Value for Money position statement 2017/18

More Better Together

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Strategic approach and VFM

Value for Money (VFM) underpins the delivery of the Group's vision and our key strategic aims. A comprehensive assessment of VFM for the year has been carried out by the board and Executive Team. This gives our stakeholders a rounded picture of how we have performed against our VFM targets for 2017/18, how we have progressed since last year and how we intend to deliver VFM in the future. We have adopted the metrics prescribed by the Regulator of Social Housing (RSH) in its revised VFM standard, published in March 2018. We have also included some performance figures against our own targets. We are confident that we have complied with the regulator's VFM Standard.

More detail on our VFM activities can be read on our website at www.progressgroup.org.uk

The board is committed to ensuring that VFM is embedded in both our culture and our decision-making processes.

We achieve this by:

- Setting the overall strategic direction and culture of the Group, and recognising how important it is to maximise VFM in order to deliver our strategic aims;
- Approving the VFM Strategy and overseeing its implementation;
- Having a dedicated VFM and Performance Working Party in place to implement strategy and ensure compliance;
- Scrutinising and approving major business proposals including cost/benefit/risk analysis arising from the proposal;
- Approving key strategies and ensuring that VFM has been considered throughout;
- Including VFM targets within the Strategic Plan and Business Priorities (Business Plan);
- Setting high performance targets and monitoring business performance closely. We do this by benchmarking against our peer group, which enables the board to challenge us to do more;
- Reviewing progress against the Strategic Plan to ensure that the business is continuously improving and achieving more;
- Publishing our compliance with the VFM Standard by the deadline of 30th September.

By completing a comprehensive VFM position statement, we are complying with the regulator's VFM Standard. We have produced a full and honest assessment so that our stakeholders understand how we are performing against the targets we have set ourselves, and what our future targets are.

Our Strategic Plan is structured around our six strategic aims. The first three are outward looking and are drawn directly from our vision. The final three are more inward looking and focus on making sure we have a solid foundation on which to build our future success.

Our strategic aims are:

- Provide more and better homes;
- Support individuals and communities to encourage independence;
- Create opportunities;
- Work as one team;
- Develop a stronger organisation and;
- Put customers at the heart of what we do.

The Business Plan contains clear targets and our plans to achieve them. Within this plan we have a number of critical success factors. We believe that by achieving these factors, we will be able to deliver our Business Plan promises. VFM is a cross-cutting theme running through all six strategic aims and is essential to their delivery. Maximising VFM in our activities will enable us to realise our ambitions and we set this out in our annual VFM Strategy.

Executive summary - our achievements 2017/18

Our business operates with both social and non-social activities. Our social activities include providing homes for general needs, independent living and supported living customers. Our non-social activities include key worker accommodation, Technology Enabled Care and Support (TECS) services, and the development of properties for outright sale. Our independent living, supported living and TECS services aim to improve housing options for people, so that they can live independently for longer.

In addition to ensuring that our activities deliver VFM for us, and the regulator, we also seek to deliver value to the wider public purse – in areas such as health, social care and, in the case of Progress Futures, by having a positive impact on welfare benefits.

We set ourselves operational VFM targets in our 2017 VFM self-assessment with a clear link to deliver the Strategic Plan.

They were:

- To achieve procurement and efficiency savings of over £1 million, we have achieved over £2.2m across three years;
- Development of 184 new homes at a cost of £15.9 million, we have achieved 84 units at a cost of £8.9million with further completions due in the new year;
- Continued growth of our TECS business, which has exceeded our target by 1,000 connections, reaching 19,000 with an income of £3.5 million;
- Completion of a housing stock review and our options appraisal methods;
- Exceeding our arrears target of 4% by 0.6% but performing worse on voids by 0.7%, at 6.2%;
- Continued investment in IT of over £0.3 million, with some projects completing in the new year.

Operationally, we have achieved most of our performance targets with the exception of new development, repairs and voids. We have continued our development programme but we have not met our ambitious targets due to some schemes not being viable, and planning and contractor delays which have shifted completions into the new financial year. To support our programme delivery, we are strengthening the team and have procured specialist skills to support our programme.

Achieving our voids performance continues to be a key focus for us. We have reviewed the processes used by staff involved in the turnaround of our empty properties to make them more efficient. We have also brought staff who manage the whole process together to reinforce the 'one team' approach, and senior managers are meeting with operational staff on a regular basis.

Further details on all of our achievements can be seen in the table at Appendix 1.

In summary, during 2017/18 we have successfully achieved a number of strategic outcomes which include:

- The continuing success of our non-social activities under our Progress Lifeline and Progress Living brands;
- The progression of our development for sale under our Concert Living brand as well as shared ownership;
- Improvement in our re-investment rates by increasing our property components;
- Increasing our financial capacity by combining our three charitable companies into one;
- Revising our Development Strategy to increase output.

Value for money standard and our performance

The Regulator of Social Housing (RSH) revised its VFM Standard in March 2018 and the standard now includes metrics for Registered Providers to report against to demonstrate efficiency, effectiveness and economy. Within the standard it states that we should have targets in place for measuring performance so that we can see how we are achieving value for money and delivering our strategic objectives. The table below shows the nine metrics introduced by the RSH and how we have performed, our anticipated performance and how we compare to the sector.

