Regenda Limited

Value for money self-assessment statement

Year ended 31 March 2017

Registered with
The Homes and Communities Agency
No. L4653

Registered with
Co-operative and Community Benefit Society
No. 31240R

Value for money statement 2016-17

The Regenda Group has carried out a self-assessment against the Homes and Communities Agency's (HCA) Value for Money (VFM) Standard. Key strengths and areas for improvement are analysed across the following areas:

1. Strategic approach
2. Return on assets
3. Performance management and benchmarking
4. Customer scrutiny and engagement
5. Understanding our costs and outcomes
6. Overall self-assessment

1. Strategic approach:

The Regenda Group defines VFM as the delivery of objectives, aligned to its mission, in the most cost effective way possible. The group is guided by the following VFM principles:

- A business strategy that focuses our resources on the right activities
- Investing in the right physical and people assets at the right price
- Efficient and effective delivery
- Evaluating success and reinvesting efficiency gains

Value for money has been made a priority in Regenda, to deliver better quality services more efficiently and realise our growth ambitions, whilst also managing the risks associated with welfare reform change.

Delivery of VFM is led by the Board and integral to our Group Corporate Plan. VFM is not a standalone activity but is embedded in our strategic approach to service delivery. We recognise that improving VFM and the value we add is essential to running an excellent business.

The Group's Corporate Plan outlines the priorities of the Board and our customers. Pillar two of the Group Corporate Plan outlines our finance strategy to ensure we are able to maximise our resources to invest in our business.

Resource capacity requirements to ensure the delivery of our corporate objectives are outlined in the Group's Business Plan which regularly undergoes stress testing to ensure that objectives can be achieved within the resources available and that we successfully mitigate risk.

The Business Plan is regularly reviewed by Board and performance is reported on a quarterly basis. We recognise that effective management of our viability is key if Regenda is to achieve its current and future business plan objectives.

Our strategic approach ensures that we have the required financial culture and strength to manage the risk environment within which we operate, and ensure that we are well placed to seek out investment and funding opportunities, with financial strength to take advantage of opportunities as they emerge.

The Board regularly considers its expectations regarding the balance between service performance, customer satisfaction and cost of delivery. This has been particularly important since the external operating environment has placed increased pressure on the size and stability of our income flows. We have responded to the changing external environment, adapting our structures and processes to ensure that we continue to successfully deliver our strategic priorities.

Customer focus is a core value. We recognise that to operate efficiently and to deliver maximum value, we must ensure that we are high performing and provide excellent services to our customers. Understanding the cost, satisfaction, and service performance is key to driving VFM across Regenda and this information is used by Board to understand the trade-offs and opportunity costs of its decisions.

Our approach to ensuring the continued viability of the Group is supported by a VFM Strategy and action plan; with the Financial Plan setting the financial parameters within which the VFM and finance targets are measured.

1.1 Process:

VFM is part of Regenda's core values and is considered throughout our planning cycle based on the following golden thread:

- Group Corporate Plan
- Resource planning
- Strong business and financial management
- Evaluation against goals
- Assessment against cost, quality and satisfaction against targets
- Feedback around outcomes and performance to inform future strategy

2. Return on assets:

The Regenda Group's most valuable asset is the property we own and manage, the vast majority of which is rented out at below market rent levels to individuals and families unable to meet their housing needs in the open market.

We spent over 36% of the rent we receive each year, which is in excess of £18.5 million, on maintaining and improving these properties to a good standard so we can continue to rent them for the long term.

A key aim of the Regenda Asset Management Strategy (AMS) is to continuously improve the financial performance of the Groups stock by investing in homes which are sustainable to the business and desirable to their occupants.

The AMS complements and informs the group corporate vision and objectives, linking to the business plan, and sets out the priorities for the physical care and improvement of housing stock.

