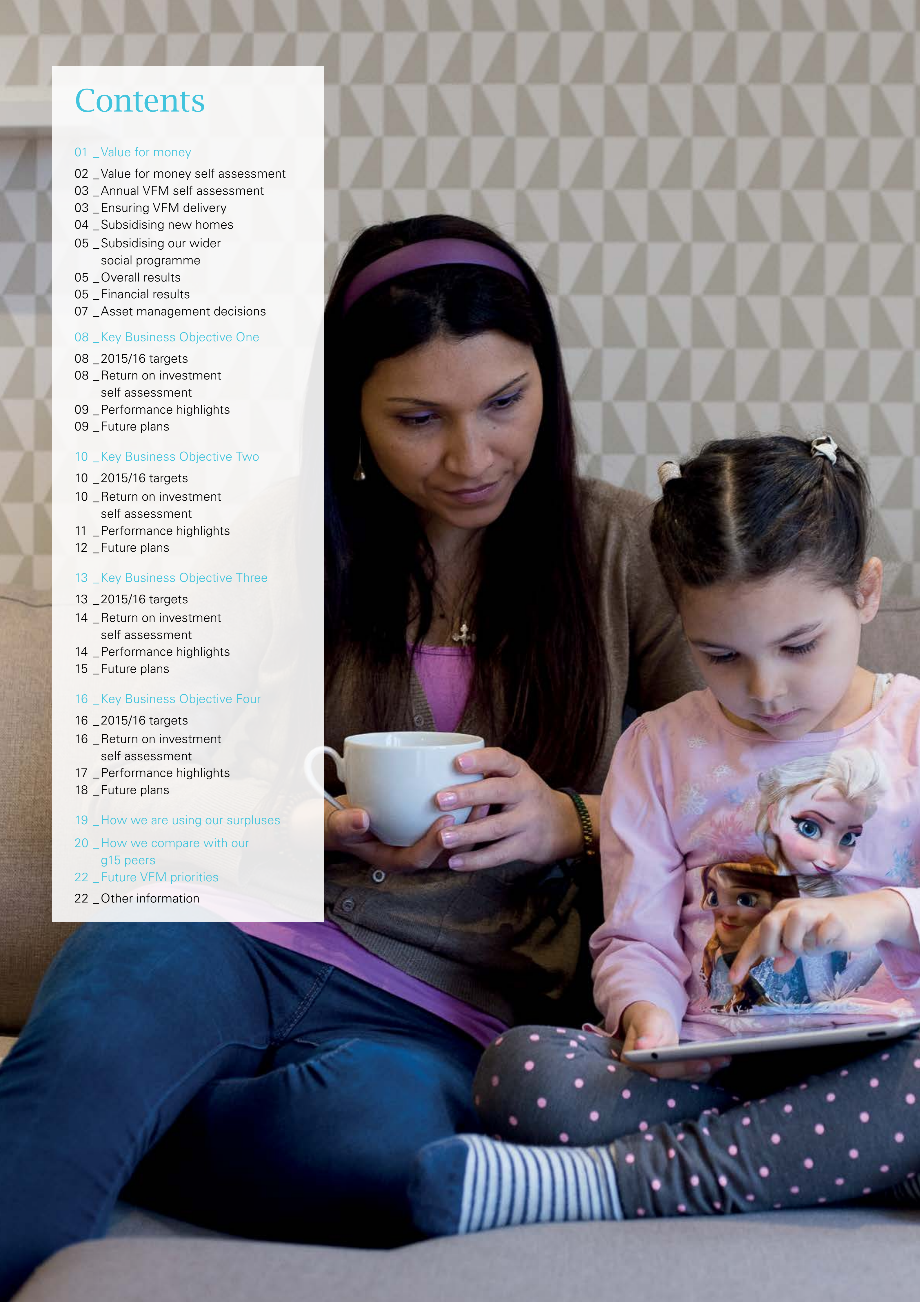
Value for Money Report 2016



Contents

Value for money

The Value for Money (VFM) Strategy and Action Plan contributes to the delivery of the Group's vision by providing a framework to generate efficiencies and savings, with the aim of maximising surpluses to subsidise new and existing homes and services.

Landlord of the Year Winner 2015

Value for money self assessment

(year ended 31 March 2016)

The organisation's future success 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.

Our overarching VFM aim is to contribute to the delivery of the Group's vision for efficiencies and savings, maximising surpluses to subsidise 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 is impacted by a prescribed rent reduction of 1 percent 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
- Customer Service Strategy – to update our target operating model to deliver better and more cost effective services.

These VFM objectives and priorities 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, the Group undertakes a VFM self assessment to evaluate our financial, social and environmental performance. The results help influence our investment decisions and provide our stakeholders with information about our progress against their key objectives including:

- 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, mitigation of economic risk to safeguard existing provision.

As part of our three-year audit programme, KPMG undertook an internal audit in 2015. They rated our approach to VFM as having 'high assurance', the highest possible rating.

Ensuring VFM delivery

VFM is overseen by A2Dominion's Executive Management Team and Group Board, who determine strategy and investment priorities and monitor progress against published plans and targets. Their governance of VFM is supported by the Group Audit and Risk Committee which oversees the internal audit programme and the Group Risk Map.

The annual business planning process ensures that proposals are matched by the appropriate level of resources and that all significant proposals undergo a business case or options appraisal. VFM is a standard consideration for every board, committee and executive decision.

A2Dominion engages its customers on VFM through its survey programme, as well as through the Customer Services Committee and customer-led Service Improvement Groups, who help determine priorities for expenditure, procurement specifications and contractor selection. More than 20,000 customers gave us feedback on services they received during 2015/16, with over 13,000 contacted by telephone and text as part of our after-care service.

