



Saxon
Weald

Saxon Weald Homes Limited

Value for money self-assessment

For the year ended
31 March 2016



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Value for Money Self-Assessment

Contents

1. Strategy – Saxon Weald's strategic approach to delivering VFM in the context of its purpose and strategic objectives.

2. About Saxon Weald – What type of organisation Saxon Weald is, what it does, where it operates and its focus on homes for older people as well as general needs.

3. The Board – How the Board makes decisions on the use of resources and obtains assurance that resources and assets are being used economically, efficiently and effectively in achieving its strategic objectives.

4. Approach to VFM and response to the July 2015 budget – How Saxon Weald continuously seeks to improve VFM to achieve its strategic objectives in the context of the changing operating environment.

5. How have we done? – Saxon Weald's costs and outcomes of delivering specific services over time and compared to others. In the context of achieving its strategic objectives, what VFM gains have been realised, how decisions have been made on the use of assets and its improved understanding of the return on assets.

6. Plans for the Future – How Saxon Weald plans to use its financial capacity and assets to improve VFM in the achievement of its strategic objectives.

I. Strategy

Delivering VFM only makes sense in the context of achieving Saxon Weald's purpose and strategic objectives. It is the "what are we here to do" question. There is no value in being efficient but not achieving our purpose. Saxon Weald defines VFM as "achieving the best possible outcome for the funds we spend and the resources we commit". To Saxon Weald, VFM is about improving customer service, savings through the more efficient and economical use of resources and achieving the best financial and social return from the assets we have.

Our full financial statements for the year ending 31 March 2016 are available on our website ([click here](#)).

Saxon Weald was set up to provide both good services and homes to existing residents and to build new affordable homes for those who need them in the areas in which we work, where there is high need for these homes.

Saxon Weald recognises that there is a tension in delivering both of these objectives. If Saxon Weald spends too much on existing homes, there is less to spend on providing new homes. Conversely, if Saxon Weald spends too little on our existing homes and services, we will not meet our goal of providing good services and homes. Saxon Weald aims to maximise the achievement of both objectives by striving to achieve the best VFM we can in providing homes and services to our existing residents and in building new homes. In the July 2015 budget, the Chancellor announced a number of reforms that will have an impact on Saxon Weald. These include a reduction in rents for social housing of 1% per annum for four years from 2016/17 to 2019/20 and significant welfare reforms. These reforms will have a significant impact on Saxon Weald's plans going forward, reducing rental income by £11m for the period 2016/17 to 2019/20.



This significantly impacts on Saxon Weald's VFM strategy, particularly in terms of the scale of efficiencies to be achieved and the balance between services to existing residents and building new homes. Government's wider housing policy objectives, including the starter homes initiative, are to substantially increase the number of new homes built (by the private sector and housing associations) for home ownership. Section 4 - Approach to VFM and response to the July 2015 budget sets out Saxon Weald's response.

Our purpose is to manage, maintain and develop housing for those who are unable to provide for themselves in the market place.

Our strategic objectives help guide the organisation to where we want it to be in the future and provide a framework within which Saxon Weald determines annual corporate objectives. Saxon Weald's strategic objectives for 2015/16 were:

- To become and be acknowledged as an excellent organisation with excellent customer service;
- To grow in Sussex and Hampshire to a target size of 10,000 homes;
- To establish and maintain a vibrant workforce, creating a dynamic, challenging but fun place to work;
- To develop our role as a leader in older people's housing; and
- To remain independent and financially strong.

2. About Saxon Weald

Saxon Weald Homes Ltd ('Saxon Weald') is limited by guarantee, does not have share capital and is incorporated under the Companies Act 2006. Saxon Weald is a housing association registered with the Homes and Communities Agency (HCA) and is a charity registered by the Charity Commissioners.

Saxon Weald was formed to take the transfer of the housing stock from Horsham District Council on 11 December 2000. This included 4,609 social rented homes and the freehold of 360 flats sold under the right to buy legislation. Since transfer, Saxon Weald has built over 1,300 new homes including extra care schemes, demolished 12 outdated retirement (sheltered) schemes, acquired nearly 600 homes from other housing associations, and has sold 289 homes under the right to buy/acquire legislation. Although most of the properties remain in the Horsham district of West Sussex, Saxon Weald now owns homes across East and West Sussex and Hampshire.

Saxon Weald operates in areas with a high proportion of older people (21% in West Sussex compared to the national average of 16%), which is forecast to increase over the coming decades. By 2026 it is forecast that 24% of the population in West Sussex will be over 65 and 5% will be 85 or over. Saxon Weald therefore has a high proportion of homes for older people. Excluding homes sold under the right to buy/acquire legislation where we retain the freehold; 29% of our homes are for older people. This includes ten extra care schemes, which promote independent living for older people in their own flats, with support and care available on site when they need it.

This characteristic has an impact on the average age of our residents, our operating model, staffing

numbers and location and our focus. Properties for older people have fewer bedrooms, a higher tenancy turnover and take longer to let because of the multiple agencies involved and the requirement to assess individual needs. In addition, service costs and income are significantly higher, all of which increases our total and average operating costs.

Number of homes by tenure

	General Needs	Retirement	Extra Care	Supported	Total
Social rent	3,459	1,121	323	20	4,923
Affordable rent	559	53	35	52	699
Shared ownership	127	-	-	-	127
Shared equity	-	23	134	-	157
Total	4,145	1,197	492	72	5,906

Over 5,000 of our homes or 85% are in West Sussex (all but 285 within the Horsham district), 350 in East Sussex and 520 in Hampshire. In addition, we manage the freehold of 470 properties in the Horsham district sold under the right to buy/right to acquire legislation.

3. The Board

The Board is responsible for ensuring Saxon Weald delivers VFM and decides how limited resources are allocated. The Board receives assurance that VFM is being achieved through:

- The annual resource allocation cycle, where identified efficiencies are built in to the financial plan and the allocation of resources determined based on our strategic and corporate objectives and resident priorities. These are monitored and reported to the Board as part of the management accounts suite of information at each of the seven meetings a year;
- The performance management system, within which corporate objectives relating to our purpose and strategic objectives, are reviewed and agreed annually by our Board. Departmental objectives and individual core objectives flow from the corporate objectives;
- Key Performance Indicators (KPIs), relating to the services we provide are set by the Board, which receives regular reports on our performance

against these measures. KPI reports are also received and considered by the Executive and Management Team, service teams and our involved residents, by way of the Service Interest Groups (SIGs) and our Residents' Action Panel (RAP);

- Key strategies (particularly VFM, procurement, customer service, and continuous improvement strategies) and the associated actions plans which are approved and monitored by the Board;
- The annual risk map, which identifies key risks and counter measures. The Board receives regular reports on key risks;
- The risk appraisal framework, which not only considers risks, payback and net present value but which explicitly requires an assessment of how a project or investment will contribute to the achievement of Saxon Weald's strategic objectives;
- Minutes from Resident Action Panel (RAP).



4. Approach to VFM and response to the July 2015 budget

Approach to VFM

Saxon Weald's approach to achieving VFM is to:

- Embed a culture of achieving VFM throughout Saxon Weald, including Board members, staff and involved residents;
- Use the golden thread of performance management to ensure that everything we do helps to achieve our purpose and strategic objectives;
- Involve residents in achieving and assessing VFM;
- Improve customer service and customer satisfaction;
- Regularly select specific services for a SWIPE (Saxon Weald's Improvement Programme for Excellence). This is a detailed review of a service, using lean principles, to identify the value provided to the customer, waste in the system and best in class processes;
- Improve procurement;
- Develop new homes efficiently and economically that meet the needs of those who live in the areas we work in;
- Understand the financial and social return on our assets and use this to make decisions;
- Understand how we are performing by benchmarking Saxon Weald over time and against others;
- Maximise Saxon Weald's financial capacity to deliver our strategic objectives;
- Make use of external validation; and
- Report on our performance to stakeholders, who include residents, HCA, central government, the local authorities we work with, and other partners.

Response to the July 2015 budget

In the July 2015 budget, the Chancellor announced a number of reforms that will have an impact on Saxon Weald. These include a reduction in rents for social housing of 1% per annum for four years from 2016/17 to 2019/20 and significant welfare reforms. These reforms will have a substantial impact on Saxon Weald's plans going forward. Government's wider housing policy objectives, including the starter homes initiative, are to substantially increase the number of new homes built (by the private sector and housing associations) for home ownership.

The impact of a 1% rent reduction per annum for the four years 2016/17 to 2019/20 is to reduce rental income, so that in 2019/20, the reduction is £5.0m in the year and £10.9m cumulatively from 2016/17 to 2019/20. This reduces the forecast net surplus, so that in 2019/20, the reduction in the surplus is forecast to be £5.3m, turning a surplus of £3.4m in the original 2015 business plan into a deficit of £1.9m. The cumulative reduction in the surplus from 2016/17 to 2019/20 is £11.2m.

The Board at an away day in early October 2015 considered a number of responses to this and reviewed Saxon Weald's purpose and strategic objectives. The Board confirmed Saxon Weald's purpose with a minor word change and agreed to consider a new corporate strategy at the next meeting. The amended purpose is:

"To manage, maintain and develop housing for those who are unable to provide for themselves in the market place."

The options considered by the Board in response to the rent reductions ranged from maintaining the full development programme, taking a new loan of £50m and making recurrent savings of

£3m per annum to reducing the development programme by two thirds, not taking a new loan and making recurrent savings of £0.75m per annum.

The Board at its away day on 5 October 2015 said it wanted the Executive Team to be firm and creative in identifying where savings could be made. The Board also made it clear that it wanted the revised 2015 business plan to reflect significantly more than just committed development and to take a loan from the Abbey National.

Following the away day, the Board were very clear that they wanted to keep developing homes to the maximum possible allowing for financial and risk constraints and on that basis approved a revised 2015 business plan and corporate strategy which:

- reviewed its purpose and objectives;
- identified £2.3m of recurrent efficiency savings/ income generation to be achieved by March 2020;
- although there was a reduction needed in homes to be built, with the Board's direction, the target was set at 505 new homes;
- changed the balance of the development programme by reducing the number of affordable rented homes from 70% of the programme to 40% and increased the proportion of shared ownership, market rent and market sale new homes; and
- reduced the new five year revolving loan from Abbey National to £20m.

The Board was clear that they wanted to maintain customer satisfaction as far as possible and that these savings should be made from improvements in efficiencies and effectiveness, including income generation. More detail on the

efficiencies is included in section 6 – Plans for the future.

In May 2016, a new 2016 business plan was approved, which built on the strategy agreed as part of the revised 2015 business plan. This business plan incorporates efficiencies of £2.3m and 582 new homes over the next five years. Included within this is the purchase of 81 market rent flats which will make a contribution of £0.8m before interest to the bottom line within three years.



5. How have we done?

This section is divided into three parts. The first part (5a) considers the cost and performance of specific services and benchmarks over time and against others, the second part (5b) considers VFM gains in delivering each of our strategic objectives and the third part (5c) summarises what we said we would do last year and what we have achieved.

5(a) Costs, performance and benchmarking

The following table shows key cost and financial measures on a simple and therefore broad-brush basis, over time and using the global accounts for housing associations, the average for traditional housing associations, stock transfers (LSVT) and all housing associations (All).

Saxon Weald defined costs per home

	Saxon Weald				Global Accounts Average				
	2016	2015*	2014	2013**	Traditional 2015	LSVT 2015	All 2015	All 2014	All 2013
Management costs per home	£648	£670	£666	£629	£1,082	£972	£1,034	£990	£952
Responsive repair & void cost per home	£677	£752	£654	£501	£707	£716	£711	£712	£699
Service & support cost per home	£955	£921	£937	£902	£698	£276	£514	£517	£498
Operating cost per home	£4,309	£4,247	£3,937	£3,499	£4,512	£3,515	£4,077	£4,020	£3,883
Operating margin excluding sales	35%	33%	34%	38%	35%	33%	34%	33%	33%
Cash interest cover	176%	156%	146%	163%	153%	161%	156%	154%	138%

* Saxon Weald's 2015 figures have been re-stated for FRS 102.

**Saxon Weald's 2013 figures have been restated to reflect a prior year adjustment.

The management costs per home are significantly below the average for both traditional and LSVT associations, the cost of responsive repairs (including void works) per home in 2015/16 is below the average for both traditional and LSVT associations and has reduced from £752 per home in 2014/15 to £677 per home in 2015/16. This reduction reflects the impact of the severe storms in 2014/15, particularly for fence replacement, roofing and damp issues. The service and support costs per home (which is largely matched by income) is nearly double that of the average of traditional and LSVT associations together (All). This is because housing

for older people (retirement and extra care schemes) makes up 29% of our homes, 30% if other supported housing is included. This is atypical for a housing association; for Southern LSVT associations (2,500-7,500 units) the average proportion is 12%. The cost of the provision of services and support for retirement and extra care schemes is almost £2,800 per home per annum and for general needs homes is just £172 per home per annum. It is therefore not surprising that Saxon Weald's operating cost per home is over £650 more than the average for LSVT associations.

