STONEWATER

Value for money

SELF ASSESSMENT 2016/17
Appendix supporting information

2016/17 self-assessment
Appendix - Supporting information

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 operating costs for 2016/17 were £109.1m vs £109.9m in 2015/16. The table below table shows our performance for the past three years.

Reasons for key changes from last year:

The management cost per unit has reduced from £1,242 to £956 as last year included £2.8m merger related costs. Further savings were also made in 2016/17 due to a reduction in headcount following the move to one housing management and finance system during 2016/17.

Total repairs cost per unit has reduced from £715 to £548 due to lower component spend from £16.4m last year to £10.6m in 2016/17.

Performance against results for total sector per Global accounts for 2015/16 (published in February 2017):

- Stonewater's achieved 31% operating margin vs total sector's operating margin of 27.6%.
- Stonewater's Gearing ratio was 46% vs total sector's gearing ratio of 49.5%.
- Stonewater interest cover (EBITDA MRI) was 193% vs total sector's interest cover of 170%.

	Stonewater Group			Global Accounts	
Key Financial Ratios	2016-17	2015-16	2014-15	2015-16	2014-15
Operating margin	33%	31%	31%	28%	28%
Management cost per unit	£956	£1,242	£769	£1,080	£1,034
Routine and planned maintenance cost per unit	£886	£856	£1,042	£1,010	£1,017
Total major repairs cost per unit (revenue and capital)	£548	£715	£1,039	£890	£929
Gearing (adjusted net leverage)	46%	48%	53%	49%	49%
Interest cover (EBITDA MRI)	193%	159%	139%	170%	153%

Unit cost performance

Comparative data for 2015/16 published by the HCA in February 2017 shows our overall unit cost performance to be in the median of the sector.

Stonewater Group	2015/16
Social housing cost (£k) per unit	3.39
Sector level data*	
Upper quartile	4.35
Medium	3.57
Lower quartile	3.12

*The data represents headline reference point to understand costs relative to all other providers (within more than1,000 units) in England.

2015/16 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 (£)	Maintenance cost p.u. (£k)	Major repairs cost p.u. (£k)	Other social housing costs p.u. (£k)
Stonewater	3.39	1.23	0.48	0.85	0.71	0.07
Sector level data						
Upper quartile	4.35	1.32	0.60	1.18	1.08	0.45
Median	3.57	1.02	0.36	0.97	0.81	0.21
Lower quartile	3.12	0.74	0.24	0.79	0.54	0.08

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

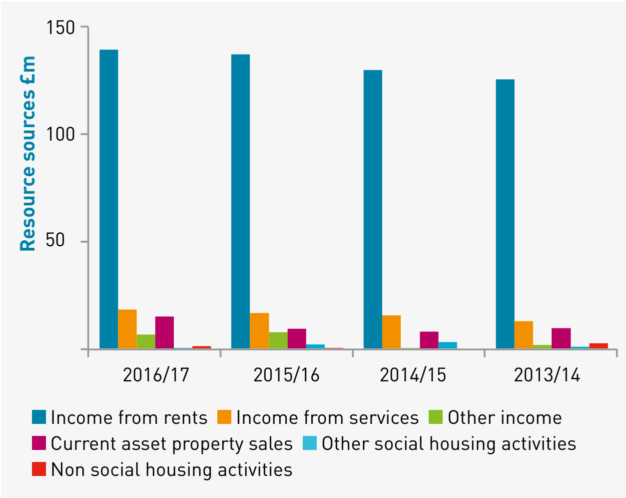
* February 2017 projections

Stonewater	2016/17	2017/18	2018/19	2019/20	2020/21
Social housing cost (£k) per unit	2.95	3.23	3.21	3.26	3.35
Projected sector saving	3.98	3.85	3.78	3.78	3.80

Where our income came from over the last four years

Rents are the major contributor to our income stream. The income from rents of £139m is only marginally higher from last year of £137m due to a 1% rent reduction in social housing rents partly offset by additional income from new handovers during the year.

Current assets property sales generated £15m income, an increase from £9.3m last year, with 159 units sold with an average margin of 22% compared to last year's 112 sales at an average margin of 19%.



