# Value for Money

2015/16 self-assessment

## Appendix – Supporting information

**Contents** Page



# 01 Financial performance

Comparison of our actual costs against other organisations within the sector is important to us and our stakeholders, to measure the effectiveness of our VfM Strategy and its impact on our business decisions and our costs.

Our Board measure our financial performance against the VfM targets within our business plan and against benchmarking data provided by the HCA Global Accounts Report for traditional providers and HouseMark. We also compare our operating costs and performance against the peer group.

We are transparent in showing how we spend our income so that our stakeholders can be assured that we are investing to deliver our strategic plan and benefit our stock and services.


## Key financial ratios

Our total operating costs for 2015/16 were £109.8m of which [£2.8m] related to merger costs. This compares to £107.9m (updated for FRS102) in 2014/15 with related merger costs of £1.95m.

The following table shows our performance as Stonewater for 2015/16 and 2014/15. A consolidated position for the formerJephson and Raglan groups prior to merger is also shown for 2013/14 to present a three year picture.

In addition, due to the implementation of FRS102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, a UK GAAP value has been provided to allow comparison to prior years and the Global Accounts.

### Reasons for significant changes:

> Merger costs of £2.8m incurred in the year 2015/16 (2014/15: £1.9m) accounted for our management cost per unit increasing to £1,206 per unit. However, if this is removed from the calculation for 2015/16 and pre FRS102, our management cost per unit would be £967, and below the Global accounts equivalent for 2014/15.

> The amount of repairs undertaken varies year on year according to the requirements identified in stock condition surveys. Our total repairs cost per unit decreased to £831 per unit due to the reduction in component spend from £24m in 2014/15 to £16.4m in 2015/16. This arose in part from savings achieved and re-phasing of component replacement lifecycles.

**Key financial ratios**

| | Stonewater | | | | Global accounts | |
|---|---|---|---|---|---|---|
| **Key financial ratios** | 2015/16 Post FRS 102 | 2015/16 Pre FRS 102 | 2014/15 | 2013/14 | 2014/15 | 2013/14 |
| Operating margin | 31% | 32% | 31% | 32% | 28% | 26% |
| Management cost per unit | £1,242 | £1,089 | £769% | £625 | £1,034 | £990 |
| Routine and planned maintenance cost per unit | £856 | £856 | £1,042 | £1,155 | £1,017 | £1,015 |
| Total major repairs cost per unit (revenue & capital) | £715 | £715 | £1,039 | £689 | £929 | £913 |
| Gearing (adjusted net leverage) | 42% | 42% | 46% | 43% | 35% | 43% |
| Interest cover (EBITDA MRI) | 163% | 205% | 130% | 163% | 161% | 154% |

## Unit cost performance

Comparative data for 2014/15 published by the HCA in 2016 shows our overall unit cost performance to be in the median of the sector.

**2014/15 total unit cost benchmark**

| Stonewater | 2014/15 |
|---|---|
| Social Housing Cost (£k) per unit | 3.60 |
| **Sector level data*** | |
| Upper quartile | 4.30 |
| Median | 3.55 |
| Lower quartile | 3.19 |

*The data represents a headline reference point to understand costs relative to all other providers (with more than 1,000 units) in England.

**2014/15 per unit (p.u.) cost comparison across our activities**

| | Headline Social Housing Cost p.u. (£K) | Management cost p.u. £K | Service charge cost p.u. £K | Maintenance cost p.u. £K | Major repairs cost p.u. £K | Other Social Housing Costs p.u. £K |
|---|---|---|---|---|---|---|
| **Stonewater** | 3.60 | 0.77 | 0.48 | 1.04 | 1.04 | 0.27 |
| **Sector level data** | | | | | | |
| Upper quartile | 4.3 | 1.27 | 0.61 | 1.18 | 1.13 | 0.41 |
| Median | 3.55 | 0.95 | 0.36 | 0.98 | 0.8 | 0.2 |
| Lower quartile | 3.19 | 0.7 | 0.23 | 0.81 | 0.53 | 0.08 |

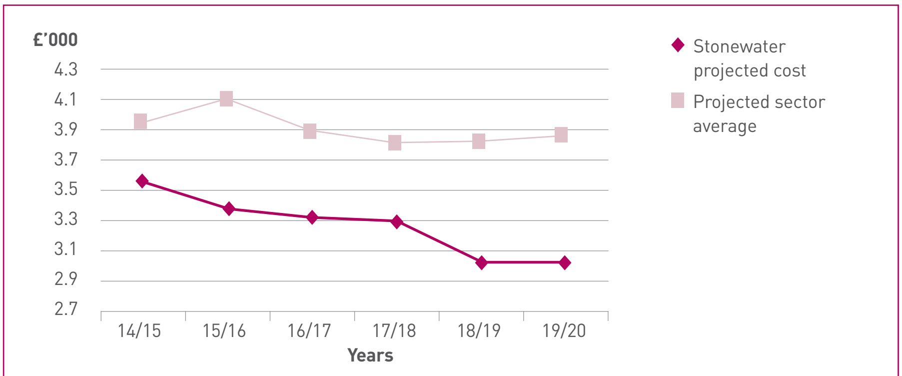
**2014/15 per unit (p.u.) cost comparison across our activities**

