Yarlington's Approach to VFM

Annual Value for Money Self Assessment 2016/17

1. Yarlington's approach to VFM

1.1 When Yarlington launched the Building Communities Strategy in 2011 our approach to Value for Money (VFM) and its recording was incorporated into the Viability Strategy, one of the six sub-strategies. One of the key aims of the Viability Strategy was to embed VFM across the whole organisation and into our culture, in order to deliver efficiency savings of over £2m. Last year we reported that those savings had been achieved. Through the delivery of the Building Communities Strategy and the accompanying Viability Strategy, we have also achieved our aim to embed VFM and we now incorporate VFM into all improvement plans, rather than having a standalone VFM Strategy. In 2015/16 for example we launched our YPM Transformation Plan and Yarlington First Improvement Plan; as well as incorporating VFM targets into budgets and setting an overall budgetary target. This approach to VFM has served us well in the value of VFM savings that we have achieved in the past five years; and particularly in our approach to identifying savings as a response to the 2015 Rent Reduction regime.

1.2 In 2016/17 we formalised our approach to setting and monitoring VFM targets and the link to achieving strategic objectives. We continue with our VFM log for recording individual VFM savings that occur during the year, and with monitoring VFM savings that are identified during the budget setting process. However, in addition, as part of our work in refreshing the Growth Strategy over the summer 2016, we made more explicit the link between our future VFM targets and how we can redeploy those efficiency gains into building additional new homes. The Growth Strategy, which was refreshed in 2016/17 as part of that overall Corporate Strategy, identifies the level of future VFM savings required from the ongoing business as subsidy (in addition to disposals and market sale profit), in order to meet the Board's ambition to deliver additional new homes above our previous ambition in the Financial Plan.

2. Overall Assessment for 2016/17

2.1 The Homes and Community Agency (HCA) requires Yarlington Housing Group to demonstrate how we are meeting the Value for Money ("VFM") standard – i.e. how we are achieving VFM in delivering our strategic objectives.

2.2 This statement acts as a self-assessment of how we have delivered VFM during 2016/17 and how we plan to deliver and improve VFM in future years. An overview of this self-assessment is contained in our Strategic Review in our annual financial statements.

2.3 This self-assessment covers:

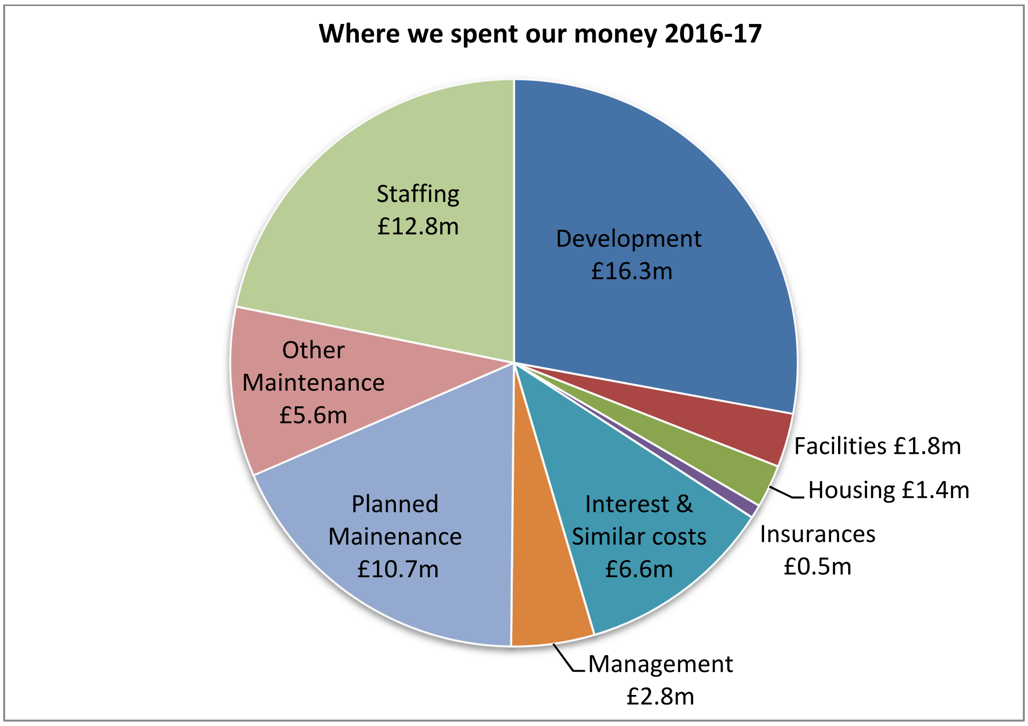
- Our overall assessment of compliance with the VFM standard

- Absolute and comparative costs of delivering services
- Achievement of targeted gains
- Future savings targets
- Return on our assets
- How resources are allocated
- How we evidence improvement and assurance
- Summary and looking forward

2.4 The Board has reviewed the preparation and the contents of this Statement. In its opinion Yarlington delivers good Value for Money in its strategic decision making and in the delivery of its services. The Board sets clear targets for efficiency savings in the future and to monitor the delivery of those savings on a quarterly basis.

2.5 In our previous VFM statement we set out the VFM targets for 2016/17 and how we were going to achieve them. This statement explains how they were achieved in 2016/17 as well as targets and required actions in 2017/18.

2.6 Below we set out how Yarlington spends its money. This VFM Self Assessment provides commentary throughout on the initiatives that have been undertaken during the year to drive efficiencies in the key areas of expenditure.



3. Absolute and comparative costs of delivering services (cost per unit)

3.1 During the year we undertook varied forms of benchmarking the costs of delivering our services and our performance. In this section we report on the main methods of comparing our relative efficiency with other providers:

- Annual and quarterly Housemark benchmarking of cost and performance against peers and our trends
- Cost per unit analysis
- Financial benchmarking using Moody's analysis of credit rated providers
- Other benchmarking.

3.2 We also incorporate the outcomes from the various benchmarking into our Budget Setting process and use our Service Evolution and Performance management frameworks to dive into specific areas of service delivery before any benchmarking activity is completed to interrogate performance on a much deeper level than previously undertaken. By tightening the links between Performance management, budget monitoring, customer feedback and service evolution reviews we are able to more quickly identify areas requiring investigation.

Housemark benchmarking of cost and performance

3.3 Our main method of benchmarking is as an active member of Housemark, in both the comprehensive annual benchmarking and the quarterly benchmarking of key performance indicators.

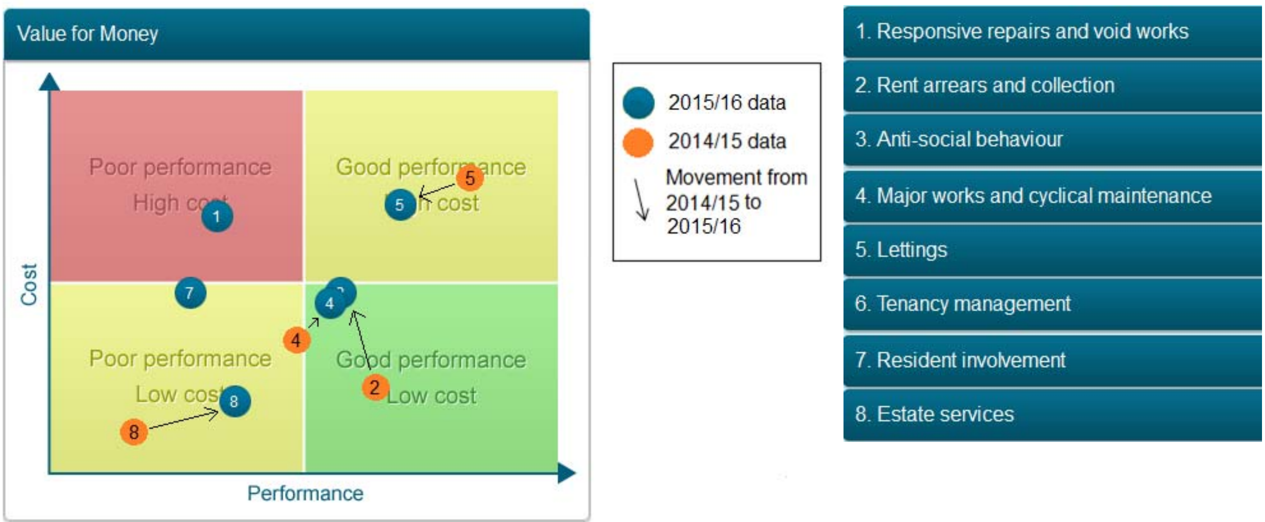
3.4 We have undertaken extensive interrogation of 2015-16 Housemark benchmarking data (the most up to date data), basing our review on their Value for Money dashboard below. We also overlay certain cost data with how we performed in 2016/17.

