

Value for money at A2Dominion

The future success of the organisation is partly dependent on its ability to achieve Value for Money (VFM) in all aspects of its business. The Group therefore has a framework for driving VFM which includes a five year strategy, indicators and targets, and an annual action plan and progress report, all overseen by the Group Board and supported by the Group Audit and Risk Committee.

Our overarching VFM aim is to contribute to the delivery of the Group's vision for efficiencies and savings, maximising surpluses to invest in new and existing homes. This has become an even more important part of our strategy since changes in government funding have eroded grant funding for new homes, and social and affordable rental income has been impacted by a prescribed rent reduction of 1% per year over the next four years.

VFM is not simply about lower costs but about achieving more from business activities and investments. We aim to maximise the social, environmental and economic returns from the Group's investments and activities and our approach is shaped by five strategic VFM objectives:

- maximising income and the use of the Group's assets;
- maximising VFM through a range of procurement and joint venture approaches;
- ensuring efficiency and simplicity across all business activity;
- working with customers to prioritise investment in services and communities;
- ensuring managers understand and are accountable for delivering return on investment and that the Group has a well-developed

culture for achieving; and demonstrating VFM.

The most significant elements of our VFM programme are currently:

- rationalisation – streamlining systems, processes and the organisation to improve turnaround times and efficiency;
- commercial activities – to generate surpluses for reinvestment in our social programmes;
- procurement – to test value in all major areas of expenditure;
- asset management – to maximise return on investment on our portfolio; and
- Customer Service Strategy – to update our target operating model to deliver better and more cost effective services.

These VFM objectives are reflected in a series of VFM actions and targets for each of the Group's four business plan objectives.

Annual VFM Self Assessment

Each year, A2Dominion evaluates its financial, social and environmental VFM performance in a comprehensive VFM self assessment. We use a range of data to measure VFM progress and report findings against each of the Group's four business objectives. The results help influence investment decisions and provide our regulators, partners and customers with information about our progress. The process also helps ensure compliance with the regulatory VFM Standard.

Our full self-assessment is available to view online at www.a2dominion.co.uk/customerpublications with headline results summarised below.

We also publish VFM information for residents in our Customer Annual

Report, viewable online at www.a2dominion.co.uk/customerpublications. In addition we publish information about our social return on investment on our website.

Headline results 2015/16

Overall our judgement is that A2Dominion complies with the regulatory requirements as set out in the Homes and Communities Agency's (HCA) VFM Standard and that VFM improved in 2015/16. An in depth assessment in 2015/16, which included an assessment against the HCA VFM standard, confirmed A2Dominion meets the standard.

The Group has generated a best ever surplus of £114.5m. This was predominantly achieved through the increased value of investment properties, the sale of new homes and increasing capacity through efficiencies. Other key factors include sales of further tranches of shared ownership homes and disposals of homes uneconomic to repair or outside our core geographical area of operation.

The strong performance on VFM has wider benefits than just for A2Dominion, with key stakeholders seeing positive impacts from our investment decisions.

- Residents – better services, well maintained homes, reasonable service charges
- Government – delivery of new homes, employment opportunities, lower costs to the taxpayer
- Local authority partners – provision of new homes, management and maintenance of existing homes, care and support services, and investment in local communities

- Homes and Communities Agency – compliance with the regulatory VFM Standard and mitigation of economic risks to safeguard existing provision of social housing.

This overall surplus of £114.5m includes £30.1m of unrealised gains on the valuation of our investment properties. Even excluding these, the remaining surplus of £84.4m has achieved the Group's aim of successfully offsetting a reduction in the grants received from the government.



2009/10 annual financial statements were prepared under previous UK Generally Accepted Accounting Principles (GAAP).

In 2015/16 the return on net assets deployed increased from 3% to 5%. The Group has a clear investment policy which sets out the returns required for each asset opportunity. Investments made in the non-social portfolio have delivered improved yields and asset values above the original investment criteria during the year.

Savings across the Group now total £18.5m since the Group's formation in 2008 (£2.7m in 2015/16). This has been achieved

through rationalisation, technology, our Lean business transformation programme and testing the market in all major areas of expenditure, as well as reduced income void losses.

The savings have enabled us to invest in resources in service provision improvements, helping maintain our decent homes standard and assist our residents impacted by welfare reform. Our aim is to save a further £13.2m over the next three years. The trend in income collection improvements continued (£1.5m in 2015/16 and £3.2m in the last four years), along with strong void turnaround performance, also increasing the cash available for reinvestment.

The Group's property portfolio is kept under review by an asset management panel who consider the economic viability and financial performance of properties and how best they may be used strategically. Our Stock Rationalisation Strategy also identifies areas outside our core operation where we will consider disposal to other providers.

