Value for Money Self-Assessment

Year ending 31 March 2017

Victory
HOUSING TRUST

Overview

In the past year, Victory has delivered above average services for below average costs, meeting our corporate goal. In summary:

- Our operating margin, a useful proxy for overall efficiency, has increased and is higher than the sector median;
- Our overall costs per unit have fallen, are below our local peer group average and are in the lowest quartile for the sector;
- We are actively managing our assets to capitalise on their inherent value, having raised £6.1m from sales in the last year, whilst building 80 homes and achieving a net increase in our housing stock;
- We are committed to significantly expanding our development programme;
- Our return on capital employed is over 10%, which is more than double the sector median;
- Resident satisfaction remains high and is above benchmark medians across all key indicators; and
- We are actively supporting our communities and delivering social value.

From the above summary, and the information contained in this report, we believe Victory complies with the Value for Money National Standard.

Highlights

- **Our operating margin, a useful proxy for overall efficiency, has increased and is higher than the sector median.**
  Operating margin measures the amount of surplus generated from turnover on our day-to-day activities. It is an indicator of operating efficiency and business health. In 2017, our operating margin increased to 41% and is 46% higher than the sector median of 28% in 2016. Over the past three years we have become increasingly more efficient with our operating margin increasing from 27% in 2015, to 36% in 2016 and 41% in 2017.

- **Our overall costs per unit have fallen, are below our local peer group average and are in the lowest quartile for the sector.**
  Headline overall social housing cost is the indicator used by the Homes & Communities Agency to compare the relative operating costs of housing associations. Our overall costs per unit fell by 5.5% to £2,718 (in 2016 they were £2,875). Compared to 2016 benchmarks, this was 13.8% below the Norfolk & Suffolk average of £3,154, and 24% below the sector median of £3,570. In fact, overall costs are now 12.9% below the sector lowest quartile for 2016 of £3,120. Within our overall costs, management costs per unit fell by 19% to £601, which is 41% below the sector median of £1,020. Maintenance costs fell by 10.6% to £840 and were 13% below the sector median of £970. By operating efficiently, we have been able to accommodate a high level of investment in major repairs. In keeping with our Corporate Plan goal, our major repairs investment in our housing stock was £986 per unit. This represents an investment level which is 21% above the sector median for 2016 of £810 and 31% above our local peer group average for2016 of £753. We believe a strong

investment programme is essential for the long term maintenance of our housing stock and to retain our high, 90% level of resident satisfaction with the quality of the homes we own.

Housing Association Benchmark data	Headline Social Housing Costs £/unit	Management £/unit	Service Charges £/unit	Maintenance (Repairs & cyclical works) £/unit	Major Repairs (Improvements) £/unit	Other Social Housing Costs £/unit
2017 Victory Housing	£2,718	£601	£214	£840	£986	£77
2016 Victory Housing	£2,875	£746	£228	£940	£898	£63
Sector Lower Quartile 2016	£3,120	£740	£240	£790	£540	£80
Sector Median 2016	£3,570	£1,020	£360	£970	£810	£210
Norfolk & Suffolk Average 2016	£3,154	£862	£354	£957	£753	£229

- **We are actively managing our assets to capitalise on their inherent value.**
One of our most important jobs is to manage the housing stock we have so it meets the needs of our residents, both now and in the future. There is a current mismatch between the composition of our housing stock (in terms of the number of bedrooms) and the sizes of the households which occupy them. To help redress this imbalance, we are actively building new homes, in part funded from the sale of some of our oldest, poorest performing properties. In 2017 we sold 40 properties and 57 garages as part of our asset management plans, achieving a £6.1m cash inflow. The sale proceeds are reinvested in the provision of newer homes that are built to a higher standard, are cheaper for residents to heat, and have lower maintenance costs for Victory, thereby providing better value. By targeting poorer performing homes, we also avoided £290k of costs that would have been required to improve the properties sold.

