YORKSHIRE HOUSING

VALUE FOR MONEY

Self-assessment statement for 2016-17 financial year

WELCOME TO OUR REPORT

This statement sets out how we ensure Yorkshire Housing is delivering value for money (VfM) and why it remains important to do so.

Why value for money matters

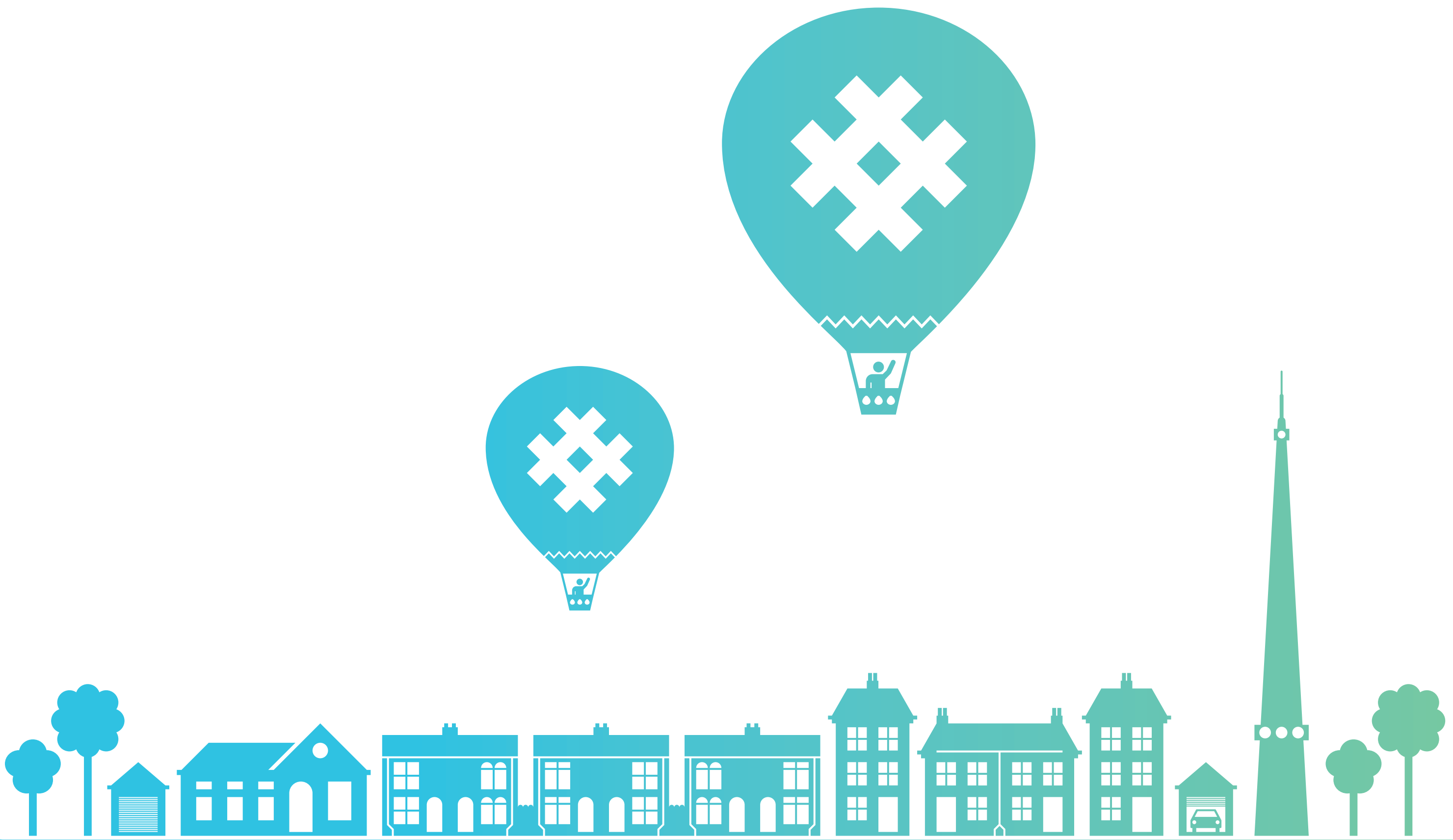
During the year, the board agreed a new corporate plan 2020 Growth and Transformation, which recognises the need for housing associations to play an even bigger role in fixing our broken housing market during a time of political, economic and social uncertainty.

Our value for money strategy will help us achieve savings which will enable us to meet our corporate objectives:

- Growth
- Independence
- Profit
- Transformation.