We evaluate return on investment from major projects and all teams within A2Dominion review their performance results weekly.

VFM goals are incorporated into individual staff targets and incentivised through the opportunity for Group and individual bonuses linked to profitability and performance.

Value for money self assessment (continued)

(year ended 31 March 2016)

Subsidising new homes

The Group's operating environment has changed significantly in recent years, impacting on the availability of funding for new affordable homes and service development.

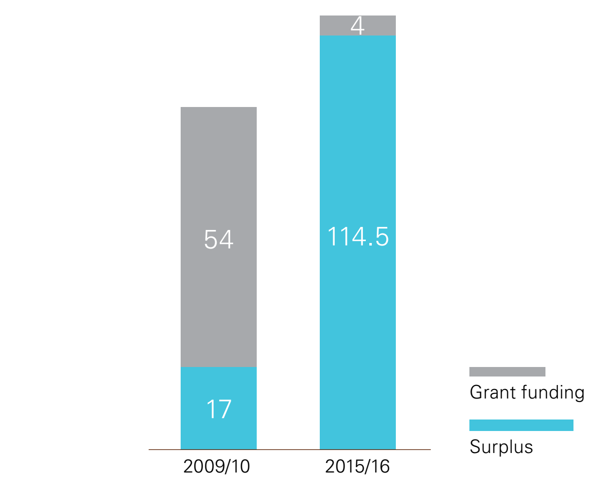
Firstly, the government's grant funding regime has changed. The Group took the decision to further grow and diversify its commercial activities to generate surpluses to address the shortfall and subsidise a continuing social programme. The bar chart (right) shows the impact of grant changes on A2Dominion and how we have successfully made up the shortfall through profit.

Secondly, the government has since prescribed a 1 percent rent reduction for each of the four years from 1 April 2016 which will impact on the Group's income and surplus. The net effect over the four years 2016/17 – 2019/20 is £54m less income than we had previously projected in our business plan.

Finally, the recent EU Referendum has resulted in uncertainty about the future direction of sales prices, interest rates and housing supply. As we use surpluses from private sales to cross-subsidise new homes for affordable rent, a sustained reduction in sales income may well reduce the number of rented homes we provide.

However, A2Dominion is a financially strong organisation, with a diversified business model and a variety of ways to generate income and withstand volatility in the market. Our future VFM strategy focuses on driving down costs, helping us to both succeed commercially and to sustain our social objectives.

Government changes in grant funding
(£m)



This chart shows the impact of grant changes on A2Dominion and how we have successfully made up the shortfall through surplus to subsidise new homes and our wider social programme.

The £114.5m includes £30.1m of unrealised gains on the valuation of our investment properties. Even excluding these, the surplus of £84.4m has successfully offset the reduction in grant.

Subsidising our wider social programme

All cash surpluses are used to subsidise our social programme: 80 percent are invested in new rented homes and 20 percent into existing homes, care and support provision and help for priority local communities. Pages 19 and 20 provide more detail on how we are using our surpluses.

Overall results

Our judgement, based on a range of performance and cost information, is that we comply with the regulatory requirements as set out in the VFM Standard and that VFM improved in 2015/16. An in-depth assessment, conducted by the regulator in 2015/16, also confirmed our compliance.

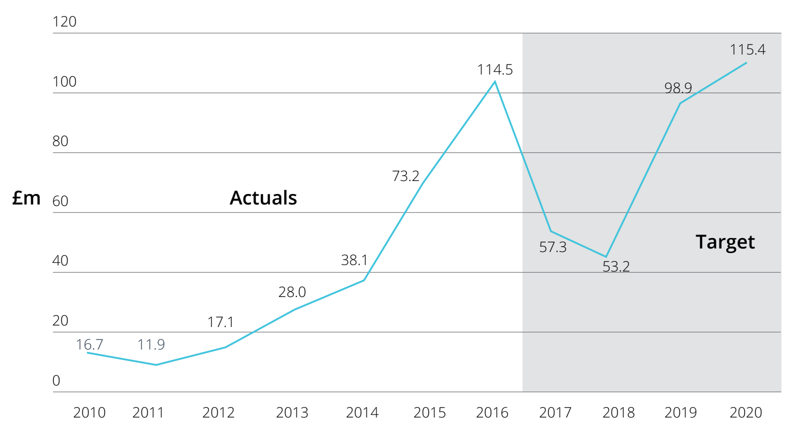
Surplus was above target, enabling greater reinvestment in homes and services, and we are delivering a wide range of other financial, social and environmental returns. Of the 23 VFM actions targets set for 2015/16, 19 were fully met and four were partially met with more continuing into 2016/17. Two longer-term targets are on track.

Financial results

From the 2016 reporting period and beyond, the Group's financial statements and financial reporting will be in accordance with the new UK accounting standard FRS 102 and the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2014. The accounting treatment of some elements of the financial statements is different to prior years. Information on the impact of the first-time adoption of FRS 102 is given in note 38 of the Group's annual accounts.

The Group delivered a surplus of £114.5m which was £41.3m above last year's and brings the total accumulated surplus to £286.9m since 2011. This has been achieved by the increased value of investment properties, diversifying our commercial activities, reducing our geographical area of operation and becoming more efficient.

Surplus



Surplus figures from 2015 and beyond are reported in accordance with FRS 102, the new accounting standard. Although FRS 102 was introduced in 2016, the 2015 surplus was restated to form a comparative. Prior years are reported under previous UK Generally Accepted Accounting Principles (UK GAAP).

