fire risk assessments was achieved over 2016/17, and satisfaction with recent repairs increased to over 80%. But Network Homes knows it is important to have systems in place which align customer satisfaction with cost control; as such, we have recruited a commercial surveyor in Asset Management to manage the open-book accounting structure of the new repairs contract.

Benchmarking results from Housemark provided us with detailed information as to why our costs were relatively high in 2015/16. As detailed elsewhere in this Statement, we have initiated reviews into three business areas as a result: tenancy management, the Customer Service Centre and corporate overheads. The outcomes of the reviews will be forthcoming over the course of 2017/18.

Latest performance benchmarking

The tables on the following page display our financial and customer service performance relative to the results of recent benchmarking and our 2015/16 performance.

While some of our financial metrics show a decline in performance between 2015/16 and 2016/17, as mentioned at the beginning of this Statement, 2015/16 was an outlier when looking over the longer term, especially in terms of income from sales. Performance this year remained higher than our 2014/15 figures for surplus on housing sales and interest cover including and excluding sales. Furthermore, we remain within our covenants when subjecting our business plan to rigorous stress-testing, underlining the overall financial strength of the organisation.

The sustained performance in operating surplus before sales demonstrates the strong foundation on which our core business activities are based. In addition, the temporary accommodation portfolio has improved its operating margin significantly, after operating at a loss in 2015/16.

Our maintenance costs per home stayed stable, which should keep these costs low relative to our peers, but management costs per home increased over 2016/17. In part this is due to investment in improving customer service, but also costs associated with the process of amalgamation. Change can produce short term costs that are necessary to realise long term savings. For example, in 2016/17 we reduced the headcount in Customer Services by 11 people, but these savings may not be reflected in costs until 2018/19.

Network Homes knows it is important to have systems in place which align customer satisfaction with cost control

Understanding the costs of providing our services

Financial perspective	2017	2016	Network Homes % change from 2016 – 2017	g15 % change from 2015 – 2016
Operating surplus before housing sales (£m)	39.2	37.4	5	7
Surplus on housing sales (£m)	37.6	92.1	-59	55
Interest payable (£m)	26.2	29.6	-11	-5
Operating margin on social housing lettings (%)	25.5	25.3	0	1
Maintenance cost per home (£)*	1,203	1,197	1	0
Management cost per home (£)*	1,700	1,461	15	2
Voids and bad debts (£m)**	3.8	2.3	65	0
EBITDA MRI interest cover (excl. sales) (%)	104	105	-1	-3
EBITDA MRI interest cover (incl. sales) (%)	203	356	-43	14
Total debts per unit (£'000)	37.3	35.8	4	1

** Costs per unit differ slightly from those included in sector scorecard, as sector scorecard definition uses a different calculation.*

***Voids and bad debts have increased by 65% to £3,797k in 2017 from £2,303k in 2016. This is mainly due to the bad debt provision increasing by £1,062k in 2017. The former tenant arrears provision has increased by £668k and the current tenant arrears provision has increased by £353k.*

Resident (Customer) Perspective	2017	2016	g15 bench mark	
			Upper quartile	Median
Overall customer satisfaction (%)	85.4	80.1	n/a	n/a
Resident satisfaction – with repairs (%)	80.6	77.9	90.1	84
Current rent arrears (%)	3.7	3.6	3.6	3.9
Average re-let time (standard re-lets) (days)	32.8	31.4	25.8	33.6
Percentage of residents very or fairly satisfied with quality of new home (new build only) (%)	n/a*	87.2	88%	87%

**Note: The number of completed surveys did not provide a sufficient sample size to calculate a 2016/17 average; this was due to the majority of completions occurring within the final months of the year. Performance will be monitored and reported on for next year.*

Understanding the costs of providing our services

Governance		
Indicator	2017 (based on units in management)	2016 (based on units in management)
Chief executive remuneration per home (£)	10.5	10.2
Board Chair's remuneration per home (£)	1.1	1.1
Total Board members' remuneration per home (£)	6.4	6.4

A significant increase in overall customer satisfaction was realised over 2016/17, reaching over 85% and exceeding our organisational target. The main driver behind our increased customer satisfaction was improved performance, including within the Customer Service Centre. We have given ourselves an organisational target of 88% customer satisfaction in 2017/18, in order to continue our journey towards first class customer service.