There are three key elements to the Regenda AMS:

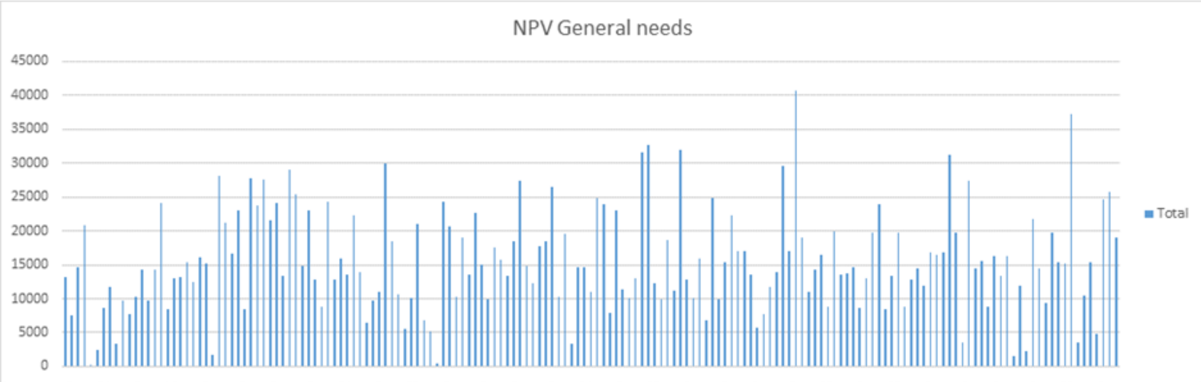
- **Stock investment** – to meet customer needs and regulatory requirements
- **Active asset management** – to improve or replace poor performing properties
- **Supporting wider objectives** – such as new development or wider community activities and social innovation.

2.1 Stock rationalisation:

The GCP outlines the need for a review of the Group role in each local authority area with a low concentration of rented stock. We have utilised a traffic light system to identify where we will maintain focus and continue to invest; maintain our stock holding but not seek to grow; or dispose of properties due to stock being low in density and/or isolated from our core stockholdings. This provides the context when considering the relative management challenges presented to efficiently and effectively manage the Groups rented stock.

Using stock condition data to determine the Net Present Value of our stock, we have identified where we need to target resources. We used this data to develop a five year programme of works based on the needs of properties using component condition as an indicator of required renewal, as well as legal and regulatory standards, the Group aspirations, and the available funding parameters.

The charts below shows NPV by estate for general needs stock.



The asset analysis work is used to increase business plan capacity in future in order to:

- Manage investment programmes within the overall viability of the business plan – demonstrating the value for money of investment decisions
- Improve communication between the Group and customers and leaseholders about investment strategies by demonstrating the reasons for investment decisions
- Deliver a good return on social housing assets, where investment delivers an increase in value over time
- Address regeneration needs to improve the sustainability of neighbourhoods

2.2 Active Asset Management:

We will improve the base financial position through active asset management using the Asset Performance Evaluation (APE) model for all stock. This enables us to link knowledge of our stock gained by stock condition data, local demand and customer aspirations with what is affordable in the Group's business plan.

Using Net Present Value (NPV) data we appraise all empty properties before starting works to determine the estimated financial return over the business plan period. We aim to dispose of units offering low or negative financial returns. This model considers the financial performance of the property and considers future maintenance and management costs with the payback periods. Based on analysis of the costs, options include letting the property in its current condition, further investment in the empty property to enhance it, conversion, disposal or demolition to gain maximum return on our assets.

The benefits of this active asset management approach are that we will enable the Group to:

- Strengthen the business plan
- Make more efficient use of capital resources available
- Obtain a balance between new build, remodelling and stock investment, ensuring balanced investment decisions
- Test alternative strategies
- Improve asset led value for money
- Release resources for new investment
- Deliver a good return on social housing assets, were investment delivers an increase in value over time.

2.3 New home development:

We have a track record in delivering new housing supply and refurbishing homes across a mix of tenures and continue to be a key partner of the HCA achieving significant allocations in the key programmes. As mentioned previously, we are committed to growing the size of our business in order to improve our overall service offer and enhance our financial strength through diversification of income streams.

In 2016/17 we developed 98 additional units, bringing the total additional units we have developed over the last five years to 860.

