Red Kite Community Housing

Our Value for Money self-assessment 2013/14

Introduction

The Board of Red Kite Community Housing has reviewed how well the Association is delivering Value for Money to tenants, leaseholders and other stakeholders. In preparing this self-assessment, the views of the association's Tenant & Leaseholder Committee have been considered.

The self-assessment considers the following questions:

- Do we have a robust approach to value for money?
- How are we making best use of the homes and property we own to meet the objectives of tenants, leaseholders and the business?
- How much does it cost us to provide services, how do these costs look given the quality of service we provide and what is our long-term approach to our overall running costs?
- How have we reduced the costs of service delivery over the past year and what are our plans for next year and beyond?
- How well are we complying with the Homes & Community Agency's (HCA) Regulatory Standard on Value for Money for 2013-14?

Do we have a robust approach to value for money?

- Our 5-year Corporate Strategy includes 24 specific actions on value for money, of which 15 have been completed and a further 4 will be completed in 2014-15;
- We have revised our Value for Money Strategy (see appendix 1) and developed an action plan for 2014-15 and beyond;
- We have established a Board sub-group with specific responsibility for monitoring progress against the plan and to support and challenge staff on the delivery of value for money;
- Performance monitoring reports are provided to the Board each quarter and are reviewed by our Tenant and Leaseholder Committee. We have created a business improvement team with specific responsibility for leading change and reporting performance;

- A comprehensive performance monitoring framework has been developed, that includes a wide range of performance and satisfaction measures;

- A Programme Board ensures we focus on improvement projects that deliver our strategic priorities and value for money;

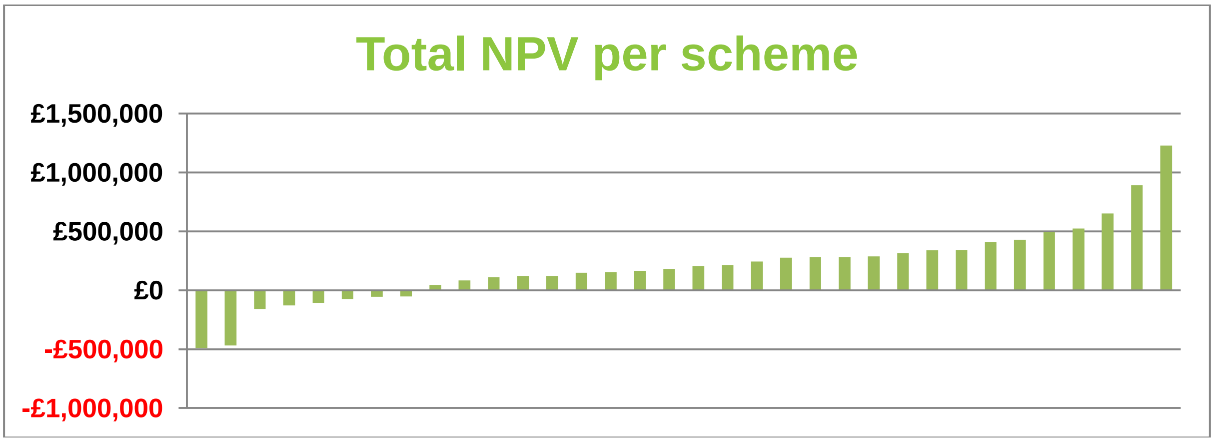
- Our monitoring will be further developed to include a value for money register that records savings as they are achieved throughout the year;

How are we making best use of the homes and property we own to meet the objectives of tenants, leaseholders and the business?

Our primary objective in our first five years is to deliver the promises made to tenants pre-transfer. However, this does not mean that we should invest in homes that are not financially viable or sustainable. The first requirement is to understand the homes and property we own. We need to know what condition they are in, how much it will cost to bring them to the standard promised to tenants, how much it will then cost to manage and maintain them and whether the homes are places people want to live. In 2012-13 we carried out a condition survey of every one of our homes. This has provided a net present value (NPV) for each of our sheltered schemes, general needs blocks of flats and individual houses.

In 2013-14 we have been using this information to reconsider decisions on where to invest. We have invested £14.5 million in tenants' homes during the year, but we have also identified properties where such investment is not value for money. By investing appropriately and planning to change the use of or to dispose of homes with a negative NPV, the value of our properties has increased by £14.1 million during the year, despite losing 46 homes through right to buy (RTB) sales and 136 homes through the planned closure of six sheltered housing schemes. This will enable us to secure additional funding for developing homes to replace those lost through RTB sales and disposal.