Saxon Weald's operating margin (excluding sales) is good at 35% for 2015/16 and at or above the average for housing associations. Similarly, Saxon Weald's cash interest cover at 176% is better than the average for LSVT housing associations.

In June 2016, Julian Ashby, Chair of the HCA, wrote to all housing associations about delivering better value for money and understanding differences in unit costs. This also included a summary of Saxon Weald's headline social housing costs per unit for 2014/15 taken from the 2015 global accounts data, alongside the equivalent figures for the sector as a whole. These are shown below alongside the 2015/16 unit costs for Saxon Weald.

Global accounts unit costs

	Saxon Weald		Sector level 2014/15		
	2015/16	2014/15	Upper quartile	Median	Lower quartile
Headline social housing costs CPU (£k)	3.91	4.08	4.30	3.55	3.19
Management CPU (£k)	0.65	0.69	1.27	0.95	0.70
Service charge CPU (£k)	0.96	0.93	0.61	0.36	0.23
Maintenance CPU (£k)	1.06	1.25	1.18	0.98	0.81
Major repairs CPU (£k)	0.76	1.0	1.13	0.80	0.53
Other social housing costs CPU (£k)	0.49	0.21	0.41	0.20	0.08
Closing social housing units managed	5,906	5,753			
% Supported housing	1.1%	1.1%	4%	1%	0%
% Housing for older people	24.4%	25.1%	15%	8%	4%

The table above shows much the same story as in the table showing the Saxon Weald defined costs per home. The headline social housing cost per unit is between the median and the upper quartile for the sector. This is largely because of the high service charge cost per unit, which reflects the high percentage of homes for older people managed by Saxon Weald. This is further magnified by the fact that housing for older people at Saxon Weald includes 10 extra care schemes (492 homes).

Older people's homes make up 25.9% of Saxon Weald's homes and if shared equity older people's homes are included (because they generate a service charge cost), they make up 28.6% of the homes. The indicator of the percentage of older people's housing used by the HCA (25.1% for 2014/15 and 24.4% for 2015/16) is lower because it does not include affordable rented homes (it only includes social rented homes) for older people and because shared equity homes for older people are also excluded.



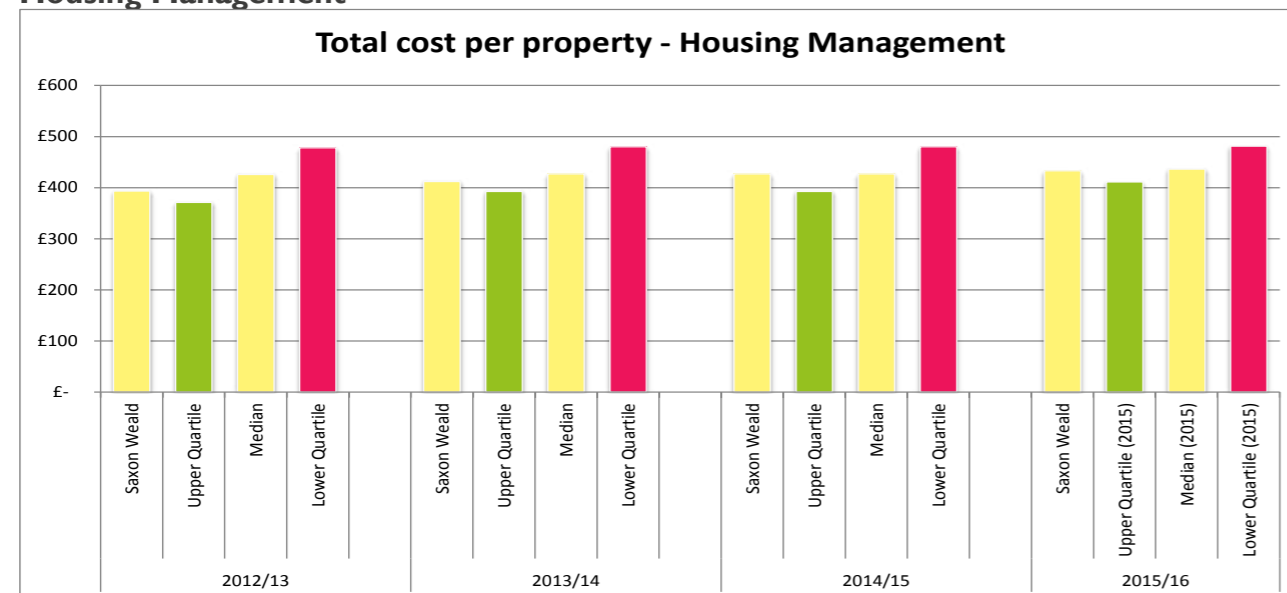
Management costs are firmly in the lower quartile. Maintenance costs for 2014/15 were in the upper quartile, but as the one-off costs related to the bad weather fall out, they have fallen to above the median but below upper quartile. There are already plans to substantially reduce maintenance costs, with savings of £370,000 built in to the 2016/17 budget and further savings of £300,000 to be made over the following two years. Major repairs costs have fallen in 2015/16 and are now around the median for the sector. Other social housing costs have increased in 2015/16 mainly because of one-off costs relating to early retirement pension costs.

Activity Benchmarking

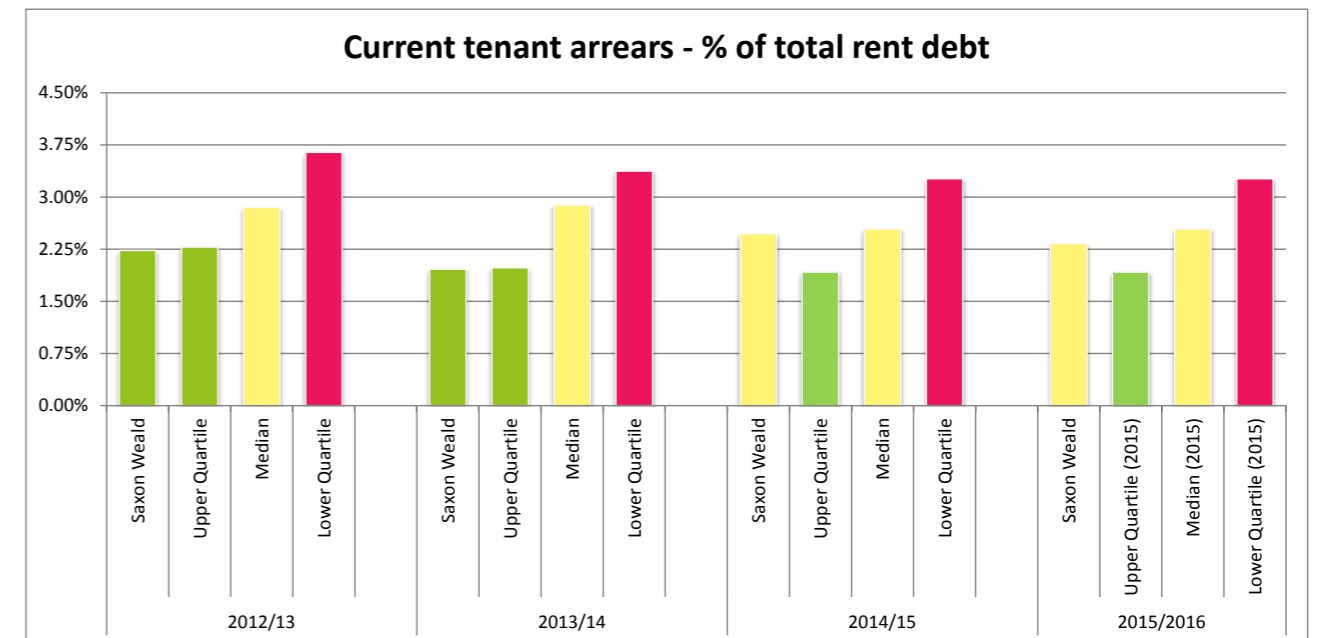
The following section uses data from HouseMark to benchmark costs and performance over time and against LSVT housing associations in the south of England with stock of between 2,500 and 7,500 units. A list of the comparator housing associations is attached at Appendix A to this self-assessment. The HouseMark benchmarking methodology validates each housing associations' data, seeks to eliminate the impact of differences in interpretation of definition and aims to collect more detailed and specific activity costs through the allocation of staff time. The charts that follow include an apportionment for overheads in-line with the HouseMark methodology. All this means that it will, for example, produce a different management cost per unit than the one calculated from the global accounts. At the time of writing, not enough other organisations had submitted data for 2015/16 for comparisons to be robust; therefore data from 2014/15 has been used to provide an indication of Saxon Weald's relative performance.

The charts have been colour coded to allow for easy identification of Saxon Weald's performance against the peer group. Where we are within the top 25% of organisations, the upper quartile, Saxon Weald's chart bar is coloured green. Where we are between this level and the median (performance between the best 50% to 74%), yellow has been used, where our performance is below the median, but above the lower quartile (performance in the range 26% to 49%) the bar is orange and where we are at or below the lower quartile (in the lowest 25%) the bar is coloured red.

Housing Management

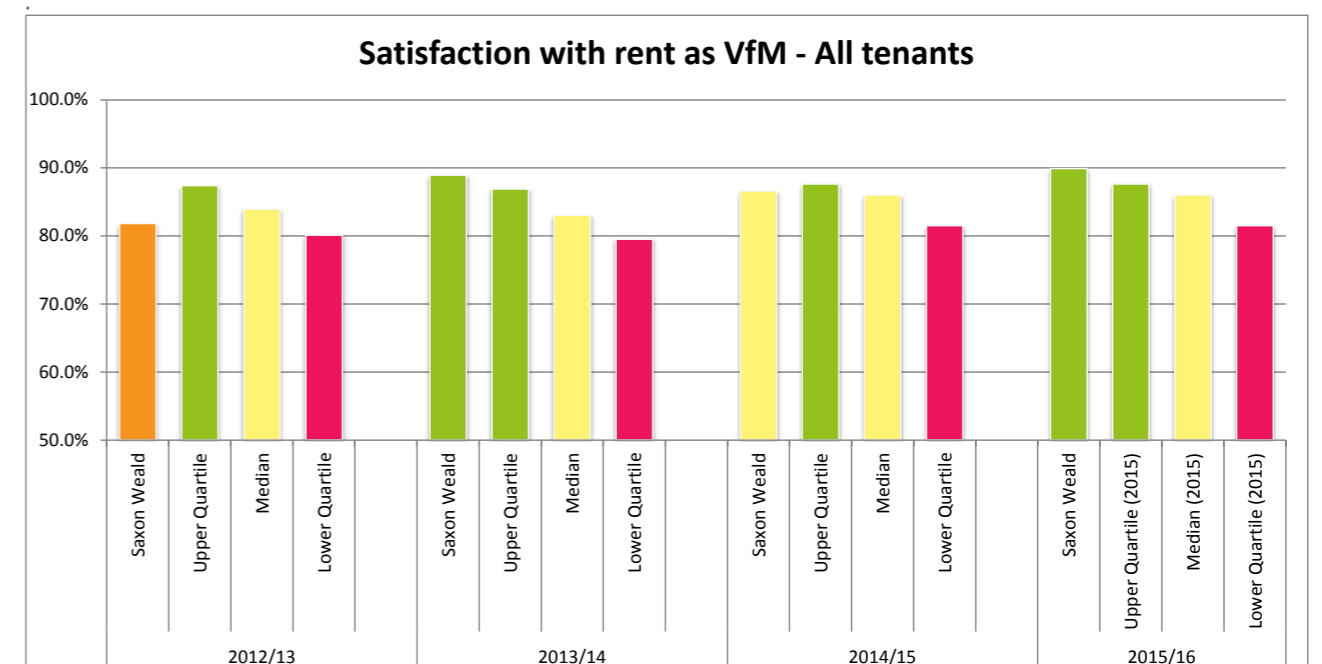


Saxon Weald's housing management cost per property is at or below the median cost for all years. This means that more than 50% of the peer group have higher costs.



Rent arrears as at 31 March.

The chart shows a fairly stable performance over the period 2012/13 to 2015/16, with arrears for 2015/16 at 2.3% which is below the median of 2.5%. This means that more than 50% of the peer group have higher arrears



Satisfaction from our tenants that rent is value for money is high over the four years and in 2015/16, 90% are very or fairly satisfied that rent is VfM. This would place us in the top 25% of our peer group.

