



**Value for Money
Statement 2012/13**

Value for Money Statement for 2012-13

by the Board of Southern Housing Group

Introduction

Value for money: Context and objectives

Throughout our long history Southern Housing Group, in common with other housing providers, has faced periods of rapid change. Successfully adapting to changing environments has been one of our key strengths and we have been able to turn altered states to our advantage and continue to grow and deliver good quality homes and services for our residents.

We are now in a more restricted financial environment. There are pressures on our income streams from welfare reform and the reduction in development grant levels. Cost inflation and our pension obligations are challenges to be managed, and interest rates will, in time, rise above the current low levels.

The current environment has caused us to look carefully at the overarching purpose of Southern Housing Group and think about how we need to adapt so that we can continue to thrive and provide homes and services to more people. As a Board we are clear that we want to continue to develop new homes, even in a low or no-grant environment. Our Board message to our executive team is that we need to become more efficient so that we are in a strong position to deliver on our intentions.

Our key objectives are to:

- Enhance our financial viability so that we can continue to develop and grow as an independent housing provider with or without subsidy
- Provide a diverse range of housing products to address the needs of a wide range of people
- Rationalise our stock-holding to make the most of our assets and become a more efficient business
- Provide good quality homes and excellent services to all Southern Housing Group residents
- Work to improve the life chances of Southern Housing Group residents and the communities in which they live.

The key to achieving these objectives and coping well with change is for us to drive increasing value for money (VfM) from our social business.

VfM is an important element in our published strategic objectives and has to be part of our corporate culture from high level planning through to delivery of our required outcomes. This statement: seeks to explain how we go about getting better VfM both now and in the future; looks at the kind of measures that we use to monitor our progress; and gives some real life examples of VfM improvements and achievements at Southern Housing Group. Our internal auditors have looked at VfM in the past and will continue to periodically include VfM in future internal audit programmes.

1. Value for money and our business

Our objectives are challenging but entirely achievable. Put simply, we need to increase our financial capacity to enable us to deliver our objectives. The Group focus, both now and in the future, will be on reducing costs through genuine efficiency improvements and evolving processes that deliver the high quality outcomes that will increase our residents' satisfaction and strengthen our social business.

As a Board we are focussed on ensuring that our underlying operating surplus is improving year on year. This, for us, is an important way to know if the Group is improving the value that it obtains from its core operations. The table below shows how our underlying surplus has changed over the past five financial years.

Income and Expenditure Account Core Activities				
Underlying net surplus / (deficit) in £ millions				
2013	2012	2011	2010	2009
7.0	4.1	4.3	(0.7)	(1.3)

We also look at the bigger picture because our non-core activities generate significant surplus thus enabling us to meet our wider objectives. The table below shows our overall surplus for the past five years and the margin on turnover after impairment.

Income and Expenditure Account - Group Consolidated					
	2013	2012	2011	2010	2009
Operating Surplus	54.0	31.2	33.5	27.5	24.1
Operating Margin	30.8%	25.1%	25.7%	20.5%	18.8%
Net Surplus	38.8	17.9	21.1	8.0	8.6
Net Margin	20.8%	12.8%	16.2%	6.0%	6.7%

We are satisfied that our underlying surplus has grown over the last five years. Genuine VfM improvement should see it improve further. Our overall surplus for 2012-13 represents a good outcome, but the surplus is always determined by variable factors such as the size of our development programme and property sales. For this reason we think that the overall surplus generated in future years will be variable and we reflect this variability in our business planning.

Business planning

Our starting point that helps to define our VfM requirement is our business plan. Our current plan sets out our development goals and considers the resources that we will need to achieve those goals. The key elements of our development plans are to:

- Develop around 300 units of new housing each year from 2015 until 2020
- Increase tenure diversification to include social and affordable rented, shared ownership and outright sale, plus sub-market and market renting
- Responsibly dispose of a limited amount of housing stock in non-core areas and acquire stock in areas that we see as strategically important.

We have carefully modelled our capacity to deliver our programme and know that to succeed in delivering the programme, we will (after inflation is taken into account) need to achieve an 11% reduction in our operating costs over the period 2013 to 2018. This equates to just over £2 million each year. We will achieve this through a combination of careful budgeting and cost control, efficiency improvements and income maximisation.

