Value for Money Statement

2015/16 Financial Year

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Executive summary

epic is a registered charity which provides good quality housing for people on low incomes. We are located in the Bentilee area of Stoke-on-Trent and by the end of March 2016, we owned 942 flats (of which 22 are leasehold) and 124 houses. In 2015/16 our vision was, "to empower our people, provide excellent services and offer further housing choices through acquisitions and innovative tenure offerings".

Achieving good value for money lies at the heart of our approach to managing and providing housing. All of our services are regularly reviewed to ensure that they are efficiently delivered, achieving the outcomes required and making the best use of the resources. Our Business Planning approach rests upon scanning the environment to identify risks and opportunities, learning from our previous experiences and setting a strategic direction. The Board monitors our performance in day-to-day operations and in achieving our strategic goals. We also use a range of techniques to help inform our decision-making and approach to service review.

In 2015/16 we continued to ensure high levels of performance across all aspects of the general service. In terms of core housing services, we maintained our high standards, with very low levels of anti-social behaviour, longer-lasting tenancies and very low rates of empty housing. In financial terms, we continued to keep rent arrears at a very low level, we used our historic surpluses and grants to acquire more homes (increasing the housing options available to our customers) and we made further reductions in some of our operating costs. Our level of staff turnover remained very low, as did our levels of sickness absence and the stock per member of staff ratio continued to increase.

Our approach to achieving Value For Money (VFM)

Our Business Plan for 2016-20 places clear emphasis on our aim to grow our stock by 3% per year and to achieve operational savings of 2% per year. The provision of high quality housing management services through full utilisation of the opportunities provided by ICT and personalised services remain core to our purpose.

Our working definition of value for money is taken from the Homes and Community Agency's Regulatory Standard and is as follows,

We will manage our resources economically, efficiently and effectively to provide quality services and homes, and we will plan for and deliver on-going improvements in value for money.

Our approach to achieving VFM is therefore based on the following overall methodology:

1.   Ensuring that we have clear objectives

2.   Understanding the resource implications of achieving these objectives

3.   Choosing the most efficient and effective ways of meeting our objectives

4.   Measuring, comparing and reporting our performance in meeting objectives

5.   Measuring the outcomes that the achievement of our objectives create

6.   Continually reviewing performance, ensuring that our performance is scrutinised and that we learn from ourselves and others

Business Planning to Ensure Delivery of VFM

The Board and Executive Team develop a Business Plan, which normally has a four year timescale and review this each year. The Business Plan analyses our resources, our operating environment and identifies the key opportunities for growing the organisation and achieving efficiencies in our operations. As part of this process we develop a set of key performance indicators which allow us to measure our performance against objectives and also enable comparisons with other providers of social housing.

Our objectives

In 2015/16 our overall objectives were:

1.	To be an excellent community based landlord
2.	To empower our people through choice and responsibility
3.	To maintain viability and offer more housing choices

These overall objectives were translated into a series of targets for day-to-day performance (relating to objective 1), some changes in our policy and service packages (relating to objective 2) and our growth programme (relating to objective 3).

Resource usage

As part of the Business Planning process and budgeting approach we consider the resources needed to achieve our objectives, the expected returns of their achievement and the means we use to achieve objectives. In terms of how we consider our financial resources, we have split our cost base into three work streams:

1.	Core operational costs such as management and maintenance of our housing stock
2.	Investment in our stock to ensure its current and future viability
3.	Growth through acquisitions

We use a range of techniques to identify costs, drive efficiency and measure value and return. For operational costs, we regularly review key processes and activities using techniques such as lean reviews, service design and the European Foundation for Quality Management (EFQM) model. Investments in our existing stock or in major new ventures are governed by project management disciplines which require business cases, risk management and post-completion analysis of benefits. Our growth programme is underpinned by a yield model which identifies a target return which is then used to calculate the purchase price and spend envelope for the refurbishment. The model is validated at regular intervals through audits.

