Value for money

The Board and the whole organisation are focussed on delivering value for money. The concept of value for money is a fundamental business driver as well as a regulatory expectation. The following is JJH's Value for Money self-assessment.

Introduction

The Homes and Community Agency (HCA) has outlined what it expects registered providers (RPs) to deliver in relation to Value for Money (VfM) in its "VfM Standard". In summary those expectations are that RPs shall:

- Understand the returns from their assets
- Understand the costs of delivering services and how those costs compare to other RP's
- Identify which VfM savings have been made and will be made

In addition to the above there is now more of a focus on the delivery costs per unit managed by RP's. This year's self-assessment will provide more information on the drivers for the costs per unit being where they are, along with the targets for cost savings that have been reflected in the latest VfM action plan and Business Plan.

Executive Overview

JJH defines VfM as delivering the best homes and services possible within the resources available, achieving the best combination of cost and quality to fulfil the requirements of residents and deliver on its corporate vision. We consider ourselves Supported Housing specialists, which inevitably means that housing management costs for those residents are higher than for general needs (average of £1,800 per unit according to HCA data) but the Board is constantly challenging itself to ensure that JJH makes the best use of its resources.

The Board has a clear strategy to control costs, and ensure that services are delivered as efficiently as possible. The VfM action plan is designed to ensure that JJH makes the most efficient use of its available resources, in the light of the annual rent reduction and other welfare reform pressures, in order that it is able to invest in new and existing homes, and provide a quality service to its residents.

The target for VfM savings for the 2 years to March 2018 is £485k, and £265k has been achieved to date. The VfM action plan is in place to achieve these targeted savings. The Board's drive to reduce costs further and to increase income is a strong theme within the Corporate Strategy to enable JJH to develop more homes whilst at the same time driving down costs for its residents. The implementation of Lean Foundation is engineering a cultural shift at every level of the organisation. It is a formal mechanism for identifying, measuring and eliminating waste in key processes and has been valuable in the organisation's drive to be more efficient.

Corporate Strategy Review

The Trust's treasury advisors facilitated a session in January to assess the financial capacity of the organisation in the light of the current and assumed rent regime and the efficiencies that would be realised as a result of the VfM action plan. The Board agreed to utilise the available capacity to facilitate the delivery of three key Corporate Objectives for the year 2017/18. These are:-

1. **Review the longevity of bedsits in the portfolio**. JJH has initiated a programme to ensure that its existing assets remain of a high quality and standard for current and future customers. This investment activity will include the development of key partnerships that understand and add value to JJH's vision; supporting the delivery of new homes and efficient repairs and maintenance services JJH have also undertaken Options Appraisals on properties that are below the Board's threshold of £25k for Net Present Value or are outliers in geographical terms. This has resulted in 2 schemes in Southport, Merseyside and 1 in North Wales being sold to other providers, with a view to reinvesting the proceeds in delivering new homes and refurbishing schemes with bedsits to ensure that they are fit for the future (as part of the JJH's Active Asset Management Strategy). JJH currently has 777 bedsits in ownership which is 18% of the 4,300 lettable homes we own. These bedsits, which are within Sheltered Housing schemes are, in the main, less popular with customers and are in need of investment to ensure they have a sustainable demand.

2. **Development of new homes**. JJH's development and growth strategy is progressing well, boosted by the approval of its bid to the HCA for grant for building 127 new homes. It also grew its stock numbers in 2016/17 for the first time since 2014 with the completion of the purchase of 19 new properties taking advantage of a Section 106 opportunity in Stockport. JJH's new Business Plan shows greater aspirations in this area as it includes the assumption that it will be building a total of 467 homes over the next 5 years. The Business Plan includes assumptions for the development of the properties that are included in the approved HCA bid, along with non-specific aspirational developments yet to be identified.

3. **Growth of the Astraline business.** Astraline was launched to provide customer-led, flexible safety services through its call monitoring centre. Its vision is to be a leading specialist provider of caring, responsive and reliable services, providing reassurance to individuals, families and organisations, in order to help people maintain their independence by 'Living Longer, Living Better'. Astraline have a number of new products that are being trialled which are designed to drive efficiencies for service users (including JJH). Astraline are also proactive in pursuing potential acquisition opportunities. The Board's aspiration is to run a profitable and growing business where the generation of financial surplus will enable Astraline and JJH deliver more for our customers – more services and more homes.

astraline
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Costs per unit

In 2015, the Board set a target of saving £1.75m of annual management costs within 5 years. The accounts for the year 2016/17 show a surplus of £2.4m which, when compared to the surplus of £0.7m in 2013/14, evidences annual cost savings £1.6m. This is ahead of the target saving of £1.1m to the year 2017/18. JJH compares its operational costs to other organisations through the Housemark submissions and returns. The costs per unit in operational areas are shown below.