The fluctuation in forecasted surpluses reflects the Group's future development pipeline and resulting sales programme.

Value for money self assessment (continued)

(year ended 31 March 2016)

Portfolio	Net assets employed[1] Book value £m	Annual rental turnover £m	Annual operating surplus[2] £m	2015/16 operating return	2014/15 operating return
Social housing rented	1,022.7	184.1	61.6	6%	5%
Shared ownership	179.3	25.4	9.9	6%	4%
Non-social rented	216.8	17.1	9.5	4%	4%
Net assets deployed	**1,704.7**	**378.4**	**78.0**	**5%**	**3%**

[1]net of housing grant.
[2]adjusted for impact of FRS 102.

Financial return on investment improved from 3 to 5 percent.

The assessment of financial return is a significant consideration for the Group's investment decisions and resultsin a stronger financial position and performance. The improving operating return on net assets is predominantly a result of the strong sales programme during the year, pushing operating surplus to its highest level ever.

The Group has a clear investment policy which sets out the returns for each asset opportunity. Non-social housing assets must yield a gross return of 4 percent.

During 2015/16 there was new investment in the non-social housing portfolio, increasing the asset base but having rental income for only part of the year. We therefore anticipate a gross yield in excess of 6 percent in 2016/17 and beyond.

Savings across the Group now total £18.4m since the Group's formation in 2008. This has been achieved through rationalisation, technology, our Lean business transformation programme, testing the market in all major areas of expenditure, as well as reduced void losses. This has enabled us to invest in service improvements, 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), increasing the cash available for reinvestment.

	2009/10 actual savings £m	2010/11 actual savings £m	2011/12 actual savings £m	2012/13 actual savings £m	2013/14 actual savings £m	2014/15 actual savings £m	2015/16 actual savings £m	Total savings £m	2016/17 forecast savings £m	2017/18 forecast savings £m	2018/19 forecast savings £m	Three-year target savings £m
Lean business improvement reviews	–	–	0.1	0.5	0.2	–	–	0.8	–	–	–	–
Procurement & contract savings	–	1.6	0.1	0.2	1.4	1.0	0.1	4.4	0.6	3.2	4.4	8.2
Overhead savings	3.1	0.9	1.2	1.7	0.2	0.2	1.0	8.3	1.4	1.1	1.6	4.1
Income collection improvements	–	–	0.7	1.0	0.6	1.1	1.5	4.9	0.3	0.3	0.3	0.9
Total	**3.1**	**2.5**	**2.1**	**3.4**	**2.4**	**2.3**	**2.6**	**18.4**	**2.3**	**4.6**	**6.3**	**13.2**
Target	3.0	1.1	1.3	1.2	2.0	2.3	1.8	12.7				
Cash collection improvements – arrears reduction	**–**	**–**	**–**	**0.5**	**0.7**	**1.0**	**1.4**	**3.6**				

Asset Management Decisions

The Group's Asset Management Panel considers the economic viability and financial performance of properties and where assets can be used to better strategic effect. Our Stock Rationalisation Strategy also identifies areas outside our core operation where we will consider disposal to other providers. In 2015/16 the following decisions were implemented:

- Demolition of 30 units for redevelopment and regeneration.
- Disposal of 49 homes outside our core management area 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 – ringfenced for major refurbishments.
- A change of tenure of 56 units, including 20 from general needs to affordable rent.

The pages that follow assess A2Dominion's VFM progress against its four key business objectives and summarise future VFM plans.

Key Business Objective One

Provide new high quality homes and places

Our key aims for this objective are to maximise grants and to generate surpluses through sales to support the delivery of affordable housing, and to increase our private rent portfolio in order to extend housing options and provide capital growth.

2015/16 targets

Procure land to support the development of a minimum of 900 homes per year, sustaining a minimum two year land supply for 1,800 units. ✓

Deliver a minimum of 900 new homes, (40 percent shared ownership and affordable rent; 20 percent private rent and 40 percent private sale). We achieved 47 percent/24 percent/29 percent. ✓

Handover the first phase of homes at Elsmbrook at NW Bicester by March 2016. ✓

Complete a tender review and adopt an updated development contractor framework by April 2016. ✓

Implement a new IT system in the Commercial Directorate in 2015/16 to save £80,000 per year and improve development reporting. Partial: system operational but license savings to be made in 2016/17 onwards, once the old system is decommissioned. ✓ partial

Return on investment self assessment

Our judgement based on a range of performance comparative data:

Financial
strong
and improving

Environmental
strong
and improving

Social
strong
and improving

Performance highlights

- Acquired sites with potential for 983 homes against a target of 1,200 for the year.
- Secured £100m of new funding facilities.
- Achieved outline planning permission for 3,500 homes at Elmsbrook at NW Bicester and detailed consent for the accompanying key infrastructure.
- Delivered 1,127 new homes against a target of 900. Of these, 331 were for affordable rent, supported through £3.5m HCA and GLA grants and cross-subsidy from private sales.
- Secured additional grant of £4.8m above our allotted programme during the year to deliver an additional 146 affordable units by 2018.
- Improved sales margins (excluding land sales) by 6.6 percent to 28.4 percent.
- Prepared the Development Contractor Framework ready for OJEU and completed the associated Design Brief and Technical Specification.
- Exceeded lettings and income targets for new private rented homes, with lettings costs also reduced through direct lettings (ie with less use of agents).