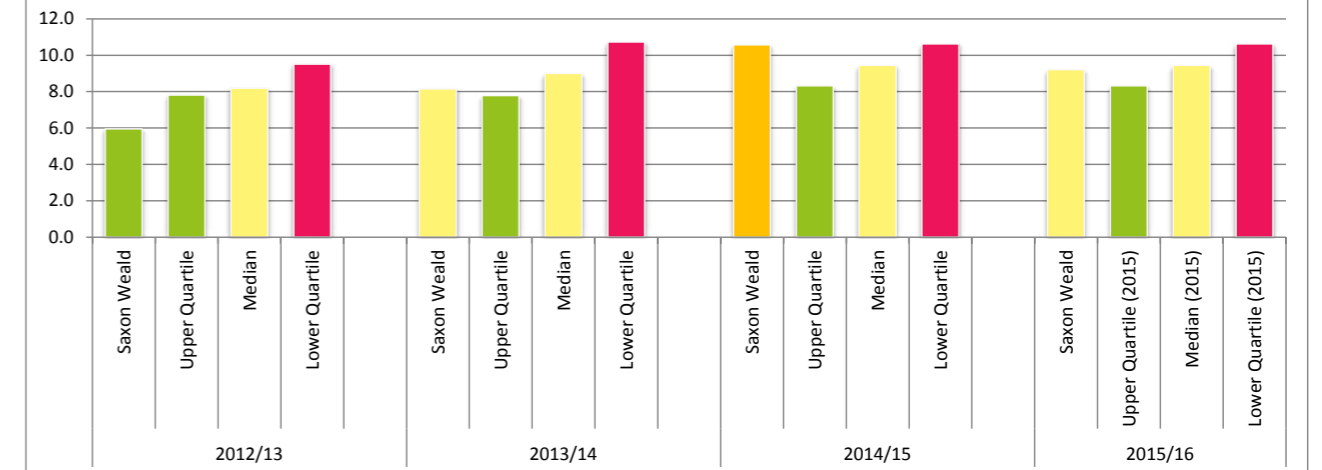


Responsive Repairs and Minor Voids



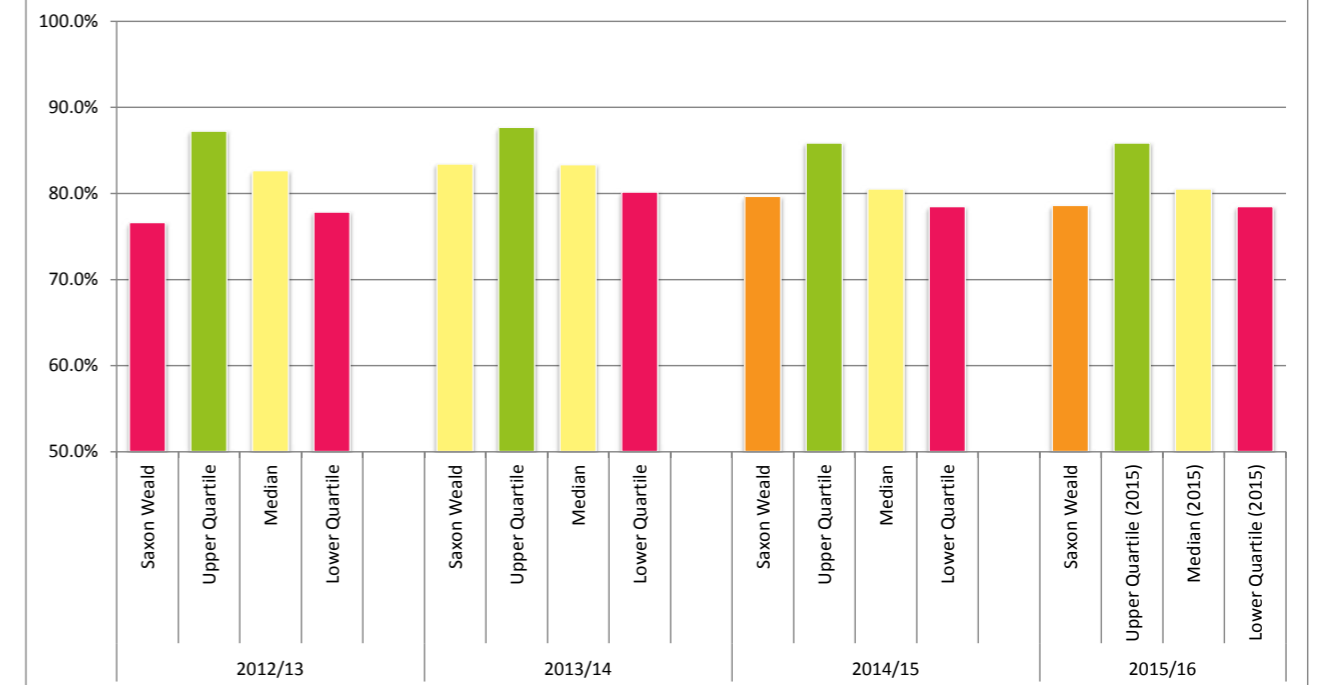
This chart shows that the cost of responsive repairs and minor voids per property was just above the lowest 25% of our peer group in 2012/13. However, cost per property increased in 2013/14 and 2014/15 before falling in 2015/16. In 2015/16, Saxon Weald's cost per property remains higher than the median for housing associations in the peer group. This is disappointing, but there is a clear action plan, with a strong focus on reducing costs via more effective management and using HomeFix, our in-house team, more.

Average repair completion time (days)



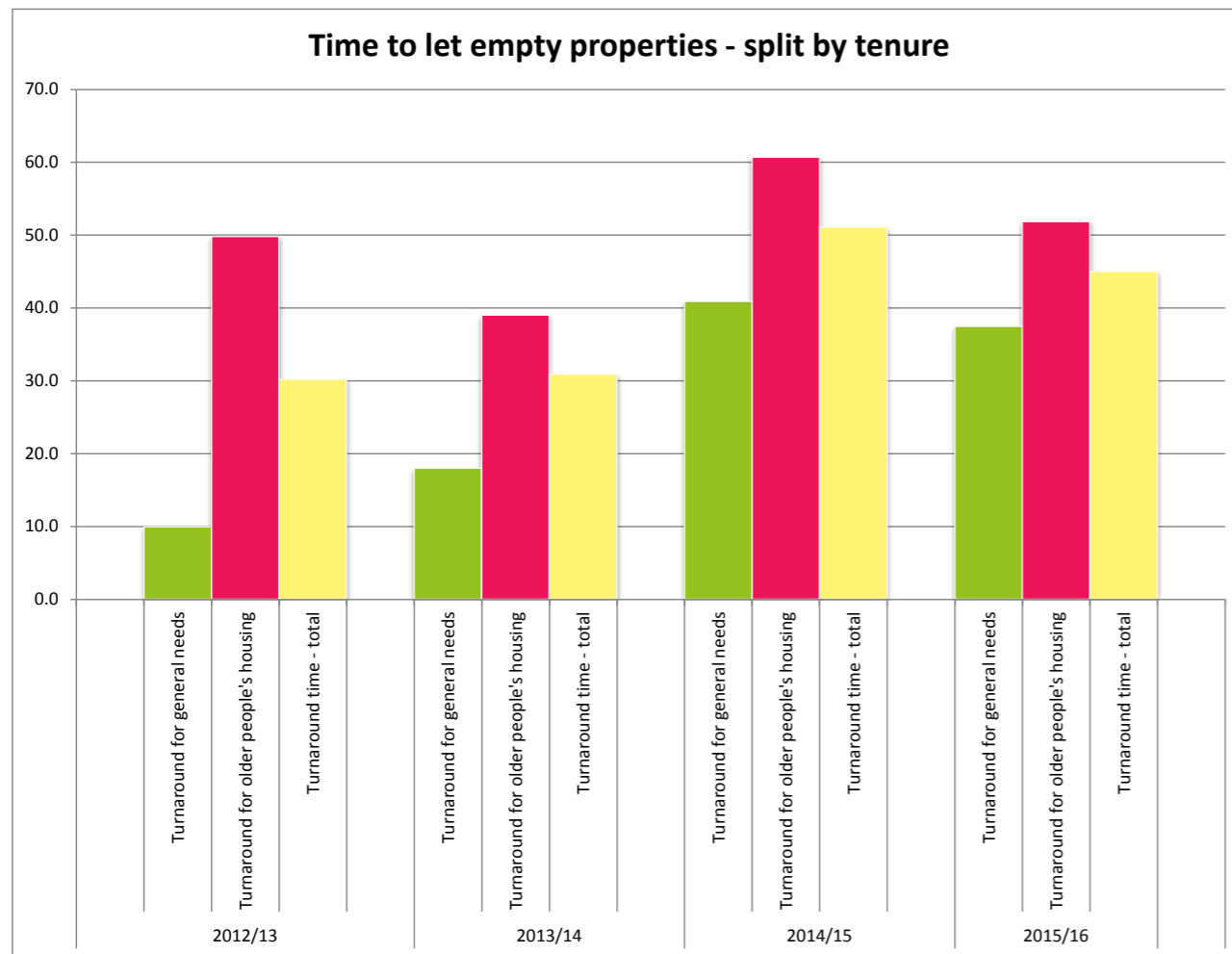
The average time to complete a repair increased from 6.0 days in 2012/13 to 10.6 days in 2014/15 and then reduced to 9.2 days in 2015/16. Average repair completion time is now better than median performance.

Satisfaction with repairs service - all tenants



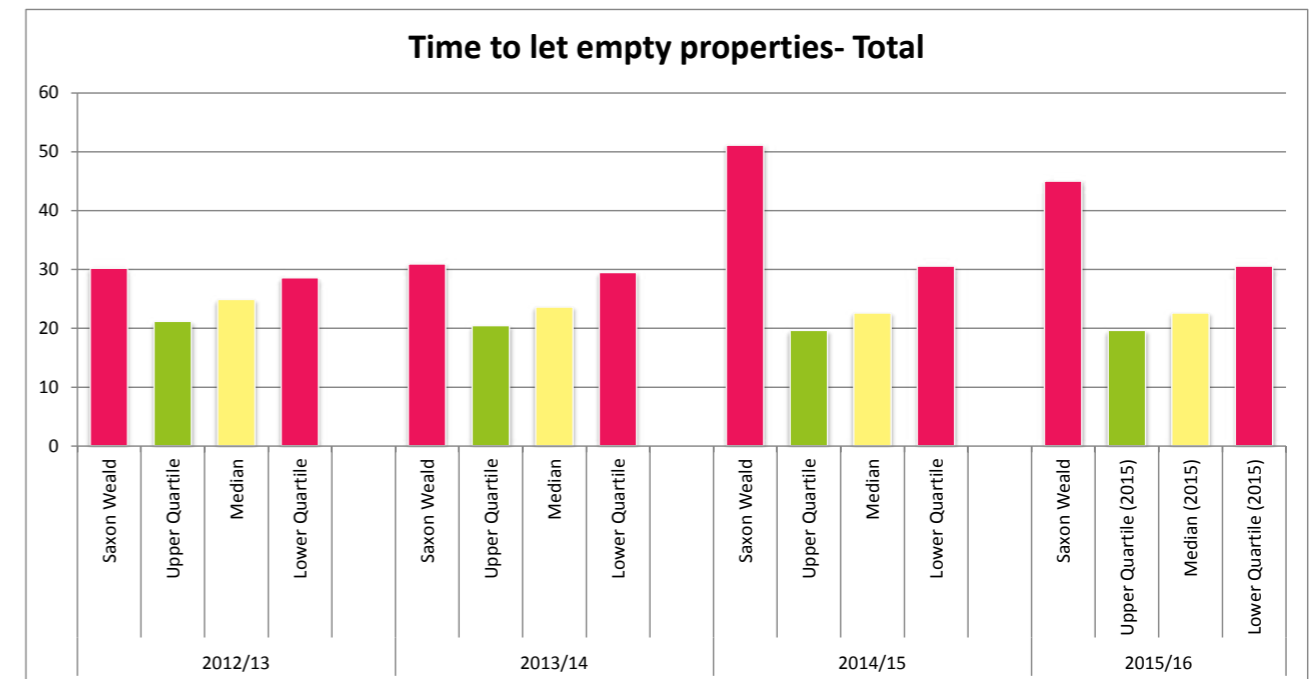
Tenant satisfaction with the repairs service as measured through STAR improved in 2013/14 and then, given the problems in 2014/15, fell back again to 79%.





The chart above illustrates that the time to let empty properties for older people's housing is longer than for general needs housing. This is because of the multiple agencies involved in extra care housing and the requirement to assess individual needs. Saxon Weald is atypical for the peer group, with 29% of rented properties for older people, much higher than usual.

