Red Kite Community Housing

Value for Money Self assessment

2015-16

1. Executive Summary

1.1 Over the past year we have continued to grow in financial strength, continued to invest in our homes to deliver our transfer promises and improved the quality of lives of our tenants and leaseholders.

1.2 The headlines are:

- Since 2011, we have improved our surpluses by £3.8 million per annum through reductions in recurring costs and generation of additional income, which is equivalent to 11% of annual turnover. Our 2016-17 budget incorporates the £1.2 million savings generated in 2015-16;

- We have fully delivered on 76% of our 103 transfer promises and we have completed 97% of the promised improvements to our homes. We will complete the 5-year programme of improvement to our homes in 2016-17 with a total saving of £33.7 million;

- We have reviewed the viability and sustainability of our sheltered schemes and will generate £6 million of income from the sale of three sites;

- We have increased the funding available for investment in new homes and other corporate strategy objectives by over £60 million since transfer;

- We have significantly improved our performance on re-letting voids, rent collection and customer satisfaction over the past year;

- We compare favourably against other registered providers on costs and performance in most areas, though we recognise that we are not the very best yet;

1.3 We have plans to reduce costs further through re-financing our current loan facility, seeking to maximise the benefits of cost-sharing arrangements and improving efficiency.

1.4 We have successfully completed the majority of our objectives in our 2011-16 Corporate Plan. When we started as a business in 2011, alongside our Transfer

Promises, we set ourselves 24 strategic value for money aims to achieve in our first five years. By the end of 2014-15 we had delivered 19 of these and a further four have been completed in 2015-16, with the remaining one over 75% complete. In our new 2016-21 Corporate Strategy we have set out how we will cement our position as a trusted tenant-led brand to our current and potential future customers through developing new homes, investing in our existing homes and communities and delivering services in a way that our customers see as value for money.

1.5 The last year has seen us continue to improve on our journey to deliver Value for Money for our customers through a mixture of:

- Better ways of working
- Re-procurement of contracts
- Smarter investment in technology
- Removing loss making non-core services
- Redeveloping low demand high-cost homes

1.6 Our service performance has improved significantly too and this is recognised by our customers, with satisfaction levels in excess of 85%. When tenants were asked in 2011 whether Red Kite should be established, fewer than 37% voted in favour. Service satisfaction levels suggest that many more customers are now convinced that Red Kite becoming their landlord was the right decision.

1.7 2015-16 saw changes in government policy that have had an impact on our finances. This included a decrease in the future rent we charge, a change that has seen many organisations needing to make cuts to their services to survive. Due to the prudent investments and efficiency savings we have already made, our Business Plan shows that we are financially strong and can continue to meet our aspirations and to work to improve the lives of our communities without needing to make arbitrary cuts to services or costs.

1.8 However, we are committed to reducing costs further through more efficient services and maximising the return on our assets. We will continue to achieve greater value for money through challenging our costs and the way we provide services, especially in areas where we are comparatively higher than similar housing associations. These will be reported through to and delivery monitored by Finance Committee.

1.9 This self-assessment is part of our evidence of compliance with our regulatory standard on Value for Money. This has been approved by our Board in July 2016.

2. Introduction

2.1 Our Board has reviewed how effective we are in achieving value for money for our customers. In preparation for this self-assessment the views of our Customer and Community Insight Group have been considered.

2.2 This self assessment is broken down into these key areas:

- Our approach to Value for Money
- How we make best use of our assets
- How much our services cost and how these compare to similar associations
- How we have reduced costs and invested to produce better services over the past year
- What our plans are for further investment and cost reduction
- Our compliance with the regulatory standards set by our regulator, the Homes and Communities Agency

Red Kite Community Housing

3. Our approach to Value for Money

3.1 As a community based Housing Association we are committed to maximising the outcome of every pound we spend. We do this through an embedded culture of innovation and challenge, making sure we do the right things, the right way with the right investment. We have a clear strategic approach that is reviewed annually by our Board outlining our approach, what we need to do to deliver VfM and how we will measure and monitor the implementation and outcomes.

PROVIDING GREAT HOMES	We will provide homes in our local communities that our customers need, aspire to and can afford, in neighbourhoods where they want to live and are proud of. We will provide new homes in our local communities, with choices that make the best use of the properties and land available to us. We will provide a greater range of options for our customers to rent, lease or own a home.
KNOWING OUR CUSTOMERS	We will get the basics right by knowing our current and future customers; what they need, aspire to, can afford and what's important to them. We will use feedback to respond to their changing needs, to increase choice and to drive innovation and improvement. We will deliver personalised services in a way that is efficient and modern. We will provide services in a way that reflects our culture and values and meets our customers' needs and aspirations at an affordable price.
INSPIRING PEOPLE	We will have really amazing talented staff and volunteers working for us and others wanting to join us.
BUILDING THRIVING COMMUNITIES	We will work together to develop safe, connected, sustainable communities that grow and flourish. We will build strong partnerships to create opportunities that benefit the whole community and create positive life chances.

INCREASING OUR INVESTMENT	We will generate surpluses to reinvest within our communities. We will constantly review the services we deliver and how we deliver them to ensure we reduce costs and offer value to customers. We will seek opportunities that generate a positive financial return, whether these are in providing new homes, new services or social enterprises.

Diagram one – Our Corporate Journey source Corporate Strategy 2016-2021

3.2 We are always looking to become more efficient, but value for money is more than that. For us, it is about meeting our objectives (diagram one) at the right cost. We understand lowest cost is not always the highest value for money, so in some areas we have had to spend or invest more to achieve our objectives and to improve efficiency in the longer term. For example, we knew that the performance of our repairs contractor was not up to the standard we and our customers expected. So, we retendered the contract knowing that to meet our quality requirements would mean the contract price might increase. However, we minimised this increase through a robust specification and competitive tender exercise.

3.3 When we review our services we explore options to find the best way to deliver what is needed, either in-house or externally, ensuring we get the best outcomes at the best price.

3.4 This self assessment is a key part of our approach. It is designed to give our tenants, leaseholders and other stakeholders a clear view of our approach, the journey we have taken (what we have achieved and what lessons we have learned) and the direction for the future.

3.5 Our Board is committed to achieving Value for Money for our customers and stakeholders. The Finance Committee scrutinise our performance in delivering our agreed actions each quarter. We also report to Board on Value for Money through quarterly performance reports and annually in this self-assessment. Board also monitors our performance to ensure we are meeting our objectives as well as reviewing our management accounts to ensure we continue to use our available resources to deliver our objectives.

3.6 To ensure that VfM is delivered, our future investment in services is controlled by:

- Our project management framework - Ensuring that projects align to and meet our key strategic objectives whilst fully considering the return on investment.
- Our procurement framework - Ensuring that both quality specifications are in place and effective tendering is fulfilled.

4. How we make the best use of our assets

4.1 As a social landlord we have a large portfolio of assets. As well as the near 6,000 homes we let, we have 1,500 garages and several commercial units.

4.2 Creating capacity to deliver our corporate objectives

4.3 In March 2016 the existing use valuation of our homes (excluding the 6 sheltered schemes that are to close and properties to be demolished as part of the Castlefield regeneration scheme) increased to £200 million compared to £185 million 12 months earlier. The valuation also forecasts that the existing use of the properties will increase to £211 million in 2020, despite the impact of the rent reductions over this period.

4.4 At transfer, our Business Plan had an overall peak debt of £137.6 million, reached in 2020 with a repayment by 2038. The only planned new development spend was for £13 million and the provision of 34 extra homes on the Castlefield regeneration site. Since the loan facility is £140 million, the transfer plan provided limited scope to invest in more new homes.

4.5 The transfer business plan projected that we would be spending £5.5 million on operating deficits in 2016-2021, whereas the 2016 business plan forecasts a surplus of £5 million.

4.6 By 2016, the Business Plan has a peak debt of £129.7m and a potential expenditure on developing new homes of £69 million. This has been generated through a combination of savings on the delivery of the transfer promises, efficiency savings and sale of sites.

4.7 We have borrowed no additional funds since transfer (indeed we have repaid £5 million) and, excluding development, have reduced the peak debt in our business plan from £121.7 million to £59.3 million. As a result, we have relatively low debt per home, meaning that we have capacity to increase our borrowing

4.8 We now are able to retain a £10 million headroom in our projected borrowing from our loan facility, compared with £2.4 million at transfer, which provides a buffer to manage risks in the future.

