Value for Money Statement – Year to 30th September 2018

Introduction

The Value for Money Standard 2018

The 2018 VFM Standard published in April 2018 requires that Registered Providers must:

- Clearly articulate their strategic objectives.
- Have an approach agreed by their board to achieving value for money in meeting these objectives and demonstrate their delivery of value for money to stakeholders.
- Through their strategic objectives, articulate their strategy for delivering homes that meet a range of needs.
- Ensure that optimal benefit is derived from resources and assets and optimise economy, efficiency and effectiveness in the delivery of their strategic objectives.

The Standard requires that that Registered Providers must demonstrate:

- A robust approach to achieving value for money – this must include a robust approach to decision making and a rigorous appraisal of potential options for improving performance.
- Regular and appropriate consideration by the board of potential value for money gains – this must include full consideration of costs and benefits of alternative commercial, organisational and delivery structures.
- Consideration of value for money across their whole business and where they invest in non-social housing activity, they should consider whether this generates returns commensurate to the risk involved and justification where this is not the case.
- That they have appropriate targets in place for measuring performance in achieving value for money in delivering their strategic objectives, and that they regularly monitor and report their performance against these targets.

It is also a requirement that Registered Providers must annually publish evidence in the statutory accounts to enable stakeholders to understand the provider's:

- Performance against its own value for money targets and any metrics set out by the regulator, and how that performance compares to peers.
- Measurable plans to address any areas of underperformance, including clearly stating any areas where improvements would not be appropriate and the rationale for this.

The Hyelm Group is committed to finding ways to provide excellent services whilst at the same time seeking to reduce costs and improve efficiency. To ensure that we can measure efficiency gains and to provide meaningful comparisons with other organisations providing similar service, the Board has adopted the 2018 Value for Money Standard for Registered Providers of Social Housing.

The 2018 Standard was published in April 2018, part way through the financial year, and although the Board have adopted the new Standard, full compliance will not be achieved until financial year 2018/19, although the Board is able to report against the new metrics defined within the Standard.

How We Deliver VFM

Although the Hyelm Group does not provide social housing – the Old Street scheme provides a mix of accommodation for intermediate rent and private rented accommodation for young people on low incomes - the VFM standard provides a framework for measuring performance in a consistent manner.

Achieving Value for Money (VFM) is a fundamental element of our objective to become a top quartile performing organisation.

We see VFM as the process of delivering savings and improving quality by simplifying everything that we do and by achieving a balance between costs, quality and results.

This statement outlines our approach to achieving VFM in meeting our objectives with reference to our financial, social and environmental returns, and measures performance using the metrics included within the 2018 Value for Money Standard.

VFM is embedded within our business in the following ways:

Governance

Board members' duties include reviewing the efficiency of our operations and our VFM performance as well as ensuring compliance with the regulatory VFM standard.

The Board discusses our VFM Policy and Statement at least annually and reviews the operational and financial performance of the business quarterly.

Financial Management

We operate a robust budgeting process that sets out the financial parameters within which our organisation is required to work to deliver improvements in the services that we provide to our residents and others who work with us.

The business planning process helps to ensure that our resources and assets are used in the most appropriate ways to deliver our objectives.

Our budget and business plan targets are structured to ensure that the most effective use of our resources is made through efficiency gains year on year with increasing levels of surplus strengthening our capacity to develop new homes and enhance our services.

Procurement

We continuously seek to obtain VFM from our suppliers and look to rationalise contracts and re-tender when necessary to ensure that the services that we receive from them meet and deliver our business objectives.

Where appropriate, we undertake an options appraisal process to ensure that there is a robust business case for investment/divestment decisions and that returns are optimised.

Managing Performance

We continually review our performance and benchmark ourselves against our peer groups. A key objective of our 2016-2019 Strategic Plan is to achieve top quartile performance for financial strength and quality of services. The Board reviews performance information on a regular basis.

We have set ourselves the challenge of benchmarking our performance against that of our organisations that provides similar services within the social housing sector.

Comparative analysis is based on information provided by HouseMark, the BM320 benchmarking group of smaller housing associations in London, the HCA (such as the 2017 Global Accounts of Housing Providers) and other publicly available information.

Resident Focus

Improving resident engagement and obtaining regular feedback in relation to our services are key objectives for the life of our Strategic Plan 2016-2019.