3.5 We are pleased to report that overall our comparative costs have typically remained stable or reduced over the past 2 years. Certain cost reductions were significant as a result of our response to the July 2015 Budget.

VFM Dashboard

3.6 The VFM dashboard showing the results and movement on the 8 key areas from 2014/15 to 2015/16, compared to our peers. We provide a commentary on:

- analysis of results;
- trends in absolute costs per property over the past four years and actuals for 2016/17;
- key actions taken in 2016/17 to improve overall performance along with the intended outcomes.



4. 1. Responsive Repairs and Void Works

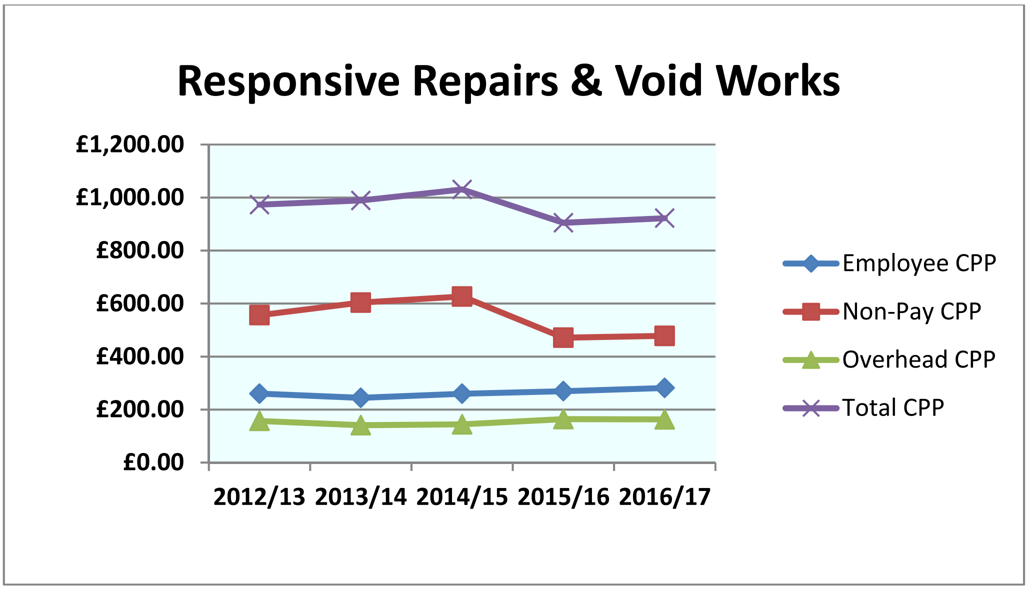
- **Poor performance**

Performance Measures	2016/17	2015/16	Quartile	2014/15	2013/14
Average Completion time (days)	9.08	10.65	3	No data	11.01

Repairs appointments kept	96.86%	98.41	1	98.35	98.58
Customer satisfaction with Repairs	84.6%	82.3%	3	75.2%	84.5%

- **High cost (stable trend)**

Cost per unit Measures	2016/17 Forecast	2015/16	Quartile	2014/15	2013/14
Direct Non-Pay CPP	£478.06	£471.21		626.7	£603.6
Direct Employee CPP	£281.41	£269.57		259.9	£244.2
Overhead CPP	£162.83	£163.97	3	144.1	£141.1
Total CPP	£922.31	£904.75	3	£960.45	£988,91
Average Employee Cost*		£32,095.69	2	£32,997	£30,844
Direct Employees per 1000 properties		8.4	3	7.88	7.79



4.1 The table below shows the actual costs for 2016/17 compared to previous years, and a forecast for this year:

RESPONSIVE REPAIRS & VOID WORKS	2013/14 Actual £	2014/15 Actual £	2015/16 Actual £	2016/17 Actual £
Responsive Repairs (Service Provision)	2,477,002	2,601,114	2,259,929	2,294,672
Responsive Repairs (Management)	22,279	18,762	5,488	9,025
Void Works (Service Provision)	2,897,098	2,363,850	2,067,350	2,130,724

4.2 We improved the financial control and management of our maintenance budgets in 2015/16 with the new MD of property having a finance background; and a strong emphasis on reporting the financial position via Customer Services Committee. A target of £277k VFM saving was set and savings of more than double this were achieved. The vast majority of this saving is ongoing enabling a reduction for 2017-18 to be established. The greater emphasis that was placed on spend and spending controls (particularly around the use of sub-contractors) ensured that the required savings materialised.

4.3 Customer satisfaction, as measured on survey cards returned, steadily improved during 2016/17 and by the year-end was at 96.8%, well in excess of the target of 85%.

4.4 Productivity improved throughout the year and by the year-end the average number of visits per employee per day was 3.79 (target of 3.60) and the average number of jobs per employee per day was 5.58 (target of 5.00). The average number of days taken to complete a repair was 9.08 days, which was well under the target (and customer expectation) of 30 days.

4.5 Considerable effort, across the organisation was made to control both the number of voids and the average spend per void. At the year-end an underspend against the budget of £96k was achieved. Of this, £200k was due to the favourable volume variance as only 724 properties became void compared with an estimated 780. However there was an overspend of £104k in respect of costs. This equated to £143 per void and was predominantly caused by the state of some of the properties being returned. This is being reviewed and monitored in 2017-18.

Key Actions taken in 2016/17	Outcomes Achieved
Implement the new scheduler system	Improved customer satisfaction and reduced costs
Review the working arrangements of the workforce, so 12 members of staff move from 37 hour week to a 40 hour week	Reduction in overhead costs and the reduction of the cost of one van
Reviewed two person team arrangements, this will include two person teams sharing the same van	Reduction in overhead costs
Introduce a text messaging service confirming and then reminding residents of their appointment	Increase in customer satisfaction and reduce the costs of wasted journeys
Provide clear guidance on the decorating standard which is part of the overall void standard. This being further reviewed during 2017-18	Increase in customer satisfaction

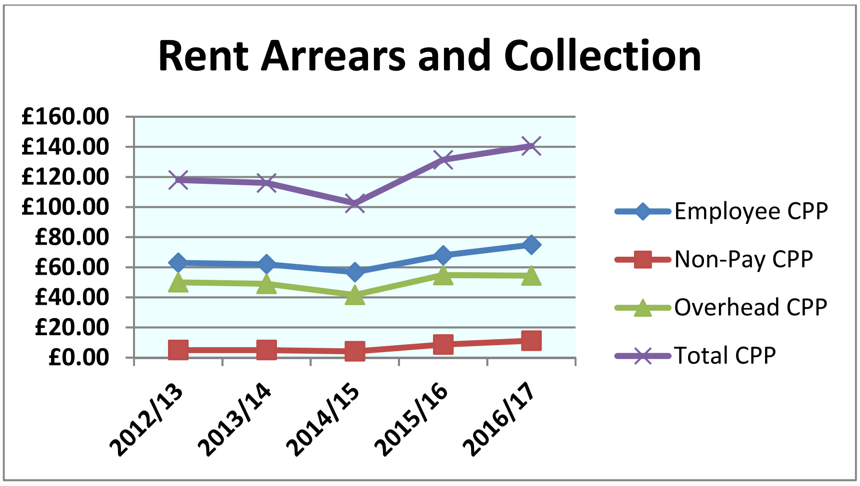
5. 2. Rent Arrears and Collection

- **Good Performance (stable trend)**
- **Low cost (declining trend)**

Performance Measures	2016/17	2015/16	Quartile	2014/15	2013/14
Rent Collected	101.66%	99.51%	3	99.07%	99.3%
Current Tenant Rent Arrears	1.61%	1.63%	1	1.72%	1.25%
Former Tenant Rent Arrears	0.93%	0.97%	2	0.91%	0.9%
Write Offs	0.53%	0.41%	3	0.34%	0.65%

Cost Measure	2016/17 Forecast	2015/16	Quartile	2014/15	2013/14
Direct Employee CPP	£74.94	£67.91	3	56.77	£62
Direct non-pay CPP	£11.21	£ 8.64	1	4.13	£5
Overhead CPP	£54.47	£54.85	3	41.64	£49

Total CPP	£140.62	£131.40	2	102.55	£117
Average Employee Cost		£33,858.91	3	34,930.36	£34,403
Direct Employees per 1000 properties		2.01	2	1.63	1.81



5.1 We continue to develop the IT infrastructure to support tenants to be able to self serve as well as proving convenient payment solutions. A self serving Portal to be able to check transactions and balance is in place and we hope to develop registration for DD and online payment within the portal. Direct Debit remains the cheapest method of collection and we now have an automated payment line which we plan to move existing customers who ring and speak to staff to this method.