Last year, our tactical plan set challenging targets to close the £22m shortfall arising from the chancellor's decision to cut social rents and as a result trimmed £3m from our operating costs since 2015. In future, the focus will be to move onto transformational savings. Redesigning internal process should secure further efficiencies while maintaining our customer service standards.

This report sets out Yorkshire Housing's commitment to embed value for money so it's is second nature and benefiting tenants, investors and other stakeholders. This approach shields us against unexpected major political and economic events.



Why we need a separate value for money statement

We want our customers and other stakeholders to understand our ongoing commitment to value for money and that we're delivering an affordable service. We do this by taking stock of what we've done and using this to guide our plan.

This report meets two objectives: to meet regulatory requirements and to share our strategic plans and the important role that value for money will play. We publish a four-page summary of this self assessment on our website within our annual financial statements (www.yorkshirehousing.co.uk/about/annual reports) which shows our commitment to continuing to achieve value for money. The report sections cover:

- How we use our assets to support the delivery of our objectives
- Some of value for money improvements we've already made
- The costs of our services
- Our plans for the future.

VALUE FOR MONEY

Using our assets, growth and social value

We own or manage 17,930 homes and set rent levels that are affordable, sustainable and comply with regulatory guidance to ensure we are financially viable. In a changing world, it's important to keep a close eye on our homes so they are well maintained and meet customer expectations. We measure customer satisfaction, and benchmark annually our performance and costs against similar providers.

Assets disposals

We maintain rigorous internal control systems. The effectiveness of these is reviewed regularly through management audits and by third party auditors who report directly to the risk and assurance committee.

In addition to the audit work overseen by the risk and assurance committee, the board receives an annual statement from management giving assurance on internal controls. Our aim is to balance strong control systems with flexibility so that we can respond promptly and sensitively to the widely varying environment in which we provide homes and housing services.

We also assess asset performance by looking at the net rental return each home makes over the next 30 years against the value of that property. We use the industry standard HFAT (Housing Futures Assessment Tool) which is based on a standard discounted cashflow methodology.

On average, our homes give a net annual yield of just over five per cent against the original cost of each home. However, we don't just look at financial performance but also take into account:

- Customer satisfaction with neighbourhood
- Customer satisfaction with home
- Energy rating (linked to insulation, type of heating system and efficiency)
- Housing management assessment of schemes
- Turnover (how frequently tenants leave and the property is re-let).

Some properties are flats where individual disposal isn't feasible. Analysis of individual performance identifies a number of uneconomic properties which are then reviewed under our neighbourhood and asset management strategies to decide their long-term future This has helped prioritise investment and to identify homes considered for disposal either to another provider or when they become empty. During the year, we disposed of 226 properties in this way.

Growth
Disposal proceeds are reinvested in our development programme which helped us to hand over 517 much-needed new homes in the year some of which were available for mixed-tenure sites. Boosting the supply of homes boosts local economies and contributes to the government's new home-build targets.

We introduced Help at Hand, a service for older and vulnerable customers that helps them live independently in their own homes.

We secured a new Home Improvement Agency contract in the North East.

Our internal repairs service began to deliver some of our re-investment programme by installing bathrooms and kitchens.

Social value
In the same way that we measure financial return from our investment in property assets, we have begun to explore a social return measure to assess the impact on society of some of our customer support investment. Our three year target is to deliver a cumulative social return of £9.1 on an investment of £1.2m (calculated using a sector-wide HACT model) through supporting:

Community investment – social value £6.8m.
- When young people are inspired to take on an apprenticeship, attend sporting activities or training because of our advice and information, we know that they have a brighter future ahead.
- We help customers into part time, full time and self-employed work.
- We signpost or deliver training, helping customers enhance their knowledge.

Neighbourhoods – social value £0.8m
- Due to letting accommodation temporary accommodation to the homeless, which includes hostels' women's refuge and bed and breakfast.

Anti Social behaviour – social value £1.5m
- By addressing ASB issues, enhancing neighbourhoods.