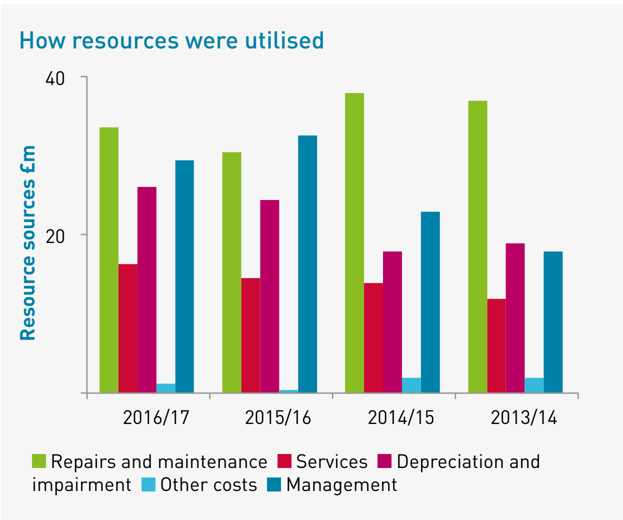
How do we spend each £1 of rent and service charge income?

Our rental and service charge income in 2016/17 was £157m, compared to £154m in 2015/16.

In 2016/17 we spent:

- 22% (£34m) on repairs and maintenance to homes.
- 10% (£16m) on service charge costs including rechargeable repairs.
- 19% (£29m) on management costs mainly staff salary costs and corporate overheads.
- 12% (£19m) incurred on Depreciation less amortisation of grants, which recognises the useful life of Housing Properties owned by the Group.
- 1% (£2m) other costs including £1.2m bad debts.

We have generated £57m operating surplus on social housing lettings, which represents 36% of rent and service charge income.



How we use our surplus

Stonewater's 2016/17 operating surplus was £58.4m, bringing our accumulated reserves to £274m.

From this we achieved a £74m operating cash surplus, which together with £18m proceeds from sales of housing properties (including a void disposal of £5m) allowed for the following:

- £68m to be spent on developing 717 new housing properties.
- £32m spent on servicing of debt.
- And resulted in £8m decrease in cash reserves at the end of the financial year. Total cash reserves at year end were £38m.

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 December 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 over covenants. Actual and projected compliance is reported to the Board and Finance Committee on a regular basis. The covenant projections for the individual associations are shown below.

	FY 16/17		KPI targets		Covenant	
	Gearing	Interest cover	Gearing	Interest cover	Gearing	Interest cover
Stonewater Limited	73%	221%	< 81.5%	> 150%	85%	> 110%
Stonewater 2	35%	229%	< 50%	> 150%	65%	> 110%
Stonewater 3	23%	498%	< 35%	> 150%	50%	> 105%

We have a central register which contains security 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-testing, which reports on the exposure 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 derivatives and a property market downturn. The immediate impact is sustainable within the plan and we will continue to review this in 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.

Also in 2016/17 we have:

- Completed on a new revolving loan facility to allow us to reduce cash balances and cost of carry on them.
- Commenced a funding programme to put in place new low cost funding from bond or institutional investors, from AHF (Affordable Homes Ltd) and the European Investment Bank.
- Fixed a further £100m of floating rate debt to reduce vulnerability of Stonewater Limited to interest rate rises.
- Reduced the maturity of some interest rate swaps at a discount to market rates of £1.3m.

Future plans

During 2017/18 we expect to:

- Complete the funding programme started during 2016/17, including:
  - Drawing down the first £100m of a 30-year loan from Pricoa at an average rate of 3.0%.
  - Refinance more expensive facilities with a loan-life saving of £1.4m.
  - Complete funding arrangements with AHF and EIB.
  - Extend the revolving period of term loans allowing us to maximise use of new fixed-rate loans, with a saving of £2.4m.
- Complete implementation of a Treasury Management System with accompanying efficiency and risk gains.

02 Measuring our performance

We are members of HouseMark and compare ourselves with other registered providers of a similar stock size. These are:

- AmicusHorizon
- A2Dominion Group
- Catalyst Housing
- Family Mosaic
- First Wessex
- Great Places Housing Group
- Home Group The Association
- Notting Hill Housing Group
- Orbit Group
- Peabody Group
- Radian
- Riverside Group
- Southern Housing Group
- Thirteen Group

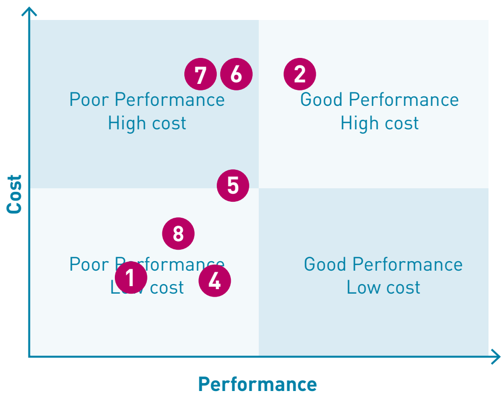
The latest benchmarking exercise reflects the costs and quality of our services delivered in 2015/16 compared to our peer group.