4.9 Comparing our transfer business plan with our 2016 business plan shows where we have generated our additional capacity:

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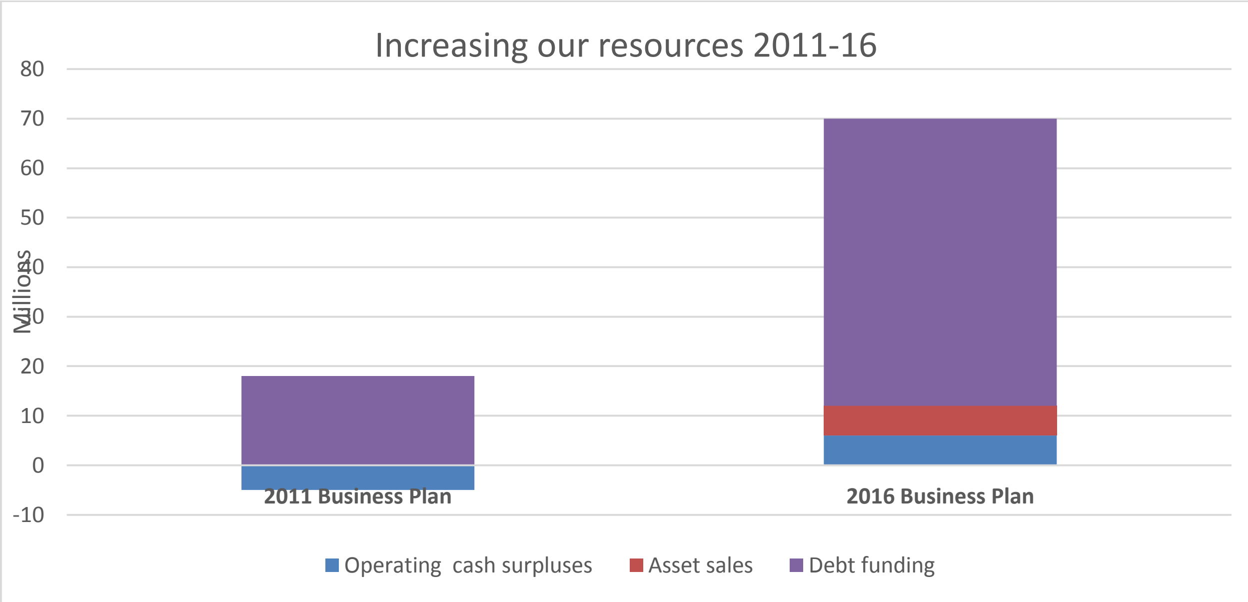
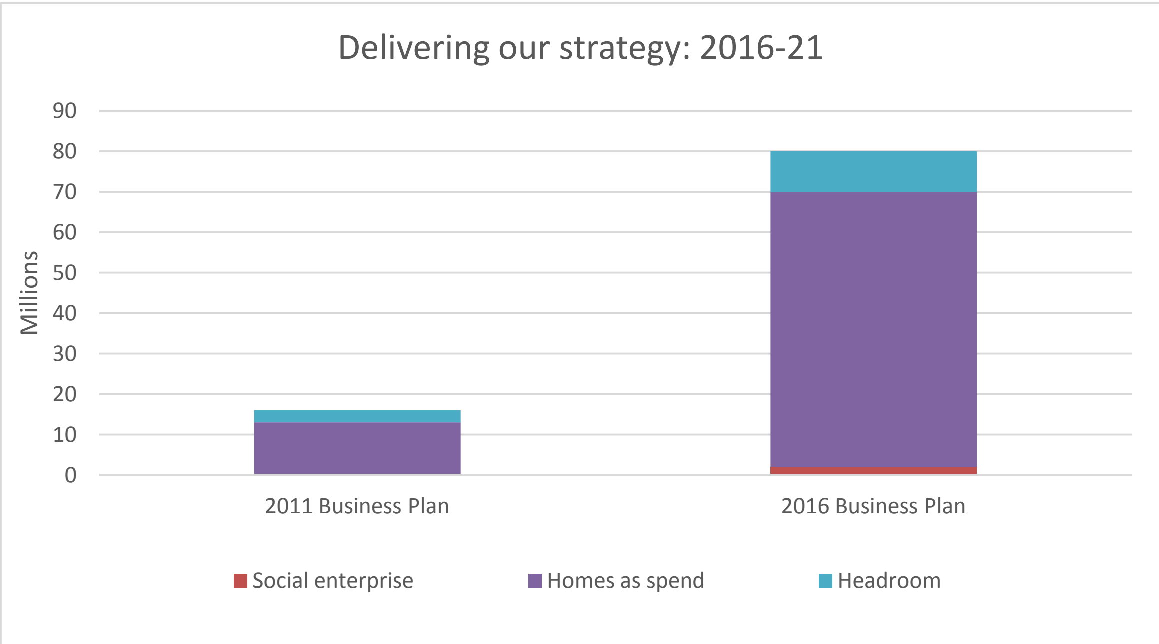


Graph one – comparison of funding and operating surplus levels between the 2011 and 2016 Business Plans

4.10 This has enabled the Board to set the objective of creating 375 new homes over the next 5 years, compared with just 134 new homes at the time of transfer.



Graph two – comparison of funding available to delivery of our strategy 2016-21 in 2011 and 2016 Business Plans

4.11 Return on assets

4.12 We make strategic investment decisions based on intelligent use of data about the properties we own, such as independent valuations of our homes, to ensure we maximise the return on investment. Our current information is underpinned by a full survey of our stock carried out in 2012 and which will be updated through a new survey in 2017. This enables us to have a clear view on whether our stock is economically sustainable (i.e. if they cost more to maintain over the relevant investment period than they were worth).

4.13 We use this to decide whether our stock is viable and what investment is needed.

4.14 A good example of this is that six of our Sheltered Housing Schemes were identified as economically unsustainable in their current form, due to the cost of maintaining them over 30 years). They were clearly identified in a review as being 'outdated' and in low demand by the community (we knew this through independent surveys on stock condition and sheltered housing demand).

4.15 In 2015-16 our Board approved that we sell three of these at a value of over £6 million compared with their negative value (using net present value) of £367k which gives us £6.3 million extra to spend on new homes or investment works to our current homes. It also enables the land to be used for the development of new homes needed by the community.

4.16 We plan to redevelop the other three sheltered schemes over the next two years, but we will explore other options to ensure the decision we take is the best option financially within our risk appetite. Any decision will balance the long-term financial security of the business with meeting our commitment to developing new homes for our community.

4.17 Bedsit conversions

4.18 In addition to this, we have continued our redevelopment of inefficient and hard to let bedsits and ex-Sheltered Scheme Managers accommodation in our sheltered schemes. This project redevelops the unlet properties with poor space standards through re-configuring the homes and communal areas in these schemes. When this project is complete we will have transformed 56 empty properties into 65 lettable properties that reflect the needs of potential customers. By the end of March 2016 we had completed 18 conversions with 30 near completion. In the 2014-15 self-assessment we had forecast we would have completed 31 by end of March 2016. However, delays in obtaining the necessary planning approvals have extended the timescale for the works. By making the decision to carry out these conversions early, we saved approximately £143k by not bringing each property up to Red Kite standard prior to conversion but only doing so as part of the conversion works. We are also saving the Council Tax that we are liable for whilst these properties are not let.

4.19 Investing in our homes

4.20 We have continued to invest in our existing homes. Between the stock transfer from Wycombe District Council in 2011 and March 2015, we invested £46 million. In 2015-16 we spent £21.3 million, and we will spend a further £19.5 million in 2016-17 to complete delivery of our promises. This means we are well on track to meet the transfer promises on time and at a cost that is £33 million less than the original forecast at the time of transfer.

4.21 Through our investment programme, our stock has increased in value to £200million, giving us extra borrowing capacity and the ability to achieve a better rate of interest. This is despite the negative impact of the rent changes and the reducing number of homes we rent as a result of tenants exercising their right to buy.

4.22 We have been able to limit our current borrowing requirement to the initial £60 million drawn down at transfer to help us realise our investment programme, which is near completion, on time and under budget. Through prudent planning, sale of sites and efficiency savings, we have not had to borrow further amounts and our forecasts show we only need to draw down further from our £140 million facility when we develop new homes. All further investment in our current stock can be met by our regular income.

