Value for Money Self-Assessment

2015 – 2016

1 Contents

1 Introduction

1.1 About Us

livin is a homes and communities business managing over 8,400 homes across County Durham. The organisation was formed in 2009 following the large-scale voluntary transfer (LSVT) of housing stock from Sedgefield Borough Council.

Our mission is

We work closely with our communities to improve employment and training opportunities, health outcomes, and financial confidence, and work to bridge the digital divide that exists within our communities.

Our headquarters, based in Spennymoor, is home to 130 members of staff. The homes we manage are spread across 19 different communities predominantly within County Durham.

1.2 Corporate Strategy and Objectives

livin's mission and vision are supported by the Business Strategy which sets out the business objectives for livin. The Board's focus during the year has been on setting the future direction of livin through a new Business Strategy, Plan A, and delivery of this strategy is now underway. The Business Strategy sets out clear targets for performance, aiming to achieve similar performance levels to the best of comparable organisations and grounded in Value for Money principles.

livin's business operations take account of our values:-

Fairness	
Openness	**P**roductive
Respect	**L**ean
Enterprise	**U**nified
Value	**S**ustainable
Excellence	
Reliability	

livin has always focused on increasing the efficiency of its services to tenants over time. However, over the past year, livin has specifically focused on putting strategies in place to mitigate the effect of the rent reduction announced in the Summer Emergency Budget on 8 July 2015. Under previous guidance, registered providers were required to increase rental charges by CPI+1% each year; however, from 1 April 2016, registered providers are required to reduce social rents by 1% each year until 1 April 2020. This will result in a reduction in income for livin at the end of the four year period of 13%, or around £11m in total over the period.

During the year ended 31 March 2016, the Board took a number of key decisions to reduce the cost of services in order to mitigate the 1% rent reduction. The budget and 30 year business plan approved by the Board in March 2016 reflected these cost reductions and demonstrated that the actions taken by the Board had fully mitigated the reduction in rental income. These cost reductions are set out within the "Current and Future Savings" section of this document.

livin has delivered the investment promises made to tenants at the time of transfer, and is continuing to develop new housing within its communities. livin is now poised to start the next phase of its development. Its focus is to maintain the existing quality of service delivery to tenants whilst using the financial capacity within its existing business to develop additional properties for sale, for shared ownership and for the Government's "Rent to Buy" programme, providing more home ownership opportunities within its area of operation.

1.3 Value for Money Strategy

livin's VfM Strategy was revised by the Board in July 2016 and is available on our website; it sets out the strategic approach used by the Board and executive teams to ensure that value for money is achieved when meeting the organisation's objectives. The overall vision is:

> *"to ensure that all activities and decisions undertaken by livin help to deliver the overall organisational objectives by demonstrating VfM and the effective use of resources, to achieve sustainable community benefits and continuous improvement in service delivery"*

VfM is embedded within livin's governance processes, its planning and performance management framework, and its service delivery culture. It forms a fundamental part of the Business Strategy and of the Asset Management and Development strategies, focusing on sustainable performance in line with the purpose and the objectives of the organisation.

VfM is a key component of livin's core services, and therefore delivery of its purpose as a Social Housing business. livin believes that building sustainable communities will lead to a sustainable business.

livin's approach to VfM is strategically driven by the Board, which is comprised of non-executive directors, responsible for challenging and approving the annual budget and the long-term business plan. The Board's mix of skills, including expertise in Finance, Asset Management and Quality Assurance, together with high quality, independent VfM training from external providers, enables the Board to challenge the organisation's approach and achievements in delivering Value for Money, and to ensure that the decisions that they make about the organisation's future are grounded in sound VfM principles. During the year, the Board received training from PwC on Value for Money, which provided an update on current regulatory expectations and best practice in this area.

The strategic direction from Board is translated into service level and individual targets through livin's Performance Management Framework, which is monitored closely at both Board and executive level. Delivery against specific VfM initiatives is monitored by the Finance and Business Partnering team, and reported to the Board via the Performance Management Framework.

2 Making Best Use of our Assets

During the year, livin spent £5.4m improving existing homes, as well as £2.9m on the construction and purchase of new homes. Alongside this is a programme of strategic disposals for those properties which no longer meet the needs of our local communities.

The ongoing suitability of properties is assessed based on a Net Present Value calculation, which considers future necessary expenditure on properties, including repairs, likely anti-social behaviour, and expected void losses, to identify poorly performing assets and to allow plans to be formulated in line with the Active Asset Management Strategy regarding future investment/disposal. This intelligence led approach provides an evidence base for the investment or disposal decisions to be taken by the Board and will result in a more sustainable, valuable and profitable asset base.

As a result of the 1% rent reduction to be applied from April 2016 to March 2020, announced by the Chancellor of the Exchequer on the 8th July 2015, livin has recalculated the Net Present Value of all its assets.

2.1 Return on Assets

livin monitors the high level performance of return on assets by comparing the net surplus generated each year to the historic cost of its housing assets. This indicator has been chosen as it provides a broad measure of how successful livin has been in utilising its assets during the year.

Return on assets	2016	2015 (restated)	2014	2013
Surplus on net housing assets	7.63%	3.82%	3.49%	5.76%

The return on assets has doubled in the last year, reflecting the increase in livin's surplus from £4.2m in 2014/15 to £8.6m in 2015/16.

During the year, livin reviewed the quality, warranty guarantees and expected lifetimes of the fixtures and fittings within its properties. The Board recognises that the right balance needs to be found of actively replacing fixtures and fittings in order to ensure that properties remain desirable, whilst not wasting money or causing disruption to tenants by undertaking unnecessary work. On this basis, the timescales originally anticipated for replacing some elements within our properties, in particular electrical cabling, boilers and windows, were found to be too short. As a result, the Board agreed that the replacement cycles of these components could be extended; this resulted in a reduction in the depreciation charge on these components, representing a non-cash saving to the organisation of around £1.5m this year. The realisable savings have been incorporated into livin's 30 year Business Plan, and are as follows:

Component type	Increase to useful life	Savings over 30 year period
Cabling	+20 years	£5.5m
Windows	+15 years	£7m
Boilers	+5 years	£8.3m

2.2 Asset Management Strategy

livin's active Asset Management Strategy is a key component of the overall Business Strategy. The main focus of the strategy is to match livin's asset base to demand through a programme of development, acquisition, active disposal initiatives, demolitions and conversions. As a result of this, 197 properties have been identified for disposal as they fall void; since the commencement of this programme, 40 such properties have been sold.