The efficiencies of the staffing restructures post-merger can clearly be seen to be having an impact; this is reflected in a shift from high-cost to low-cost for the majority of the KPIs. This is expected to further improve in 2016/17 as we have moved from three housing databases to one consolidated system and further restructures have taken place.

In addition, we have moved to one income collection provider from July 2017 which is also anticipated to deliver cost savings. Performance is anticipated to improve as new policies and processes are bedded in, and staff are trained and become fully competent in the new system.

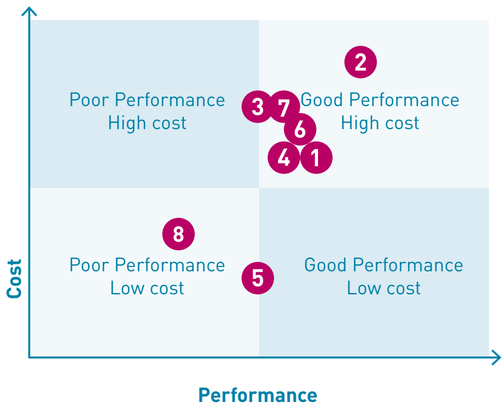
Our results are shown in summary on the HouseMark dashboard across a number of key areas:

Value for money 2015/16



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

Value for money 2014/15



In 2016/17 ASB transactional surveys were not undertaken to assess performance but customers have been surveyed from April 2017.

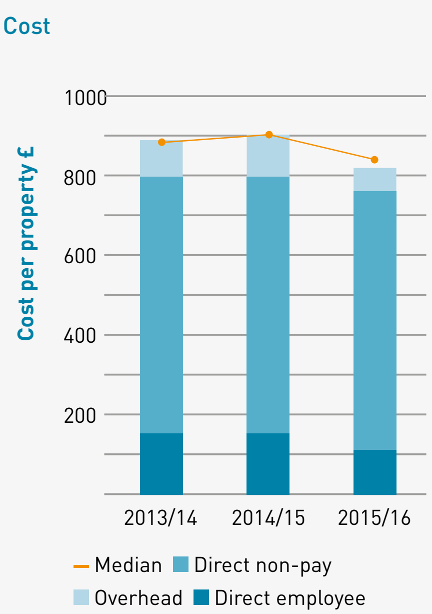
How are we responding to these?

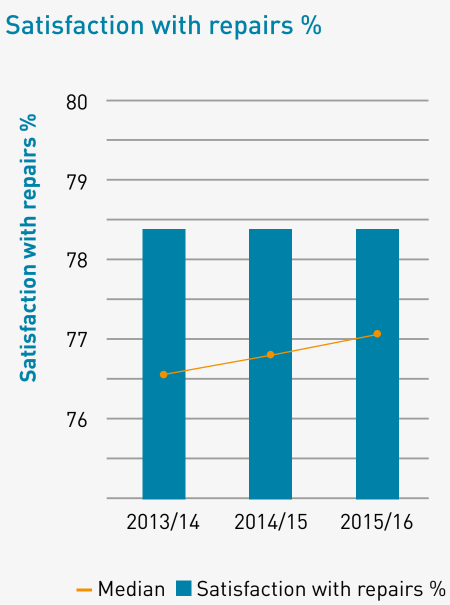
Responsive repairs and voids works – poor performance / low cost

The majority of our costs are with our contractors. Retendering our contracts is already underway in the South-East. This is the start of a full re-procurement programme for the whole of Stonewater over the next five years. Activity was paused in both legacy organisations in order to maximise future likely benefits of scale following the merger and a five-year plan. Satisfaction with repairs remains consistent and above the median.

Our average completion times compared to our peers impacts on our performance overall.

Satisfaction remained high and consistent in 2016/17 with 88.6% customers satisfied with the responsive repairs service received.