Budgeting

A key way to deliver cost reductions is to improve budgeting techniques. To this end we have put renewed emphasis on accurate budgeting that seeks to eliminate waste. We have established a team of finance business partners who work with budget holders through both budget preparation and ongoing monitoring to provide support and challenge. We have also introduced a new on line tool called “Collaborative Planning” that enables budget holders to create, monitor and manage their own budgets. We think that this emphasis on actively managed realistic budgets will help managers operate more effectively and deliver cost savings.

VfM Achievement

We made some significant cost savings in the year 2012-13 over the previous year. Key cost savings in the year to March 2013 were:

	2011-12	2012-13	Saving
Software Maintenance	£639,000	£398,000	£241,000
Recruitment Agency Costs	£470,000	£237,000	£233,000
Asset Management	£299,000	£107,000	£192,000
Use of Temporary Staff	£274,000	£144,000	£130,000

The current budget for the year 2013-14 addresses the risks associated with welfare reform and drives economies throughout our business. Our aim is to achieve a surplus level that puts us on target to deliver our objectives.

Treasury management

The ability to borrow funds at affordable rates is an essential element in our ongoing success. The Group has used a mix of both internal and external treasury management skills to build up and manage a portfolio of loans valued at around £0.75 billion. Our average interest rate in 2012-13 was 4.2%. That level is consistent with the best in our sector and gives us a significant financial benefit enabling us to do more with our money.

Managing cash

The Finance Department at Southern Housing Group is responsible for managing all of the cash that flows into and out of our business. We have recognised that there is ample scope for making our cash handling processes more efficient and effective. Using our Continuous Systems Improvement (CSI) Team, we have launched a wide-ranging improvement project looking at every aspect of cash movement and handling to reduce waste and costs. The project is still in progress, but we are certain that it has the potential to deliver significant savings and a much improved service.

Procurement

A key way to both bear down on costs and improve quality is by employing robust procurement techniques. At Southern Housing Group we have a small procurement team that works with managers to ensure that we buy the right products for the right price, at the right quality and achieve improved VfM wherever possible.

VfM Achievement

In 2012-13 the Group procured contracts to a value of £49.3 million. Of these £33.3 million were non-development EU compliant procurement projects. These projects secured measured cost savings totalling around £3.4 million which equates to around 10.5% overall.

In addition the procurement team worked on smaller non-EU contracts worth around £250,000 and delivered measured savings of around £75,000 equating to around 30%.

Good procurement is not just about price. It is also about keeping control of contracts and expenditure and ensuring that we work within the law and accepted good practice. In 2013 we have introduced a new Procurement Policy and tightened up our procurement procedures. We have established a central contract register and will be using data from this to look for future economies of scale.

We are actively seeking to reduce the number of contracts across the group. This will have the effect of making contract administration more effective and less expensive. Fewer suppliers to deal with, fewer payments to make and often one stop easy contract arrangements will make for improved VfM. We also anticipate that by using larger firms and offering bigger contracts we will

be able to lever in additional value products that will directly benefit our residents.

In 2013 we procured a single supplier for group wide printing that improved quality of service and security, and enabled us to remove around 50 suppliers from our approved list. In the coming months we anticipate procuring new contracts covering most of our estate cleaning and grounds maintenance requirement and Group-wide facilities management requirements. We anticipate that these two exercises will reduce costs, give more certainty over quality and reduce our suppliers list by around 200 firms.

Lean systems thinking

The Board is committed to embedding a Lean Systems Thinking culture into the core of our business. Lean Systems Thinking is, in our view, the ultimate VfM tool. The thrust of this approach is concentrating on what is really important for our customers, because by understanding what our customers really value we can then identify waste in processes that does not contribute to delivering real value.

Our aim is for continuous improvement to be part of everyone's role. Lean Systems Thinking recognises that it is the people doing the work who have the expertise to identify waste in processes and design more efficient processes. Local Information Centres, rolled out across the Group over the last year, are now helping to create a structure where staff can regularly highlight and discuss problems, design solutions and improve how they work. As a Board we recognise the skills contained within our establishment of staff and are committed to unlocking their potential as part of our commitment to improving our business and delivering VfM.