We continue to closely monitor those areas where there is low demand for properties. The overarching Asset Management strategy defines which properties will receive investment, and provides solutions for those which are inefficient or no longer financially viable utilising the Net Present Value model, yield data and communities intelligence. VfM is a key consideration within this strategy, working within the framework of the Community Plans.

The major regeneration project at York Hill in Spennymoor continues; we are seeking to commence significant regeneration of the community to maximise visual impact and revitalise community spirit, alongside the regeneration of the properties. The main York Hill estate consists of 150 flat roofed properties built in the 1930s, with a mixture of flats and houses; historically, there have been high levels of voids across the estate, and demand for flats in particular is very low. The regeneration scheme will replace flat roofs across the estate with pitched roofs; install external wall insulation; convert 64 flats into 32 three bedroomed houses; and improve the landscaping and external environment around the estate, in order both to improve the quality of tenants' lives and increase demand for the homes in this area.

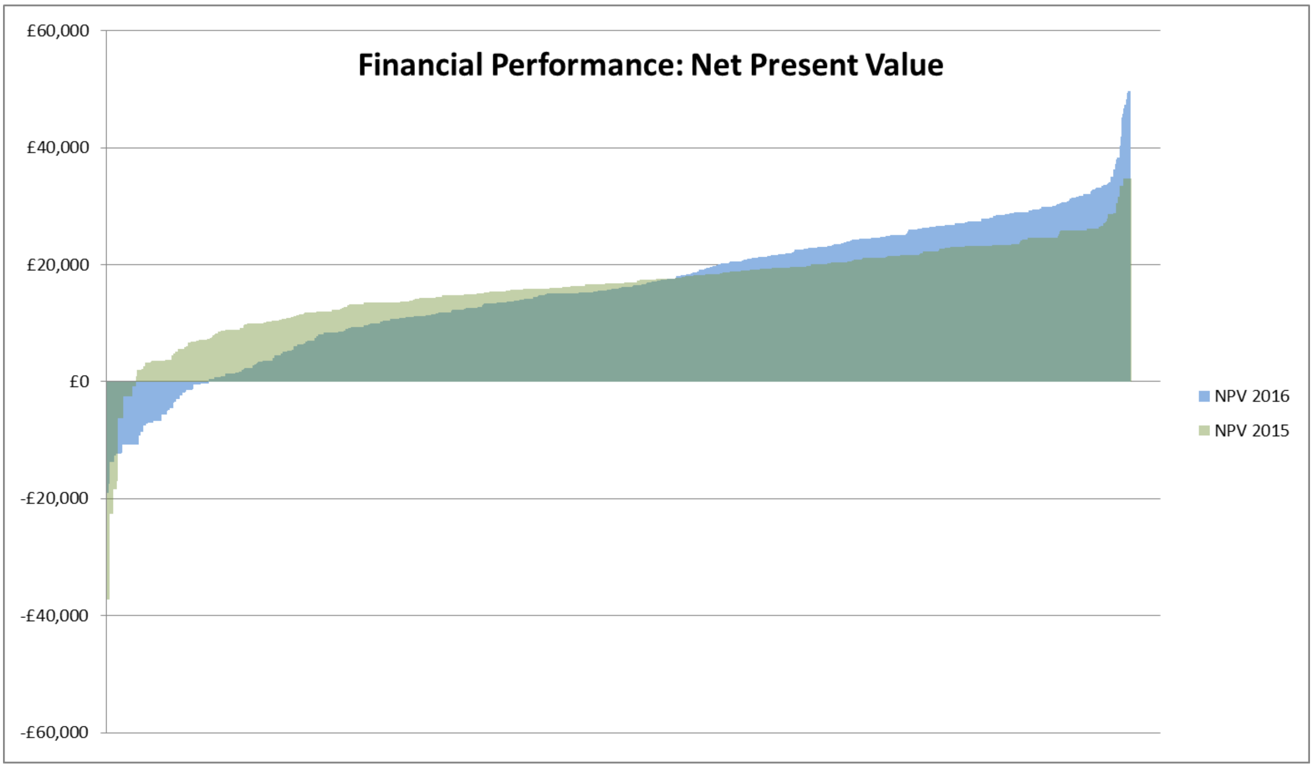
Over the last few years, livin has been closely monitoring voids within the Dean Bank area of Ferryhill. This area has an overprovision of rented homes and an under-representation of home ownership. livin, in common with a number of local housing associations, has many properties within this area, which are hard to let and which have a substantial negative Net Present Value. Following the success of livin's Homesteading initiative in 2014/15, which assisted 27 households in this area into home ownership, a further 6 long term void properties were sold through the Homesteading programme. As well as the capital receipts form these disposals, which will be used towards future development, this initiative has led to an ongoing cost saving through reduced Council Tax liabilities as all properties disposed of attracted 150% Council Tax.

Since transfer in 2009, livin has significantly improved the profile and NPV of its property portfolio. In the 2014/15 Value for Money report, we reported that very few properties had a negative NPV; in part due to refurbishment works, which have increased demand, and in part due to the programme of disposals of hard to let or low demand stock. Properties with a positive NPV add value to the business, whereas properties with a negative NPV are a drain on resources. Over time, livin's aim is to ensure all homes owned have a positive NPV.

The 2015/16 NPV analysis shows that a number of properties which previously had a positive NPV now have a negative NPV, whilst other properties which previously had a low positive NPV now have a higher positive NPV; this reflecting the following changes:

- The 1% rent reduction for social housing rents, announced in the July 2015 emergency budget and applicable for 4 consecutive years from 1 April 2016, has decreased the expected lifetime income from our properties. This has had an overall negative effect on the NPV projections.
- The completion of the refurbishment programme has had a positive effect on the NPV projections.

- The increase in component lifecycles, discussed in more detail in section 2.1, has had a positive effect on the NPV projections.



livin is taking steps to address properties newly identified as having a negative NPV in line with the Asset Management Strategy.