Current rent arrears increased slightly compared to 2015/16, and as detailed elsewhere in this Statement, we are currently considering technological solutions to help us streamline our income collection processes. Regardless, our 2016/17 performance was better than the sector median (as measured by Housemark at 3.95%), and our overall collection rate increased.

The average relet time of void properties also increased slightly relative to last year; however, we remain within the top half of the g15 for performance. After an initial increase in relet times over the first six months of the year, significant work was undertaken which resulted in a sustained improvement in performance over the latter half of the year.

A significant increase in overall customer satisfaction was realised over 2016/17

Getting the best out of our assets

Getting the best out of our assets

Strong performance is translating into additional development

Network Homes now owns and manages 19,975 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 2016/17 we completed 468 homes. These included 308 for social or affordable rent and 94 for shared ownership. In total, we invested £112m in new homes.

These figures are lower than reported last year, but this simply reflects the phase in development cycle. Taking the last two years combined we have invested £159m in new development activity, and completed 1,393 homes. The efforts to maintain programmes and pipelines despite the 1% reduction in social rents have been successful. In 2016/17 we developed homes equivalent to 3% of existing owned stock, excluding demolitions. Although this is lower than achieved in previous years, as mentioned above it reflects phasing rather than any drop in performance. We exceeded targets for HCA/GLA programme starts on site (1,235 compared to a target of 821), and for HCA/GLA completions (359 compared to a target of 272).

Strong performance is translating into additional development. In 2015/16 we made a large surplus of £103m. Generating such a significant surplus has allowed us to provide an extra £20m of funds in the bid for the next GLA programme. This is pure cross subsidy and extra substantive investment in new homes for the communities Network Homes works with.

In July 2016 we conducted comparative analysis between Network Homes' scale of development and other g15 housing associations in London (our peer group). We also considered how our development performance stands up against those who participated in big mergers within the sector, such as L&Q and Clarion. Accounting for relative size, this found Network Homes to be developing at around the same rate or better than most of our larger peers. This will be the case over the next few years, even against very large new merged associations, based on their published plans.

The development programme demonstrates the scale of our ambition in the diversity of housing options we offer, as well as the size of developments and number of homes.

During 2016/17 Network Homes took its first steps into the Build to Rent market with 'The Big Blue', a 270 home scheme in Harrow currently in construction. This will provide good quality private sector homes discounted against the market rent. This Build to Rent scheme is the first to receive support from the London Housing Bank, with the GLA contributing significant loan funding – an innovative funding method Network hopes to replicate on other projects.

Getting the best out of our assets

In total we invested £40.3m in existing homes

At the end of 2016 we purchased 0.66 hectares of land for a landmark regeneration scheme at Merrick Road, Southall. The scheme will provide around 500 homes in the heart of the Southall Housing Zone and close to the new Crossrail station.

We have identified and acted upon development opportunities within our existing portfolio, to make sure we are maximising the potential financial sustainability of our stock. This 'demolish and rebuild' approach is being used at the Press House development; on a specialist older persons scheme at John Barker Court; in regeneration initiatives on the Stockwell Park Estate and the Ridgeway in Hertford; and with the current Wembley head office. Once the new office is complete, the existing site will be rebuilt as part of an office to residential conversion, capitalising on the existing land value and generating value by repurposing as housing to meet high demand.

As indicated, the Network Homes 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, without taking undue risks.

Repairs and maintenance

During 2016/17, the Asset Management team and our contractors completed 55,195 day to day repairs on our properties, and we continued with our substantial planned maintenance programme on specific schemes. In total we invested £40.3m in existing homes (£24.0m on revenue repairs; £16.2m on capitalised repairs). This was an increase on last year's expenditure. Of the £4.5m additional spending, £4.3m was on capitalised repairs as part of planned programmes, with expenditure on responsive repairs led by customer demand increasing by £259,000. We believe this balance in increased spending reflects the more proactive approach we are taking to managing our assets, investing in them for the future.

We know that the most important element of the services we deliver to our customers is the effectiveness of the repairs programme. During the last year we re-procured our responsive repairs contract, with Wates Living Space mobilised as the

Getting the best out of our assets

new contractor from 1 November 2016. With contract terms designed bespoke to Network Homes, we are confident this will lead to an improved repairs service that adds value for money for the organisation. For example, the contractor is now charged for each missed appointment, and 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 performance is poor. The estimated annual saving on void repairs alone, compared to the previous contract, is £485,000. A major incentive for the contractor is the possibility of being awarded £5m in planned works contracts if their performance is good.