5.2 Arrears performance continues an improving trend and we were pleased to record 1.62% year end performance which is a slight improvement on last year. The introduction of rent on time and additional focus on new residents continues to support arrears performance in light of the introduction of Universal Credit. Universal Credit has picked up pace and we have so far managed to support residents through the transition from Housing Benefit. We forecast an upward arrears performance through next year and early indications suggest this may not be as bad as initially predicted. We will closely monitor the impact of the Benefits Cap and continued roll out of UC.

5.3 We continue to focus on customers paying by direct debit (the most efficient collection method) and in 2016/ 17, have increased accounts paying by DD by 700 totalling 6738 accounts paying by this method. We aim to continue this trend and are targeting to get 7500 accounts paying by this method in 2017/18. Welfare Reforms pose a risk which we continue to mitigate supporting tenants through the transition of Universal Credit and Benefits Cap.

Key Actions 2016/17	Outcomes Achieved
Continue to remove Notional Benefit arrears	All residents expected to put their accounts in a position of not showing arrears – improving income collection
Migrate tenants to Universal Credit	Mitigates the risk of increased arrears during the 5-7 week gap in receiving

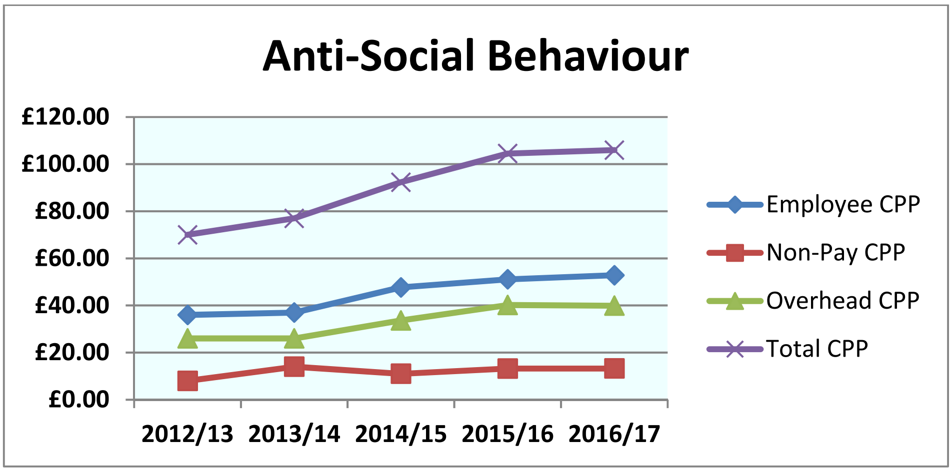
	payment – Avoid increase in evictions
Assist residents impacted by further benefit cap reductions.	Prioritises rent payments as residents adjust their budget – improving income collection avoiding bad debts
Further increase resident payment by Direct Debit.	Reduced collection costs.
All payments over the phone to become mandatory automated line.	Improved service for customers. And reduced transaction costs
Enable residents to manage their account and payments online through the resident portal.	Improve services for customers and reduce personal contact / costs. Reduce postage costs

6. 3. Anti-Social Behaviour

- **No performance score (due to new IT system introduced during year)**
- **High Cost**

Performance Measures	2016/17	2015/16	Quartile	2014/15	2013/14
Resolution Rate	No data	No data	Not available	No Data	98.5%
Satisfaction with ASB Case Handling	70.2%	71.8%	4	70%	80%
Satisfaction with ASB Case Outcome	60.9%	63.4%	4	62.50%	73%

Cost Measure	2016/17 Forecast	2015/16	Quartile	2014/15	2013/14
Direct Employee CPP	£52.84	£51.11	4	£47.67	£37
Direct non-pay CPP	£13.23	£13.20	4	£11.02	£14
Overhead CPP	£39.90	£40.18	4	£33.64	£26
Total CPP	£105.97	£104.49	4	£92.32	£76
Average Employee Cost		£34,782.5	3	£36,310.7	£37,996
Direct Employees per 1000 properties		1.47	4	1.31	0.96



6.1 Over 1700 active ASB cases were raised in 2015/16. Managing Anti-Social Behaviour is classified as high cost (per property owned) and our performance (based on customer satisfaction) is in the lowest quartile compared to our peers. Although we are considered at above average cost in overall terms, we consider the most meaningful measure to be the direct cost per ASB case, which Housemark also calculate, this is £270.26 and this ranks us in quartile 1. In addition to this, we undertake all our own litigation work in appropriate cases which will increase our direct costs, albeit saving on external legal costs.

6.2 We recognise there is room for improvement for increasing our performance in ASB. There is a slight improvement in satisfaction with handling and outcome of case from 2014/15, increasing to 71.8% and 63.4% respectfully. However, this is still in the lowest quartile compared to our peers and shows there is a need for improvement. We continually analyse the satisfaction figures and the feedback from customers about ASB. The consistent theme which we have identified is improving our communication with customers. A pilot ‘of keeping in contact’ and follow-ups of customers feedback was started and was successful. However as part of our response to the 2015 Budget, we reduced resources in our Communities Team and this pilot was not extended as it did not deliver sufficient VFM. Improving our performance on ASB is a priority area and we have a detailed action plan for 2015/16.

6.3 Whilst our cost per case is quartile 1 our overall cost per property is quartile 4. This would point to a higher volume of cases. One area where we saw a higher volume and associated costs is the new development of Welsh Mill in Frome and a separate action plan to address this has been developed. In 2016/17, we started to address the issue of volume by firstly developing a more consistent approach and taking a firmer line on areas which are residents’ responsibility.

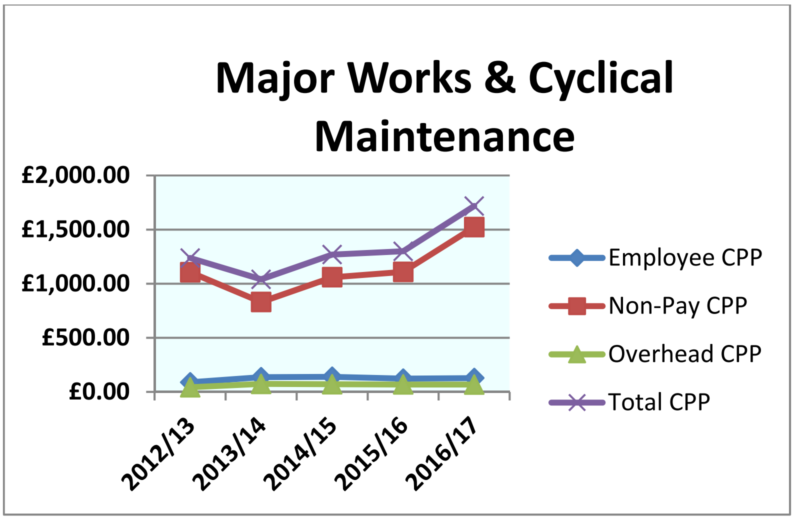
Key Actions 2016/17	**Outcomes Achieved**
Continue to improve communication and managing expectations of customers; including regularly updating the customer, providing an agreed action plan and responding within timescales.	Improved KPI results and more satisfied customers
Investigate and analyse the benefits and costs of early interventions	Reduced ASB caseload and hence costs; and improved customer satisfaction
Undertake a comprehensive review of the ASB Service to identify best practice, alternative operating models and achieving best VFM and social value	Improved effectiveness and reduce costs
Implement action plan for Welsh Mill	Reduced turnover and case volume with reduce costs
Develop a more consistent approach to ASB and take a firmer position	Reduced volume of cases will reduce costs

7. 4. Major Works & Cyclical Maintenance

- **Good performance (improving trend)**
- **Low Cost (stable trend)**

Performance Measures	2016/17	2015/16	Quartile	2014/15	2013/14
Decent Homes failure	0%	0%	1	0%	0%
Average SAP Rating	70.7	70.3	3	69.2	69.2
Satisfaction with quality of home	86.9%	86.1%	2	80.20%	86%

Cost Measure	2016/17 Forecast	2015/16	Quartile	2014/15	2013/14
Direct Employee CPP	£127.51	£122.37		139.4	£136
Direct non-pay CPP	£1,522.09	£1,108.40		1058.84	£830
Overhead CPP	£67.87	£68.34	2	£70.61	£74
Total CPP	£1,717.47	£1299.11	2	£1268.86	£1,058
Average Employee Cost		£38,618.31	3	£41,996.43	£42,163
Direct Employees per 1000 properties		3.17	2	3.32	3.22



7.1 We no longer report the average SAP rating across the whole stock but regularly report on the number of properties which are not achieving a satisfactory SAP rating (69). We remain committed to taking all properties out of fuel poverty (achieving a SAP rating of 69) by– accepting that this increases the cost per property in 2016/17 and beyond.