2.3 New Developments

During 2015/16, livin developed or acquired 45 new build properties; acquired 4 empty properties and brought them back into use; and purchased 3 properties from another housing association, representing an investment of £5m in new homes across livin's core areas. Developments included 21 properties at Caden Court in Sedgefield, a core, high demand area. These properties are now occupied and are let at social or affordable rent levels.

Grant funding of £280,000 was received towards the new build properties through the HCA's Affordable Homes Programme 2015 – 2018.

Before making the decision to invest in a new property, livin undertakes a robust review of the likely return on assets that will be achieved. This includes:

- The net present value of the property in comparison to the net development or acquisition cost, including any grant funding;
- The yield that will be achieved from the property in comparison to its open market value; and
- Local levels of demand for the property.

livin has a further £1.3m of grant allocated to it under the AHP. Following the Government's announcement of the 1% reduction in rent, livin reassessed all of its planned developments to ensure that they would continue to be viable; this reassessment indicated that livin continues to be able to deliver 69 units against the original plan of 72 on a viable basis, and we are actively working with the HCA to identify additional developments where we might use the remainder of our grant to meet local needs.

2.4 Social Return

livin focuses its community activities on empowering residents through a range of initiatives aimed at promoting financial inclusion, employability and training opportunities.

The Community Regeneration Fund supports projects that build community spirit and give a sense of ownership helping people to be proud of the areas where they live and more importantly creating communities where people want to live. In 2015/16, livin provided grants of £168,000, and supported local partnerships to obtain an additional £401,000 in funding from other sources.

Through our livin Futures programme, we are passionate about supporting people to reach their true potential in the areas where we know our help is needed the most. Tackling issues such as unemployment, poverty and education are the three biggest things we can do to help create sustainable communities and more importantly help people to improve their own lives. We provide support in our communities to help people move into employment, including ensuring that we provide opportunities for apprenticeships wherever possible; arranging job fairs, where tenants can meet local employers; and holding training sessions.

Social Value calculations estimate the impact of our activities on the local community in monetary terms. Throughout 2015/16, we continued to use HACT's Social Value tool to quantify the amount of social value created through its livin Futures initiatives. In our 2014/15 annual report we set out how we had generated £3.5m of social value, working with over 500 tenants and local residents; in 2015/16 we further built on this and generated £4.5m, working with almost 1,200 tenants and local residents, as follows:

Activity	Total social value generated	
	2015/16	2014/15
Assisted to find full time employment	£3,494,802	£3,195,310
Assisted to enter an apprenticeship	£2,985	£12,338
Provided employment training	£292,488	£21,073
Provided vocational education	£25,110	£36,367
Provided volunteering opportunities	£14,443	£5,327
Attend Keep Fit activities	£41,021	£16,016
Attend Youth Clubs	£151,703	£207,594
Member of Social Group	£160,905	-
Total	**£4,183,457**	**£3,494,025**

We undertake other activities which provide social value in a less quantifiable way. These include:

Initiative	Value
Smarterbuys Store and other low cost providers	Signposted 843 tenants to Smarterbuys and other affordable decorating and furniture suppliers, helping them to avoid more expensive high street providers Signposted 314 tenants to our low cost home insurance provider

Credit Unions	Referred 143 tenants to local credit unions, helping them to avoid using doorstep or payday lenders
Welfare Benefits Adviser	Helped customers to claim £94,624 in discretionary housing payments and £274,913 in other welfare benefits Supported 17 customers through the transition to Universal Credit
Debt Advice Service	Supported customers with a total of £374,417 of debt
Warm House Discount	Undertook 207 home visits, supporting eligible tenants to claim their Warm House Discount of £140 and to switch to lower cost energy providers where appropriate
SmartStart training for new tenants	Training and support increased the percentage of new tenancies not failing within 12 months to 98.3%, compared to a prior year figure of 78%

Support for individual tenants includes:

- Access to the Smarterbuys Store, where tenants can purchase white goods and furniture at reasonable prices on affordable finance deals;
- Access to the MonKey project, which uses Big Lottery funding to help tenants manage their finances; and
- Financial inclusion training for new tenants and those in rent arrears, supporting them to better manage their budgets and sustain their tenancies.

3 Performance Management and Scrutiny

The Value for Money Standard requires livin to have performance management and scrutiny functions which are effective at driving and delivering improved Value for Money performance.

livin has a strong performance management framework, refined over a number of years, which provides the Board with information and assurance about the organisation's performance.

Delivery of the VfM Strategy is monitored using livin's Performance Management Framework (PMF). The PMF is designed to manage performance holistically through a 'triangulated' approach using a combination of cost, quantity and quality measures. It aligns performance measures and targets to high level objectives covering all areas of the business and enables a forensic analysis of performance across all service areas. This supports livin's Board to ensure that the organisation maintains a focus on delivering value for money services, and identifies target areas for VfM interventions.

During 2015/16, performance was reviewed by the Board's Performance Committee. Due to changes in livin's governance arrangements, from 2016/17 non-executive oversight and the scrutiny of performance will pass directly to the Board.

Performance is reviewed on a quarterly basis at the Performance, Value and Risk Clinic, which is chaired by the Chief Executive and attended by Senior Management Team, Heads of Service and key managers. This provides an opportunity to take an overarching and in-depth view of performance, value and risk.

During 2015/16, the PMF has been developed to allow us to use available benchmarking data more effectively. We submit four Priority Performance Benchmarking submissions during the year and complete the annual Core Benchmarking submission; we use this information to set performance targets in line with the best of our peer group, and to understand the comparative costs for livin of delivering its services in comparison to our peer group.

4 Service Delivery Costs

Understanding the costs of running the business, how these costs differ from those of peers, and the main drivers of these variations, is a key element of livin's VfM process, and understanding the absolute and comparative costs of delivering specific services is key in delivering VfM. In last year's VfM self assessment, comparative costs were determined using Housemark. In this year's self assessment, livin has continued to use this benchmarking data, but has also used data extracted from the HCA's published Global Accounts.

4.1 Performance and Cost using Global Accounts Comparatives

In June 2016 the HCA wrote to the Chairs of all registered providers providing them with details of their organisation's costs compared to other registered providers, and classifying the outcomes between upper quartile (higher cost); upper median; lower median; or lower quartile.