Management Costs

The management costs for 2016/17 include the significant cost of restructuring and rationalising the North East operational area and other one-off costs relating to the raising of new loans and setting up a Security Trustee for unencumbered properties. The resultant Management Cost per unit is £1,283

The Management Costs per unit for the next 5 years are:

	2018/19	2019/20	2020/21	2021/22	2022/23
Management Cost per unit	£1,060	£927	£928	£918	£947

The above compare to the sector average of £1034 per unit. The cost per unit for 2018/19, excluding the costs of disposal of the Catterick House scheme is £966. This equates to the 'median' cost per unit as per the letter from the HCA to the Chair in July 2016. This shows the effectiveness of the cost saving measures to mitigate the rent reduction. There is a further £180k of management cost savings identified as part of the VfM strategy in the year. The cost reflects the fact that JJH are committed to maintain a staff presence at schemes as this is what is important to our residents.

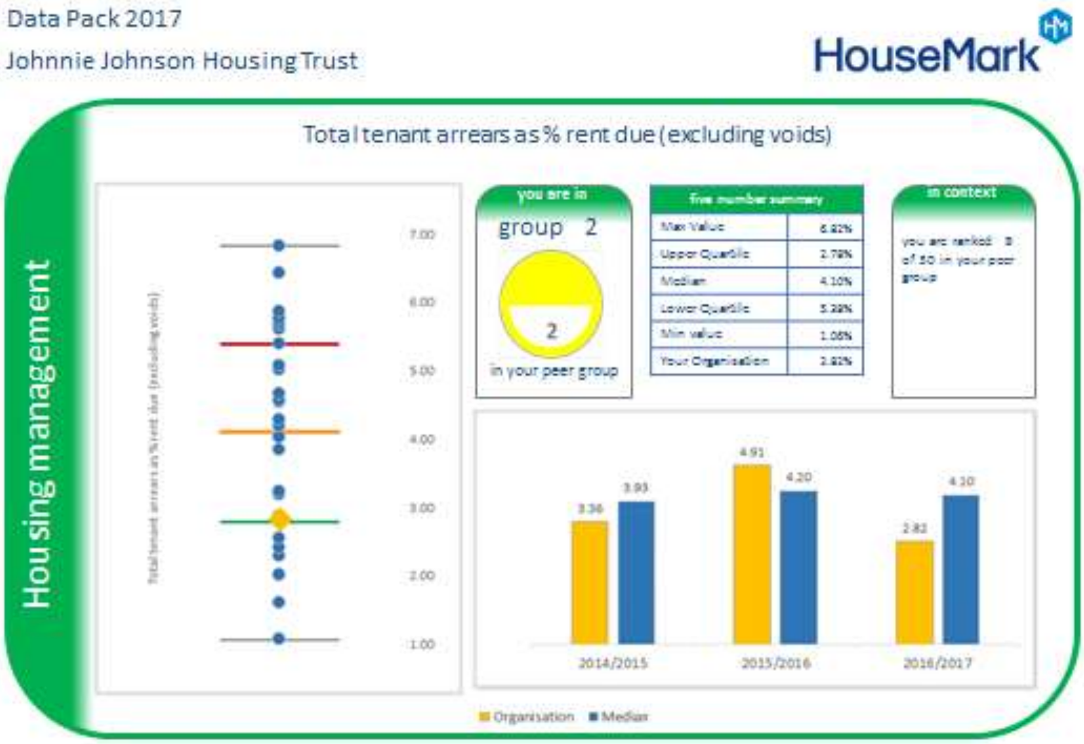
The management costs in the Business Plan for 2017/18 show an annual cost saving £1.6m which is ahead of the target saving of £1.1m. The total annual savings target was £1.75m over 5 years and this is expected to be achieved within 3 years.