End of year figures for 2016/17 show repairs satisfaction at 80.6%, a small increase from last year's performance of 77.0%. The percentage of repairs completed within target time stands at 88.0% overall and 91.4% for emergency repairs. In 2015/16 we did manage to achieve 93% in this metric. While it is disappointing that performance has dropped slightly in the last year, it is not unusual when mobilising a new contract and formalising new ways of working. There have also been issues with specific framework contractors which have been addressed by early termination of two contracts. Overall performance is now improving and so we are confident that over time the service we offer our customers will improve further. We have set a repairs satisfaction target for this year of 85%.

Strategic asset management

As part of the development of Network Homes' Asset Management Strategy, Savills undertook a financial and sustainability analysis of our housing stock. This reported in May 2016 and showed that the vast majority of our homes have a strong financial performance. This initially showed that just two properties sat in an asset group with a negative net present value (NPV), while around 13% of the stock had NPVs where the 1% reduction in rents means we will need to monitor financial performance closely. Nearly one year on, this exercise was refreshed and showed the number of properties with a negative NPV had grown to 742, just under 5% of all rented homes. The average NPV of Network Homes' properties fell from £38,000 to £36,000. These trends can be explained in simple terms: the rent reduction has affected the financial performance of our stock. Overall, however, Savills reported that Network Homes' benchmark NPVs are above the regional benchmarks for London and the South East.

Getting the best out of our assets

During 2016/17 we chose to make substantial investments in our business to support our objective of achieving 90% customer satisfaction

In 2016/17 a strategic asset management working group was established to drive forward the ambitions in the Asset Management Strategy. This meets quarterly and continues to develop our approach to active asset management.

The group has examined stock in a number of non-core localities (those with fewer than 50 homes) to consider whether to retain the homes, or make disposals and use the potential proceeds from the assets in a different way. For the vast majority of these, while geographic outliers, the evidence has shown there to be strong reasons for retaining the homes. For some this is because they are performing well financially, for some this is because they are areas of strategic interest (such as the corridor between the stock in London and East Hertfordshire), and for some this is because certain circumstances mean there is little benefit to disposal. On a few homes, further options appraisals are being undertaken.

Sweating other sources of revenue

The working group has also overseen reviews of the garage portfolio and the commercial properties portfolio. The commercial properties review showed that the 45 active commercial interests are performing well, generating a £1m predicted surplus in 2017/18 at an operating margin of 68%. With a capital value of £18.6m this represents a rental yield of 6.7%. For the garages, their development potential has previously been assessed, and now many of those that are void will receive investment so they can be let. In addition, a rent policy will be put in place to ensure that as an organisation we are thinking commercially about opportunities to generate revenue. Through these reviews, we are sweating the assets that fall outside of the traditional core housing stock and haven't received as much focus in recent years.

Our head office in Wembley has also become a source of income, with areas not in use by Network Homes being rented out to a number of tenants. In 2016/17 this office rent generated cashable gains of £191,379 showing that we are making best use of all our assets.

Investing in improved performance

During 2016/17 we chose 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 with the new contract deployment and different ways of working – such as those identified in our Hertford region as part of a lean service review. The business transformation programme is focussing on digital services and customer contact, IT systems, infrastructure and processes. Initiatives identified in the People and Culture Strategy are developing our people to ensure the quality of personal service to the customer is right. 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 substantial invest to save initiatives are indicative of our commitment to the 90% satisfaction target. And while that is a stretching ambition, we are well on the way to achieving it. In 2016/17 our overall satisfaction score was 85.4%, ahead of the 82% target and representing a 5% gain on the 2015/16 result of 80.1%.

Ultimately these investments 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. Over the next few years, with the improved understanding we have of our costs through comparative benchmarking and detailed research, we will look to bring these costs back down.

Getting the best out of our assets

Return on capital employed

The tables below show our return on capital employed and the turnover, surpluses and margins achieved within the different types of home we own and manage.