	Affordable Rent	Shared Ownership	Private Rent	Private Sale
2015/16 actual	331	198	268	330
2016/17 forecast	180	180	180	360
2017/18 forecast	180	180	180	360
2018/19 forecast	180	180	180	360
2019/20 forecast	180	180	180	360

Future plans

In 2016/17, we hope to achieve the following:

- Achieve land, development and sales targets to help deliver a surplus of £65.3m 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 higher.
- Raise £100m to fund future developments which will deliver surplus for cross-subsidy in the longer term.
- Undertake a review of the use of consultants to save £100,000 per year.

Key Business Objective Two

Deliver customer-led services

Our key aims for this objective are to update our customer service model to increase digital self-services, whilst sustaining and improving service standards.

2015/16 targets

Start implementation of our new Customer Services Strategy to deliver more online self-services, increased satisfaction in underperforming areas and other benefits over the next five years. ✓

Embed changes in our repairs services to improve repairs response times, reduce chaser calls and consistently meet published service standards. Partial: further investments being made to achieve improvements. ✓ partial

Commission and undertake analysis by December 2015 to inform and improve customer contact and service design. ✓

Upgrade our online portal for customers, My Account, and prepare for a comprehensive upgrade of the A2Dominion website. ✓

Roll out our Microsoft Dynamics Customer Relationships Management system to support the management of our expanding private rent portfolio of homes in 2015/16, and further extend adoption of the system in Property Services. Partial: Repairs plus Sales and Marketing completed. Private rent rescheduled for 2016/17. ✓ partial

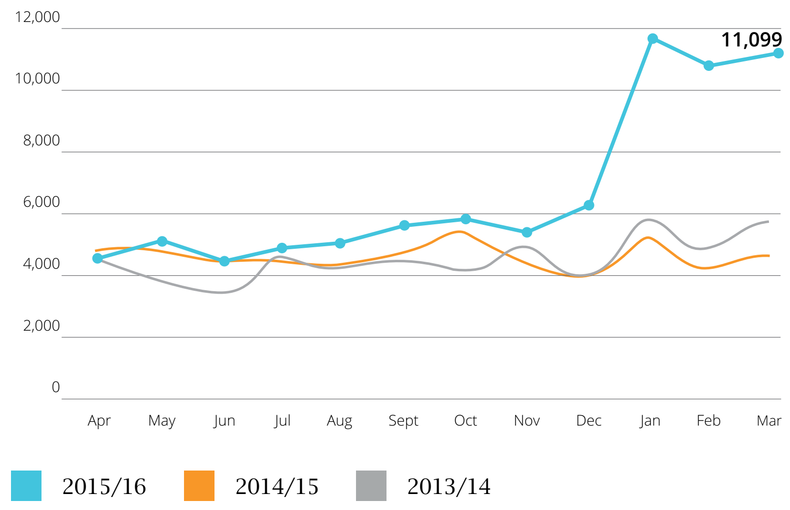
Return on investment self assessment

Our judgement based on a range of performance comparative data:

Performance highlights

- Helped customers to secure an extra £4.7m in housing benefit, discretionary housing payments and other sources of financial support, compared with £3.7m in 2014/15.
- Restructured our Housing Services to simplify and standardise ways of working, whilst expecting to save £400,000 per year from April 2016.
- Facilitated 122 moves with customers who were under-occupying their homes, releasing 165 bedrooms. In total, 81 households avoided under-occupancy deductions from their benefits.
- Engaged 128 percent more shared owners with the hardship assistance service, which resulted in a 2.3 percent reduction in shared owner home repossessions.
- Improved administration of service charges and sinking funds through the introduction of Qube software, and with better, simpler explanatory notes for customers.
- Launched a lease mediation service.
- Launched a new-look My Account customer portal and increased online transactions, including registrations for the portal.
- Helped homeowners in financial hardship, resulting in a 16 percent reduction in cases and support for 55 households at risk of repossession.
- Reduced turnaround times for complaints and communal repairs, both resident priorities, by more than 20 percent.
- Improved collection of rent and service charges for the third successive year, despite the impact of welfare reforms.