- **We are committed to significantly expanding our development programme.**
Since we started out in 2006, we have seen a marked acceleration in our development programme. In our first five years we built 220 homes, and we more than doubled this in the next five years to 462 homes. We are now doubling this again, to build at least 924 new homes in the five years to March 2022. In 2017, we completed 80 new properties including 69 general needs homes, and 11 shared ownership homes. A further 147 were in construction at the end of the year. As a percentage of our overall stock the 80 new homes represented 1.6%, which is exactly the median level reported in the Homes & Communities Global Accounts for the sector as a whole. We expect this percentage to increase as we accelerate our development programme and shortly after the year end we secured a further £20m of funding, over and above our existing facilities of £80m, to facilitate that expansion.

- **Our return on capital employed is over 10% and more than double the sector median.**
  This measure shows how well we use both our capital and debt to generate a financial return, and is our preferred measure for return on assets. It is a commonly used ratio to compare the efficiency of capital usage of different businesses in the same sector. Our return on capital remained high at 10.2% (2016: 10.2%) and was more than double the sector median of 4%. This performance is in part an outcome from our active Asset Management Strategy to dispose of social housing property that does not meet our criteria and to reinvest those proceeds in new dwellings.

- **Resident satisfaction remains high, and is above benchmark medians for all key indicators.**
  We completed an independent resident satisfaction survey based on the STAR (Survey of Tenants and Residents) methodology in 2017. Overall resident satisfaction was high at 89% (2015: 89%) and above the sector median of 86%. For nine key measures, our resident satisfaction levels were above the sector median, the minimum target we have set for ourselves. In the context of welfare reform, value for money of rent is increasingly important and we are pleased to report residents are increasingly satisfied with the value for money of their rent, with 91% of residents satisfied (2015: 89%). This result is significantly above the benchmark median of 80%.

Satisfaction with…		**2015**	**2017 & Trend**
1. Overall service provided	*(Target >=86%)*	**89%**	**89%** →
2. Quality of home	*(Target >=84%)*	**91%**	**90%** ↓
3. Repairs & maintenance	*(Target >=79%)*	**86%**	**84%** ↓
4. Value for money of rent	*(Target >=80%)*	**89%**	**91%** ↑
5. Value for money of service charge	*(Target >=66%)*	**75%**	**76%** ↑
6. Neighbourhood as a place to live	*(Target >=84%)*	**92%**	**92%** →
7. Dealing with enquiries	*(Target >=82%)*	**86%**	**86%** →
8. Keeping tenants informed	*(Target >=79%)*	**89%**	**90%** ↑
9. Listening & taking account of views	*(Target >=68%)*	**69%**	**69%** →

Note: The targets listed above are based on the sector median position.

- **We are actively supporting our communities and delivering social value.**
  During the year we have provided £106k of community grants to support community projects, benefitting over 390 people, and for every £1 spent the communities saw a return of £8 in Social Value. Victory and its contractors have collectively supported 17 apprenticeships, and staff have contributed over 600 hours to voluntary community activities. All our homes are built to match identified local need so that smaller households can live in smaller properties, enabling the freeing-up of larger family homes. The National Housing Federation Economic Impact Calculator estimates that for every property built in Victory's area of operation, 2.2 full-time equivalent jobs are created. Using this calculation, the 2017 build programme supported 176 full time jobs for a year.

Our Approach to Value for Money

We believe everyone deserves to live in a good, affordable home and that homes that meet people's needs give stability to their lives and help communities flourish. We recognise that local people are best placed to provide a local service and have restricted our area of operation to Norfolk. Within that area, we feel we are big enough to make a difference, yet small enough to care. We do not wish to be a remote landlord. We expect the next few years will be tough for our sector and our residents so we need to be bold in our approach, looking for new ways of working and taking difficult decisions where necessary. In all of this, we recognise the need to operate economically, efficiently and effectively in order to maximise value for residents and local communities.

We provide a range of services to people in the communities we serve, playing an active part in several local partnerships that benefit neighbourhoods and improve the quality of life for residents. We invest in community initiatives which improve the communities around our homes, and foster community wellbeing. We recognise that the social value and impact we can make is significant.