Arrears Collection

The new Independent Living Co-ordinator (ILC) service is valued by our residents for the personal contact that it provides. There is also a greater emphasis on arrears collection by the ILC's which has resulted in an improvement to the levels of outstanding debt. Rent Arrears have been a huge success story for 2016/17. There has been a significant gain in the amount of rent arrears collected during this year. Attributed to the success is the responsibility given to Neighbourhood Housing Officers for their zone and the inclusion of Independent. Living Coordinators ("ILC's") into the collection cycle. The commencement of the 'Call to Collect' turned customers' accounts from 4 weeks in arrears to 4 weeks in credit, as per the Tenancy Agreement, in many cases. This has been a real 'one team' effort and the improvement of collection performance is also displayed through the amount of rent collected as a % of rent owed, finishing the year on 99.26%, increasing performance this year by 0.81%, in monetary value a further £176k in rent collected than 2015/16.

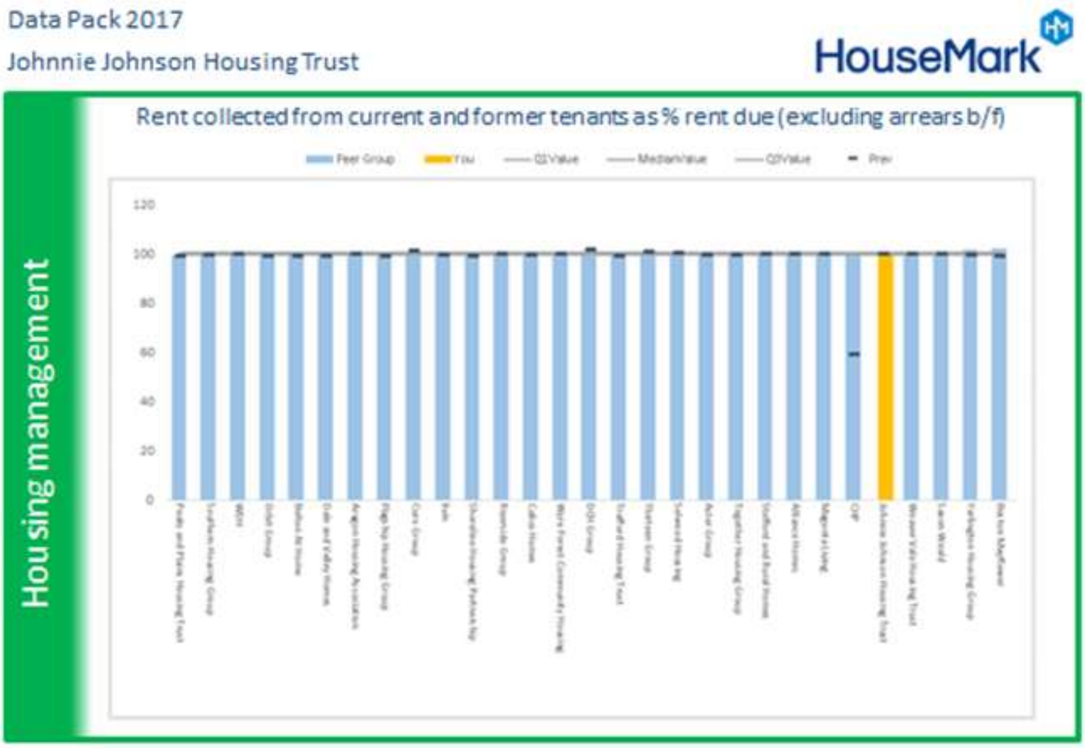
The chart below (Table1) shows that JJH's arrears, at 2.82% of the annual rent debit, are very close to those of the best performing organisations in JJH's peer group as recoded by Housemark (ranked in the Upper Quartile).

Table1



The chart below (Table 2) shows that JJH has the fourth best performance of its peer group for collection of rent as a percentage of rent due for the year. There will be a greater focus on arrears collection over the next year as JJH faces the challenges of the introduction of Universal Credit to our areas of operation.