Choosing the best ways to meet our objectives

Delivering high quality services is at the heart of our ethos and our methods of service delivery have been subject to continuous review and evolution. For example, we are one of the few housing associations to visit housing applicants in their homes before they join our list. This practice helps identify potential risks, it enables proper verification of identity and it sets up a personal relationship with prospective tenants. Over the long term this has resulted in a much reduced rate of tenancy failure, fewer instances of properties in poor condition and it has contributed to our exceptionally good record in arrears recovery. Similarly, our Board considered the merits and demerits of expanding through the acquisition of empty homes and newbuild. Over the years we had built up considerable operating surpluses and given the low returns of our investments expansion was the right decision. However, housing demand in Stoke is volatile and several other housing providers have experienced problems in letting homes. The cost of newbuild compared to the rentals we can achieve is also very high so we have adopted a strategic direction of expansion through the acquisition and refurbishment of existing homes, located within stable and viable

neighbourhoods. To guide our process we developed a yield forecasting methodology which enables us to identify target yields for acquisitions and then monitor performance against the targets.

Measuring, comparing and reporting our performance

At the start of each financial year we set out a series of operational and strategic targets which are reported monthly to the Management Team and key performance indicators are reported to each Board meeting.

Continuous review and learning

We have a system of continuous rolling review of our policies, practices and activities with this being a feature of Management Team meetings and meetings of the Audit Committee and Board. In the 2014/15 year we reviewed and streamlined the acquisitions process, we reviewed our approach to leaseholder management, fundamentally changed our approach to printing and telephony and continued to tender out key parts of the service. The table below gives examples of reviews completed in the 2015/16 year:

Subject	Date completed	Outcomes
Competitor analysis – private rented flats	April 2015	Increased knowledge - an understanding of how our properties compare to those in the private rented sector.
Property acquisitions	May 2015	Increased efficiency - identification and removal of waste from the acquisition process.
Void management process	August 2015	Increased efficiency - Identification and removal of waste from the voids process.
Leaseholder arrangements	September 2015	Increased knowledge and efficiency - allocation of staff member to deal with leaseholder management.
Thin Client Computing	November 2015	Increased efficiency – installation of thin clients.
Telephony arrangements	November 2015	Increased efficiency – installation of new telephone system.
Staff pensions	January 2016	Decrease in expenditure - cessation of contributions to the defined benefit final salary scheme.
Reduction in staff working hours	January 2016	Decrease in expenditure – reduction in staff working hours.
Yield model for acquisitions	February 2016	Increased knowledge - more informed understanding of return on assets.

Where we are now compared to 2008

Operational and strategic performance

The table below indicates the progress we have made since 2008. We have chosen this year as a baseline because our acquisitions programme started in the 2008/09 financial year. Before 2008, and in the spirit of the policy regime at that time, we devoted considerable effort and resources, to the regeneration of Bentilee and the employability of our residents. We were very successful at attracting special funding and delivering against programme commitments. However, we reviewed our approach in 2008/09 and decided to emphasise the gradual growth of our stock and improve our housing offer. In 2010, the new Coalition government enabled us to bid for HCA funding in our own right and our programme of acquisitions stated in earnest. The table shows how we have kept operating costs down whilst increasing our stock and turnover, increasing our surpluses, which has enabled further growth.

	2007/08	2011/12	2015/16	2019/2020	Change between 2008 - 2016	Change between 2016 - 2020
Turnover	£ 3,218,000	£ 3,119,000	£ 3,738,371	£ 4,082,000	16%	9%
No. of Units	944	996	1,066	1,223	13%	15%
Operating cost per unit	£ 2,974	£ 2,256	£ 2,358	£ 2,191	-21%	-7%
Operating surplus per unit	£ 435	£ 874	£ 1,148	£ 1,146	164%	0%
Stock per staff member	27	31	56	64	107%	14%
Void loss per unit	£ 52	£ 21	£ 22	£ 27	-58%	23%
Employee cost per unit	£ 1,047	£ 872	£ 775	£ 676	-26%	-13%
Responsive repairs per unit	2.5	3.4	2.4	2.2	-5%	-10%