VALUE FOR MONEY

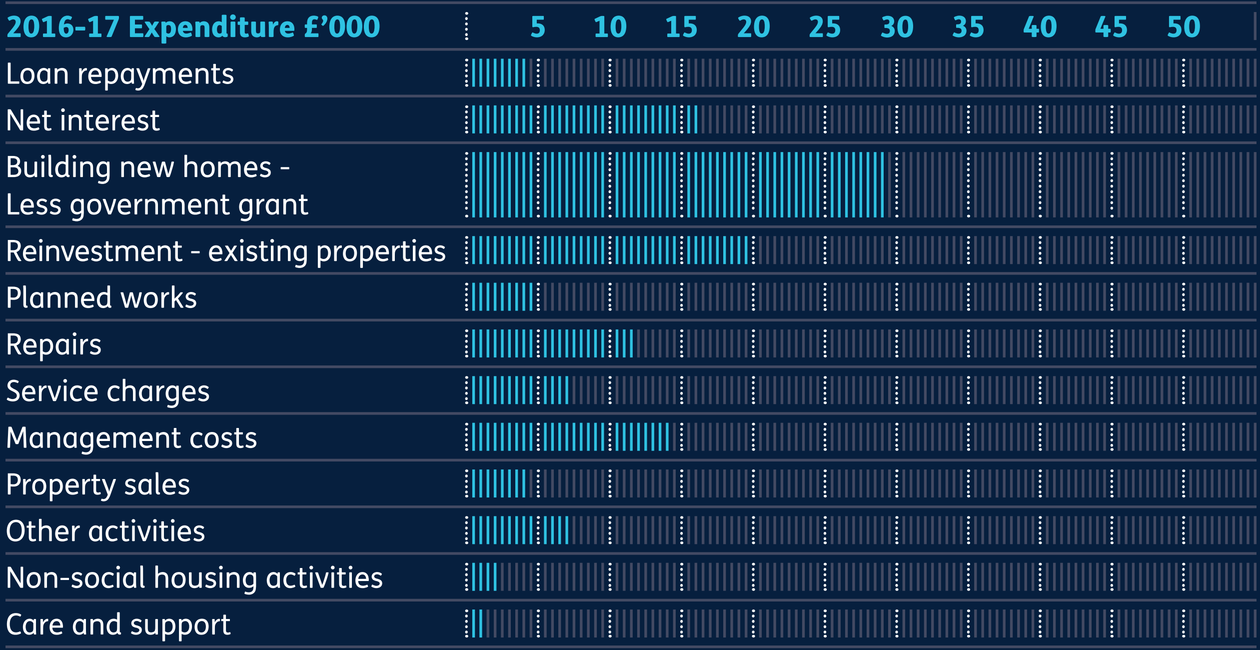
Understanding our income and costs

Where the money comes from:

Care and support	6%
Non-social housing activities	2%
Grant income	2%
Service charges	5%
Other activities	6%
New loans	13%
Property sales	13%
Rental income	59%

- £78m (72 per cent) of our income is due to rent and service charge income from our social properties
- Y H Residential our commercial arm generates income of £4m
- We generated £11m (13per cent) income through our disposal program
- During the year we added £16m to our existing loan portfolio to fund new homes.

Where the money goes:



- During the year we spent £49m on building new homes or improving existing homes

How we compare to last year	2016-17	2015-16	Change
Operating margin	31%	28%	
Earnings before interest and tax	158%	139%	
New homes	517	320	
Gearing	37%	37%	
Customer satisfaction	86%	88%	
Return on capital employed	4%	4%	
Occupancy	99%	99%	
Headline social housing cost per unit	3,963	4,088	
Rent collected	100%	99%	
Overheads to adjusted turnover	9.0%	8.3%	
Routine maintenance costs per property £(pa)	457.4	498.3	
Planned maintenance costs per property £(pa)	423.5	475.4	
Major repairs expenditure per property £(pa)	1,162	1,251.6	
Average re-let days	26	27	
Employee voluntary turnover rate	10.3%	7.6%	
Controllable customer turnover rate	8%	8.3%	
Management costs per unit £(pa)	776.5	833.7	

VALUE FOR MONEY

How we compare with others

We benchmark ourselves against 11 other organisations delivering a similar service, which enables us to assess VfM by looking at service quality as well as cost. We use the latest data set from Housemark, which compares us with other similar organisations. The comparisons that are currently available relate to the 2015-2016 financial year which plots each core service against cost and performance.

The chart helps us compare ourselves with others to identify opportunities to improve and compare performance over the years. The cluster of measures in the top right quadrant suggests that although performance is good, it comes at a higher price. Our value for money strategy aims to significantly reduce costs across most of these headings.

The obvious outlier is our spending on major works and cyclical maintenance where a combination of health and safety spend, environmental improvements and catch-up component replacement have led to the high cost. The poor performance rating relates mainly to environmental matters where the nature of the stock (off the gas grid and hard to insulate) compare poorly with others.

We expect continuing improvement in most areas for 17/18, but overheads will increase as we invest in cost-reduction measures which will deliver long-term gains. This will also depress our operating margin.