Metrics table

		Peers global accounts	Progress Housing Group						
No	**Metric**	**2016/17**	**2015/16**	**2016/17**	**2017/18**	**2018/19 BUDGET**	**2019/20 LTFP**	**2020/21 LTFP**	**2021/22 LTFP**
1	Reinvestment %	Not applicable	2.7%	1.7%	2.6%	4.2%	4.9%	5.1%	5.1%
2a	New supply delivered (social housing units)	1.5%	1.9%	0.9%	0.9%	1.6%	2.0%	2.1%	2.2%
2b	New supply delivered (non-social housing units)	1.8%	0.0%	0.0%	0.0%	0.0%	0.3%	0.6%	0.6%
3	Gearing %	50.6%	52.2%	50.6%	46.9%	45.2%	44.2%	42.7%	41.1%
4	EBITDA MRI as a % of interest (cash surplus)	215%	204%	241%	228%	243%	310%	328%	341%
5	Headline Social Housing Cost Per Unit*	£3,298	£4,664	£4,541	£4,800	£4,978	£4,814	£4,811	£4,768
6a	Operating margin (social housing lettings only)	34.1%	24.5%	29.0%	24.9%	24.2%	27.9%	28.5%	29.9%
6b	Operating margin (overall)	29.6%	25.7%	29.5%	25.5%	25.2%	26.9%	27.3%	28.3%
7	Return on capital employed	4.29%	3.61%	4.24%	3.52%	3.74%	4.23%	4.67%	5.12%

*See page 6 for more detailed analysis taking into account the Group's stock profile.

Current and comparable performance

The table shows that of the nine metrics, the Group is outperforming the sector for two metrics; gearing and our cash operating surplus. These are important indicators to demonstrate our financial capacity and how efficient we are.

Due to our supported living portfolio, our Headline Social Cost Per Unit appears higher than the sector average. Based on the 2017 Global Accounts data, we had 3% of the sector's supported housing, and we are the fourth largest provider nationally. The RSH has identified supported living as having higher unit costs when compared to the sector. We therefore calculate a 'weighted median' based on our stock profile due to our higher supported and independent living portfolio. We also adjust for lease costs as these relate to our supported living properties.

As can be seen in the table below our adjusted headline social cost per unit figure is significantly lower than the sector based on our stock profile. On this basis, we are well below the sector. For 2017/18, our figure is £4,409 however we still expect to be below the sector weighted average; unless the sector reduces costs by around 10%. We also know that of the top 10 providers of supported housing, the average was £6,053 per unit, compared to the Group's adjusted cost per unit of £4,085 for 2016/17.

	2015/16	2016/17
Headline Social Cost Per Unit (adjusted)	£4,138	£4,085
Weighted average	£5,276	£4,894
PHG position to median	**BELOW**	**BELOW**
£ lower	-£1,137	-£809
% lower	-22%	-10%

The metrics table on page 5 also shows that we are performing below average for the sector in three metrics, namely delivery of social and non-social housing and return on capital. We have commenced our pilot programme for outright sale which will provide around 100 new homes. Return on capital measures the efficient investment of capital resources and would support registered providers with a wide range of capital investment programmes. We are marginally below the sector currently but our plans reflect our intention to increase investment. Our plans going forward clearly demonstrate our intention to increase development and invest in existing homes. We are also working to improve void performance.

Planned performance

The metrics table shows how the updated long-term financial plan, approved by the board in April 2018, shows our future plans, which will positively impact these metrics.

We have set out to invest more in existing and new property with almost 2% increase in reinvestment, more than 1% increase in delivery of social housing and a marginal increase on return on capital metrics.

The drivers are based on:

- Approved spend of £97 million over the five years to 2022/23 to provide 1,016 new units across a balanced programme of supported living, general needs, section 106 and shared ownership. This is anticipated to create a positive net present value (NPV) of £3.7 million;
- Approved three-year programme for outright sale for Concert Living of 94 sales, 38 under construction and with ambition to develop a further 88 properties from year five and;
- Approved spend of over £30 million to deliver 8,600 new components (such as bathrooms and kitchens).

Our operating margin is also set to increase steadily by more than 2% over the next five years due to:

- Contribution from shared ownership and Concert Living sales and
- Improved rental income assumptions.

Although TECS does not improve the operating margin, the activity contributes to the Group's surplus.

This increase in operating margin is despite our intention to invest more than £74 million in the routine and planned maintenance of our properties.

Taking into account the required level of cost for supported living, which is more than 35% of our social housing portfolio, we are therefore performing well overall with our strategy to improve performance with targeted investment.

Our benchmarking approach

A benchmarking statement is produced each year which links to our Business Plan and its critical success factors. The indicators included are reviewed with executive directors to make sure they fully reflect our priorities. The indicator calculations within the benchmarking statement have been altered to reflect the regulator's VFM metrics. They also include additional indicators we believe are business critical, and which the regulator expects us to monitor.

We use different sources to benchmark both internally and externally to understand our own trends and our position within the market. The benchmarking source is referenced on the annual statement. Below is a list of the peer benchmarking groups we use when comparing externally.

- Global Accounts / Statistical Data Return – we use global accounts information in two different ways. Firstly, to identify our position against all organisations. Secondly, as we have a higher percentage of supported accommodation, we are able to use this data to identify other housing associations which are directly comparable to us. This enables us to evaluate and understand how our diversification impacts our overall costs.
- HouseMark – we are members of the benchmarking group and are able to benchmark housing management, repairs and corporate functions. We look at this data using two peer groups, our overall position against all HouseMark members and a localised peer group who are LSVTs within the North West with 2,500 – 10,000 units. This group includes around 11 other providers. Below is a provisional list of the peers for 2017 / 18 (this can change dependent on all participating in HouseMark).
    - Calico Homes, Cobalt Housing, Community Gateway Association, Golden Gates Housing Trust, Peaks and Plains Housing Trust, SLH Group, South Lakes Housing, Southway Housing Trust, Trafford Housing Trust, Villages Housing Association, Weaver Vale Housing Trust.
- Supported People Benchmarking Group (SPBM) – due to the performance differences present within differing types of accommodation, we joined SPBM in February 2017. This group allows us to compare our supported living data against more comparable organisations. There are around 30 members, some of whom are not included within the global accounts data due to their size (less than 1,000 units).
- The Leadership Factor (TLF) – along with some other associations we use an independent polling and data gathering company called The Leadership Factor to collect our STAR survey results. Their methodology differs from that used by many other associations, an example being the use of a 10 point scoring scale rather than a 5 point scale. Using this approach has many advantages. For example, it allows us to compare net promoter scores and satisfaction across industries. However, it also means that direct comparisons cannot be made with associations employing a different approach.
- Office of National Statistics – in addition to industry standard sources we also use national statistics when looking at indicators which are less housing specific. We compare equality and diversity and employment indicators by looking at comparators within our geographical locations.

