Strategic Report for the year ended 31 March 2016

Value for money self-assessment

Derby Homes has always taken Value for Money (VfM) seriously and the requirement of the HCA to formally assess our VfM position is consistent with the approach that we have always adopted – of driving efficiency gains for a social purpose to improve, not diminish, services to tenants.

History of efficiency gains and strategic approach

Derby Homes aims to provide excellent services by embedding a culture of VfM throughout the organisation to make sure we meet the needs of all of our customers. This is shown in financial and operational performance and also by:

- VfM considerations embedded into all stages of service planning
- The budget process is linked to Delivery Plan development and Risk registers
- VfM is core to regular performance management monitoring
- Benchmarking with other Arm's Length Management Organisations (ALMO's) and Housing Associations on cost and performance through Housemark
- Operational Board (tenant majority) involvement in setting priorities and monitoring performance
- Tenant Reviews of our services
- Track record of delivery of savings.

Every year further efficiency gains are made and this is evidenced through the budget process. Some examples of the efficiency gains that have been made this year – on top of those reported in previous years are:

- Contribution towards overheads generated from delivery of new homes for the Council and Derby Homes' stock
- Reduced spending on repairs of Derby Homes' own stock
- Lower spending on void repairs.

Further savings are planned for 2016/17, including:

- Reduced spending on management/ supervision
- Reduced spending of 'reward' funding for performance each year
- Investment in new lifts reducing on-going maintenance
- Investment in asbestos manager delivering asbestos training.

Overall the income we are likely to receive from the Council is being reduced significantly – by 2017/18 it is expected to reduce by more than £1.5m. The budget has been set to reflect this and will require a new drive for further efficiencies. The Board is confident that it starts this process from a relatively strong position from which it should be able to deliver such savings.

Value for money self-assessment cont.

Investment of savings
The scope for reinvestment of savings for the 2016/17 year has been severely limited by the reduction in management fee noted above.

Nonetheless, at its September meeting, the Board did agree to invest around £0.5m of savings generated in previous years to meeting key staffing investment requirements, including increasing further the income team to ensure that preparations for Universal Credit and other welfare reforms are as well advanced as possible, and that the rental income for the Council is maintained as far as possible.

It also agreed to fund staffing at the new Parklands View Extra Care scheme. While much of this cost should be recovered from service charges on tenants, there will be a net cost to Derby Homes which has been funded as a necessary support for the scheme.

New Homes
The Board approved a strategy in January 2013 of investing as much as possible into subsidising the creation of new homes, supporting the Council's target of delivering 700 homes across Derby Homes and the Council. This strategy remains and can be continued despite the considerable change in social housing funding over the last year, mainly as a result of the efficiency gains already delivered and planned.

Derby Homes has 84 homes directly on our balance sheet, and continues to plan to increase this to 300 depending on funding and site availability. Current and future plans include:

- Refurbishment of Nightingale Road retail unit and adjacent property into 6 flats with the support of HCA empty homes grant and the Council. This is now on site and will be delivered during 2016/17.
- Delivery of the HCA approved plan for a further 18 homes to be delivered by 2018 through the Affordable Homes Programme (AHP).
- Purchase of affordable homes as a result of the joint venture vehicle for Osmaston (former Rolls-Royce factory site) between the Council and Keepmoat – expected to be around 30 to 40 more homes.
- Further sites as agreed with the Council over the next few years.

Derby Homes still plans to deliver additionality to the Council's new homes plans and has continued to set aside sufficient funding to support a total of around 300 homes as part of the Council's 700 target.

In terms of VfM, the plans involve recognition that these assets will not be financially viable on their own and require subsidy. Many have the support of the Council (through land) and the HCA (through grant) which reduces the investment required by Derby Homes and therefore stretches overall plans. This support is critical to Derby Homes' long term mission and objectives and for the delivery plans for the Council, but work counter to any formal measure of VfM. There is therefore a need to factor in the social value of a home that is subsidised.

Value for money self-assessment cont.

Overall, new homes investment is good for the public purse in the very long term (debt should be repaid within about 50 years) and helps to sustain lower rents and therefore lower spending on benefit. The value of such homes should increase over time and generate long term gains in overall value. The short term subsidy can be covered from the funds that we have set aside for this purpose. Derby Homes could of course do more with more direct support through grants or if government rules allowed Councils to recycle more directly and locally their Right to Buy receipts in companies owned by Councils – something that is currently not permitted.

Social Value

A simple measure of the VfM of new homes delivered through the Council or RPs including Derby Homes is to compare the rent paid by tenants with the average rent for the city. This results in a saving to either the tenant or benefits of between £26 (at the comparable LHA rent for that sized property) and £59 (at the full private sector median rent for the relevant sized property) a week, or the equivalent of between £18m and £41m a year. Around 55% of this gain results in lower rental elements within the housing benefit system, with the other 45% for tenants.

New Homes

The financial benefit of new homes can be assessed in a similar way – even without the added benefits of new home construction and the on-going health and other benefits for tenants.