Following the sale of Arthur West House in 2014 the Resident Panel had become less engaged. During 2017/18 we have worked with residents at our Old Street scheme to ensure that they are engaged with the management of the scheme.

Our People

Our staff are critical to the organisation for the delivery of services to our residents. Providing training and support to our staff is essential to ensure that we maximise their capability.

During 2015/16 we reviewed the staffing complement needed to deliver our 2016-2019 Strategic Plan. Salary and benefits packages are reviewed annually.

During 2016/17 we reviewed our HR contracts, handbooks and policies to ensure that they remain in line with best practice.

Our Strategic Plan

The Strategic Plan for 2016-2019 focuses on three key activities:

1. ***Our development programme:***

   Funded by the sale proceeds of our Hampstead property and additional borrowing, we will further develop and expand our provision to help meet increasing demand and changing needs.

   More specifically, we will

   - Develop and provide high standards of affordable rented accommodation, facilities and services for a further 250 young people in two or more new housing scheme sin great London locations.
   - Establish with our local authority planners the scope to provide additional affordable accommodation for rent at our Old Street scheme through change of existing office/commercial use and/or through extension to the property and develop further accommodation, as appropriate.

2. ***Our existing operation:***

   Throughout the delivery of our development programme we will continue to manage our existing operation in an efficient and effective manner.

   More specifically we will

   - continue to provide high standards of contemporary affordable rented accommodation facilities and services at our Old Street scheme that reflect the needs and expectation of these whom we set out to house.
   - Continue to be a financially sound organisation with efficient systems providing effective controls that reflect our requirements. Maximising value will continue to underpin our work.
   - Maximise in particular, the value that we get from our office and communal spaces at our Old Street Scheme

- Secure suitable funding to support our strategic objectives
- Offer a great place to works, attracting and retaining the most talented staff and Board members.

3. ***Our communities and people;***

- We will promote positive stable safe environments in each of our housing schemes, ensuring that the sense of place and family and the supportive communities that we promote which are so fundamental to what we do, are kept as we move from old to new.
- More specifically we will:
- Involve our residents closely in drawing up our plans for the future and managing our affairs
- Work with local community groups, training providers and employers to provide opportunities to enable young people to grow through further personal training and development
- Develop strong and productive partnerships with a range of key strategic partners to ensure that we help those who are in greatest need.
- Deliver a programme of social and learning events and community development activities, making best use of our communal facilities as well as those within the local areas in which we operate, engaging our residents with the wider community.
- Work with each young person during their stay to help them move on when they are ready.
- Actively encourage our residents to contribute to our communities and our organisation in a positive way once they have left our accommodation.

During the year we have made substantial progress in achieving the objectives set out in our Strategic plan.

Progress against the objectives within the Strategic Plan

Our development programme

With regard to our **development programme,** we adopted a strategy in 2013/14 to dispose of one of our existing properties, Arthur West House, with a view of using its capital receipt to develop and manage a further 250 bed-spaces of modern accommodation within Greater London by 2019. The provision of new accommodation is a key objective of the 2016-2019 strategy adopted by the Board.

The property sold on the 10th October 2014 and generated a receipt of £30.05 million, some £6 million above the maximum forecast sale price. The sale proceeds were apportioned between Hyelm and The Ames House Trust, which had a leasehold interest in Arthur West House. The amount received by Hyelm amounted to £24,115,125, with the balance of £5,934,875 being received by The Ames House Trust.

As we develop our plans for the development programme, a key focus will be ensuring that we deliver a value for money solution and maximise the return on our investment. Whilst the Board recognises that the provision of low cost but affordable accommodation will not generate a 'market return', a number of financial targets have been agreed, which must be achieved before any scheme proceeds ensuring that the scheme is profitable, and the value of the investment is maintained.

In September 2018, we purchased a development site in north London for the provision of 154 bed spaces – good progress towards out target of 250 bed spaces. The development will be funded with Hyelm's cash resources, and the sale of a number of affordable homes for rent or for shared ownerships to another Registered Provider.

We have agreed a fixed price contract for the delivery of the scheme with Arthur West House Limited, a wholly owned subsidiary, which will minimise the risk of overspend and facilitate the recovery of VAT on professional fees amounting to approximately £270,000.

By making use of an existing procurement framework we have been able to procure professional services without a lengthy and expensive EU procurement exercise.