Our benchmarking results and targets

The board has reviewed our targets in the balanced scorecard and benchmarking statement within the performance management framework. This framework has been developed to create a 'golden thread' approach from Business Plan objectives to operational delivery. The indicators included in the balanced scorecard are geared towards our 2022 Business Plan. By setting out clear indicators and targets that directly relate to our objectives, we are being clear and transparent to board on our performance. Any areas of weaknesses will be addressed in a timely manner reducing the risk of non-achievement.

The table below shows our own benchmarking statement metrics and how we have performed against our peers and our own targets. We have also identified our intended future targets.

			Progress Housing Group							
No	Metric	Source	PEER 2016/17	2015/16	2016/17	2017/18	2018/19 Target	2019/20 Target	2020/21 Target	2021/22 Target
8	Satisfaction index	TLF	79.6%	NEW	80.5%	80.5%	80.0%	80.0%	80.0%	80.0%
9	Repairs tenant satisfaction	TLF	75.9%	NEW	74.0%	74.0%	76.0%	76.0%	78.0%	78.0%
10	Neighbourhood satisfaction	TLF	80.1%	NEW	83.4%	83.4%	80.0%	80.0%	80.0%	80.0%
11	Views taken satisfaction	TLF	69.7%	NEW	74.8%	74.8%	76.0%	76.0%	78.0%	78.0%
12	Workforce sickness levels	ONS	4.4%	3.7%	6.1%	5.0%	4.4%	4.4%	4.4%	4.4%
13	Employee turnover	HouseMark	14.4%	14.3%	20.7%	15.2%	10.0%	10.0%	10.0%	10.0%
14	Current tenant arrears	Global Accounts	4.0%	4.3%	3.9%	3.5%	3.7%	3.6%	3.6%	3.6%
15	Former tenant arrears	Global Accounts	1.7%	1.4%	1.2%	1.0%	0.9%	0.9%	0.9%	0.9%
16	Rent collected	HouseMark	101.0%	99.6%	101.7%	99.7%	99.5%	99.5%	99.5%	99.5%
17	Number repairs per unit	HouseMark	3.8	4.7	5.2	4.4	4.0	4.0	4.0	4.0
18	Decent Homes Standard	SDR	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
19	Average relet times - general needs	HouseMark	28.6	46.9	30.7	32.6	27.0	25.0	23.0	21.0
20	Rent lost due to voids gross*	Global Accounts	1.3%	5.0%	5.2%	5.6%	5.8%	5.7%	5.6%	5.5%
21	Vacant stock	SDR	0.8%	3.2%	3.6%	3.8%	3.5%	3.5%	3.5%	3.5%

*This relates to social housing voids only.

Comparing 2017/18 with the latest peer Group data, the table shows that we are outperforming the sector for six of the metrics - satisfaction measures, current and former tenant arrears and the Decent Homes Standard. However, the table also shows that we are worse than the sector for 8 metrics - repairs satisfaction, employee sickness, employee turnover, rent collected, number of repairs per unit, vacant stock, rent lost due to voids and average relet times (general needs only).

In 2017, we asked The Leadership Factor to carry out our Survey of Tenants and Residents (STAR). The Leadership Factor specialises in customer insight, using qualitative and quantitative research, training, consultancy, and communications to help and improve customer experience. We are performing better than our peers in three of the four core indicators. The Leadership Factor use a 10 point rating as it enables a greater level of insight for service improvement. Insight from customers shows that our key drivers to improve satisfaction are the quality of the home, repairs and maintenance, listening to views and dealing with queries effectively, and dealing with anti-social behaviour. In each key driver there were four recurring themes for improvement, namely, first-time resolution, speed of response, communication and quality of service. Following completion of the survey an action plan was developed and we held a number of workshops with customers to gain further insight on how we could improve services. This survey will be re-commissioned on a two year cycle so that we can track cont inuous improvement.

In 2016 our staff sickness levels started to worsen, as a result we carried out further analysis to understand why this was happening. A working party was set up to support employees and managers and reduce sickness levels. We found a correlation between increased sickness levels and service reviews which was expected. Now that these reviews have been completed, monthly sickness performance dropped to 3.5% in April 2018, which is within target and less than our peers.

During 2017/18 our performance on rent collection worsened slightly although we can see that for 2016/17 our end of year position was better than our peers. Rent collection can fluctuate over a number of years, and when we review our average over five years we have a 100% collection rate (rent collection can be above 100% in any year). Arrears performance remains better than our peers and our rent debit written off was within our 1% target. We remain focused on making sure our rent collection is as high as possible and believe this will be affected by the full roll-out of Universal Credit. Income collection is recognised as an important business target across the Group and a working group which has been operating for several years, focuses on actions and ideas to maximise performance.

We also recognised voids and lettings as a key business target. In 2017, we saw an improvement of 16.2 days to relet a general needs property which is similar in 2018. Our performance is worse than that of our peers and we believe that we can make improvements to performance through process changes currently being implemented. Properties are reviewed for long-term feasibility and, when required, other options are put in place to improve performance.