The leadership team has a key role in embedding a Lean Systems Thinking culture. Managers across the Group have attended a Lean for Leaders training course to develop their skills and be able to facilitate and support our improvement projects. The Group carefully prioritises improvement projects that will have a significant effect on improving our efficiency and effectiveness. Our improvement projects are supported or led by the Continuous Systems Improvement Team (CSI).

In the past year the CSI team has worked on major improvement projects covering the delivery of customer services, property maintenance and human resources.

VfM Achievement

During 2013 the CSI Team worked with HR colleagues on a project to look at our recruitment function. The outcome has been a much improved recruitment service provided principally by our own in house team, and cash savings during the year of around £150,000 and a budget reduction for recruitment in 2013-14 of £288,850.

Some tangible examples of VfM improvements already delivered include.

VfM Improvements

- Understanding residents' needs better through measuring what they are contacting us about. This is enabling us to identify when customers are having to make unnecessary calls so that we address this and provide a better service. Projects are now underway to reduce the numbers of these waste calls. This, in turn, delivers value for money by reducing the cost incurred through answering unnecessary calls, which currently form 20% of all calls received.
- Dealing with more ASB cases at the first point of contact in the Service Centre thus freeing up regional ASB caseworkers to deal with more complex ASB cases. Reducing the number of cases going to the regions has contributed to the London region requiring one less ASB caseworker.
- A diagnostics of the cash processes in the Group identified opportunities to save £70k per year through changing payment methods and reducing paper storage. It also highlighted annual costs of £146k for services that are only received by a small numbers of residents prompting a review of whether these services offer value for money.

2. Getting the most from our assets

The Board recognises that getting better Value for Money from the Group's assets is an essential element in delivering our objectives. There needs to be a good business purpose to holding any property asset. Our homes and business units have to contribute positively to our business aims and objectives. To ensure that our property assets do make a positive contribution we actively appraise our holdings to ensure that:

- They meet our residents' current and future needs and aspirations
- They contribute positively over time to the financial wellbeing of the Group
- There is a good geographical fit so that we can manage the property efficiently and effectively in the interests of our residents.

The Group has embarked on a stock rationalisation programme that will, over time, see around 900 units being sold to other registered providers principally in areas where our own stock holding is small and ongoing management is not efficient. Properties are fully appraised before being placed in the programme so that we are clear that disposal is the best option available.

Since we started the programme in August 2011, we have sold 394 units for £25.9m and have bought 173 for £13.5m.

Over time we believe that this ongoing programme will save money, improve services for residents and continue to give us the opportunity of investing in areas where we have a strong local interest.

Re-letting our homes

The introduction of Affordable Rents has given us the opportunity to consider converting re-let social rented homes to Affordable Rented homes. Every property that becomes available for re-letting is thoroughly appraised and a decision made on the re-let tenure and in some cases possible disposal. This arrangement gives us an opportunity to consider existing property at a time when we are free to make judgements about future use. By converting selected properties to Affordable Rents we are able to generate additional revenue that can be used for future development of affordable housing, thus helping to meet one of our corporate objectives.

Developing new homes

Building new homes for a range of people who need housing is a corporate objective. Achieving best value for money is a thread running throughout the Southern Housing Group development process.

Before committing to a development project, the costs and benefits of the scheme are carefully modelled by our finance and development staff. We use a discounted cash flow model and benchmark the financial performance against hurdles on payback period, rate of return, net present value and cost to value percentage. We also build in tenure flexibility to provide an alternative

or exit strategy should our target market change during development, or fail to respond.

We consider carefully how best to use the available land. We mix tenures in a way that makes both economic, management and social sense. We aim to de-risk new projects by seeking independent budget advice on both capital and rental values of land and homes, on likely construction costs, and on whether additional contingency should be allocated to unclear risk areas.

During the development process we seek to manage our cashflow in a way that reduces our financial exposure at any one time by, for example, agreeing conditional or optional land purchase agreements, building in overage clauses, and deferring payment.

The construction procurement process is competitive, although we have sophisticated selection criteria and mechanisms so that schemes offering better long-term management efficiencies, better cost-in-use, and more added value are allowed to outscore what may ostensibly be the cheapest tender return.