Sheltered housing:
We have 34 sheltered housing schemes providing 1,618 homes. Of these, 80 are empty bedsits. A review of short-term and long-term demand for these homes and their suitability as sheltered schemes was combined with the NPV calculations to provide an assessment of their long-term sustainability and value. The graph below shows the outcome of this analysis.



Source: Savills stock survey 2012 – sheltered housing scheme total NPV by scheme

This NPV data was then combined with an assessment of the long-term sustainability of each scheme, considering current demand for the homes and the future suitability as a sheltered scheme. This is represented in appendix 1. Those schemes in the lower left quadrant have all been assessed for alternative uses.

Extensive consultation (over 50 meetings) with tenants at all 34 schemes has taken place to explain the issues that the Board has had to consider and so manage the potential reputational costs associated with such decisions. The result is that the Board decided in December 2013 that 7 schemes, consisting of 188 homes, would not continue as sheltered housing. Six of these schemes are to close and they had a combined negative NPV of £367,000 (that means that they would cost more money to run than the income received from the rents). Tenants affected are being offered new homes and are being re-housed during 2014-15. 52 of the homes are being converted to general needs housing. Options for the remaining properties are being evaluated to ensure the best use of resources. Options include providing alternative tenures, redevelopment of new homes on the same site or sale and reinvestment in additional new homes elsewhere in Wycombe District.

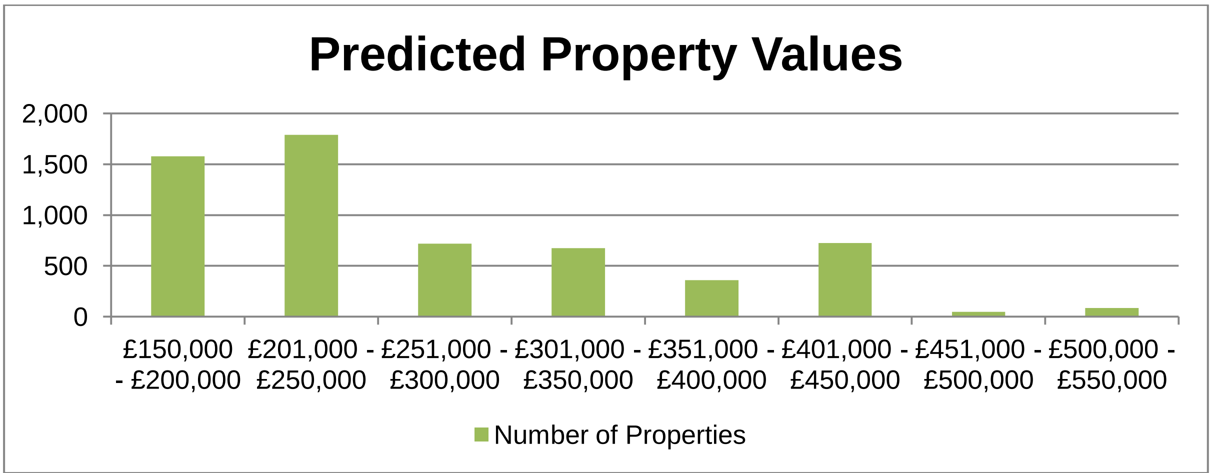
Within the schemes being retained as sheltered housing there are a further 84 bedsits from 11 schemes, of which 42 are empty. The majority of these 42 have been empty since the transfer of homes from the Council in December 2011. In 2014-15 there will be a programme to convert the majority of these into flats, providing lettable sustainable homes.

The remaining sheltered homes are being invested in to bring them up to the promised Red Kite Standard. The sustainability and financial viability of schemes will continue to be kept under review.

Red Kite Community Housing

Castlefield estate regeneration scheme:
The transfer promises included the regeneration of the eight blocks of flats (known as the “Star blocks”) on the Castlefield estate. Financial appraisal has confirmed that the most cost-effective option is to demolish the flats and redevelop the site. Local tenants and leaseholders agree with this option. In assessing the NPV information obtained from the stock condition survey, it has been identified that an adjoining block of flats has a negative NPV of £127,942. These properties have been included within the initial planning of the regeneration scheme for the area in order to allow better use of the site and to allow more new homes to be developed than originally expected.