When comparing void rent lost to our peers, our performance is significantly worse as we have more supported living properties. When comparing general needs rent lost due to voids we are performing better than our peers. Supported living accommodation has a longer relet time and higher rent losses due to the focus on tenant compatibility in shared accommodation. We work extremely closely with local authority commissioners and support providers to enable a property to be let as quickly as possible. Where this is not possible and a management agreement is in place we recharge the void costs to reduce our risk. We use this information to engage with service areas to review and propose new targets, which are approved by our executive board.

The revised VFM standard states that Registered Providers must demonstrate:

a) a robust approach to achieving value for money – this must include a robust approach to decision making and a rigorous appraisal of potential options for improving performance

What does this mean?

This means that when we make decisions on our expenditure, we understand the outputs achieved. We consider how our properties, offices and staff operate, and whether this is the best use of our resources or whether they should be allocated elsewhere. And that we compare against other possible alternatives and understand how this expenditure delivers our strategic objectives.

What is our approach and what decisions have we made?

Our Business Plan clearly outlines our intention to provide more and better homes and to deliver a stronger organisation. This links to a number of our strategies including development, asset management, treasury and VFM. These strategies are aligned to our long-term financial plan and are approved by our board. We have operational teams in place to deliver the actions as detailed in their operational plans.

During 2017/18 we have:

- Completed the sale of most of our market rented properties. The board took this decision following a detailed appraisal of the properties. They had generated a small surplus over a number of years but the sales proceeds will now be used to fund the new development of properties for outright sale within Concert Living. It is planned that the profits generated will be reinvested into the charitable activities in the Group. We have sold 19 properties with proceeds of £1.8 million and a small loss of £43,000. Two of these have been sold to another Group company for use as social rented accommodation.
- Continued our development strategy which aims to have a balanced programme where we may choose to develop new properties that have a negative NPV so that we can achieve our social objectives but also develop other properties with a positive NPV to maintain our financial strength. We have completed 32 Homes England - funded properties and a further 52 non-grant funded properties at a total development spend of £8.9 million with grant of £1.2 million, generating a net spend of £7.7 million in 2017/18. We had a further 48 properties in the pipeline which, on detailed assessment, would not have been financially viable so we did not proceed. These decisions are taken by our Funding Appraisal Team to ensure new developments are delivered appropriately.
- Achieved income of more than £3.4 million from our Progress Lifeline and TECS service, with more than 22,924 connections and an operating surplus of £0.8 million. This service has grown significantly over the last couple of years and we submit competitive bids to secure new contracts whilst providing a quality service to a wide range of customers. We have approved further investment in staff resources to continue to grow the business and to contribute to our future operating margin.
- Established an Asset Management Strategy, approved by the board, that sets out the process we will follow to assess the NPV of stock together with sustainability indicators. This helps us to identify poor performing stock that will trigger a possible options appraisal. There were no significant schemes identified during the year. We operate a standard template for options appraisals when reviewing our stock performance, which helps us to make clear decisions on the future viability of our stock. This includes options to dispose, remodel or in the case of supported living accommodation, decommission schemes. During 2017/18 we sold eight units (excluding Right to Buy (RTB), market rented sales and shared ownership) which generated £0.9 million in sales proceeds.
- We have a strategy for our independent living portfolio of a gradual reduction of 174 independent living properties by decommissioning units no longer fit for purpose and converting to general needs properties. We have decommissioned Mainway Court as part of this strategy. This strategy will reduce void costs, alarm maintenance costs and management costs with the reduced level of support required. There is a focus on cost areas, including increased use of energy saving lights when schemes are rewired, re-tendering of maintenance contracts and reducing paper-based information.

b) **regular and appropriate consideration by the Board of potential value for money gains – this must include full consideration of costs and benefits of alternative commercial, organisational and delivery structures**

What does this mean?

This means that we should consider potential opportunities to achieve VFM in all of our activities. For us, this includes understanding the benefits and limitations of our Group structure, procurement arrangements, and diversification into different business areas, investment in non-social activities and the geography of our operations.

What considerations have we made?

During the year:

- We have completed a project to combine three of our charitable RPs into one. Our organisational structure changed on 30th April 2018 following the transfer of engagements of PCHA and NFH into NPHA. In 2014, we changed our brand identity and collapsed our outward-facing trading structure to one main trading brand, Progress Housing Group. At that time there was no impact on our legal structure. This brand identity and trading collapse has enabled us to market ourselves even more effectively and efficiently, and become an even stronger organisation. VFM has been one of the key drivers for the change in our Group structure. Our way of working as one team operationally and at board level is now firmly established. This 18-month project commenced with board approval of a business case which detailed the costs and benefits of the combination. Whilst there has been a financial cost of around £0.5 million and a change in loan terms, this is offset by the benefits which include:

  a) Borrowing and investment efficiencies – having separate borrowing and property owning subsidiaries is an inefficient use of resources. The Group's capacity will increase and this is a key driver as it will allow us to deliver our main objective of developing new homes;

  b) All funder loan covenants are now in FRS102 format which has created more streamlined covenants across all funders, improving the amount of headroom from the revised financial covenants;

  c) Removal of onerous loan agreement clauses reducing the need to maintain excessively high levels of surplus;

  d) We have negotiated an increase in our revolving credit facilities, which will provide more flexibility to manage cash and therefore reduce interest costs and

  e) Fewer group entities generate a number of savings in company secretarial, financial statements production, and fewer intra-group transactions reducing administration and processing time and cost.