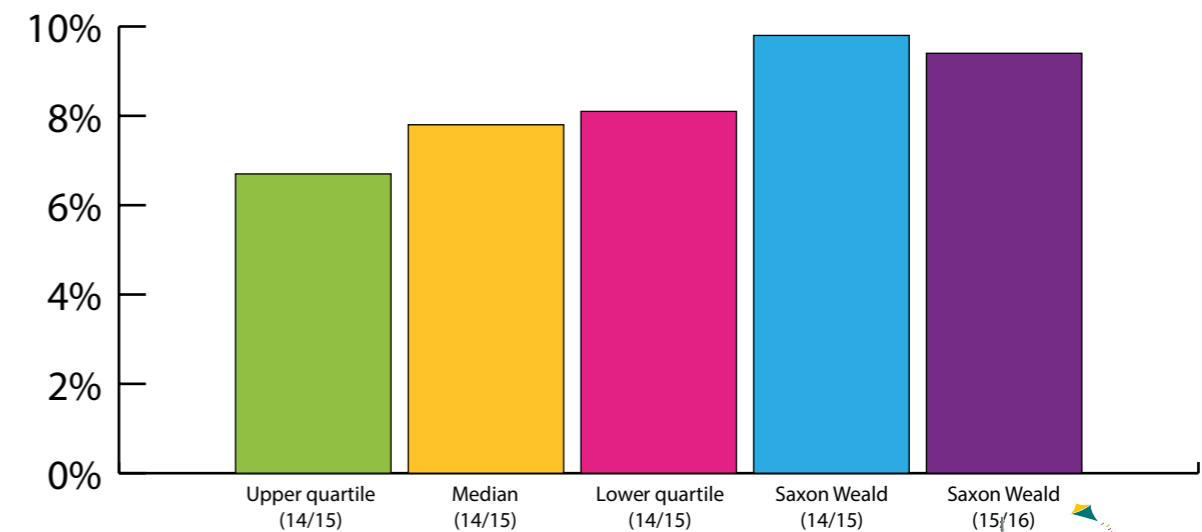
The increase in the turnaround time for general needs properties from 10 days in 2012/13 to 37 days in 2015/16, whilst it is an improvement on 2014/15, is disappointing. It reflects a focus on ensuring that the lettable standard is met. It also reflects the impact of welfare reform, especially bedroom tax and affordability, and an increase in the level of refusals.



It is welcome to see the overall improvement in re-let times in 2015/16 compared with the previous year although they are still not where we want them to be. Significant changes have been made during 2015/16, which has seen the merging of the lettings and empty homes team that now come under one manager for the first time. Not only does this reduce costs, but it is intended to provide a more integrated service to help reduce the time taken to let empty properties.

Whilst there are pressures inherent in the system with welfare reform, especially with bedroom tax and affordability, the supply of new homes across the Horsham district, and an increase in the level of refusals, along with current high turnover rate (see below) there has been noticeable improvement in the last 4 months of the year in letting general needs properties which have been done in an average of 24.9 days

Tenancy turnover rate



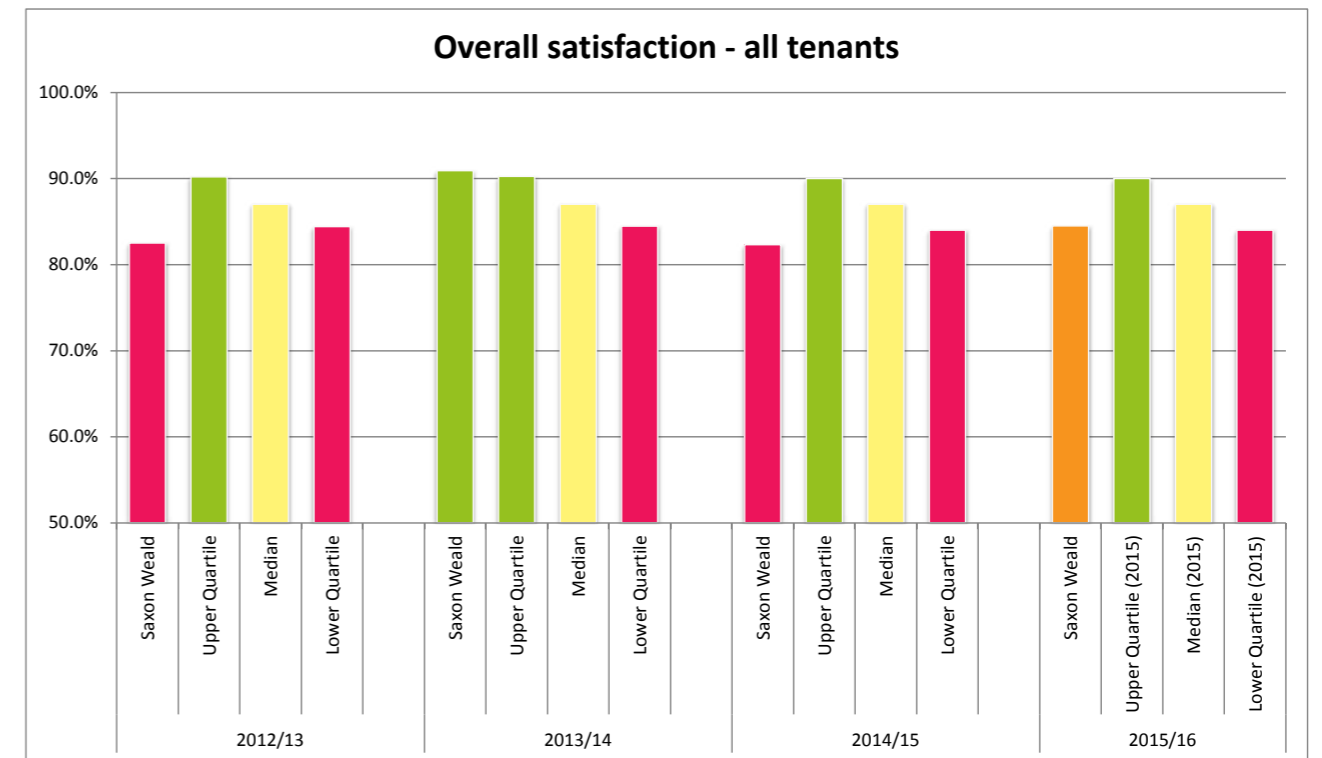
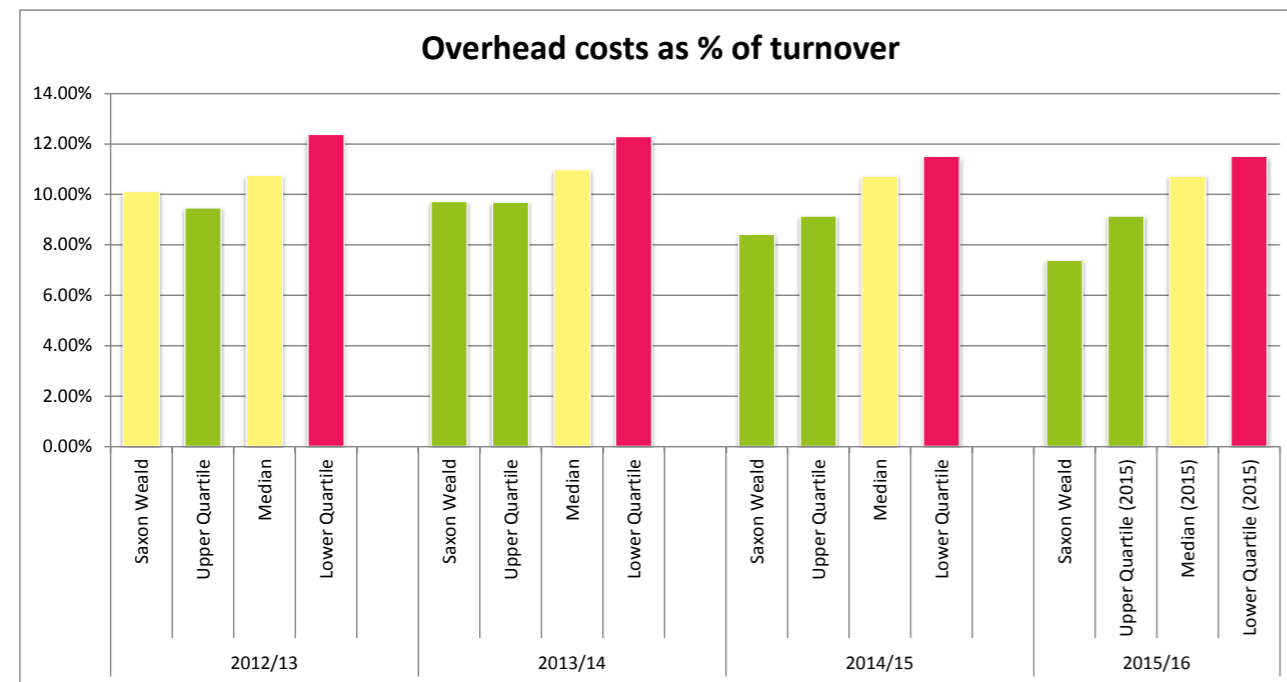
The previous chart shows that Saxon Weald has experienced particularly high tenancy turnover rate over the last two financial years, significantly over the rates experienced by our peer group. This relatively high number of properties needing to be re-let has hindered the ability to turn them around quickly.

During 2013/14 the termination rate was just 7.25% significantly lower than the 9.81% for 2014/15 and 9.47% for 2015/16. It has been difficult to assess the reasons for this rise although Saxon Weald's relatively high number of homes for older people and a dynamic housing market in and around Horsham have certainly contributed to this. In order to reduce demand to more reasonable levels we are looking to control internal transfers in future.

Overheads

These are central service costs that do not provide services directly to our residents, such as the cost of accommodation, IT systems, staff working on policy, human resources, finance etc.

Overhead costs viewed against our turnover have steadily fallen over the past four years. This is largely because central staffing costs have remained stable as property numbers have increased through the development of new homes. This has allowed us to move from the median position into the upper quartile. This is exaggerated in 2015/16 because turnover has been inflated by higher than usual first tranche sales income.



Tenant satisfaction with the overall service provided by Saxon Weald is a key measure in determining whether we are providing an excellent service and achieving one of our key strategic objectives. Overall tenant satisfaction improved to 85% in 2015/16 from 82% in 2014/15. This is still less than the 91% achieved in 2013/14. Customer service remains a key focus, so implementing the two-year improvement project and new customer service strategy approved by the Board in December 2014 is a key priority.



5(b) Strategic Objectives and VFM

This section takes each of our strategic objectives (2015/16) and assesses how Saxon Weald is achieving VFM in delivering these objectives.

To become and be acknowledged as an excellent organisation with excellent customer service

Customer Service

One of the original key aims of the customer service strategy approved in December 2014 was to help us achieve customer satisfaction levels of 90%. This was perhaps an unrealistic aim and the target is now 85%. Going forward, the customer service strategy is also expected to play an increasing role in helping us achieve efficiencies and cost savings across the organisation.

The channelling of customer contacts through two customer service teams who have the information and knowledge systems to enable them to deal with calls at the first point of contact is reducing the time spent by specialist staff on dealing with customer queries. 83% of calls are now resolved at the first point of contact. For those calls that are transferred, the systems enable the transfer of quality data relating to the query which results in further efficiencies. This saves an estimated two minutes per call back (150 staff hours per year). We have reduced the amount of avoidable contacts from a high of 12% in November 2015 to 2% in April and May 2016 - reducing waste and saving staff time. This has enabled a number of manager positions to be deleted from 1 January 2016. Whilst the savings in 2015/16 have been largely offset by restructuring costs, from 2016/17 full year savings of £158,000 will be achieved.

Saxon Weald's self-service portal went live in March 2016. It is a customer-facing web-based system that our customers will be able to use. The portal will allow people to check their rent account, report and repair and make a payment on line. In the first three weeks, 350 households registered to use the self-service portal (the target for 2016/17 is for 650 households or 10% of our households to have registered on the portal). Moving customer transactions to automated systems, or channel-shifting, provides a cheaper per-transaction cost. If 10% of payments and 5% of repairs requests are carried out through the self-service portal we expect to save £30,000 per annum.

Since November 2015, we have been using the Orchard text messaging module to measure customer experience with the call service and we are currently consistently achieving in excess of 85% of customers rating us as good or excellent (no previous comparisons exist). From February we have been using text to replace letters for garage arrears and we will be rolling this out in 2016/17 to include low level rent arrears letters. We anticipate sending out 5,000 texts in place of letters in 2016/17 equating to a saving of £17,500 on postage, stationary and administration time.