4.23 Castlefield Regeneration

4.24 By the end of 2015-16, we had bought back fifteen of the seventeen properties in the Castlefield area and we completed the final two purchases by May 2016. This means we are in full ownership of all properties and are in a position to move forward with the regeneration of this area – meeting a further Transfer Promise. Our plan is to be on site in 2017 once Board have agreed the development plans that best enable us to meet the needs of the community and the necessary planning approvals have been obtained.

4.25 This regeneration will include the demolition of 97 lower quality homes and replacing them with around 180 higher quality new homes (an increase on the net gain of 35 originally planned). We have been able to increase the amount we develop through our effective business planning, investment and efficiency saving over the last four years.

4.26 Like many housing associations, following the 2015 government budget we paused our planning for the Castlefield regeneration scheme to allow us to review the impact this would have on our income, to ensure that we create the right tenure mix to maximise the number of homes built for the community. We also used this opportunity to look at our wider development plan that includes the redevelopment of sheltered schemes (mentioned above) and smaller sites that are appropriate for development, such as garage sites.

4.27 Using our other property and land assets

4.28 We are also evaluating the financial potential of our ‘non-residential’ property portfolio (such as garages, commercial properties and land) to ensure that we are clear on their value to us. We want these to add to our income rather than become a drain on our resources. We will carry out options appraisals on these sites to ensure we are maximising our return on these assets as part of our wider strategic development approach.

4.29 We have reviewed our garage sites and, using this information, we undertook to carry out improvement work on sites that would pay back the investment within 5 years through improved rental income. The next element of our garage review is to carry out a valuation and options appraisals project on the remaining sites to ensure we can maximise the return on these assets.

4.30 Energy Efficiency

4.31 We have continued to invest and secure external funding for energy efficiency works. Overall we have increased our Standard Assessment Procedure (SAP) rating from 67.5 to 70.5 in 2015-16, which is well above the UK average of 56.5).

4.32 To achieve this, we look at our carbon footprint when we carry out investment works, for example we have:

- introduced LED lighting to sites reducing CO2, energy usage and running costs
- upgraded to A-rated boilers during investment works, reducing CO_2 and improving energy efficiency

- improved boiler controls to reduced running costs of heating to communal areas in sheltered schemes
- introduced passive lighting systems which illuminate due to movement in communal areas, reducing running costs
- we have secured funding of over £360k for overcladding work to properties for thermal insulation.
- we are forecast to receive £20k in funding over 4 years following the installation of air source heat pumps

4.33 We have carried out a full energy survey of our properties to inform our Sustainability Strategy and action plan for focusing on properties with lower energy performance where customers are more likely to face fuel poverty.

5. How much our services cost and how we compare

5.1 A fundamental part of our value for money approach is to fully understand our cost, our performance and how we compare with others.

5.2 We consider our absolute costs and performance, and whether these are getting better or worse, and our relative costs and performance compared with other registered providers.

5.3 In previous years we have compared our performance with that of 24 other RPs with less than 7,500 homes based across the south of England. We have retained this comparison group, but also added comparison available through the Placeshapers association of more than 100 RPs and, more locally, with the six RPs with which we have recently begun discussions on possible cost-sharing arrangements.

5.4 Over the past four years we have increased the funds available each year for meeting the reductions to rents and delivering our corporate objectives by £3.8 million, which is equivalent to 11% of annual turnover.

Year	Savings £'000
2012/13	£564
2013/14	£1,014
2014/15	£1,051
2015/16	£1,174
TOTAL	**£3,803**

Table one – savings 2012/13 – 2015/16

5.5 We have achieved this through a combination of providing services more efficiently, effective procurement, closer management of voids and reviewing the services we offer, discontinuing those contracts, which do not make a surplus and do not add materially to the social value which we create, such as the Supporting People contract with Buckinghamshire County Council.

5.6 In 2015-16 we moved to a new approach to gaining proactive customer insight through feedback via a single, secure web portal giving us faster, more consistent and more reliable feedback. The technology provides the ability to streamline satisfaction data and intelligence and enables a quicker reaction to customer needs.

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5.7 Cost comparison - HouseMark

Cost per property	2012-13		2013-14		2014-15		2015-16	
	Red Kite £	Peer Rank	Red Kite £	Peer Rank	Red Kite £	Peer Rank	Red Kite £	Peer Rank (2014-15)
Routine repairs	477	17	409	12	328	3	384	13
Void repairs	362	25	305	25	193	14	176	12
Housing management	198	2	186	1	218	3	201	3
Estate services	281	25	227	23	209	22	234	22
Corporate services	572	7	569	6	498	3	510	14

Table two - Summary Table of comparison of key service costs (2015-16 Peer Rank is based on the peer group performance of 2014-15)

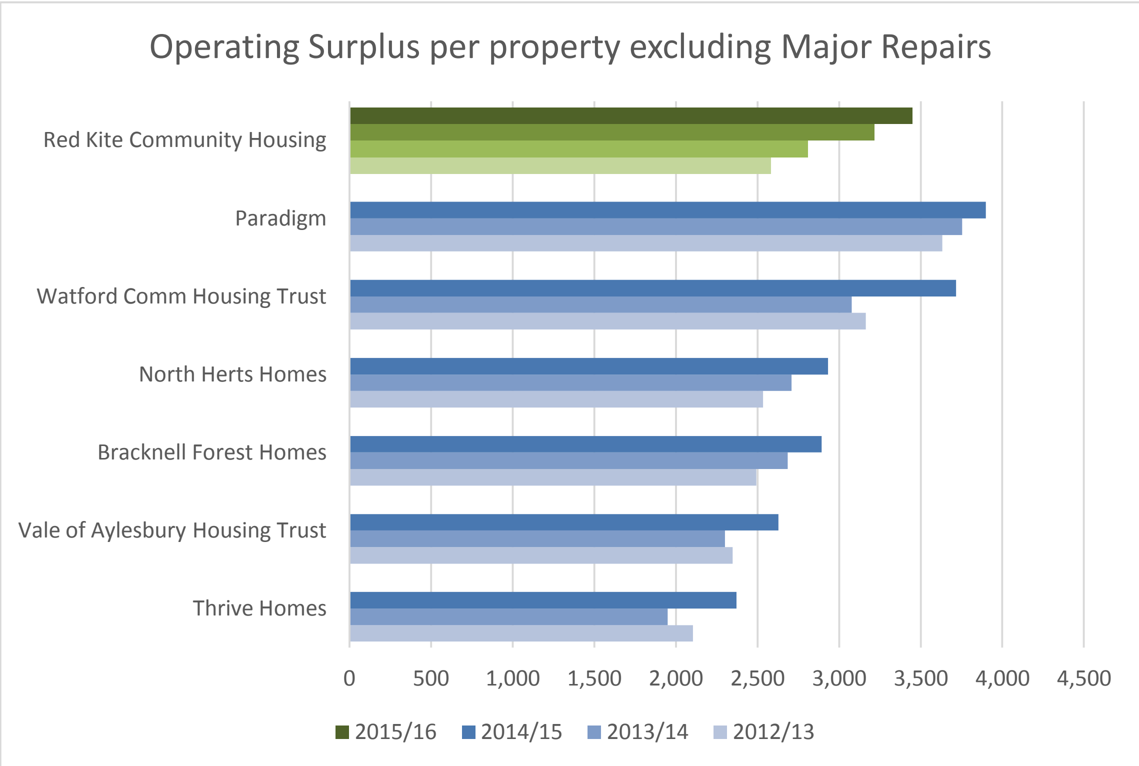
5.8 Table two shows how we compare against our HouseMark peer group of 24 southern Housing Associations with less than 7,500 homes. We measure against southern housing associations as these have similar cost drivers to us (such as salaries and repair costs); housing associations in the north tend to have lower costs due to regional economic differences.

5.9 Some of our costs are difficult to compare on a like for like basis, for example our major works or investment costs are higher than most housing associations as we are relatively new and nearing completion of the significant transfer investment programme promised to tenants and leaseholders in 2011. Although we will complete the promised improvements in 2016-17, we will continue to improve our homes and invest in our other property over the next 5-10 years.

5.10 It is important to remember that in this period the number of homes has reduced by over 5%, from 6,059 to 5,711 homes, due to decanting of homes that are to be redeveloped or sold and through tenants exercising the Right to Buy. Our reduction in average costs is even more impressive due to the reduction in the number of homes.

