Value for Money Statement

Paragon Asra
PA Housing

pahousing.co.uk

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Introduction

Background to PA Housing

PA Housing was created in April 2017, following the amalgamation of three registered housing associations – Paragon Community Housing Limited, asra Housing Association and Leicester Housing Association (the latter two being part of asra Housing Group). These three entities have combined into a single new registered provider of social housing and associated services.

There are a further six entities, three of which are dormant companies, and the other three are active wholly-owned companies which provide a range of property development and treasury management services. There is also a joint venture company in which we hold a 50 per cent share.

PA Housing owns around 23,600 homes, predominantly traditional social housing but including nearly 1,300 shared ownership properties and a small portfolio of other rental tenures including student accommodation and market rent. Our main operational bases are the East Midlands, south London and Surrey with our two main corporate offices being in Leicester and Walton-on-Thames.

PA Housing was formed to enhance customer service standards and financial resilience, with a key priority being the unlocking of capacity to allow construction of more homes. The amalgamation was predicated on a clear expectation of delivering financial efficiencies in order to facilitate this, and this priority inevitably dominates our Board's oversight of value for money ('VFM') in the short term. Our Board has set a minimum recurring financial savings target of £3m per annum in order to unlock capacity for future growth. As an approximate guide, this volume of saving will deliver sufficient capacity to build a further 300 units of new social housing without any additional subsidy. In addition to the financial benefits of amalgamation, the Board also has an expectation that the qualitative aspects of VFM will be supported and enhanced through the bringing together of operational expertise and embedding high quality, harmonised systems and processes.

Since this VFM Statement includes both backward and forward looking elements, it considers life both before and after the birth of PA Housing in April 2017. The backward looking sections of the Statement look at the VFM work separately carried out by Paragon and asra in the 2016/17 financial year, whereas the forward looking sections focus on the VFM work PA Housing intends to carry out in 2017/18 and beyond.

The VFM landscape

The government's emergency summer budget in July 2015 introduced a new level of VFM challenge to the social housing sector. Rent reductions of one per cent per annum for each of the four years commencing April 2016 were announced. The long-term compounding effect of this reduction has a very significant impact on our financial forecasts, and at this stage we have no longer term certainty as to what the rent settlement for the sector will be beyond 2020. At the same time, the government has made it clear that it expects housing associations to increase their contribution to the national need for new homes. It has been suggested by government that our sector as a whole is relatively inefficient, and could work harder to squeeze its assets in order to maximise the resources available for new build.

This directive – to increase growth rates while income is being reduced – drives a very clear and strong VFM message. Our task as a sector is to deliver cash savings and income enhancements to plug the gap created by rent reductions, and then beyond that to engineer long term financial plans which will enhance overall capacity for growth. Our Board is very well aware of the intrinsic link between operating cost savings in the here and now and future growth capacity, and as such how our VFM strategy must underpin our wider corporate objectives.

It is essential that we continue to strike an appropriate balance between growth ambition and sound financial stewardship, so that any future adverse financial shocks (be they political or more broadly economic) can be accommodated without undue impact on service delivery. To assist with this, we are introducing a robust regime of financial stress-testing and our Board has adopted a series of financial 'golden rules' which underpin our financial strategy in support of corporate goals. We have viable long term financial plans in place and during this year we will enhance these to further identify key areas for VFM delivery and demonstrate ambition to continue growing the business in line with government expectations. Delivery of these plans will be challenging, but the changing sector environment naturally promotes VFM as something which really matters to everyone. As such, the buy-in of our Board, our staff and our stakeholders is strong and we are confident that we can meet the challenges we have been set.

Finally in respect of VFM challenges, the terrible events at Grenfell Tower in June 2017 have served as a stark reminder that VFM has a much wider application than simply achieving cost efficiency. The needs, rights and aspirations of our customers must always be at the forefront of our minds and at times this may mean that we make sensible investment decisions based on the available evidence to ensure that high standards are maintained. The road to 'efficiency' is not linear and we cannot assume that cost saving decisions made today will remain valid for evermore. Our Board will need to satisfy itself that the resources we invest in day to day operations, as well as in business growth, are appropriate, and that we can explain to our customers, our regulator and other external stakeholders why we believe we have made the right investment decisions.

Shifting regulatory focus

In June 2016 the HCA advised the sector that its future regulatory activity relating to VFM will increasingly focus on the unit operating costs incurred by each housing association. Specifically, the HCA is keen to explore and understand the variations in unit costs between different associations, working from a hypothesis that these variations at least in part reflect differences in the operating efficiency of different organisations. The HCA has advised the sector that it can expect increasing challenge on its approach to optimising efficiency in support of achieving corporate objectives. Housing association Boards must understand their costs, the main drivers of those costs, and why they may differ from those of other providers.

The HCA is likely to also require evidence of very strong links between an organisation's approach to VFM and its other core corporate frameworks – namely its business strategy and its approach to risk (including stress-testing and maintenance of assets and liabilities records). This aligns with our own thinking on VFM and we expect that any detailed assessment of our approach to VFM will support our aim to achieve the highest possible regulatory gradings.

In July 2016 the HCA released the results of its initial analysis of unit operating costs across the sector. Paragon and asra were separately advised of their absolute and comparative results based on the HCA's work, with the reported data (based on published 2014/15 financial statements) being as follows:

CPU = Cost per unit	Headline social housing CPU	Management CPU	Service charge CPU	Maintenance CPU	Major repairs CPU	Other social housing costs CPU
asra HA	£3,380	£1,300	£390	£880	£760	£50
Leicester HA	£3,240	£1,110	£380	£960	£670	£110
Paragon HA	£4,520	£1,750	£740	£880	£930	£230
Sector upper quartile	£4,300	£1,270	£610	£1,180	£1,130	£410
Sector median	£3,550	£950	£360	£980	£800	£200
Sector lower quartile	£3,190	£700	£230	£810	£530	£80

- Dark green = most efficient;
- Light green = relatively efficient;
- Yellow = relatively inefficient;
- Red = least efficient

'upper quartile' equals 'least efficient'; 'lower quartile' equals 'most efficient'

Both organisations commented on these results within their 2016 VFM Statements. Based on the HCA's analysis, asra's overall performance (spread across asra HA and Leicester HA) was stronger than that of Paragon's. The following key factors should be noted:

- Paragon operated solely in London and Surrey and therefore did not benefit from the lower employment costs which asra incurred in the Midlands. Locking into these lower costs was a key driver on the Paragon side for the creation of PA Housing
- Paragon holds a higher than average proportion of housing for older people, which typically incurs higher than average unit costs
- Paragon has invested in tenancy support and sustainment services, with the additional operating costs involved being offset by beneficial impacts on rent collection levels and tenancy turnover rates
- Paragon's results for customer satisfaction with service charges levied are on an improving trend
- Paragon's 2014/15 major repairs programme included completion of catch-up works deferred from previous years
- asra introduced a new operating model in March 2016 and this reduced operating costs by £2.5m per annum

At the time of compiling this year's Statement, the HCA had not published updated data relating to the 2015/16 financial year – we will review and comment on this information when we receive it.

More broadly though, both organisations are fully committed to delivery of significant operating cost efficiencies through the creation of PA Housing. Although asra in particular did perform well in many areas of the HCA's analysis, we as PA Housing now need to build a strong position relative to most other housing associations without compromising service quality and stock investment levels. This work is already underway and we expect to report on successful outcomes in future years. Our Board wants us to have a reputation for efficiency within the sector. This VFM Statement outlines the work Paragon and asra have carried out in 2016/17, and the future work we have planned, to ensure that this happens. We will operate in line with the HCA's evolving approach to regulation of VFM, and we will continue to make sure we are able to demonstrate that we are an efficient organisation which delivers good outcomes for our residents.

Our VFM Strategy

The new PA Housing Board approved a three year VFM Strategy which has been designed to build on the good work previously performed by Paragon and asra, and to further embed a strong VFM management culture within the new organisation.

PA Housing is absolutely committed to achieving VFM – we recognise that we need to continue to push our performance and capacity up to higher levels if we are to achieve the goals and targets set by our Board, and to meet the expectations of government and other stakeholders. Our VFM Strategy defines VFM as:

"Achieving the best possible balance between cost and customer or business outcome"

The Strategy sets out six main objectives - achievement of these, when combined with the various VFM activities already embedded within PA Housing as business as usual, will combine to produce a compelling narrative describing our VFM delivery:

Objective 1

Deliver the £3m recurring operating cost efficiency savings targeted at amalgamation

Objective 2

Develop VFM decision support avenues and tools

Objective 3

Promote a culture of VFM awareness at all levels of the organisation

Objective 4

Strengthen customer and stakeholder involvement in and awareness of our VFM activities

Objective 5

Progress operating model options and opportunities which can enhance VFM for the business

Objective 6

Develop analysis of the social impact delivered by our services and partnership working

These objectives are supported by a number of specific actions which will be progressed during the year ahead. The Board will formally review strategy progress and outcomes at the end of the financial year, as part of its annual review of compliance with the HCA's regulatory standards on VFM, but will also monitor progress at intervals through the year. Our Audit & Risk Committee will perform a broader VFM scrutiny role, to provide assurance to the Board that it remains properly managed and delivered as a cross-cutting business theme.