Last year the operating margin for social lettings stood at 25.3% which has improved slightly to 25.5%. In most areas margins have fallen, but for general rented homes – which form the majority of our social lettings – there has been an increase from 27.2% to 28.1% meaning that the margin has held overall.

	Operating surplus		Capital employed		Return on capital employed		Variance
	2017	2016	2017	2016	2017	2016	
			By NBV	*By NBV*	*By NBV*	*By NBV*	*By NBV*
	£'000		£'000				
Network Homes Limited	50,609	66,755	1,709,867	1,631,103	2.96%	4.09%	-1.13%
Group	69,454	122,054	1,697,090	1,617,331	4.09%	7.55%	-3.45%

2016/17 Social housing lettings	General rented (£'000)	Sheltered housing (£'000)	Shared ownership (£'000)	Hostels (£'000)	Short stay/ temporary (£'000)	Key workers (£'000)	Total (£'000)
Turnover	86,496	13,843	12,013	5,093	20,266	8,786	146,497
Operating surplus	24,266	5,022	4,530	750	265	2,473	37,306
Operating margin	28.1%	36.2%	37.7%	14.7%	1.3%	28.1%	25.5%
Operating margin (2015/16)	27.2%	43.1%	43.2%	32.3%	-7.2%	34.4%	25.3%

Value for money gains made and expected

Value for money gains made and expected

Network Homes recognises the need to make cashable savings, especially where investment is not realising its expected return. The gains detailed in this Statement show how the economies of scale associated with being a single organisation are already saving money, for example through procurement. However, we also believe that VfM entails a broader commitment to meeting our purpose as a developing landlord which provides good homes and first class customer service.

In addition to identifying savings, meeting this purpose involves investment in business transformation and activities which produce social value through the building of sustainable communities.

Consequently, the gains below are each aligned to one of our strategic objectives and demonstrate both cashable and non-cashable value. An update is also provided for items which were identified as anticipated gains in last year's Statement.

One of the benefits of cashable savings is that they allow us to remove resources from areas no longer producing value and redeploy the money saved to improve the service elsewhere. For example, we have made significant IT savings across 2016/17 through the decommissioning of legacy systems and reducing the need for consultants on key projects, which has allowed to invest further in our transformation programme. As a consequence not all of our cashable savings will be reflected in a reduction in the aggregate spend. The important factor is that where resource is redeployed, the investment is more effectively helping us to meet our strategic objectives.

We have made significant IT savings across 2016/17 through the decommissioning of legacy systems

Value for money gains made and expected

Maximise growth within resources

The acute housing need in London and the South East drives Network Homes' ambitious growth plans, and VfM supports our social purpose by ensuring resources within development are geared towards increasing capacity. As detailed elsewhere, the diversity of our portfolio is resulting in increased capacity through our cross-subsidy model. Moreover, the development directorate sought salary and efficiency savings in 2016/17 in order to ensure investment results in better value for customers.

Looking back at last year's Statement, we realised over £1million in income generated from the ground rent sale at 243 Ealing Road. We identified £278,000 of pay and non-pay savings in the development directorate, which will be realised in the medium term through changes to the number of full time employees. It should, however, be noted that during 2016/17 there was some overspend linked to the use of temporary staff and payment of bonuses.

Add-on deals from our relationships in the Build to Rent market with Quintain and Stanhope were not realised during the financial year, although they are something we will continue to pursue. We are now on site at Press House in Wembley, where we are using modern methods of construction (MMC) and will assess its impact on cost.

Looking ahead

We will strengthen growth activity through our strategic partner status with the GLA. Doing so will unlock additional funds and increase the number of deliverable homes in the pipeline linked to the 2016-21 programme, as well as adding value by improving our reputation as a leading developer.

We will create three additional technical posts within the existing establishment budget, adding value by enabling the development department to bring more technical activity in house.