Our target set by our VfM appetite is to perform at lower quartile cost within 5 years. The figures below show our 5 year projected unit cost targets based on our current business plan against the sector averages projected by the HCA.*

*July 2016 projections

| Stonewater | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|
| Social Housing Cost (£k) per unit | 3.39 | 3.33 | 3.3 | 3.03 | 3.03 |
| Projected sector average | 4.11 | 3.89 | 3.81 | 3.82 | 3.86 |

**Social Housing Cost per unit (£k)**



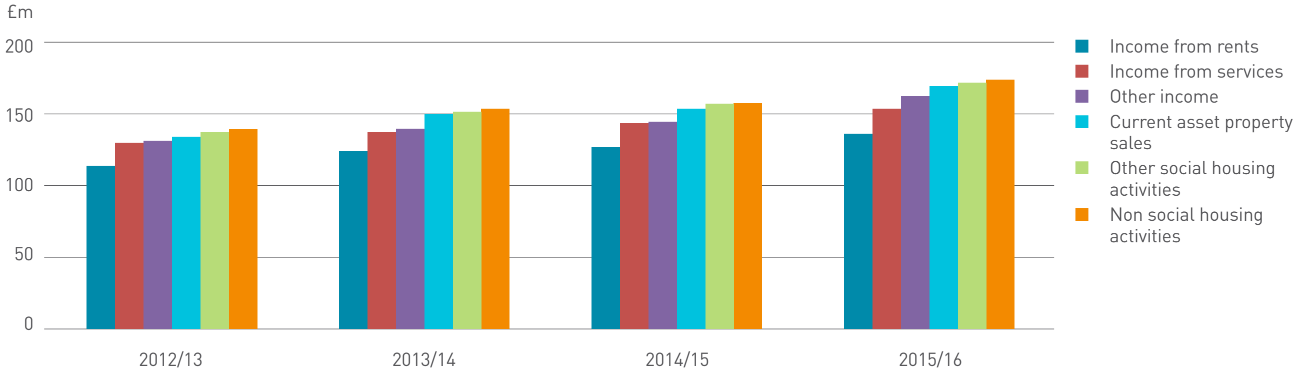
## Where our income came from 2015/16

Rents are the major contributor to our income stream.

We have maintained strong performance in income collection throughout 2015/16 despite significant integration of teams and the challenging operating environment. We have restructured our income teams in 2015/16 and created a new Head of Income Maximisation; and we have maintained robust and pro-active management of our welfare reform action plan.

> Our development programme makes an important contribution to our income stream. In 2015/16 sales of current assets provided an income of £9.3m an increase from £7.9m in prior year, with 112 units sold.

**Where our resources came from over the last 4 years**




## How do we spend each £1 of rent?

Our rental income in 2015/16 was £137m, compared to £129m in 2014/15.

In 2015/16 we spent:

> 28% (£30m) on repairs and maintenance to homes.

> 14% (£15m) on service charge costs including rechargeable repairs.

> 35% (£37m) on management costs.

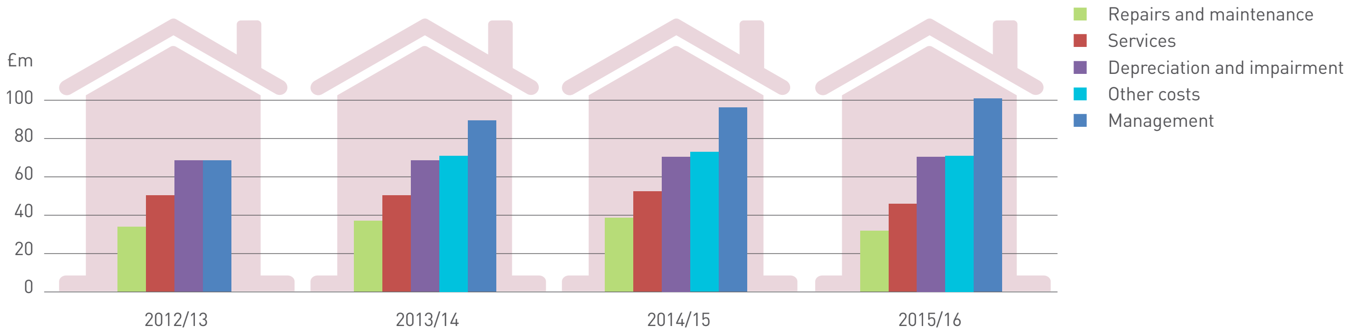
> £24m (23%) incurred on Depreciation, which recognises the economic useful life of Housing Properties owned by the Group.

Management costs include merger costs of £2.8m in 2015/16 (compared with £1.95m in 2014/15. In addition, £4.5m was recognised in management costs in 2015/16 in relation to the triennial funding requirement for the Social Housing Pension Scheme, in line with FRS 102.