General needs housing:
We are using the comprehensive stock condition survey data to inform our delivery of the promised improvements to tenants’ homes and have a full programme of works published covering the next 3 years. We still need to evaluate the financial viability of individual general needs homes and introduce processes that will ensure we invest to deliver the best outcomes for both communities and value for money. However, we have restructured our staff teams and placed responsibility for empty homes into our “Business Pod” and introduced a comprehensive asset management database. This means that when homes become empty their long-term value will be assessed using demand data, NPV data and estimated market vales (see graph below). This is not yet in place, but is a plan for 2014-15.



Source: Savills stock survey 2012 – indicative individual property values

Energy efficiency:
We have 160 homes of a non-traditional construction type (“Wimpy No-Fines”). The thermal efficiency of these homes is being improved with support of a £198,000 energy company obligation grant accessed through Keepmoat who are an approved Green Deal Provider. It is anticipated that this will reduce annual fuel bills for tenants by £180 to £270 per annum, depending on the type of property. By 31 March 2014, 8 of these homes had been improved.

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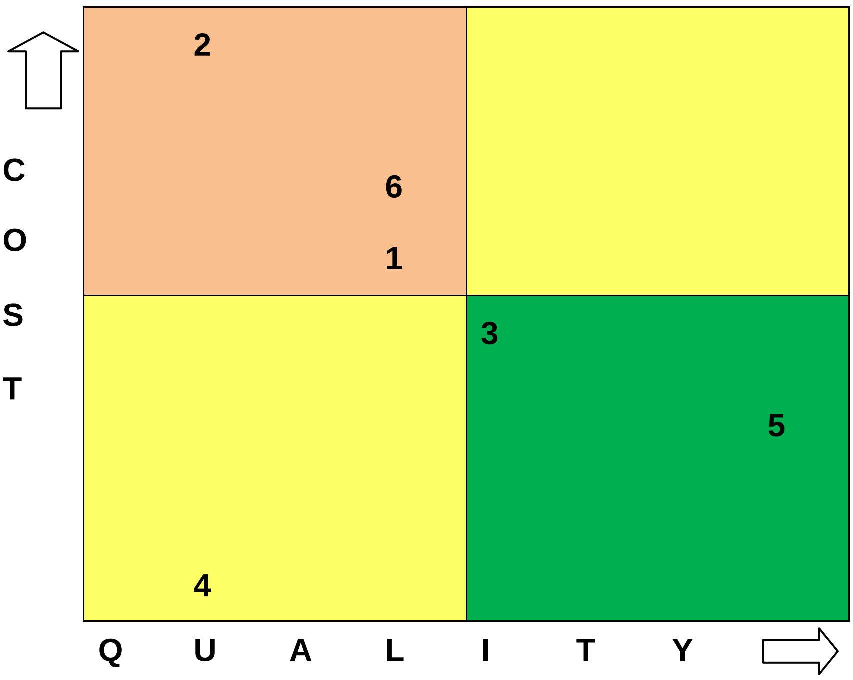
Other property and value for money considerations:
We do not own any property outside the Wycombe District. The need for rationalisation of stock that is distant from our core business base does not apply. However, we do own small undeveloped land sites and 1,500 garages, of which 40% are not let. We have employed an additional member of staff to review our use of these assets so that we can either bring them back into use or identify opportunities for future development of new homes. We anticipate this investment having a payback period of three years. We are making delivery of our transfer promises our first priority and do not expect to undertake significant redevelopment of these sites in the next three years. This time will be spent in preparatory work so that we are able to move ahead with developments when the time is right.

How much does it cost us to provide services, how do these costs look given the quality of service we provide and what is our long-term approach to our overall running costs?

We collect and analyse our own data on the cost of delivering services and on tenant satisfaction with those services. We also subscribe to the Housemark bench-marking club and this allows comparison with other providers and provides us with a base-line for our performance. The most recent published data is for 2013, which was our first year of operation, and our designated Housemark peer group compares us with 31 other housing providers. When the 2013 Housemark cost data is evaluated alongside the 2013 quality of service we can see where we perform well and where we need to improve.



AREAS OF SERVICE

1 Response repairs

2 Void repairs

3 Arrears management

4 Lettings management

5 Anti social behaviour management

6 Estate services

Source: Housemark benchmarking report 2013

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Excellent services for you and your community

In summary, this suggests that there are areas that we deliver:

- high quality outcomes to tenants at below average cost (e.g. anti-social behaviour management);
- low cost services, but without achieving the quality of service tenants desire (e.g. lettings management);
- low quality services but at a high cost (e.g. void repairs), and
- services that are about average for our peer group (e.g. arrears management, response repairs and estate services).