VFM highlights in 2016/17

During the 2016/17 financial year, Paragon and asra were operating as separate entities although work on the amalgamation project was being progressed. As such, this look back on significant VFM projects and achievements during the financial year considers each of the former entities separately:

Paragon VFM highlights

Business area: Asset management
VFM outcome: Service charge cost reductions for residents

Water risk assessment services, fire safety equipment testing services and some associated remedial works were brought in-house during the year, achieving a cost saving of £319,000 which is passed on to our residents via the service charge. These savings will rise in future years as the volume of in-house work is increased. The move also increases the visibility of the housing service at our properties and estates, and it assists in the management of communal areas to ensure they remain safe and secure for our residents.

Business area: Landlord services
VFM outcome: Proactive management of risks posed to people and properties by dangerous trees

Paragon has successfully operated a 'tree amnesty' system which encourages residents who don't have the resources to keep dangerous trees in their gardens in good order to report them to us for attention. 25 dangerous trees were felled during the year, generating estimated long-term savings of £13,000 when comparing the cost of felling to the average cost of dealing with the aftermath of property damage caused by fallen trees – this estimate excludes any risk to life and limb such incidents can pose, where the costs involved can be very significant.

Business area: Landlord services
VFM outcome: Reduced service costs and a reshaped service which is better aligned to residents' wishes, expected to lead to higher satisfaction levels

During the year, the Paragon housing service was redesigned in conjunction with input on service requirements and preferences from involved residents. The three main priorities were to improve the quality of estates and communities, to improve intervention and support on anti-social behaviour cases, and to reduce the time it takes to re-let our properties. All of these targets have been achieved. Overall customer satisfaction is on an improving trend and satisfaction with neighbourhoods is at best quartile performance levels compared to our peer group. The new Tenancy Solutions team is delivering better outcomes to anti-social behaviour issues as well as taking a more proactive stance to prevent potential problems from crystallising. Re-let times have been reduced by an average of two days. The new service structure has also delivered financial savings of over £400,000 per annum for the business.

Business area: Landlord services
VFM outcome: Welfare benefits advice to residents, helping to support tenancy sustainment

Paragon's welfare benefits service assisted 563 residents during the year. Over £1m of additional benefits were secured as a result, including over £0.5m of Housing Benefit paid to Paragon to cover rent charges. All of these figures exceeded the targets set at the start of the year, and the work played its part in helping us to achieve top quartile rent arrears performance when compared to our peers.

asra VFM highlights

Business area: Whole business
VFM outcome: Cost reductions and shift towards digital services

In direct response to the government's imposition of rent cuts in 2015, asra reviewed and decided to reshape its service delivery models in order to reduce staff numbers. This entailed the removal of £2.5m of staff cost from the business at the start of the 2016/17 financial year, with 80 posts being made redundant. The main focus of these changes was our housing services teams, but office based support functions were also affected. This was a difficult but necessary step in the wake of external challenges.

At the same time, asra embarked on a major project to introduce a new digital service offering which would allow customers to undertake common transactions such as requesting rent refunds and ordering repairs via a portal ('My asra') available on all widely available mobile devices at times of their choosing. Modules within this new service were launched at various stages during the year, and by year end the service had attracted over 2,500 registered users.

Although this major project remains ongoing, the expected shift in customer behaviours is starting to become apparent. Key statistics to date are as follows:

- Average of 200 new users registering every month
- New asra website reporting a 22 per cent increase in sessions and a 7 per cent reduction in bounce rate
- 1,625 rent payment transactions during the year
- Average of 7 new direct debits and 26 new rent arrears payment arrangements being set up every month
- 10 per cent of asra residents now regularly using My asra and can be deemed as having 'channel shifted' across from traditional service delivery models
- 135 repairs orders raised directly by residents in the first full month of go-live (April 2017), representing 6 per cent of total repairs in the month
- 27 per cent of registered users have not called our contact centre since registering
- By year end, contact centre call volumes were 14 per cent lower than a year previously

Business area: Landlord services
VFM outcome: Improved re-let times and void property rates

During the year we made concerted efforts to push our performance on empty properties management towards levels which compared more favourably to others in the sector. Our online Property Shop tool to market properties which are available for letting played a major part in this – we explained in our 2016 VFM Statement that this had been established, and it started to deliver real benefits during the year. It has been designed with the customer in mind to make property search an easy and pleasant experience, receiving strong positive feedback from customers and driving reductions in applicant refusals. We have also introduced more granular management reporting on long term voids, which has increased focus on the options available and work needed to deal with these properties and either get them re-let or consider disposal.

Performance outcomes from this work were as follows:

- Average re-let times were reduced from a peak of 42 days in May 2016 to 32 days in March 2017, with a consistently improving trend throughout this period. The year end result was in line with the sector median for 2015/16 as reported by HouseMark
- The total number of empty general needs and sheltered properties reduced from 70 in March 2016 to 48 in March 2017
- The rent and service charge income lost on empty properties, as reported in the audited financial statements, reduced by £108k (10 per cent) compared to the prior year
- The rent loss percentage for the year was 1.33 per cent – still third quartile when compared to the HouseMark sector-wide results for 2015/16, but on a clear improving trend during the year

Business area: Landlord services
VFM outcome: Improved service cost recovery and more equitable service charges for residents

During the year we completed implementation of new service charge accounting software and associated processes. This project was designed to address a historic area of low customer satisfaction and deal with recurring problems with the accuracy of service charges levied. The new ways of working have enabled us to capture a significant level of service chargeable costs which were previously being absorbed by the business and therefore indirectly being subsidised by tenant rents. The service budgets we have set for 2017/18 show a total increase in cost recovery of over £0.3m compared to the prior year. However, we have also worked to improve our communications to residents around the service charges we levy, in order to clearly explain what is charged and why. This has supported a much more efficient process, with the number of resident and enquiries this year drastically reduced from previous years – demonstrating that while charges have increased overall, our residents have largely accepted the charges as fair. This also results in a better deal for our rented residents since the improved cost recovery increases our capacity for investment in both existing and new homes.

Business area: Landlord services
VFM outcome: Welfare benefits advice to residents, helping to support tenancy sustainment

asra offered a similar welfare benefits service to that which is described within the Paragon VFM highlights section. The asra service delivered over £0.3m in one-off benefits payments (around half of which came directly to asra as rent payment), and the team also submitted 316 successful new benefits claims on behalf of residents with an annual value of nearly £1.9m – just under half of this income is being paid directly to asra as rent payment.

As at the end of the year, asra had 256 residents on the new Universal Credit benefits payment system and this volume will grow as the scheme takes off around the country. In response to this, we have invested further into the tenancy sustainment team in order to safeguard tenancies and associated income streams.

Business area: Asset management
VFM outcome: Cost savings from improved procurement of maintenance contracts, coupled with improved resident communication on the programme

In recent years we have built up improved knowledge of our asset base, with up to date stock condition surveys held for nearly 100 per cent of our properties. This has enabled us to start taking a more strategic approach to our capital component replacement programmes, and the benefits of this were seen through procurement exercises undertaken at the start of the year.

- On kitchens, bathrooms, windows and doors we achieved an average price reduction of £638 (16 per cent) per component compared to 2015/16 prices paid, and with nearly 1,200 component replacements completed in the year this delivered savings of over £750,000
- We retendered our asbestos survey contracts and this delivered annual savings of £179,000 (60 per cent) on a like-for-like volume basis
- Improvements to our void property works process reduced average prices per property by £883, delivering total savings of £696,000 over the year

Alongside this we have introduced proactive communication with residents on our future planned maintenance programme, so they can see when their property components are scheduled for replacement. This improves the service offering and reduces the volume of customer enquiries into our contact centre on this subject.

Our approach to VFM

Strategy

Achieving VFM across all service areas is fundamental to the effectiveness of the business. VFM is therefore embedded within our corporate strategy, which our Board approved in September 2017. This strategy sets out the work we need to deliver in order to make progress towards the PA Housing vision, which is...

> "To become widely recognised as a social enterprise with a reputation for providing quality homes and services"

The corporate strategy responds to the significant changes and challenges our sector is facing, and it identifies three strategic objectives:

Objective 1:

Customer satisfaction

We are dedicated to improving customer satisfaction

Objective 2:

Organisational effectiveness

We will harmonise our culture and structures and improve our effectiveness

Objective 3:

Growth

We will grow to provide more homes and will rationalise our stockholdings

How VFM operates within PA Housing

The PA Housing Board is responsible for VFM throughout the business. The Board ensures that VFM is a cross-cutting theme running through the above corporate objectives and associated Board decisions. Strategic bridges set out how the objectives will be progressed and achieved, and specific actions within that plan contribute towards furtherance of our VFM agenda.