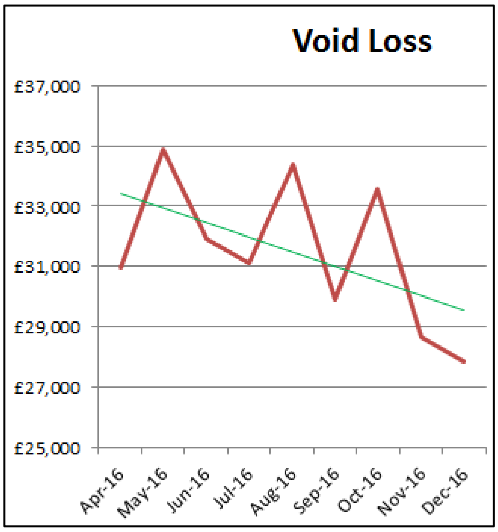
Table 2

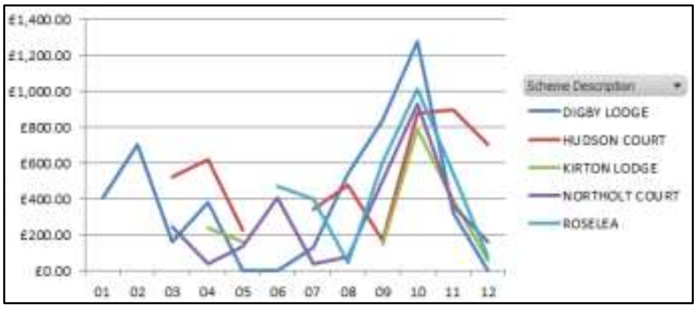


Voids

Month by month void loss overall has been on a downward trend since the Lean Implementation Plan has begun. There is expected to be an annual reduction in void loss of £100k per year as a result of the improvements to the voids process that have been identified by the Lean Foundation work in this area. A Void Management application has now been developed along with a more comprehensive Void Tracker that incorporates this and ActiveH data to enable everyone to see the overall state of play for all active voids.

At the same time, Business Information reports that assess average times between any two stages (as well as enabling Regional Managers to ensure that their staff were actively using it) were developed from the Void management application.





The above month by month change shows the effects of the focus at a regional level on voids. It should be noted from the 2nd graph that the void processes in place reacted to the spike within a month. Over the year as a whole, the percentage of our stock that was void dropped by a fifth (from 1.81% to 1.45%).

The graph below here shows (in red) the standard average letting time and (in blue) the average age of open voids, which dropped by 40 days as the year progressed. At the beginning of 2016/17 nearly 2/3s of open voids were over 80 days old; by the beginning of 2017/18 this had dropped to 1/3. This decrease in how long, on average, a void remains void will have an eventual commensurate effect on total rent loss, but this has yet to be seen on our lagging Void Loss measure.