This report is based on the Sector Scorecard, the name given to a set of 15 indicators that housing providers have developed to benchmark efficiency across the sector. Full details of the Sector Scorecard including explanations of how the indicators are calculated are available at www.sectorscorecard.org.uk. It should be noted that the comparative sector benchmark data relates to the previous, 2016, year. We have elected to supplement the 15 indicators with additional 'Victory measures' where appropriate.

Business Health

Sector Scorecard Indicator	2017	2016	2015	2016 Global Accounts Comparator
1. Operating margin	41%	36%	27%	28%
2. Increase/decrease in operating margin	5%	9%	(7%)	0.4%
3. EBITDA MRI (as a percentage of interest)	369%	314%	172%	158%

2016 presented some significant challenges for Victory, as it did for the whole social and supported housing sector. The introduction of a 1% per annum rent cut for four years meant revising previous income assumptions and identifying areas of efficiency to be delivered quickly. Despite these challenges our position remains robust. Contributing to these results is our strong financial base and our continued commitment to ensure value for money for our customers and stakeholders.

Operating margin measures the amount of surplus generated from turnover on our day-to-day activities. It is an indicator of operating efficiency and business health. At 41%, our operating margin is 5% higher than 2016 and this improvement is primarily due to reduced maintenance spend of £499k and efficiency savings made in Management costs, particularly relating to staff costs (£131k), and legal and professional fees (£112k). Over the past three years we have become increasingly more efficient with our operating margin increasing from 28% in 2015, to 36% in 2016 and 41% in 2017.

EBITDA MRI is an approximation of cash generated, and as a percentage of interest shows the level of headroom on meeting interest payments on outstanding debt. Our efficiency savings have impacted the EBITDA MRI calculations, resulting in a 55% higher position than 2016 (314%) and significantly higher than 2015 (172%). A loan covenant in place from May 2017 requires Victory EBITDA MRI as a percentage of interest to be in excess of 110%. Victory's performance in 2017 is robust and demonstrates a good level of headroom and a capacity to invest further in the provision of new homes. This has enabled, shortly after the close of the 2017 financial year, Victory to secure an additional £20m of funding over and above our existing facilities of £80m to support our development programme. To support further expansion of our development programme we anticipate securing £50m of additional funding by March 2022.

Development Capacity and Supply

Sector Scorecard Indicator	2017	2016	2015	2016 Global Accounts Comparator
4. Units developed (absolute)	80	104	88	
5. Units developed (as a percentage of units owned)	1.6%	2.1%	1.8%	1.6%
6. Gearing	48%	51%	55%	50%

We remain committed to developing new homes. In 2017 Victory completed 80 new properties including 69 general needs homes, and 11 shared ownership homes. A further 147 were in construction at the end of the year. The March 2017 Corporate Plan 'Building Futures', sets a target for Victory to have built 1,600 homes by 2022 since Victory's inception in 2006. This equates to an additional 924 new homes over the next 5 years (an average of 184 new dwellings per year) until March 2022, doubling the amount of homes delivered in the previous 5 years. Within this target there is a commitment to increase the number of shared ownership dwellings as a percentage of overall completions.

All these homes have been built to match identified local need so that smaller households can live in smaller properties, enabling the freeing up of larger family homes. The National Housing Federation Economic Impact Calculator estimates that for every property built in Victory's area of operation, 2.2 full-time equivalent jobs are created per property built. Using this calculation, the 2017 build programme supported 176 full time jobs for a year.

The gearing ratio is in line with the HCA global accounts comparator and is similar to previous years. It is however, 7% lower than budget, which demonstrates our appetite for increased borrowing to fund further property development. This will be evident in 2018 when the impact of borrowing an additional £20m will start to be seen.