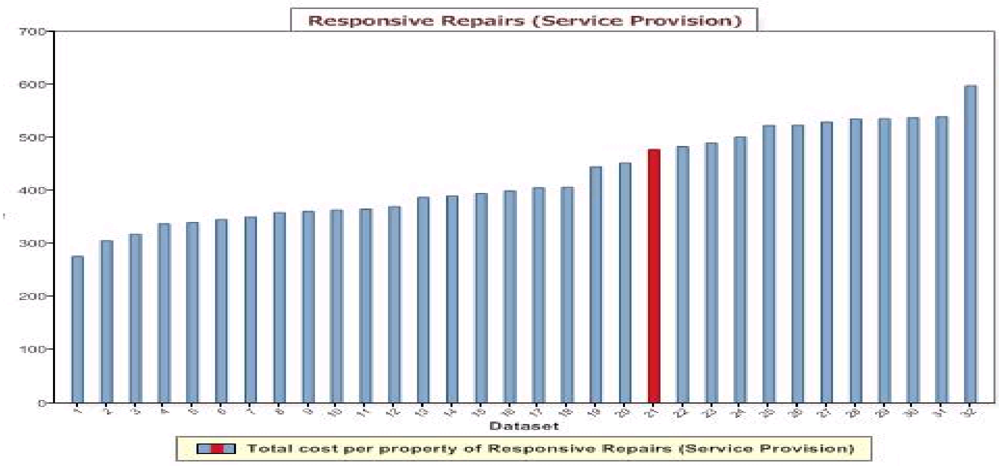
We have very limited data with which to show trends over time, with the Housemark data for 2013-14 not yet being available. The following table shows where we spent resources and how much each property has cost to manage over the period.

	Cost per property		**Peer group ranking**	
	2013-14	**2012-13**	**2013-14 (provisional: our 2013-14 costs ranked against the peer group costs for 2012-13)**	**2012-13**
	£	£		
Routine repairs	407	473	19	21
Void repairs	303	361	31	31
Housing management	179	199	2	3
Estate services	252	280	26	28
Overheads	555	518	24	20

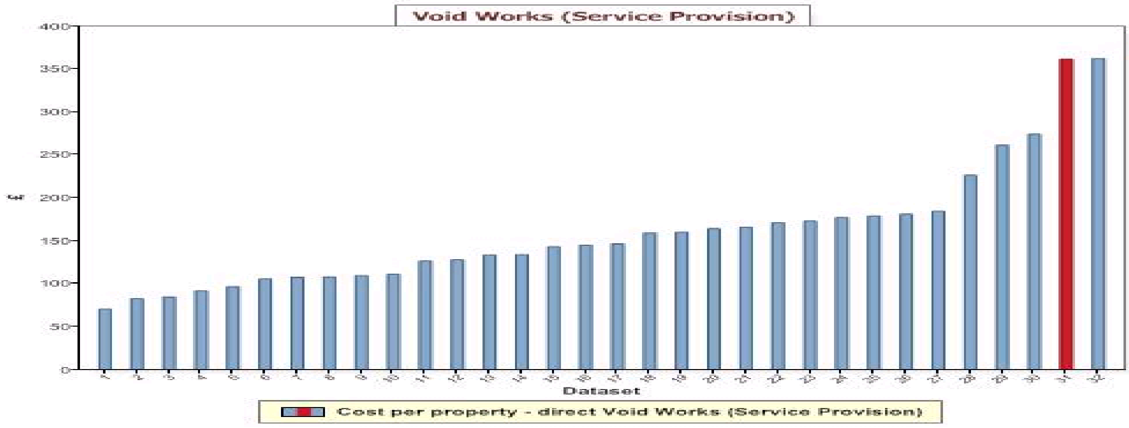
Source: Housemark benchmarking report 2013 and Association data 2014

These core areas of service are considered in more detail below.

Repairs and Voids
As at March 2013, we were a relatively expensive provider of repairs and voids works. In part this was because we were still operating under contracts transferred from the Council. This was not reflected in higher performance, with tenant satisfaction with repairs, void re-let times and response repair times all being in the bottom quartile of the peer group.