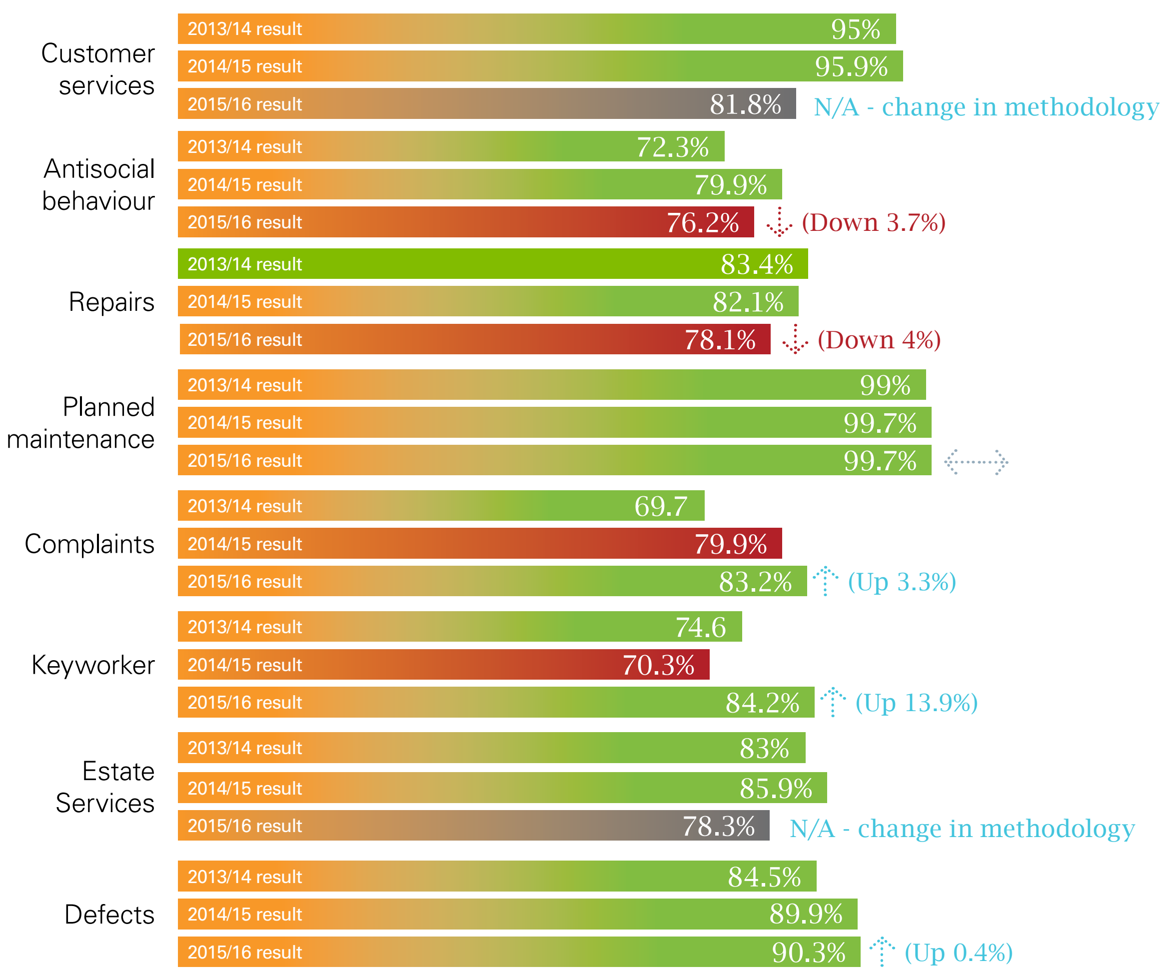
Volume of online transactions



Key Business Objective Two (continued)

Deliver customer-led services

A2Dominion customer satisfaction



Future plans

In 2016/17, we hope to achieve the following:

- Implement a VFM action plan in the repairs joint ventures, Pyramid Plus, with an initial focus on quantifying waste and measuring the cost of materials
- Reduce open repair jobs in 2016/17 by 40 percent to reduce repair times and increase customer satisfaction
- Undertake a project to minimise 'high cost to serve' demand from customers with significantly above-average repairs and other requests
- Continue to invest in new online services including, subject to business cases, payments through My Account customer portal, set-up of Direct Debits and payments via automated calls
- Build a knowledge management solution for front-line staff to use to increase the resolution of customer enquiries right first-time.

Key Business Objective Three

Invest in our homes and local communities

Our key aims for this objective are to achieve best use of our property assets to meet local authority and other priorities, ensure cost-effective maintenance of homes, use our surpluses to support social enterprise and priority neighbourhood areas, and further consolidate our operational areas.

2015/16 targets

Planning permission for 92 homes, a new primary school and three new community facilities at Jigsaw in Green Man Lane, Ealing. ✓

Engagement of Green Man Lane residents and stakeholders to help inform the design and layout of Phase three of the regeneration. ✓

Planning permission for 46 homes and 3,000sqm public open space in Stanwell. ✓

A £3m social return on investment in 2015/16 (£2 for every £1 invested this year). ✓

Provision of employment and training opportunities to deliver 56 apprenticeships and 600 volunteering and work opportunities, and invest around £100,000 in 26 social enterprise ventures by April 2018. ✓ on track

Support for 1,500 customers who are at risk of the impact of welfare reform to transact online by April 2018. ✓ on track

Transfer of up to 111 homes to other housing providers in seven local authority areas, as part of our stock rationalisation programme (106 homes, six local authority areas). ✓

A £45.6m planned, major and cyclical works programme, including the final year of priority safety works. Partial: overall spend circa £10m below budget largely due to fewer renewals needed. ✓ partial

A retrofit pilot of 650 properties to test the viability of increasing the minimum Standard Assessment Procedure (SAP) rating to 70. SAP is an indicator of environmental performance. Pilot completed and shown not to be viable. ✓

Key Business Objective Three (continued)

Invest in our homes and local communities

Return on investment self assessment

Our judgement based on a range of performance comparative data:

Performance highlights

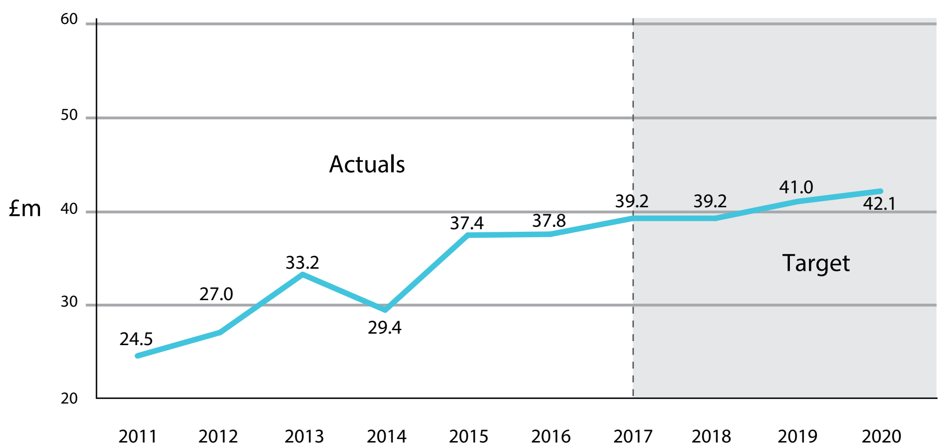
- Successfully launched off-plan sales at our regeneration project Jigsaw in Green Man Lane and commenced construction of final phase of regeneration at Stanwell New Start.
- Implemented a Defects and Deficiency Procedure to resolve 98 percent (294) legacy defects and reduce complaints. The cost of resolution was £250,000; 700,000 (76 percent) less than budgeted for.
- Procured new gas and electricity contracts with forward fixed prices to generate £384,000 of savings for the Group and its residents. Lifts procured £78,000 below target.
- Adopted a procurement framework for consultants and arrangements for electrical servicing.
- Undertook local initiatives to reduce energy consumption and costs by up to 85 percent, including lighting upgrades, smart metering, solar energy and air source heat pumps.
- Invested in upgrading and maintaining our existing homes:

2015/16 programme	Cost	Number of homes
Adaptations	£0.3m	269
Major refurbishments (including six funded from disposals)	£1.4m	33
Planned kitchens and bathrooms	£7.0m	702
Planned heating replacements	£3.5m	1,224
Cyclical works	£10.7m	2,423
Planned windows and doors	£2.1m	216
Roofing	0.6m	88
Major voids	£0.9m	182
Lifts and other planned and heating communal works	£9.5m	Figures not available at time of going to press
Total	**£36.0m**[1]	**5,137** plus other communal works

[1]This expenditure excludes spend that is rechargeable to leaseholders.

- Secured £0.56m from the Department of Health for a new mixed tenure extra-care scheme and took on management of two new extra-care schemes in Winchester.
- Secured £193,000 to enhance domestic abuse services in Oxford and West Berkshire and a new contract to expand support services in Hampshire.
- Reduced care and support staff agency budgets by £87,000, took catering surplus from a £91,000 deficit in 2014/15 to a £12,000 surplus in 15/16, and reduced aged debt by 7 percent (£25,000).
- Maintained investment in community development with a net spend of £1.4m (2015: £1.3m).
- Worked with partners to deliver life skills, employment opportunities and additional support to engage over 3,000 residents in our youth enterprise, priority neighbourhoods, digital and financial inclusion programmes.
- Attracted £680,000 through fundraising and income generation for community initiatives and facilitated the doubling of volunteering hours to 4,752.

Planned and major repairs 2011-2020



Future plans

In 2016/17 and beyond, we hope to achieve the following:

- Review our Asset Management Strategy by March 2017 to maximise performance of our portfolio
- Procure new planned and cyclical maintenance contracts by April 2017 at an estimated cost of £25m-£30m, depending on the priorities in our Asset Management Strategy
- Extend usage of our contractor portal to save in the region of £100,000 per year
- Stay on track to meet our April 2018 community investment targets, including work and volunteering opportunities, digital and financial inclusion and social enterprise ventures.

Key Business Objective Four

Strengthen our business

Our key aims for this objective are to reduce overheads, to simplify and integrate business processes and sustain environmental improvements in our offices.

2015/16 targets

- Assess the feasibility of relocating area offices in Oxford and Winchester. ✓
- Deliver £1.8m savings from ongoing contracts and further improvements in income collection. ✓
- Implement a new 'Purchase to Pay' system (P2P) to quicken purchase to payment cycles by March 2016. ✓
- Introduce a category management framework to enhance spend visibility and inform future procurement opportunities. ✓
- Update the Pyramid Plus Business Plan in 2015, with improvement targets to deliver efficiencies longer term. ✓
- Finalise the Group's IT Strategy to support a five-year programme of customer service improvements and business system upgrades. ✓

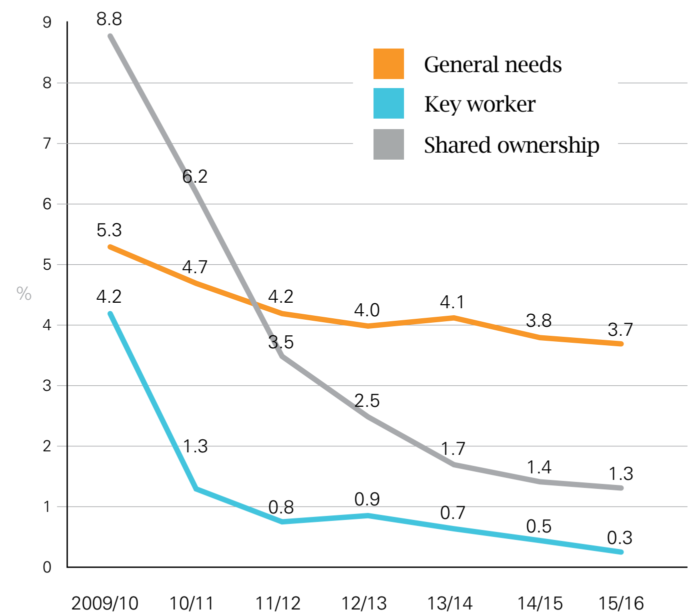
Return on investment self assessment

Our judgement based on a range of performance comparative data:

Performance highlights

- Commenced roll out of P2P, our new invoice processing system, along with a category management framework for improving spend analysis and reporting
- Reached settlement with Lovells over previous repairs contract arrangements with Connaught, enabling us to release £700,000 from budget provisions
- Seen Group insurance loss ratios reduce to lowest levels
- Reduced various facilities costs including copying, printing and stationery by £136,000 (30 percent)
- Significantly upgraded telecommunications (various) at reduced costs
- Further rationalised office usage including moves at Bristol and Charing Cross:

Arrears (rent and service charge)



	Number of staff at main offices	Office costs £m	Floor area Sq ft
Pre 2015/16	580	2.76	67,000
2015/16	675	1.96	55,500
2016/17	700	1.93	55,500

Key Business Objective Four (continued)

Strengthen our business

- Used technology and Lean systems thinking to simplify back office processes, improve efficiency and support customer service objectives. For example:
  - Rationalised governance registrations to save £65,000.
  - Reduced care agency expenditure by £64,000 (22 percent).
  - Improved absence management in Intensive Housing Management to save £21,000.
  - Reduced turnaround times for direct debit refunds by 86 percent, and refund processing costs by £12,600.
  - Reduced the proportion of customer refunds paid by cheque from 8 percent to <0.2 percent, reducing processing costs by £8,000.
  - Improved reporting of safeguarding incidents by 81 percent.
  - Reduced the maternity leave and leaver administration by a third to save c. £8 per case.
  - Reduced probation administration by 74 percent to save £47.26 per case.
  - Increased accuracy in processing payroll and job changes by 35 percent.

Future plans

In 2016/17, we hope to achieve the following:

- Deliver a surplus of £57.3m and efficiency savings of £2.3m.
- Undertake year one of the new A2Dominion Work Programme including further phases of Dynamics CRM roll-out (property services, residential sales and private rent) and My Account customer portal.
- Complete Group-wide roll out of P2P and procure replacement system(s) for Finance, Human Resources, Payroll and Housing Services.
- Establish our new in-house legal services team to save £200,000 per year.
- Implement changes in central services to save in the region of £200,000 per year.

How we are using our surpluses

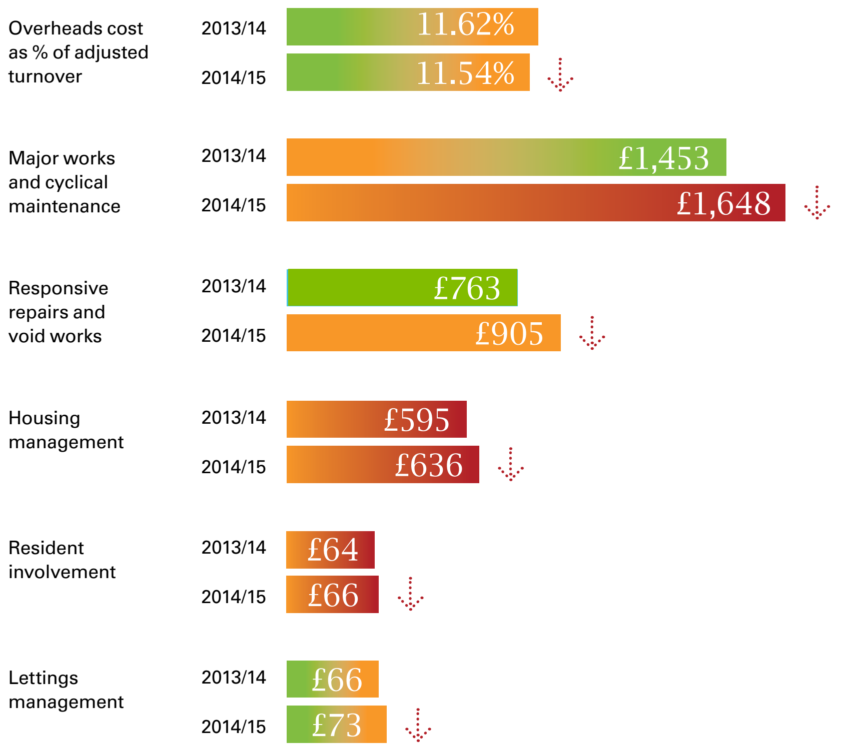
We are reinvesting all of our cash surpluses to support our key VFM aims, with 80 percent for providing new homes and 20 percent towards the Group's investment in existing properties, care and support provision and help for priority local communities.

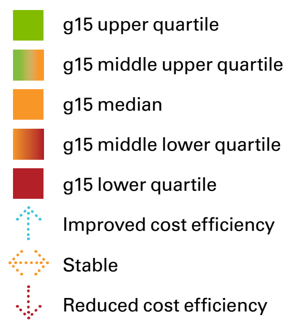
- We are forecasting in the five years to 2021 an aggregate surplus of £399m.
- Profits this year mean £87.4m is available for reinvestment in new homes, providing around 730 new homes at an average of £120,000 subsidy each.
- Growth in commercial sales activity is targeted to deliver £148m operating surplus for the five years to 2021, enabling the Group to increase the number of new homes.
- Under our asset management programme, and in agreement with our local authority partners, we ring-fence monies raised from disposing of properties which are no longer economic to repair for improving housing in the relevant borough.
- In 2015/16, A2Dominion surpluses helped fund £37.8m of major, planned and cyclical works.
- Our 2013/14 investment in Rentsense technology continues to support better income management and rent arrears have reduced to their lowest levels.
- In 2015/16, we invested £1.4m in community development and our youth social enterprise initiative Be Inspired, which are targeted at customers and communities most in need.
- We are investing approximately £400,000 per year for four years in IT software to support the rollout and development of the customer relationship management system, Pamwin (commercial system), P2P (accounts payable) and Qube (service charge administration), which will support customer service, environmental improvements and efficiencies in the medium term.
- In 2013/14, we invested £0.4m per year to expand our Tenancy Sustainment and Under-Occupation Teams, to help manage the impact of welfare reforms. This has been sustained and the £4.7m of extra benefits and grants for customers and A2Dominion is £1.0m (27 percent) up on 2014/15.