FRS102 Transitional Restatement Requirement

The move to stating our accounts in accordance with FRS102 has meant that some comparisons have become difficult. Changes around the treatment of pension liabilities, government grants and stock valuation have all affected how our surplus is calculated and defined. Further details of these changes are contained within the 2015/16 financial accounts.
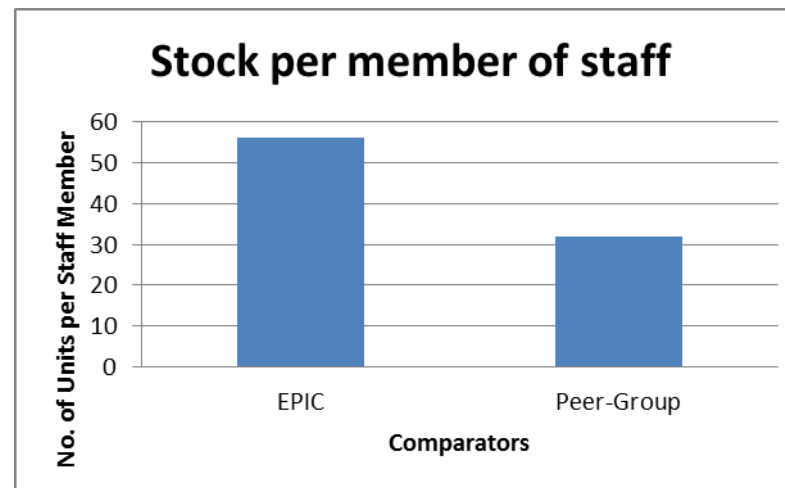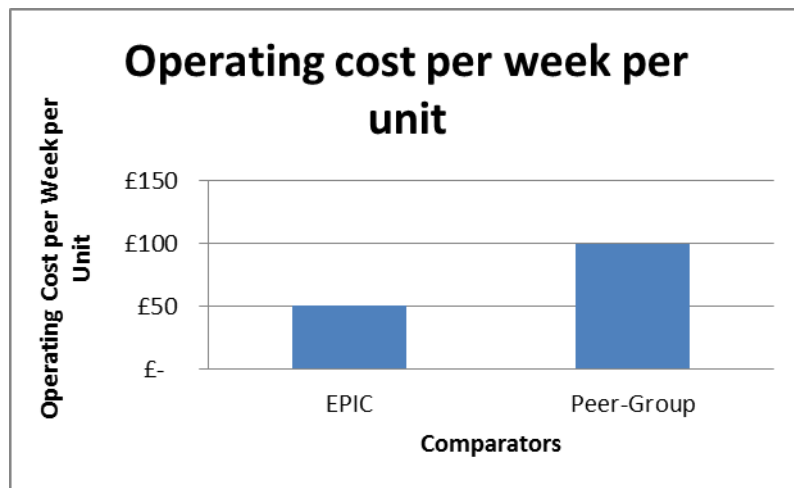
Customer results

The table below provides a comparison of the results of the various customer feedback surveys we have undertaken since 2008, using first the Status approach and the STAR methodology, with a comparison to the latest available National Smaller Housing Association Club results. This shows that our results compare very favourably and that in most cases our results are improving. The methods and questions used have changed slightly over the years making some comparisons difficult. The sampling margin of error for the STAR 2016 survey results is 8.5 (this is based on 117 tenants being surveyed out of a total unit population of 1,038), meaning that minor variations of results may be statistically insignificant.

Indicators	2008	2013	2016	SPBM 2015/16
Satisfied with quality of the home	61%	92%	89%	92%
Satisfied that rent provides value for money	57%	97%	96%	91%
Satisfied with the repairs service	43%	62%	73%	87%
Satisfied with neighbourhood in which they live	87%	88%	90%	94%

Key comparisons

The graphs below show how some of our key indicators compare to the peer group 'National Smaller HA Club'.

Responsive repairs per unit

Average re-let time (days)