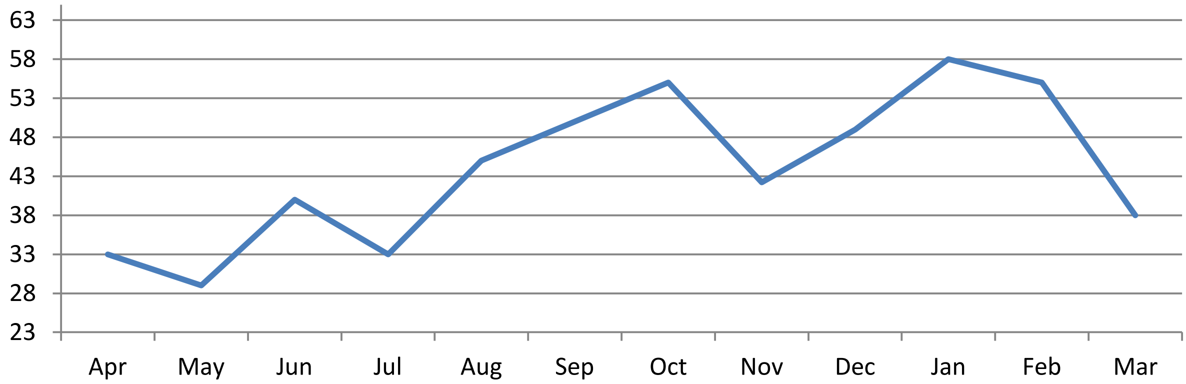


Source: Housemark benchmarking report 2013 – responsive repair costs per property



Source: Housemark benchmarking report 2013 – void repair costs per property

During 2013-14 the performance for turning empty properties into homes has declined up to the last quarter. The following graph demonstrates the trend in average number of days taken to re-let a void property.



Source: Association data – void re-let times in days during 2013-14

The following table demonstrates how far a journey we need to travel to re-let empty homes more quickly when compared to the Housemark peer group.

Upper Quartile	Median Quartile	Lower Quartile
21	24	29

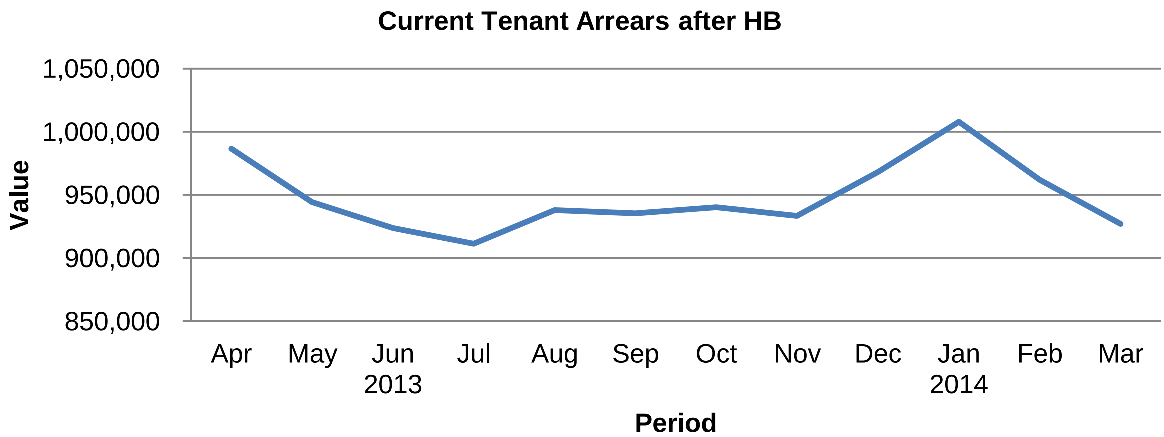
During 2013-14 we re-procured the response and void repairs contract, a process led by the tenants. This resulted in a reduced cost per property as detailed above, but not the desired improvement in quality of service. As a consequence, we have parted company with the contractor and will be retendering the contract again in 2014-15. In the interim, we have appointed a contractor who is working closely with us on our review of void management processes. We are currently conducting an end-to-end systems review of our void process with the intention of raising customer satisfaction, reducing the void re-let time and reducing costs. In 2014 the average re-let time was 44 days (2013: 38 days) and we expect substantial improvement in 2014-15. We have brought staff together into one team to improve the management of the void properties and invested in an extra member of staff.

Housing Management
Our housing management costs per property are low compared with our peer group. During 2014 we further reduced the cost per property to £179.61 per annum. The major component of housing management costs is our staff. Our proximity to London means that we incur higher average salaries compared with many our peer group, but employ lower numbers of staff per property compared with our peers.