Key achievements in 2016/17 include starting work on the conversion of an old court house into 21 one and two bedroom apartments for affordable rent.

In 2016/17 we committed to the development of a residential tower within Liverpool Waters. The multi-story apartment block on Liverpool’s waterfront comprises 105 one and two bedroom apartments which will be managed by Regenda’s subsidiary company Redwing Living. There will also be commercial space on the ground floor.

Redwing Living is also progressing with a pipeline of homes for outright sale across the region, starting with a Joint Venture with Mulbury Homes for 30 homes in Lancaster whilst another 19 homes will be started with M&Y Maintenance and Construction in this financial year.

2.4 Outcomes and areas for improvement:

A revised Asset Management Strategy was agreed by Board in October 2016. We aim to understand the social and economic performance of our assets to determine the short and long term investment and rationalisation decisions in order to maximise efficiency.

Key outcomes:

- Improved our stock condition data – increasing stock condition data we hold from 11% to 82% of stock over a 12 month period.

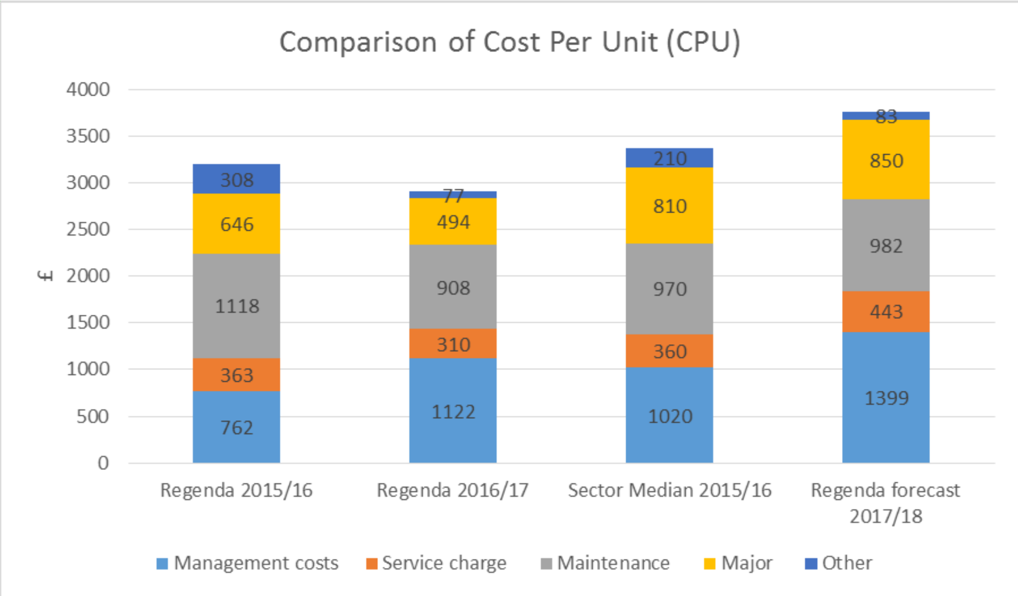
- Implemented the Asset Performance Evaluation (APE) model to assess the financial viability of assets and inform the options appraisal process.
- Reviewed ICT systems to ensure we hold accurate, timely and robust information about our asset base.

2.5 Areas for improvement:

- We will continue to undertake options appraisals of uneconomic stock; categorising Local Authority areas into leave, remain, grow and retain.
- Maximise funding opportunities and improve efficiency of our stock
- Deliver a mixed property portfolio that is responsive to business needs and wider operating environment.

3. Performance Management and benchmarking:

To drive the VFM and continuous improvement we benchmark our costs and performance against other RPs. The latest comparisons from the Global Accounts for 2015/16 published by the HCA show the following comparisons:



Source: HCA Global accounts

3.1 Headline Cost Per Unit (CPU)

Headline CPU reduced from £3,196 in 2015/16 to £2,911 in 2016/17. Benchmark information for 2016/17 is not yet available, but current performance is positive against the 2015/16 sector wide median CPU (£3,370).