A new ALMO home costing around £120k for a two bedroom home will appreciate in value over 60 years to an open market value of around £0.45m. The annual rent should fund the running costs of the property in the longer term, but in the early years, because of interest payments on the loan, a subsidy on the home is required from the Company or elsewhere. There is an on-going benefit to the tenant or to the taxpayer of between £26 and £59 a week from the lower rent depending on comparing to LHA or average private rents. This amounts to a gain of £81k and £184k in NPV rent over 60 years. Even if the assumption is made that only 55% of rent (as now) is met by housing benefit, then the gain remains at an NPV of between £45k & £101k over 60 years. For a government and Council/ALMO investment of around £45k/45% now, the long term cost is recovered, with a greater return in the longer term from the appreciating asset. This is purely on the rental element without the other benefits of construction and maintenance and management activity, plus the health and energy efficiency gains of new homes and other social value benefits over the long term. Derby Homes is currently delivering new homes below the indicative costs above, reducing the overall cost to us in creating new homes.

This long term benefit underpins the Board's commitment to new homes. The Right to Buy and impending high value sales undermine this positive case for direct Council investment, and the Board has therefore agreed to assist with overall development targets for the Council as much as it reasonably can, where the rules that apply to ALMOs or RPs differ from those that apply to Councils.

Value for money self-assessment cont.

This flexibility in development remains available to the Council and will help to sustain the long term future of Council housing in Derby.

Social benefits
In addition to the financial benefit of social housing, there are considerable other positive social impacts of Derby Homes' activities including:

Planned improvement – Our Estates Pride programme delivered a further £1.1m of improvements across the city. Key works completed included:

- Improvements to parking – 50 new hard standing drives to properties, 6 new communal parking areas and resurfacing of a further 3.
- Fencing, pathway improvements and new paved areas on a number of schemes.
- Communal drying area improvements at Bath Street flats.
- Refurbishment of the play area at Shakespeare Street in conjunction with Derby City Council.

A positive impact on the local labour market through decent working conditions and opportunities for apprentices in particular, but for all our employees. We have continued to manage to avoid compulsory redundancies and have a positive relationship with our Trade Unions. We have also implemented the Living Wage for all our employees, and looking to require this of suppliers in future contracts. Our new build team has also engaged a number of local builders who give us good value and retain the work within Derby wherever possible.

Fire Safety impacts – we are committed to installing sprinklers in all our new homes where this is technically feasible, and have hard wired smoke detectors in all homes. We are working in partnership with Derbyshire Fire and Rescue Service to support their national and local campaigns to get sprinklers fitted as standard in all new homes. All employees were briefed by an external expert as to the progress of research that we are part funding into the ineffectiveness of smoke detectors in waking children or those who have higher levels of alcohol in the blood. This really got the message across that parents need to wake their children in the event of a smoke alarm going off and may need to revisit evacuation plans. Further progress on the research is encouraging and further tests are being held to help to bring new alarms to market which targets the issue of waking children. We hope that our research grant will help to make something positive happen on this issue.

Support for tenants – welfare reform has had and will have a significant impact on many tenants, and our support continues to help many tenants to access discretionary housing payments and other support and advice. We continue to prevent many evictions and house many of the most vulnerable tenants in the City. We also continue to support the Council's 'Ordinary Lives' project to help tenants to sustain tenancies that might not otherwise be possible. This has extended into helping to deliver bespoke solutions for a few tenants with particularly high levels of need. This has again resulted in further pressure on our services to support those with higher needs. This has so far been funded through the partnership between the Council and Derby Homes.

Value for money self-assessment cont.

We have also developed a 'Housing Pathway' which is a multi-agency approach to finding housing solutions for individuals and families with complex needs. A similar pathway has been agreed for working with care leavers to make the transition to independent living as smooth as possible.

Energy Saving – The housing stock in Derby is in the top quartile in the country for energy efficiency ratings, despite our stock being relatively old when compared to other social housing. All homes (other than refusals) will within the next financial year have the benefit of wall and roof insulation, double glazing and energy efficient heating systems. We also have a small team that provides tailored advice to tenants to help them manage their fuel use as efficiently as possible.

Apprentice Scheme
Our apprentice scheme continues to deliver positive results for both the apprentices and our own performance. At the end of March we had 29 apprentices employed. While we cannot guarantee posts for all, we are managing the situation through vacancy control to identify options for those within their final year. 4 apprentices have found employment with us this year upon completing their apprenticeships. We are keen to ensure that having invested in the apprentices we should retain their skills and knowledge. Where this is not possible we will support them to gain employment with other employers.

Building new homes
Our partnership with the Council in producing 700 new homes is creating high quality, affordable homes for local people. Our approach of building as many homes as possible ourselves means that most of those jobs are local, either within our own workforce or with small, local building firms, helping to retain and recycle the money within the local economy. At the end of 2015/16, 282 completions and 32 properties on site have been made towards the target.

Youth Intervention Work
Derby Homes continues to support and commission Enthusiasm – a local youth work charity. This service provides essential youth work and one to one mentoring on estates. We also run a Junior Wardens scheme that involves younger children in taking responsibility for their communities and also provides them with basic life skills essential for their development. Our Youth Board has started over the last year and involves younger people in consultations. We will develop this further and to get more interaction between the Youth Board and the Operational Board over the course of the next year.