Our experience so far is that text messages also tend to generate a better response rate than a letter.

There was a delay in the rolling out of mobile working as a result of problems with the original software company, but during 2016/17 it will be delivered for housing managers, lettings staff and surveyors. This will mean staff will have access to data whilst out visiting tenants and will significantly reduce the re-keying of information once back at the office. Estimated savings from this by 2017/18 is £30,000.

Performance measures

	Performance March 2015	Performance May 2015	Target performance
% queries dealt with at first point of contact	Not available	83%	80%
Overall customer satisfaction	82%	85%	85%
Avoidable contacts	Not available	2%	No target
Text survey – experience of recent telephone call with a rating of good or excellent	Not available	89%	85%

The continued focus for customer service will be on quality, dependability and flexibility as well as speed. The key outcome of the project will be to improve customer service measured by increased customer satisfaction and a reduction in incidents of service failure and complaints. The improved structures, operating systems and processes will lead to more efficient and effective ways of working, which will improve customer satisfaction for the same or less cost, as Saxon Weald grows.

Resident Involvement in Customer Service and VFM

Resident involvement at Saxon Weald includes a Residents' Action Panel (RAP) and a series of Service Interest Groups (SIG's), as well as direct consultation and involvement of individual residents, including three Board members.

The current resident involvement strategy has a focus on:

- Value for money;
- Customer service excellence through continuous service improvement;
- Continuing development of the RAP and SIGs; and
- Improving communication between landlord and residents.

Involved residents have taken part in VFM training over the last two years, which has improved their understanding of VFM, helping them to be more effective in service scrutiny and monitoring and decision making. They make a key contribution to the monitoring, development and improvement of key services. This has been enhanced by time spent learning from and sharing their expertise with involved residents at other housing associations. The resident involvement strategy is currently under review and is likely to be different from the existing strategy, reflecting the reduced resources available for resident involvement and a much wider range of methods of collecting resident views.



HomeFix (in-house repairs team)

After two particularly challenging financial years, 2013/14 and 2014/15, which were coloured by the effect of the prolonged bad weather during the winter of 2013/14, it is pleasing to note a marked improvement in the performance of HomeFix, our in-house repairs team.

The main impact of the bad weather was to increase demand, and therefore costs, of the responsive repairs service. 2015/16 has seen a reduction in the number of jobs logged and a reduction in the cost of provision. Much of the additional demand in previous years was taken up by contractors whom have proved to be, on the whole, more expensive per job than HomeFix. In 2015/16 we have reduced the number of jobs issued to contractors by 50%.

The empty homes team will look to continue to drive down costs during this year. The average cost of major void works reduced by 16% during 2015/16 from £14,277 to £10,550. The vast majority of the work was completed by the in-house team a change from the previous year where most work was outsourced to a contractor.

Even better performance has been evidenced in minor void works where average costs have reduced by 40% from £3,615 to £2,137. Again, almost all of the work has been done by the in-house team. Based on the volume of void works for the 2015/16 year the reduced average cost has saved £730,000 in comparison to the average cost of works for 2014/15. This has been achieved by more rigorous application of our lettable standard, better material costs through our Buildbase managed store, a more balanced skill set within the operative teams and improved scheduling and organisation in the back office.

In order for HomeFix to become more efficient, it is important to increase the scope and scale

of works carried out. Ultimately this will reduce the level of overhead by spreading the costs over more income. During 2016/17 we will take on half of the kitchen and bathroom replacements and half of the gas boiler replacement programme. Work was starting in 2015/16 to recruit additional staff and to work with Buildbase on ensuring the new materials required would be available. In quarter 4 of the year the team started to carry out capital works with 14 kitchens and bathrooms and 16 gas boilers replaced. The plan is for the whole programme to be brought in-house from 2017/18.

The capacity of the electrical team has also been expanded. The additional resources will be used to improve the electrical safety check regime by moving from a 10 year to a 5 year cycle and to carry out electrical heating replacements. Additional efficiencies are realised from bringing programmes in-house particularly related to data collection, improved communication, and easier resolution of any issues.

Case study - Managed Store (Buildbase) for HomeFix

What needed improving?

Previous supply arrangements for building materials to support our in-house repairs service HomeFix had not delivered the quality of products and service required to provide value for money. Specifically:

- **Material costs appeared to be higher than could be obtained elsewhere;**
- **Travel time to the supplier's base to collect materials was too long leading to operative downtime and high fuel costs;**
- **Focus on Saxon Weald as the customer was less than desired, resulting in materials purchased from other suppliers, operatives waiting for materials and delivery to site did not happen; and**
- **Onerous paper based invoicing system requiring considerable staffing resources to manage.**

What we changed

Having explored various options, we decided that our own managed store, with a bespoke service, would enable us to have greater control over the cost, quality and delivery of our materials and the service provided. This is now being achieved through our own managed store, which went live in November 2015. It is managed by the national builders merchant Buildbase, located in Southwater, two miles from our head office. The contract was chosen through the Procurement for Housing (PfH) framework thereby guaranteeing competitive product prices.

Impact

The PfH framework tender evidences the competitiveness of Buildbase's prices against those its competitors. Buildbase came out top for both managed facilities and the supply of building materials. These prices are reviewed every six

months to ensure they remain competitive and respond to market fluctuations. Based on our core items, this will achieve almost £70,000 (8%) cost savings in comparison to those purchased from our previous supplier. In the event that the supplier's net profit is exceeded, any net profit in excess of that specified in the contract is rebated to HomeFix.

Buildbase lease the commercial premises and, as such, have the responsibility for managing and maintaining them effectively; whilst protecting the safety and wellbeing of staff and visitors. They also have responsibility for employing and managing the staff who run the store, along with ensuring that business continuity measures are in place.

The managed store is located just off a major route that runs through our area of operation and is close to our offices; thus reducing travel time and fuel costs, whilst increasing operative availability. Deliveries to site is included thus reducing down time and increasing productivity.

Monthly invoices containing all purchases (from single and third party suppliers) are sent electronically, via PfH. The invoices include a breakdown of purchases by date; supplier; operative and materials, which make reconciliation simpler and less time consuming for staff. We then make one payment to PfH who then pay Buildbase and ensure that prices remain in-line with those set in the framework agreement. This has helped enable the number of staff in our business support team to be reduced by two, saving £50,000 per annum.

Buildbase has responsibility for ensuring the continuity of van stocks, along with carrying out two audits per year of each vehicle's stock (to reconcile van stocks against items used). Van stock audits were previously carried out once a year by the Business Support Team, so this not only adds value, but frees-up their time to focus on other priorities.



To grow in Sussex and Hampshire to a target size of 10,000 homes

This has been a year of new challenges for Saxon Weald and its business development activity. It is the first year since starting to develop that no starts on site were achieved. The development programme was put on hold following the government's summer budget to enable due care and consideration to be given to how best to respond to the new challenges. However, during 2015/16, 165 new homes were completed. This comprised 143 affordable rent homes, 8 shared ownership homes and 14 shared equity homes for older people. Saxon Weald's new extra care scheme at Hailsham was completed in the autumn, providing 45 affordable rent flats and 10 shared equity flats.

From the Board down, there is a continued desire to keep on building new homes. A full review of all pipeline schemes was undertaken and seven key projects were reworked to ensure a positive rental return (before interest) which would bring in £400,000 per annum by 2019-20 and help to offset the impact of the rent reduction. This has meant a review of the tenure mix of schemes, with the aim of balancing the social heart and the commercial head.

The Winterton Court scheme in Horsham was being worked up as an all affordable homes project, with a mix of affordable rented and shared ownership homes. It performed within normal development finance parameters, however when the rent reduction was applied, the scheme would have been delivered to the detriment of the organisation's finances and, at least in the short-term, would have been a drain on Saxon Weald's surplus. The scheme has been reworked in a number of ways.

We have worked with contractors, Drew Smith (at risk) to alter the scheme design to make it easier to build, and therefore more cost efficient. We have also reviewed the materials and ensured that their long term maintenance costs are reduced, for example metal rainwater goods. These changes have not been to the detriment

of the design and ensure the scheme delivered offers Saxon Weald best value for money.

The site was re-modelled to provide a wider mix of properties, including open market sale homes, affordable rent homes and shared ownership homes. The open market sale housing will subsidise the affordable element of the site, create a more mixed community and meet varied housing aspirations. This outcome offers significant value for money for Saxon Weald, delivering a positive revenue stream (before interest) in 2019/20.

Saxon Weald, as part of its response to the rent reductions, plans to gradually create a market rent portfolio through new build sites. The first development will deliver nine flats and the aim was to increase market rent homes incrementally to approximately 50 homes by 2019. This approach, whilst offering us time to develop processes and procedures, would have taken a number of years to get to a critical mass. However, the opportunity to purchase Pelham and Waverley Courts arose in early 2016. They are established blocks of 81 flats rented on the open market near to Horsham town centre. The purchase of Pelham and Waverley Courts has enabled Saxon Weald to start with a sufficient number of market rent flats to adequately resource an efficient and effective service, which can be gradually expanded. As important, from 2015/16, the flats will generate a positive return to Saxon Weald's surplus, helping to secure and expand the development programme going forward. This purchase also included a potential development site which will enable Saxon Weald to develop an additional 15 to 18 new homes.

The Alley Groves, Cowfold, project had secured planning as a social rented site. Following the rent review, at social rent this project didn't offer Saxon Weald a sufficient return. It is a key rural exception site and the social value of an affordable development was at the heart of our decision making. In close liaison with Horsham

District Council, the scheme was changed to affordable rent. This enabled it to secure HCA grant of £587,500 to support delivery and retain the site for affordable housing. By working closely with Horsham DC, the s106 agreement was amended to ensure that the change to affordable rent would still enable us to borrow against the scheme at the higher Market Value Subject to Tenancy (MV-ST) valuation as opposed to Existing Use Value Social Housing (EUV-SH). This change was made quickly and therefore progress to continue. The contractor was also involved at the earliest possible stage to value engineer the site. This offers us further value for money, as well as still providing an attractive development in a rural location.

East Sussex County Council (ESCC) provided grant to enable the delivery of three supported housing schemes in the county. The original legal agreement did not allow Saxon Weald to borrow against the schemes at a MV-ST valuation, but only at the lower EUV-SH valuation. Through lengthy negotiations with ESCC, Saxon Weald agreed to pay £45,000 to vary the agreement to enable these schemes to be used as security on an MV-ST basis. This has increased Saxon Weald's loan security by £1.5m helping to maximise Saxon Weald's capacity to develop new homes.

A review of the resales process was undertaken in 2015-16. The purpose of this review was to ensure that providing the resales function within Saxon Weald offered the best value for money for us and service for customers. The sales team have reviewed their processes to improve efficiency. Changes made include:

- **Scheme managers conducting viewings for extra care, rather than a member of the sales team who would be required to travel.**
- **Marketing information for buyers and customer service advisers has been improved, meaning buyers who contact the Sales team about a resale are well informed; reducing the time the Sales team need to give supporting the decision.**

- **As a result of benchmarking with others in the sector, the resales fee has been increased from 1% to 1.5% in new general needs shared ownership leases and 2% in new Older Person's Shared Ownership leases. This change will ensure that our costs are covered, revenue is generated and a high level of service can be maintained for customers.**

Saxon Weald is a member of the Housing Association Legal Alliance (HALA). This is an OJEU compliant legal framework used by our development team. This enables us to access framework rates and HALA have provided the total of savings achieved of £32,000. In addition to cost savings on appointments, through HALA we are able to access a number of free training courses and hold in-house sessions at nil cost. In 2015-16 13 individual training sessions were attended, providing a cost saving of £1,715. One in-house training session was provided for free, a saving of £3,000.

The primary focus of the business development department is achieving the forecast starts for 2016-17 to deliver the £400k revenue contribution by 2019-20 and securing the sales income within the business plan. We will continue, as we have with Winterton Court and Alley Groves, to maximise the financial and social outcomes for Saxon Weald and the communities we operate in for all new sites. In terms of sales we will continue to market at the earliest possible stages and in the most effective way for the client group, further promote off-plan reservations and work closely with buyers to secure completions.

By the end of the financial year, 'oven-ready' sites will be prepared. These are sites which we own and have secured planning on. These will enable us to offset any delays and issues within the programme without detriment to the £400k target and the wider impact and cost implications this would have on the organisation. We will also be working with partners to secure grant funding



where appropriate for our schemes. This will reduce the level of private finance required and our aim is to deliver as many homes as possible with the available finance. This approach will enable us to deliver more

To establish and maintain a vibrant workforce, creating a dynamic, challenging but fun place to work

Our staff, Board members and involved residents are some of Saxon Weald's key assets. It is through them that Saxon Weald will achieve its purpose and strategic objectives, in a way that delivers value for money and the best return on assets. We had 178 members of staff on 31 March 2016. We were extremely pleased to be awarded, for the second time, Investors in People Gold during 2015. This was despite the assessment taking place when we were going through a restructure in response to the rent reductions and the fact that only 7% of organisations in the UK, who have Investors in People, have the gold award.