The analysis undertaken by the HCA used their defined measure of "headline social housing cost per unit". This figure, taken from the Global Accounts, is intended to provide a consistent and robust general measure of costs across different organisations. In addition to the headline social housing cost per unit, the regulator also published five sub-categories of cost within their analysis.

The cost comparison produced by the HCA was based upon the financial results for the year ended 31 March 2015. The analysis undertaken by the HCA indicated that "there was no significant evidence of a clear relationship between scale of a provider and lower costs". This supports the view of livin's Board that the organisation's smaller size is not a barrier to achieving good quality and good value in service delivery.

livin's recently revised Value for Money Strategy sets out a commitment to use comparative cost data from the HCA's Global Accounts to understand the cost of delivering services in the context of the costs incurred by other organisations.

livin has reviewed this data and compared its cost levels with those of other providers, to understand whether services are provided efficiently in comparison to peers; comparisons were made against other local providers, against livin's Housemark peer group, and against all English housing providers nationally with more than 1,000 properties.

4.1.1 Analysis of Current Year Costs

The analysis of livin against the national average shows that livin's overall costs were in the lower median quartile in 2014/15.

2014/15 Cost Comparisons	Headline social housing cost	Management CPU	Maintenance CPU	Service Charge CPU	Major Repairs CPU	Other Social Housing Costs CPU
livin	**3.36**	**1.00**	**1.15**	**0.00**	**1.00**	**0.2**
livin performance	Lower median	Upper median	Upper median	n/a	Upper median	Median
Upper quartile	4.30	1.27	1.18	0.61	1.13	0.41
Median	3.55	0.95	0.98	0.36	0.80	0.20
Lower quartile	3.19	0.70	0.81	0.23	0.53	0.08

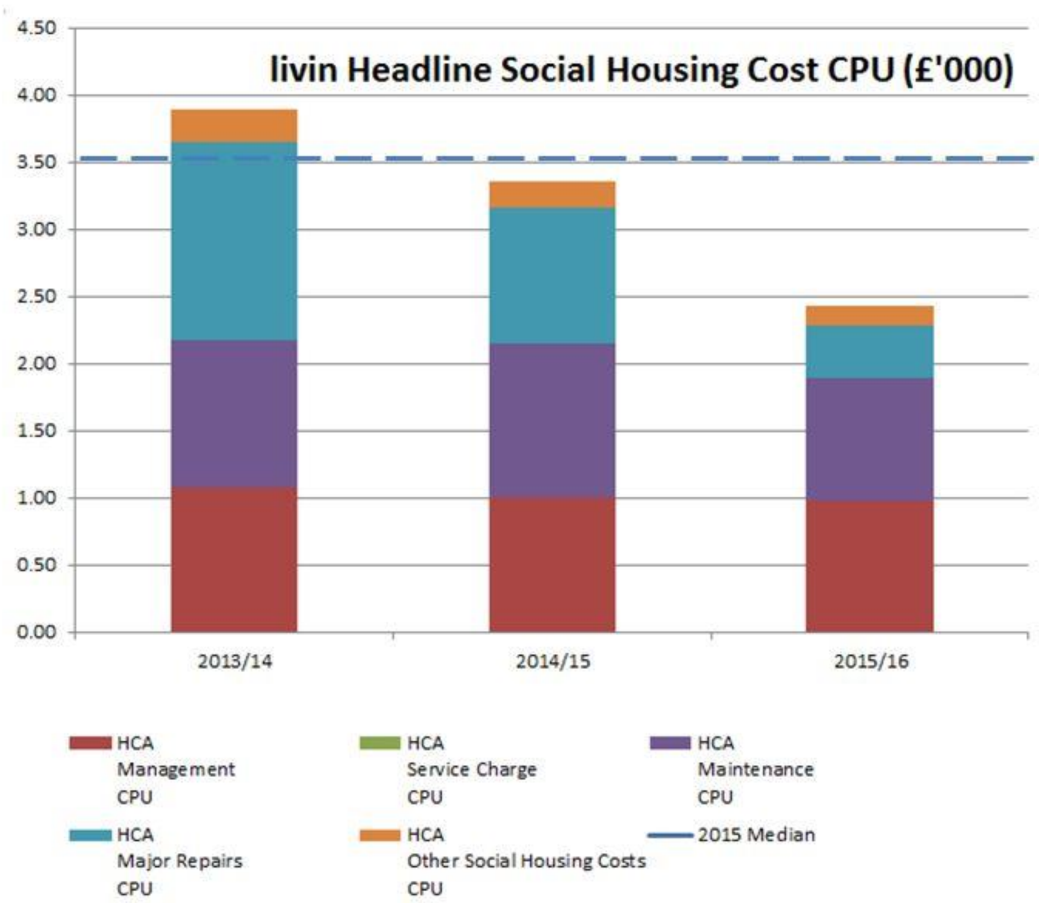
4.1.2 Analysis of Trends in Costs over Time

Further to the information provided by the HCA, we have used the Global Accounts to calculate the HCA's cost measures for both livin and its peer group over the past 3 years.

The table below shows the trend of livin's costs over the last three years. The cost categories shown are the same as those used by the regulator and have been reconciled to the data provided in the letter from the HCA.

livin	2015 Quartile	HCA Headline Social Housing CPU	HCA Management CPU	HCA Service Charge CPU	HCA Maintenance CPU	HCA Major Repairs CPU	HCA Other Social Housing Costs CPU
2013/14	Upper-Median	3.90	1.08	0.00	1.10	1.48	0.25
2014/15	Lower-Median	3.36	1.00	0.00	1.15	1.00	0.20
2015/16	Lower	2.44	0.98	0.00	0.91	0.40	0.15

This data shows that livin has reduced its overall 'Headline Social Housing' cost per unit over the last three years; and that livin's costs for 2016, as set out in its 2015/16 financial statements, are considerably lower than the published average cost for 2015.



The dotted line on the graph above shows the average (Median) 'Headline Social Housing' cost per unit for all registered providers for 2015, as published by the HCA. In 2015, livin's costs per unit were £3,360 compared to the median of £3,550 for all providers. This placed livin in the lower-median quartile for cost in 2015, with the lower quartile cost boundary starting at £3,180 per unit.