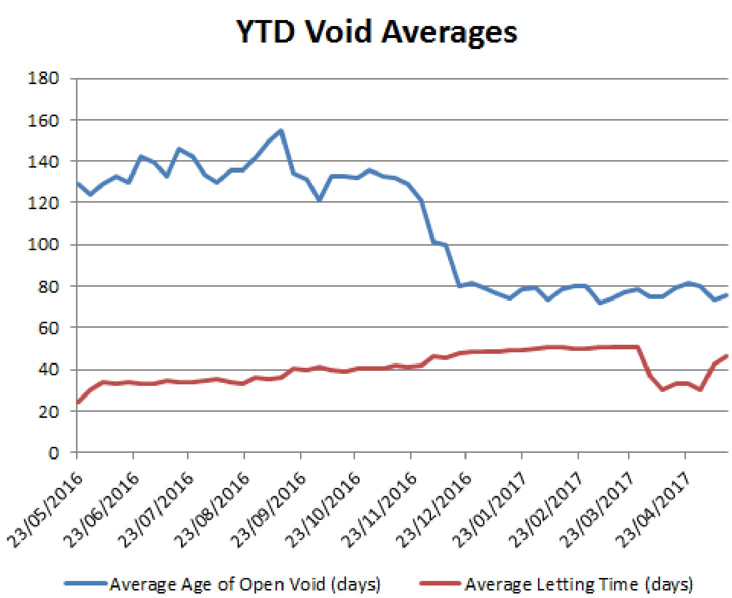
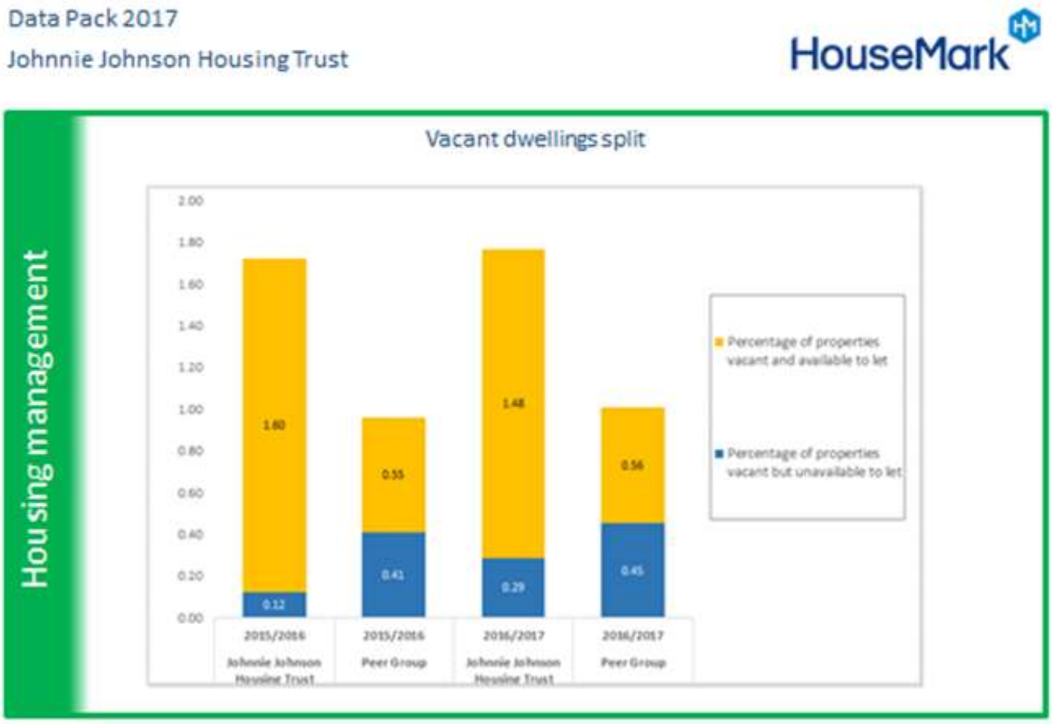


Table 4 (below) shows the comparison with JJH's peer group in relation to performance on vacant dwellings. It shows that JJH has a higher percentage of properties that are vacant and available for letting compared to others, and a smaller percentage of properties that are vacant and unavailable for letting as others. This reflects the fact that the bedsits in some areas are more difficult to let and this will be addressed as one of the Board's three priorities for 2017/18.

Table 4



Service Costs

JJH's Scrutiny Panel of residents carried out a full review of Service Charges in 2016/17. The scope of the review was to ensure there was:

- Information – to provide transparency, clarity and consistency of charges to customers
- Internal and External challenge of good practice
- Clarity around depreciation – policy and information to customers
- Checking and controls to ensure accuracy and consistency of charges
- Enhanced communication and engagement with customers on service charges
- Future challenge and Audit

The recommendations of the panel, following the review, have now been incorporated into an action plan for JJH and will result in service costs reducing over time. The Board welcomes the involvement of the Scrutiny Panel in these key areas of operation and see them as a key contributor to the VfM action plan.

Service Costs for 2016/17 were £923 per unit, which represents a £840k reduction in the annual costs from the 2014/15 position. They have decreased as a result of the tendering of the cleaning and grounds maintenance service along with the restructure of the scheme managers into the Independent Living Co-ordinators' service. This cost per unit is above the 'Upper Quartile' average for the housing sector including general needs providers, and £345 per unit less than the average cost per unit of the 100 highest cost supported housing providers.

The £840k reduction has been achieved within 3 years and is ahead of the Board's five year target of £700k. There are further efficiencies to be realised in this area as a result of the recent Scrutiny Group review of service charges.

There has also been a great deal of analysis of service charges on a scheme by scheme basis to formulate plans to mitigate the effects of the proposed imposition of Local Housing Allowance caps. The potential effect of the imposition of the Local Housing Allowance ("LHA") caps would be to reduce the amount of service costs that could be recovered. The imposition of LHA caps for the Sheltered Housing Schemes could result in a maximum loss of £1.4 million of income per annum from the third year of the plan (if all residents were in receipt of full Housing Benefit). The current profile of residents (i.e. 50% on full HB) could, therefore, result in a loss of £0.7 million per annum. It is anticipated that the costs for those schemes that are affected will be reduced prior to the imposition of the caps. Detailed individually tailored strategies are currently being developed for each scheme on the Service Costs that will potentially be affected by the caps to ensure that the effect is minimised by reducing the services provided at the schemes.