In 2015/16, decisions implemented were:

- demolition of 30 units for redevelopment and regeneration;
- disposal of 49 homes generating net proceeds of £3.5m as part of our stock rationalisation strategy – for reinvestment in new homes;
- disposal of nine units as uneconomic to repair netting £2.6m – ring-fenced for major refurbishments;
- 33 major refurbishments; and
- change of tenure of 56 units – including 20 from general needs to affordable rent.

Our policy is to reinvest 80% of the Group's annual cash surpluses in to the provision of new affordable homes. The profits made this year mean that the total available for reinvestment in new homes is £87.4m. With each new home requiring an average £120,000 of cash subsidy, this total of £87.4m will provide around 730 new homes over the forthcoming years.

In 2015/16, a total of 529 new homes were delivered against a target of 360. In addition, 618 new homes were delivered for private sale or rent. Using previous years' cash profits helped the Group acquire new sites for future development with the potential for 983 affordable new homes.

The remaining 20% of cash surplus is helping to support continual enhancements of existing homes, community investment projects and care and support provision. In 2015/16, £37.8m was invested in upgrading over 5,000 homes. Care and support services were expanded and over 3,000 residents benefitted from community investment initiatives including digital and financial inclusion, training and employment, and health and wellbeing.

Value for money at A2Dominion (continued)

The table below summarises our assessment of 2015/16 performance for each of A2Dominion's business objectives. The full assessment is viewable online, as signposted above.

VFM return	2015/16 rating	Headline evidence	2016/17 targets
1 – Provide new, high quality, homes and places			
Financial	Strong and improving	Diverse programme informed by investment criteria and supported by £100m of new loans. Private sales margins up by 6.0% to 25.3% and total sales of £139.7m adding an additional £18.0m surplus to that budgeted for. New FABRICA brand quickly established. One new major joint venture. Private lettings and income targets exceeded.	Achieve land, development and sales targets to help deliver a surplus of £57.3m in 2016/17. Complete the selection process for the new development contractor framework. Improve customer experience with residential sales and aftercare, as measured by a Net Promoter Score of 50 or more.
Environmental	Strong and improving	Outline consent for 3,500 homes at NW Bicester (the UK's first eco-town). New Development Contractor Framework and associated Design Brief and Technical Specification. National awards.	
Social	Strong and improving	Land for 983 new homes procured and 1,127 delivered against a target of 900. 529 of these were affordable homes delivered against a target of 360. High standard of design for sustainable communities, national awards.	Raise £100m new funding for private development which will deliver surplus for cross-subsidy in the longer term.
2 – Deliver customer led services			
Financial	Average and improving	Best ever income collection levels, securing an extra £1.5m. Repairs costs at average levels for g15 and above average housing management costs, partly due to the scale of investment in tenancy sustainment. A new Housing Services Structure is budgeted to save £400,000 per year from next year.	Better VFM in repairs processing Reduce expenditure on high cost to serve customers Continue investment in new online services Build a Knowledge Management solution to help front line staff handle customer enquiries
Environmental	Average and stable	Launched new look customer portal and seen online transactions, including registrations, double. Released 165 bedrooms through 122 under-occupation moves.	
Social	Strong and improving	£4.7m leveraged in to support residents through tenancy sustainment activity, £1.0m more than secured last year. Helped 81 households avoid benefit deductions through under-occupation moves. Improved administration of service charges, and turned round complaints and communal repairs 20% faster. Minimised and supported homeowners at risk of repossession.	

VFM return	2015/16 rating	Headline evidence	2016/17 targets
3 – Invest in homes & local communities			
Financial	Average and improving	20% of cash surpluses invested in improving existing homes and services and in community development. Above average planned and cyclical maintenance costs reflect shorter cycle times than our peers. Strategic asset management decisions leading to 124 disposals, 30 demolitions and 56 tenure changes.	Review the Asset Management Strategy to maximise performance of our portfolio Procure new planned and cyclical maintenance contracts at an estimated cost between £25m-30m.
Environmental	Average and improving	Planned, cyclical and energy initiatives, benefiting > 5,000 homes. Spend is above average against our peers due to cycle times for some asset components, now under review. Any significant increase in energy efficiency ratings would require significantly more investment than planned.	Extend usage of our Contractor Portal to save in the region of £100,000 per year
Social	Strong and improving	Successful sales launch at Green Man Lane regeneration scheme under the FABRICA brand. More than 3,000 residents engaged through community investment initiatives. New extra care schemes commissioned and in management, expanded domestic violence and supported housing provision.	Stay on track to meet our April 2018 community investment targets including for apprenticeships and social enterprise ventures
4 – Strengthen the business			
Financial	Strong and improving	£114.5m net surplus and £113.0m operating surplus, 43% above target. 6% net return on assets deployed. £2.7m efficiencies achieved against a target of £1.8m. Procurement of better value telecommunications and gas and electricity contracts. Compared to g15 peers turnover increased at a higher rate and the operating margin is average.	Surpluses of £57.3m and savings and efficiency savings of £2.3m Undertake year 1 of the new A2Dominion Work Programme including further phases of Dynamics CRM and My Account customer portal
Environmental	Strong and improving	Further office rationalisation despite growth in headcount resulting in a £750,000 saving in office accommodation costs.	Complete Group wide roll out of Purchase to Pay and start to procure replacement systems for Finance, Human Resources, Payroll and housing management
Social	Strong and improving	All cash surplus reinvested in new and existing homes, services and communities. Streamlined processes and faster turnaround times (various). Streamlined human resources processes.	Establish our new in-house legal services team to save £200,000 per year