Partnership Working
We continue to work with a large number of partners including the Council, Fire, Police and Health services. Additionally the Derby Community Association of Partners (DACP) representing tenants across the City and also the Osmaston Community Association of Residents (OSCAR) with whom we have delivered the largest Community led HCA grant scheme in the country, transforming an area of Osmaston from a travellers' site to 95 new homes, of which 40 are rented at affordable rents and the remaining 55 have all been sold.

Value for money self-assessment cont.

We are also a full member of the Central Midlands Audit Partnership which delivers Internal Audit services to many public sector bodies in Southern Derbyshire and further afield.

This year, we have also entered into an arrangement with the Police and Crime Commissioner for Derbyshire to deliver a Hate Crime initiative for the City and County.

Benchmarking / Financial returns
Derby Homes has consistently used Housemark to consider its relative VfM and to report to the Board. It continues to use the analysis that this provides to suggest areas of concern and to target savings accordingly.

Each year the Board receives a report summarising the performance of Derby Homes within the Housemark group. We also report to the Board year end performance against our targets. These reports show that most areas continue to move in the right direction. The reports are available of the reports on www.derbyhomes.org

Other approaches to comparisons are undertaken within specific teams, with regional groups, Housemark benchmarking clubs and other methods that managers find useful to support their day to day delivery.

A combination of other benchmarking approaches by both CIPFA and Capita are shown below. These approaches tend to be mostly financial but further confirm similar messages to the other approaches.

The approach to overall financial ratios relates to the whole HRABP and its financial position, not just to Derby Homes. Extracts of key results from the CIPFA and Capita approaches are set out below.

CIPFA recommend that Boards select a few key indicators to monitor. ALMO Boards do not have full responsibility for the HRA and these figures are included to indicate that these are still actively monitored. The key ones are highlighted in the table in bold. The overall pattern remains similar to previous years but shows improvements in most areas. The Capita data available at the time of writing relates only to 8 authorities, but again supports an approach of lower rents and costs compared to most other Councils.

Rents and operating margins are in the lower quartile, and operating costs are low. Derby operates a low cost model which does not translate into poor quality – indeed our stock continues to improve in energy efficiency terms, with our SAP rating now standing at 73.3 compared to around 70.8 for our comparator Housemark group. This equates to a saving for tenants in their energy bills of around £730k a year, and Co2 emission reductions of about 5,300 tonnes better than our comparator group.

Value for money self-assessment cont.

Measure	Derby 2016/17 budget	Derby 2015/16 budget	Change	Capita Med'n	Capita position (out of /8)	CIPFA Green	CIPFA Red	CIPFA Result
Income								
Rent and service charges per home £	**4,364**	**4,317**	**47**	**4,832**	**7**			
Costs								
Management costs / turnover % (DH+DCC)	**23.6%**	23.1%	0.5	-	-	< 20%	>25%	Amber
Maintenance costs per home £	**1,218**	1,250	-32	-	-	<£1,200	>£1,500	Amber
Operating costs per home £	**2,227**	2,209	18	2,477	3			
Operating Surplus per home £	**1,092**	1,031	61	1,927	1			
Operating Surplus / turnover %	**24%**	**22%**	**2%**	**24%**	**5**	**>20%**	**<10%**	**Green**
Capital spend (exc New build) per home £	**768**	756	12	1,313	1			
Net income per home £	**324**	275	49	-27	3			
Debt and Ratios								
Return on Capital Employed	**3.5%**	3.2%	0.3%	1.8%	2			
Debt per home	**17,245**	16,885	360	18,418	4			
Interest rate on debt %	**4.6%**	4.6%	-	3.4%	6	<5.5%	>7%	Green
Debt/Debt+Reserves%	**57%**	54%	3%	41%	6			
Reserves /Turnover %	**57%**	55%	2%	-	-	>20%	<5%	Green
Debt / Asset Value (EUVSH) %	**60%**	**61%**	**-1%**	**-**	**-**	**<60%**	**>80%**	**Amber**
Use of the Debt Cap	**96%**	**96%**	**-**	**87.4%**	**6**			
Interest Cover	**1.25**	**1.17**	**0.08**	**2.38**	**8**	**>1.2**	**<1.05**	**Amber**

The figures overall reflect the strategic approach adopted by the Council and Derby Homes to the management of the HRA. Costs are about median while rent is lower than the median, with a lower but still adequate operating margin as a result. The debt is below average at ~£17,000 a home and is around 60% of the Existing Use Value for Social Housing (EUVSH), indicating that there is still significant capacity to support further borrowing in future if the investment conditions are right. The return on capital employed is 3.5% reflecting the very low asset values in the plan as a result of valuing on a EUVSH basis (about £30k a home). The very low spend on existing homes' capital reflects both the huge investment in decent homes between 2002 and 2006 and the consequent lower need for capital investment for the following decade or so, plus the continuing efficiency of procurement arrangements.

The strategic approach also includes investing in new homes and this leads to a higher than average use of the debt cap and also lower interest cover ratios than elsewhere, although they both remain acceptable.