Development staff work closely on a project team basis with colleagues in other departments, to design out any problems that may increase costs or the need for extra management resources. This work also tries to maximise value through design, specification and construction quality.

On-site, we have a project team approach to monitor cost and quality, and to make sure that build timescales are achieved. We use Site Inspectors to check quality from the foundations upwards. This reduces future defects that can be costly to remedy and improves customer satisfaction with our products. We measure our development success through:

- Compliance with scheme approval benchmarks
- Formal post completion review
- Comparing with sector norms through membership of a benchmarking club
- Customer satisfaction surveys
- Monitoring void periods and sales periods.

Value and the environment

In 2012/13 the Group refreshed its environmental sustainability objectives and set out a commitment to improving the environmental performance of our homes in ways that benefit our residents. Our objectives include, 'Delivering affordable warmth and reducing fuel poverty'. Central to this is constructing new homes to the Code for Sustainable Homes level three and above, and employing a fabric-first approach to ensure that all of our homes are well insulated to keep running costs affordable for residents.

Over a four year period we have raised over £1 million of external funding to provide improved heating and insulation to existing homes. We have also

recently raised funds externally to help build 28 homes to passive house standards. The Group will seek to access funding through the new Energy Company Obligation and other sources, to improve the energy efficiency of our housing stock.

Maintaining our existing homes

Maintaining and investing appropriately in our existing housing stock is vital both for the well being of our residents and the protection of our assets. The cost of routine, cyclical and major works is the largest area of our spending. Hence it has been a priority for us to look at this area with a view to reducing waste, lowering overall costs and improving the quality of what we do.

By introducing a system of fixed pricing for routine repairs work we have made savings in the region of £1 million per year, but in addition we have been able to achieve price certainty and share risks more evenly with our contractor partners. Our recent procurement of a single gas appliance maintenance contractor has reduced costs by around £500,000 per year, made working more efficient and enabled us to provide work training posts for some of our residents.

We have also gained efficiency by gradually transferring residents' requests for repairs direct to our contractors. This has resulted in a reduction of around 10 posts in our Customer Service Centre and made the whole repairs reporting process more efficient by eliminating double handling and giving residents just one point of contact. We have also gained significant benefits by the co-location of some of our partner contractors' staff within our offices. This enables an easy dialogue between organisations and helps us to resolve more complex repairs issues effectively and efficiently.

We have set the Property Services Director the task of making efficiency savings of 3% per year for the next three years starting in April 2013. These savings will be achieved by eliminating waste and getting more value from our working arrangements with contractors. We are clear that the quality of work must be retained. The department is also part way through a Lean Systems Thinking change project, which once progressed will bring further efficiencies. Our expectation is that residents' satisfaction will improve. We will consult with our Resident Services Panels to ensure that any changes have a genuinely positive effect on residents.

3. Value services

Throughout 2012 we ran a Lean Systems Thinking change project looking at improving our services to customers. This work is still continuing, but we have already started to see the benefits of these changes.

We have transformed our housing management teams to focus more directly on services that customers want and need. Our focus has been on speeding up housing management process and making services easily accessible to our residents. We have stripped waste from our procedures and the immediate outcome has been a modest overall staff reduction in the department.

As part of our Lean Systems Thinking review of customer services we concentrated on improving our service to manage and resolve anti-social behaviour (ASB) cases. We found that our IT systems were unduly burdensome and that work that could easily be dealt with by our customer service staff was being pushed down to busy front line estate staff. We designed a new procedure that: enables more routine casework to be carried out by customer service staff; makes recording casework data much easier; and leaves the front line staff to concentrate on the most challenging cases. The outcome of this review has been a much more controlled ASB caseload and we have been able to make a modest staff saving.

During 2012 we conducted a review of our property caretaking arrangements. The reviews led to us setting up caretaker teams with a team manager fulfilling a leadership role. This change has given us better control over the caretaking function and more service flexibility. Individual caretakers now work flexibly over a variety of sites and we have been able to improve the quality of what they do by introducing rotas to steam clean stairways and landings and carry out a wide range of estate maintenance functions that were previously done by external contractors. This change directly improves our efficiency and will over time start to reduce service charge costs to our residents.