As a result of FRS 102 a further £2.4m additional depreciation has been reflected in 15-16 to account for Housing Properties being depreciated on Cost rather than net of Grant in prior years.

Our unit cost projections are for these to reduce as the benefits of restructuring and re-procurement completed in 2015/16 take effect in future years.

**How resources were utilised**



## How we use our surplus

Stonewater's 2015/16 operating surplus was £53.2m, bringing our accumulated reserves to £246m.

From this we achieved a £64.9m operating cash surplus, which together with £15.4m proceeds from sales of housing properties (including void disposals of £6.1m) and £32.7m generated from financing activities allowed for the following:

> £93.1m to be spent on new housing properties in 2015/16.

> Provide an increase in cash reserves of £16m at the end of the financial year 2015/16.

## Ensuring strong Treasury Management

Our Treasury Management Policies set policies for cash and bank facilities. It is our policy not to enter into any commitment that is not fully funded. A margin for unforeseen circumstances is also maintained. Our Business Plan is based on assumptions approved by the Board and verified by our external treasury advisors. Stonewater has a Moody's credit rating of A1 which is reviewed annually and the February 2016 report confirms that this rating continues.

The Chief Executive reports on progress against business plan objectives to each board meeting. Monthly management information and key performance indicators are reported to the executive and the Board. Budgets are set annually and projections of expected outturns are prepared and monitored twice during the year. Key risks, such as sales, margin calls and interest rate fluctuations are considered and monitored on a regular basis.

A high level of headroom is maintained in covenants. Actual and projected compliance is reported to Finance Committee on a regular basis.

The covenant projections for the individual associations are shown below.

We have a central register which contains security charging information and obligations to local authorities and others under the terms of titles, leases and other agreements, and also provides signposts to specialist other databases by property held by other departments.

Across our databases we hold full details of all assets by property on loans and derivatives, stock condition and repairs information, rent and pensions and other liabilities.

The Board has agreed a set of parameters for our programme of stress, which reports on the exposures to individual and multiple factors, and which highlights the types of actions which would be necessary following various series of events.

The current business plan has been stress tested for a "perfect storm" of events that the Board considers might affect the plan, including increased negative mark to market valuations of the derivatives and Britain leaving the European Union. The immediate impact is sustainable within the plan and we will continue to review this in the light of further effects on the financial market, the economy and government policy.

All financial obligations are approved under powers delegated by the Board to the Finance Committee, and those powers are fulfilled considering the effect on the Business Plan and liquidity.

RANKED AMONG THE
**STRONGEST**
IN OUR SECTOR

**A1** MOODY'S RATING

HOMES AND COMMUNITIES AGENCY RATINGS

**G1** **V1**

| **Interest Cover** | **Covenant** | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|---|---|
| Stonewater Ltd | 110% | 199% | 222% | 215% | 215% | 201% | 199% |
| Stonewater 2 | 110% | 203% | 160% | 168% | 168% | 167% | 169% |
| Stonewater 3 | 105% | 266% | 199% | 236% | 226% | 238% | 211% |

| **Gearing** | **Covenant** | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|---|---|
| Stonewater Ltd | 85% | 79% | 81% | 77% | 72% | 71% | 68% |
| Stonewater 2 | 65% | 39% | 40% | 38% | 37% | 36% | 35% |
| Stonewater 3 | 50% | 25% | 32% | 31% | 31% | 33% | 34% |

## Efficiency savings and reducing risk

Our target in 2015/16 was to achieve £175k additional VfM savings, through VAT savings (£100k) and re-procurement of treasury advice (£75k). Retendering of treasury advice has achieved savings of £65k per annum just short of the anticipated £75k. In order to enable full recovery of input VAT incurred in relation to associated architect, surveying and consultancy costs we are managing new developments within Stonewater (2) Limited and Stonewater (4) Limited through Stonewater Procurement. So far we are not able to report the anticipated savings on this new approach but we expect to be able to do so in future years.

Also in 2015/16 we have:

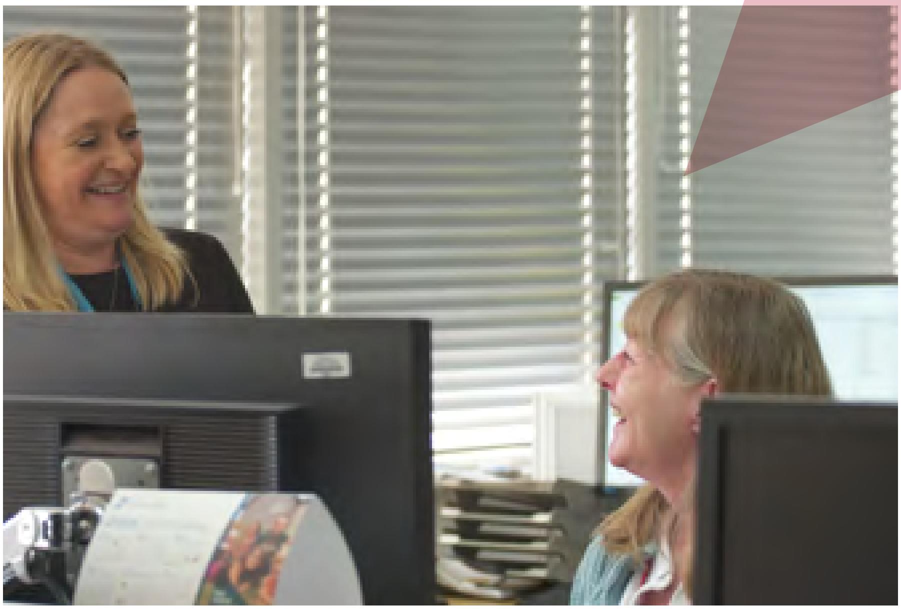
> Arranged revolving loan facilities to allow us to reduce cash balances and the cost of carry on them.