4.1.3 Analysis against Other Housing Providers

Using the HCA's cost analysis methodology, livin is able to compare itself to other relevant peer groups, as well as all English Housing Associations as a whole. The following table shows how livin compares to three different peer groups, using the published data for 2015.

	Compared with 16 other North East registered providers	Compared with all English LSVTs	Compared with livin's Housemark peer group	Compared with all other English Registered Providers
livin 2015	Lower-Median	Lower-Median	Lower-Median	Lower-Median

This data again indicates that livin's service delivery costs compare well to various peer groups.

4.2 Benchmarking using Housemark

4.2.1 Basis of Calculations

In addition to the data provided by the HCA and through the Global Accounts, livin continues to use Housemark's priority benchmarking service to compare its performance against other, similar registered providers. This provides context for understanding the comparative costs of service delivery, and is used in setting performance targets.

We seek to keep the peer[1] group as consistent as possible from year to year, and to report on the same performance information, to provide an unbiased and transparent indication of livin's performance, though this dependent on the members of the peer group electing to continue participating in the priority benchmarking service; this has resulted in some changes to the peer group in 2015/16 compared to 2014/15.

We have selected a peer group which is broadly comparable to livin through the nature of their businesses, although the average turnover of the peer group, at £70.7m (2014/15: £67m), is higher than livin at £35m (2014/15: £34m); and the average number of homes managed by the peer group is 12,631 (2014/15: 12,271) compared to livin's 8,478 (excluding shared ownership properties; 2014/15: 8,502).

4.2.2 Comparison of Housemark and HCA Global Accounts benchmarking data

The cost allocations used by Housemark are not directly comparable to the detailed cost per unit calculations used by the HCA. A global comparison of the two comparative cost measures shows consistent performance, as follows:

Housemark Costs per Unit 2015/16		Comparison group	
Major Repairs and Cyclical Maintenance	£1,138	Housemark peer group	1st Quartile (Lowest Cost)
Responsive Repairs and Void Works	£968	Housemark peer group	3rd Quartile (Higher Cost)
Housing Management Functions	£333	Housemark peer group	1st Quartile (Lowest Cost)
Total	**£2,439**		
Estimated HCA Headline Social Housing Cost per Unit 2015/16	**£2,440**	All large registered providers	Lower Quartile (Lowest Cost)

This indicates that livin's overall low service delivery costs are driven by very efficient service delivery in relation to major repairs and housing management functions; and suggests that further opportunities for improvement exist within the responsive repairs service.

4.2.3 Housemark 2015/16 Comparative Outcomes: Cost Headlines

The performance indicators for the last four years are shown below; the table also shows the trend for each indicator from 2012/13 to 2015/16.

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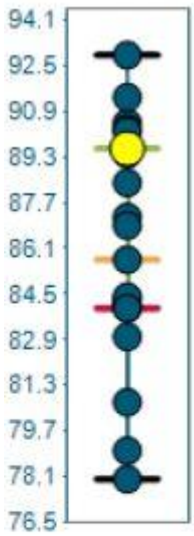
[1] Peer group for 2015/16: *Bolton at Home; BHPA; City West Housing Trust; Coast and Country Housing; Cross Keys Homes; Eastlands Homes; First Ark (new in 2015/16); First Choice Homes Oldham; Flagship Housing Group; Golden Gates Housing Trust; Halton Housing Trust; Incommunities; Liverpool Mutual Homes; Magenta Living; New Charter Homes; North Hertfordshire Homes Limited; One Vision Housing; Paradigm Housing Group; Pennine Housing 2000; Plymouth Community Homes; Rochdale Boroughwide Housing; Shoreline Housing Partnership; Trafford Housing Trust; Twin Valley Homes; Wakefield and District Housing; Walsall Housing Group; Wrekin Housing Trust; Yarlington Housing Group.* Included in our 2014/15 peer group but not participating in 2015/16 early benchmarking were: *Aspire Housing; Knowsley Housing Trust; Merlin Housing Society; North Lincolnshire Homes; Orbit Heart of England; Orbit South; WM Housing Whitefriars.*

Top quartile performance indicates that service delivery cost is lower than 75% of peers; bottom quartile performance indicates that service delivery cost is greater than 75% of peers. The peer group median is also given for each indicator.

As set out in the Value for Money Strategy, livin's ambition is to achieve first quartile performance against its peer group. We are currently achieving this in some areas, and have work to do in others. The analysis below sets out some of the plans in place to address areas of weaker performance.

Boxplots

Boxplots, provided by Housemark, are used within the benchmarking section of this report to show relative performance against the peer group. livin's performance is highlighted in yellow, while each of the peers are represented by blue circles.



The horizontal line at the top of the boxplot represents the maximum value in the peer group, and the bottom line represents the minimum value.

The three horizontal lines within the boxplot represent the median and quartiles within the peer group.

In this example, the cost per property for this fictional organisation is higher than the average, but by no means the highest in the peer group.

Performance Indicator	Performance				Trend	Peer group quartile		Peer group median
	2012/13	2013/14	2014/15	2015/16	2015/16	2015/16	2014/15	2015/16
Operating margin[2]	20.3%	20.0%	26.5%	36.4%	↑	Median	2	36.4%
Overheads as a % of adjusted turnover	11.2%	12.6%	12.4%	11.3%	↓	3	4	10.9%
Housing Management Cost per Property, including Rent Arrears and Void Management								
• Housing management CPP	£388	£345	£351	£333	↓	1	1	£433
• Rent arrears as % rent due (excluding voids)	3.1%	3.6%	3.1%	2.85%	↓	3	2	2.58%
• Gross arrears written off as % rent due	0.3%	0.6%	0.8%	0.84%	↑	4	3	0.4%
• Rent loss due to voids as % rent due	1.1%	3.3%	4.0%	3.9%	↓	4	4	1.0%
• Average re-let time (days)	23.3	45.8	61.8	66.7	↑	4	4	24.42
Responsive Repairs and Void Works Cost per Property								
• Responsive repairs & void	£941	£1,093	£940	£968	↑	3	4	£838

[2] Calculated on agreed benchmarking basis and therefore not directly comparable with the operating margin reported in livin's 2015/16 financial statements