- The board has an agreed merger and partnership strategy and, linked to the Business Plan, has identified business areas for possible merger and partnership activity. Our new Group structure provides maximum efficiency and effectiveness, and our governance has also been streamlined. This is kept under regular review by the board as part of the annual Business Plan review process. Since 2009 we have completed two mergers. New Fylde Housing joined the Group in 2009 and has now been incorporated into Progress Housing Association. The second merger was with Key Unlocking Futures, which joined the Group in 2014. Key Unlocking Futures remains a separate charity within the Group. This activity demonstrates our willingness to look for merger and partnership opportunities to deliver improved services to customers, certainty of business planning and efficiency.

c) **consideration of value for money across their whole business and where they invest in non-social housing activity, they should consider whether this generates returns commensurate to the risk involved and justification where this is not the case**

What does this mean?

This means that when we consider growth opportunities which are not traditional social housing i.e. in areas such as TECS and Concert Living that we analyse the risk involved, have mitigating strategies for failure and ensure there is a financial return which reflects the level of risk on the activity. If no financial return is envisaged, the business case should clearly justify other intended benefits.

How have we considered VFM in non-social housing activity?

- Our current non-social housing activity mainly relates to Progress Living, TECS activities and Concert Living. In total, these activities generate around £9 million in turnover with an operating surplus of around £2.7 million and therefore provide a healthy contribution to our operating surplus. TECS and Concert Living are growth areas for us.
- Progress Living is the brand which provides key worker accommodation, with 573 units for 42 years, starting from 2006. We can choose to extend the contract if the required rate of financial return has not been achieved after 42 years. The board approved this activity in order to meet housing need, generate a financial return and to diversify. The risks are regularly monitored; financial and operating performance is reported annually to the board and United Lincolnshire Hospital Trust. This activity is financially performing better than anticipated and generates a surplus of more than £1 million a year.
- TECS activities currently generate more than £3 million in turnover and has seen growth over the last few years. We are aiming to grow new provision by £8 million over the next five years. We have a proven track record in providing TECS services and each new contract is financially appraised and priced prior to bidding for the contract.
- Concert Living will develop new homes for outright sale and will focus its activity in areas where the housing market is stronger. It will aim to serve the mainstream housing market with conventionally designed and constructed homes of two to five bedrooms. This new initiative will generate turnover up to £45 million over the next five years and contribute a healthy profit for re-investment into the Group. Concert Living has its own board to oversee and approve its operations against a detailed business case, approved by the Parent board. Its first development will begin in 2018 and will be closely monitored by the Concert Living board, with financial performance reported to the Parent board.

We monitor and report on all of these non-social housing activities separately and whilst our growth in this non-social activity is significant, the long-term financial plan does not rely on this activity to support our Business Plan requirements. Our social housing activity remains our core operation. Our long-term financial plans have been risk tested and include mitigations in the event of loss of Progress Lifeline contracts and the failure of Concert Living to achieve its required profits. Our plans for 2018/19 include further development of specific reporting on our non-social housing activities to provide better management information for decision making.

Further details can be found on the Group's website www.progressgroup.org.uk

APPENDIX 1

The table below shows the detail on these five targets and it is pleasing to report the level of financial and operational savings achieved, which are in part due to our increased focus on procurement which underpins our VFM strategy.

Strategic Aim / Target 2017/18	Rating	Outcome and VFM achievement			
Develop a stronger organisation VFM efficiency savings of £0.8 million and procurement savings of £0.3m for 2017/18.		Savings from completed procurement exercises, IT investment and process improvements:			
		Activity	**Description**	**Saving or improvement**	**One-off or ongoing**
		Procurement – Property Services	Roofing, boilers, kitchens, alarms, CCTV, door entry, specialist baths	£695,000 over three years	One-off
		Procurement – Property Services	Reactive and planned works for supported living	£1.5 million over three years Social value payment for investment in communities and tenants £50,000 over three years	One-off
		Procurement - IT	Renegotiation of contracts for printing, stationery, mobile voice and data, and applications software	£50,000	Ongoing
		TECS	Productivity and quality improvements	• Introduction of new system and mobile working for emergency responder service which has removed the need for paper forms, improved management reporting and data security • Auto booking on/off for Independent Living Co-ordinators which has reduced calls by over 1,000 per month by automation • Sub-contractors can complete administration directly • Amending payment methods to increase the number of customers paying by Direct Debit which is the lowest cost payment method • Staff trained in British Sign Language which has reduced the cost to hire a signer for installations	Ongoing

Strategic Aim / Target 2017/18	Rating	Outcome and VFM achievement			
Develop a stronger organisation VFM efficiency savings of £0.8 million and procurement savings of £0.3m for 2017/18.		Savings from completed procurement exercises, IT investment and process improvements:			
		Activity	**Description**	**Saving or improvement**	**One-off or ongoing**
		Supported living	Productivity and quality improvements	• Obtaining Disabled Facilities Grant through better partnership working with local authorities • Streamlined the annual review visit form, reducing staff time • Procurement for grounds maintenance which has achieved 1% social value investment • Reducing costs for furniture suppliers to remove delivery charges and changing washing machine suppliers to achieve savings	Ongoing
		Progress Futures	Match funding	Partnership working with sector through ESIF and obtained match funding to increase the capacity of the team. Also obtained external funding via Progress Futures which is bursary from women's fund	One-off