Source: Housemark benchmarking report 2013 – housing management costs per property

Source: Housemark benchmarking report 2013 – number of housing management employees per 1,000 properties

The quality of the service, however, may be seen as inconsistent: anti-social behaviour is top quartile, whereas arrears levels are higher than average.



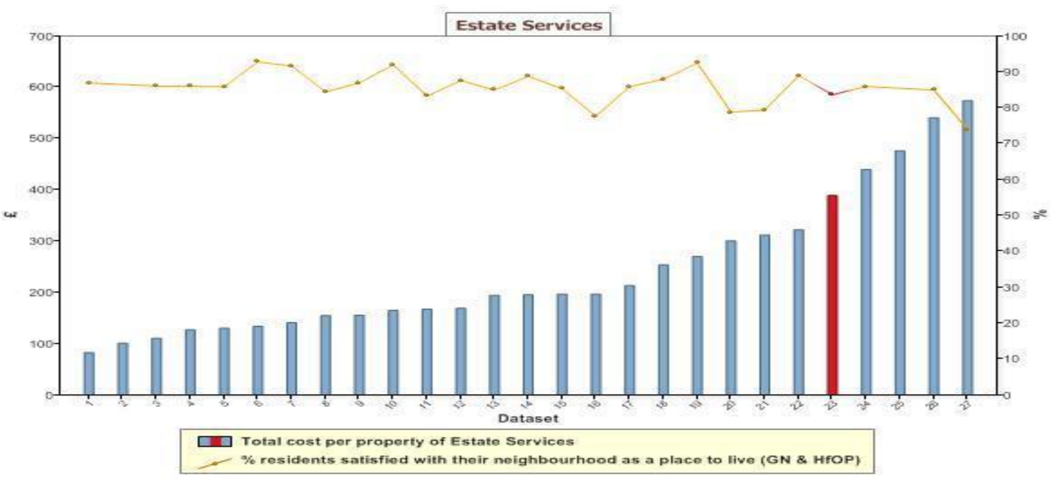
Source: Association data – arrears excluding housing benefit, in £'000s, during 2013-14

Source: Housemark benchmarking report 2013 – rent arrears as a percentage of rent due

In 2014, we have invested in additional advice and support for tenants to prevent arrears rising (see graph above), whilst not increasing our costs, and enabled 33 tenants to move to smaller and more affordable homes. It is reported that many housing providers have experienced increased arrears due to welfare benefit reform and the economic situation.

We have sought to keep costs of tenancy management low by using Home Swapper, which can be a quicker and cheaper way for tenants to move. In 2013-14 we supported 61 mutual exchanges through Home Swapper and saved over £100,000 in void costs. In 2014 we have pioneered a "tenancy awareness" course designed to give a final opportunity to tenants to sustain their tenancy rather than face eviction.

Estate Services

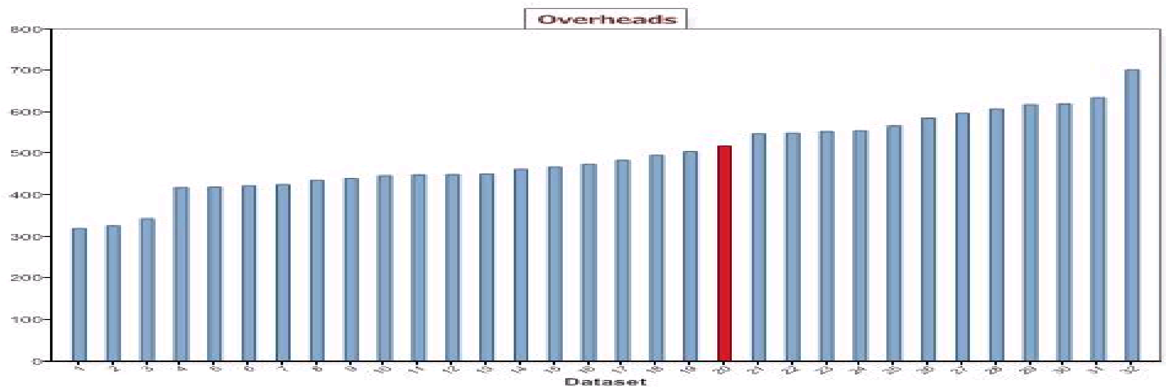


Source: Housemark benchmarking report 2013 – estate service costs per property and tenant satisfaction with estate services

Satisfaction with estate services is consistent with our peer group, but our costs are higher than average. During 2013-14 we re-procured the grounds maintenance contract with a saving of £156,000 per annum, representing 14% of the total estate service costs, and a saving of £80,000 per annum by delivering the previous cleaning contract in a more efficient way.