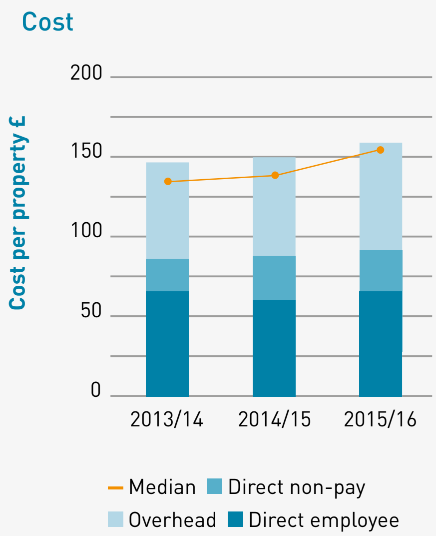


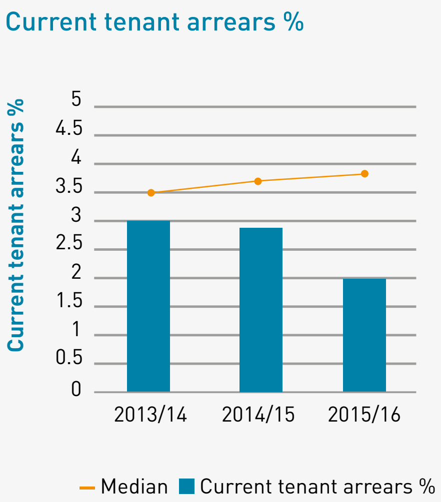


Income management – good performance / high cost

In 2015/16, we maintained good performance as in previous years but still experienced relatively high costs in income collection with a marginal increase year on year. In 2015/16 staff turnover was high and the cost of recruiting new staff and the use of agency staff impacted on overheads. In 2016 we restructured our income teams and finance teams to provide better VfM now that we are operating on one housing system; however, costs will only start to reflect this from October 2016.

We have also moved to one income collection provider from July 2017. Our performance has remained stable, which is representative of the new system and processes bedding in, staff training starting to take effect, and a renewed focus on debt management and recovery. 2017/18 should see an improvement in both performance and costs.





Performance indicator	Top quartile	2016/17 target	*Performance against target	2016/17 Q4	2015/16 Q4
Total rent and service charge received as a % of total rent and service charge due	99.89%	99.21%		98.62%	99.05%
Gross arrears as a % of total rent and service charge due	3.38%	3.31%		4.40%	3.31%
Core arrears as a % of total rent and service charge due	2.58%	2.04%		3.10%	2.04%

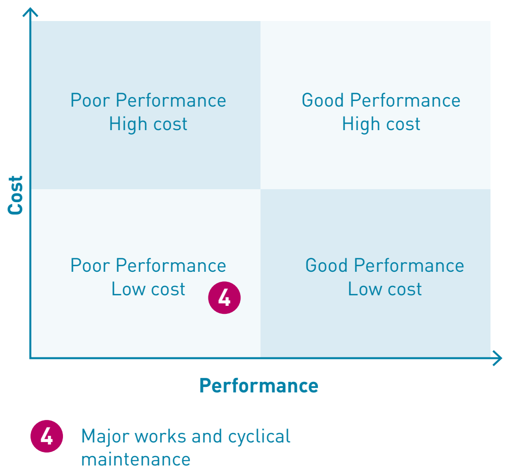
Major works and cyclical – poor performance / low cost

The benchmarking report for 2015/16 shows that our cost per property invested in this year has reduced whilst our performance has remained constant. The number of major repairs varies year on year depending on lifecycles and required component replacements. As part of our asset management strategy we are committed to investing and maintaining the quality and condition of our housing stock, which is reflected in our higher than average major works costs. The expenditure incurred in 2015/16 on major works was in line with the budget and strategy.

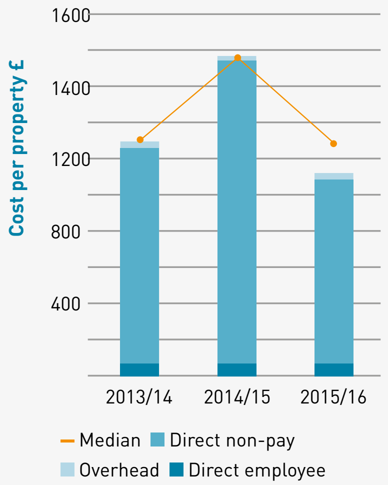
HouseMark are proposing that going forward, they will remove the polarity from this KPI. We will still be able to compare major works spend with our peers, but HouseMark will look to remove the upper quartile/ lower quartile connotation for this service area.