> Put in place new low cost funding from AHF (Affordable Housing Finance Ltd).

> Retendered our external audit service achieving an efficiency saving of £74k per annum.

> Arranged Intra-group interest rate swaps to reduce vulnerability of Stonewater (2) Limited and Stonewater (3) Limited to interest rate rises.

We have also established an Assets & Liabilities Register containing details of all properties owned by the separate legal entities of Stonewater. This includes valuation information, location of deeds, title numbers, funder's interest and an indicator to potential restriction on title for each property. The register will improve our knowledge of managed stock; and assist in identifying properties where valuations can be enhanced by renegotiating S106 agreements and leases.



## Future plans

We will set up a Cash Pooling arrangement, combining the bank accounts of all Stonewater entities through a single internet banking system, allowing us to manage our cash more efficiently and maximise interest earned.

We will also seek opportunities for long-term funding in the environment of very low cost of borrowing.

# 02 Measuring our performance

## Measuring our performance

We are members of HouseMark and compare ourselves with other Registered Providers of a similar stock size.

These are:

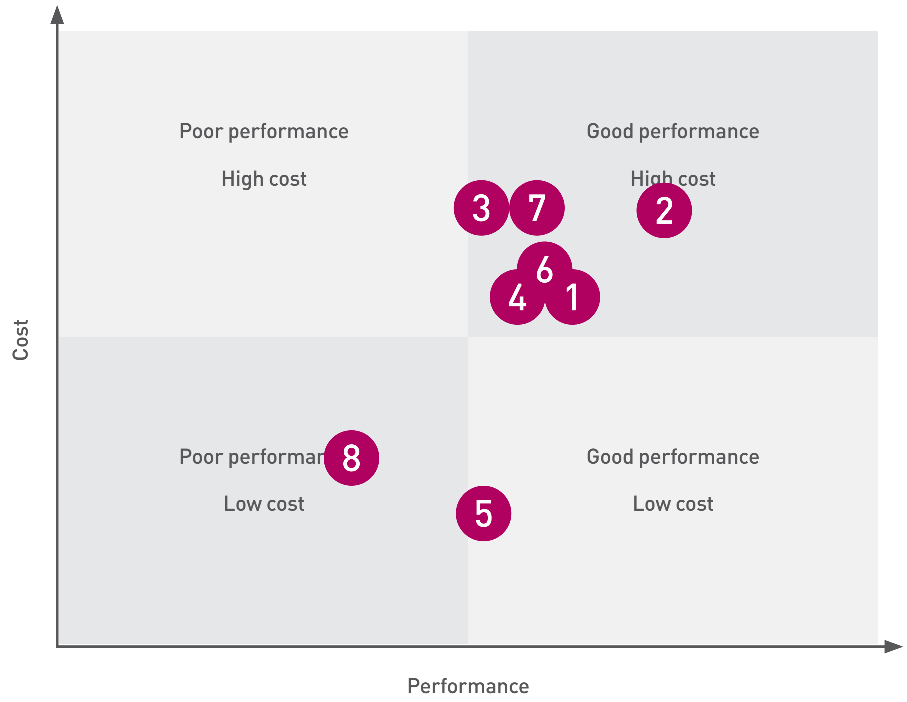
- Amicus Horizon
- Gentoo
- WM Whitefriars
- Orbit Group
- Circle
- Peabody
- The Hyde Group
- Riverside Housing Group
- Southern Housing Group
- Affinity Sutton
- Thirteen Group
- Home Group

As a newly formed organisation with restructures still taking place our costs still largely reflect those of the legacy organisations. This is reflected in the benchmarking results for 2014/15 which are comparable to the previous years. Because of the timing of the publication of results, the latest benchmarking exercises are based on 2014/15. The impact and efficiencies of the staffing restructures will be realised from 2016/17.

The results based on 2014/15 costs show a number of our activities are assessed as comparatively high performance and high cost. We anticipate that the restructuring will reduce our operating costs whilst maintaining good customer satisfaction.