Our forecast CPU costs are expected to increase in 2017/18 due to both a significant investment in ICT investment and a number of new posts in both the customer services and resources directorates, needed to help deliver our corporate objectives over the next few years.

3.2 Housemark activity based costing (ABC)

It is not just the sector median that the Group compares it performance to. The Group is a member of Housemark, which brings housing organisations together to benchmark costs and performance across similar organisations. We compare ourselves to a peer group of large traditional housing associations across the North of England and the Midlands (a comparator group of 174 Registered Providers). The peer group was chosen to reflect the findings of the regulatory study of the costs of housing associations performed by the Homes and Communities Agency published in June 2016.

Benchmarking information is used as a self-assessment tool to understand, assess, and challenge cost and performance in order to improve the quality and value for money of our services.

The data helps to inform priorities for service review by understanding our costs relative to the standard of performance achieved. We use this information, together with customer feedback to drive improvements and efficiencies. This information provides a basis for Board and residents to challenge whether we are delivering good value for money.

A summary of the performance of our key service areas compared to this grouping is shown below.

Quality indicator	**2016/17**	**2015/16**	**2015/16 quartile**	**Trend (comparison to 2014/15)**
Responsive Repairs and void works				
Satisfaction with repairs (%)	92.70%	91.90%	○	↑
Lettings				
Average re-let time (days)	30.35 days	25.03 days	○	↑
Void loss (%)	1.10%	0.89%	○	↑
Rent Arrears and Collection				
Rent collected (%)	99.47%	99.50%	○	↓
Current tenant arrears (%)	2.15%	2.38%	○	↓
Former tenant arrears (%)	1.92%	1.71%	○	↑
Write offs (%)	0.52%	0.57%	○	↓
Tenancy Management				
Tenancy turnover (%)	9.27%	9.43%	○	↑
Evictions (%)	0.24%	0.43%	○	↑
○ Top 25%	○ Top 50%	○ Lower 50%	○	Lower 25%
↑ Performance improved		↓ Performance reduced		

Please note, due to the timing in which benchmarking data is published, Housemark benchmarking data is only available for the financial year 2015/16. We will update this report and use the sector wide scorecard for benchmarking purpose moving forward once this information is available.

The table above shows that we are not yet achieving our aspiration of top quartile performance.

We recognise that we can improve repairs satisfaction. This year we're completely transforming the way we book appointments and resolve repairs for our tenants. Through the introduction of new technology, we'll change the way repairs are reported, raised and appointed, offering huge improvements for our customers.

We have seen demand for flats within our Merseyside region decline which has resulted in properties remaining empty for longer periods, impacting on void loss performance. When these properties are let, the increased time to relet adversely impacts on overall performance. Work is in progress to streamline our voids process in 2017. We are also using the Asset Evaluation Model (APE) as part of the asset management strategy to actively manage our stock and identify how best to target our resources and improve performance.

Welfare reform measures have had an impact on performance with rent collection performance in the lower 50% when compared to our peers. A range of initiatives to maximise rent collection and mitigate the risk of welfare reform is in place; with five key corporate projects in progress. We take a proactive approach to rent collection and have implemented an additional module to Rentsense, a predictive analytics tool, to target resources effectively.

A more detailed analysis of our costs is outlined below.

Business activity	**Regenda 2015/16**	**Quartile position**	**Trend (comparison to 2014/15)**
Overhead costs as % of turnover	11.19%	○	↑
Cost per property			
Responsive repairs and void works	£676	○	↑
Rent arrears and collection	£145	○	↑
Anti-social behaviour	£59	○	↑
Major works and cyclical maintenance	£1,174	○	↑
Lettings	£70	○	↑
Tenancy management	£145	○	↑
Resident involvement	£93	○	↑
Estate services	£135	○	↓
Key:			

○	Top 25%	○	Top 50%	○	Lower 50%	○	Lower 25%
↑	Costs reduced	↓	Costs increased				

Please note: This table will be updated once 2016/17 benchmark data is available.