5.11 Whilst we can demonstrate lower cost it is important to remember that there have been two changes to rent regulation that have reduced projected income that came into effect during 2015-16 – the switch from the inflation measure used (RPI+½ % to CPI+1%) and the removal of rent convergence (as well as the 4 year annual 1% rent reduction commencing in April 2016). These have reduced forecast operating surpluses.

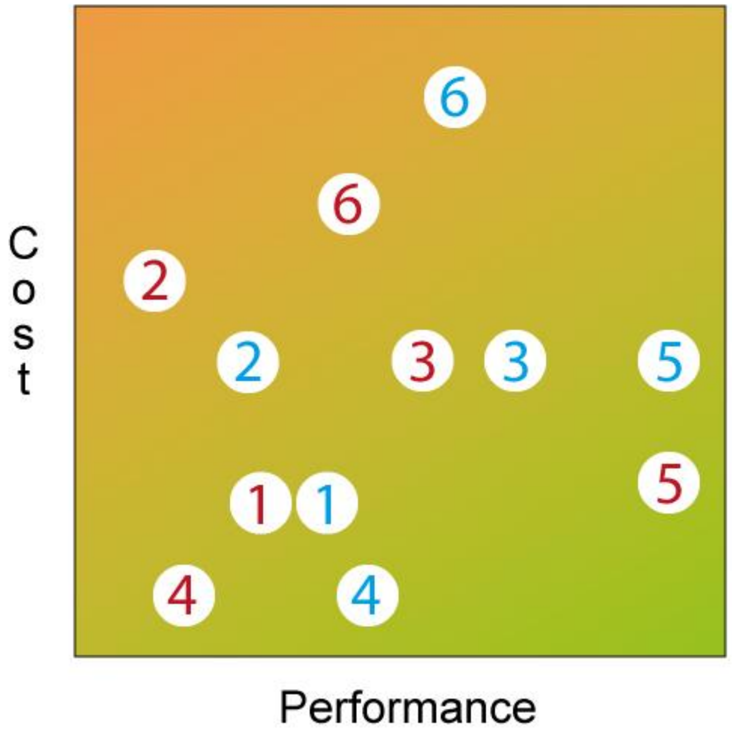
5.12 Nonetheless, we have improved our operating surpluses per property (excluding major works) over the last four years. If we compare we can demonstrate we are performing comparatively well, especially as we are a more recent stock transfer organisation still delivering our transfer promises and thus have higher costs (graph three below).



Graph three – Operating surplus 2012/13-2015/16 – compared with local registered providers (data extracted from publicly available statutory accounts)

5.13 Value for Money Comparison

5.14 Costs are only one part of value for money. Outcomes as measured by service performance and customer satisfaction are also relevant. We monitor customer feedback and in three of the past four months we have received more compliments from customers than complaints. Diagram two shows that how well we performing against our peer group.



Areas of service

1. Responsive Repairs
2. Void repairs
3. Arrears management
4. Lettings Management
5. Anti-social behaviour
6. Estate Services

Red = 2014/15
Blue = 2015/16

Diagram two – VfM comparison against peer group in 2014-15 and 2015-16

5.15 By using our internal performance information we can see how we are performing in terms of VfM.

5.16 We will look at a number of these areas in more detail below.

5.17 Responsive Repairs

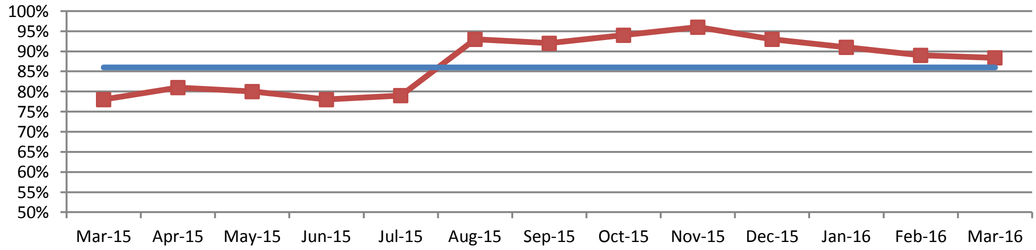
5.18 We retendered our repairs and maintenance contract in 2015 following unsatisfactory performance from our previous contractors. We retendered using a competitive tender exercise with an expectation prices might increase. Our customer-led procurement panel selected Axis, balancing quality and price to ensure a sustainable quality of service at a competitive cost.

5.19 Our performance has improved on most indicators year on year especially in the key satisfaction measure. Some other measures are less stable, which is common for new contracts, but we are working with our contractors to understand the reasons for this and working with them to improve.

5.20 Graph four (below) shows that satisfaction has increased since the change in contractor (July 2015) and levels are above the HouseMark median level.

5.21 Despite the costs of the new contract in 2015-16, over the past four years we have seen a 19% reduction (table two) in repair costs per home, despite the 5% reduction in the number of homes managed. Our average cost of repairs (graph five shows that our average repairs cost is close to the average of our peer group. We have worked with our contractors to realise the benefit of our investment in our services and homes, through higher customer satisfaction, higher existing use value of our properties, lower number of routine repairs and higher energy efficiency of our properties.

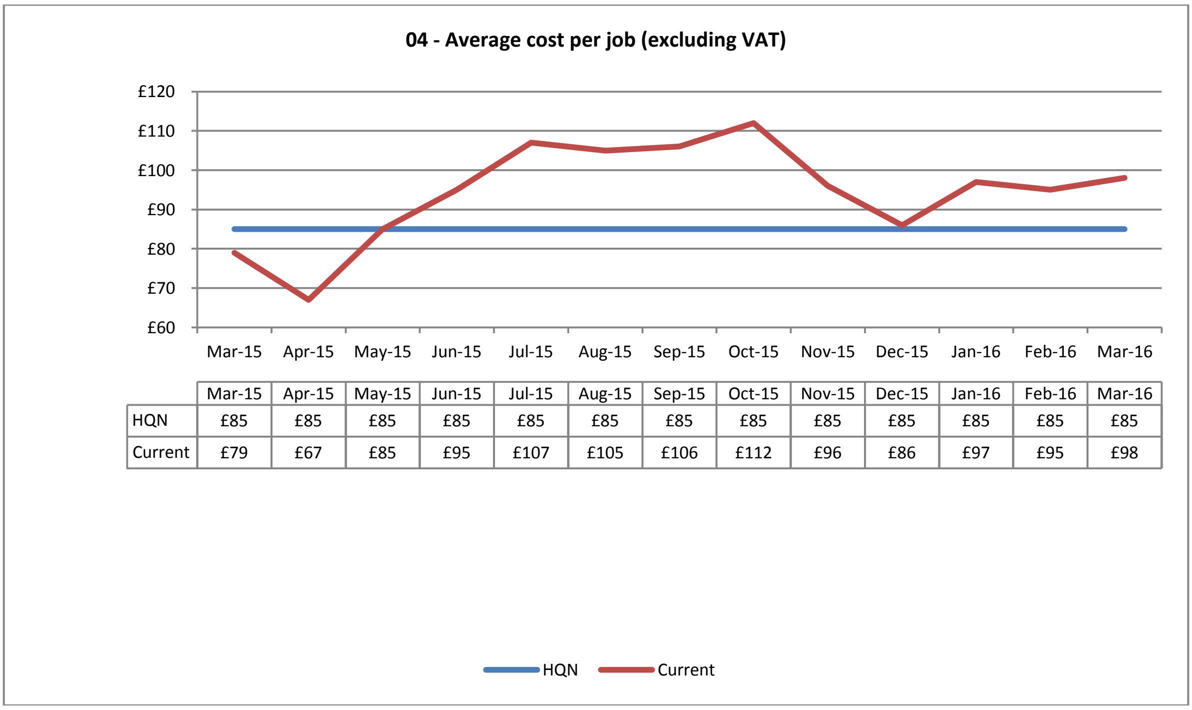
01 - Satisfaction with repairs service (%) - internal survey



	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Current	78%	81%	80%	78%	79%	93%	92%	94%	96%	93%	91%	89%	88.40%
HouseMark	86%	86%	86%	86%	86%	86%	86%	86%	86%	86%	86%	86%	86%

Current HouseMark

Graph four – Repairs satisfaction 2015-16 compared with HouseMark 2014-15 performance