7.2 Annual spending levels continue to fluctuate, year to year, as significant elements of the programme are driven by life cycles combined with stock condition surveying data. There are also significant elements of the overall programme which are "contingency" type allowances e.g. structural repairs which can distort overall programme delivery performance. In 2016/17 only 91.8% of the Budget was spent but 95.1% of the components that were scheduled to be replaced were replaced. Once again a target of 95% has been set in respect of component replacements, for 2017-18.

7.3 The trend of tolerating lower levels of refusals continued and at the year-end had reduced to around 4% compared against a target of 8% which was the performance level in 2015-16

7.4 Resident satisfaction with the capital works that they received (e.g. Kitchen, Bathroom, and Heating) was 97.6%, in excess of the 95% target.

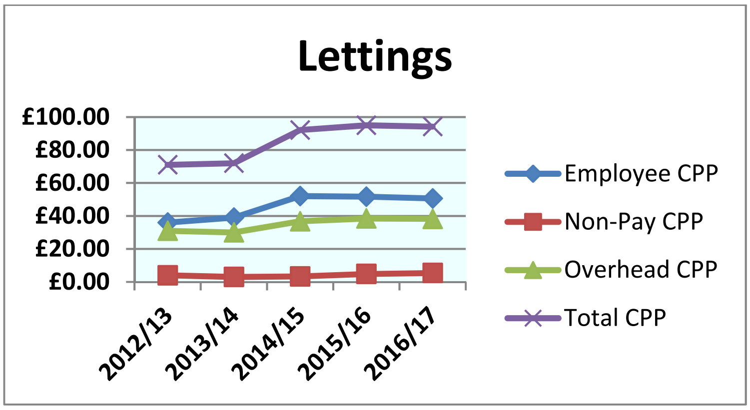
Key Actions 2016/17	Outcomes Achieved
Go live with the total mobile solution	Allows for agile working. This reduced the administration cost from the overall process
Review the approach to stock condition surveying, so staff members have clear individual targets	Better decision making for the business.
Review the approach to contract management	Greater financial control of the progress of planned maintenance throughout the year
Review component life cycles during the year. A more extensive review is scheduled for 2017-18	If the component life cycles are extended, this will result in financial savings through the life of the Financial plan

8. 5. Lettings

- **Good Performance (stable trend)**
- **High cost (stable trend)**

Performance Measures	2016/17	2015/16	Quartile	2014/15	2013/14
Vacant and Available Properties	0.18%	0.22%	1	1.10%	0.6%
Vacant but Unavailable Properties	0.42%	0.46%	2	0.09%	0.1%
Average Re-let time (days)	11.25	16.61	1	16.87	12.7
Void Loss	0.52%	0.90%	2	0.55	0.6%

Cost Measures	2016/17 Forecast	2015/16	Quartile	2014/15	2013/14
Direct Employee CPP	£50.61	£51.68	4	52.03	£39
Direct non-pay CPP	£5.38	£4.84	3	3.31	£3
Overhead CPP	£38.19	£38.46	4	£36.78	£30
Total CPP	£94.19	£94.98	3	£92.11	£73
Average Employee Cost		£36,541.3	4	£35,923.20	£34,847
Direct Employees per 1000 properties		1.41	3	1.45	1.13



8.1 The Lettings Team has through the year put a strong emphasis on ensuring we house customers who will sustain their tenancies. Having tenants who can demonstrate strong financial and good track record in previous tenancies

8.2 We have reviewed the team structure reducing the overall establishment. The team continue to focus on utilising the IT systems to find further efficiencies. We hope to develop a self serve verification process which supports the customer journey to become a Yarlington tenant.

8.3 Performance at the end of March finished strong with the average re-let time for properties with standard void works of 11.25 days. Improved working relationship between the Lettings and Voids team continues to support this position.

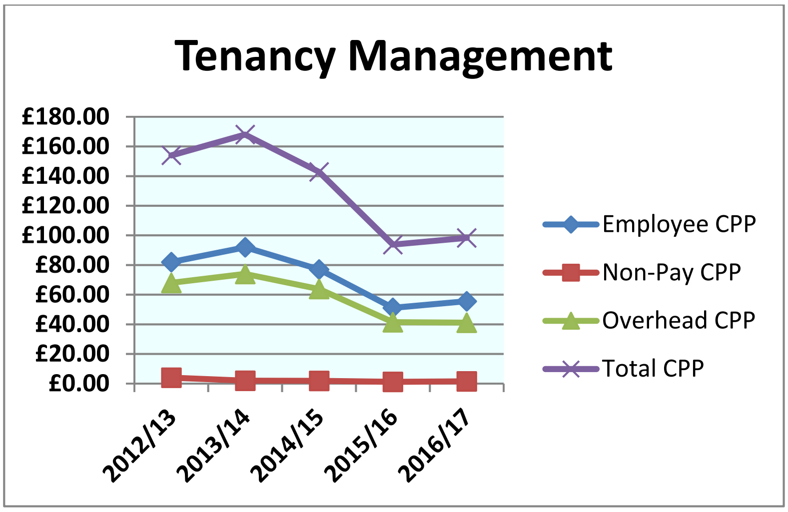
Key Actions 2016/17	Outcomes Achieved
Self serve verification	Remove officer time to verify applicant details.
Further review resources in light of IT efficiencies	Reduce establishment costs

9. 6. Tenancy Management

- **No performance score**
- **High cost (improving trend)**

Performance Measures	2016/17	2015/16	Quartile	2014/15	2013/14
Tenancy Turnover (%)	8.15%	8.41%	2	9.49%	10.4%
Evictions (%)	0.52%	No data	Not available	0.18%	0.20%
Customers satisfaction Tenancy Management overall	89.10%	84.90%	4	81.50%	83.8%

Cost Measure	2016/17 Forecast	2015/16	Quartile	2014/15	2013/14
Direct Employee CPP	£55.62	£51.14	2	£77.06	£92
Direct non-pay CPP	£1.55	£1.21	1	£1.90	£2
Overhead CPP	£41.15	£41.44	3	£63.86	£74
Total CPP	£98.32	£93.79	2	£142.82	£167
Average Employee Cost		£32,241.7	2	£29,772.3	£30,933
Direct Employees per 1000 properties		1.59	2	2.59	2.97



9.1 Tenancy turnover for 2015/16 has improved from 2014/15 and is favourable to our peers. Customer satisfaction with the service remains lower than our peers but has increased since 2014/15. We were unable to report on the % evictions for 2015/16 due to a system reporting issue.

9.2 Our costs of tenancy management have significantly reduced in 2015/16. The majority of tenancy management costs this year are attributed to the Communities Team, Retirement Living Team and Yarlington First, and costs were previously fully apportioned from all teams from 2013/14. The Communities Team has however reduced its establishment by five and a half full time equivalents because of more agile and digital working.

Tenancy Management Costs	2013/14	2014/15	2015/16
Direct Employee Cost	820,546	697,473	470,206
Overhead Cost	657,968	576,277	381,016

9.3 To further understand our costs, the Communities team undertook a timesheet analysis to understand the team costs by different service elements, and have made comparisons with other organisations. The information is being used to ensure more efficient unit costs, more streamlined processes and targeting of activities that can be ceased. This resulted in the reduction and removal of some activities and services. We have identified some areas where our approach to neighbourhood management and low level ASB needs to be more consistent and will increase the ability of our contact centre, Yarlington First, to deal with an issue at first point of contact rather than referring it on. This consistency will also bring an increased emphasis on the residents' responsibility to deal with issues. The review of the corporate strategy in 2015/16 will identify further areas where we could reduce the service offer.

9.4 Some elements of digital technology are being employed to reduce costs such as the use of text messages as reminders for repairs to reduce call volumes and we are forecasting that Yarlington First will outperform its staffing budget for 2016/17 by £40k. More significant savings will come from the introduction of an online Customer Portal and moving residents to self service during 2017/18, targets for this will be set in 2016/17.