All Board approved strategies include clear links to VFM wherever relevant, and Board and Committee papers include an assessment of any VFM implications arising from the matter under consideration.

The Audit and Risk Committee performs a VFM scrutiny role on behalf of the Board. This includes development and delivery of the VFM Strategy, consideration of VFM through the work of our internal auditors, reviewing how VFM is captured within our internal controls and risk management frameworks, and assessing the extent to which VFM is embedded within our reporting to stakeholders.

In addition, 'business as usual' activities such as budgetary control, operational performance management and staff learning and development help to embed VFM within the business culture. Financial management is critical – we have limited financial resources and significant fixed future financial obligations, and so we must ensure that we are making best use of available resources in order to maximise returns. The birth of PA Housing gives us an opportunity to promote VFM as an important topic to all staff from the outset, so that further ideas to improve VFM can be generated and delivered.

Operational performance targets take into account both internal trends and relevant issues, and benchmarked competitor performance levels. A balanced suite of performance indicators covering costs, performance outcomes and customer assessed quality levels is reviewed every month at all levels of the business. Our Leadership Team of senior managers has authority to initiate specific corrective action if results are significantly adverse compared to target. This can include reallocation of resources, changes to ways of working, or creation of business cases for approval of additional resources. The same team is jointly responsible with the executive for delivery of the strategic bridges, thus ensuring ongoing cross-referencing between day to day operational performance and achievement of the Corporate Strategy.

Customers

Our customers are given opportunities to influence our VFM activities in a number of ways:

The **Customer Services Committee** is a formally constituted sub-committee of the Board which has responsibility for the oversight of all operational customer facing services. At least two residents sit on this Committee and members of the Resident Inspectors and Scrutiny team attend and present the outcomes of their reports at each meeting.

The **Resident Inspection and Scrutiny** service reviews up to four service areas every year, with VFM forming part of each review remit. We are planning to further strengthen the VFM focus of this service by providing residents with relevant benchmarking information prior to the commencement of each review.

Involved residents groups are regularly briefed on VFM activities and achievements. In the past, involved residents have participated in a series of 'master classes' on key aspects of housing association operations including VFM. The groups also receive updates on operational performance results every quarter, and an annual report on benchmarking results. This information helps them to decide priority areas for future review by the Inspection and Scrutiny service, and the scope of those reviews.

Resident working parties influence key customer facing procurement decisions (for example gas servicing, responsive repairs) through membership of the cross-departmental working parties which are set up to oversee the procurement process. There is a feedback loop into the involved residents groups to ensure sharing of key issues and decisions arising.

All residents have the opportunity to provide feedback on services received and thoughts or suggestions on service improvements via our ongoing customer contact channels. This includes customer surveys which ask specific questions about VFM.

As PA Housing we are planning to increase the number of involved residents who are willing to work with us on service delivery issues and assessment of VFM. This will give us improved insight into their needs and priorities. As part of this, we will share more information with involved residents about the costs of running all areas of the business, and the service levels achieved. This will ensure that all managers are directly accountable to residents for their service provision paid for out of rental income, even if they manage office support functions such as Finance and HR.

Benchmarking VFM

Annually, we compare our performance to the rest of the housing association sector in two ways:

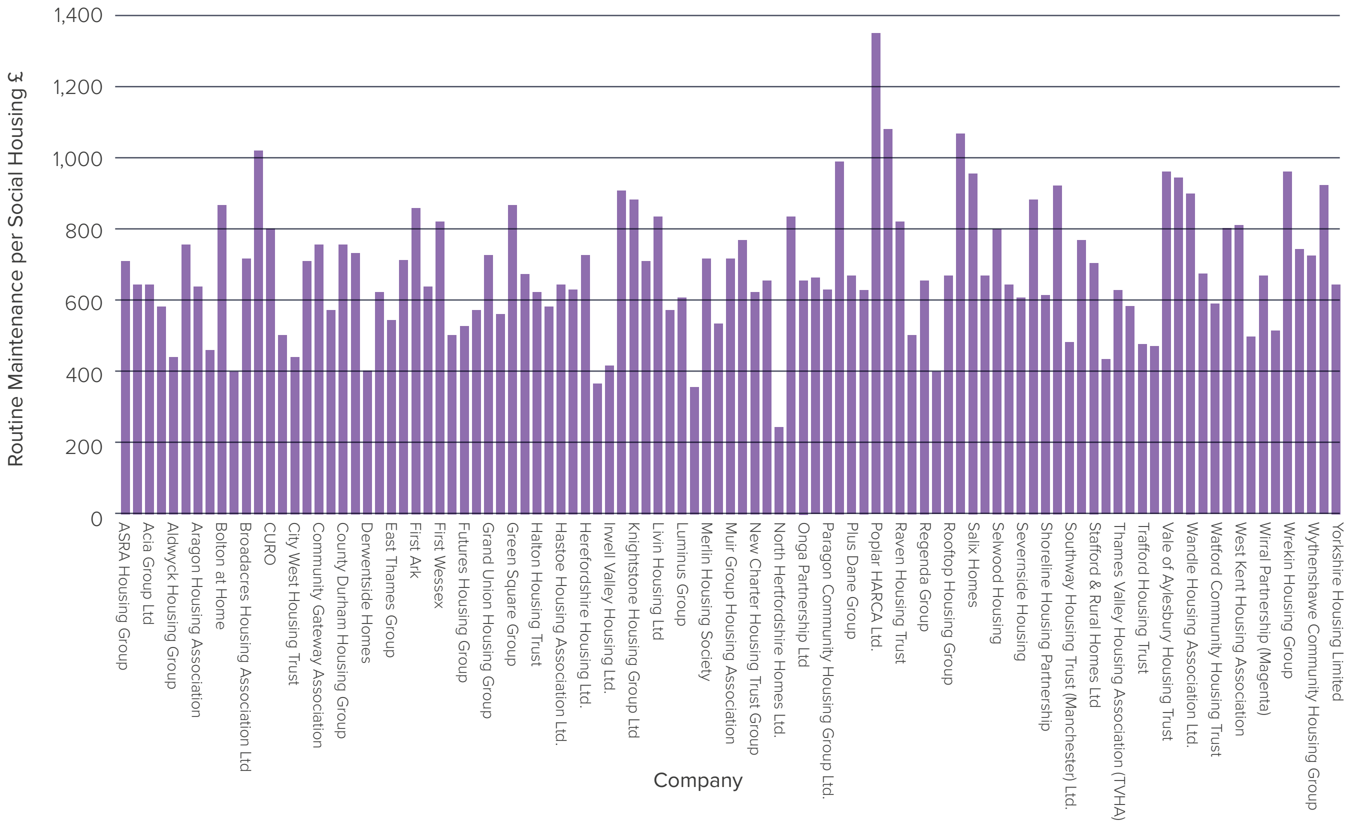
- We look at the data produced by the Homes and Communities Agency ('HCA') in its annual 'Global Accounts' publication which looks at sector-wide trends and performance.
- We utilise our membership of benchmarking clubs to compare our results to others.

Historically, Paragon and asra were members of different benchmarking clubs – the former being a HouseMark member and the latter being part of the Vantage benchmarking group. In the short term, we have retained membership of both pending a decision on what is best suited to our needs going forward.