Operating cost per week per unit

Stock per member of staff
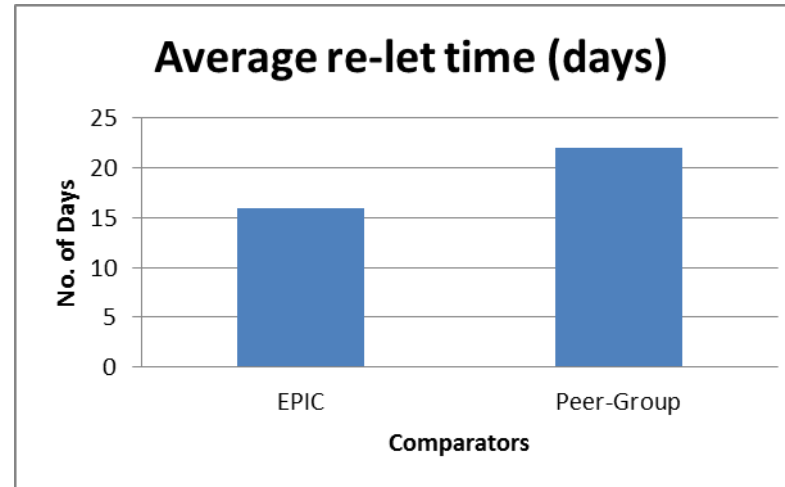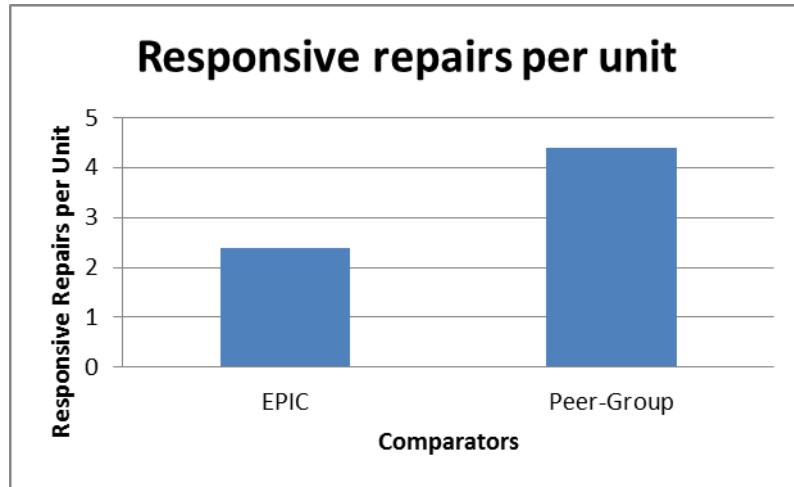
Operational performance

The targets for the year and our performance are outlined below:

Indicator	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Sector Performance versus EPIC	Sources	Narrative
Voids as % of gross rent	0.70%	0.71%	0.70%	0.60%	0.60%	1.70%	EPIC: Financial Statements; Sector: 2015 Global Accounts	Despite a much higher than usual rate of turnover in our stock (relating to the concentration of flats) this low figure reflects our success in quickly turning around empty properties.
Average void relet time (days)	Minor, 12; Major, 24	Minor, 13; Major, 27	16	16	16	23	EPIC: Board KPIs; Sector: National Smaller HA Benchmarking Group	Our exceptionally low turnaround time reflects our approach to contract management, the fact that most of our properties are left in good order by their previous occupants and achieving high levels of back-to-back lettings.
Valid gas safety certificates	99.90%	99.70%	100%	99.90%	99.80%	100%	EPIC: Monthly KPIs; National small housing association benchmarking group	At any one time there are around one or two tenancies where we are taking action to obtain access.
Bad debts for the year	0.40%	0.85%	1.00%	1.00%	0.86%	0.80%	EPIC: Financial Statements, Sector Global accounts 2015	Our performance is marginally below the sector average.
Headline Social Housing Costs Per Unit	£2,100	£2,144	£1,868	£1,865	£1,957	£3,950	EPIC: Financial Statements; Sector: HCA VFM Report	We are pleased to note that our costs are much lower than the sector average. The upward movement in 2015/16 reflects the move to FRS102.
No. of units per staff member	31	53	54	54	56	28	EPIC: Financial Statements; Sector: Sector: HouseMark Data 2012/13	This has only recently been reported upon. Our comparison with the average is favourable.
Operating surplus ratio (operating surplus as a % of turnover)	28.0%	30.0%	40.0%	36.0%	33.0%	28.0%	EPIC: Financial Statements, Sector Global accounts 2015	Our performance compares favourably to the sector.
Rent collected as % of rent receivable	99.3%	99.2%	99.3%	99.6%	99.4%	99.7%	EPIC: Monthly KPIs 14/15; Sector: National Smaller HA Benchmarking Group	Our performance is marginally below the sector average.
Staff turnover	16.6%	5.0%	12.0%	12.0%	5.3%	Not available	EPIC: Board report (13/14 – 14/15)	Our low rates of staff turnover mean that we have retained organisational knowledge and it reflects how we value staff.
Sickness absence - days per employee	16.0	3.3	1.3	2.8	2.6	9.1	EPIC: Board KPIs (13/14 – 14/16)	The rate compares very favourably to the sector average.

Specific VFM measures implemented during the year

Changes to our service package
During the year we introduced the following changes to our service package.