Key Actions 2016/17	Outcomes Achieved

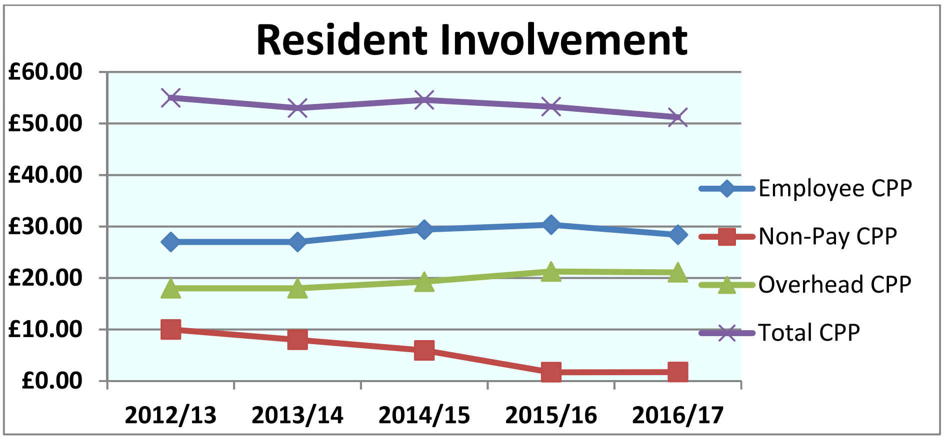
Sheltered Housing Officers transferred to the Communities team on 1st April 2016. Taken on the role of Community Coordinators.	Consistent tenancy management across all of our properties, reducing costs and increasing satisfaction
Corporate approach to improving customer satisfaction (currently reactive rather than pro-active)	Improved customer satisfaction
Streamlined tenancy management processes	Reduction in costs

10. 7. Resident Involvement

- **Poor performance**
- **Low cost (bordering on high)**

Performance Measures	2016/17	2015/16	Quartile	2014/15	2013/14
Diversity Information Held	80.7%	80.2%	3	No Data	68.4%
Customer satisfaction that their views are taken into account	71.8%	70.7%	3	63%	68.80%

Cost Measure	2016/17 Forecast	2015/16	Quartile	2014/15	2013/14
Direct Employee CPP	£28.39	£30.34	3	£29.39	£27
Direct non-pay CPP	£1.73	£1.69	1	£5.93	£8
Overhead CPP	£21.10	£21.25	3	£19.27	£18
Total CPP	£51.22	£53.28	2	£54.59	£53
Average Employee Cost		£37,030.23	3	£37,612.25	£38,789
Direct Employees per 1000 properties		0.82	3	0.78	0.70



10.1 Satisfaction with listening to the views of customers has shown a declining trend over the past three years. However, this has improved considerably this year from 63% in 2014/15, to 70.7% in 2015/16.

10.2 Resident involvement is led by our Customer and Community Engagement Coordinator, but a number of teams across the business allocate time to Resident Involvement. As a result of the Summer Budget, we restructured the service and removed three posts from the establishment and therefore reduced costs for this area.

10.3 We removed the long standing but ineffective customer Focus Groups and replaced these with Strategic Focus Groups and Task and Finish groups as appropriate. This has also reduced on going costs. We have continued to increase our engagement with customers through social media. This includes using Facebook for Yarlington Chat where we currently have over 4,400 members. We used Social Media outlets to gain residents' views interactively and have effectively engaged with them for Strategic Focus Groups and other strategic issues

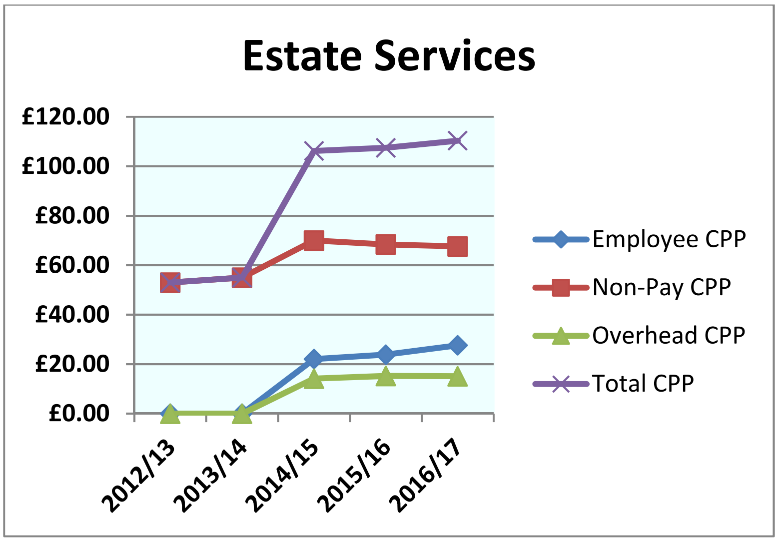
Key Actions 2016/17	Outcomes Achieved
Implement a Customer Engagement Plan	New Plan replaced existing Resident Involvement Strategy will be implemented and monitored, setting the future direction of Customer Engagement at Yarlington.
Continue to develop digital solutions to effectively engage with our residents	Hear what our residents expectations are, what services they want, what challenges they face and take this into account when developing strategies and policies. A move to digital solutions will reduce costs
Reformed the resident governance structure, including disbanding The LINK.	Created a more effective and efficient resident governance structure.

11. 8. Estate Services

- **Poor performance (improving trend)**
- **Low cost (stable trend)**

Performance Measure	2016/17	2015/16	Quartile	2014/15	2013/14
Customer satisfaction with their Neighbourhood	84.6%	84.3%	3	77.8%	84.4%

Cost	2016/17 Forecast	2015/16	Quartile	2014/15	2013/14
Direct Employee CPP	£27.62	£23.84		£22.08	No Data
Direct non-pay CPP	£67.61	£68.41		£70	£55
Overhead CPP	£15.12	£15.23	2	£14.16	£0
Total CPP	£110.35	£107.48	1	£106.28	£63
Average Employee Cost		£25,199.01		£24,992	No Data
Direct Employees per 1,000 properties		0.95		0.88	No Data



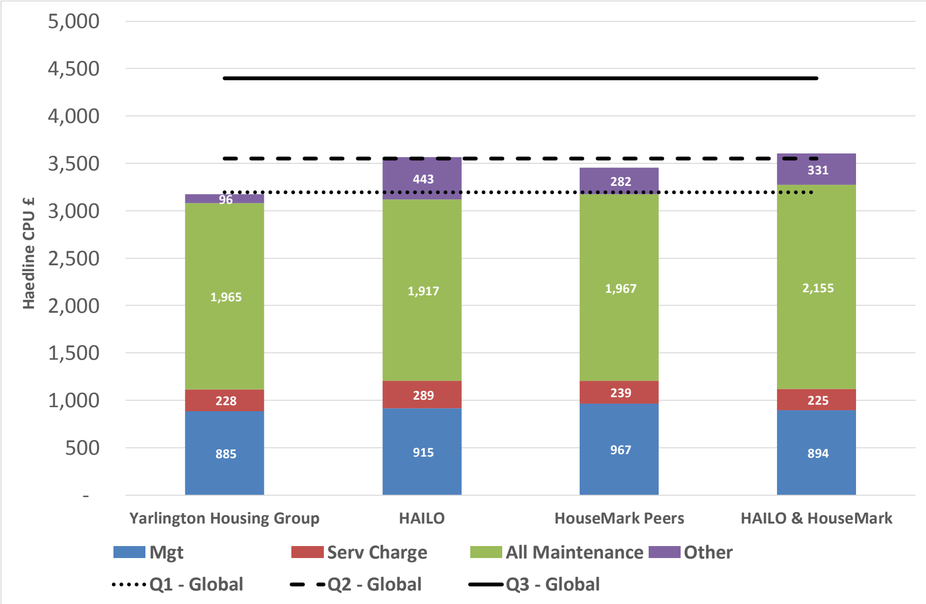
11.1 Performance is measured by customer satisfaction with their neighbourhood, which has increased from 77.8% to 84.3%. This is particularly pleasing as the comprehensive spending review in 2015/16 resulted in the environmental and estate management budgets not being spent in full for the year – hence the comparatively low cost of providing the service.

11.2 Responsibility for estate inspections was realigned amongst the team to improve performance and customer satisfaction, resulting in improved results.

11.3 In response to the Summer 2015 budget, the estate management budget has been reduced to £50,000 in 2016/17 and there is no environmental budget, so expenditure on neighbourhoods will be limited. This is expected to have a detrimental effect on customer satisfaction - however analysis of feedback demonstrates that many of the issues causing dissatisfaction (and potentially ASB) are areas which fall outside Yarlington's responsibility and sit either with Local Authorities or residents themselves. We will be addressing this through the action plan on ASB above.