Value for money at A2Dominion (continued)

VFM indicators

As part of our commitment to transparency we publish the same set of VFM indicators each year, enabling performance to be tracked.

All indicators are calculated using previous UK Generally Accepted Accounting Principles (GAAP) to ensure comparability to previous years.

Indicator	2015/16	2014/15	2013/14	2012/13
Management costs per home – social housing activities	£1,361	£1,385	£1,366	£1,406
Planned and responsive costs per home – social housing activities ¹	£989	£1,008	£902	£1,003
Service costs per home – social housing activities	£679	£754	£674	£682
Rent void loss per home – social housing	£66	£77	£91	£73
Operating cost per home – social housing activities	£3,983	£4,052	£3,685	£4,048
Operating margin – social housing activities	33.3%	30.4%	32.6%	24.2%
Operating margin – all activities	29.9%	27.7%	28.6%	21.2%
Current rental arrears – general needs homes	3.70%	3.84%	4.14%	4.04%
Re-let times – general needs homes	19 days	18 days	18 days	18 days
Chief Executive pay per home	£6.80	£6.80	£6.72	£6.55
Board and executive pay per home	£55.38	£54.75	£51.29	£49.09
Debt per unit	£37,767	£38,079	£33,540	£33,570
Capital committed as proportion of fixed assets	37.6%	51.0%	55.6%	32.6%

¹ calculated on expensed planned and responsive repairs costs

The Group has made real progress in improving its cost per home levels during the year. At 31 March 2016, all of the key VFM indicators except Board pay were ahead of 2015.

Unit costs for management, repairs, services, void loss and arrears all reduced in 2015/16 by varying amounts (1-15%). Re-let times increased by 1 day but remain below average compared to other large London based housing associations (reference Housemark g15 results). Chief Executive pay per home has been stable whilst Board and Executive pay per home increased 1.5%. Borrowing per unit decreased whilst gearing (capital committed) reduced.

How we compare

The Group's benchmarking club, the g15 (largest London based associations) provides data based on the previous financial year, 31 March 2015. This showed an improving position for the Group's overhead costs which reflects the benefits starting to flow from the office investment strategy and efficiency programme. The results did show that housing management costs are higher than average amongst our peers. Additional investment in a tenancy support team in 2015 has added to our cost base but this investment has more than delivered, securing £4.7m of additional income for our residents to support them paying their rent during this year. In addition these management costs will improve as a restructure of the housing services delivery team will drive even more efficiencies in future years.

Planned and major works costs remain high. The Group undertook a full review of its asset investment profiles during the year and identified that our replacement cycles of asset components was not in line with our peer group. A realignment of these in future years will mean our benchmarking costs will be much more comparable and show us well within the levels within the benchmarking group.

Future VFM priorities

Our principal source of subsidy to fund new homes is now profit from residential sales and we will closely manage the greater financial risks this inevitably involves. We will also focus on driving down costs.

In the next three years, the Group has targeted to save over £13.2m coming from overhead reductions (£4.1m), better income collection (£0.9m), and through procurement and contract savings (£8.2m).

Efficiencies will be achieved by rationalising and streamlining processes, alongside organisational changes. These will deliver a new operating model to improve delivery of customer services whilst reducing management costs per unit, and ensure the organisation has the capacity to implement its work programme.

The A2Dominion work programme comprises projects to:

- Improve customer experience – including in repairs, aftercare and private lettings;
- Reduce costs and maximise profit – including through digital self-service, procurements, a review of external consultants, and a reduction in expenditure on high cost to service customers (without detriment to vulnerable residents); and
- Maximise the delivery of new homes – including increased shared ownership, Voluntary Right to Buy and increased access to capital funding.

We expect to incur major expenditure in the procurement and investment of replacement business (IT) systems which will deliver return on investment in the medium and long term.

We have also commenced a comprehensive review of the Group's Asset Management Strategy, with the aim of best use of A2Dominion assets. Meanwhile we will continue to use receipts from disposing of our least efficient assets to help fund refurbishment of other stock.

Together, these initiatives will enable the Group to be competitive in the provision of homes and services, and to sustain community investment in priority areas.