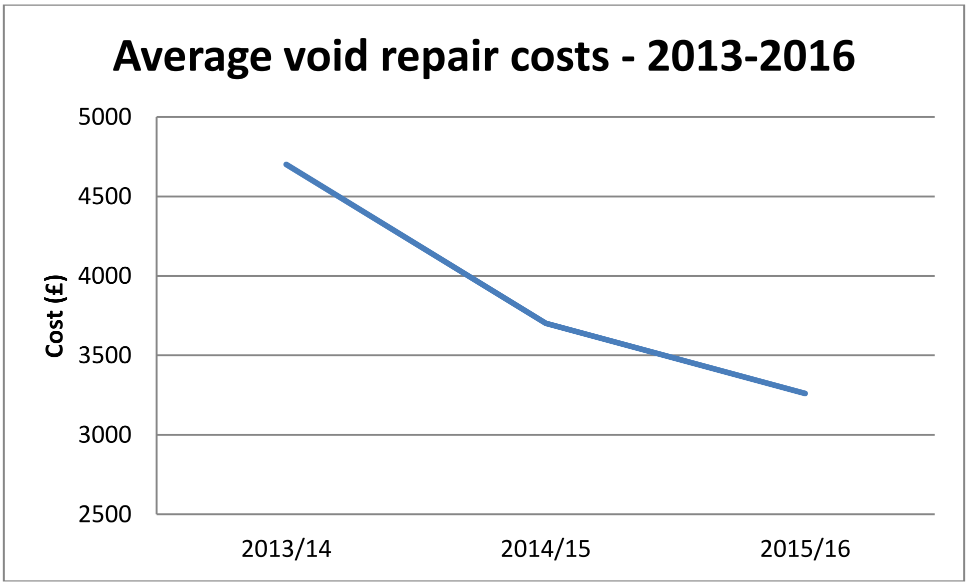
	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
HQN	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85	£85
Current	£79	£67	£85	£95	£107	£105	£106	£112	£96	£86	£97	£95	£98

Graph five – Average repair cost per property 2015-16 compared with HQN 2014-15 performance

5.22 Void repairs and letting management

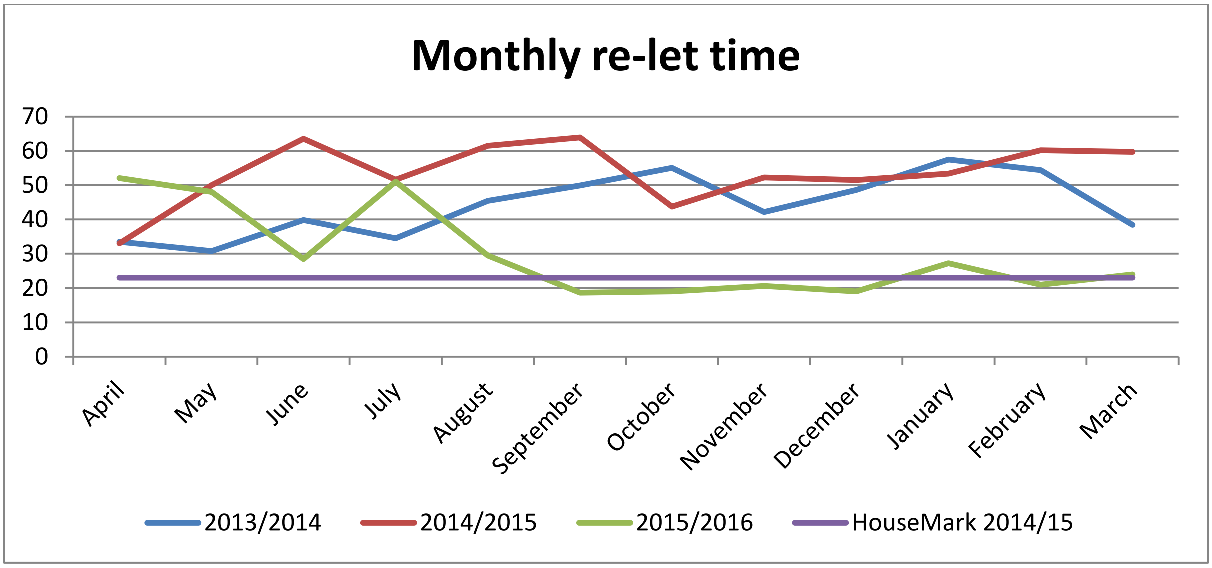
5.23 There are two key financial measures in voids and letting; repair cost and rent loss. Average re-let time for standard voids had not shown the performance improvement desired by the end of 2014-15. However, we have focused significant attention in the past 12 months on void management and we have reduced the average void period from around 60 days to less than 20 days, a trend which we have sustained over the past six months. If this level of performance had been shown through the full year, we would be in the top quartile of our comparative group.

5.24 We have seen a reduction in the average void repair costs of £1,442 (31%) per empty property from an average void cost of £4,702 in 2013-14 to £3,260 in 2015-16 (graph six).



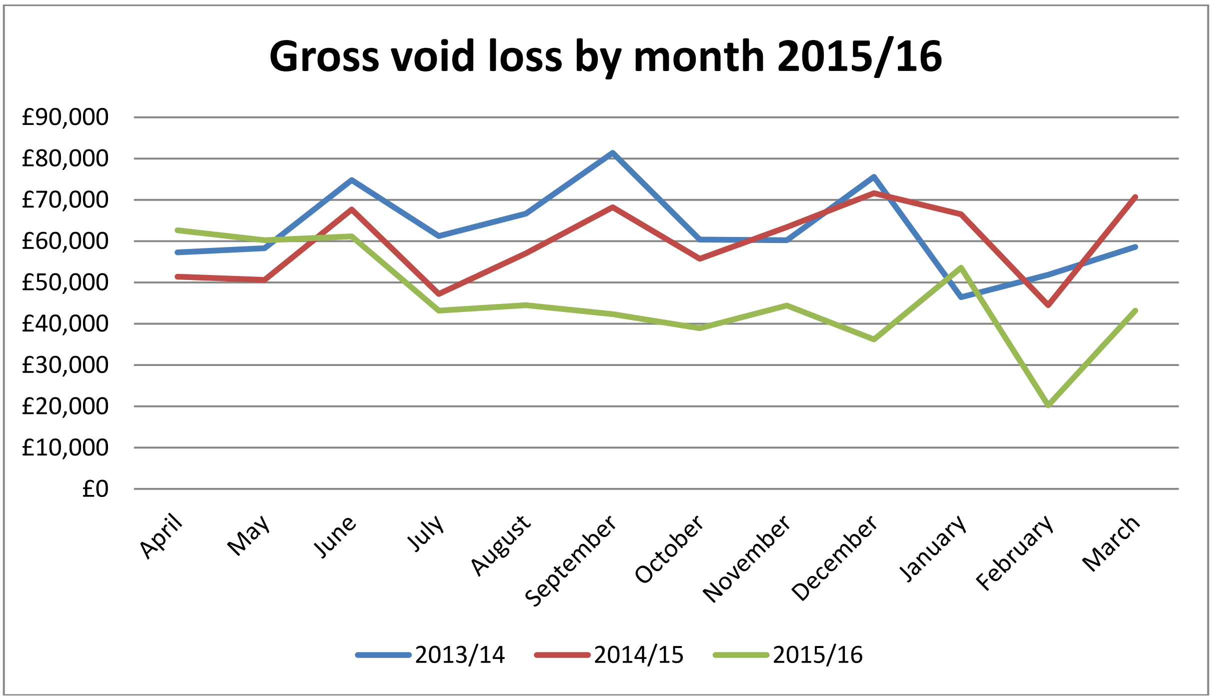
Graph six – Average void costs – 2013-14 – 2015-16

5.25 This reduction in cost is coupled with a dramatic improvement in our rent loss through quicker re-let times on standard voids (reducing from a peak of over 60 days in 2014-15 to 19 days in October 2015. Graph seven shows that since September 2015 our performance has been in the HouseMark top quartile for four of the six months. This means our rent loss was only 1.33% for the year against a forecast of 2.0%, a saving of approximately over 30% rent loss of the year and we forecast this will decrease further.



Graph seven – monthly void relet time 2013/14-2015/16 compared with HouseMark 2014/15

5.26 Graphs seven and eight show the vast improvement in the reletting time, which means we are losing over 30% less rent on average per void. Since 2013-14 we have reduced the annual amount of income lost through void homes by £249k, reducing the loss in potential rent from £687K to £438k.