There will be consultation with residents on the services that will be provided at the schemes to ensure they are affordable. The key contracts for cleaning and gardening services are currently under review and will be retendered in 2017/18. The Board's key objective in the 'Cost Effective' aims is to 'Drive down the costs for residents' and this includes Service Costs.

Maintenance Costs

JJH's repairs service is delivered through an external contractor and has 1 years of the contract to run. Performance in 2016/17 has been consistently good with "right first time" at 91%, 100% of emergency repairs completed on time, 99% of appointments made and kept and average responsive repair costs at £70 compared to the £80 target.

The maintenance costs for 2016/17 were £784 per unit compared to the sectors' lower quartile cost of £810 per unit. Major Repair's costs were £543 per unit compared to the lower quartile cost of £530 per unit. The Trust is currently exploring the opportunities for cost efficiencies through a joint (with another Registered Provider) procurement exercise for a new repairs contractor. Table 5 (below) shows that JJH's costs per property of responsive and void works were the lowest in its peer group.

Table 5

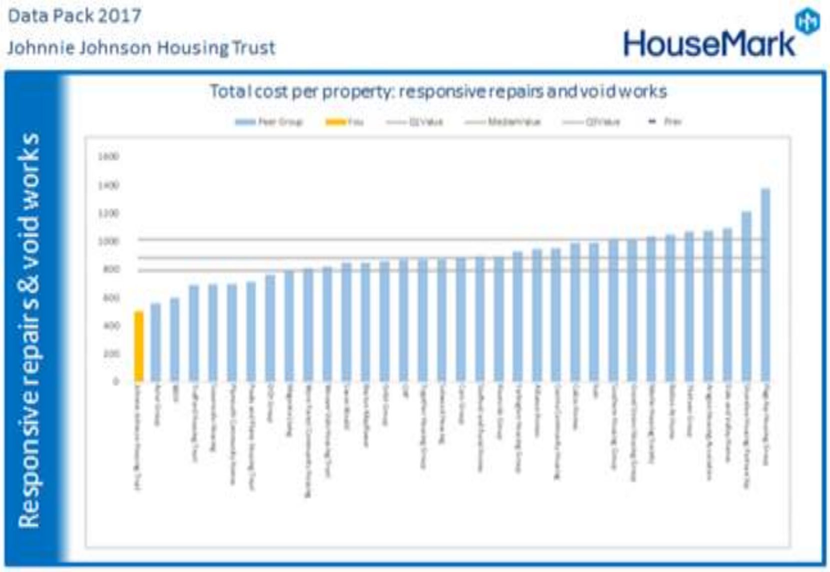
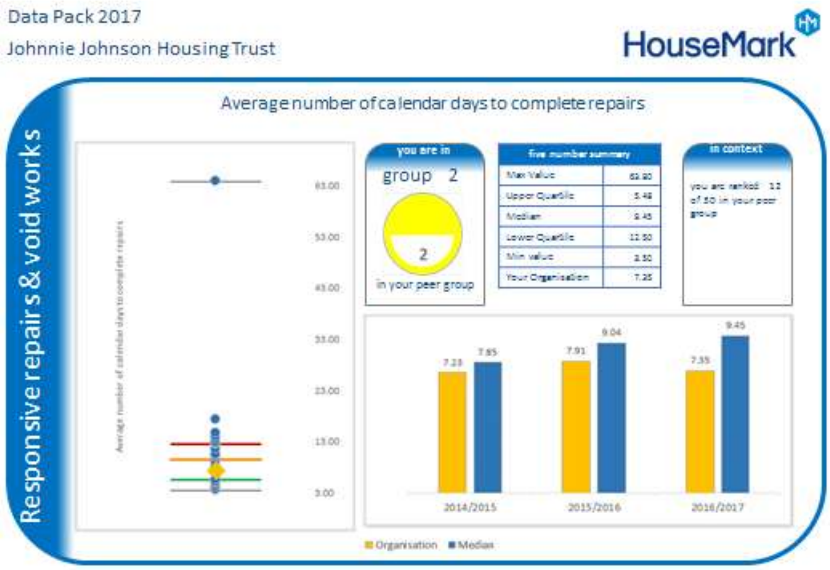


Table 6 (below) shows that the average time taken to complete repairs is 2.1 days less than its peer group.