Strategic Aim / Target 2017/18	Rating	Outcome and VFM achievement
Provide more and better homes Complete 49 HCA-funded properties and a further 135 of non-grant funded properties at a total development spend of £19.4 million with grant of £3.5 million, generating a net spend of £15.9 million in 2017/18.		We have completed 32 HCA-funded properties and a further 52 non-grant funded properties at a total development spend of £8.9 million with grant of £1.2 million, generating a net spend of £7.7 million in 2017/18. Our target for HCA-funded properties included 18 properties for two schemes which will be completed in 2018/19 and is due to contractor and legal delays. For the non-grant funded properties, the shortfall was due to 48 anticipated properties no longer being viable, 18 properties affected by planning and contractor delays and 16 properties included for speculative opportunities which have not occurred.
A further £2.7 million is estimated for Concert Living Limited.		We have a newly established company, Concert Living Ltd, which will develop for outright sale. It is in its set up phase and first sales completions are expected in 2019/20.
To continue to grow our Progress Lifeline and TECS service, anticipate achieving income of £3.5 million in 2017/18 with over 18,000 connections.		Progress Lifeline has continued to grow over the last financial year with 22,924 connections and a turnover of £3.5 million and an operating surplus of £0.8 million.
Provide more and better homes Review of stock performance and completion of options appraisals. Use most effective procurement methods.		We have an established Asset Management Strategy, approved by the board, that sets out the process we will follow to assess the net present value of stock together with sustainability indicators to identify poor performing stock that will trigger a possible options appraisal. There were no significant schemes identified. We operate a standard template for options appraisals when reviewing our stock performance. This helps us to make clear decisions on the future viability of our stock. This includes options to dispose, remodel or in the case of supported living accommodation, decommission schemes. During 2017/18 we sold eight units (excluding RTB, market rented sales and shared ownership) which generated £0.9 million in sales proceeds. Alongside this, in 2017/18 we also sold 19 of the 27 market rented properties that were in Parent, and this generated sales proceeds of £1.8 million in the year. We have a strategy for our independent living portfolio of a gradual reduction of 174 independent living properties by decommissioning units no longer fit for purpose and converting to general needs properties. This will reduce void costs, alarm maintenance costs and management costs with the reduced level of support required. There is focus on cost areas, including increased use of energy saving lights when schemes are rewired, re-tendering of maintenance contracts and reducing paper-based information.

Strategic Aim / Target 2017/18	Rating	Outcome and VFM achievement
Develop a stronger organisation To make progress against our targets for 2020 to be top quartile in arrears, voids, repairs, and satisfaction.		We have continued to focus on making improvements within our services and performance indicators. Arrears targets have been achieved at year end with both current and former arrears exceeding their targets. Current arrears stood at 3.4% against a target of 4% and former tenant arrears stood at 1.0% against a target of 1.3%. We have not achieved our void rent loss target of 5.5%, which stood at 6.2% or our relet target of 86 days, which was 93.9 days. Within the year we have appointed a dedicated resource to improve relet times and help to reduce void rent loss. Void rent loss targets have been met in general needs and independent living accommodation. The main reason rent lost due to voids (including recharges) is not being met is due to a fall in the level of rechargeable income within our supported living accommodation. We are working closely with service providers and commissioners to improve voids and offset costs where possible. We can see customer satisfaction improvements which indicate more effective services. We are creating a new mechanism to incorporate alternative forms of customer insight to help shape services for the future. For 2018/19 the focus will remain on improving voids and responsive repairs performance. Our board has reviewed its targets in April 2018 and we have changed some existing targets for the new financial year and included some new ones.
Put customers at the heart of what we do We will invest a further £0.65 million in our IT investment programme within the year.		We have continued to invest in our technology programme with spend at £0.3 million. This is less than the budgeted figure of £0.65 million as the delivery of two projects has been deferred until 2018/19. Spend on new projects has been deferred as the requirements for ongoing mobile projects has increased. There have also been additional developments made to projects that have gone live in the year, resulting in additional efficiencies being realised and supporting staff in new ways of working. The deferred projects are small and specialised such as Supplier Relationship Management (SRM) and the business planning system, whereas the requirements for mobile working are group-wide. The deferrals were authorised by project board.

APPENDIX 2 - Performance against our 2017 VFM Strategy

Our VFM Strategy sets out our plans for: continued investment in our properties, new developments and understanding the costs of our services.

i. Asset management

For 2017/18, we have invested more than £17.5 million on repairs and maintenance and plan to spend more than £20 million in 2018/19. The majority of the increase is on component renewals.

An Asset Management Strategy has been developed and approved by the board. A refresh of the Asset Performance Evaluation (APE) model has been carried out, and actions identified as part of this work is now underway. We have set up an Active Asset Management Operational Group, comprising of senior managers to monitor and implement the strategy agreed by the board. This group meets regularly during the year to review data from the APE model as well as trigger events that occur during the year – such as significant costs identified when a property becomes void.

We use the nationally recognised Asset Performance Evaluation (APE) model provided by Savills which is updated every six months and annually presented to the board, usually in October each year. A further update on progress will be presented to the board on 1st October 2018. The APE model we use also takes into account sustainability indicators such as anti-social behaviour, rent arrears, level of void properties, void turnaround times etc. This helps us to capture the wider performance of our assets.

Our latest data for NPV return on social housing assets split by tenure type; general needs, independent living and supported living showed:

- General needs properties show an average 30-year NPV per unit of £14,523 compared with the North West regional average of £10,600;
- Independent Living properties show an average 30-year NPV per unit of £5,238. There is no benchmarking data available for this tenure type. When compared to the NPV return in 2016 the overall average NPV has fallen from £8,381.
- Supported living properties show a 30-year NPV per rental stream of £86,340 (£204,959 at property level based on the average of 2.37 rental streams per property). There is no benchmarking data for this tenure type.

The Active Asset Management Working Party carried out a review of 410 assets which showed that a number of actions needed to be taken around the data held on each property. This review resulted in a reduction of the properties with a negative NPV from 410 to 195. Of these 195, one property had already undergone an appraisal and is due to be disposed of. Two further properties are undergoing appraisals to make a decision on their future. The remaining 192 properties are located within large, established estates where a combination of high investment requirements and poor sustainability is contributing to their performance. The properties with the negative NPV are all older stock predominantly estate-based, constructed in the 1950s. The properties are important to us as they are in key operational areas surrounded by high numbers of other well performing properties. We will continue to monitor the properties annually and action will be taken where necessary.

