Value for money (VfM) self-assessment

Derby Homes has consistently delivered efficiency gains and has the delivery of excellent, value for money services to tenants as a central strategic objective (Great Value).

History of efficiency gains and strategic approach

Derby Homes has a culture of seeking VfM throughout the organisation to make sure we meet the needs of all of our stakeholders. This is shown in financial and operational performance and also by:

- Track record of delivery of savings.
- The budget process is linked to Delivery Plan development and Risk registers
- 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

Every year further efficiency gains are made and this is evidenced through the budget process. Further efficiency gains made this year include:

- Reduced senior management team
- Investment in asbestos manager delivering asbestos training.
- Investment in new lifts reducing on-going maintenance
- Increased income from capital works overheads
- Reduced spending on alarms/emergency equipment (by in-housing)
- Housing management savings

Further savings are planned for 2017/18, including:

- Further alarm spending reduction
- Further housing management / customer service cost reductions
- IT support savings (through DCC direct)
- Additional service charge income
- Planned reduced spending on cyclical maintenance

Overall the income we are likely to receive from the Council in the future is being reduced significantly. The Board is confident that it should be able to deliver the required savings to sustain good service for tenants. The scale of new efficiency gains and savings each year is, however, starting to reduce as it gets harder to deliver further savings without impact on tenants' services.

Investment of savings

The scope for reinvestment of savings for the 2017/18 is much less than in previous years. What savings have been made have been used to support key Council initiatives relating to housing services under severe financial and operational pressures. These include Milestone House, Refuge and homelessness services.

Value for money self-assessment cont.

New Homes

The Board approved a strategy in January 2013 of investing as much as possible into subsidising the creation of as many new homes as possible. This strategy remains. Discussion with the Council about future strategy for Derby Homes may change the extent of this ambition, especially as the Council cannot allocate Right to Buy 141 replacement funds to Derby Homes and may need to invest more directly in Council housing stock rather than Derby Homes owned stock as a result of the need to use Right to Buy 141 funds which are increasing with higher sales levels. This remains positive for Derby Homes as we will manage those new homes and in many cases will build, or help to build them too.

Derby Homes now has 90 homes directly owned, with a further six under construction and continues to plan to increase this to around 300 depending on funding and site availability. Current and future plans include:

- Delivery of the HCA approved plan at Wood Road now on site (HCA Affordable Homes Programme).
- 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.

In terms of VfM, the strategy recognises 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' ambitions to deliver more homes, but works counter to any formal measure of VfM. There is therefore a need to factor in the social value of a home.

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 lower spending on benefits. The value of such homes should increase over time and generate long term gains in overall value. The short term subsidy required 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.

Land remains an issue, along with the extent of the Right to Buy receipts needing to be used directly by the Council. Numbers of Right to Buys has increased further this year to 176 (1.3% of overall housing stock). This will reduce our income from fees for management and maintenance next year (2018/19) by 0.9% under the Council's agreed formula to fund Derby Homes' core activity.

Value for money self-assessment cont.

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 (average £78 a week) with the median rent for the city. This results in a saving to either the tenant or benefits of between £25 (at the comparable LHA rent for a 2 bed property) and £49 (at the full private sector median rent) a week, or the equivalent of between £17m and £34m a year. Around 51% of this gain results in lower rental elements within the housing benefit system, with the other 49% for tenants. In other words, if rents were set by the Council at average market levels, rents would rise by almost £50 a week and this would cost paying tenants £17m a year (and a further saving to the government of another £17m a year).

The long term public benefit underpins the Board's commitment to new homes. The Right to Buy and impending higher 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. 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 £0.6m of improvements across the city. Key works completed included:

- Further improvements to car parking facilities. There were 50 individual hardstanding's installed to enable off street parking in tenants gardens. We also resurfaced residents' communal car parks at Lathkill Road, Ellesmere Avenue, Laurie Place bungalows and Rebecca House.
- New improved bin stores to the Burton Road flats, which included a recycling facility.
- Landscaping and fencing works to various sites including Ashworth Avenue, Audrey Drive, Hollis Street, Stratford Road
- Path renewals to Cavan Drive, Southcroft, Stockbrook Street and Ellesmere Avenue (to allow a gas main to be installed to flats),
- Structural improvements to the boundary wall at Fairdene Court and the bridges at Lambe and Rauche Court
- New secure external Mobility Scooter stores at Filbert Walk and Humber Close, including charging points.

Value for money self-assessment cont.