The 2014/15 benchmarking report demonstrates our performance against our peers. Our results are shown in summary on the HouseMark dashboard across a number of key areas:

**Value for money**

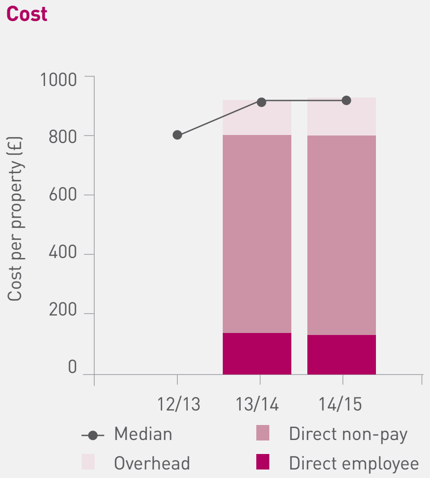


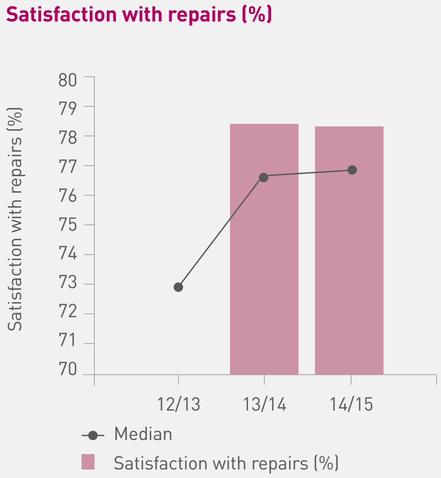

1. Responsive repairs and void works
2. Rent arrears and collection
3. Anti-social behaviour
4. Major works and cyclical maintenance
5. Lettings
6. Tenancy management
7. Resident involvement
8. Estate services

# How are we responding to these?

## Responsive Repairs and Voids works – good performance / high cost

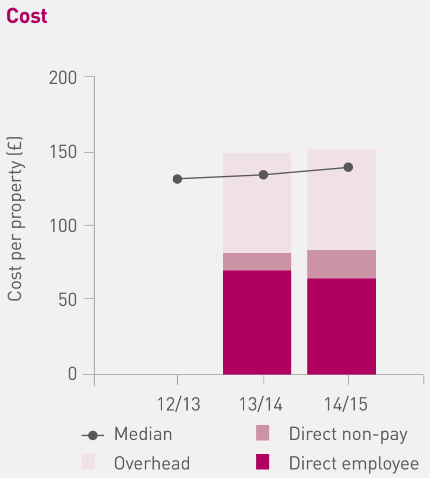
The previous years performance was also good performance and high cost. The majority of our costs are with our contractors and retendering the contracts already in place was paused to the merger. We have restructured our internal structures and we are aligning the way in which contracts are structured. In 2016/17 we will commence re-procurement for repairs services to our homes in the South, and this will begin a full re-procurement programme for the whole of Stonewater over the next five years. Satisfaction with repairs remains strong.

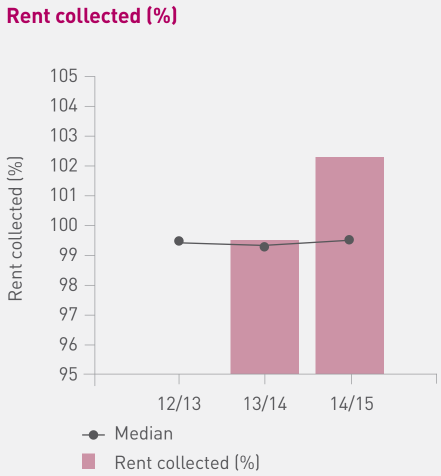



## Income management – good performance / high cost

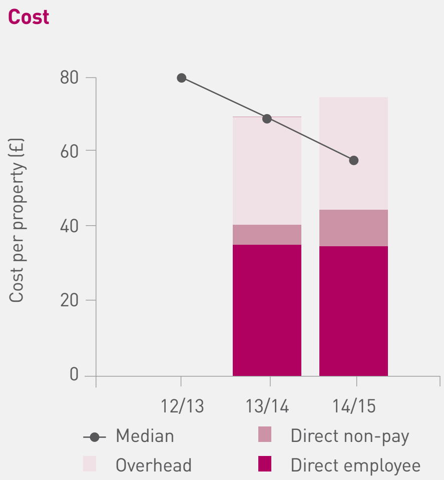
We have maintained good performance in income collection in 2015/16. As we have described earlier, we have restructured our income teams and financial inclusion service to provide better VfM and alongside proactive management of our welfare reform action plan we expect performance to remain high. The cost for delivering this service should reduce from 2016/17 following the restructure and reduction in office overheads.