Action	Value for money gain	Cashable/ non-cashable
Capping of consultancy fees at Aytoun Place, realising a saving relative to previous forecast	£99,800	Cashable
New removals contractor close to £500 cheaper per move than the previous provider	£12,000	Cashable. Ongoing saving for contract life
Total scheme cost of the Edgware FC site came in 3.31% below approval; a saving of £152,412	£152,412	Cashable
Received a Gold Award from our survey company in 2016. Over 90% of general rented customers said they would recommend Network Homes	Added value	Non-cashable
Negotiation of Employer's Agents fees down from framework rates across two schemes, to realise savings from summer 2017	£21,658	Cashable. One-off saving
Numerous awards won improving our reputation as a developer and corporate brand, including: • Housing association of the year at What House? Awards 2017 • Overall winner, best design for Park Heights, and best small development for Electric House at National Housing Awards 2016 • Best regeneration project and best affordable development at Evening Standard New Homes Awards 2016 • Best regeneration scheme at Housing Excellence Awards 2016	Added value	Non-cashable

Value for money gains made and expected

First class customer service

Significant procurement exercises have been undertaken to help improve a range of services, while providing clear mechanisms to ensure the service remains cost-effective. A new framework of planned maintenance contractors has been procured, through which work will be awarded either via a mini-competition or by simply instructing the most economically advantageous supplier. Similarly, a framework of small-works contractors has been procured to provide value for money for more intensive repairs cases, and a fire protection remedial works contractor appointed to ensure swift resolution for any issues picked up in fire risk assessments.

As welfare reform continues to impact a number of our customers, we have sought to safeguard our income stream by identifying and resourcing key events during the roll out of Universal Credit. We are also exploring IT options which will help us streamline the process of income collection.

Looking back at the previous Statement, £101,720 worth of pay and non-pay savings have been realised within Asset Management. In Customer Services, the 2015/16 Statement reported targeted savings of £600,000 across 2016/17 and 2017/18; this target has been revised upwards to £702,000. The savings identified include a number of the procurement savings highlighted elsewhere in this Statement, as well as £420,000 across consultancy, engagement and staff budgets which we expect to be realised over the next couple of years.

Significant procurement exercises have been undertaken to help improve a range of services

Action	Value for money gain	Cashable/ non-cashable
Cleaning and grounds maintenance to achieve £100,000 per annum saving (as anticipated in last year's Statement)	£100,000	Cashable. Ongoing until summer 2018
Gas and electrical contracts procured for communal areas and office space, savings realised due to economies of scale associated with procuring as a single organisation	£100,000	Cashable, one-off
Procured a pest control contract for our wholly owned subsidiary, SW9	£50,000	Cashable, per annum for three years
100% compliance on fire risk assessments achieved	Added value	Non-cashable

Value for money gains made and expected

Corporate social responsibility
Unless specified otherwise, social value figures are quantified via the HACT Social Value Calculator approved methodology:

- Our welfare benefit advisors supported residents to gain an additional £1.2m of income in the form of benefit payments they were entitled to.
- 34 residents supported into employment.
- Partnership with Sustain to install loft and cavity insulation to more than 1,400 homes. 1,367 received loft insulation, saving residents on average £117 per year on fuel bills. 66 received cavity wall insulation saving on average £102 per year. Total savings to residents of £167,000 per year.
- Measurement of the Sustain partnership project found savings of 12,882 tonnes of CO2 across 66 homes to date.
- £282,672 in social value produced through the 2015/16 '360 project' (impact surveys were received during 2016/17), with a ratio of £3.57 social value for every £1 spent. Quantification of the social value of the 2016/17 '360 project' will occur in 2017/18.
- Provision of young persons' street dance workshops in our Hertford region, producing £13,636 of social value.
- Regular choir and bingo sessions co-ordinated by the London region older persons' service, realising £146,454 of social value.
- Over 100 staff members volunteered as Network Homes was selected as a Comic Relief call centre for the third year running, with 576 calls taken and £23,443 collected in donations.
- Social value requirements are now included in all large-scale contracts.

Looking ahead
Project Aftercare began at the end of the financial year, which aims to improve the customer experience during the handover year in new build properties. Over the course of the project we will be working with customers, staff and contractors in order to identify ways of reducing defects and increasing customer satisfaction.

Network Homes will support St Mungo's as charity of the year for 2017/18, with fundraising activity including a London to Paris bike ride. We expect to raise in the region of £60,000. Tackling homelessness is an important part of Network Homes' social mission and connects to both corporate social responsibility and the 'giving something back' agenda.