Performance Indicator	Performance				Trend	Peer group quartile		Peer group median
	2012/13	2013/14	2014/15	2015/16	2015/16	2015/16	2014/15	2015/16
works CPP								
• Repairs completed right first time %	85.3%	83.6%	94.9%	95.7%	↑	1	2	91.4%
Major works & cyclical maintenance CPP	£3,285	£3,277	£2,317	£1,138	↓	1	4	£1,501
Staff Management								
• Average number of days lost to sickness	3.8	2.9	4.8	6.1	↑	1	1	7.9
• Staff turnover	9.8%	11.5%	12.0%	25.7%	↑	3	2	18.8%
Satisfaction with Service Provided								
• Residents very or fairly satisfied with the repairs service they received %	99.84%	99.85%	100%	100%	→	1	1	94.3%
• Residents very or fairly satisfied with quality of new build home %	92.0%	91.4%	96.4%	93.7%	↓	3	3	95%
• Complainant very or fairly satisfied with the way their complaint was handled	75.4%	(no data)	66.7%	88.89%	↑	3	3	70.4%
Financial Analysis								
• Debt per Unit	£6,732	£8,516	£9,102	£8,597	↓	1	1	£18,210
• Effective Interest Rate	5.8%	5.8%	5.5%	5.6%	↑	4	4	4.3%

Operating Margin

Operating margin has increased by £4.8m, and by 66% in the past year; and is now equal to median performance.

The main driver for this is the reduction in operating costs, which has resulted in an increased surplus, due to:

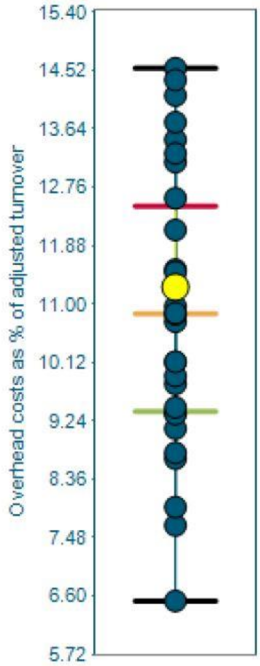
- Reduction in overheads following the Government's July 2015 budget.
- Reduction in staff costs following staff restructure and a move towards more efficient digital methods of working and communicating.
- Pension cost adjustments in accordance with Financial Reporting Standard 102.
- Lower than budgeted void losses and bad debts despite the impact of low demand areas.
- Reducing cyclical maintenance and repair costs by identifying low demand loss-making units suitable for demolition and subsequent redevelopment.
- Reduced interest costs due to savings resulting in lower than budgeted borrowing levels.
- Reduced depreciation charges due to extending the useful economic life assumptions on fixed asset components.

- Lower than anticipated depreciation costs as a result of reduced improvement and development spend.

Overheads as a % of adjusted turnover

Peer group summary	
Q1	9.38
Median	10.85
Q3	12.48

This has reduced from 12.4% to 11.3% in the year, and now falls into the third quartile for performance (2014/15: Q4). As set out above, livin took action to reduce overheads following the Government's July 2015 budget announcements. Many of the organisations within the peer group have significant open market sales or shared ownership development programmes, which generate high levels of turnover compared to rental properties; this makes it challenging for livin, as a primarily rental income based business, to match their performance.

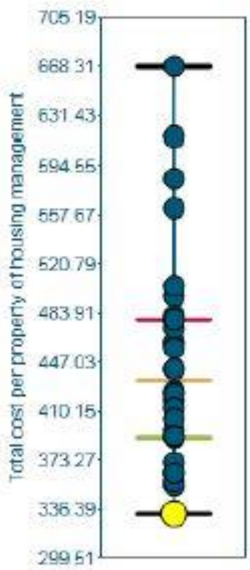


livin's current business strategy includes a target for increasing turnover through the provision of open market sales and shared ownership development. The delivery of these targets, alongside livin's continued efforts to reduce overheads, will lead to improved performance in subsequent years.

Housing Management Cost per Property

Peer group summary	
Q1	390.32
Median	433.35
Q3	478.99

Housing management is a core landlord function and represents collecting rent and managing arrears, carrying out lettings, managing tenancies, dealing with anti-social behaviour issues, and enabling resident involvement. livin's Housing Management costs have historically been lower than that of our peer group and we remain in the first quartile for this measure.

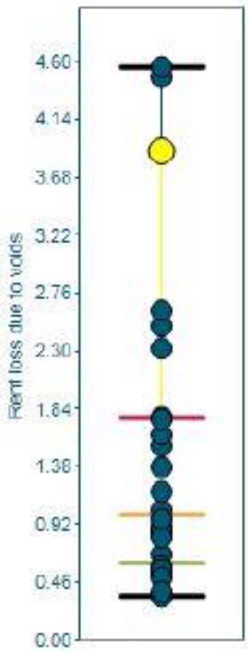


We indicated in the 2014/15 Value for Money statement that we were in the process of undertaking a Workforce Staffing review, likely to result in further savings on housing management costs; these savings are reflected in a reduced housing management cost per property for 2015/16.

Rent Arrears as % of Rent Due

Performance indicators show a decrease in the proportion of current tenant rent arrears, reflecting robust but supportive work with tenants in this area. Strong performance across the peer group has, however, resulted in an overall movement from second quartile to third quartile performance.

Rent Loss due to Voids as % of Rent Due



Peer group summary	
Q1	0.61
Median	1.00
Q3	1.77

The rent loss incurred due to voids (see box plot) has reduced slightly in the past year, but remains very high in comparison to the peer group. livin is performing in the 4th quartile in both 2014/15 and 2015/16, with void losses at 3.9%. Factors contributing to these areas of poor performance include:

- Falling demand in some geographical areas, particularly where there are high numbers of three bedroom properties, which have become unaffordable for many in livin's traditional tenant group following the introduction of the bedroom tax;
- Falling market rents in some areas, where private landlords are offering properties at below social rents; and
- The void process operated by livin.

During the year a number of changes were made to address the identified inefficiencies within the voids process:

- The lettings team were transferred to the same directorate as the housing management function, to help improve the co-ordination between the two teams; and
- The contract for the management of void properties has been re-let on new commercial terms. The new contract contains a variable profit element designed to incentivise the contractor to meet livin's void turnaround targets.

We have sought to increase the efficiency of our voids process, thereby reducing the turnaround time required on standard voids. This is a key focus for the Board for the future, and minimising future void losses is set out as a strategic objective within our new business strategy, Plan A.