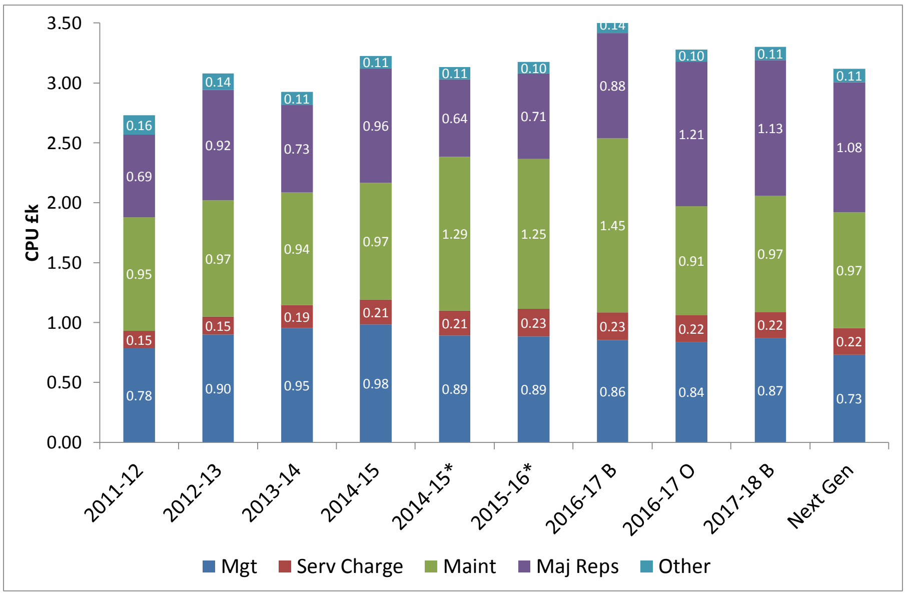
12. Unit cost analysis

12.1 In June 2016 our Regulator, the HCA, published its research into "Understanding Differences in Unit Costs", which analysed the differences in unit costs between providers, and provided updated information for 2015/16 in December 2016. We have used the Housemark tool to identify a group of providers with a similar cost structure to enable more meaningful understanding of our cost drivers. This analysis below showed that where we were in Q1 for 2015/16.



12.2 We used the information to set ourself the target of becoming top quartile in terms of headline cost per unit for budget setting purposes for 2017/18. This required making efficiency savings of around £2.3m per annum. The resultant increase in operating surplus will be used to fund the increase in new homes identified in the Growth Strategy which was approve din November 2016.

12.3 Our analysis also extended to comparing trends in our costs per unit over time, including our projected cost for 2017/18 and our costs under NextGen. This shows a reassuring decrease in costs per unit (excluding our discretionary spend on Fuel Poverty works) as shown below.



12.4 The Board now use this cost per unit analysis to set targets for headline cost; underlying management cost and responsive maintenance costs per unit have been monitored quarterly throughout 2016/17 as part of the Board scorecard.

13. Financial benchmarking

13.1 In January 2016 Moody's reaffirmed the A2 stable issuer rating of Yarlington Housing Group (Yarlington) and the Baseline Credit Assessment (BCA) of baa1. The retention of this rating was despite the uncertainty in the sector of Brexit and the increase in our development aspirations. Moody's were particularly impressed with the decision making and risk management of Yarlington. We use the Moody's quartile rankings to set the Internal Financial Measures which form the financial parameters within we which we make strategic decisions.

14. Other benchmarking and analysis of costs

Development Benchmarking

14.1 The cost of development and of Yarlington being able to deliver its development services for the group are extremely important in terms of the level of capital spend that is allocated to this area of our business.

14.2 The delivery of development and the cost for providing this is monitored on a monthly basis through key performance indicators, and is currently set at 4% of acquisition and works costs. Typically in the sector organisations with an annual development programme of 500 or more, tend to have delivery costs at around 2% of their total acquisition and works costs, and organisations with smaller programmes of less than 500 units tend to experience costs of around 4%. Yarlington's average scheme size tends to be 15 units.

14.3 With house building figures predicted to rise, and evidence in the market that the sector is already struggling to meet demand, controlling our build costs is also equally important in delivering our ambitions for growth. This may be compounded by the potential cost inflationary pressures and skills shortages arising from the Hinkley Point construction in Somerset. Cost control is an area that Yarlington have been focusing a considerable amount of time, and energy, in order to look at how we control build costs moving forward and how we compare in terms of costs with our peers both nationally and regionally.

Staff Satisfaction and Sickness

14.4 The most recent Staff Satisfaction survey took place in March 2016. Overall satisfaction with Yarlington as an employer was 89% (10% rated neither satisfied nor dissatisfied and 1% rated dissatisfied). Satisfaction with job was 81% (15% rated themselves as neither and 4% as dissatisfied). Each team has developed an action plan for specific improvements that can be made within their team. These action plans will be monitored at monthly team meetings.

14.5 In 2016/17 there was an average of 9 days sickness per employee at Yarlington. The total days absence of 3202 equates to 10 full time staff being off for the whole year. 990 days of this was due to long term sick which equates to 4 people being off sick for 12 months. This is a direct cost to Yarlington of approx. £300,000 (not including NI or pension contributions).

14.6 We acknowledge that this level of staff sickness is higher than the sector average of 7.9 days and the public sector at 6.9 days. Sickness is currently being managed in accordance with Attendance Policy and triggers are being acted upon. Further focus is required to drive consistency across the business with a greater opportunity for Managers to effectively manage long-term sick cases from the start which will be prompted by HR.

15. Pay Benchmarking

15.1 We undertook pay benchmarking for all new roles throughout 2016/17 and for any roles that experienced significant change in scale or responsibilities. For specialist roles we also sought information from other South West based providers and trends identified by our independent benchmarking consultants.

16. Achievement of targeted VFM gains and future targets

16.1 We monitor the achievement of VFM savings through a variety of routes. As referred to above each year we have a number of improvement plans that have their own efficiency targets. These are monitored by the appropriate committee of the Board. For 2015/16 we had the following improvement plans:

Yarlington Property Management Transformation Plan (maintenance)

16.2 The YPM Transformation Plan was launched in March 2015 and set clear performance and financial targets. The target efficiency savings for responsive repairs during 2016/17 was £277k. The actual performance for the year achieved additional savings of £334k, exceeding the target by more than 120%. Further savings have been targeted during 2017-18 as we continue to improve the efficiency of trades staff and reducing overheads and vehicle costs.

16.3 The YPM Transformation Plan also includes targets for efficiency savings in the void repair process with the in-house Voids team completing at least 35% of all voids. This was achieved during 2016-17.

16.4 The YPM Transformation Plan was refreshed during 2016/17 with revised targets being set. Progress was reported quarterly to the Board's Customer Services Committee.16.6 . We have set a Responsive Repairs budget for 2017/18 which reduces the cost base further. Staffing levels continue to be regularly reviewed and further reductions have been made as a consequence of increasing the working week for some trade staff (saving overhead costs), the approach to two-person teams and by setting and achieving increased productivity targets.

16.5 The Voids and Lettings Team have agreed a more consistent approach towards decoration which is ensuring that full decoration only occurs in exceptional cases, with paint packs being supplied as the "norm". Early indications in 2016/17 are that we are spending approximately £100 per void less than budgeted, which would yield VFM savings of £75,000 on the budgeted number of voids.

Strategic Asset Management Plan

16.6 We approved a refreshed strategic asset management plan in May 2016. This plan set out a number of short and longer term actions which will trigger efficiency savings and/or income in the longer term. For example in 2016/17 we disposed of 16 vacant properties, following the appraisal process, generating receipts of approximately £2.2m which will support the on-going new build programme.

Savings identified in the NextGen Strategy

16.7 During 2016/17 we refreshed and finalised our corporate strategy and in particular our Growth Strategy and service delivery model. As part of this strategy refresh we set out clear efficiency plans and targets for 2020, particularly around our management cost per unit as outlined above. These savings will be utilised to subsidise the additional levels of newbuild activity.

16.8 In the 2016/17 budget we had a VFM target of £277k within the maintenance budget and an additional £100k target for unidentified savings. Both of these targets were achieved.

VFM log

16.9 Progress against the annual overall VFM target (ie above that assumed in individual budgets) is captured on our electronic VFM log and monitored by the Board through the quarterly Board scorecard. This log records a wide variety of VFM initiatives from across the whole business. It is also worth noting that the main driver for the VFM log is to provide a narrative on VFM and to encourage a VFM culture rather than as a strict accounting exercise. The entries may be best estimates and some may not crystallise until future years so may not be true budgetary savings. Therefore a quarterly exercise is done to identify true budgetary savings and allocate them against the VFM target in the budget, and then reduce the appropriate budget. For 2016-17 those budgetary savings amounted to £178k against a target of £100k.