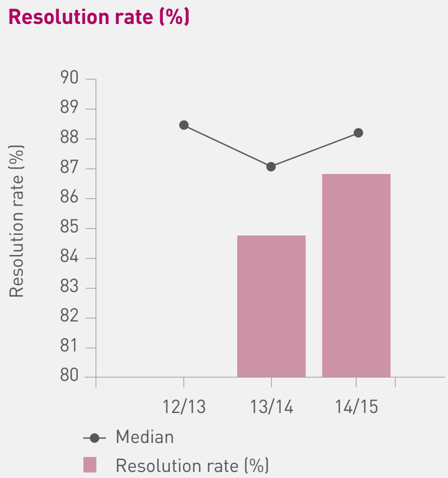


## Anti Social Behaviour – good performance / high cost

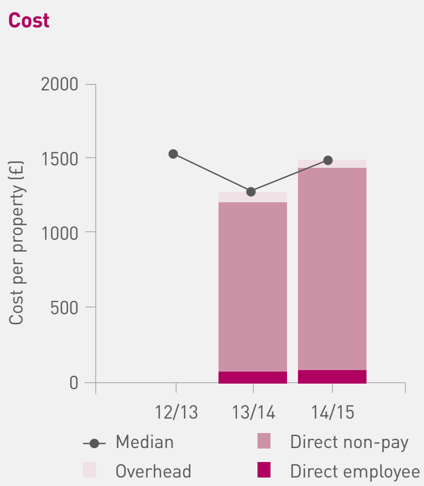
A project plan to improve ASB services over a 2-year period was approved in 2015/16. In 2014/15 we have seen a noticeable improvement in our resolution rates but overall cost per property of delivering ASB services increased in 2014/15. We do however expect our staff costs and associated overheads will show an improvement in future years as a result of the specialist team structure which has been put into place from 2016. It is also anticipated that over time these specialists will take on increasing amounts of legal work, thus reducing our expenditure on external advice which increased our costs in 2014/15 due to some complex cases.

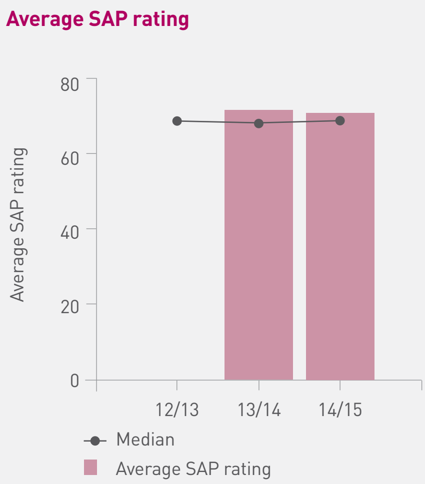



## Major Works and Cyclical – good performance / high cost

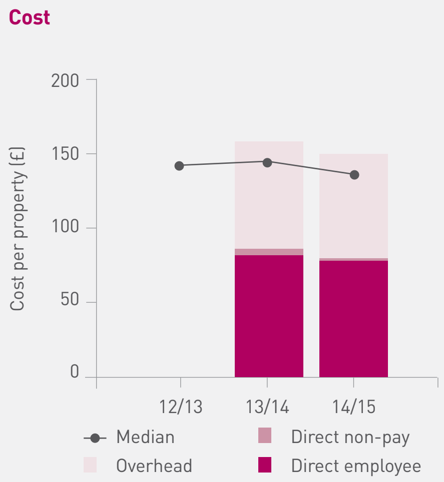
The benchmarking report for 2014/15 show that our costs have increased in this area since 2013/14 while our performance has remained good. The majority of costs incurred in this service are for components, materials and with contractors. The amount of major repairs varies year on year depending on lifecycles and the required component replacements with any one year. HouseMark are currently reviewing how this KPI is interpreted in the future. We have made savings of £786k in component procurement in 2015/16. This KPI supports our compliance with the decent homes standard and the work we continue to do to improve SAP ratings and to bring all properties above a rating of 55.