Table 6



The Trust's Asset Management Strategy has been developed during 2016/17 to assess the future of schemes that are high cost or are outside the Trust's main operational areas. Two schemes in Southport have now been sold and there is a proposal to sell the Old Palace in North Wales. An Options Appraisal process is now underway for five identified schemes which will include:-

- A full review of the Net Present Value (NPV) calculations and the financial performance of each site
- A review of Stock condition and investment needs of each site
- Alignment to strategic areas of operation
- Market analysis of each site including supply and demand analysis
- Disposal / retention options
- Redevelopment / alternative solutions for each site

Proceeds from any property disposals will be re-invested as part of the Active Asset Management Strategy.

Treasury Costs

The loan portfolio is currently structured with 89.77% of its drawn debt on a fixed rate basis providing a high degree of certainty as to its future interest costs with an average cost of borrowing of 5.5%. The average debt per unit for the Trust is £15.2k, which compares to the sector average of £19.2k. The Trust will be seeking a new loan facility during 2017 in order to fund its' growth programme. VfM will be a key criterion in the selection of the new lender's offer.

Sector Scorecard

JJH has agreed to participate in the pilot for the social housing Sector Scorecard for Key Performance Information. The table below shows the results for the year 2016/17. The comments below the table relate to the equivalent numbers within it.

	Sector Scorecard	2016/17
1	Operating Margin	22.4%
2	Increase /(decrease) in Operating Margin	0%
3	EBITDA MRI	164%
4	New Units developed	19
5	Units developed as a % of units owned	0.00%
6	Gearing	43%
7	Investment in new housing for every £1 generated from operations	£ 0.47
8	Return on Capital Employed	4.8%
9	Occupancy	98.3%
10	Ratio of Responsive repairs to planned maintenance	29.0%
11	% Properties with a positive NPV	99.0%
12	Headline Social Housing cost per unit	£3,479
13	Rent Collected	99.3%
14	Overheads as a % of adjusted turnover	15.7%
15	Astraline Surplus	£27k
16	Astraline life critical services answered within 3 minutes	99.9%

i) The Operating Margin is low, at 22.4%, compared to RP's who have a larger proportion of General Needs stock. The cost saving targets that are included within the Business Plan result in an improvement to the Operating Margin over the next few years, despite the assumption that there will be rent reductions until 2020 and then CPI only increases to rents thereafter.

ii) The Operating Margin remained static compared to 2015/16 due to the "one-off' costs that were incurred during the year on staff restructure and office closure costs.

iii) The Earnings Before Interest, Tax, Depreciation and Amortisation -Major Repairs Included (EBITDA MRI) ratio is healthy at 164%. JJH does not have this as a covenant for any of its current loans. The latest Business Plan shows that this ratio is not expected to fall below 130% for the next 30 years.

iv) The 19 units relate to the Parklands Scheme which was developed in 2016/17. This was a Section 106 opportunity.

v) Units developed as percentage does not register

vi) Gearing is 43% , which compares to JJH's tightest lenders' covenant of 75%

vii) This increases to £4.31 by 2019

viii) 4.8% compares to 1.7% in 2014. This reflects the cost savings that have been achieved so far.

xv) This measure is unique for JJH and shows that Astraline has made a surplus for the first time.

2017/18 VfM Targets

The financial targets for savings in the next year are detailed below:

Service improvement

Action	Annual Savings
Asbestos Surveys	£55k
Divest of Out of Hours contracts	£130k
Consolidation of Bank Accounts	£2k
Marketing Team	£123k
Monarch Electricity Void loss	£6k
Reductions in void loss	£100k
Tenant Recharges to include Admin fee	£7k
Other Management Cost reductions – North East processes	£23k
Savings in Hub	£39k
Total for year	**£485k**

The targets for more cost savings for beyond 2018 are currently being developed. These will include significant savings for day to day repairs and the capital programme of works. They will be monitored by the Board on a regular basis.

The Board believes that it complies with all the requirements of the VfM standard and the self-assessment shows the actions it will take to ensure that it continues to do so.