Overhead costs as % of turnover compare favourably with our peers, within the top 25% (top quartile). Overall trend is positive reducing from 12.08% in 2014/15. Overheads include the costs of our office premises and IT systems, as well as staff involved in corporate activities and business support teams such as business assurance, communications, ICT, finance and HR.

Costs are better than median across all but three service areas; major works and cyclical, tenancy management, and resident involvement.

Major works costs are a result of positive investment decisions to improve our homes. We have planned for investment levels to remain high in this area in coming years and this will be reflected in our benchmarked cost performance. This investment is aligned to the Asset Management Strategy and a programme of options appraisals is being undertaken in 2017 to ensure a proactive approach to planned asset investment, ahead of critical investment decisions.

Tenancy management costs continue to reduce year on year, despite a median cost increase in the comparative group. In 2016/17 we have changed the delivery model for providing neighbourhood services which we anticipate will improve customer satisfaction and provide cost savings.

Costs of resident involvement have continued to reduce year on year and were £93 per property in 2015/16 compared to £103 in 2014/15, and £110 in 2013/14. 2015/16 performance is still higher than the median for the peer group; however this reflects our ambition to improve resident satisfaction in this area. In 2017 we will undertake a large-scale survey with our customers, which will involve both qualitative and quantitative methods of feedback. We will use this feedback to shape our services and ensure that we best meet the needs whilst maximising value and minimising costs.

3.3 Customer led scrutiny and involvement:

Regenda recognises that to ensure financial viability and achieve greater VFM, we must listen to our customers and design and deliver services around their needs. For the group, this also means rising to the challenge to diversify and deliver a wide range of services and products and attract a wider customer base.

We recognise that service failures create inefficiency. We therefore use regular customer feedback to identify where improvement is needed and work closely with our involved customers to test and monitor our performance.

We have embedded a Resident Scrutiny Panel who completed two service reviews during 2016 (complaints and repairs), and are currently reviewing service charges, particularly concentrating on our caretaking and cleaning services.

The scrutiny panel is supported by mystery shoppers and customer inspectors who test our performance against agreed service standards.

Customer Focus is a core value at Regenda. Understanding customer satisfaction is a key aspect of VFM and we regularly consult our customers to inform continuous improvement. During 2016 we continued to widely consult customers about our services to understand what drive satisfaction and areas for improvement.

STAR survey feedback	2016	2014	Trend
Overall satisfaction with the services provided	85%	88%	↓
Rent provides value for money	83%	82%*	↑
Satisfaction with repairs and maintenance	80%	85%	↓
Tenants views are listened to and acted upon	70%	65%	↑

Findings based on combined General Needs and Independent Living

*General Needs only data

Through our STAR survey in 2016 we have gained valuable insight into what our customers think of us. Feedback is mixed. There was a positive improvement in regards to percentage of customers agreeing that rent provides value for money, and that Regenda listens and acts upon customer views. However there was a reduction in satisfaction levels in overall satisfaction with Regenda as a landlord and with repairs and maintenance (a key driver of satisfaction). We are undertaking qualitative research with customers in 2017 to better understand out performance and how we can improve.

As noted earlier, to help deliver a customer focused vision, we have partnered with the Institute of Customer Services. Following consultation with customers and staff we have revised the Customer Focus Strategy, implemented a customer focus action plan, and are embedding the Customer Focus Forum as part of the Regenda governance structure. This work will help us to improve our performance in this area.

3.4 Areas for improvement:

In 2017/18 we will:

- Undertake alternative STAR survey in summer 2017 using qualitative customer feedback to shape a wide quantitative questionnaire to all tenants. Feedback gathered will inform the group corporate plan 2018-23.
- Gain Institute of Customer Services Accreditation
- Use customer segmentation and propensity modelling approaches to proactively target resources where they will have maximum impact and improve services provided to customers.