Our current review of how we deliver estate management cleaning services has resulted in a decision to move away from a mix of in-house staff and contractors to a fully out-sourced delivery of the service from April 2015. Retendering of the cleaning contract is underway. This will deliver better value for tenants and leaseholders and reduce the risks of challenge through Leasehold Valuation Tribunals.

Overhead costs
These include offices, IT and all corporate services (finance, human resources etc.).



Source: Housemark benchmarking report 2013 – overhead costs per property

The comparative data indicates that we had average overhead costs in 2012-13. The aspects of the costs where our costs were highest were office accommodation and IT services. In February 2013 we moved to new offices which reduced our office costs by £10 per square foot per foot and significantly improved the quality of accommodation for tenants and staff. In 2013-14 we developed a new IT strategy to improve the quality of IT services. The first stage of implementing the strategy is re-procuring the out-sourced network and infrastructure management contract in 2014-15.

Funding costs
Our average funding costs are relatively high. In 2013-14 we paid £3,957,000 in interest on our borrowings, including the cost of having unutilised funding available.

Market interest rates are currently very low. However, we have assessed the risk that rising rates could present to our ability to deliver the promises made to tenants and decided that fixed interest rates provide greater risk mitigation. In 2013-14, all of our loans were on interest rates fixed for between 2 and 12 years. In addition, we entered into our loan agreements in 2011 at a time when lenders were charging significantly higher margins than before 2008. This means that our average cost of borrowing is 5%, which is higher than many other housing associations that have adopted a mix of fixed and variable interest rates and which have older loan agreements.

We receive independent expert advice on our funding costs. We will not be changing our overall approach in 2014-15, though we will increase our proportion of variable rate debt over the following years so that our average cost of borrowing will reduce.

Social value
We have not selected an appropriate approach to the calculation of the "social value" of the work that we do. However, there are many aspects of our service delivery that contributes to the well-being of our tenants and communities that are not reflected in the cost data. These include:

- We set aside £100,000 each year to invest in local community initiatives, including:
    - Lane End Scout Group (£7,500);
    - Widmer End United Junior Football Club (£5,000);
    - Movers and Shakers exercise groups (£5,000);
    - Wycombe Women's Aid (£2,600); and
    - The Lady Ryder Memorial Garden (£5,000).

- We are a key partner in the Lane End Community Enterprise, where we have invested in a community building empowerment project to enable a team to develop and drive forward new facilities on the tired playing fields at Lane End. We have invested £10,000, alongside matched funding of £10,000 from the Parish Council and £10,000 from Lane End Area Forum;

- Tenants determine the use of £400,000 each year to invest in estate and neighbourhood environment improvement schemes;

- We have allocated 10% of our major improvement budget to local Small and Medium Enterprises (SMEs);

Red Kite Community Housing

- Working with our contractors we have helped to create 3 new apprenticeships;

- Our investment in thermal efficiency improvements for our Wimpey No Fines houses has reduced annual fuel bills for tenants by between £180 and £270 per annum. Private owners of neighbouring homes are being offered the opportunity to have the thermal efficiency works done to their homes at the same cost as it is for us;

- We installed 21 ground source heat pumps for homes without a gas supply in 2013-14, saving up to £785 per annum in heating costs for tenants. We plan to install more in 2014-15;

- We have facilitated 33 tenants to move to smaller, more affordable homes in response to welfare reform changes;

- We are installing carbon monoxide detectors into all our homes;

- We run training courses for tenants to enhance well-being and employment opportunities (the equivalent of 49 days were delivered in 2013-14) and in 2014-15 we plan to develop more volunteering opportunities that will both support service improvements and provide valuable work experience;

How have we reduced the costs of service delivery over the past year and what are our plans for next year and beyond?

Overall, we have reduced net costs by £1,014,000 during 2013-14, equivalent to 3% of our annual turnover. We are also taking action that will reduce costs by a further 3.5% over the next 4 years.