2015/16 was the first year of our new performance management process. We have moved away from the more traditional approach of annual appraisals and replaced them with regular monthly one to ones, where quality, customer satisfaction, dependability, and value for money are regularly monitored and measured and evidence is provided to support the assessment of individual performance. We want managers to get closer to their staff and have increased confidence their staff are getting the basics right through constant monitoring and feedback.

Investment in our people through different training and development interventions continues to be a key priority across the whole organisation. It is critical to making the most of their enthusiasm, expertise and experience. We

therefore continue to invest in training. As well as technical, management and IT training, this includes training on risk management and VFM. We are committed to developing a coaching culture at Saxon Weald and we place all new managers on our bespoke in house coaching skills course.

Immediately after the budget announcement in July 2015, we made the decision not to fill the nine vacant posts we were recruiting for and remove 2 temporary posts from the structure. In December 2015 we made 14 posts of senior managers, middle managers and junior staff redundant to achieve efficiency savings. A total of 24 posts were deleted, achieving an immediate cost saving of £500,000 on the salary budget. Within the new business context we have less resource and less staff, so making the best use of our staff is critical if we are to achieve our corporate objectives and deliver services to our customers.

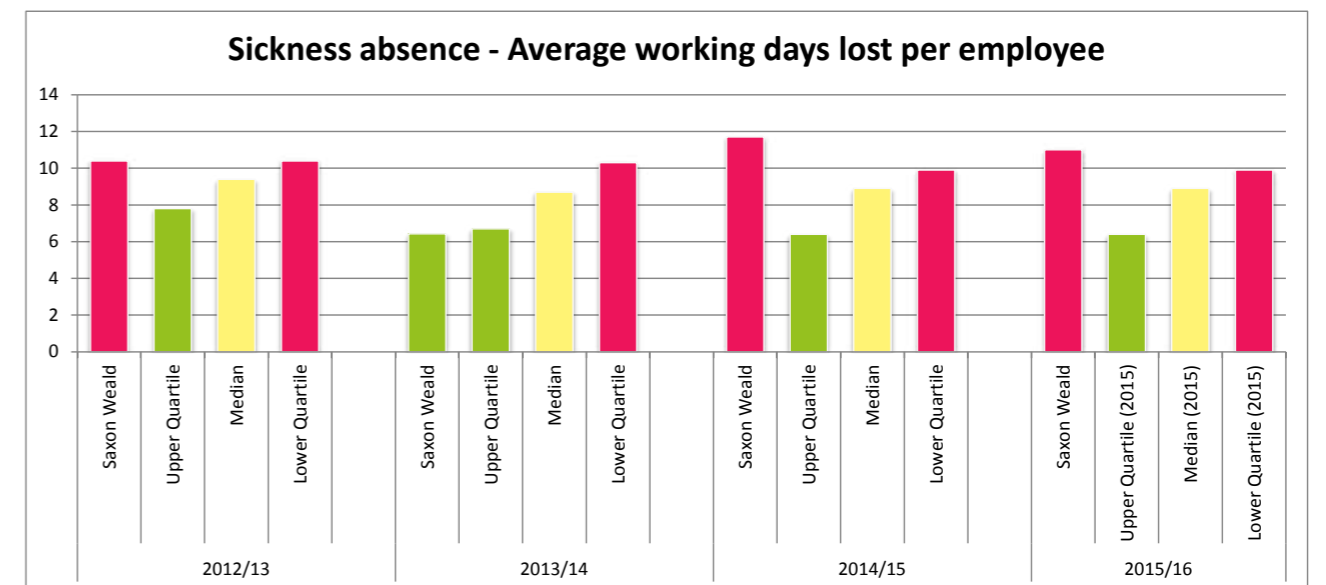
In 2015, Saxon Weald carried out a staff survey and it told us that 83% of our staff were either satisfied or very satisfied with Saxon Weald as an employer, 83% believe that their core objectives give them clarity about what they need to do in their job, 93% believes Saxon Weald takes customer service seriously, 98% have a good understanding of equality and diversity issues and 96% believes that Saxon Weald respects individual differences.

Staff turnover - The UK average employee voluntary turnover figure reported in 2015 is 15%. Our target for turnover is 15% and is based on a 12 month rolling period. Our turnover as at 31 March 2016 was 15.9% voluntary and 10.8% managed. There is no optimal level of turnover as turnover rates deal with emotional and human issues and can never be scientific. Most companies believe that some amount of natural staff turnover is necessary to prevent lack of motivation setting in – and also to inject a company with fresh blood and ideas.

The UK's largest annual survey of sickness absence rates in 2015, reported an average of 2.8% or 6.5 days per employee during 2014. Saxon Weald's average at that time was 2.57%. Our target for sickness absence is 3% and as at 31 March 2016 our average was 4.10% or 10.5 days.

The long term absence level is high at 2.6%, but lower than at 31 March 2015, and effectively unavoidable. We are working with a local occupational health adviser to make earlier interventions when necessary to assess the ill health problem. We work with the occupational health adviser, the individual and line manager to manage the situation and establish capability and timescales for a return to work. We offer 'Simply Health' cash plan and an Employee Assistance programme for staff to enable them to get medical/physical and psychological help as required and get them back to work sooner.

The short term rate was over 1.5% during the last six months of the financial year, contributing to the higher overall figure. We propose to take a more robust approach to reduce the rate by reviewing our sickness absence procedure and setting up new triggers and actions. Exception reports will raise the profile of sickness absence within the organisation, coupled with the message that we need reduce the levels and achieve cost savings. Our aim will be to get the short term rate under 1% in the next 3 years and reduce the overall absence rate below the target of 3%.



To develop our role as a leader in older people's housing

From the creation of Saxon Weald in December 2000, specialist housing for older people has been a key social objective, given the high proportion of older people in Sussex, which is forecast to increase.

Retirement and extra care housing make up 29% of Saxon Weald's housing stock. Consisting of 39 retirement schemes and ten extra care schemes, there are nearly 1,700 properties across West Sussex, East Sussex and Hampshire (rented and shared equity). During 2015/16, one new extra care scheme, Bentley Grange in Hailsham, was completed providing 35 extra care rented homes, 10 extra care shared equity homes and 10 supported rented homes. A new retirement (sheltered) scheme, Adur View, Upper Beeding in Horsham district, was also completed. This provides 21 rented homes and 4 shared equity homes.

The portfolio of housing for older people is now diverse, ranging from housing specifically for the over 55's with no specialist support or facilities, to extra care schemes providing significant levels of care. The care is provided by care organisations contracted to local authorities and not by Saxon Weald. This diversity is important in reducing risk and ensuring we reflect the differing needs and aspiration of older people.

A restructuring of staff in Older People's Services (OPS) took place in early 2013 resulting in on-going savings of £250,000 a year. Following this, a lean review of the scheme manager service was completed in November 2013. The outcomes of this review were:

- Clarification of the role of the scheme manager between housing management, facilities management and support
- Improvements in the delivery of the support

service to ensure that it was focused on outcomes for individuals. This included a review of the purpose and frequency of 'visits' to residents. Visits are now only provided to those people who need them for specific support purposes. As a result total numbers of visits carried out reduced by 20%.

- Replacement of paper based records with a bespoke IT system, creating efficiencies in administration and support planning.

The implementation of the new ways of working took place throughout 2014.

In 2015, a new quality assurance system was introduced. This is based on six monthly 'Scheme Audits' during which the Regional Managers audit compliance with the requirements of the role and the quality of support planning. This has helped support the transformation process and improved the quality and consistency of service delivery to residents. Satisfaction with the scheme manager service was 88% in 2014 and rose to 91% in 2015.

Supporting People funding began to be withdrawn from April 2015. In line with our strategic aim to be a leader in the provision of older peoples housing, we re-organised our services to provide enhanced housing management (EHM) in order to retain on-site scheme managers. By April 2016, EHM funding had been secured for our schemes in Hampshire, Southampton and East Sussex. In West Sussex, where the majority of our support services are currently run, the support funding will be removed in October 2016. Our aim is also to transform the service here to EHM. As part of the reform to EHM, we are also preparing to withdraw the out of hours 'duty manager' service.

Out of hours responses will instead come from our lifeline provider. Removing the duty manager service will generate savings of £32,000 per year.

In addition, we have been successful in securing £57,000 Supporting People funding for a new

floating support service in the Horsham District. This will provide support for our residents as well as older people in the community and will consist mainly of scheme based support, maximising the use of the communal facilities we can offer.

To remain independent and financially strong

Financial Capacity

As a charity, as well as a housing association, we retain the surplus we generate to re-invest in achieving our purpose and strategic objectives. It is therefore very important to us that we get the best VFM from the resources we use and the best return on the assets we hold to achieve our purpose. VFM gains are used to re-invest in our existing properties and to build new homes in Sussex and Hampshire, where there is great demand for social housing and homes for older people.

We also borrow to help fund the cost of building new homes. In June 2012, we issued an own name bond for £225m for an average of 25 years, that enabled us to repay our existing loans and provided £60m to invest in building new homes. The Board were satisfied that the bond was good VFM because it removed the restrictions imposed by the previous loan syndicate, was long term and was at an interest rate of just below 5.5%, fixed for the term of the loan.

A framework for ensuring Saxon Weald maintains a minimum level of financial strength was agreed as part of the approval of the revised 2015 business plan by the Board on 2 November 2015. The framework below shows the minimum level of the indicators, rather than targets to aim for. Given the uncertainty and risk in the next few years, Saxon Weald aims to have a margin over and above these indicators to enable it to manage the most likely adverse movements in the external environment.

- A reasonable and acceptable I&E surplus (say £1m+ per annum);
- An operating margin of 30%+ – current internal financial target;
- A bond cash interest cover of 150%+ - current internal financial target;
- Adjusted cash interest cover (Abbey National based covenant)* a minimum of 110% - current internal financial target;
- An EBITDA MRI (earnings before interest, tax, depreciation and capitalised major repairs included) of 110%+. The old Housing Corporation used to look for this level, unfortunately there has been no defined measure from the HCA on this;
- Debt ratio (Abbey National based covenant) - long term loans plus short term loans less free cash, less than 65% of housing properties at cost – current internal financial target;
- Asset cover (valuation on a EUV-SH basis as a percentage of long term debt) of 120%; and
- Positive cash generation from operating activities.

*Adjusted cash interest cover is adjusted operating surplus (defined as operating surplus + housing depreciation – capitalised repairs – surplus on sales) to interest payable.

Saxon Weald has comfortably achieved these financial indicators in 2015/16: surplus of £4.6m, operating margin of 35%, cash interest cover 176%, adjusted cash interest cover of 135%, an EBITA MRI of 144%, a debt ratio of 61% and has achieved a positive cash generation from operating activities. The EUV-SH valuation of our properties at 31 March 2016 is £327.4m and our bond liability is £225m. This means that we have an asset cover of 145% which exceeds the target of 120% set by the Board.

The operating margin is the surplus we make from on-going activities (mainly renting homes)



as a percentage of turnover. The cash interest cover tells an organisation how many times after depreciation has been added back, the operating surplus will cover the net interest payments due. Asset cover tells an organisation by how much the value of property assets exceed loans outstanding. EBITDA MRI takes operating surplus, adds back depreciation and deducts capitalised repairs, to see how many times this will pay interest costs. The old Housing Corporation used to use 110% as a benchmark.

In line with good financial management, Saxon Weald will not commit to development schemes until the funding for these schemes is in place. The challenge is to secure additional funding to deliver our development programme, whilst retaining a sound financial position, now and in the future. Saxon Weald's capacity to borrow additional funds is limited by three factors – sufficient surplus, cash interest cover and asset cover:

Saxon Weald has a healthy operating margin from existing homes and also from the newly developed homes. This is because we strive to improve VFM and because of the rigorous risk appraisal procedure prior to committing to new development schemes. This requires them to meet a payback target and assesses the net present value of the schemes.

Saxon Weald wishes to generate a sufficient surplus to hold against uncertainty and risk, whilst at the same time maximising the resources it has to develop new homes. The efficiencies of £2.3m to be achieved over the next four years are a critical part of Saxon Weald's strategy to do this.

Saxon Weald needs to obtain the best return on its property assets in terms of security for loans to build new homes. An assessment of this factor is now an important part of new scheme appraisals and has helped Saxon Weald negotiate changes to section 106 agreements to allow the properties to be valued as security on a market value subject to tenancy (MV-ST) basis, more than

double the existing use value – social housing (EUV-SH) basis.