Reward Scheme
As a result of the 1% rent reduction implemented in April 2016, we reduced our tenant reward scheme from £50 per qualifying customer to £25. This year, a total of 531 (64%) of Assured tenants abided by the terms of their tenancy thereby qualifying for the reward: an 8% increase on the prior year.   We plan to develop the reward scheme in the coming year by providing a small reward to new tenants who successfully complete their probationary tenancy. The objective is that over time, the number of tenancy breaches reported will reduce, in turn reducing the resources spent by Housing Officers in managing these cases.

Revised Allocations Policy
We revised our allocations policy during the year to manage the following changes:
- We now receive 50% nominations from Stoke-on-Trent City Council
- The introduction of the Government's Right to Rent checks
- The introduction of the shared accommodation rate to social housing tenants in receipt of Housing Benefit under the age of 35
- Reduced the number of offers from 3 to 2, as part of a plan to improve the percentage of properties accepted on first offer. The rate of refusals in 2015/16 was 35%, our target is to reduce this to 17.5% by 2020.

Communication with customers
As part of our move towards greater efficiency we now produce an electronic version of our customer newsletter, rather than the traditional paper version. Customers can subscribe to the newsletter via our website receiving a copy direct to their inbox, reducing both printing and postage costs. Additionally, we promote communicating with our customers by email where possible, thereby improving the speed of communication and reducing cost. During the year we also introduced a new telephone system, enabling customers to leave voice messages for individual members of staff and report emergency repairs out of hours, without having to redial a separate number.

Enhancing our ICT infrastructure
In 2015/16 we embarked on a project to improve the IT infrastructure, desktop and telecoms environment. This project was tendered, ensuring that the procurement process was fair and that value for money was achieved. This is an exciting project, as the current IT systems are dated, slow, out of warranty and not as energy efficient as the innovative technologies now available.

The main benefits of the project are:

1. Centralising the desktop environment from an IT support perspective, resulting in a more proactive service
2. Improving end user performance/speed of access, enabling our staff to work without hindrance
3. Providing a flexible server/storage infrastructure to meet the demands of future expansion – this is imperative if we are to pursue our strategic objective of going paper-lite
4. Improving user experience and meet working needs, both internally and externally and allowing all staff to work remotely
5. Improving backup system effectiveness to ensure we can withstand a disaster or major systems outage
6. Improving internet reliability and a wireless network to deliver a solid and robust tablet computing platform

We completed a business case for the tenders received, which revealed that by doing 'nothing' as opposed to replacing our equipment would cost £68,420 over a 5 year period – this includes energy cost savings. The year 1 combined spend for the project was £58,568, which included one-off installation costs. The table below shows the anticipated life expectancy of the new equipment, along with the year 1 cost of the project, (excluding one-off installation costs) which have been split to provide the 'Cost Per Annum' and 'Cost Per Annum, Per Employee'. This project was delivered on time, on specification and under budget. This project has enabled other key internal projects to be successful e.g., flexible working policy for staff, supporting remote and home working.

Post Infrastructure Replacement Project

Element	Cost	Life Expectancy (Years)	Cost Per Annum
Telephone System	£15,278	10	£1,528
Infrastructure	£24,090	5	£4,818
Thin Client Computers	£11,968	10	£1,197
Support	£3,150	1	£3,150
		TOTAL	**£10,693**

Pre Infrastructure Replacement Project

Element	Cost	Life Expectancy (Years)	Cost Per Annum
Telephone System	£10,165	10	£1,017
Infrastructure	£26,761	5	£5,352
Desktop PC's	£34,018	5	£6,804
Support	£3,600	1	£3,600
			£16,773

Our growth programme

Our acquisition programme commenced in 2008, and to date we have acquired 129 properties. The gross investment over the period is £9.3 million, comprising of £7.5 million investment from our generated surpluses plus an additional £1.8 million of grant funding from the HCA and local Council. The programme has targeted empty properties, helping to alleviate blight in many neighbourhoods within Stoke, and more recently in Newcastle-under-Lyme.