Graph eight – gross void loss by month 2015/16

5.27 Neighbourhood Services

5.28 The satisfaction of our customers with the neighbourhoods they live in has increased steadily over the last year (graph nine). We work to improve neighbourhoods through keeping our estate looking clean and tidy (such as grass cutting, cleaning and fly tipping removal), carrying out investment works to make homes look better as well as being warmer and nicer to live in and through tackling antisocial behaviour.

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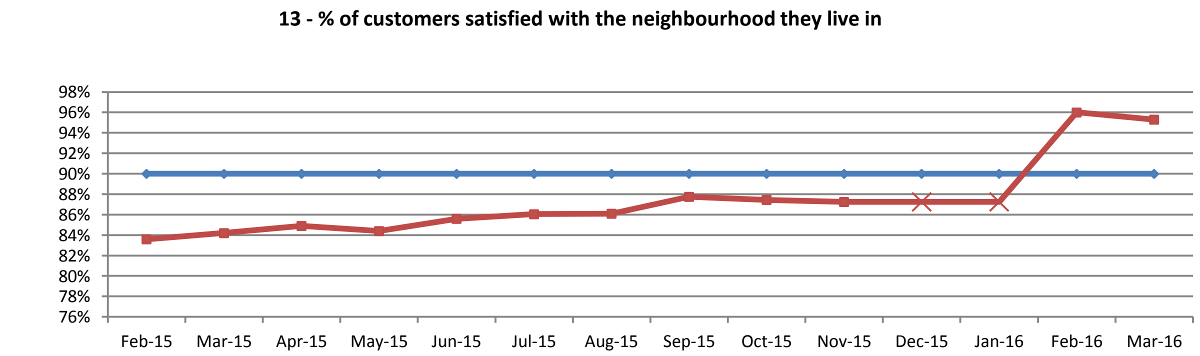


	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Housemark	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Current	84%	84%	85%	84%	86%	86%	86%	88%	87%	87%	87%	87%	96%	95%

Housemark Current

Graph nine – Neighbourhood satisfaction 2015/16 compared with HouseMark 2014/15 (NB increase in February 2016 was partly due to change in monitoring methodology)

5.29 ***ASB***

5.30 The performance of our service remains high compared with our HouseMark group (diagram 2) but costs have increased slightly as we have increased the number of cases we have taken to court to protect our communities. Taking legal action is costly and time intensive; we will only take this as a last resort following intensive casework by our Experience Specialists.

5.31 ***Estate Services***

5.32 Estate Services satisfaction is high (as shown in table three), our customer satisfaction survey shows that over 70% of customers in our general needs homes are satisfied with cleaning and over 88% with grounds maintenance. Customers in Sheltered Housing are more satisfied on both measures.

	Cleaning		Grounds Maintenance	
	General needs	Sheltered housing	General needs	Sheltered housing
Positive responses	72.20%	84.70%	88.60%	90.10%
Neutral responses	16.70%	9.50%	3%	2%
Negative responses	11.10%	5.80%	8.40%	7.90%

Table three – results of satisfaction surveys for Grounds Maintenance and Cleaning contracts - January to March 2016

5.33 However, the level of fly tipping removal and therefore the cost of this has increased. There are two reasons for this material change in the level of fly tipping removal; locally there has been an increase in fly tipping (source: Bucks County Council) and also as we have invested in maximising the time front line staff are out and about more fly tipping is being identified and reported. We are expecting to see the costs reduce as we can see an initial increase in reports as we inspect more areas more frequently. To combat this we are using intelligence to identify key hot spots and to use a mixture of deterrents (such as CCTV) and enforcement, including a partnership approach with Bucks County Council to prosecute offenders.

5.34 The satisfaction results are amplified by the individual questions on Grounds Maintenance and Cleaning which have satisfaction results of over 75% for each service. The Grounds Maintenance performance results were high enough to give our Board assurance that the contract should be extended to the full five years of the contract, which means we save the time and cost of retendering.

5.35 Income Management

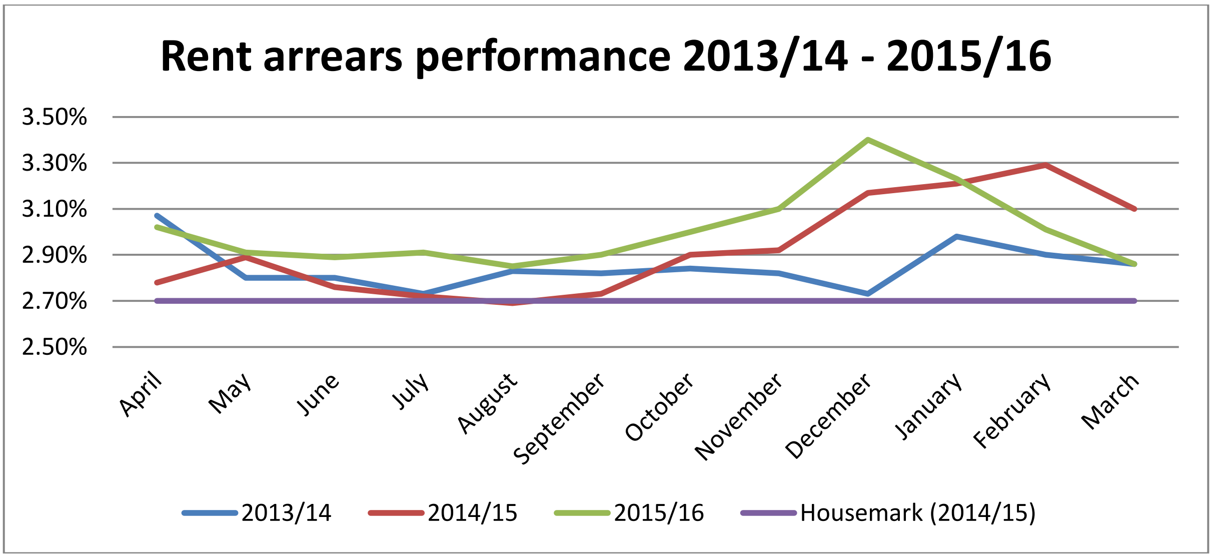
5.36 As part of our Value for Money approach, we look to maximise our income. There are two key ways of achieving this. Firstly, to minimise the amount we lose through empty homes and secondly, to maximise the amount of rent and service charges we collect from tenants.

5.37 We knew that the recent Welfare Reform changes, such as the spare bedroom subsidy (Bedroom Tax), Universal Credit and Benefit Cap could have had a dramatic negative effect on our rent arrears due to the impact on our customers. To counter this we have successfully implemented measures to mitigate the threat to our income. This has led to our arrears reducing over the year with an expectation this trend will continue.

5.38 This is also a good example of where we have invested wisely to become more efficient. To ensure we were in a good position to tackle the impact of Welfare Reform, we engaged with a leading expert on income management to help us prepare. For example, we have worked with 56 tenants to downsize through mutual exchange to mitigate the impact of the spare bedroom subsidy. By promoting and encouraging mutual exchanges we have saved the approximate £200k in void costs and void loss we would have incurred if we had relied on transferring these tenants.

5.39 We are carrying out pre-tenancy work to enable customers to calculate the affordability of our properties and using Experian's Rental Exchange to identify the level of potential risks of future customers to enable us to identify possible support needs to help them sustain their tenancies.

5.40 Graph ten below shows our rent arrears are above the HouseMark median, but recent performance data shows that since December our customer focused approach has been a success and there is a clear trend, which suggests the improvement will continue into 2016-17.