During 2014/15, Saxon Weald considered the optimum strategy for securing additional loans to fund new development. This strategy aimed to balance the desire to maintain a long term capacity to develop new homes, the cost of the debt and the most efficient use of property security. This strategy was upset by the July 2015 announcement of rent reductions over the next four years. The revised 2015 business plan set out the new strategy which is outlined in section 4 of this report.

Saxon Weald has taken an additional loan of £20m, this will enable the development of 582 new homes over the next five years.

Procurement

Saxon Weald's aim is to have a structured approach to procurement which delivers consistency of practice, improved efficiency and value for money. We have:

- **A robust procurement policy and procedure, along with a clear and simple guide;**
- **Improved central contracts register;**
- **Standard templates for contracts and service level agreements;**
- **Reduced the number of approved contractors and suppliers;**
- **Improved the efficiency and internal control of ordering and payment of suppliers and contractors through the implementation of eBis – an electronic purchase to payment system, which links to our financial accounts system; and**
- **A contractor/supplier VFM assessment tool. This enables us to set specific VFM criteria and compare prospective new contractors and suppliers. This helps staff to determine the VFM priorities for a contract, based on the three Es (economy, efficiency and effectiveness) and takes into account social and environmental value.**

During 2014/15, three major contracts were

re-tendered which generated real savings during 2015/16. The grounds maintenance contract delivered a slightly higher specification with savings of £136,000 (there is more detail in the case study below). The meals service contract at extra care schemes delivered full year savings of £54,000 and additional savings in 2015/16 of £31,000. The building cleaning contract delivered savings in 2015/16 of £48,000.

In 2015/16, the contract for materials supplies was re-tendered on the basis of a managed store. In year this saved £29,000 (full year £70,000) on materials costs as well back office savings and saved operatives travel time. A case study of this is included in section 5(b) (see page 41).

Case study Grounds Maintenance

In the last six months of 2014-15, the existing grounds maintenance and tree contracts were up for re-tender. In previous years all tree works on communal land had not been recovered through service charges.

What we did

We brought together a group of interested residents and staff members to establish what they liked/disliked about the existing grounds maintenance contract and whether there were additional items they'd like to see included. We then drew up a specification based on this information. We were clear about what we had, what we wanted and what our customers wanted. This included using Geographic Information System (GIS) to identify where land we owned was and what type of work was required to maintain it. We also used tree survey information on GIS to determine the quantity of trees which required surveying. A section 20 consultation was carried out with all residents. The contract was over OJEU thresholds so we advertised on their website for interested tenders to return a pre-qualifying questionnaire (PQQ). The contract sum estimation was

£450,000 per annum for a five year contract. The tender split was based on 60% quality and 40% price.

What we found

Two contractors failed to return a tender bid. Of the remaining three tender returns, they varied enormously in terms of price. The existing contractor, Burleys, was the lowest price by far and outscored its competitors through the tender evaluation process both in price and also what they offered in terms of additional added value services. Burleys contract sum reduced by £136,747 per annum based on a five-year fixed term contract.

What has changed

We have increased the specification slightly with additional weed killing done throughout the contract as well as more edging of pathways and more attention to moss and alga removal on hard areas such as footpaths, drying areas and patios which included weed removal as well as weed killing.

The new contract also included a number of improvements which will add value:

- **1,000 free hours to support the Saxon Weald assisted gardening scheme**
- **A new 'client zone' on the Burleys website to enable staff and residents to see when Burleys are next due to attend**
- **"Meet the Contractor" days for residents**
- **Tree planting parties to offset carbon emissions, helping Burleys to become carbon neutral**
- **Champion and sponsor an annual "In Bloom" initiative**
- **Delivery of 'garden workshops'**
- **Offer an apprenticeship to a Saxon Weald resident**
- **Provision of a tool library for residents**
- **Improved IT for electronic data capture and performance monitoring**



The communal tree work has also saved the organisation £16,000 in 2015-16. This is because for the first time we have re-charged tenants for tree works in defined communal areas where they live.

What the impact is

The overall satisfaction for grounds maintenance remains constant with 92% of all residents satisfied with their neighbourhood as a place to live. The overall contract sum is reduced by £136,747 per annum, thus reducing service charges for residents. They are getting a slightly enhanced specification but at a lower price.

Return on assets

In 2014/15, Saxon Weald purchased a new asset management system called Keystone and its implementation was continued in 2015/16. This system has enhanced reporting capabilities that will enable Saxon Weald to better understand the life-cycle costs of different groups of our property assets, make the best use of the information we have on our stock and inform decisions to help improve the return on assets. Keystone also links directly with our housing system Orchard, through which all members of staff can access information, so they can for example, tell a tenant when their kitchen is due for replacement. The robustness of stock data is critical to making efficient and effective decisions on stock investment, so a survey of 17% of properties was carried out during 2015/16. This largely confirmed the data held, so Saxon Weald now has confidence in the data held on Keystone. In 2016/17, the five year external validation (by Savills) of Saxon Weald's projected stock investment cash flows will take place. This investment cash flow is an integral part of the business planning process and is incorporated into the business plan approved by the Board for submission to the HCA.

The net cost of housing properties (after depreciation) on statement of financial position at 31 March 2016 is £280m. During the year,

we completed 165 new homes, but did not start to build any new homes. This was because the development programme was put on hold following the government's summer budget to enable due care and consideration to be given to how best to respond to the new challenges. The total value of the stock on an existing use social housing basis (EUV-SH) at 31 March 2015 is £327.4m, with the potential to increase this value by valuing those properties that can be, on a market value subject to tenancy with voids sold (MV-ST) basis.

During 2015/16, Saxon Weald invested £3.2m replacing components in existing properties (including 122 kitchens, 68 bathrooms, 189 boilers, 3 commercial boilers, 80 heating systems, 21 roofs including 3 retirement scheme roofs and 31 full window replacements including 2 at retirement schemes) and £3.5m on major repairs and planned and cyclical maintenance.

There is a requirement that housing associations should be formally assessing the return on each asset, as a trigger to identify those assets where an options appraisal should take place. In London, where associations own some extremely high value properties in relatively poor condition, many associations consider whether to and do dispose of some of these properties.

Saxon Weald, as a stock transfer association based in Horsham, does not have extremely high value properties. In addition, the redevelopment on existing sites is problematic in view of the rules which apply to associations which transferred after 1997. Essentially, grant or public subsidy is not available for redevelopment or is only available on 'works only' basis for any additional units. This means that these sites need to be sold on or redeveloped in partnership with developers with a mix of housing for outright sale or shared ownership in order to subsidise the development of rented units. The approach taken to maximising asset value has therefore been different.

Saxon Weald's approach (starting in 2003) has been to focus on two groups of properties: older retirement schemes with shared bathing facilities and/or bedsits and void properties that required substantial expenditure to bring them up to an acceptable condition. This seemed to align with customer priorities, be more cost effective and be a better use of resources than attempting to determine the relative return on 5,500 properties.

Saxon Weald established a Board member group to review and prioritise retirement schemes. In doing this, the group considered:

- Financial performance including net present value;
- Demand and void rent loss;
- Size and site characteristics;
- Facilities including shared bathing and bedsits;
- Locality including transport links and local amenities;
- Re-model – is it feasible and financially viable? Or demolish and rebuild; and
- Alternative uses – sale of site, provision of market sale, retirement, extra care or general needs homes. A net present value of the alternative options being an essential part of this assessment.

The outcome of these reviews was:

- One scheme re-modelled;
- Four demolished and the site re-developed with homes for older people;
- Three demolished and re-developed for general needs;
- Two demolished, site sold and re-provided on an alternative site;
- One sold; and
- One demolished and in partnership with a private developer, developed new homes for market sale, shared ownership and general needs rent.

Saxon Weald is conscious of the need to obtain the best return (financial and social) from our investment in property assets. When a tenant leaves one of our properties, it is inspected and a schedule

of required works drawn up. If the property is in an outlying area or needs a substantial amount of money spending on it, we will carry out an options appraisal of the property. This option appraisal will consider:

- Financial performance measured using net present value and including sensitivity to changes in assumptions;
- Cost of works required now and in the future;
- Open market value and how the receipt could be used to achieve our purpose;
- Demand from our target tenants and void rent loss;
- Location both in terms of accessibility to local amenities and impact on management costs;
- How suitable the property is for our target groups; and
- Energy performance.

On the basis of this analysis, a decision is then made about whether to carry out the works or sell the property or do something else.

During 2015/16, 18 Foxfield Cottages, a six bedroom house, was sold for £407,500. This property was originally two properties. It was built in 1947 and converted into a single six bedroom property some years ago. A substantial amount of work costing £53k would be required to restore the property to a suitable condition for letting. A number of alternative options were considered including converting back into two properties. The net present value of refurbishing the six bedroom property was negative and the demand for six bed roomed properties low.

A one bedroom flat in Southampton was also sold generating a receipt of £90,000. Although this flat did not have a high value, it did have considerable management difficulties including few general needs properties in the area and its leasehold tenure made it difficult to control costs.



Asset Performance Evaluation

During 2014/15, a firm of property consultants were engaged to help us develop a methodology to model the return on groups of assets. The initial focus has been on financial return. The stock has been separated into properties for older people and general needs properties for modelling purposes. This will enable a different view of acceptable financial and social return for properties for older people and general needs properties, if thought appropriate. The properties for older people were broken down in to 79 asset groups and the general needs in to 187 asset groups.

A methodology for measuring the social return has been developed. For older people's housing the methodology measures social return using five weighted indicators:

- Tenant satisfaction – 25%
- Proximity to local services – 25%
- Social inclusion/activities – 25%
- Energy efficiency SAP rating – 15%
- Index of social deprivation – 10%

For general needs housing the methodology measures social return using five weighted indicators:

- Tenant satisfaction – 20%
- Proximity to local services – 20%
- Heating fuel - connected to mains gas – 20%
- Index of social deprivation – 20%
- Employment opportunities – in receipt of housing benefit – 20%

The data to populate the financial model and social model was gathered together by Saxon Weald. It included:

- Stock data (including addresses, dwelling types, age, house types, use);
- Rent levels;
- Historic void periods (over three financial years, setting out rent loss days in each year). This was analysed by asset group;
- Day to day repair and management costs including planned/cyclical, responsive and void maintenance as well as gas servicing costs;
- Investment required based on data from the stock condition survey, which provides a 30-year cost profile of planned works;
- Tenant satisfaction;
- Proximity to local services;
- Social inclusion/activities for older people's properties;
- Index of social deprivation; and
- Housing benefit status.

Initial results from the model shows that the 30-year net present value (NPV) of Saxon Weald's older people's properties of 1,456 units is £25,769 per unit and the 30-year NPV of Saxon Weald's general needs housing stock of 3,821 units stands at £39,059 per unit.

On the basis of the NPV profile and experience with other housing associations, Savills determined the following financial performance bands.

Performance bands for asset groups – older people's housing

30 year NPV per unit	Performance	No. of units	% units
Greater than £30,000	Excellent	463	31.8%
Between £15,000 and £30,000	Good	604	41.5%
Less than £15,000	Marginal	389	26.7%
Totals		1,456	

The table shows that overall performance is excellent for 31.8% of the stock and a total of 73.3% as good or better – with only 26.7% with marginal cashflows.

For general needs the results are:

Performance bands for asset groups – general needs

30 year NPV per unit	Performance	No. of units	% units
Greater than £30,000	Excellent	3,321	86.9%
Between £15,000 and £30,000	Good	496	13.0%
Less than £15,000	Marginal	4	0.1%
Totals		3,821	

The table shows that overall performance is excellent for 86.9% of the stock – only 13% with a good cashflow and only 0.1% with a marginal cashflow.

It is important to note that with all such analysis the quality of the data used is critical. Poor data will substantially reduce the validity of the analysis and output, and possibly be misleading. For this reason, to obtain the most value from this type of analysis requires an iterative process as the quality of the data is improved. It is also important to note that any analysis of return on assets (financial, social and environmental) is simply a starting point, not an end in itself. This analysis helps determine relative return and which groups of properties should be prioritised for more detailed analysis and options appraisal.

Progress on return on assets in 2015/16 was slower than anticipated due to the need to test the robustness of the stock condition data and unexpected priorities such as responding to the announcement of rent reductions. The opportunity was also taken to test the return on assets model against others on the market and a decision was made to move to a new model. This will be implemented during 2016/17, with the intention of using the information to prioritise stock investment, support option appraisals, focus effort on poorly performing groups of assets and help optimise the return on assets.