A positive impact on the local labour market through decent working conditions and opportunities for apprentices in particular – we pay the minimum wage not an apprentice rate for apprentices, 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 non apprentice employees, and are 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 remain 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. A few years ago, Derby Homes funded the University of Dundee to undertake research into smoke alarms' effectiveness in waking children. Significant progress on this has been made this year, with a working model that appears to be much more effective than standard alarms. If this now leads to production of useful units, this investment will have paid off not just for Derby but for the wider community.

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.

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.

Value for money self-assessment cont.

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 20 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. 14 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 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 2016/17, 312 completions and 24 properties on site have been made towards the target. The rate of progress has slowed over the last year but we are expecting it to pick up again to around 60 a year from now on.

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. Mash Up Theatre now runs our Junior Wardens scheme and was instrumental in helping young people to shape our award winning Annual Report last 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.

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

Value for money self-assessment cont.

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 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 HRA Business Plan 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 73.9 compared to around 70.7 for our comparator Housemark group. This equates to a saving for tenants in their energy bills of around £500k a year, and Co2 emission reductions of about 5,300 tonnes better than our comparator group.

Value for money self-assessment cont.

Measure	Derby 2017/18 budget	Derby 2016/17 budget	Change	Capita Med'n	Capita position (out of /24)	CIPFA Green	CIPFA Red	CIPFA Result
Income								
Rent and service charges per home £	**4,451**	**4,476**	**-0.6%**	**4,736**	**17**			
Costs								
Management costs / turnover % (DH+DCC)	**22%**	24%	-2%	-	-	< 20%	>25%	Amber
Maintenance costs per home £	**1,284**	1,248	3%	-	-	<£1,200	>£1,500	Amber
Operating costs per home £	**2,323**	2,261	3%	2,428	8			
Operating Surplus per home £	**1,087**	1,078	1%	1,514	6			
Operating Surplus / turnover %	**22%**	24%	**-2%**	**21%**	**11**	**>20%**	**<10%**	**Green**
Capital spend per home £	**795**	768	4%	1,369	2			
Debt and Ratios								
Return on Capital Employed	**3.3%**	3.5%	-6%	1.8%	2			
Debt per home £	**17,554**	17,422	1%	17,233	14			
Interest rate on debt %	**4.6%**	4.6%	0%	3.7%	21	<5.5%	>7%	Green
Debt/Debt+Reserves%	**52%**	44%	8%	37%	16			
Reserves /Turnover %	**81%**	80%	1%	-	-	>20%	<5%	Green
Debt / Asset Value (EUVSH) %	**50%**	60%	**-10%**	**-**	**-**	**<60%**	**>80%**	**Green**
Use of the Debt Cap	**96%**	96%	**0%**	**90%**	**19**			
Interest Cover	**1.2**	1.4	**-14%**	**1.5**	**21**	**>1.2**	**<1.05**	**Green**

The figures overall reflect the strategic approach adopted by the Council and Derby Homes to the management of the HRA. 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 ~£17,500 a home and is around 50% of the Existing Use Value for Social Housing (EUVSH) – which itself is only 42% of the Open Market Value (average £84k), indicating that there would be significant capacity to support further borrowing in future if the investment conditions are right. The gross yield is 11% reflecting the very low asset values in the plan as a result of valuing on a EUVSH basis (about £35k a home).

The average return on capital employed is 3.3%, again reflecting the approach to lower returns in order to support lower rents and better service to tenants.

Value for money self-assessment cont.

The rent cuts have directly impacted on the margins above – the loss of 1% of rental income has squeezed the margin by 2% and Derby Homes has had to reduce budgets for management by 2%. The overall HRA margin is now about £2m (or £150 a property) and has fallen by half this year. As two more years of rent reductions are due, it is expected that this will turn into a loss over that time before gradually returning towards a break even position. The HRA has sufficient reserves to sustain this pattern without eliminating services to tenants, but clearly the financial position is becoming much more challenging over time.

The HCA now publishes an annual assessment of costs per property in housing associations. For **2015/16** these were as follows:

	Upper Quartile	Median	Lower Quartile
Management	£ 740	£1,020	£1,320
Service Charge costs	£ 240	£ 360	£ 600
Maintenance	£ 790	£ 970	£1,180
Major Repairs	£ 540	£ 810	£1,080
Other costs	£ 80	£ 210	£ 450
Total	**£3,120**	**£3,570**	**£4,380**
Exc. Major Repairs	£2,580	£2,760	£3,300

The total cost planned in the HRA for DCC and DH together for 2017/18 (two years later) is £3,349 per property. Within that total is £795 for Major repairs, meaning that the core revenue cost per property excluding major repairs (which are more of an investment than a cost) is lower than the upper quartile for Registered Providers a year ago (£2,564 or £49 a week per property).

These low costs are crucial in sustaining low rents of an average of £78 a week.

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.