How we compare with our g15 peers

A2Dominon is a member of the g15, a group of London's largest housing associations. Using the most recent (2014/15) data available from the g15's benchmarking club, A2Dominion's costs are both above and below average compared with other members.

Actual and comparative cost per property for services and overheads





Reference: Housemark 2014/15 benchmark report for g15 housing associations (in which twelve took part).

The Group's total overhead cost as a percentage of turnover is lower than the median for our peer group and an improvement on our 2013/14 result. The reduction is as a result of the office strategy and efficiency programme starting to deliver. We anticipate further overhead savings in 2016/17 of £2.4m due to on-going savings in office/premises costs, team restructures, as well as a reduction in consultancy usage.

We leveraged £4.7m to support residents through tenancy sustainment activity, £1.0m more than secured last year. Our spend on housing management at £636 per property is above our median peer group cost of £589 per property, principally due to our rent arrears and collection processes. However, a restructure of Housing Services has resulted in a more efficient delivery model, projected to save £400,000 per year from 2016/17.

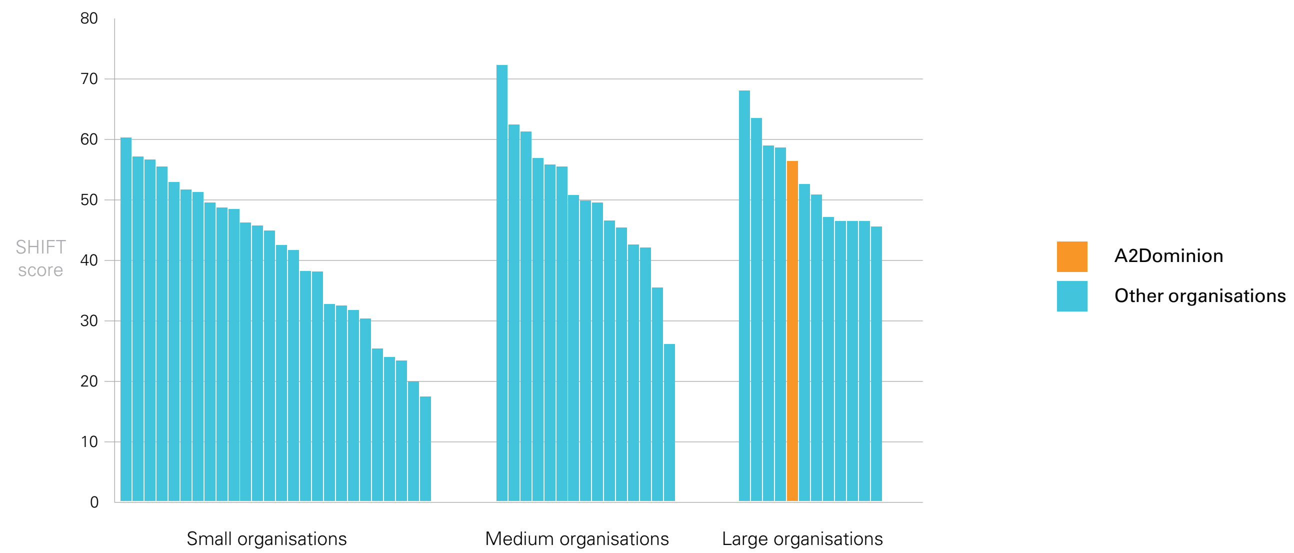
Responsive repairs and void costs are at similar level to the median cost of our peer group, and with earlier improvements in re-let turnaround time largely sustained. The amount of additional expenditure on out of scope works had been a cause for concern and reduced in 2015/16.

Our spend on cyclical and major repairs at £1,648 per property is above our median peer group cost of £1,543 per property, principally due to our approach to replacement cycle times for some asset components. A full review of our component cycle times will see an alignment with our peers and bring the cost per property closer with an expected saving of £3.7m per annum.

We also consider financial indicators. In 2014/15 our growth in turnover increased from 5.2 percent to 9.2 percent, compared with an average increase of 7.2 percent amongst g15 peers. Our operating margin, which has been historically low but improving, increased from 27.1 percent to 29.9 percent which is the average for g15. The margin is expected to increase to 40 percent within five years, but with a small decline in 16/17 resulting from fewer expected sales. Our debt per unit managed decreased from £38,079 to £37,767 (third quartile for g15).

Finally, the graph below shows how A2Dominion scores for its environmental performance compared with small, medium and large organisations who are members of the SHIFT (Sustainable Homes Index for Tomorrow). Results are as of our last assessment, in 2014/15.

Environmental performance against other organisations



Future VFM priorities

Our principal source of subsidy is now surpluses 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 £13m through reducing overheads (£4.1m), improving income collection (£0.9m) and through procurement and contract savings (>£8.0m).

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 ensuring the organisation has the capacity to implement its Work Programme.

The A2Dominion Work Programme comprises significant business change and IT investment 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)
- Maximise the delivery of new homes – including increased shared ownership, Voluntary Right to Buy and increased access to capital funding.

In 2016/17 we expect to decide the choice of future business systems to be procured. This will lead to major expenditure to deliver return on investment in the medium and long term.

We have also commenced a comprehensive review of the Group's Asset Management Strategy to ensure the 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.

Other information

We publish a breakdown of expenditure plus rent and service comparisons for residents' top choice of services in our Customer Annual Report, available online at www.a2dominion.co.uk/customerpublications.

We publish information about our social return on investment on our website.

Our VFM Strategy is also available online at www.a2dominion.co.uk/vfm.

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