We have done this by:

- Reviewing the way services are delivered, through service reviews and decisions on out-sourcing;
- Re-procuring major contracts;
- Reviewing the recovery of costs from customers;

	£'000s
Operating cost efficiency gains	438
Out-sourcing of the community alarm service	174
Response and void maintenance contract re-procurement	300
Improved charging and recovery of leaseholder service costs	102
TOTAL	**1,014**

A simple way that we have been delivering greater value for customers is just not to incur expenditure that we do not need to. Budgets approved in 2012-13, our first full year of operation, were comprehensively reviewed to assess whether the proposed expenditure was necessary. As a result, over a range of budget headings, we have reduced recurring budgeted spend by £564,000 per annum in addition to the savings in the table above.

Last year we stated in our financial statements that we anticipated a £300,000 per annum saving on the response repairs contract, that we would deliver £300,000 of other operating cost efficiency gains and that we were reviewing the community alarm service and our leaseholder service cost recovery approach. We have successfully delivered on all these plans.

For 2014-15 we have approved a budget that allows re-investment of savings to improve services. Specifically we are investing in more customer service staff, the delivery of the transfer promises, IT resources and staff and volunteer development. However, we will continue to achieve efficiency savings, ensuring that we reduce operating costs over the next 4 years.

Reviewing the way services are delivered
We are approaching this in two ways. Firstly we are considering whether to deliver a service in-house or through a third party. Secondly, we have begun a review of our in-house processes using a "systems thinking" methodology to deliver more value to our customers as efficiently as possible.

During 2013-14 we reviewed the delivery of the 24/7 community alarm service transferred from the Council. This was being delivered in-house, but at a loss of £174,000 per annum. In February 2014 the service was out-sourced to a third party meaning that the income we receive covers the cost of service delivery.

In 2014-15 we are reviewing how our sheltered housing support services are delivered. These are currently delivered in-house, but at a loss of £230,000 per annum, partly due to recurring cuts in the Supporting People funding we receive.

We have also reviewed the delivery of our estate cleaning services. These are currently delivered using a mix of in-house and contract staff. The tendering process is focused on how services may be delivered to give high quality at lower cost.

We operate shared service contracts with the Wycombe District Council for tree maintenance and occupational therapy services.

The continuing implementation of systems thinking reviews across the business will deliver further savings in the future.

We have also reviewed the recovery of costs of services provided to leaseholders. In 2013-14 charges we collected from leaseholders covered the cost of providing the services. The benefit to the business in 2013/14 was £70,000, a cost that would not have been recovered from leaseholders if the review was not carried out. In 2014-15 we will continue to review fees and charges we make to tenants and leaseholders for other services not covered by rents.

Re-procuring major contracts
As well as the procurement of out-sourced contracts, other major contracts have been re-procured in the year:

- response repair contract was re-tendered in July 2013 at a saving of £300,000 per annum (7.5% of the original contract cost).

- grounds maintenance service contracts have been re-procured at a saving of £156,000 per annum;

- waste cleansing contract was delivered in a more effective manner following the contract arrangements that transferred from Wycombe coming to an end, saving of £80,000per annum;

How well are we complying with the Homes & Community Agency's (HCA) Regulatory Standard on Value for Money for 2013-14?

The full text of the HCA's Value for Money Standard can be accessed here:
www.homesandcommunities.co.uk/sites/default/files/our-work/regfwk-2012.pdf

So how have we delivered? There are many positive elements:

- We have a robust approach to value for money, with a strategic approach that will ensure that we continue to deliver better outcomes for customers at lower costs;

- We have delivered savings of £1,014,000 over the past year, equivalent to 3% of turnover, and made service improvements;

- We have plans for further improvements of £1,100,000 built into our business plan over the next 4 years;

- We have identified six sheltered housing schemes that do not meet customer needs nor deliver a return on investment. We will decide on alternative uses for these schemes during 2014-15 and plan to re-invest in more suitable housing;

Areas that we want to improve or that we have not yet developed include:

- Tenant satisfaction levels with the overall service are not as high as we would want. They are 70.7% for 2013-14;

- Our performance on void management needs to improve. This is an area we are currently focusing on;

- We need to understand the drivers of the cost of service delivery better. Our system reviews will ensure we focus on customer value, efficient processes and therefore lower costs;

- An appropriate approach to measuring the social value of what we do has not yet been selected;

This self-assessment by the Board is summarised in the annual Financial Statements, which are also available on our website. Information on value for money is shown in a transparent and accessible format within the annual report developed by tenants, which is also on our website.

Overall, there is sufficient evidence of a robust approach to value for money, avoidance of waste and of achieved and planned outcomes that the Board concludes that we comply with the requirements of the Value for Money Standard.