The work involved in acquiring, refurbishing and letting properties is substantial, this has been achieved whilst simultaneously reducing the staff complement of the organisation, capitalising on successes in reducing anti-social behaviour and pro-active maintenance of our stock.
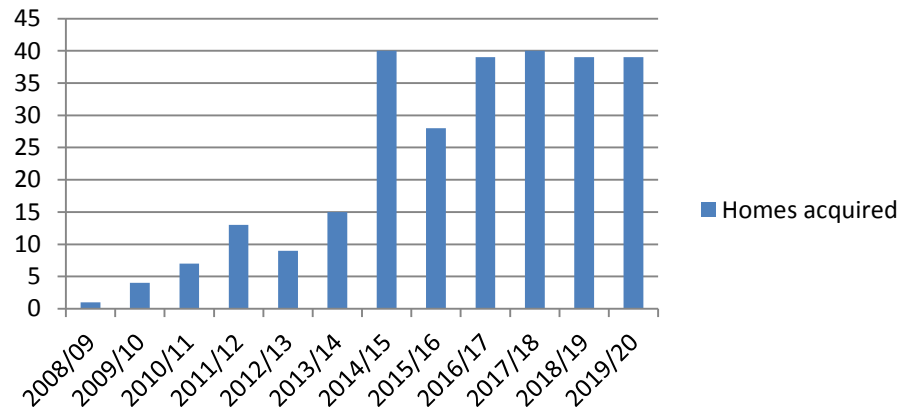
The graphs overleaf indicates the size of the achievement and investment made, in conjunction with details of our future investment strategy To date we have achieved all of this without taking on any debt, although we anticipate taking on a loan of around £5m to achieve our growth programme. In addition, each extra unit of stock generates approximately £4,000 per year in rent, which means by 2020 we will be collecting £600,000 per year additional rental income. In general, houses have proven to be much easier to manage than flats, additionally, they turnover at around half the annual rate of flats. Since 2008/09 14% of the total cost of our acquisition programme has been funded by grant at an average grant rate of £20,000 per unit. This compares to an average grant rate under the national Affordable Homes Programme of £25,057 for (predominately newbuild) rented housing for the period April to December 2015. This demonstrates that our growth programme funded through the Homes and Communities Agency (107 units) is delivering value for money by achieving savings of £541,099 to the public purse compared to units delivered at the average grant rate.

Bringing empty properties back into use is environmentally friendly, helping to restore confidence in neighbourhoods, enabling us to extend our stock portfolio, thus safeguarding customer retention by diversifying our housing options. We work closely with the empty property teams in Stoke and Newcastle and have developed excellent relationships with local estate agents. We are very selective about what we buy and use our market intelligence and key local data to ensure we invest in properties and areas with long term futures. Our yield model also ensures that we pay no more than we should for properties and can monitor their financial performance over the long term. We involve prospective tenants at the outset and in some cases we have bought properties identified by tenants
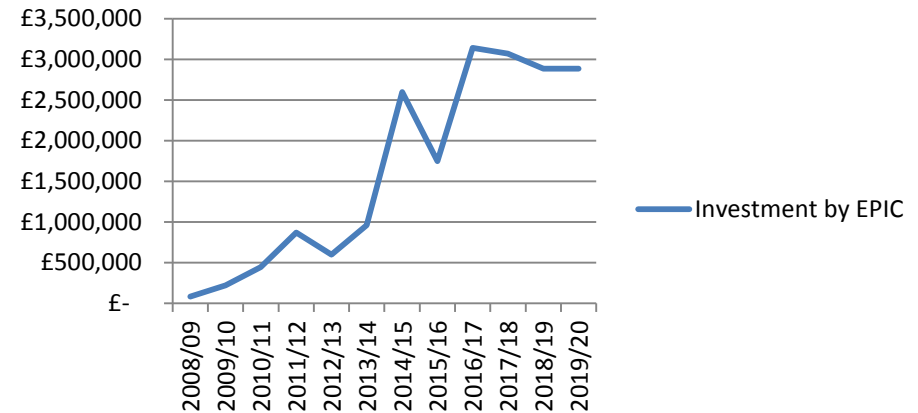
In financial terms, the local authorities we work with receive the new homes bonus for each empty home we bring back into use, which helps sustain local services. Our growth programme to date will generate receipts of around £350k in New Homes Bonus payments to Stoke Council over 6 years.

All our work is placed with locally based contractors, who in turn employ and train local people. Of significant importance is that this enables the new tenants to rent the properties at less than market rent levels. Feedback received from the HCA has been excellent and we are acknowledged as one of the Midlands top performers.