Work in this area targeted at reducing the numbers of void properties and tenancy turnover include:

- Support for new and struggling tenants, including the initiatives set out in section 2.4;
- Extending the way that properties are advertised within the local community, encouraging tenants from hard to reach groups to apply for housing;
- Refurbishment of properties, such as those at York Hill, designed both to retain existing tenants and attract new tenants; and
- Selective disposal of properties which no longer meet the needs of tenants.

Although the benefit of the changes made to address the high levels of void loss are not reflected within the annual performance data for 2015/16, the void rate for March 2016 had fallen to 2.6%, providing an early indication that the changes made are having a positive effect.

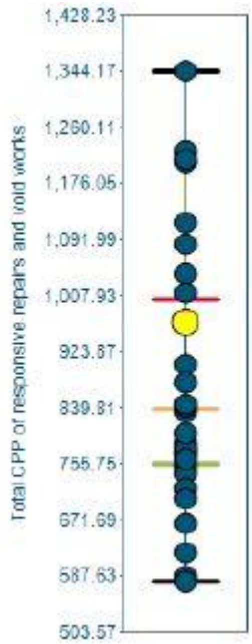
Homes with low demand have been identified through the Active Asset

Management Strategy and are currently undergoing evaluation through the Sustainable Assets and Communities Toolkit to determine the most appropriate future course of action.

Average Re-let Times

The number of days between a property falling void and a new tenant moving in also remain high compared to the peer group and compared to the previous year. However, in the year, a large number of properties in very low demand areas, which had been void for very long periods, were successfully re-let; this has increased reported re-let times but also decreased overall void levels.

Responsive Repairs and Void Works Cost per Property



95.7% of responsive repairs are completed right first time (first quartile) and satisfaction with the repairs service is better than the median for the peer group.

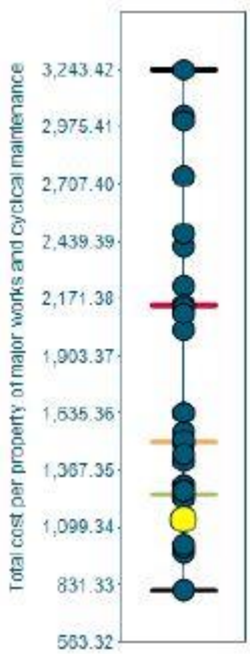
Peer group summary	
Q1	755.48
Median	837.65
Q3	1,002.38

Overall, the cost of responsive repairs and void works places livin in the third quartile in comparison to the peer group (2014/15: Q4) despite a slight increase in costs in real terms.

A review of the underlying data shows that expenditure on void properties is carefully controlled, placing livin in the first quartile in comparison to the peer group both this year and last year. Even so, in the year a review identified that we could further reduce unnecessary works in void properties which have been left in good condition by previous tenants, resulting in significant savings for the organisation.

The underlying data also shows that costs of Responsive Repairs are high compared to the peer group, placing livin within the 3rd quartile, with cost per repair in the 4th quartile. This is predominantly due to the structure of the existing repairs and maintenance contract, which allows a fixed overhead rate regardless of the level of activity undertaken. Whilst steps have been taken to control these costs as far as possible, resulting in some reductions in cost in Q4 2015/16, it has not been possible to make significant changes to these costs during the fixed term of the original contract. As set out in section 5, significant savings have been achieved when retendering the Construction Related Services contract in July 2016, and it is therefore anticipated that significant reductions in expenditure will be seen in this area in future years.

Major Works and Cyclical Maintenance Cost per Property
Expenditure on major works within properties has been very high since transfer, reflecting the programme of extensive post transfer investment.



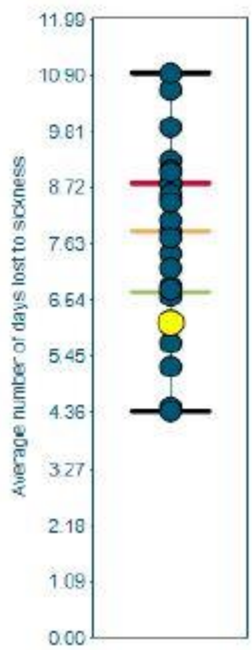
Peer group summary	
Q1	1,256.27
Median	1,501.01
Q3	2,142.21

The main refurbishment programme is now largely complete, and as a result, expenditure has reduced from an average of £2,317 per property (4th quartile) to £1,138 (1st quartile). A detailed review of the underlying costs shows that both elements of expenditure, major repair costs and cyclical maintenance costs, are low.

Expenditure on major works is expected to remain low in future years, reflecting the much improved standard of our properties, though investment in existing properties continues, most notably in the major refurbishment programme at York Hill.

Low cyclical maintenance costs reflect that the majority of properties have been recently refurbished properties, and currently require only limited maintenance. These costs are expected to reduce further in 2016/17, reflecting the better value obtained from the new Construction Related Services contract.

Staff Management

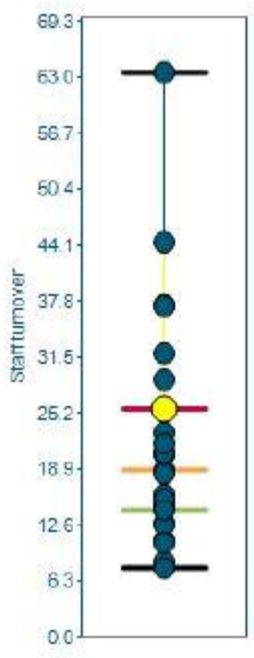


The number of days lost through sickness increased from 4.8 to 6.09 during the year. The increase was caused by a small number of long term sickness cases. We remain in the 1st quartile for performance in this measure and continue to have measures in place to closely monitor and proactively address sickness.

Peer group summary	
Q1	6.69
Median	7.87
Q3	8.80

Staff turnover at 25.7% was higher than the peer group median of 18.8%, placing us within the fourth quartile for 2015/16. This is largely as a result of the significant restructuring of the business in 2015/16, in response to the rent cut.