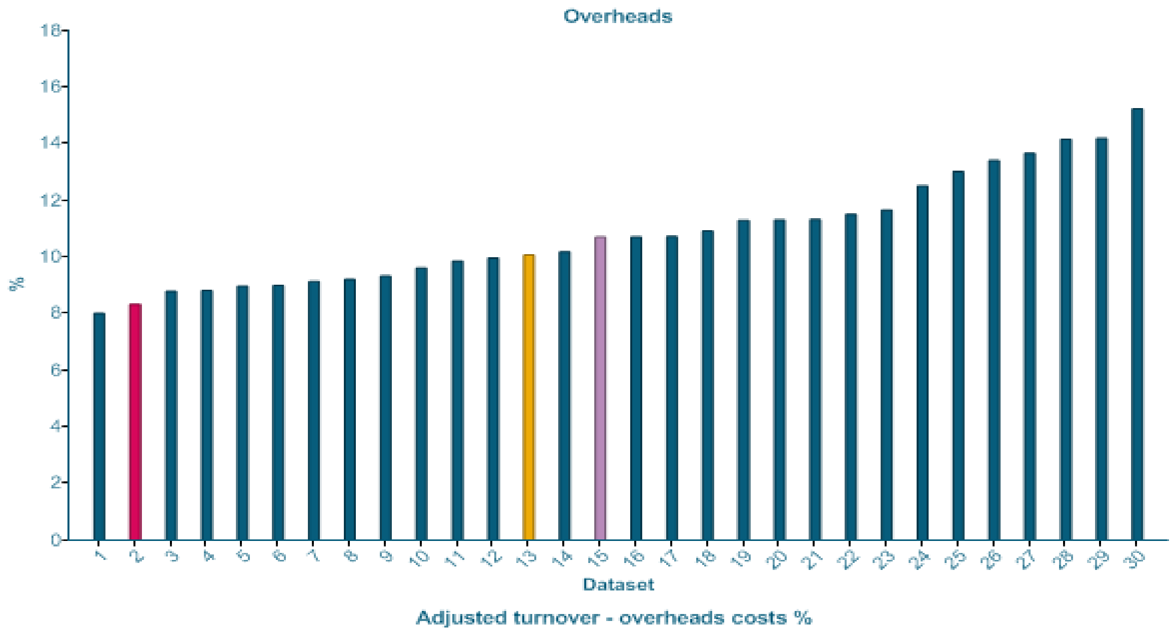


Graph ten - Rent arrears 2013-2016 compared with HouseMark 2014/15

5.41 We have also worked closely with our leasehold customers, resulting in improvements in our collection of services charges. In 2015-16, we recovered 100.76% of routine leasehold service charges and arrears. We have reduced the routine service charges outstanding to just £3,800 out of £1.3 million invoiced since transfer. In addition, 98.55% of major works charges billed in 2015 had been collected by 31 March 2016.

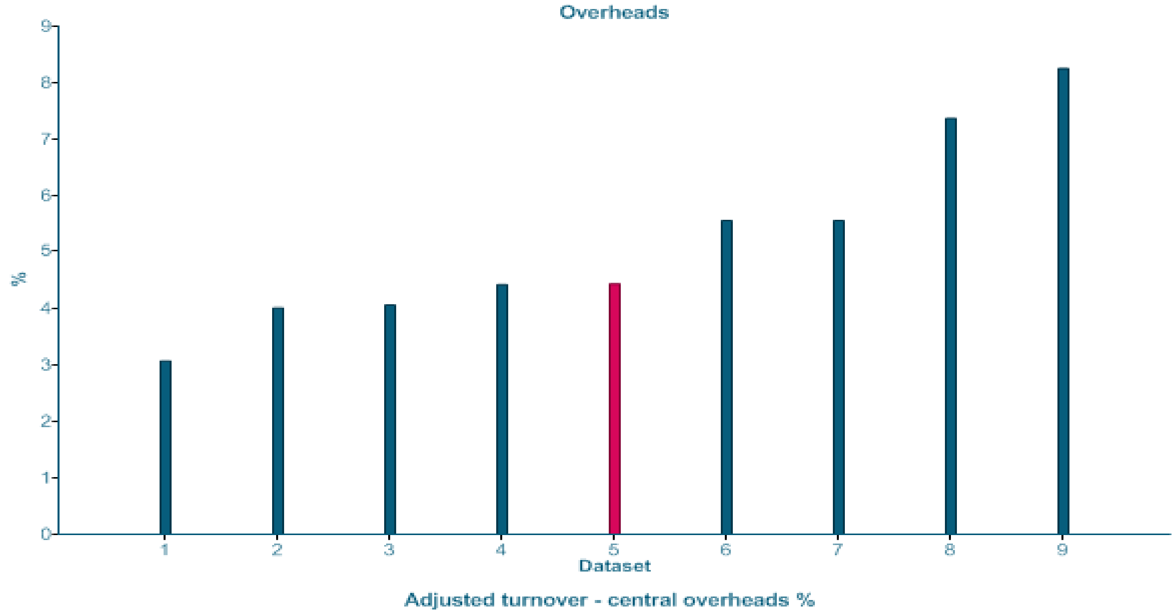
5.42 Overheads

5.43 Our corporate service costs were considerably reduced in our first three years after transfer as we reduced inefficiencies. However, these increased slightly in 2015/16 following our thorough review of staffing levels, but were still below our overhead costs at transfer. This resulted in an increase in staffing in key areas to give us the capacity required to move forward to deliver our corporate objectives. Despite the increase we are still median quartile when compared against our HouseMark peer group and local housing associations (graphs eleven and twelve)



Graph eleven – overhead costs as % of turnover compared to our HouseMark peer group (red = 2014/15 gold = 2013/14 purple = 2012/13)

Red Kite Community Housing



Organisations:

1	Paradigm Housing Group	4	B3Living	7	Bracknell Forest Homes
2	North Hertfordshire Homes Limited	5	Red Kite Community Housing (2014/2015)	8	Watford Community Housing Trust
3	Housing Solutions	6	Vale of Aylesbury Housing Trust	9	Thrive Homes

Graph twelve – overhead costs as % of turnover compared to local housing associations

5.44 Cost comparison – global accounts

5.45 Data is available from the HCA Global Accounts on the average costs per home across the country as at 31st March 2015. Whilst this is historic data it does give a measure of how our costs compare to the sector generally.

5.46 The key message is that we are a relatively new housing association that is still investing heavily in our homes to deliver our transfer promises. Therefore, our overall costs are high because our major repair costs are high. This will continue to be the case for 2016 and 2017 whilst we complete the delivery of our promises.

5.47 Our management costs also reflect:

- the high proportion (over 30%) of sheltered housing homes that we manage,
- the impact of the sale of homes through the preserved right to buy (which has seen us sell 2.5% of our homes but from which we do not retain the sale proceeds that might enable us to build replacement homes), and
- that we are still investing in the technology and systems required to operate an efficient business.

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5.48 We have restated our 2015 analysis of costs using an approach more consistent with other providers.

Entity	Closing social housing units managed	Headline social housing cost CPU (£K)	Manage -ment CPU (£K)	Service charge CPU (£K)	Maint-enance CPU (£K)	Major repairs costs CPU (£K)	Other social housing costs CPU (£K)
Red Kite (HCA)	5,944	6.23	1.26	0.31	0.76	3.92	-0.01
Red Kite (restated)	*5,944*	*6.23*	*1.04*	*0.31*	*0.85*	*4.03*	*-0.01*
Red Kite (2015-16 estimate)	*5,911*	*6.05*	*1.15*	*0.31*	*0.89*	*3.60*	
Sector level data							
Worst quartile		4.3	1.27	0.61	1.18	1.13	0.41
Median two quartiles		3.55	0.95	0.36	0.98	0.8	0.2
Best quartile		3.19	0.7	0.23	0.81	0.53	0.08

Table four - Global Accounts compiled by the HCA using our 2014-15 Financial Statements
CPU = Cost per unit

5.49 Overall our costs for management, service charges and maintenance show that our costs are in the median quartiles. We aim to improve on this performance as set out in this report.

Red Kite Community Housing

6. How we have reduced costs and invested to provide better services over the past year

6.1 Reduced average relet times

- We have reduced our rent loss £200k by improving our void relet times from 60 days to 21 days.

6.2 Investment in new IT

- We have improved staff productivity by investing in IT. By automating manual processes, introducing mobile technology and improving the quality and timeliness of information sharing we have reduced duplication and waste.
- When a customer calls we can organise an appointment instantly and offer flexible times because staff can access the diaries of our community based teams. They no longer have to spend time liaising between departments to check dates and then phone customers back. Our customers can request, book and have confirmed an appointment with an Experience specialist instantaneously.
- By moving from paper copies of Board papers in March 2016 we have started to realise forecasted savings of £10k in printing and postage, as well as creating a better method of provision for Board members.
- By moving to a digital customer newsletter we have saved £24k per year in printing and postage.
- Delivering our new intranet and website in Microsoft's SharePoint Online, we have a more secure place to organise, share and access information. SharePoint online has provided additional resilience for disaster recovery and further data storage capacity. SharePoint Online will provide us with a flexible solution to enable us to work smarter and more efficiently.
- Continued use of GIS (our IT based mapping system) has enabled us to identify land that we are maintaining that is the responsibility of WDC, this will enable us to reduce the contract price for grounds maintenance and minimise any liabilities arising from the land ownership. GIS will also allow us to plot land ownership data for future investment strategies. GIS also enables us to respond to queries about land quicker as we can be clear on our ownership.