HCA global accounts

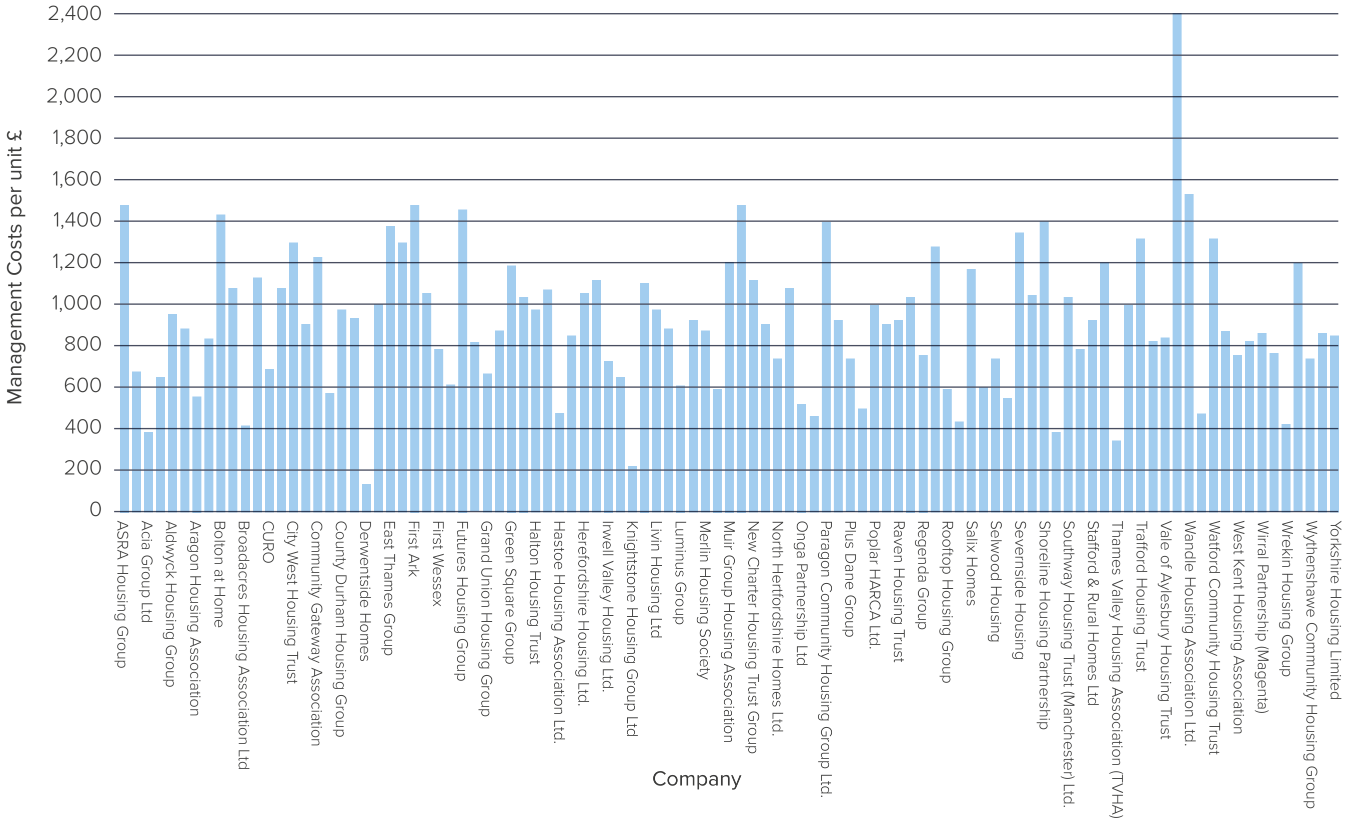
The HCA releases its global accounts in March every year, based on the published financial statements for individual housing associations as at 31 March in the previous year. Therefore, for this VFM Statement the available global accounts information relates to the financial year ending 31 March 2016. The graphs below set out both Paragon and asra's results for the 2015/16 financial year against a peer group of some 100 other housing associations, all with between 5,000 and 20,000 properties in management. There is some brief commentary below each graph to provide context. These graphs represent a selection of results from a wider range of analysis performed on the HCA global accounts, to illustrate how we use this information.

Operating margin %: asra 30%; Paragon 33%



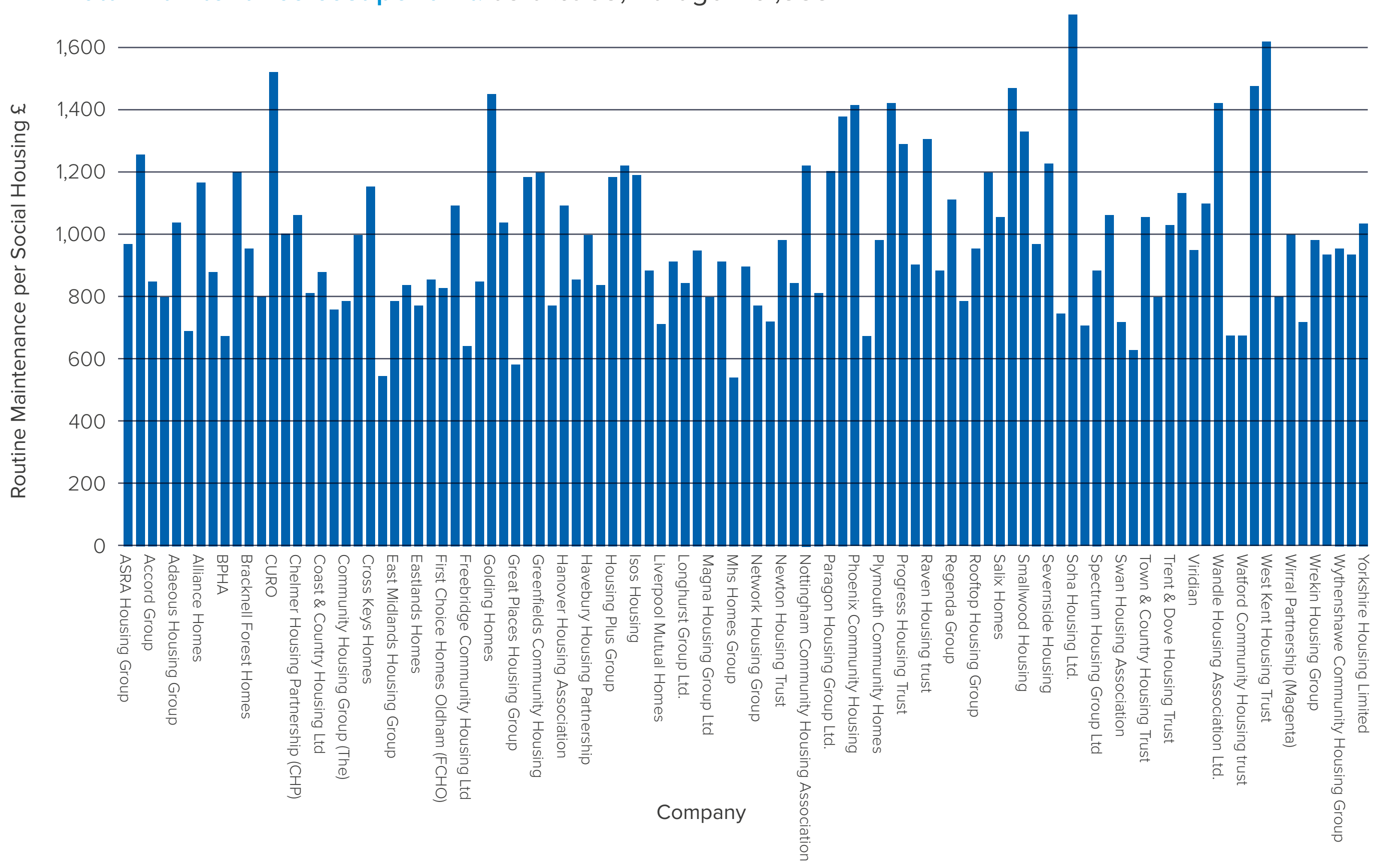
Both organisations performed better than the peer average on this indicator. Going forward as PA Housing, we will further strengthen operating results through delivery of cost savings.

Management cost per unit £: asra £1,470; Paragon £1,394



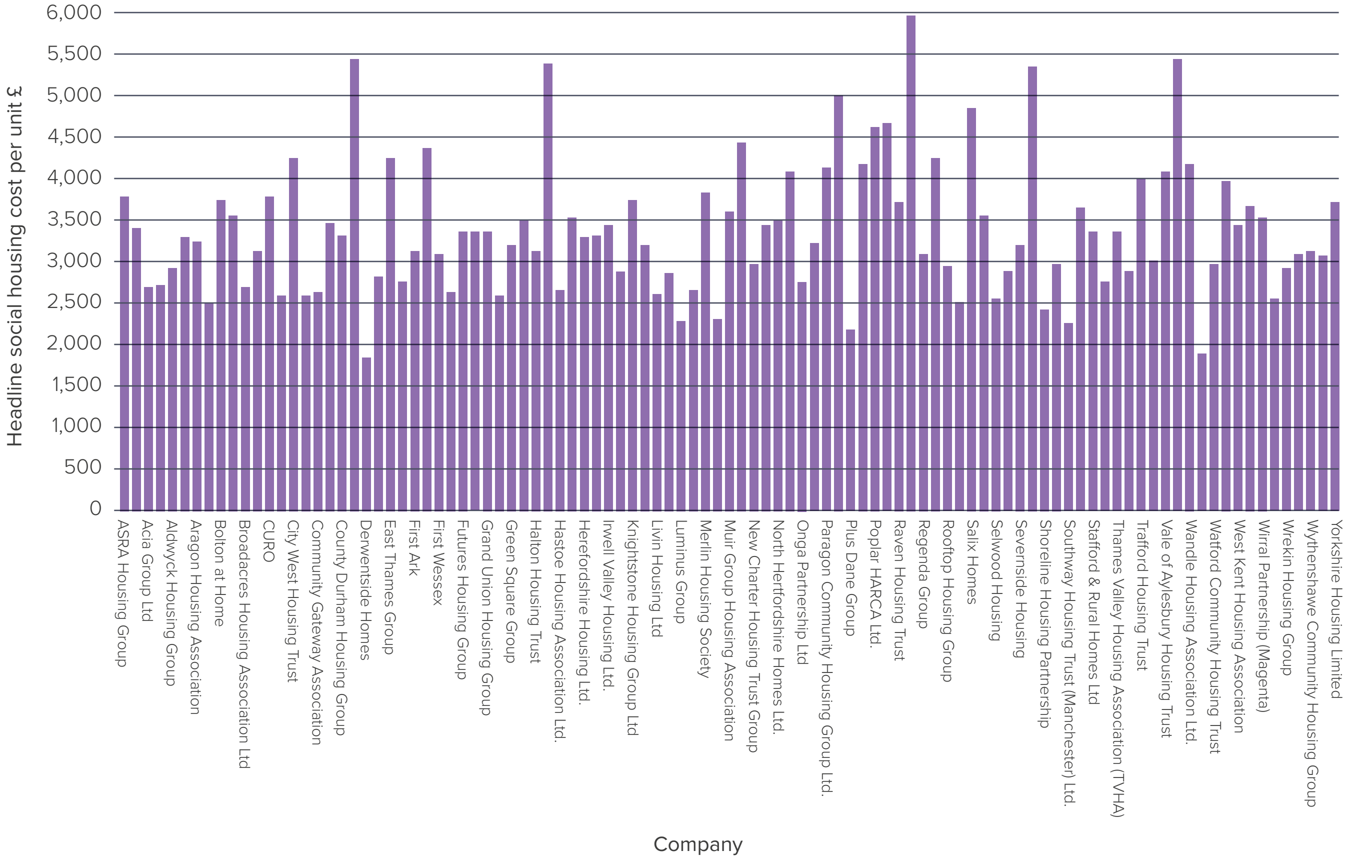
Results for both organisations were higher than the peer average, indicating the importance of driving down costs where feasible in order to improve operating efficiency and increase growth capacity. Again, the creation of PA Housing has unlocked opportunities in this area.