In October 2018, a revised strategy will be presented to the board that will set out trigger points that will be used by the Active Asset Management Working Party to consider changes of use or disposal of properties.

We planned to invest around £8 million into improving existing homes and we have spent more than £7.4 million. We have virtually delivered our target of 1,285 component replacements (such as bathrooms and kitchens) and delivered 1,243. This is slightly fewer than originally planned due to two contractors being unable to fulfil the contract requirements towards the end of the financial year. Our long-term financial plans include provision to increase our component replacements, mainly bathrooms. We are reviewing our resources by September 2018 to deliver this increase.

In addition, a procurement exercise that will enable property services to make more efficient use of contractors was completed and went live on 6th April 2018. We have developed a suite of new performance indicators to help us monitor contractor performance. These include:

- Jobs completed within assigned priority – target 90%
- Average number of days to complete a job – 6.5 days
- Appointments made – 95%
- Customer satisfaction – 97%
- First time fix – 90%
- Accident reporting – 100%
- Attendance at contract meetings – 100%.

We have a dedicated compliance team within Property Services that manages property compliance in relation to gas, electric, legionella, fire safety, asbestos, lifting equipment and solid fuel and we will continue to invest.

Future active asset management

We anticipate that our approach to asset management will evolve over time to ensure it meets national best practice. We will be looking at introducing additional trigger events to those already identified during 2018 which will be presented to the board in October 2018. We will continue to make best use of housing stock, we will achieve this by:

- Continuing to review stock performance and the completion of option appraisals, as part of the process detailed in our Asset Management Strategy;
- Using the most effective procurement methods to ensure value for money in the delivery of services and the procurement of materials and services so that maintenance costs per unit are competitive and contribute to the long-term affordability of our maintenance services;
- Ensuring the delivery of identified component replacements so that our stock continues to be well maintained and an attractive offer for current and potential tenants;
- Reviewing our approach to the delivery of energy efficiency measures as part of component replacement specifications.

ii. New Development

In 2017/18, we invested more than £8 million on new properties and plan to spend more than £15 million (before grant) in 2018/19. This investment reflects our strategy to provide more housing. We intend to acquire a larger proportion of land to deliver this strategy.

We are one of a consortium of Registered Providers that are members of the Cutting Edge Framework, an OJEU compliant procurement framework. This framework includes professional services to assist in the delivery of development schemes. The selection criteria for the consultants that successfully applied to this three-year framework included different elements of VFM assessment, including cost and quality.

Before entering into any development contract, we assess the construction cost of each development against the appropriate BCIS construction cost benchmark for the type of scheme and its location. This assessment is made by our employer's agent and they produce a value for money statement to confirm the position for our audit file.

A standard specification has been produced for new developments to ensure that components within the construction minimise the future maintenance cost and liabilities of the asset. This includes the type of product specified and also the replacement. Full health and safety files are produced for each scheme and passed to our Asset Management Team to ensure all of the relevant information is to hand. This minimises future replacement costs and also resource input.

Developments are designed to ensure that any potential future issues are 'designed out' if it is practical to do so. This can include minimising the potential for neighbour disputes or planning ahead to make sure that any remedial work is not required in the future. Undertaking such design work up front in consultation with colleagues from other departments can also assist in minimising service charges and maximising rental income.

Concert Living is exploring the potential to develop a number of standard house types, which will help us to define construction costs with more accuracy in the future. This will ensure future properties are designed and constructed with efficiency in mind i.e. in line with standard building component dimensions and allowing better benchmarking of construction costs between schemes and different contractors. There will always be a specific element that cannot be standardised due to ground conditions and site layout. However, where possible, we hope to apply principles to these areas, for example around areas of adopted highway. Given the aspiration to develop more homes on land that is within our control, we can explore the potential for building standard types for general needs and shared ownership schemes.

iii. Headline Social Cost per Unit Service Costing

The table below shows the 2017/18 latest data for headline social cost per unit and its components.

Adjusted figures	2016/17 £	2017/18 £	Change %	2016/17 sector median £	Difference to sector %
Headline social cost per unit (adjusted)*	4,085	4,409	8%	3,298	-19%
Management	992	974	-2%	941	-5%
Services	980	977	-0.3%	372	-62%
Responsive & planned maintenance	1,223	1,410	15%	925	-24%
Major repairs	654	829	27%	683	+4%
Other **	235	218	-7%	241	+2%

* The cost per unit has been adjusted to exclude costs for supported living property leases and restructuring costs in 2017 only. This affects other costs per unit in both years.

** Other costs include council tax, demolition costs, written off development costs and transitional protection.

Management cost per unit was expected to reduce as a result of service reviews and other efficiency savings which we have achieved. Service costs show minimal movement but are much higher than the average, mainly due to supported living service charges. Maintenance is higher, reflecting our strategy to increase components within our properties.

We calculate a 'weighted median' based on our stock profile due to our higher supported and independent living portfolio. (This data is based on RSH documents in 2016).

	2015/16	2016/17
Headline social cost per unit (adjusted)	£4,138	£4,085
Weighted average	£5,276	£4,894
PHG position to median	**BELOW**	**BELOW**
£ lower	-£1,137	-£809
% lower	-22%	-17%

On this basis, we are well below the sector. For 2017/18, our figure is £4,409 but we still expect to be below the sector weighted average unless the sector reduces costs by around 10%. Our level of supported living accommodation sets our cost per unit above the rest of the sector. The RSH identified supported living as a cause of higher unit costs when compared to the sector. Based on the 2017 Global Accounts data, we had 3% of the sector's supported housing, and we are the fourth largest provider. Of the top 10 providers of supported housing, the average was £6,053 per unit, compared to our (adjusted) cost per unit of £4,085 for 2016/17.