4. Understanding our costs and outcomes:

4.1 VFM scorecard

	2015/16	2016/17	Difference	Trend
Business Health				
Operating margin	31.5%	35%	3.5%	↑
EBITDA	159.1%%	202.3%	1%%	↑
Development capacity and supply				
Absolute units developed	199	98	-101	NA *
New units developed as % of units owned	1.6%	0.8%	-0.8%	NA *
Gearing	36%	36%	0%	No change
Outcomes delivered				
Customer satisfaction	83.4%	83.4%	Na	NA
Effective asset management				
ROCE	3.5%	4.2%	0.7%	↑
Occupancy	99.2%	98%	-1.2%	↓
Ratio of responsive repairs to planned maintenance	0.68	0.66	-0.02	↑
Operating efficiencies				
Headline Cost Per Unit	£3,196	£2,911	-£285	↓
Rent collected	99.2%	99.6%	0.4%	↑
Overheads as % adjusted turnover	11.2%	NCA*	NA	NA

*Performance trend is not applicable on an annual basis due to development programmes being set to a wider timescale.

Regenda has committed to monitoring VFM performance via the 'Sector Scorecard'. The Sector Scorecard is the name for a set of 15 indicators (with some optional additions) that are being piloted for benchmarking efficiency across the sector.

Overall, 2016/17 performance in comparison to 2015/16 shows a positive direction of travel. Operating margins increased, and headline costs per unit (a key HCA metric) show a reduction in year.

Whilst cost of services is key when considering VFM, it is also important to ensure that quality of service is maintained. Impact on quality of service is difficult to gauge from the scorecard alone. As previously discussed plans are in place to consult widely with tenants during the summer 2017, which will provide additional information and feedback for assessing VFM performance at Regenda.

4.2 2016/17 performance:

Business health measures: Overall business health is positive. Both the operating margin and EBITDA (Earnings before interest tax depreciation and amortization) show a positive direction of travel in 2016/17.

Development measures: The number of new units developed reduced in 2016/17 in comparison to the previous year. Caution should however be taken when using this measure alone on an annual basis as development programmes spread across a number of financial years. It is therefore expected that there will be peaks and troughs in performance due to how the programme is forecast to be delivered.

The gearing ratio remained static at 36%.

Outcomes measures: The STAR survey is carried out every two years. There is therefore no change in the percentage of tenants who are satisfied that their rent represents value for money due to the timing of this survey. This question will be included in the next tenant's survey due to be carried out summer 2017.

Asset management measures: Performance trend is positive overall, with an increase in Return on Capital Employed (ROCE). However there was an increase in number of tenanted properties (fewer vacant and available to let properties). The ratio of responses repairs to planned repairs slightly reduced within year.

Operating efficiencies: Headline unit costs have reduced by 9.8% to £2911. This is due to a reduction in routine repairs cost of c£1.5m, reduction in planned works costs of c£1m, a reduction in major works of c£300k, and a reduction in service costs of c£0.5m.

Caution should be taken when comparing the breakdown of the headline unit costs by service area from 2015/16 to 2016/17 due to reapportionment of cost between the categories. Cost are only comparable therefore at headline level.

The percentage of rent collected improved by 0.4% to 99.6% in year.

4.3 Social Value:

In addition to cost and performance measures, Regenda seeks to assess the social and wider economic return of the activities in which it invests.

The return on these activities does not always have a monetary value; but should have a social value.

At the centre of the Regenda Homes approach is the resilience model which focuses on people and place based resilience. This is supported by four key themes:

- People and place-based regeneration
- Employment, enterprise and skills: economic resilience
- Health and wellbeing: ways of wellbeing

- Asset based community development: housing and belonging

Delivering on these priorities will help to support customers to deal with the challenges of welfare reform, managing debts and finding employment, and health and well-being.

Our initial emphasis has been agreed to be on economic outcomes, particularly the provision of employment and training opportunities for local residents, alongside opportunities for local small businesses and traders. This will continue to be a priority for our communities and will influence procurement practice across the Group on a long term basis.

Our employment support provision helped 144 residents from across the region into employment and training over the year. This service has been particularly effective when linked to our community regeneration areas in Oldham and Fleetwood.

As part of our enterprise approach, during 2015/16 we led the continued provision of an innovative 'Give it a Go' initiative that has supported three business start-ups at a very grassroots level, enterprise initiatives that would not have taken off without that support. The Give it a Go initiative included external funding support from private sector partners and other providers.