Total maintenance cost per unit: asra £963; Paragon £1,383



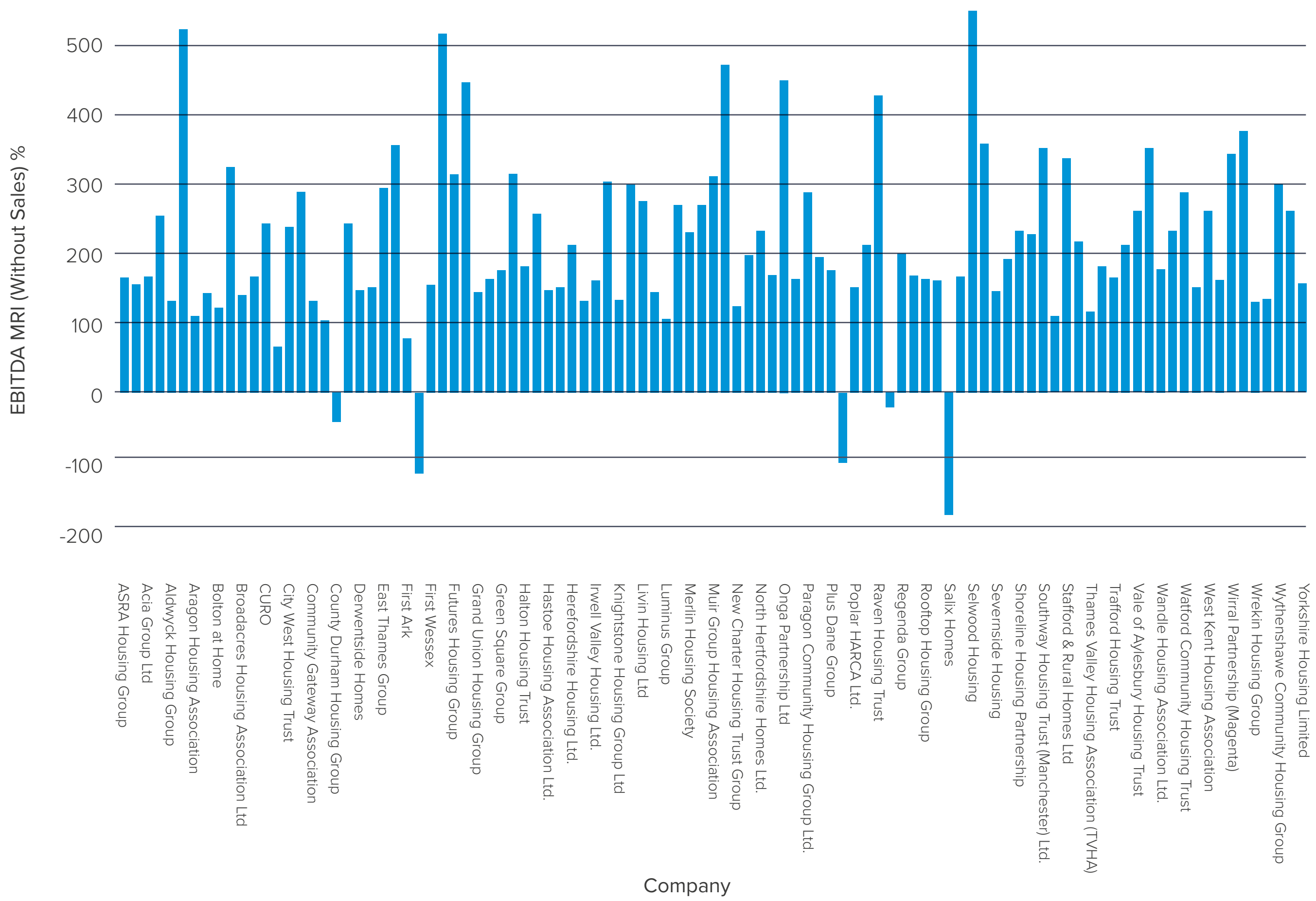
Paragon's result here reflected a higher level of planned maintenance spend as part of a Board approved investment to catch up on spend deferred from previous years due to contractor performance issues. The asra result is slightly lower than the peer average. Our priority as PA Housing is to deliver an efficient repair and maintenance service which meets our customers' service quality expectations at a reasonable cost, and to ensure appropriate long-term investment in our assets so their future income generating potential can be maximised.

Headline social housing cost per unit: asra £3,812; Paragon £4,126



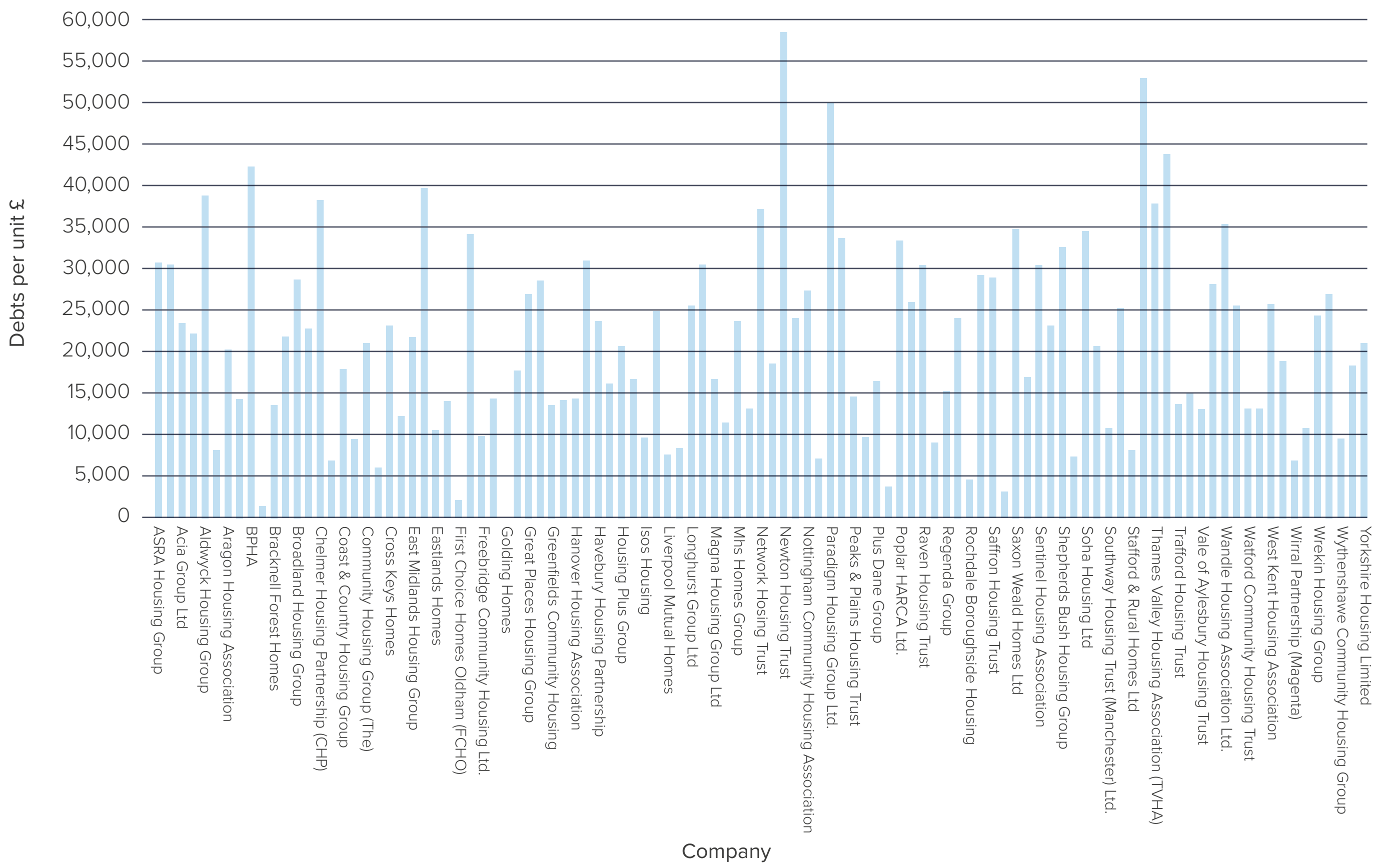
Again here the results for both Paragon and asra are above the peer average, and as PA Housing work to drive down operating unit costs is a key priority.