Outcomes Delivered

Sector Scorecard Indicator	2017	2016	2015	2016 Global Accounts Comparator
7. Customers satisfied with the service provided by their social housing provider (Note: Comparator is from Housemark).	89%	89%	87%	86%
8. £s invested for every £ generated from operations: - in new housing supply - in communities	0.86 0.02	1.18 0.01	1.67 0.03	
Victory measure: Social return on Investment calculated using the HACT Value Insight and Community Insight web tool	1:8	1:9	1:7	

Victory's Corporate objectives include:

- To provide above average services for below average costs;
- To have invested £1.75m in our local communities by March 2022; and
- To provide support for tenants, and additional help for those looking for work.

Investing in our communities whilst maintaining or improving the level of resident satisfaction is, therefore, at the heart of our strategy. In 2017, we completed an independent resident satisfaction survey based on the STAR (Survey of Tenants and Residents) methodology. Overall resident satisfaction was high at 89% (2015: 89%) and for the past three years has been consistently above the sector median (86%). For nine key measures, detailed in the following table, our resident satisfaction levels were above the sector median, which is the minimum target we have set for ourselves. In the context of welfare reform, value for money of rent is increasingly important and we are pleased to report residents are increasingly satisfied with the value for money of their rent, with 91% of residents satisfied (2016: 89%). This result is significantly above the benchmark median (80%).

Satisfaction with…		2015	2017 & Trend
10. Overall service provided	(Target >=86%)	**89%**	**89%** →
11. Quality of home	(Target >=84%)	**91%**	**90%** ↓
12. Repairs & maintenance	(Target >=79%)	**86%**	**84%** ↓
13. Value for money of rent	(Target >=80%)	**89%**	**91%** ↑
14. Value for money of service charge	(Target >=66%)	**75%**	**76%** ↑
15. Neighbourhood as a place to live	(Target >=84%)	**92%**	**92%** →
16. Dealing with enquiries	(Target >=82%)	**86%**	**86%** →
17. Keeping tenants informed	(Target >=79%)	**89%**	**90%** ↑
18. Listening & taking account of views	(Target >=68%)	**69%**	**69%** →

Note: The targets listed above are based on the sector median position.

During the year we invested £106k in community projects distributed as grant funding administered by the Norfolk Community Foundation to charitable and voluntary organisations. Over 390 people have benefited from the funded projects over the past year and for every £1 spent the communities saw a return of £8 in Social Value. We also sought to continue to support the development of apprenticeships in communities where Victory works, with Victory and its contractors collectively supporting 17 apprenticeships during 2017.

Effective Asset Management

Sector Scorecard Indicator	**2017**	**2016**	**2015**	**2016 Global Accounts Comparator**
9. Return on capital employed (ROCE)	10.2%	10.2%	8.4%	4.0%
10. Occupancy	98.5%	98.7%	98.6%	98.3%
11. Ratio of responsive repairs to planned maintenance spend	61.5%	69.4%	49.1%	59.3%
Victory measure: Proportion of properties with a positive Net Present Value (NPV)	95.0%			
Victory measure: Proceeds from open market sales. - Proceeds from property sales - Proceeds from garage sales	£6.1m £5.9m £0.2m	£6.6m £6.2m £0.4m	£5.4m £5.4m £0.0m	

Return on Capital Employed (ROCE) shows how well we use both our capital and debt to generate a financial return, and is our preferred measure for return on assets. It is a commonly used ratio to compare the efficiency of capital usage of different businesses in the same sector. Our return on capital remained high at 10.2% (2016: 10.2%) and was more than double the sector median of 4%. This performance is in part an outcome from our active Asset Management Strategy to dispose of social housing property that does not meet our criteria and to reinvest those proceeds in new dwellings.

Our homes are our biggest assets and where we spend most of our money so it is important that we spend in an intelligent way so that they continue to be homes people want to live in, whilst also generating positive returns on investment. Our investment in our homes has paid off: we are letting them quicker and have high satisfaction levels. However, there is a current mismatch between the composition of our housing stock (in terms of the number of bedrooms) and the sizes of the households which occupy them. To help redress this imbalance, Victory is actively building new homes, in part funded from the sale of some existing properties. Victory regularly disposes of energy-inefficient and repair-intensive properties, with 45 homes and 44 garages planned for sale in 2017.