4.4 Areas for improvement

In 2017/18 we will:

- Review the Social Value Policy and embed a group wide approach to social value
- Consider monitoring mechanisms for measuring social value, implementing a consistent methodology across the Group, particularly within Petrus and Alder Training

5. Efficiency gains 2016/17:

We have established a Procurement Centre of Excellence who support the effective delivery of VFM, champion a proactive approach to procurement savings across the business, maintain the contracts register, and help ensure we deliver the required controls and compliance for the Group. This group is supported by a staff forum for generating new ideas and promoting a strong VFM culture across the business.

Insurance contract

Savings of c£185,000 were achieved through the re-procurement of our Insurance contract.

ICT applications support and maintenance costs

Negotiated contract savings of c£55,000 for the SVS to Agile migration. In addition to these savings, the use of Agile mobile technology will also create significant future productivity savings (non-cashable).

Procurement

M&Y Maintenance and Construction, our repairs and maintenance arm, achieved savings of c£298,000 through competitive tendering in 2016/17.

Future savings:

The following savings have been identified and will be linked into the business planning and budget process as part of the development of the new group corporate plan 2018-23.

Procurement

We have secured savings of c£200,000 in 2017/18 through the re-procurement of our office utilities contract.

We are reviewing our caretaking service to remove fly tipping within the Merseyside Region and with the aim to reduce costs.

Repairs transformation

We are transforming the way in which we manage the repairs and maintenance service. This includes the implementation of repairs scheduling technology and an improved repairs diagnostics tool. This will generate c£570,000 efficiency savings, offset by an initial investment of £444,000 over three years.

Collaborative/ agile working

As a landlord with a large geographical footprint there are significant productivity savings that can be made by implementing collaborative/agile working technologies for staff. In 2017/18 we will implement Skype for Business across Regenda. Through research and consultation with staff we have identified productivity savings of c£187,000 can be achieved through reduced travel between offices and associated expense claims.

Improved data and intelligence

By implementing predictive analytical technology to best target staff resources for dealing with arrears, we will reduce workloads by 10% per week, equating to a productivity saving of c£15,000 per annum. The saving in time will be utilised to carry out former tenant arrears work.

Improved use of technology

We are implementing new technology to automate manual processes, reduce postage and stationery costs, and improve communication with customers to tackle missed appointments and 'no show' rates at empty property viewings.

We will achieve savings of c£50,000 automating benefit notifications into our housing management system (productivity saving – non-cashable)

Realise cashable savings of c£16,000 in postage costs in additional to reducing stationery costs by implementing new methods for confirming repairs orders.

Partnership working

We are working closely with BNENC to provide gardening service at a reduced price when compared to other partners.

Closure of Defined Benefit Pension Scheme

The cost of pensions remains a major consideration for the Group. Given the current deficit on the Lancashire County Council Pension Fund, following employee consultation, the Board has made the decision to exit the scheme. This will realise an annual cost saving of £249k per annum.

6. Overall self-assessment:

Taking into account the above actions and activities outlined within this report, we believe Regenda is compliant with the current HCA VFM Standard.

Our self-assessment identified that we:

- Have robust decision-making in relation to maximising economy, efficiency, and effectiveness.
- Understand the return on our assets and regularly consider the potential benefits of alternative structures and delivery models.
- Monitor and report on performance against our own targets and metrics defined by the regulator, the HCA and are open and transparent in regards to performance and areas for improvement.
- Understand the costs and outcomes of delivering our services, how they compare, and have SMART performance management and scrutiny functions established.

Key actions we will deliver in 2017/18 are:

- Development of the Group Corporate Plan 2018-23 ensuring customer focus and efficiency are embedded.
- Agree efficiency targets aligned to the new Group Corporate Plan 2018-23 ensuring clear links between the plan, resource and people plan and the business plan.
- Review our approach of social value priorities aligned to the VFM Strategy.
- Continue to develop and embed a VFM culture throughout Regenda.
- Agree and publish a Regenda growth appetite in line with proposed new regulatory expectations.