Our ongoing operations

Our Old Street scheme is now ten years old. Resident satisfaction levels continue to remain high. In addition, it was built to comply with, the then, Eco Homes standards and achieved a Very Good rating in this regard.

Our forward plans for our Old Street scheme include provision for the regular maintenance and refurbishment of the property to ensure that it continues to provide high standards of affordable accommodation that meet the expectation of our residents. We have also achieved our objective of providing additional office accommodation for rent at our Old Street site generating additional income for future investment in our services.

To ensure that we achieve best value for money from the goods and services that we procure, Standing Orders are in place that require competitive quotations to be sought for low value goods, and for formal tendering procedures to be enacted for more valuable services.

During the year to 30 September 2018 the following good and services were tendered:

- Gas and electricity supplies.
- IT support
- Mechanical & Electrical Servicing

Where possible, we make use of procurement exercises that have been undertaken by other organisations to ensure that best value has been obtained.

Old Street provides accommodation for young people at the beginning of their careers ensuring that they are accommodated in low cost, quality accommodation in a secure environment. Of the units available 74 bed-spaces provide intermediate rent accommodation for priority group workers, with rent at a significant discount to comparable accommodation in London. The remaining 51 bed-spaces are provided for non-priority group workers – with rent levels again at a discount.

With Board approval we have invested resources to improve the efficiency of our **Ongoing Operations** and to generate additional income to support our charitable objectives. During the year, our IT strategy will result in savings of £10,500 per annum.

Over the last three years we have been examining ways of maximising the 'return' from this asset whilst maintaining rents at levels that are affordable for our client groups. The focus of this has been in relation to our communal spaces, which were underutilised.

As a result of the review, accommodation within the management suite was rented to a third party for a period of four years from June 2017. Planning permission has been sought and obtained to create further office space on the ground floor of the Old Street property, which will be rented on a commercial basis thereby generating additional income for investment in our properties and the services we provide to our residents. The conversion of our unused communal space to office accommodation has also enabled us to provide a more friendly and relaxing space for our residents.

The capital investment in our Old Street scheme, converting unused communal space to office accommodation will result in additional income of approximately £125,000 per annum. The efficient management of staff and improved systems has enabled us to manage the commercial space with no addition staff requirements.

The completion of the new office accommodation has enabled us to move the Finance Team back to our Old Street scheme, thereby reducing the cost being incurred on alternative office accommodation.

Further savings have been made through the retendering of several contracts, for example a saving of £300 per year has been made through the retendering of the lift maintenance contract. The supply of electricity and gas is retendered annually to ensure best value is obtained, and during 2017/18 we changed our water supplier resulting in year on year savings of £30,000. These savings are passed on to our residents in through lower service charges.

Our communities and people

As part of our strategy in relation to **Our communities and people** the revisions to our staffing structure and job profiles has enabled us to take on the management of our new office accommodation at no extra cost.

In addition, though our close association with Charity Works, a charity providing job opportunities for graduates seeking work place experience, we have recruited two graduate trainees to whom we provide an approved training programme. Annual savings of £2,500 have been made through the revised staffing structure.

The Hyelm Group endeavours to provide rented accommodation to tenants which provides value for money when compared with rent charged for comparable properties. To ensure that the rent is deemed value for money, the Board has approved a policy of linking all rents to the level deemed affordable for single people in receipt of the London Living Wage.

The Low Cost but Affordable rent is based on the first quartile of rents for accommodation, which for single people includes room, shared rooms, bedsits and maisonettes. Rent for non-priority groups is at this level, which is 32% less than equivalent private rented accommodation at the first quartile for the N1 postcode. The intermediate rent for accommodation at Old Street is currently at a discount of 40% to the first quartile. The Board policy will result in all new lets being at the LCA rent, which will result in additional rent income being generated yet maintaining rents at an affordable level.

A key objective of our Strategic Plan 2016-2019 is to ensure we house those people from within our client group in greatest need. To enable us to do this we continue, with appropriate support, to move-on those residents who are no longer in need of our accommodation. Satisfaction levels had suffered as a result but are now starting to improve. It remains our target is to maintain or improve upon current levels of satisfaction, but always to keep our performance within the upper quartile. The table below shows resident satisfaction with the services provided during the financial year 2017/18 and the preceding two years

Resident Satisfaction	Benchmark: Peer group upper quartile	Benchmark: HouseMark upper quartile	Hyelm 2015/16	Hyelm 2016/17	Hyelm 2017/18
% of residents satisfied or very satisfied with our services	94%	89%	90%	90%	93%
% of residents satisfied or very satisfied with repairs and maintenance	87%	84%	90%	90%	95%
% of residents satisfied or very satisfied on VFM for rent	88%	85%	76%	93%	90%

Evidence of resident satisfaction, together with the effective management of the property is demonstrated in the table below. Occupancy remains high and arrears are managed proactively with residents to ensure minimal losses occur. Demand for the accommodation offered remains high with short re-let times.