In 2017, Victory sold 40 properties and 57 garages as part of its asset management plans, achieving a £6.1m cash inflow. The properties sold were chosen based on their energy efficiency, condition, construction, location, size and amenity, as well as their Net Present Value. The sales helped fund new homes which are built to a higher standard, are cheaper to heat for residents and have lower maintenance costs for Victory, thereby providing much better value. In addition, the disposals programme has saved £290k of costs that would have been required to improve the properties sold.

One of the drivers behind whether we sell a property is its 30-year Net Present Value (NPV). Properties with a negative NPV are automatically assessed for disposal when they become void and when planned maintenance becomes due. Where a property requiring maintenance has a negative or ‘vulnerable’ (less than £10,000) NPV, we also look at its NPV over a shorter timescale, assessing whether it will still make a return over the shorter term.

The ratio of responsive repairs to planned maintenance spend in the year was 61.5%, being a decrease of 7.9%, and is close to the Global Accounts comparator for 2016 of 59.3%.

A review of our voids process was completed in July 2016 which identified several areas where the process was inefficient. The average void turnaround time immediately prior to the review was 44.79 days. Following implementation of actions identified in the review, the average number of days to relet homes fell from 34.7 days in 2016 to 24.7 days in 2017.

Operating Efficiencies

Sector Scorecard Indicator	2017	2016	2015	2016 Global Accounts Comparator
12. Overall headline social housing cost per unit: Subdivided into: - Management cost per unit - Service charge cost per unit - Maintenance cost per unit - Major repairs cost per unit - Other social housing costs per unit	£2,718 £601 £214 £840 £986 £77	£2,875 £746 £228 £940 £898 £63	£3,592 £778 £221 £1,036 £1,390 £167	£3,570 £1,020 £360 £970 £810 £210
13. Rent collected	99.6%	99.8%	99.2%	99.4%
14. Overheads as a percentage of adjusted turnover	10.6%	9.4%	9.5%	
Victory measure: Procurement Efficiency savings	£203,000	£440,000	£375,000	

The Homes & Communities Agency (HCA) published their unit cost analysis in June 2016. The results for Victory reinforce our understanding of our cost base. Our overall costs per unit fell by 5.5% to £2,718 (in 2016 they were £2,875). Compared to 2016 benchmarks, this was 13.8% below our Norfolk & Suffolk Peer group average of £3,154, and 24% below the sector median of £3,570. In fact, overall costs are now 12.9% below the sector lowest quartile of £3,120. By operating efficiently, we have been able to accommodate a high level of investment in major repairs whilst maintaining our overall low costs. In keeping with our Corporate Plan goal, our major repairs investment in improving our housing stock was £986 per unit. This represents an investment level which is 21% above the sector median for 2016 of £810 and 31% above our local peer group average of £753. We believe a strong investment programme is essential both for the long term maintenance of our housing stock and to retain our high, 91% level of resident satisfaction with the quality of the homes we own. Within our overall costs, management costs per unit fell by 19% to £601, which is 41% below the sector median of £1,020. Maintenance costs fell by 10.6% to £840 and were 13% below the sector median of £970. We continue to focus on value in procurement, through a combination of both directly tendered and framework contracts, which has enabled further savings totalling £203,000 to be made.

Targets & Action Plan Progress

In order to continue improving homes and services, maximising the use of our resources and adding social value to the communities where we have stock, we have developed a set of Key Performance Indicators relating to value for money. These are set out below together with the progress achieved against the targets set in the 2016 self assessment.

Targets for 2018

Efficiency Indicators:*

1. Headline social housing cost per unit. (Target <£3,120, lower quartile)
2. Management cost per unit. (Target <£740, lower quartile)
3. Service charge cost per unit. (Target <£240, lower quartile)
4. Maintenance cost per unit. (Target <£970, below median)
5. Major repairs cost per unit. (Target <£1,038 for 2017/18)
6. Other social housing costs per unit. (Target <£210, below median)

*The lower quartile and median targets are based on the 2016 Global Accounts.