Tackling homelessness is an important part of Network Homes' social mission

Value for money gains made and expected

Increasing financial strength

The increased focus on VfM in 2016/17 was demonstrated by the appointment of VfM champions and co-ordinators in each directorate, and quarterly reporting to the Executive Leadership Team (ELT) on progress against the VfM Strategy, as well as six monthly to the Board. We will build on this in 2017/18 by examining the connections between VfM savings and directorate actual expenditure. Each Executive Director will also give a stronger focus to monthly management accounting and exploring variance between actual and expected spending.

Looking ahead

Targeted savings of an additional £80,000 in the organisational insurance programme over 2017/18.

Transfer of assets from Network Living to Network Housing Investments Ltd will produce an ongoing saving of £4,000 per year by reducing the number of SPVs and audit fees.

The increased focus on VfM in 2016/17 was demonstrated by the appointment of VfM champions and co-ordinators

Action	Value for money gain	Cashable/ non-cashable
New income generated from letting of vacant space in our Wembley office	£212,687 of income over a two-year period	Cashable, ongoing until October 2018
Service charge savings negotiated with the managing agent of Wembley office space	£52,000	Cashable, one-off
Procurement of revised company insurance policy, which started in April 2017	£231,000	Cashable, one-off
Removal of Head of Assurance role	£75,000	Cashable, one-off
Secured new funding facility with GLA London Housing Bank, creating a saving of £2.8m over full 8 year term compared to commercial bank loan	£354,000 per annum saved for eight years	Cashable, ongoing until 2025
Secured new funding facility with MUFG for two years and BAE Pension Fund for the next thirty years, creating savings compared to average borrowing costs. Creates a total saving on interest and other fees of £4.3m	£275,000 per annum for first two years, then £127,000 for next two years	Cashable, ongoing until 2049

Value for money gains made and expected

82% would recommend us as a development partner

73% would recommend us as a housing service provider

Building a great organisation
A stakeholders' perception survey undertaken over February and March 2017 demonstrated the improved reputation of Network Homes since establishing our new brand. Two-thirds of respondents felt our profile had increased over the past 12 months, 82% would recommend us as a development partner and 73% would recommend us as a housing service provider.

We continued to embed the 'One Network' organisational culture through the People & Culture Agenda. This has included the roll out of Mary Gober training and regular 'Sizzle Sessions' to establish a culture of engagement and customer service. A training programme for line and senior managers was rolled out and a talent retention programme introduced to retain and develop 'high-fliers'.

We have established a new Strategy & Research team to provide research and market intelligence to support improved evidence-based decision making internally and to improve our horizon scanning capabilities and influence externally. The team is also integrally involved in developing and co-ordinating key organisational strategies. This is enabling us to instil ways of working which should create better cost-effectiveness and value for money. The team has already been used on a wide variety of projects, including welfare reform, rents policy, sales and staircasing analysis, analysis of organisational costs and performance, supporting development bids, the development of a new Customer Service Strategy and much more.

An in-house Legal Services team has also been established, providing support and legal advice across both development and housing management. Our overall spend on external legal services increased between 2015/16 and 2016/17, however our estimates suggest this increase would have been around £20,000 greater had the in-house team not been in place. We will continue to explore opportunities for the in-house team to replace the need for external legal support.

Looking ahead

We have identified car mileage expenses as an area of potential saving, driven in part by travel between offices. In response we are piloting video conferencing software in a number of meeting rooms in order to reduce spend, the effectiveness of which will be assessed over 2017/18.

From September 2017 we will be decommissioning our old customer relationship management (CRM) system and the associated support contract, saving £19,500.

Further letting of vacant office space is expected to generate £150,000 of income and savings (business rates and service charges) from July 2017 to November 2019.

Action	Value for money gain	Cashable/ non-cashable
Reduction in sickness absence to 7.5%, below the g15 average	Reduction in absence equivalent to £104,525 saving in staff time (based upon average salary)	Non-cashable, one-off gain between financial years
Savings in legal and consultancy fees within our People & Culture directorate	£50,000	Cashable, one-off
Decommissioning of legacy IT systems and reduced need for third party consultancy on key projects	£148,000	Cashable
Savings in pay and non-pay costs across corporate services	£396,000	Cashable, one-off
In-house Legal Services team established	Estimated saving of £20,000 based upon their current works in progress (minus salary costs)	Cashable
In addition to Board meetings, BoardPad now used for all SW9 Board, Executive Leadership Team and various committee meetings	Unquantified	Non-cashable

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