5(c) What VFM gains we said we would achieve in 2015/16

We said

"During 2015/16, our aim is to make cash VFM savings of £0.4m, including £50k from the procurement of new gas boilers, £100k from the extension of the cyclical decoration cycle, full year savings of £54k from the new meals contract, £100k from the new grounds maintenance contract and £50k from the new cleaning contract.

In addition, we aim to make non-cash VFM improvements. These are:

- **Begin to implement the new customer service strategy.** This includes rolling out the customer relationship management system to the whole organisation so that we have a complete history of customer contacts, increase our information knowledge base so that our customer service teams are able to answer 80% of customer queries at first contact, roll out a new customer service training programme and be well on our way to improving customer satisfaction to 90%;
- **Implement the new HomeFix materials contract,** including a dedicated store, which will reduce materials costs and reduce travelling time for operatives. Extend the process of using zones to other trade teams to maximise operatives productive time and reduce travel costs.

Achieve a first time fix rate of 85%, reduce the time to complete a repair to eight days and maintain tenant satisfaction with repairs at 90%+;

- **Legally complete a five-year revolving loan to enable Saxon Weald to continue to make development commitments;**
- **Achieve an operating margin greater than 30% and a cash interest cover of at least 150%;**
- **Start on site the development of 100 new homes; and**
- **Continue to improve our understanding of financial and social return on assets and identify the worst 5% performing homes and understand why, so that decisions to maximise the return on assets can be made.**

We consider that we perform well in delivering value for money in the context of achieving our

strategic objectives. To Saxon Weald, VFM is about improving customer service, savings through the more efficient and economical use of resources and achieving the best financial and social return from the assets we have."

We did

The cash VFM savings achieved in 2015/16 total £0.4m. We did achieve the savings related to the procurement of new gas boilers, the extension of the cyclical decoration cycle, the new meals contract, the new grounds maintenance contract and the new cleaning contract. In addition, £26k was saved by bringing the drains repair service in-house.

We are making good progress in implementing the new customer service strategy. A single number is now in use for all customer calls with a simple phone menu system which routes callers to the correct department first time. Internal call transfers have fallen from nearly 50% to less than 25%.

Additional call centre features of the existing phone system have been enabled. The benefits identified so far are as follows:

- **Reduced call transfer through a simple phone menu system;**
- **Real time and retrospective reporting allows staff to react and make operational changes to improve call handling;**
- **Reduced noise in the office environment as calls are automatically delivered to the correct person rather than all phones ringing simultaneously;**
- **Single number for customers to remember and for us to publish;**
- **Greater visibility of calls queuing and abandoned calls.**

A specific central hub used by the customer service advisers and called the Case Resolution Screen has been developed. As well as providing

access to the commonly used parts of the housing management system (Orchard), this solution incorporates a powerful knowledgebase that enables frontline staff to resolve the majority of calls at the first point of contact. 83% of calls are now resolved at the first point of contact. Previously, nearly 50% of calls were being transferred internally. Having the ability to record contacts is now preventing customers from calling back with the same issue should they receive an unwanted answer from the initial call handler. The quality of information passed between departments when a call-back is required has improved dramatically as key information about the individual, property and reason for calling is passed automatically by the system. It is believed that by passing quality information, we are saving 2 minutes per call-back.

Over the space of a year, this equates to at least 150 hours of staff time. It is now possible to record how long each team takes to complete a call back where required. This improved management information allows us to make informed decisions about resourcing and prioritisation and is expected to help deliver an overall increase in customer satisfaction.

Orchard's text messaging module has been used to capture customer experience feedback for the last six months. Customers are polled within 24 hours of calling in and currently 85% of callers rate us "good" or "excellent". Where we are rated "poor", we can call the customer back and resolve the issue, increasing overall satisfaction. Since the end of February, the text messaging system has been used to replace garage arrear letters reducing production and postal costs of physical letters and, judging by external evidence, improving response rates and, therefore, payment. This will be followed by low-level rent arrears letters in due course. During 2016/17, we expect to send approximately 5,000 text messages instead of printing and posting letters. This will reduce administration, postage and production costs.

Saxon Weald's self-service portal went live in March 2016. It is a customer-facing web-based system that our customers will be able to use to request and get information and services through. Moving customer transactions to automated systems, or channel-shifting, provides a cheaper per-transaction cost. If 10% of payments and 5% of repairs requests are carried out through the self-service portal it is anticipated to save £30,000 per annum.

The new HomeFix materials contract through a managed store is now operating reducing the cost of materials by £70,000 in a full year and improving the efficiency of the workforce. A case study of the managed store is shown under section 5(b). The process of using zones to maximise operatives' productive time has been extended to all trades. A first time fix rate of 89.2% was achieved for 2015/16 against a target of 85%. The time to complete a repair had not reached the target of 8 days, but has reduced to 9.2 days and satisfaction with HomeFix repairs is 87% against a target of 90%.

As explained in section 5(b), the loan from Abbey National has been reduced from £50m to £20m and although it did not complete in 2015/16, it completed in early July 2016.

Both our operating margin minimum of 30% and the cash interest cover minimum of 150% have been comfortably achieved.

During the year, we completed 165 new homes, but did not start to build any new homes. This was because the development programme was put on hold following the government's summer budget to enable due care and consideration to be given to how best to respond to the new challenges.

The revised 2015 business plan sets out the new strategy which is outlined in section 4 of this report. This will enable the development of 582 new homes over the next five years.



We have continued to improve the stock condition data that we hold, so that we can make the right investment decisions. Following the sample stock condition survey carried out in-house in 2015, we now have confidence in our information. We will use it to inform a new stock investment plan and renew the systematic analysis of the performance of our properties. This will enable us to focus on the weakest performers and maximise return on assets.

6. Plans for the future

Inevitably, the reduction of rental income over the period 2016/2019 significantly influences our plans for VFM savings in 2016/17 and beyond. Saxon Weald's strategy is to continue to develop new homes. To do this, substantial efficiencies have been and will be made. The Board has agreed that £2.3m of recurrent revenue savings will be made by 2019. During 2016/17, we will make cash VFM savings of £1.3m. These savings have been built in to the 2016/17 budget and are made up as follows:

	£m
General staffing: gross £0.5m less increase costs of £0.2m to give net	0.3
Asset management non- staff	0.2
Housing management non-staff	0.2
Income generation	0.2
HomeFix including staff	0.4
HomeFix including staff	1.3

As part of the response to the rent reduction, the Board agreed, that 24 staff posts would be deleted which required 14 members of staff made redundant. This was completed in December 2015. The savings will not be made until 2016/17 because in 2015/16 the savings were more than offset by the costs of redundancies including pension costs.

There are unfortunately some specific additional costs totalling £0.2m that Saxon Weald must fund from 2016/17 onwards. These are increased national insurance contributions as a result of the end of contracting out and the cost of providing the pension bond to the West Sussex County Council Pension Fund. During 2016/17, we will be reviewing our company pension options.

The lettings and empty homes teams have been merged under one manager, enabling a manager's post to be lost. The entire new team sits together and has reviewed and improved its procedures. In time, this will assist in reducing the void turn around. The two neighbourhood assistants have moved to HomeFix as their previous manager's role is redundant. Here they will also take on estate clearance, saving the cost of the contractor previously used. Both housing management and asset management have lost a professional member of staff. This has required a review of how housing managers and surveyors plan their time whilst still being responsive to customer demands. In PR and marketing, two posts have been lost. This has inevitably reduced our ability to communicate in detail. We will still be able to get our message across. Following the deletion of the Community Support Manager post, a review is being undertaken to determine how resident involvement is taken forward. The business development department has been restructured and slimmed down as it deals with a more limited development programme.

Asset management non-staff costs will make efficiencies from the overall planned revenue programme. This includes re-evaluating the replacement/work cycles and priorities to ensure major repairs are only done where and when necessary. The emphasis will be on capital replacements wherever justified, rather than repeated revenue repairs.

Housing management non-staff costs will reduce expenditure across a range of different areas – the most significant being community grants,

tenant consultation, relocation and incentives, environmental improvements and aids and adaptations.

The leaseholder management fee has increased so that it recovers costs and the policy cap on the maximum increase in service charges has been increased; both of these together will generate almost £0.2m per annum.

HomeFix is contributing £0.4m to the efficiencies required during 2016/17. This will be achieved in a number of different ways. This includes a reduction in the number of staff in the business support team, improved operative efficiency through zoning and the new managed store, a reduction in the reliance on contractors for responsive repairs, procurement efficiencies through the new materials supply contract with Buildbase and increasing income by providing in-house services for asset management (thereby spreading the HomeFix overhead over a larger volume of activity). The cost of providing these services for asset management has been benchmarked against the external cost of these services to ensure that value for money is being achieved.

The balance of efficiencies of £1m will be made from 2017/18 to 2019/20. HomeFix will contribute £0.3m of this by continuing to improve its operating efficiency and extend the work it does to spread its overheads over a higher volume of activity. The contingency of £0.25m built in to the budget will be removed.

Saxon Weald still holds funds generated by issuing the bond. Interest is payable on these funds, so we will generate a net contribution to the income and expenditure account by re-balancing the development programme to include fewer affordable rent homes, introducing some market rent homes and increasing market sale homes. This will contribute a net £0.4m in 2019/20.

In addition to this £1m of efficiencies in 2017/18

to 2018/19, the market rent homes at Pelham and Waverley Courts purchased in April 2016, will contribute £0.5m in 2017/18 and £0.7m in 2018/19 to our bottom line. This will be spent on developing new homes and ensuring that Saxon Weald maintains a sound financial position.

We also aim to make non-cash VFM improvements during 2016/17. These are:

- **Restructure our customer service staff into a single team which will result in greater efficiencies through improved flexibility and cover arrangements;**
- **Continue to improve our Customer Relationship Management (CRM) system to include all e-mail contacts and social media contacts;**
- **Continue to improve our in-house information knowledge system which provides the customer service teams with all relevant information and scripts to deal with customer queries;**
- **Deliver a new bespoke customer service training programme which will ensure staff have the right skills and tools available to them to deal with queries at the first point of contact. This programme includes training on the behaviours and attitudes required to deliver good customer service but also on the use of the new CRM and information systems necessary to aid the effective resolution of customer queries;**
- **Heavily promote our self-service portal which is a more efficient way of doing business both for the customer and for us. Over time, we will look to see a reducing number of telephone calls coming into the organisation as more people do business with us via the portal. We will be anticipating associated efficiencies in staff time over a longer timescale as a result;**
- **For HomeFix we will maximise operatives' productive time and reduce travel costs. We aim to achieve a first time fix rate of 85%, reduce the time to complete a repair to eight days and maintain tenant satisfaction with repairs at 85%+;**
- **Complete a five-year revolving £20m loan to enable Saxon Weald to continue to make development commitments;**



- An independent review of pension provision at Saxon Weald;
- Achieve an operating margin greater than 30% and a cash interest cover of at least 150%;
- Start on site in 2016/17, the development of 122 new homes; and
- Continue to improve our understanding of financial and social return on assets and identify the worst performing homes and understand why, to inform our decision making.

We consider that we perform well in delivering value for money in the context of achieving our strategic objectives. To Saxon Weald, VFM is about improving customer service, savings through the more efficient and economical use of resources, achieving the best financial and social return from the assets we have and delivering new homes for those who need them.

Saxon Weald has an embedded culture of striving to achieve VFM in all we do, guided by our VFM strategy. The Board is responsible for ensuring that Saxon Weald delivers VFM and makes decisions on the efficient and effective use of resources through the resource allocation and business planning framework. We use the golden thread of performance management to ensure that everything we do delivers VFM in achieving our purpose and strategic objectives.

Key performance indicators and financial information are reviewed by and often provoke challenge from the Board at our eight meetings each year. Saxon Weald has a good understanding of its costs and how these and its performance compare with others. We have a track record of using option appraisal analysis to make decisions about retirement schemes and general needs properties. We will make further progress on systematically understanding the return (including social return) on groups of assets. VFM can never be fully achieved, but it is something that Saxon Weald consistently

strives for:

By Order of the Board
Simon Turpitt, Chairman

11 July 2016

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Housemark Benchmark Data - Comparison Housing Associations

Alliance Homes	Raven Housing Trust
Bracknell Forest Homes	Red Kite Community Housing
Coastline Housing	Richmond Housing Partnership
Cottsway Housing Association	Selwood Housing
Housing Solutions	Sentinel Housing Association
Magna Housing Association	Soha Housing
Magna West Somerset Housing Association	Teign Housing
MHS Homes	Town and Country Housing Group
North Devon Homes	Two Rivers Housing
Ocean Housing	Vale of Aylesbury Housing Trust
Phoenix Community Housing	West Kent Housing Association
Poplar HARCA	Worthing Homes





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