Type of saving	Annual value of savings
Major works – procurement and programming	£48k
Digital communications	£43k
Efficiency savings reducing reliance on external contractors	£81k
Overheads – energy efficiency	£6k
Total budgetary savings	**£178k**
ASW savings (non budget – see below)	**£411k**
Total identified savings	**£589k**

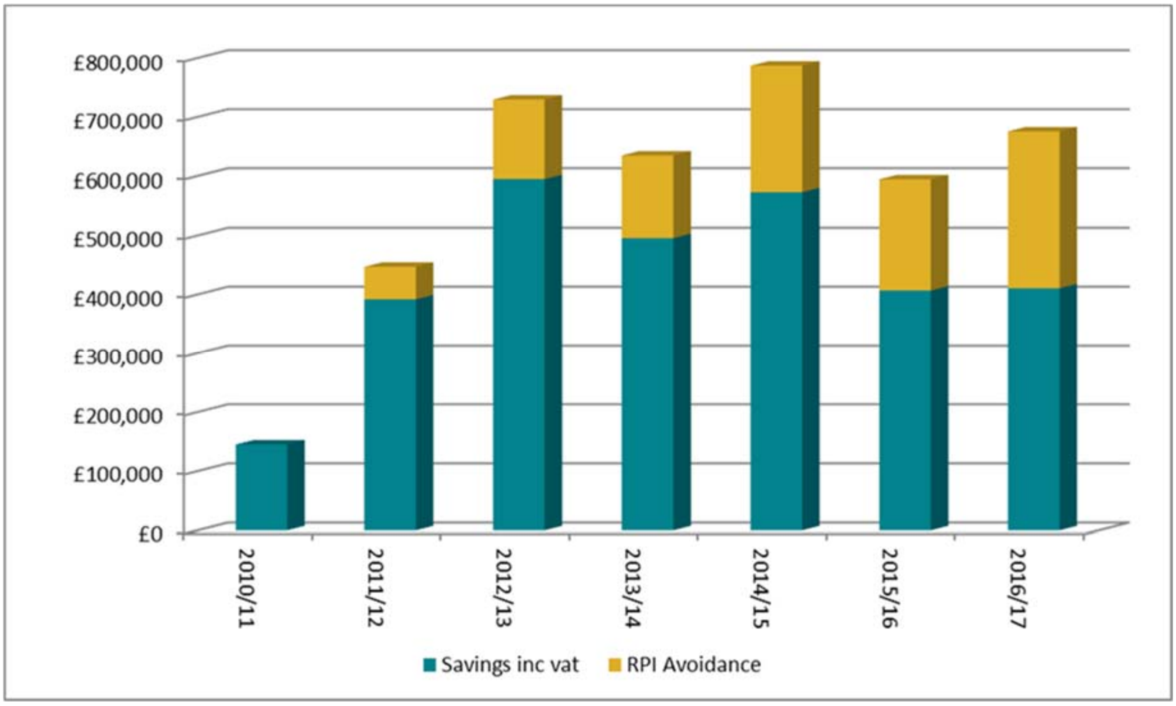
16.10 The savings above arose across the business from procurement and other activity, that has not been assumed within individual budgets. They do not include the savings that arose from our membership of AdvantageSouthWest (ASW). ASW is the collaborative procurement consortium of which Yarlington is a founding partner and active member. Membership of ASW continues to be beneficial for Yarlington.

16.11 The table below details the cashable savings (inc unrecoverable VAT) that were generated for Yarlington and additional costs avoided due to framework price changes being lower than RPI. During 2016-17 ASW delivered savings for its members in terms of negotiating value based and high quality components. Yarlington's share of the savings was £411k – representing an excellent return on the annual subscription of £23,011, thereby saving £17.85 per £1.

Company	Yarlington		
Row Labels	**Sum of Spend**	**Sum of Total Savings**	**Sum of RPI Avoidance**
Aids & Adaptations	£ 71,451	£62,730	£18,961
Air Source	£ -	£0	£0
Bathrooms	£ 41,135	£24,450	£4,844
Boilers	£ 25,048	£6,262	£4,096
Consumer Units	£ 15,066	£1,490	£1,163
Controls	£ 318	£140	£44
Electric Heating	£ -	£0	£0
Fans	£ 96,509	£25,654	£19,249
Flooring	£ 31,089	£3,842	£3,360
Kitchens	£ 88,159	£36,889	£16,442
Radiators	£ 1,546	£999	£401
Taps	£ 21,371	£29,670	£2,840
Windows	£ 572,290	£134,241	£101,410
Doors 3	£ 269,857	£29,984	£63,212
Paint	£ -	£0	£0
Alarms	£ 14,624	£0	£1,407
Legal Services	£ 131,380	£43,793	£16,849
Stairlift Services	£ -	£0	£0
Kitchens - P	£ 101,113	£10,614	£10,702
Asbestos2	£ -	£0	£0
Grand Total	£ 1,480,956	£410,759	£264,979

16.12 Since April 2010 Yarlington has saved over £4m in terms of cashable savings and RPI avoidance from its membership of ASW.

16.13 The graph below shows these savings:



16.14 ASW put in place nine new multi-supplier frameworks and a Dynamic Purchasing Systems (basically EU compliant approved supplier lists).

16.15 The Legal Services framework continues to be successful. The framework is delivering at least 25% savings for Members, generating £423,747 (inc vat) savings in 2015/16 (work completed and fully invoiced). Members have benefitted from 11 centrally co-ordinated training sessions on subjects requested by the Members, attended by 157 staff, plus have been able to have their own bespoke training sessions provided free of charge.

16.16 Procurement and support in the organisation provides technical advice to managers in a business partnering approach where the Procurement Manager is integrated in the business. The Procurement Manager uses the contracts register to proactively manage procurements and works alongside managers to procure their goods and services efficiently and effectively.

16.17 The benefits of this approach is evident in our planned maintenance programme, where in previous years delivery has slipped as a result of ineffective planning and thus making delivery inefficient. In 2016/17 the programme was fully procured and contracts were in place by Quarter One, in order to deliver the various works in full during the financial year. A greater emphasis has also been placed on effective contract management with managers clear on the expectation of them to drive the best value possible from the contracts procured.

16.18 Procurement has driven cashable savings of £48,000 (included on the VFM log above) in 2016/17 as well as social value. Engaging with our supply chain and promoting the services of our social enterprise 'Inspired to Achieve' has led to job opportunities and work experience/placements for our residents (Inspired to Achieve work with our residents to equip them with the skills to obtain and sustain employment).

Treasury activity

16.19 The largest area of treasury spend is on loan interest payments totalling c£7m (£7.1 for 17/18 year) per annum. Through liaison with external consultants we continually monitor the latest short, medium and long term financing products available, aimed at balancing in year performance to forecast and long term cost certainty. VFM within the Treasury function is regarded as a 'business as usual' activity, with workshops and updates given to non-Treasury senior and middle management levels throughout the year to help inform the business of the wider economic operating environment. We also actively track sector updates on new financing methods to ascertain if alternative products are available for us today, or at the point of future refinancing.

16.20 In November 2016 we broke a standalone RPI swap. The future impact of this will be tracked through the monthly management accounts and Treasury reports. The breaking of this swap also reduced significantly our Mark to Market (MTM) exposure. This means that we are now able allocate this security on raising new debt to fund potential new development schemes.

16.21 In May 2017 we secured £15m of Government guaranteed AHF bond funding. This funding provides cost certainty for 30 years and crystallises a £17m saving throughout our financial plan.

Capital Works

16.22 During 2016/17 £10.7m was spent on Planned / Major works, primarily the replacement of components within properties, to ensure continued compliance with the Decent Homes Standards and the internal Yarlington Standard. Of this £8.1m was capitalised. The most significant level of expenditure, £2.3m, related to initiatives to improve the energy efficiency of our homes, a further £2m was spent replacing Kitchens and Bathrooms through our 10 year partnering contract with a locally based company.

17. Future savings targets

17.1 We always aim to set the budget within the parameters of the Financial Plan (FP), this year, excluding one-off non recurring expenditure, the budget was £1.2m lower than the FP. Additionally the 2017/18 budget identified the following VFM targets

Area of VFM target	**£**
Savings identified as part of budget setting process	£50k
Additional unattributed VFM target	£132k
Total VFM target for 2017/18	**£182k**

17.2 We launched a new corporate strategy, Yarlington NextGen in April 2017. As part of this Strategy there is a clear efficiency plan with efficiency targets to be achieved. The quantum of these targets, £2.3m are calculated so that we achieve top quartile status in terms of overall social housing cost per unit by 2017//18. The additional surpluses arising from these efficiency gains will be used to fund the required additional newbuild housing to fulfil the revised growth strategy.

17.3 This efficiency target will be monitored in absolute terms and also on a quarterly basis in the form of headline management cost per unit; underlying management cost per unit; and responsive maintenance cost per unit.

17.4 A major part of this revised strategy is the digitalisation of Yarlington and our services. For the previous three years, we invested significantly in a new integrated IT housing system. This has enabled more efficient working but we are now taking the use of digital technology to the next level. As welfare reform starts to impact through the roll out of Universal Credit and our stock numbers grow, we will increase the number of lower cost transactions. We know from our research that there are significant differences on the costs between face to face contact, over the phone and online.