Peer group summary	
Q1	14.3
Median	18.8
Q3	25.7



Satisfaction with the Service Provided

Tenant satisfaction with our repairs service, which is collected on a sample basis, remains high, and exceeds that of our peer group. We anticipate that these satisfaction levels will remain high as our new Construction Related Services contract becomes operational; we have introduced a new process whereby customer satisfaction with repairs is monitored as part of our repairs post inspection process.

Satisfaction levels with complaints and with new build homes are calculated based on small sample sizes, which tends to make the level of satisfaction reported volatile year on year.

Financial Analysis

Debt per Unit

The debt borrowed from banks per home owned decreased from £9,102 to £8,597 in the year, reflecting the end of the programme of significant investment in the properties inherited at transfer. Our approved business plan anticipates that debt will peak in 2017/18, as we borrow additional monies in order to finance developments under the HCA’s Affordable Homes Programme 2015-18; the Housemark data indicates that our amount of debt per home is lower than our peer group, placing us in the first quartile for this measure.

Effective Interest Rate

Our effective interest rate remains high in relation to current market rates and to its peer group; we are in the fourth quartile for this measure in comparison to our peers. The organisation’s loans were negotiated at the time of the stock transfer in 2009, when interest costs were high following the global financial crash in 2008.

The Board has considered in detail whether re-financing the debts of the business would provide better value for money. However, the breakage costs on the existing loans are linked to gilt yield rates, and with gilt yield rates at a historic low, breakage costs are currently prohibitively expensive and would significantly reduce livin's future development capacity. The cost savings that we have made in 2015/16 (see section 5) allow our business plan to be delivered within existing facilities.

On this basis, the Board has agreed that the existing loan arrangements should be retained at present, subject to regular periodic review.

5 Value for money gains realised and future targets

5.1 Current and Future Savings

In the 2014/15 Value for Money report, published in September 2015, £3.02m of savings were identified for implementation throughout 2015/16, as a key part of the plans to mitigate the effect of the 1% rent cut announced on 8 July 2015.

Many of these savings were negotiated during the year, and were implemented very quickly, achieving partial in year savings. livin has taken all of the steps necessary in order to ensure that the effect of the 1% rent cut is fully mitigated, and the full effect of these savings will be realised in 2016/17. Cost reductions totalling £3.6m, compared to the previous year's budget, were approved by the Board in February 2016 when setting the budget for 2016/17. These will be monitored quarterly by the Audit & Risk Committee and by the Board to ensure that they are achieved.

An assessment of the gains realised against the 2015/16 targets set is below.

Planned Savings	Planned Value	2015/16 achieved	2016/17 and future years	Comment
Reduced Community Investment Budget	£68,000	£68,000	£69,000	Achieved in 2015/16
Removal of free Tenants Garden Services for certain groups	£118,000	-	£111,000	A revised Grounds Maintenance contract came into effect from 1 April 2016, which excluded the provision of free garden services for tenants.
Reduction in Carelink Services provided by Durham County Council	£75,000	-	£94,000	These contracts were renegotiated with effect from 1 April 2016; savings will be realised from 2016/17 onwards.
Cancelling of Durham Gate Duke of Edinburgh Scheme	£10,000	-	£10,000	Cancelled from 1 April 2016 – savings will be realised from 2016/17 onwards.
Savings from the re-tendering of community Foundations contract	£10,000	£5,800	£10,000	Contract was renegotiated with effect from 1 Sept 15

Planned Savings	**Planned Value**	**2015/16 achieved**	**2016/17 and future years**	**Comment**
Operational Savings on Construction Related Services Contract	£1,237,500	-	£1,713,180	Significant savings achieved through re-tender, with the new contract coming into effect from 1 July 16.
Savings in capital expenditure by extending the lifecycle of certain component replacements with our homes	£265,000 per annum	-	£106,900 in 2016/17 increasing further in future years	Following a review of the warranties in place over components, and consideration of actual replacement lives incurred to date, we were able to extend these lifecycles to generate savings of £19.2m over the next 30 years.
Improved modernisation and business efficiency leading to reduced employee costs	£617,000	£490,000	£606,000	Employee costs were reviewed, challenged and reduced between July and November 2015; the full year effect of these savings will be seen in 2016/17.
£100k Club – cost saving ideas identified by employee forum	£100,000	£20,000	£52,000	This work generated some immediately achievable savings, together with others which are likely to result in future cost savings.
Discretionary Spend Review savings identified	£350,000	-	£350,000	Areas of discretionary spend which did not add significant value to the business have been removed from the 2016/17 budget.
Increased Income				
Voids process re-engineering	£170,000	£86,000	£175,000	Improvements to the voids process took effect from late 2015/16, resulting in a decrease in void losses in the latter part of the year.
Total	**£3,020,500**	**£669,800**	**£3,297,080**	

5.2 Future Savings

livin's Plan A Business strategy includes a target to reduce expenditure across the business by a further £500,000. This is a challenging target, particularly when considered in the light of the significant savings made in 2015/16. Areas where we expect to make these additional savings include:

Nature	Expected saving
Additional savings secured following re-procurement of the Grounds Maintenance Contract	£117,000
Support tenants to exercise their ability to participate in mutual exchanges, reducing lost tenancies and unnecessary void works	£111,000
Tenancy Turnover Action Plan, helping tenants to sustain their tenancies and therefore reducing void management costs	£33,500
Income to be generated from sale of negative NPV and low demand properties for shared ownership	£33,000

6 Conclusion

Value for money is embedded in livin's culture and governance structure and there is a clear understanding of how delivering efficient and effective services benefits both customers and their communities.

Having successfully delivered the transfer promises to its tenants and invested in its homes, livin is moving on to deliver its Business Strategy, Plan A.

During 2015/16, livin took action to secure £3.3m of efficiency savings, mainly through employee restructuring and contract re-negotiation, but also through a critical assessment of the services provided. Following this, savings of £669,800 were delivered in the year. These savings ensure that livin is able to continue its work in the light of the future reduction in income announced in the July 2015 Emergency Budget.

livin recognises the challenge in balancing excellent services with high levels of customer satisfaction and achieving continued efficiency savings. The HCA's comparative cost metrics provide assurance that cost management is moving in the right direction, showing improvements in efficiency from year to year and against our peer group. livin excels in some areas, and is actively seeking ways to deliver specific services, identified as more expensive from the cost comparison data provided by Housemark, more efficiently.