Financial Indicators:

1. Interest cover. (Target >130%, loan covenant >110%)
2. Asset cover ratio. (Target >121%, loan covenant >110%)
3. Net debt per unit. (Target <£22.4k per unit, loan covenant <£28k per unit)

Satisfaction Indicators:

1. Overall satisfaction. (Target >= 86%)

Progress with the 2016 Action Plan Targets

	Targets	Progress achieved
1.	Achieve efficiency savings against the 2017 budget of: • £200k against management costs • £50k against maintenance costs • £250k against major repair costs	Following Board approval on 16th June 2016, budgets in these 3 areas were reduced to target the efficiency savings. During the year, further efficiency savings were identified and increased savings were delivered in all three categories.
2.	Implement reviewed Recharge Process to target recovery of additional income of £50,000	At the end of March 2017 a total of £62,728 [150] rechargeable repairs were raised. £5,471 has been recovered to date from a total of £61,218 [110] invoiced for rechargeable repairs.
3.	Develop 90 new properties generating additional estimated rent of £468,000	At the end of March 2017 a total of 80 new homes had been completed and a further 147 were on site. 11 properties in Wells and 30 in Poringland had been expected to be handed over before the end of the financial year, however, due to last minute delays these completions did not occur until the first quarter of the 2018 year. The rent from the 80 new properties that were handed over in 2017 will generate additional rent income of £414,919 per annum.
4.	Dispose of 45 properties, generating an additional estimated income of £6 million	40 properties and 57 garages were sold as part of our asset management plans, achieving a £6.1m cash inflow.
5.	Undertake research and compare our cost base with peer groups that have an equivalent profile	Our overall costs per unit were in the lowest quartile and a comparison has been provided in the Operating Efficiencies section of this report.

6.	Formulate a bid to apply for inclusion in the HCA 2016-21 affordable housing programme	A bid was submitted at the end of August 2016 and the HCA confirmed its success in January 2017.
7.	Utilise the HACT Value Insight and Community Insight web tools to measure and report on Social Value impacts	HACT was used through out the year but subsequently in the 2018 year has been discontinued on the basis it was no longer felt to provide value for money. We continue to use the National Housing Federation's Economic Impact Calculator.
8.	Review the Void process to reduce the turnaround time of relet voids	A review was completed with new efficiency measures introduced. The average number of days to relet homes fell from 34.7 days (in 2016) to 24.7 days in 2017.
9.	Develop new build housing scheme proposals for 4 old garage/Asset sites	Six new homes are expected to be built across four sites in Fakenham (Greenway Close, Lancaster Close, Lancaster Ave and Jubilee Avenue) with start on site expected in July 2017.
10.	Implement Social Media/IT improvements to enhance resident communication	Netcall system implementation was completed in August 2016.
11.	Further develop the Victory website and implement the Civica Tenant Portal module	Following a review by the resident's Communications Group in June 2016, a range of changes to the website have been completed including the introduction of a 'Chat Now' facility. During the year the Civica Tenant Portal Module was assessed as not providing the functionality required. A tender exercise was completed during the year to procure an alternative module, and in implementation is now scheduled to take place in the 2018 year.

12.	Increase opportunities for staff volunteering initiatives	Staff volunteering has increased from 44 hours in 2016 to 611 hours in 2017. All staff have an entitlement to take three working days to undertake volunteer activities within the local community. Corporate supported events have also taken place including the Makeover Challenges and Community Learning programme. The staff Engagement team actively promotes opportunities for volunteering by staff and coordinate one-off events such as the Beach Clean.
13.	Investigate the potential for a Community Learning programme for residents	The Community Learning Programme was launched in the Autumn edition of Victory news and is supported by a number of staff volunteers. Events have included supporting people with getting on line, gardening, DIY, children's crafts and festive crafts.