Homes acquired and planned

Legend: Homes acquired

Year	Homes acquired
2008/09	1
2009/10	4
2010/11	7
2011/12	13
2012/13	9
2013/14	15
2014/15	40
2015/16	28
2016/17	39
2017/18	40
2018/19	39
2019/20	39

Investment by epic

Legend: Investment by EPIC

Cost to epic per unit

Legend: Cost to Epic per unit
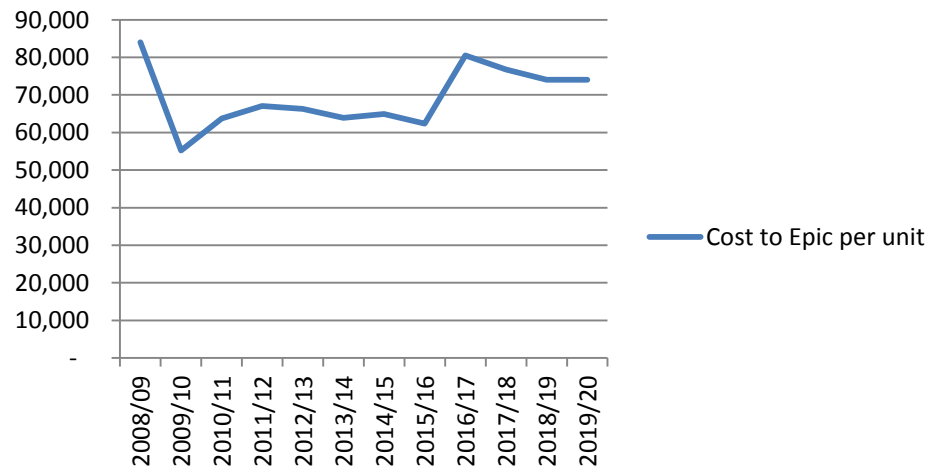
Strategic Outcomes

This is a more challenging aspect of VFM measurement. Whilst it can be easy to measure the cost of swapping to a supplier of generic goods or services for another low cost supplier, aspects of housing management can have attribution problems. For example, we use a model of pre-tenancy coaching for applicants who are dependent upon benefits. Our own research shows that these tenancies are often much better conducted than similar tenancies prior to coaching. However, we have also changed our methods of tenancy enforcement, arrears pursuance and tenancy selection, so differentiating cause and effect is difficult. We measure satisfaction with the coaching process (which is around 98%) and the tenancy conduct and the results are positive.

Our biggest single item of expenditure in 2015/16 was on the acquisition and refurbishment of houses through our growth programme. In this instance we are measuring outcomes in two key senses; firstly, the yield that the rental income gives us as a percentage of the acquisition cost and secondly the effects on tenant retention i.e. the percentage of tenants who may have left us for another landlord or tenure as their families expand. Of the 28 properties we acquired 23% went to transferring tenants and in most cases the homes they left were let at minimum costs.

On average our rents are 25% less than the private sector equivalent. This means that our lower rents help to save at least £100,000 per year off the Housing Benefit bill based on the number of customers we have claiming full housing benefit.

Our distinctive approach to housing management, based on rewarding customers for positive behaviours has produced the following outcomes:

- Longer lasting tenancies – our average tenancy length has increased from 4 to around 5 years.

- Lower levels of anti-social behaviour – 64% of our Assured Tenants were eligible for a £25 reward for having no tenancy breaches compared to 56% the year before.

- Repairs per home – We have maintained a low level of responsive repairs required per home (2.4 per home per year) by investing in new kitchens, bathrooms and central heating systems.

- More working tenants – In 2015/16, 71% of our new customers were in work, compared to 64% in 2007/08.

Corporate social responsibility
As a locally based organisation, we ensure that we make a wider contribution to the social and economic health of our area. Some examples of our approach include:

John Flock Fund
The John Flock Fund (established by *epic* in 2011) helps local residents develop their skills and employability. During the year 2015/16 we awarded over £880 in grants, at an average of £176 to 5 residents and locally based voluntary organisations. This helped local people with driving lessons (tackling a significant barrier to employment), funded training and helped with ICT equipment.

Supporting local contractors
We have a track record of using small, local contractors for elements of our maintenance programme. For example, we employ a small non-VAT registered firm to undertake external painting which boosts the local economy whilst also saving us 20% on the cost of the works.

Links with local schools
During the 2015/16 year our Chief Executive served on the Board of Governors of a local primary school, Maple Court Academy.