Our long-term plans assume the cost per unit will increase with (or below) inflation in the next three years and key areas of efficiency are our management costs. The RSH has commented that many RPs have cut maintenance costs in response to the rent reduction, but we intend to invest appropriately in our stock (whilst still ensuring efficiency). For service costs, we aim to make sure these are kept as controlled as possible, but note that this cost should be offset by service charge income where appropriate. Our managers undertake annual reviews of their own service cost areas and also compare their costs to benchmark data where available.

How we achieve VFM in service charges

Services provided to our tenants are subject to a procurement or tender process. In 2016/17, gardening services for supported living services were tendered and charges were set accordingly in 2018. The gardening service for general needs and independent living has also now been tendered and again charges to tenants will be set accordingly.

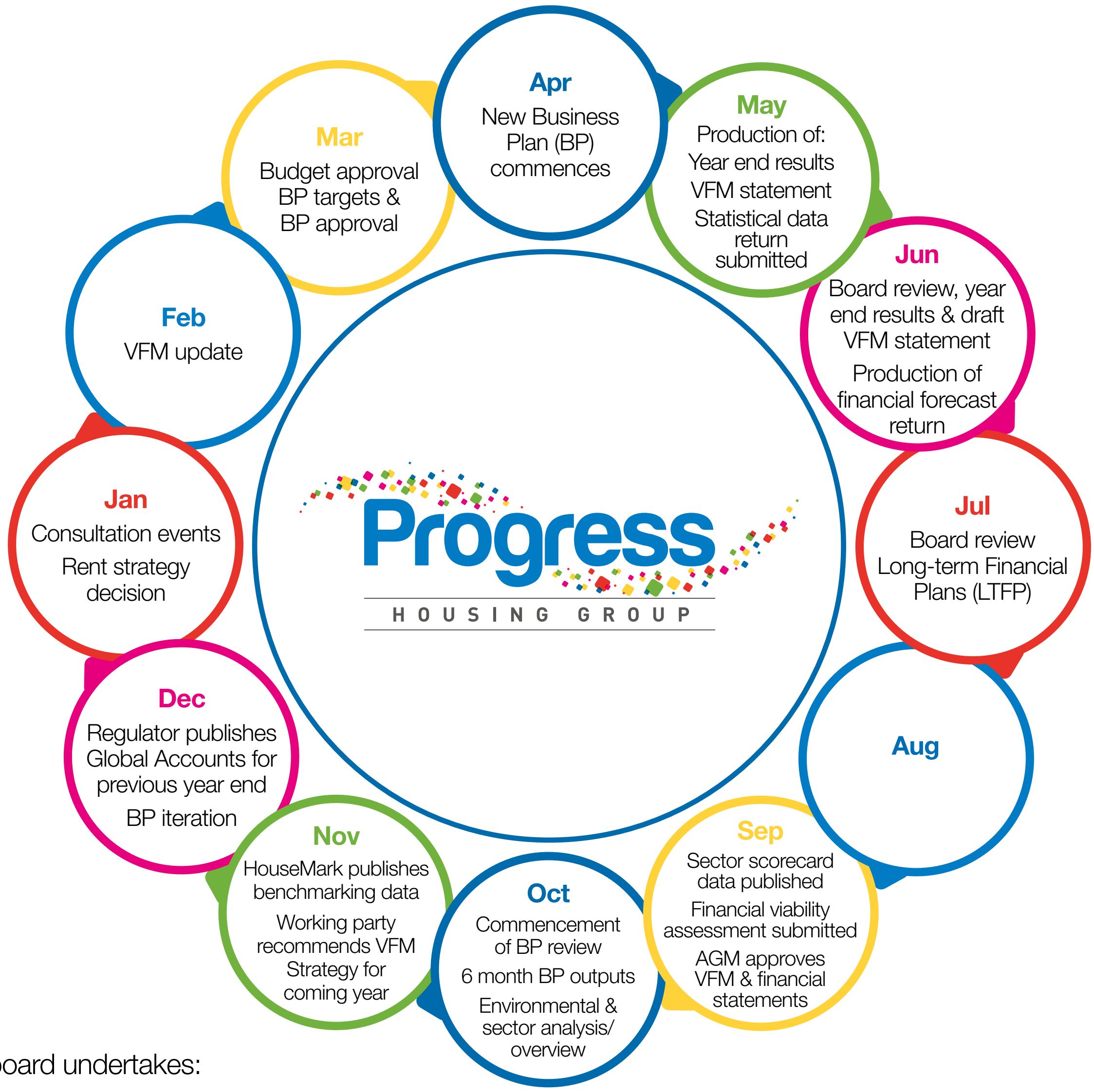
The annual review of services to tenants is subject to rigorous scrutiny and wherever possible savings are sought and made and passed onto tenants in all cases.

The average charge for services provided to tenants of supported living accommodation reduced by 1.14% (this includes LiLAC, it is a reduction of 4.6% excluding LiLAC). This was achieved in the main as a result of improvements to the control of furniture and equipment repair and replacements.

Appendix 3

The graphic below details our annual cycle which shows how our Business Plan links to our target setting and performance. It shows how we analyse and report our position against appropriate benchmarks and how VFM forms part of this cycle.

Business planning, performance and benchmarking cycle



In addition, board undertakes:

- Quarterly performance, Finance and compliance reviews
- Quarterly strategic risk register reviews
- Annual treasury reviews and quarterly updates
- Quarterly scrutiny updates
- Regular benchmarking and satisfaction reports during the year.

Progress Housing Group
Sumner House, 21 King Street,
Leyland, Lancashire PR25 2LW

t: 03333 204555
e: enquiries@progressgroup.org.uk
w: www.progressgroup.org.uk

Follow us on Twitter
@ProgressHG