We have made substantial savings in component procurement and reviewed our component life cycles described in Section 7 of the main self- assessment document " Maximising return from our assets". This KPI supports our compliance with the Decent Homes Standard and the work we continue to do to improve SAP ratings and the efficiency of our properties so that all of our properties are above a rating of 55. Homes with SAP ratings below 55 will be the subject of investment programmes in 2017-18. Property disposals will also be considered as part of an options appraisal when investment costs to achieve our minimum SAP rating are too high.

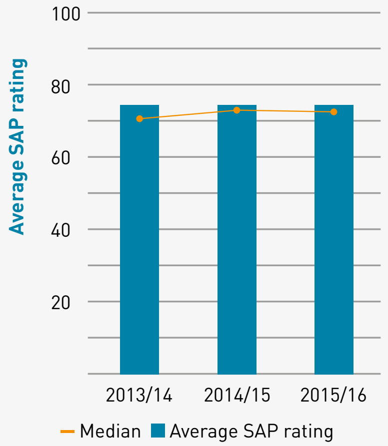
Value for money 2015/16



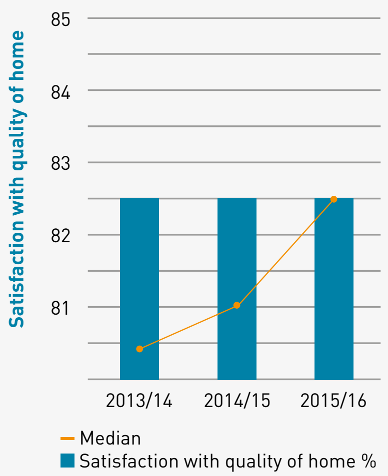
Cost



Average SAP rating



Satisfaction with quality of home



Tenancy management (6) – poor performance/ high cost
Lettings (5) – poor performance / low cost

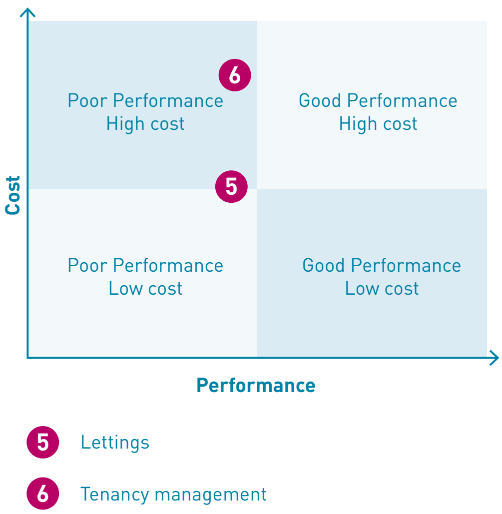
Our costs for tenancy management and lettings have remained fairly constant. In 2015/16, we undertook an office rationalisation exercise, rolling out electronic document management across our offices and restructuring staffing arrangements across this area of the business. We anticipate that the savings generated from this activity will manifest in 2016/17.

We have also introduced more flexible working arrangements, specialist teams with new roles and systems, and a single customer contact team, which we anticipate will deliver further savings.

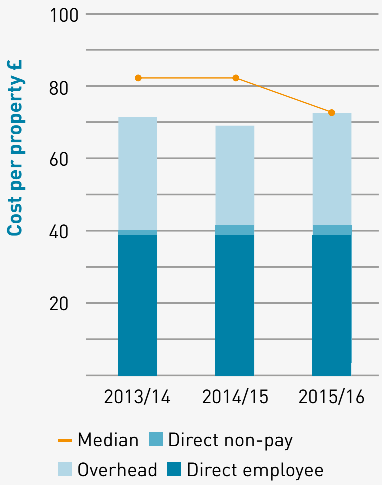
The rate of evictions increased slightly in 2015/16. This is in part due to tighter debt management processes and a greater focus on managing high level debt. It may also be the start of the impact of welfare reform.

At the end of 2016, affordability checks were implemented prior to accepting new tenancies. This ensures that tenancies are sustainable. In addition to this, Stonewater's webpages have been updated to provide up to date information and guidance on available support, benefits, welfare reform and income maximisation guidance.