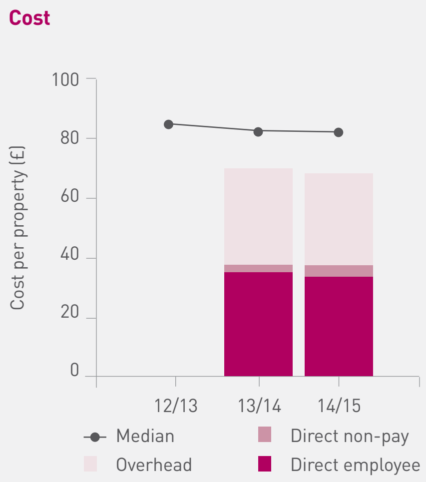


## Tenancy management – good performance / high cost
## Lettings – good performance / low cost

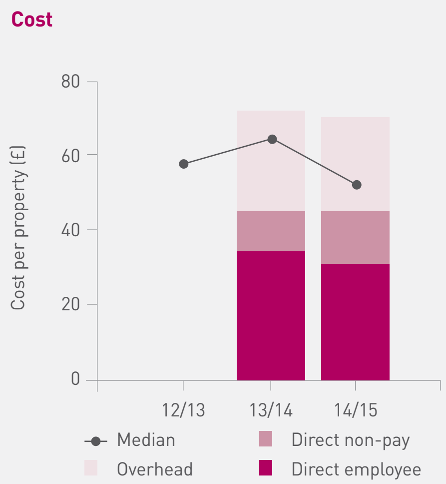
Our costs for tenancy management reduced in 2014/15 but remain comparatively high compared to our peers. The previous legacy structures reflected infrastructure to support local activities with 14 local offices. We recognise that local service delivery and accountability can also carry a cost premium. This has been reflected in the high proportion of overhead allocations and a high cost per unit when compared to our peers for tenancy management. In 2015/16 we undertook an office rationalisation exercise, rolling out electronic document management across the offices and the staffing restructure across this area of the business is complete. We have introduced more flexible working arrangements, specialist teams with new roles and systems and a single customer contact team. Cost reductions will start to be effective in 2016/17.

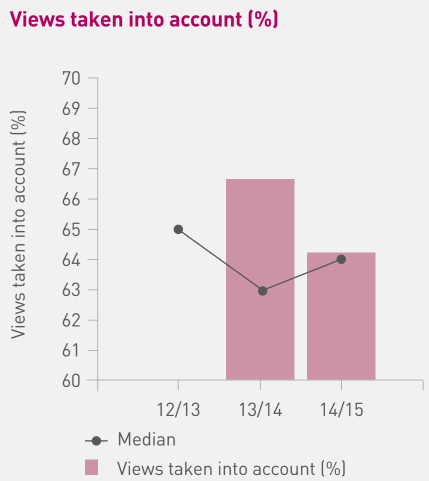



## Resident Involvement – Good performance / high cost

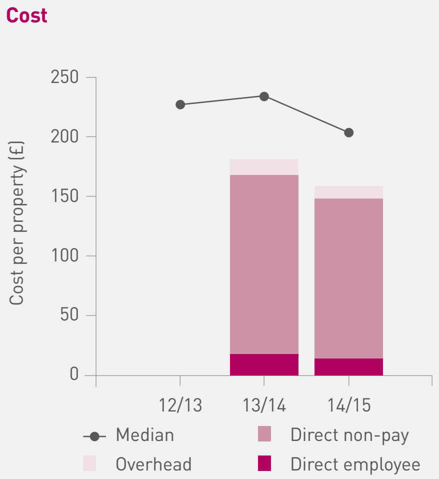
Our costs in 2014/15 showed a slight reduction but we remain comparatively high cost compared to our peers. The restructure of the Customer Involvement Team in 2015/16 will reduce the cost of this service delivery in future years. Our Customer Involvement Strategy has been adopted by the Board. We recognise that satisfaction in this area has declined slightly since 2013/14. To address this, we will be providing more effective and efficient customer involvement opportunities through our Customer hubb.

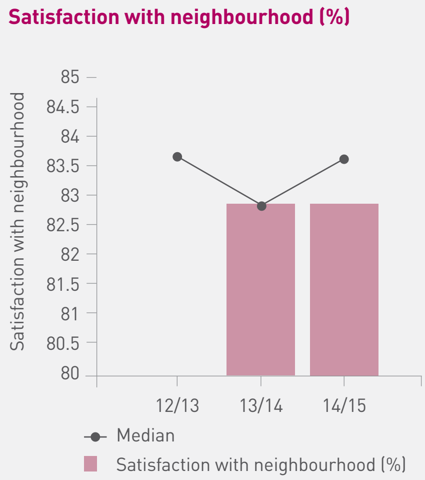


## Estate Services – poor performance / low cost

Our costs for estate services reduced in 2014/15 compared to the previous year, however resident satisfaction in this area requires improvement. From April 2016 new contracts commenced for the provision of Estate Services. We have brought together estate cleaning and grounds maintenance services into single geographical contracts, which will improve consistency in specifications, quality and contract management. Customer satisfaction will be monitored and with the majority of the total cost of this service related to contract costs an improvement in cost is expected in 2016/17 when compared to our peers.




## Efficiency summary

The efficiency summary table is again reflective of our pre-merger data for 2014/15 and a comparison against the previous year. This summary table compares our data to 2013/14 and is largely consistent year on year reflecting where service improvement plans were paused due to the merger.

Using the benchmarking services provided by HouseMark we can see our absolute and comparative costs of delivering specific services. The 2016/17 benchmarking data will be the first opportunity to see the impacts of the changes we have made in 2015/16, and allow us to see more clearly our direction of travel and the benefits of efficiency savings made. Our target date for these results to be available is September 2017.