Interest cover (EBITDA MRI basis excluding sales): asra 165%; Paragon 291%



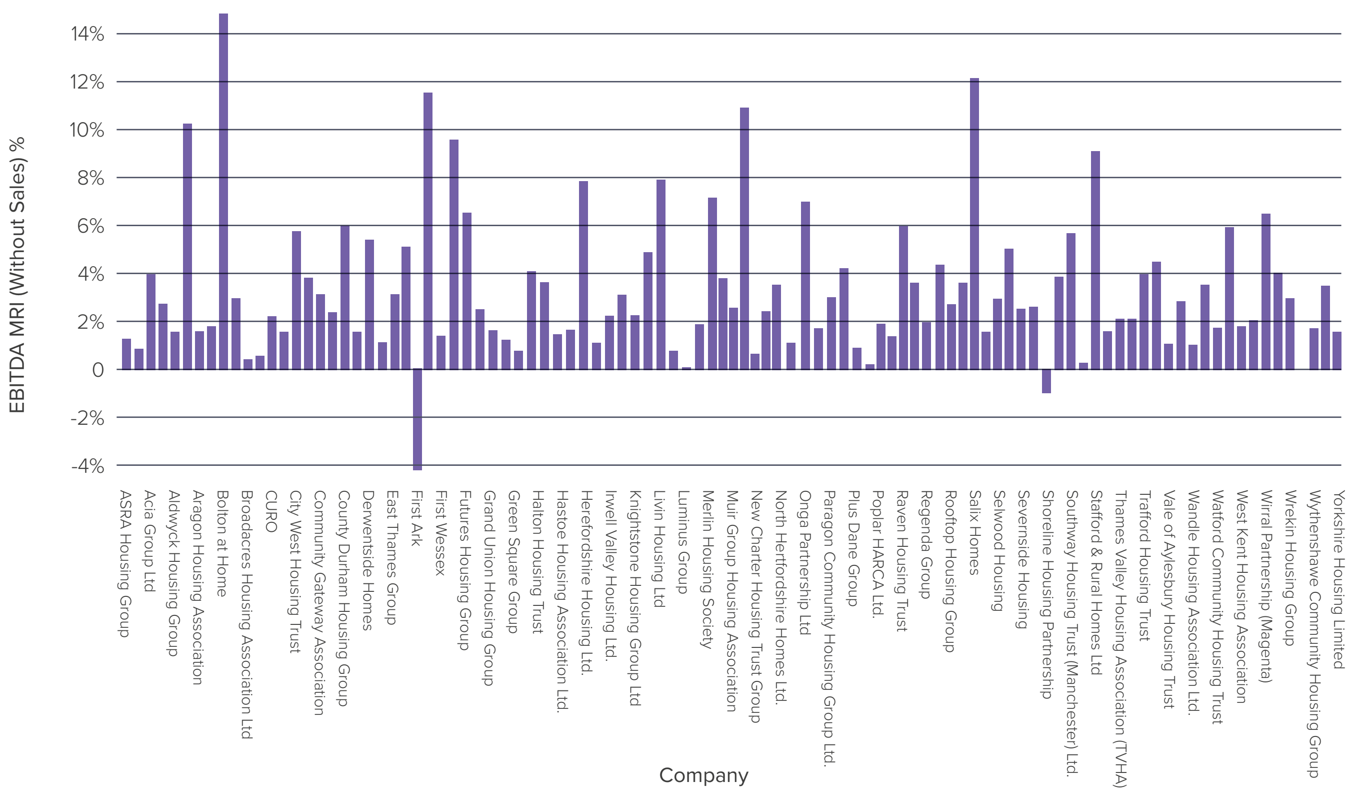
Paragon returned a strong result here, evidencing ample capacity for growth with ability to service a higher loan interest bill. Work with lenders during the formulation of PA Housing has delivered a refreshed funding package in support of our growth plans, and financial projections and associated stress tests show that this is affordable.

Debt per unit: asra £30,500; Paragon £33,400



This shows an alternative view to gearing in terms of structural capacity for future indebtedness. Both organisations returned slightly above average results, but we have analysed our asset base to confirm that ample future debt capacity exists by way of unsecured assets and over-collateralised loans.

Return on assets: asra 1.2%; Paragon 3.1%



asra's result here was well below the peer average (with results for the year affected by adverse accounting adjustments arising from the introduction of new accounting standards) whereas Paragon's is broadly in line with the average. As explained elsewhere in this VFM Statement, asra has established tools to analyse returns by individual asset, and both organisations have established processes in place to make informed stock investment / divestment decisions with a view to improving average returns over time. These tools and processes will be harmonised early in the life of PA Housing.

HouseMark benchmarking – historic results for Paragon

Introduction

HouseMark produces a detailed annual benchmarking report which provides a range of useful service cost and quality comparative data. This has been used within Paragon to drive continuous improvement, pinpoint areas in need of particular focus and identify external best practice which can be learned from. In addition to the annual reports HouseMark produces, we have access to online reporting tools and these enable us to review more up to date benchmarking information as we work through the year.

As part of Paragon's 'Every Customer Matters' corporate plan we aimed to move towards upper quartile performance and an improved customer experience in terms of customer satisfaction. Key performance Indicators ('KPIs') for both performance and customer satisfaction are reported to the Board on a quarterly basis via two KPI dashboards and reviewed in detail by the Customer Services Committee every quarter and by the Resident Council at their bi-monthly meetings. A full commentary is provided' highlighting good performance and areas for improvement and the steps being taken to achieve this. The Board has requested that the following five areas of performance are highlighted in reports to it:

- Customer Satisfaction
- Rent arrears performance
- Lettings performance
- Repairs Completions performance
- Gas Servicing Compliance

The full HouseMark report is also presented to the Customer Services Committee each year, most recently in November 2016.

HouseMark cost and benchmarking data has been produced on a robust and consistent basis by Paragon's Business Intelligence team for the past three years. This has enabled valid year on year comparisons and trends analysis to take place. The outcome of cost benchmarking formed part of VFM target setting in the past year and is an important factor in the decision making process review of services and the structures and resources to deliver them. As set out elsewhere in this report, the key service review carried out in 2016 was the review of the housing service which was carried out in partnership with the Resident Scrutiny team. This review has delivered improved service delivery and also reduced both direct salary costs and also ongoing non-salary costs such as in the delivery of the anti-social behaviour service by the Tenancy Solutions Team.

In 2016/17 Paragon benchmarked its performance and costs using the same peer group of 30 similar housing associations as it has used for the previous two years. This approach has enabled trends analysis to take place in a meaningful way. The peer group is made up of organisations based in the south of England which range in size from 1,000 to 30,000 homes, though only a relatively small number operate in the Greater London area (this will influence cost comparisons to an extent). At the time of writing this report the March 2017 data has been produced in draft but is awaiting validation by Housemark. The Paragon performance and costs data used in this self-assessment is for the year ending March 2017. The benchmarking data from other organisations is however for the year ending March 2016. Once the final HouseMark report is validated we will receive a final report which will benchmark with the current March 2017 data for the peer group.

The HouseMark report includes a VFM Scorecard which analyses business performance in four main areas, both in terms of a benchmark for the year end position and also a trends analysis by which the movement year-on-year can also be viewed to see if the speed and direction of change is in line with the peer group. The trends analysis will be available when the final report is received. For the purposes of this self-assessment a summary of the benchmarking position of Paragon compared to its peer group in each of the four main areas of the VFM score card will be provided. The full report will be reviewed by the Customer Services Committee at their February 2018 meeting.

The four areas to be summarised are as follows:

- Process - effectiveness of key processes
- Value - effectiveness of outcomes
- People - getting the best out of Paragon's most important resource
- Business and Finance - operating efficiency and maximising income.