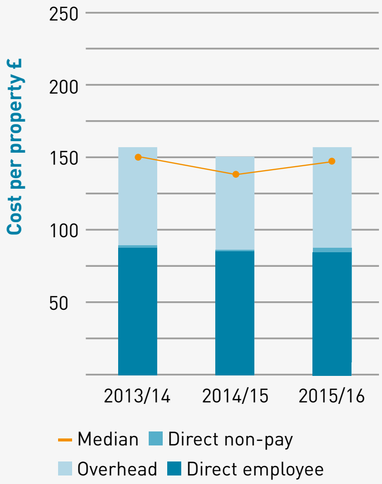
Value for money 2015/16



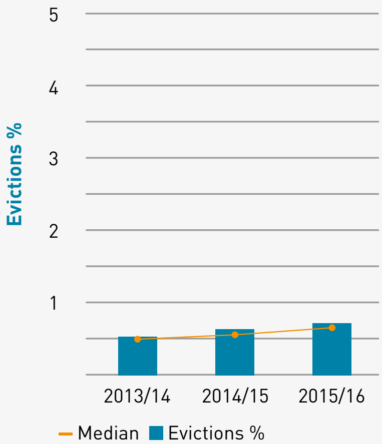
Cost - Tenancy management



Cost - Lettings



Evictions



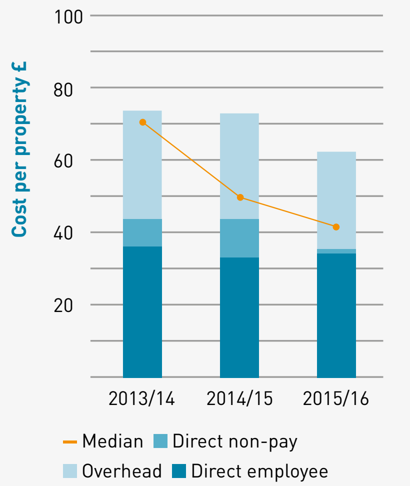
Resident Involvement – poor performance / high cost

Our costs for resident involvement have marginally decreased in 2015/16 but are still higher than our peers. This should improve as overheads are reduced in 2016/17 with office rationalisation, restructures and more flexible working.

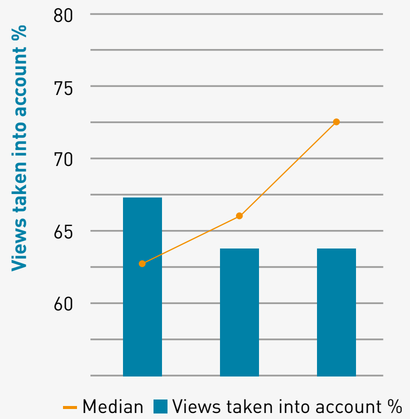
The customer satisfaction KPI used as a measure here has fallen short of the median but we are working hard on improving this. There is an agreed target for the number of customers using the Customer hubb which was only launched last year and a customer insight working group has been established to agree an action plan for 2017/18. A framework will be developed to monitor and captures outcomes of customer involvement to measure success.

Value for money 2015/16

Cost



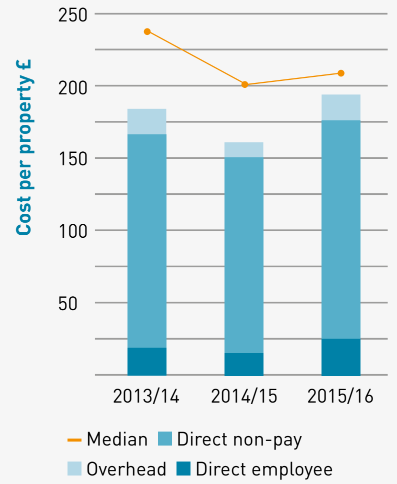
Views take into account %



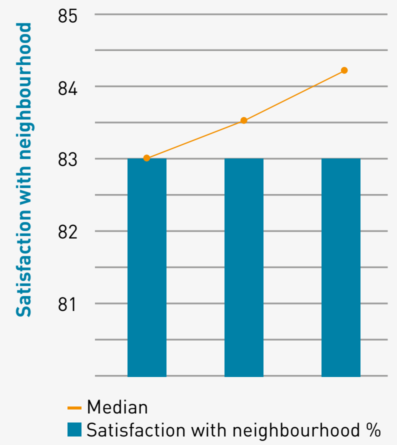
Estate Services – poor performance / low cost