Fund Raising
We held a fund raising coffee morning for the local Douglas Macmillan hospice during the year.

Graduate development programme
We have sponsored one of our graduate staff through a Masters degree in Sociological Research at the University of Manchester.

Quality Panel
Our Quality Panel involves Customers and Board Members in the design of services, the introduction of new initiatives, such as our customer reward scheme and organisational learning from complaints. The Panel is chaired by our Tenant Board Member to allow Customer views to be directly communicated at Board level.

Coaching service for housing applicants
Every new applicant who is not currently in work benefits from a personalised coaching programme, which explores current issues, future aspirations and preparing for a tenancy. Coaching is delivered by members of the Senior Management Team and Officers in corporate and income collection roles. This interaction with Customers provides us with an unparalleled understanding of our Customers' circumstances and helps us tailor our services to meet emerging needs.

Future Plans

Our continuing commitment to VFM

The 1% rent reduction, which came into effect in April 2016 has sharpened the focus of our VFM Strategy, resulting in all managers being challenged to produce efficiency plans. As a precursor to these detailed plans the Board took two important decisions in 2016 around staffing issues. The first was to agree a 5.4% reduction in working hours, the objective being to save circa £40,000 per year on staffing costs and the second being to withdraw from the SHPS Defined Benefit Pension Scheme, resulting in an additional saving of circa £12,000 per year. These decisions required sensitive consultation with staff and are predicated around changing our patterns and methods of work, making the best use of ICT in doing so.

The table below summarises the key plans around VFM over the forthcoming Business Planning period:

Measure	Expected financial or other benefit over period	Realisation date
Increasing stock	Reduces cost per unit of management	2016 onwards
Cessation of cash collection at the office	£1,000 (Staff time saving)	August 2016
Reduction in staff working hours	£40,000 (First year saving)	April 2017
Withdrawal from the final salary pension scheme	£12,000	May 2017
Review of overall staffing arrangements	Increased flexibility, more efficient working practices and work packages undertaken appropriate to staff skills/salary rate.	April 2017
Tendering for new housing management ICT system	More self service options for customers allowing digital by default services potentially resulting in staff cost savings.	2018
Increased reporting of repairs electronically	Reduced staffing costs	2018
Reducing refusals on lettings from 35% to 17.5%	£1,000 (Staff time saving)	March 2020
Reducing re-let times to an average of 14 days	£2,787 (Void loss saving)	March 2020
Moving contractors onto bulk e-invoices	£1,000 (Staff time saving)	March 2020

Over the course of the 2016/17 financial year we plan to complete VFM reviews in the following areas: the actual yields against projected yields for acquired properties; the financial performance of existing properties; our organisational structure; our housing management and financial systems; streamlining the coaching scheme; void management processes; banking arrangements; audit arrangements; risk management and improving how we report to the Board.

Our Business Plan
The Business Plan for 2016-2020 commits us to achieving three major goals:

1. A growth rate in the size of our stock portfolio of 3% per year
2. Efficiencies of 2% per year in our operating costs
3. Retaining our independence and viability

We intend to grow our stock portfolio from the current total of 1066 units to 1223 units by March 2020. This growth will be accomplished through the purchase and refurbishment of existing properties for rent; we will also pilot new initiatives such as shared housing for professionals and schemes which encourage future owner occupation. The growth programme is realistic and achievable within our existing human resources, we will, however, seek funding in the region of £5 million to enable this growth.

We recognise the need to constantly improve our efficiency and make the best use of our assets. In 2015/16 we achieved significant efficiency savings. Additionally the Board agreed to reduce the working hours of staff by 5.4% from 2016/17 and withdraw from the SHPS Defined Benefit Pension Scheme (saving £12,000 per year in employer contributions and minimising future risks in relation to the scheme deficit). These efficiencies reduce our unit cost of management and the cash savings have generated additional capacity to fund a loan for our growth programme. Over the coming years we intend to continue to transform many aspects of our management strategy and to ensure that we make the best use of ICT in our interactions with Customers.

We are aware of the trend towards mergers and consolidation within the social housing sector. We are not complacent about our right to exist and understand that for us to have relevance within the local housing market we must ensure that our offering is different and that the quality and cost of our housing is competitive. Our track record of innovation, delivery against programmes and excellence in housing management demonstrates the value of small, locally based housing associations which are capable of swift responses to market opportunities and understand the dynamics of housing at neighbourhood levels.