Process

Performance in these key service areas has generally been very good with most areas improving on the previous year position. The process KPIs include most of the top five key areas of performance that the Board has asked to be prioritised. The top two Board priorities have been improvements to the repairs service and reducing lettings times, and these are summarised below.

Repairs Performance

The two key indicators to note illustrate the timeliness of the service. Both of these are slightly down on 2016 performance but the service still delivered top quartile customer satisfaction. Repairs completed at first visit decreased slightly to 86 per cent - this is based on all responsive repairs carried out including significant and complex jobs. This is below the median score of 89 per cent. On average it took 11 days to complete a repair which is under the contractual target of 14 days but slightly higher than the median of 10 days.

Lettings performance

This has been a priority for the Board for the past three years and performance for minor works average re-let times has continued to improve from 40 days in 2014/15 to 35 days in 2015/16 and to 34 days in 2016/17. This performance is still lower quartile but further analysis has shown that broadly speaking 75 per cent of lettings achieve a close to top quartile performance of around 21 days. The focus has therefore been on the 25 per cent which don't and understanding the causal factors. One of the key reasons is the delay in letting independent living (sheltered) accommodation and the revised sheltered housing strategy which was approved by the Customer Services Committee in March 2017 will help to address this. It is however very positive to note that overall average re-let times for all lettings has improved from 49 days in 2015/16 to 35 days in 2016/17, which is just outside the upper quartile performance of 33 days.

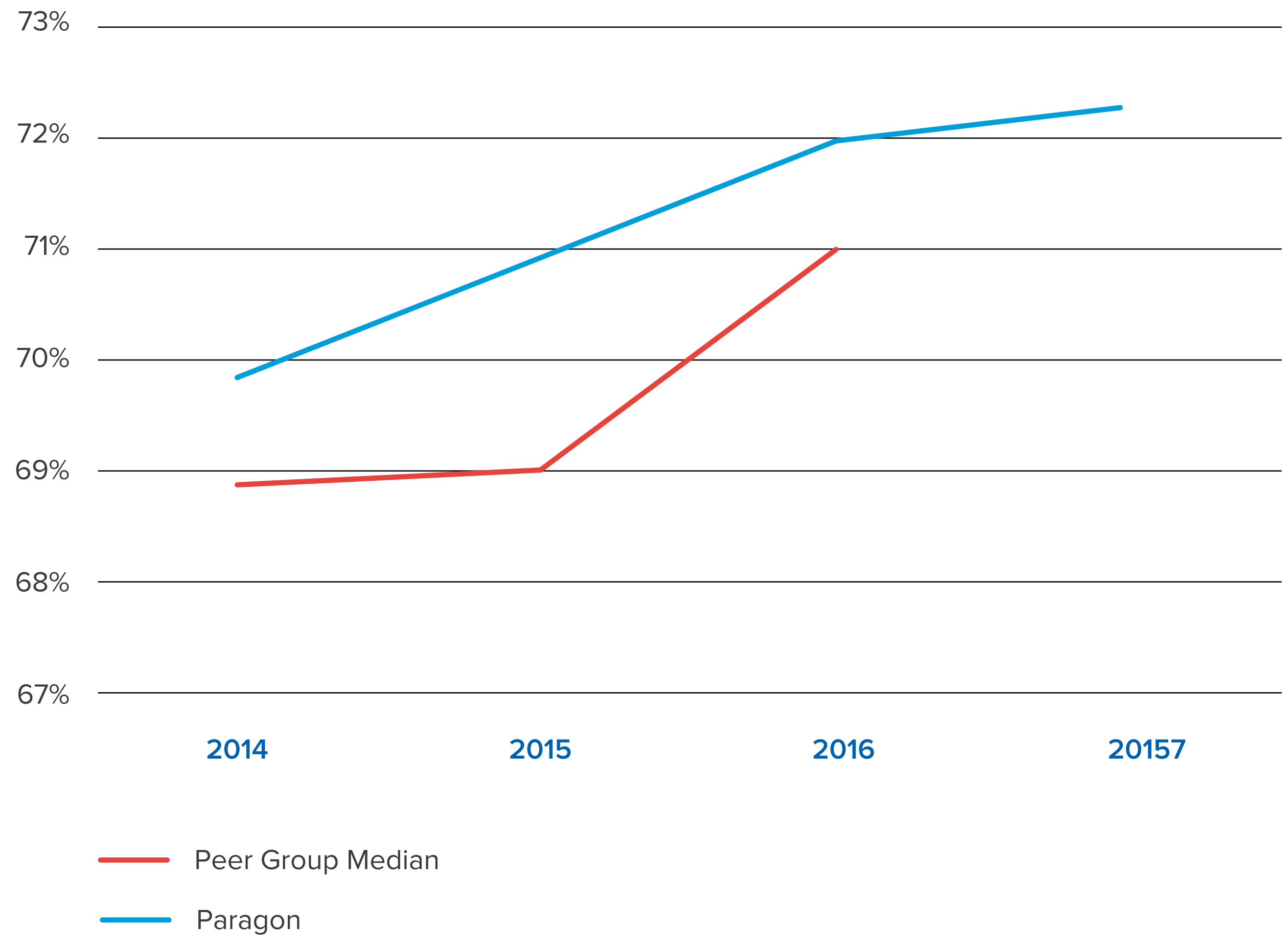
This coupled with a further reduction in percentage of properties void and available to let at March 2017 to 0.14 per cent from 0.23 per cent the previous year (upper quartile is 0.22 per cent or less) has helped minimise void rental loss.

Value

Performance in this area has again been very positive with six of the eight customer satisfaction scores increasing from 2015/16. Satisfaction with the maintenance service dipped very slightly in 2016/17 to 85 per cent from 85.5 per cent, but this is still 5 per cent above the upper quartile benchmark. It is also pleasing to note that the proportion of appointments kept has increased to 93.3 per cent in 2016/17 from 88.6 per cent in the previous year.

Satisfaction with service charges and rent providing value for money have both increased over the past 12 months and are now both just under the upper quartile benchmarks. The continued increase in satisfaction with service charges is very pleasing and the delivery of these services is a key part of our VFM work over the past 12 months with several services being brought in house to reduce costs but also improve the overall quality and added value of the services as discussed elsewhere in the self-assessment. The graph below shows the trends for improved satisfaction over the past four years:

Satisfaction with Service Charges



Overall satisfaction with the service provided has increased again from 75.7 per cent in 2015/16 to 78.3 per cent in 2016/17. The Net Promoter Score (NPS) which is also being increasingly used to benchmark more widely outside of the housing sector also increased from 10 to 11 (10 is considered an average service, 30 is good). Though these increases are welcomed they both benchmark at just above lower quartile with the peer group in 2016. The extensive customer experience work that has taken place in 2016/17 should begin to have an impact on these overall scores so that they start to match the very positive customer satisfaction for individual services.

People

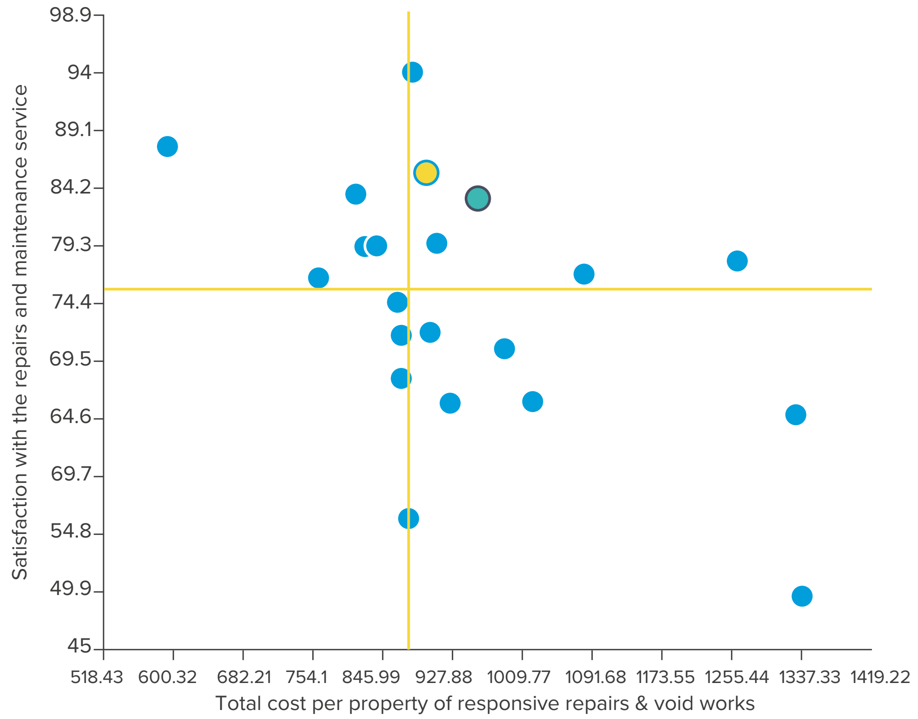
The last 12 months have been an uncertain period for colleagues due to the amalgamation with asra and this was expected to influence some of the results in this area. With this noted it is positive to note that staff satisfaction with Paragon as an employer is still at 79.8 per cent, a very minor drop of just 0.2 per cent from 2015/16 and still at the midpoint between lower quartile and median for the peer group. Staff turnover for the year has increased from 21.3 per cent to 24.3 per cent which is to be expected and is still better than the lower quartile peer group of 27.3 per cent. Key priorities for the newly amalgamated organisation are to develop a positive culture and review the terms and conditions for employees to ensure a consistent, fair and attractive approach. This will help to ensure that PA Housing becomes an employer of choice in the longer term.