Our costs for estate services increased marginally in 2015/16 compared to the previous year. From April 2016, new contracts commenced for the provision of estate services. We brought together estate cleaning and grounds maintenance services into single geographical contracts to improve consistency in specifications, quality and contract management. Customer satisfaction with the neighbourhood, a measure of performance for this specific service area, is consistent year on year but falling short of the median. We have undertaken two specific estate services surveys in the last year and increased awareness and communication of how the new contracts are to be delivered e.g. clear quality standards and not frequency. Most of our estates are meeting grade A or B and if they don't we put measures in place to bring them up to standard. Where the standard falls to a C or D on a scheme contractors are asked to rectify the service but if that continues we have processes in place which penalises the contractor.

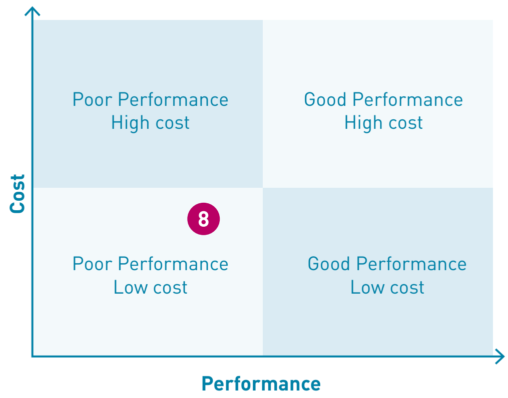
Cost



Satisfaction with neighbourhood



Value for money



7 Estates services

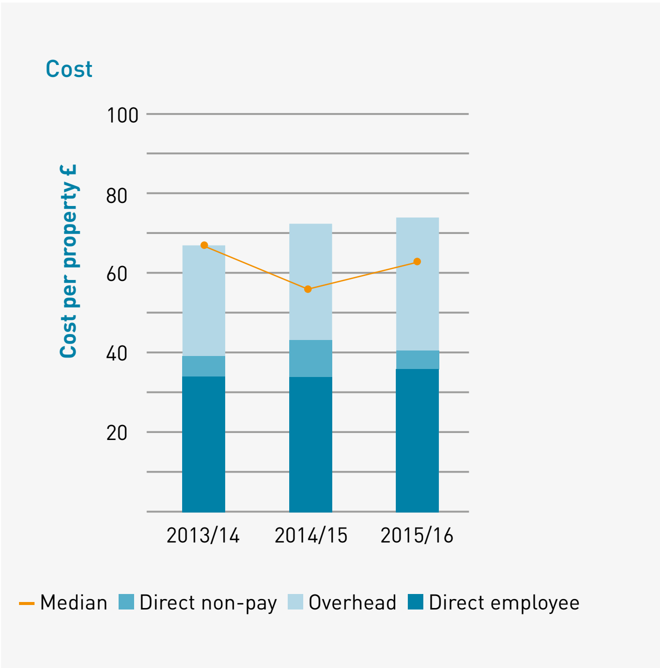
Anti Social Behaviour (ASB)

Although we have not been able to compare with our peers both the cost and quality of the full service that Stonewater provides for ASB to be able to plot this service on the dashboard our costs are shown below. There is only a marginal increase in costs and with all the changes made to the service staffing and overheads from 2016 we expect a noticeable reduction in costs to be seen.

In 2016/17 we mobilised a national ASB team who are not patch based, enabling us to mobilise staff to wherever we have demand. The ASB process now provides digital support and an onus on residents involved to help resolve the situation. This digital first approach reduces travel by the team along with a quicker response for residents.

Customers who have experienced the service provided by Stonewater when reporting an ASB case will be surveyed from April 2017 in case handling and overall satisfaction with the service.

The positive resolution rate is based on the case closure figures with cases closed with an unresolved status being quite high, the reasons for the unresolved statuses is where there is no further action possible, lack of evidence to make a decision or where the person reporting the issue is not fulfilling their requirements.



Efficiency Summary

The efficiency summary table shows a marked improvement in the cost of the services provided by Stonewater compared to the previous year. Using the benchmarking services provided by HouseMark, we can see our absolute and comparative costs of delivering specific services. Our target date for the 2016/17 return to be completed is September 2017. The 2016/17 benchmarking data should demonstrate further anticipated improvements in cost continuing our direction of travel and the benefits of efficiency savings made.