6.3 Procurement of services

- Our new Procurement Specialist has helped deliver better Value for Money through improving contract specifications and expanding our procurement approach ensuring we get the right contractors for our requirements at the best prices with improvements in service and benefits. Examples for this are:
  - Moving relationships with external providers onto formal contracts with clear specifications has allowed us to realise contractual savings
  - Using a procurement framework for payment services saved £16,234
  - Managing the procurement process ourselves for Five Acres major works rather than using specialist advisors saved £4k
  - Retendering our pest control service produced contract savings of £3,500
  - Three additional contracts were retendered with costs retained at 2014-15 levels with which negated a forecast inflation increase of £3,100
  - We re-procured the responsive maintenance contract following the unsatisfactory delivery of our previous contractor. We carried out a competitive tender exercise and using an appropriate quality / cost ratio were able to award the contract to Axis. It was forecast that this contract would increase in price.

6.4 Staffing costs

- We have continued to review our staffing levels. This review identified there were keys areas where an increase in staff numbers was needed to enable us to continue to develop our innovative culture, deliver change and improve services.

- This increase in staff allows us to carry out projects in-house to save on the cost of out-sourcing these.

- However, in some areas we have been able to reduce staff. In 2015-16 we reduced staffing costs by restructuring our Innovation Pod saving £121k.

- As we complete our promises we have been able to reduce the number of project managers in our Property Pod. We will see the saving of this in 2016-17.

6.5 Improved performance data

- Over the last year we have further developed our collection and use of performance data. This has been key to understanding our quality, cost and

Red Kite Community Housing

time indicators which have integral to our improvements in performance in areas such as voids and income collection.

6.6 Document retention

- By reviewing what and how we store documents, we have mitigated a potential cost of £10k each year for storage. We reduced what we store enabling us to use our own premises to store records and make document retrieval easier.

6.7 Removal of loss making contracts

- We decided not to bid for the supporting people housing related support contract which ended in January 2016. This decision had the effect of saving £215k each year which we were paying over and above the contract payment. The revised housing related support contract is now being provided by a third party for Buckingham County Council.

6.8 Improved expenditure forecasting

- We have been able to reduce our annual expenditure forecast through prudent spending, challenging our costs and more robust budget setting and control.

6.9 Investing in innovative equipment

- We are always researching new ways of working and adopting new technology. In 2016-17 we purchased a drone fitted with cameras that enables us to examine roofs and gutters, saving us the use of expensive scaffolding and enable quicker surveys. This has been tested and we are currently obtaining a drone pilot licence to ensure safe operations. This is forecast to save us around £20K over the first five years.

7. Moving forward

7.1 The savings that we have already delivered, together with the service improvements, mean that we are able to absorb the adverse impact of the four years of rent reductions 2016-19, though this has meant fewer resources available for investment in new homes and in our communities. We will continue to pursue efficiencies that will give us the capacity to develop the business in line with our Corporate Strategy, including developing new homes. We also want to be strong enough to absorb future potential changes in government policy or adverse economic influences. These require a continued focus on improving the efficiency of our business.

7.2 We have three core strands to making improvements:

- Reviewing our funding costs through re-financing our current loan facility
- Developing a programme of new homes that will reduce overhead costs per property and generate a return on investment
- Reducing the cost of corporate services and service delivery

7.3 With regards the first two, we have engaged Savills to review our approach and potential for development and to review our capacity to raise new finance. The reports were presented to the Board in June 2016. It is anticipated that re-financing will occur in 2017. Our current business plan has prudent long-term funding costs of 6.5%. It is anticipated that a reduction in funding costs could generate annual savings well in excess of £1 million.

7.4 We will invest resources to ensure that we have the necessary skills and advice to deliver and manage new homes and new tenure types. This will ensure that we generate the anticipated surpluses and enable re-investment into affordable homes and into our communities.

7.5 We will review the legal structure of the business to ensure that any development is pursued in a way that manages risk, is tax-efficient and reduces costs. The Board received a presentation on this topic at its awayday in February 2016.

7.6 We have been sharing cost data with a number of similarly sized Housing Associations operating in the Hertfordshire, Buckinghamshire and Berkshire region. Whilst we believe that we are among the better financial performers in this group, we recognise that there may be further savings to be made from learning about the savings made by others in the group.

7.7 We have reviewed the replacement life-cycles of major components such as kitchens and bathrooms, bringing them in line with industry standards. This will reduce our long-term repair costs by £39 million over the next 30 years without adversely impacting on the quality of our homes or services to tenants.

7.8 We will complete the sale of three former sheltered scheme sites. This will generate over £6 million of income from the sale of inefficient and low demand homes.

7.9 We do not plan to “salami-slice” service costs across all functions, and we do not need to make large-scale reductions in services or costs. However, we do always review staff posts as they become vacant, making reductions in the staff establishment or changes to operating structures where beneficial.

7.10 We are investing in new technology and will deliver more services digitally, thereby reducing long-term costs.

7.11 We review the allocation of resources each year, amending budgets as required and eliminating expenditure where it is no longer required. Our budget for 2016-17 incorporates the £1.2 million of savings generated in 2014-15.

7.12 Specifically, for 2016-17 we will continue to review our services using cost, performance and satisfaction to identify where we have the opportunity to reduce costs directly, to invest to reduce expenditure in the future, or reduce services in agreement with our customers.

7.13 Review and challenge higher cost areas

- We will focus on comparatively high cost areas to ensure we fully understand the reasons for these and have clear plans to reduce these costs where we can through service reviews and procurement. In particular, we will seek to understand our responsive repair, corporate service and estate management costs better.
- For responsive repairs we will review
    - our properties that had high maintenance costs in 2015-16 to identify if there are any trends in property type or construction that will give us intelligence to enable better ways of working to reduce costs
    - our gas installation and maintenance contracts to identify potential savings
    - our options for repairs delivery in preparation for retendering in 2017-18

- Fly tipping removal is costing us over £100k each year and the level of fly tipping is forecast to increase. We will be exploring a mixture of prevention and enforcement work to tackle the level of fly tipping as well as examining the costs of removal

7.14 Procure new contracts

- Over the next year we will build on our successful procurement to ensure we get the right contractors at the right price to deliver our requirements. For example, we will be re-procuring our telephony services, which is expected to save £70k over the life of the contract.

- We will also continue to use different procurement methods (e.g. in-house, use of procurement frameworks, such as Procurement for Housing) to ensure we achieve the best cost that meets our requirements and review contract specifications to ensure that these balance quality and cost

7.15 Develop our Asset Management Strategy that will outline:

- How we maximise income and reduce spend through reviewing the use of properties with a high cost to maintain or a high value

- How we will review our garage sites

- How we will use our commercial properties

- We will review our 'communal' land assets to identify parcels of land that have potential for development and / or disposal. This will reduce service cost to maintain areas and enable us to increase income through new homes

8. Our compliance with the Homes & Community Agency's (HCA), Regulatory Standard on Value for Money for 2015-16?

8.1 The full text of the HCA's Value for Money Standard can be accessed here: HCA Value for Money Standard

8.2 So how have we delivered?

- We have a robust approach to Value for Money that has delivered better outcomes for customers at lower costs. There are many positive elements:
    - We have delivered savings of £1.2 million over the past year, and made service improvements. This brings the savings for the last 4 years to £3.8 million, equivalent to over 11% of our turnover;
    - We have compared our costs and performance against similar housing associations to identify comparatively high costs areas. We will use this to review our services to better deliver Value for Money.
    - We have decided that we will close 6 sheltered schemes and redevelop three of these into new models of providing homes to the local community. The other three schemes will be sold and the proceeds reinvested into providing new homes for the community.
    - We have increased the financial provision within the business plan to build new homes.
    - Improved our performance in key areas such as voids and income management.
- Areas that we want to improve or that we have not yet developed include:
    - Develop our asset management strategy to give a clear approach to improving our return on assets.
    - We need to continue to improve our understanding of the drivers of the cost of service delivery. Our system reviews will ensure we focus on customer value, efficient processes and therefore lower costs.

8.3 This self-assessment by the Board is summarised in the annual Financial Statements, which are also available on our website.

Overall, this provides sufficient evidence of a robust approach to Value for Money for the Board to conclude that we comply with the requirements of the Homes & Communities Agency regulatory standards on value for money.