**Efficiency Summary 2014/15 compared to 2013/14**

| Efficiency summary for Stonewater Group | | | | | | |
|---|---|---|---|---|---|---|
| | | Cost KPI quartile | | | Quality KPI quartile | |
| Business activity | Cost KPI | Stonewater Group (2014/15) | Stonewater Group (2013/14) | Quality KPI | Stonewater Group (2014/15) | Stonewater Group (2013/14) |
| Overheads | Overhead costs as % adjusted turnover | ★ | ★ | Overhead costs as % direct revenue costs | ◡ | ♦ |
| Major works & cyclical maintenance | Total CPP of major works and cyclical maintenance | ◡ | ♦ | Percentage of tenants satisfied with the overall quality of their home (GN&HfOP) | ♦ | ♦ |
| | | | | Percentage of dwellings that are non-decent | ● | ◡ |
| Responsive repairs and void works | Total CPP of responsive repairs and void works | ◡ | ◡ | Percentage of tenants satisfied with repairs and maintenance (GN&HfOP) | ♦ | ♦ |
| | | | | Average number of calendar days taken to complete repairs | ♦ | ★ |
| | | | | Average re-let time in days (standard re-lets) | ◡ | ♦ |
| Housing management | Total CPP of Housing management | ♦ | ♦ | Percentage of tenants satisfied with the service provided (GN&HfOP) | ♦ | ★ |
| | | | | Percentage of anti-social behaviour cases resolved successfully | ■ | ◡ |
| | | | | Current tenant rent arrears as % of rent due | ★ | ★ |
| Estate Services | Total CPP of Estate Services | ★ | ♦ | Percentage of tenants satisfied with their neighbourhood as place to live (GN&HfOP) | ◡ | ◡ |

**The quartile key for the table is as follows:**

| | Upper quartile | Middle upper | Median | Middle lower | Lower quartile |
|---|---|---|---|---|---|
| Valid dataset | ★ | ♦ | ■ | ◡ | ● |

## Customer satisfaction

We have seen a slight downward trend in our customers' overall satisfaction in the year. The cumulative figure at the end of the year was 78.81% compared to 81.6% for 2014/15.

This is important to us and so we have looked at the feedback our customers are giving to us. The issues are arising from some continued inconsistency in service delivery across different parts of the organisation and in different locations.

Customers who are satisfied rate repairs highly. Customers who are dissatisfied say that repairs are the problem.

So whilst we bring together three service delivery models, three ways of providing repairs and three organisational cultures our customers are not yet able to experience a unified Stonewater experience.

Some of the things we are doing to address this are:

> Implementing new people structures that will provide a consistent offer to our customers.

> Bringing together our customer contact into a single point with a single customer relationship management system.

> Implementing consistent approaches for services such as repairs, allocations and planned works so that customers receive the same opportunity and quality of service.

> Providing new customer involvement opportunities through the Scrutiny Panel reviews and the Customer hubb, so that we build a strong Stonewater brand and we identify inconsistencies that we need to improve.

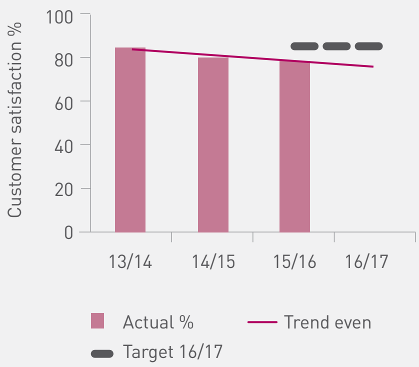
### Future plans

We are commencing an additional insight programme in 2016 which will ensure that our analysis of performance and the development of products and services are informed by better understanding of our customer needs and demands. There will be an analysis of cause and effect linkages that impact on customer satisfaction for each service area.

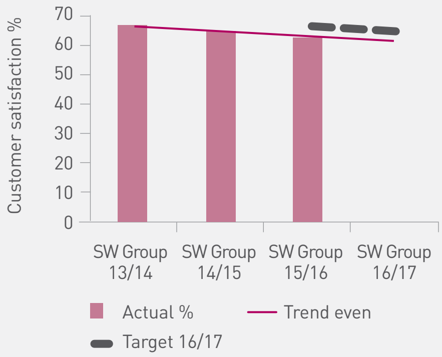
## Customer Services Excellence Group

We are a member of the Customer Services Excellence Group and undertake quarterly benchmarking reviews with other Registered Providers to see how the customer contact centre compares to others in terms of quality of service given to our customers. The results of the last quarter show that Stonewater rates highly. There has been a real drive towards right first time during the last quarter which is reflected in the increasing scores.

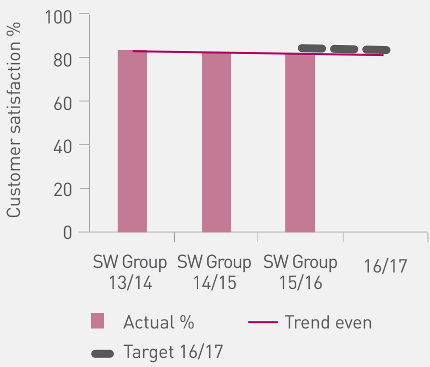
**Customer satisfaction overall %**




**Customer satisfaction Views taken into account %**




**Customer satisfaction Rent is VfM %**



Sherburn, in Elmet.

Find us at

**www.stonewater.org**

or follow us on

Twitter

Facebook

LinkedIn

Contact us at

**0800 0116 420** or **01234 889494**

Email: **info@stonewater.org**



STONEWATER