Efficiency summary for Stonewater group

Business activity	Cost KPI	Cost KPI quartile		Quality quartile	Quality KPI quartile	
		Stonewater group (2015/16)	Stonewater group (2014/15)		Stonewater group (2015/16)	Stonewater group (2014/15)
Overheads	Overhead costs as % adjusted turnover	▲	●	Overhead costs as % direct revenue costs	●	●
Major works and cyclical maintenance	Total CPP of major works and cyclical maintenance	★	●	Percentage of tenants satisfied with the overall quality of their home (GN and 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 and 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 and 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 a place to live (GN and HfOP)	◒	◒

Upper quartile	Middle upper	Median	Middle lower	Lower quartile
★	▲	○	◒	●

Customer satisfaction

We experienced a drop in customer satisfaction in the first quarter of 2016/17. The new Estate Services contracts which started from April were cited as the main reason for this.

There had been a change in practice from the delivery of a routine service (e.g. weekly window cleaning / grass cutting) to a service delivery based on need (e.g. varying with the requirement to cut the grass).

This had been interpreted by some of our customers as being below the standard which they had previously received and paid for through a service charge, and has consequently led to disappointment.

We acknowledged that there were teething problems and are still working to improve things in some areas. Customer satisfaction stabilised for the remainder of the year.

Feedback from our customers is valuable. During 2016/17 we:

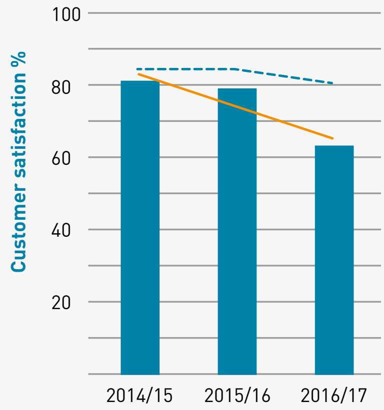
- Implemented new people structures to provide a consistent offer to our customers.
- Brought together our customer contact into a single point with a single customer relationship management system.
- Implemented consistent approaches for services such as repairs, allocations and planned works so that customers receive the same opportunity and quality of service.
- We were not able to implement any new surveys to gather customer insight during the year, but from April 2017 we have been undertaking ASB, new homes lettings and planned maintenance surveys, which are just a few of the new ways that we are gathering feedback to improve our services.

Future plans

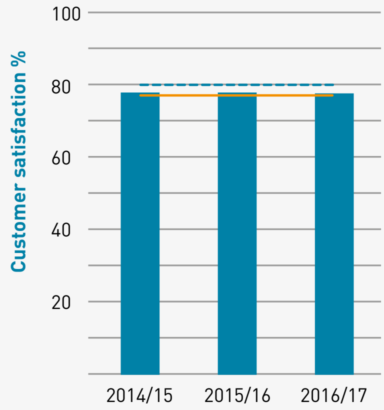
- A Customer Insight Project Group has been established and is developing an action plan for 2017/18 to address feedback and insight received, which will support an improvement in performance and the achievement of future years' targets.

Early indications show our performance in 2017/18 has seen an improvement in our customer satisfaction across all our main customer KPIs.

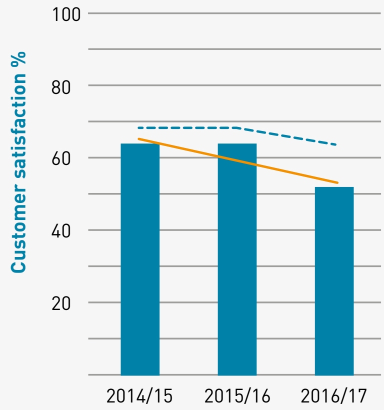
Customer satisfaction overall %



Customer satisfaction rent is VfM %



Customer satisfaction views taken into account %



Actual%)
Target %
Linear (Actual %)

Find us at

www.stonewater.org

or follow us on

Twitter

Facebook

LinkedIn

Contact us at

01234 889494

Email: **info@stonewater.org**

Stonewater Limited, Charitable Registered Societies No. 20558R Registered office: Suite C, Lancaster House, Grange Business Park, Enderby Road, Whetstone, Leicester, LE8 6EP.