Other Measures	Benchmark: Peer group upper quartile	Benchmark: HouseMark upper quartile	Hyelm 2015/16	Hyelm 2016/17	Hyelm 2017/18
% of repairs fixed on first visit	98.5%	96.0%	98.2%	100%	95%
Average re-let time (days)	13	19	6	5.78	5.42
Current rent arrears	0.72%	1.62%	0.45%	0.00%	0.19%
% of void losses	0.20%	0.55%	0.82%	0.60%	1.18%

We have taken comfort from historically low levels of void loss and arrears, which compare very favourably with those within the sector. The increase in voids during 2017/18 was planned in order to enable planned maintenance works to be carried out. Our future investment in our properties will ensure that demand for our accommodation is such that our void levels are maintained at their current low levels.

Finance

The accounts for the year ending 30 September 2018 have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing Providers.

Following the sale of Arthur West House in October 2014, Hyelm only provides accommodation at its Old Street property. This is a mix of private rented accommodation and grant supported intermediate rent accommodation that is tenanted by priority group workers.

On disposal of the Arthur West House site, management costs per unit increased as central costs previously allocated to the property have been retained but are supporting the development programme, which will provide new accommodation on a number of sites. As a result, we have shown operating and management costs in total, as well as reporting on these costs excluding our central overheads, this being a more representative measure of our performance relating to residential accommodation.

Reporting against the 2018 Value for Money Standard

The Hyelm Group has adopted the reporting requirements of the 2018 Value for Money Standard and we have recalculated prior year metrics in order to provide comparative figures for the year ended 30 September 2018 and prior years. We have also calculated the metrics for 2018/19 based on the approved plan for the year in order that we can assess future performance.

Metric 1 – Reinvestment	2015/16	2016/17	2017/18	2018/19
Reinvestment %	1.26%	1.46%	42.35%	12.02%

Following the sale of the Hampstead property, Hyelm has only the Old Street scheme in operation. The significant increase in investment is 2018/19 relates our investment in the Colindale site as part of our development programme. During 2017/18 Hyelm purchased the Colindale site for £10.5m. The planned investment for 2018/19 relates to the commencement of the building costs, with practical completion scheduled for July 2021.

Metric 2 – Supply

Unlike many large Registered Providers, Hyelm does not have an annual development programme. Our investment in property relates to a specific scheme and therefore the supply metric is not a relevant measure of performance.

Metric 3 – Gearing

	2015/16	2016/17	2017/18	Plan 2018/19
Gearing	43.05%	42.19%	24.50%	21.13%

Hyelm currently has one loan from Allied Irish Bank. Our investment in the new development in Colindale is funded by Hyelm's cash reserves, thus as the value of housing properties increase as the development progresses gearing will decrease. On completion of our new development Hyelm will have additional capacity for borrowing to support the development of additional accommodation and complete our strategic objective of providing 250 new bed spaces.

In addition to the VFM metric, Hyelm calculates the value of debt per unit of accommodation. As Hyelm has only one loan which is repayable over a 30-year period, the amount of debt per unit reduces over time as shown below:

	2015/16	2016/17	2017/18	Plan 2018/19
Debt per unit	£53,147.58	£52,856.78	£52,141.25	£51,001.51

Metric 4 – Earnings before Interest Tax Depreciation and Amortisation – Major Repairs Included

The EBITDA MRI (Earnings before Interest Tax Depreciation and Amortisation – Major Repairs Included) interest cover measure is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus that a registered provider generates against interest payments (the measure avoids any distortions stemming from the depreciation charge). The conversion of underutilised communal space to provide office accommodation for rent has resulted in an increase in interest cover which will allow for further investment in our current and future developments.

	2015/16	2016/17	2017/18	Plan 2018/19
EBITDA MRI	148.91%	134.74%	139.90%	155.85%

EBITDA to Debt Service Cost.