VfM Improvements

Our operations department has worked hard to extract better value from some of the Group's assets. We have:

- Reorganised our management of community halls to ensure that they are better used by the communities in which we work, are well managed and deliver an income to the Group.
- Centralised our management of garages within the Customer Service Centre and taken steps to ensure that they are fully occupied, generate a good income and that residents can apply for a garage in a way that is easy and efficient.
- Developed a strategy for maximising the use of our open spaces, be that bringing derelict areas back into recreational use, developing gardening opportunities for residents, or building new homes on land that was previously under used.

Over time we expect to see better usage and increased income from these assets.

The Housing Benefit change which limits payments to residents who are under occupying their homes poses a significant challenge for a number of our residents. Some may not be able to afford to remain in their existing homes. We have worked hard to identify all of our residents who are affected by the change and we are offering help and practical support to anyone who needs our help. We are using our resources and our strong relationships with G15 colleagues, to find suitable alternative accommodation for our residents and mitigate financial hardship. We think that this work will help our residents to avoid falling into rent arrears and protect the Group income stream.

Our residents' view

As part of our work on VfM our staff met with involved residents to find out what VfM looked like from a resident perspective. The key messages to come from those meetings were that: residents wanted clarity over pricing, principally rents and service charges; proactive management that sought to resolve issues promptly; clear communications; and meaningful consultation and involvement in matters that specifically affect residents.

We are working to ensure that we meet the VfM requirements of our residents. An early example of a successful change is that residents are now involved from start to finish in every significant procurement project that affects resident services. Residents help to specify products, shortlist firms, carry out site visits and interviews and score bidding firms procurement submissions.

Looking forward we have started work on a Lean Systems Thinking project that looks at income collection and recovery. We have spent a great deal of

time analysing the likely impact of welfare reforms and the ending of HB direct on both our residents' and the Group's income. To maintain good levels of income collection and recovery in a much changed environment we will need to tailor our operational structure and processes in a way that makes it more likely that rent will be paid to us on time. The new project is already coming up with some excellent improvement ideas that will help to achieve that aim.

4. Social value

Social value is a term that has recently become commonplace with the introduction of new legislation. We have for many years committed a significant slice of our resources to social and economic regeneration. Our aim has always been to improve the life chances of our residents by offering more than just a home. Examples of recent projects are:

- **Southern Works**

This is a project designed to get unemployed residents into work. Our employment advisors work with residents on a one-to-one basis, develop personal development plans and help them to access the training that they need to successfully find work. We also provide free office facilities that residents can use.

VfM Achievement

This financial year Southern Works, together with our other employment initiatives, has worked with over 500 residents, giving them one-to-one employment advice, empowering residents to find work.

- 293 people were referred to the service
- 178 people registered with Southern Work
- 144 people found work experience, volunteering, education or training opportunities
- 81 people found paid employment.

- **Computers in Communities**

We have recruited and trained volunteers to help residents learn IT skills that will help them in both their working and personal lives. The volunteers training has led to them being able to gain experience and find paid employment.

VfM Achievement

The programme, which began in January 2012, uses community volunteers to teach residents basic computer skills and has engaged with 2,164 people and had 279 course learners.

- **Financial Inclusion**

We run projects to train residents in money management and become advocates for others in the community who may need support and advice around money issues. We have also recruited and trained our own Financial Inclusion Officers who work with residents to give money advice and help them to maximise their incomes. Financial inclusion requires institutions that are happy to work with people who have limited resources. To facilitate access to financial services we have actively supported the development of Credit Unions.

- **Youth Development**

We have a strong youth development programme that works to help young people set up new small businesses, establishes a wide variety of youth projects in the areas in which we work, develop youth ambassadors who can effectively take part in discussions affecting their communities and run a youth conference for our young residents.

VfM Achievement

Our work adds real value to the lives of our residents. We support around 12,000 people each year investing around £1.4 million in our people. Much of the funding is internally generated; however we successfully work with external agencies to obtain around £2 in funding for every £1 invested by Southern.