Value for money

1. Responsive repairs and void work	5. Lettings
2. Rent arrears and collection	6. Tenancy managements
3. Antisocial behaviour	7. Resident involvement
4. Major works and cyclical maintenance	8. Estate services

SELF-ASSESSMENT STATEMENT 2016-17

How we compare with others
In 2017 we have joined Performance Improvement Club (PIC), we are working collaboratively with 27 housing associations who share performance information on a quarterly basis to better understand the drivers underpinning performance against the peer group and achieve best practice. We show a summary of our results below:

FY16/17 KPI performance against PIC Group	Q1	Q2	Q3	Q4
Absenteeism rate (long term)		□		
Absenteeism rate (short term)		□		
Employee voluntary turnover rate		□		
Customer satisfaction index with R&M			□	
Controllable customer turnover rate F			□	
Average re-let days (std re-lets)		□		
Percentage empty days void as percentage days lettable			□	
Rent loss due to voids as percentage rent due		□		
Rent arrears as a percentage of rent roll		□		
Percentage of rent collected (of rent roll)		□		
Stock survey completion		□		
Management costs per property			□	
Major investment works per property				□
Planned and cyclical maintenance per property				□
Routing maintenance per property		□		
Interest cover (times)		□		
Weighted average interest rate		□		
OH percentage of T/O		□		
Rev. Growth percentage		□		
Gearing ratio	□			
ROA			□	
EBITDA (MRI) IC (incl prop)			□	
EBITDA (MRI) IC (excl prop)			□	
Net margin percentage		□		
OP margin percentage		□		

VALUE FOR MONEY

How well we did: a look back at improvements in the line with our corporate objectives

During the year, our underlying operating margin dropped slightly to 30 per cent excluding pension scheme closure costs. The pension moved from a defined benefits scheme to a contribution one which will bring future savings

As part of our value for money strategy, we set annual targets throughout the business to achieve value for money savings. We maintain an efficiency register, in addition teams carry out annual assessments to look at costs and improve service quality. During the financial year ended 31 March 2017, we secured £1.3m efficiency savings which was in line with our tactical plan to reduce costs:

- Accelerated our sales programme by selling uneconomical properties.
- Closed our defined benefit pension schemes to all employees
- Explored business areas that would benefit from building in-house specialist teams, saving on consultancy costs and associated VAT
- Expanded our in-house repair service to look after some of investment work
- Introduced self-serve technology for tenants. Where possible we try to automate manual processes, saving time for our lettings team and applicants
- We re-negotiated insurance contracts, reducing premiums whilst accepting higher insurance excesses
- Re-tendered services which achieved efficiency savings
- Reduced borrowing costs, by re-negotiating loans
- The Board decided to exit from learning and disability activities
- Standardised our approach for tendering for new contracts, setting financial targets from the outset
- We've reduced utility costs for communal areas by securing long term contracts which expired during the year
- We've reduced the social housing costs by 3 per cent per property
- Our rent and service charges arrears are the lowest they've ever been
- We introduced a new service to support individuals who would like to remain in their own homes called "help at hand"
- Y H Residential completed over 4,000 help to buy applications, winning national awards
- We secured a new mobile phone contract, as part of the deal our provider supplied us with up to 200 new mobile phones
- We enhanced our in house compliance team, which help to mitigate risk
- We implemented a register of assets and liabilities using existing resources, which is a key control document and regulatory requirement
- Introduced on-line portal for tenants to use to apply for homes
- Due to our investment program, we've seen a reduction in remedial and reactive repairs to boilers and kitchens.

The year ahead
In April 2017, our 2020 Growth and Transformation strategy set targets:

Growth – a bigger business serving more people across Yorkshire.

Independence – a strong business helping people to succeed.

Profit – a social business reinvesting income to do more.

- Making the best use of our assets. We will continue to review the use of all of our assets to make sure that we are getting the best possible return (social and financial) out of them. This will lead to a continuation of our disposals programme where properties are not economically sustainable, where demand has disappeared, or where there are others who are better placed to provide services.
- Reducing costs through our VfM initiatives, and principally though the Tomorrow's Yorkshire programme which is transforming the organisation and is our fourth strategic priority.
- Extending our in-house repairs service so we improve service quality at the same time as reducing the cost of provision as compared with third party suppliers.

Transformation – a better business achieving more at lower cost.

- Digital first for customers and colleagues. This means that we will increasingly deliver our services through the use of technology (e.g. customers requesting a repair and booking an appointment on line) rather than through manual, face to face or phone based channels. Our plan also covers the way in which we manage our business internally so colleagues will be able to self-serve rather than waiting for another team to step in.

Underpinning our plan and priorities are some hard targets that we have set for ourselves to deliver by 2020:

Customers

- 3,000 more homes
- 1,000 customers into work, better jobs, training or volunteering
- 15,000 older people helped to live independently
- 90 per cent customer satisfaction

Business

- 35 per cent operating margin
- £3,300 operating cost per home
- 10 per cent reduction in operating costs
- 85 per cent colleague engagement

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