Our facility agreement with AIB requires Hyelm to achieve a ratio of EBIDTA to Debt Service Costs of a minimum of 1:1. The ratio measures our ability to fund the repayment of capital and interest payable on the outstanding loan from current income generated by Hyelm.

During the three years to 30 September 2018 this ratio has been achieved as shown in the table below.

	2015/16	2016/17	2017/18	Plan 2018/19
EBITDA to Debt Service Cost	1 : 2.76	1 : 1.59	1 : 1.61	1 : 1.72

Metric 5 – Headline residential housing cost per unit (Old Street only)

The unit cost metric assesses the headline social housing cost per unit as defined by the regulator. Although The Group is not a provider of social housing, the social housing cost per unit is the benchmark against which Hyelm chooses to measure performance. In addition to the performance measures set out by the regulator, the table below shows operating costs per unit for both Hyelm as a whole, and separately for the costs relating solely to the residential accommodation.

The costs have been separated in order that costs relating to accommodation in use can clearly be seen. The remaining operating costs are focused on the development programme currently underway to provide new accommodation following the disposal of Hyelm's Hampstead property.

Headline residential housing cost per unit	2015/16	2016/17	2017/18	Plan 2018/19
Operating costs overall	£4,998	£5,324	£5,666	£5,951
Operating costs overall - per week	£95.78	£102.03	£108.58	£114.05
Operating costs (residential units only)	£3,763	£3,921	£4,465	£4,534
Operating costs (residential units only) - per week	£72.11	£75.14	£85.57	£86.88

The increase in cost between 2016/17 and 2017/18 is largely because of investment in new IT and telephone systems which will result in reduced costs in 2018/19. Although the planned costs are budgeted to increase in 2018/19, this is a result of planned cyclical maintenance costs rising from £13,374 to £80,890 in 2018/19.

In addition to reporting on operating costs per unit, Hyelm also reports on management costs as a measure of efficiency. Management costs per unit are reported in the table below:

Housing Management costs per unit of accommodation	2015/16	2016/17	2017/18	Plan 2018/19
Management costs overall (Hyelm Group)	£2,817	£2,786	£3,005	£3,392
Management costs overall - per week (Hyelm Group)	£53.98	£53.39	£57.58	£65.00
Management costs - residential units only	£1,582	£1,383	£1,804	£1,974
Management costs - residential units only per week	£30.31	£26.50	£34.57	£37.83

As for other measures, management costs are reported as an overall cost and separately for the residential units under management. The increase in costs in 2017/18 related to the investment in policies and procedures to support the move-on of residents, an investment in the improvement to our IT, Telephony and other systems, together with investment in the Old Street Foyer conversion.

Metric 6 – Operating Margin

The Operating Margin demonstrates the profitability of operating assets before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of a business. The table below shows the operating margin for Hyelm as a whole, and separately for the residential accommodation which excludes central management costs relating to the management and progression of our planned development programme.

Operating Margin	**2015/16**	**2016/17**	**2017/18**	**Plan 2018/19**
Operating margin (Group)	7.95%	11.32%	17.41%	17.40%
Operating margin (residential only)	9.90%	7.45%	5.23%	1.48%
Operating margin (residential only) –Exc. Central costs	24.85%	24.06%	19.07%	0.00%

Metric 7 – Return on Capital Employed

This metric compares operating surplus to total assets less current liabilities and is a measure assess the efficient investment of capital resources. The result show that over time, Hyelm is improving the return on capital due partly to efficiencies being made and also by maximising the commercial rent from our Old Street scheme.

	2015/16	**2016/17**	**2017/18**	**Plan 2018/19**
Return on Capital Employed (Hyelm Group)	0.24%	0.29%	0.48%	0.56%

VFM for 2018/19

It is our aim to be in the top quartile for both financial and operational performance, and to see our performance improve each year.

To achieve our objectives, we will need to be able to measure our performance and, where appropriate, to measure our performance against that of our peers to enable us to see what we do well, why our performance differs, and how we can improve our performance and provide better value for money.

As a result, we will be undertaking further work over the next year to support our aim of achieving our target. More specifically we will:

- Re-tender for the supply of electricity, gas and our cleaning contract.
- Continue to generate additional income through or new office accommodation at Old Street and to continue improve the utilisation of the newly refurbished communal space for residents.
- Review the elements that make up the service charges that our residents pay to ensure that they remain as affordable as possible for those whom we set out to house.