5. Our performance

Not all performance data indicates VfM, but we think that some of our performance measures do indicate that VfM is being achieved. We think that the following measures give a good level of assurance that Southern is achieving VfM.

Performance Measure	2011-12	2012-13	Why VfM?
Average cost of management per unit of housing	1,156	1,184	Maintaining or reducing management costs whilst maintaining a good level of Customer Satisfaction is a key indicator that VfM is being achieved.
General needs residents overall satisfaction with our services	74%	74%	
General needs residents overall satisfaction with our routine repairs service	68%	68%	
Cost of maintenance per unit	£1,021	£860	Keeping repair costs low whilst keeping service quality high is a good example of VfM achievement.
Amount of time taken to re-let a vacant general needs home	20 days	25 days	Long void periods are costly, so reducing void times saves money and helps residents more quickly.
Tenancy fraud investigated	177	149	Tenancy fraud deprives people in genuine need of a home and costs the tax payer a great deal of money.
Tenancy frauds detected and acted upon	20	23	
Rent arrears	5.41%	4.04%	Rent is our financial life blood so working hard to keep arrears low is financially beneficial.

Key VfM challenges for us during 2013-14 will be:

- Keeping rent arrears at a reasonable level despite the impact of welfare reform changes.
- Further reducing the cost of management and maintenance whilst maintaining good levels of resident satisfaction.
- Reducing and then keeping property void times low.

Benchmarking

The Board believes that benchmarking its performance against others can be a useful tool in judging performance generally and VfM in particular. A caveat when looking at benchmarking data is that housing associations do not have a uniform way of generating statistics so when comparing data we are not always comparing like with like. That said we think that benchmarking with our peers is helpful and can act as a trip wire to challenge our own performance and seek ways to improve.

We are active participants in HouseMark which provides benchmarking data reports for the G15 associations. The key benefit of our work with HouseMark is that it helps us to understand our cost base in some detail, assess VfM and inform our decision making. The headline figures from the latest HouseMark report are summarised below.

HouseMark G15 Benchmarking Summary 2011-12					
Indicator	Upper	Median	Lower	Southern	Quartile
Housing management cost per property £	442.80	519.97	562.15	468.65	1
Cost of finance dept as a % of turnover	1.89	2.11	2.32	2.21	3
HR Costs as a % of turnover	0.81	1.39	1.81	2.04	4
Cost of IT as a % of turnover	2.7	3.08	3.43	3.03	2
Central support functions as a % of turnover	2.98	3.58	3.68	1.59	1

These figures compare Southern with the London G15 housing associations. We also benchmark against a portfolio of other large housing associations and against a selected range of larger metropolitan based associations.

A clear finding from our benchmarking work is that our HR costs are relatively high. To address this we have conducted a thorough review of our recruitment function resulting in a new way of working and significant cost savings. We

have also put in place a new structure for the whole HR Department. We have budgeted for overall HR cost reduction of £598,000 in 2013-14 and are confident that our new ways of working will improve our HR function.

7. Looking ahead

As we said at the beginning of this statement, it is only by achieving better value for money that we will be able to deliver our corporate objectives. With this in mind we took a major step towards increasing the Group focus on value for money at our Board Seminar in April 2013. The Board committed to building on existing work, to make Southern a thorough going lean systems thinking organisation.

Our CSI Team working with specialist consultants has now started to work with managers and staff to look at all of our functions and processes and agree a programme to eliminate waste and improve our systems and services for external and internal customers. The work will also include a programme of training and development work which will be aimed at embedding a lean systems thinking culture within the group with staff both aware of their responsibility to reduce waste and improve function and able to directly initiate change through use of our information centres.

This commitment we believe represents a step change in the Group's commitment to improving VfM through continuous improvement. We are confident that the programme that we have put in place will make Southern a more efficient and effective housing provider that is able to deliver its corporate objectives and continue to thrive as a dynamic social business.

Over the coming months we will also be revisiting the Group Corporate Strategy with a view to producing a new document setting out our plans for the five years beginning April 2014. VfM will be a theme that runs through our plans with a strong emphasis on protecting and growing our income streams and becoming more efficient, both in relation to managing our properties and running our business. Improved knowledge will we believe give us the ability to drive further efficiencies in the future.