17.5 The biggest advance in 2017/18 will be the introduction of an online Customer Portal allowing residents to undertake all transactions on a digital basis only. The “blueprint” service delivery model has identified the potential to save £2.3m per annum as a result of redesigning our service model

18. Return on assets

18.1 Each year the Board approved a series of Internal Financial Measures, within which our financial plan has to perform over the ten year period. These include a tolerance within our loan covenants, but importantly also several measures of profitability, efficiency and liquidity. The projected performance against these measures are both competitive against our peers as well as over the duration of the plan; and are monitored on a quarterly basis by the Board in the Financial Scorecard.

18.2 We reviewed and refreshed our Strategic Asset Management Plan and associated action plan; this formalises our approach to asset disposals and the rationale for the decision making process of which assets to dispose. We implemented a new asset management review tool to evaluate the return on our assets – both individually and as a portfolio.

18.3 Due to the concentration of our stock in a relatively small geographical area and the good condition of our stock resulting from the considerable investment in the stock (including significant demolition of our worst performing PRC properties), we do not have significant numbers of properties that have negative Net Present Values. However during the year we continued to identify those poorly performing properties requiring a more detailed appraisal. During 2016/17 we continued the process of actively reviewing properties which are due to become vacant, with a view to ensuring that they were only retained as part of the portfolio if their retention represented value for money in the future e.g. strong demand, appropriate energy efficiency level, size, location etc. As a result of the review process we identified 32 properties for disposal, and have identified further properties in the pipeline for disposal in 2017-18. The proceeds from these disposals have been directly linked within the Financial Plan to the funding of an additional 30 newbuild units in each of 2017/18 and 2018/19.

18.4 The process of reviewing component life cycles commenced to ensure that the most appropriate life cycles are being used to ensure that VFM is achieved over the life of the asset.

18.5 We increased the level of resources dedicated to Stock Condition Surveying to ensure that all properties are surveyed on average every 5 years, which will ensure that our long term investment decisions are based on sound information ensuring that our long term investment delivers VFM for the organisation.

18.6 Linked to our Asset Management Plan, we commenced our Fuel Poverty Plan which identifies the investment required for each individual property to bring it up to our stated objective of EPC rating. This enables us to reprioritise our investment in fuel efficiency measures to make the biggest impact for residents and ensure the best return for Yarlington. It also helps identify those properties where the cost to upgrade outweighs the benefit and where disposal and reinvestment of proceeds is a better option.

18.7 We continue to measure the social return and impact of our work. We use the HACT Wellbeing Tool and Social Value Bank where appropriate to measure the impact of our investment, primarily on community investment. In 2016/17, the tool calculated the social value for Get On employment support delivered by i2a at £690,444 and for Debt Advice delivered by Citizens Advice South Somerset at £605,920.

18.8 We have started to calculate public savings of supporting people into work through the use of unit costs and a Cost Benefit Analysis Tool published by New Economy Manchester. The annual public saving from supporting someone into work from ESA and JSA is calculated as £8,632 and £9,800 respectively (New Economy Manchester, 2015). When economic value is included, these figures increase to £12,568 and £14,044 per full year that the person is in work.

18.9 In 2016/17, i2a supported 5 residents claiming ESA and 35 residents claiming JSA into full time work. Assuming that ESA and JSA is no longer being claimed, this equates to a fiscal saving of £386,160: £43,160 for ESA and £343,000 for JSA claims[1].

18.10 These results from ESA and JSA into employment have been entered into New Economy Manchester's Cost Benefit Analysis Tool and modelled over five years. The tool calculates a £60,685 net present budget impact over five years with a 2 year payback period. The tool takes into consideration deadweight, bias corrections and some drop off of outcomes within the five years. We are giving further consideration as to how to best use this tool, as a full CBA would require additional data collection.

18.11 The Communities Team have worked with Business Intelligence (BI) to draft a method to assess the rent accounts of residents that engage with community investment projects. The current process pulls together the rent account status of all engagement in CI which has been recorded since 2014. Initial results suggest that at least 79% of residents engaged in any project since this time have maintained credit

[1] This calculation does not allow for the costs of delivery or of other interventions that residents may have benefited from and that may have supported them in their journey into work, e.g. the 14% of residents supported into work that also received support from the DI programme.

or improved their rent account after 12 months. In 2017/18 Communities will be working with Business Intelligence to fully test this information and to translate it into any monetary savings. They will also work with BI to look at savings for Yarlington against repairs and contacts as a result of community investment.

18.12 Our internal tool to measure impact is used on community investment projects and we link activity to need identified through a number of sources including Census data on deprivation and resident input. Our social enterprise subsidiary, Inspired to Achieve (I2A), continues to specialises in employment training and support. We have calculated that the Social Value for our employment support amounts to a net benefit of £627,565. In 2015-16 I2A supported 186 residents into employment. Our five year corporate strategy aims to get 1500 people into employment – at an estimated social value of around £5million.

19. How are resources allocated?

19.1 All activity at Yarlington is driven by achieving our corporate strategy and its objectives which are set in consultation with customers, stakeholders and staff. It is important that our available resources – people, finance and assets – are appropriately allocated to ensure the corporate objectives are achieved.

19.2 The annual budget setting process is designed to ensure that value for money is central to managers' considerations when planning the resources they need to deliver their services in the new financial year. The underlying assumption is that the budget is set within the parameters of the 30 year Financial Plan. VFM savings recorded in the central log are forecast to continue and the Financial Plan allowance is reduced by the relevant amount. The budget is constructed using a zero based budget methodology and after challenge and advice from the finance team. Any area in excess of the Financial Plan allowance is required to be funded from elsewhere in the overall Financial Plan envelope and a business case is made and challenged to ensure the investment demonstrates improved resident satisfaction and triple bottom line. A number of budget headings have efficiency savings built in to the annual budget which are needed to be delivered during the year.

19.3 Managers are challenged to consider alternative service delivery and procurement options in order to realise savings. The total value of savings identified through the budget setting process is reported to the Board. A target of achieving £132,000 in cashable savings is built into the budget. When savings are made the budget is then vired to the savings target, progress against the savings target is reported to the Board each quarter.

19.4 We have a well embedded risk management framework. Key risks are reported to the Board with a focus on those risks that are changing and where action is being taken. As part of the budget/financial planning process additional resources may be redirected to those areas where the risk profile indicates that additional resources – temporary or permanent – are required.

19.5 We use our internally developed Impact Assessment Tool to make informed decisions as to how our community investment budget is allocated and monitored between projects, depending on the relationship between impact on the beneficiaries and the overall cost.

20. How we provide evidence and assurance

20.1 The key way we evidence improvement is through the Value for Money log as reported above. Each department has VFM targets which contribute to the total budget VFM target.

20.2 We encourage a culture of wanting to learn from pilot projects. We regularly undertake follow up reviews/post project reviews to aid our learning for future activity.

20.3 As part of our ongoing benchmark activity we look at trends in our performance, and particularly using the Housemark VFM dashboard to understand those areas of operation that have moved on a trend basis.

20.4 Going forward we will be monitoring the Social housing management cost per unit on a quarterly basis, as well as setting targets for savings to be made for these costs per unit. We also welcome the introduction of a sector efficiency scorecard pilot.

20.5 Throughout this report various ways have been noted as to how the Board gains positive assurance that VFM is being delivered throughout the organisation and across all activities:

- Quarterly Board and Financial Scorecards
- Benchmarking reports
- Progress against individual improvement plans
- Customer satisfaction statistics
- Progress against Corporate Plan objectives
- VFM log as part of the management accounts
- Quarterly KPIs
- Business case for new opportunities
- Annual ASW report
- External accreditation, including credit rating
- Internal audit reports – identify cost of each activity and opportunity for savings, as well as the actual cost of undertaking the review
- Service evolution reports – identify efficiency savings available as a result of improving processes

20.6 We have a strong business assurance function that coordinates Internal Audit, Risk Management, Service Evolution and Scrutiny. All these functions explicitly address VFM implications in all reviews undertaken. Follow up of all recommendations for change is routinely undertaken.

20.7 Our Business Intelligence Team coordinates our performance management systems – both in terms of operational performance and also performance against our corporate strategy objectives. This efficiently coordinated form of reporting provides additional assurance to the Board on overall performance. The team also coordinates all our benchmarking activity and customer insight information to ensure all information available on our properties and customers is managed in an efficient and effective way.

21. Summary and looking ahead

21.1 We relaunched the Corporate Strategy in April 2017. This strategy has a clear efficiency target of £2.3m pa of efficiency savings to be derived from redesigning our service delivery model. These savings will be used to subsidise further the provision of an additional 500 new homes by 2021/

21.2 This future efficiency target will be monitored in absolute terms and also on a quarterly basis in the form of headline management cost per unit; underlying management cost per unit; and responsive maintenance cost per unit.