Business and Financial

This set of HouseMark indicators is very useful as it shows the costs of delivering services on a per property basis. This helps the Board and leadership team make decisions on where to best invest time and resources and balance this against the outcomes achieved in terms of performance.

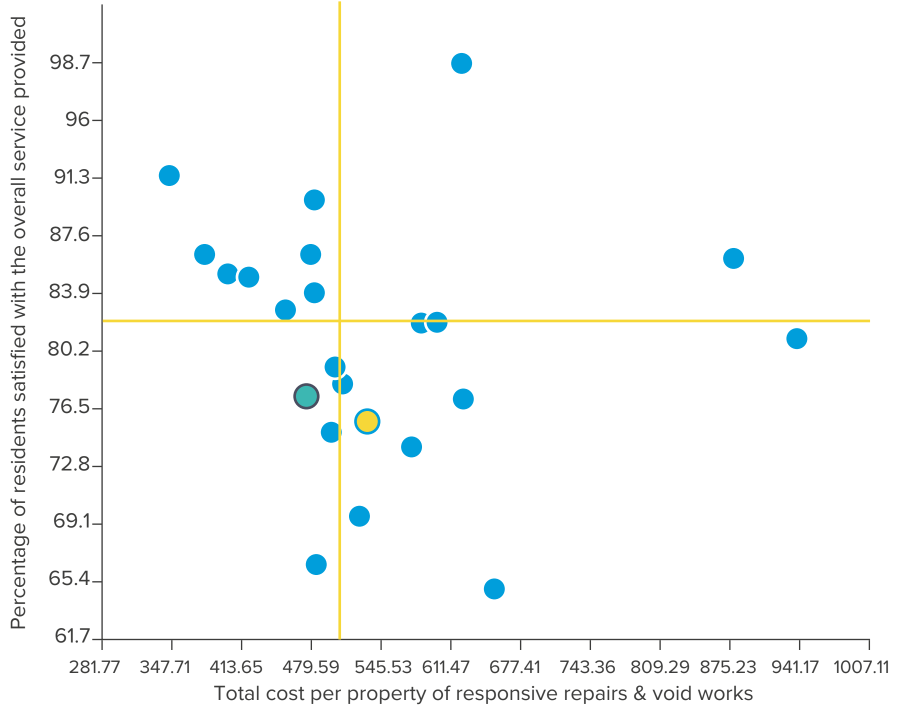
Two key indicators in this area are the costs per property ('CPP') for delivering the housing management and responsive repairs services. As in previous years' self-assessments, the graphs below demonstrate the relationship between costs and outcomes in terms of customer satisfaction. In each graph, the most recent result is indicated by the green dot and the previous year is indicated by the yellow dot.

CPP of responsive repairs and void works



The graph shows that CPP has increased from £898 to £929 which is above median cost but customer satisfaction is top quartile with only two organisations in the peer group having better levels of customer satisfaction. This overall CPP has been further broken down and the repairs service does benchmark very well at a less than median benchmark compared to the peer group. The costs of delivering the void service are the area where cost is significantly above the 2016 median, £254 CPP compared to £171 at the median level. Work will need to be carried out to fully understand the reasons behind this.

CPP of Housing Management



The graph shows a very positive CPP reduction from £531 to £469 (upper quartile CPP is £479), against an increase in overall satisfaction with the service from 75.7 per cent to 78.3 per cent. This can be linked to the restructure of the Housing service and the introduction in May 2016 of a customer advice team to answer all incoming calls supported by specialist lettings, tenancy solutions and neighbourhood teams.

The business and financial KPIs also show the level of investment in major works and cyclical maintenance, which for 2016/17 was £1,041 per property. This is a big reduction from £1,907 in 2015/16, reflecting reduced volumes of works following completion of significant catch-up work in the previous three years.

The final KPI to note from the Board's priority areas is rent arrears. Paragon's performance in 2016/17 showed improvement on the previous year with a reduction in gross arrears from 3.8 per cent to 3.7 per cent set against an upper quartile of 2.6 per cent for the peer group. The net arrears performance however is excellent at 1.3 per cent for 2016/17 set against an upper quartile of 1.7 per cent for the peer group.

In summary the 2016/17 draft HouseMark results for Paragon show that broadly both costs and performance indicators are improving in most areas and are top quartile in a number of areas including satisfaction with the maintenance service and net arrears performance. Priorities for 2017/18 will include further reductions to minor works lettings times and increasing overall customer satisfaction.

Vantage benchmarking – historic results for asra

The Vantage benchmarking service is predicated on an ethos of providing higher level strategic information for member organisations, with less operational detail than is included in the HouseMark model. It also places greater emphasis on bespoke member-driven pieces of benchmarking work to give insight into specific topics which are of interest to members. Membership is growing and it now comprises organisations representing some 500,000 housing association properties in all areas of the country.

The table below assesses asra's performance in each of the past three financial years 2014/15 through to 2016/17 against the average performance levels of all Vantage club members.

Indicator	2014/15		2015/16		2016/17	
	Vantage	asra	Vantage	asra	Vantage	asra
Operational						
Rent arrears	4.0%	3.3%	3.6%	2.8%	3.3%	2.6%
Void loss	1.6%	1.9%	1.4%	1.6%	1.3%	1.3%
Re-let days	35	42	31	33	33	39
Tenancy turnover	9%	10%	8%	9%	8%	7%
Repairs satisfaction	89%	83%	88%	91%	84%	91%
Repairs appointments kept	94%	81%	94%	95%	97%	97%
Financial						
Operating margin	28%	48%	28%	34%	30%	33%
Routine maint £ per unit	681	1,114	673	931	640	1,010
Planned maint £ per unit	326	326	345	323	343	398
Major repairs £ per unit	1,018	1,148	1,061	840	901	912
Management £ per unit	687	330	681	325	616	254
Overheads % of turnover	20%	22%	21%	26%	18%	22%
Interest cover EBITDA MRI	168%	212%	169%	159%	182%	236%
Return on assets	4.5%	4.0%	4.8%	3.0%	5.1%	3.2%
Gearing	57%	63%	63%	64%	55%	65%
Average interest rate	5.0%	4.6%	4.8%	5.0%	4.7%	4.1%
Employment						
Voluntary turnover rate	10.6%	21.4%	12.4%	13.2%	12.7%	17.1%
Short term absenteeism	1.5%	1.4%	1.6%	1.6%	1.5%	1.6%
Long term absenteeism	2.1%	2.5%	2.1%	1.4%	2.1%	1.7%

- Light green = better than Vantage average
- Yellow = in line with Vantage average
- Red = worse than Vantage average

The above results can be summarised in relative terms across the three financial years as follows:

	2014/15	2015/16	2016/17
Better than average	6	8	8
In line with average	1	1	2
Worse than average	12	10	9

The results for 2016/17 therefore place asra broadly at an average level of performance overall, with relatively good performance on operational indicators being offset by higher than average repair, maintenance and overhead costs, relatively high gearing and low return on assets, and some worse than average results on employment indicators. The formation of PA Housing has improved cost efficiency at its heart, and this is expected to have a significant positive impact on operating cost results once initial one-off integration costs have been cleared.

These benchmarking results are used by the business as a guide to areas for attention alongside internal knowledge of priority issues. Some success stories can be seen in the table above, such as the consistently improving trend across three years on void property rent loss and repairs appointments kept. In other areas, the results highlight where more work is needed and in this respect operating cost efficiency is key.

New sector scorecard

We are actively participating in the pilot exercise to develop a new 'sector scorecard' of 15 common metrics, designed to aid analysis of sector-wide performance and comparison of performance levels within the sector. Most of the metrics proposed for the new scorecard are already in active use, and we have commented on our current performance results for these within this section. Once the initial results of the pilot exercise are available, we will produce a separate commentary setting out our position, the causal factors and the actions being taken to improve our performance. This is a positive step to improve transparency on how our sector is performing, although care will be needed to ensure that the final metrics are meaningful and can be measured on a consistent basis between organisations.

Return on assets

Prior to the creation of PA Housing, asra developed comprehensive return on assets analysis tools which evaluate the financial contribution made by all of its properties. These tools were established with the assistance of expert sector consultants, and have since been further enhanced in-house.

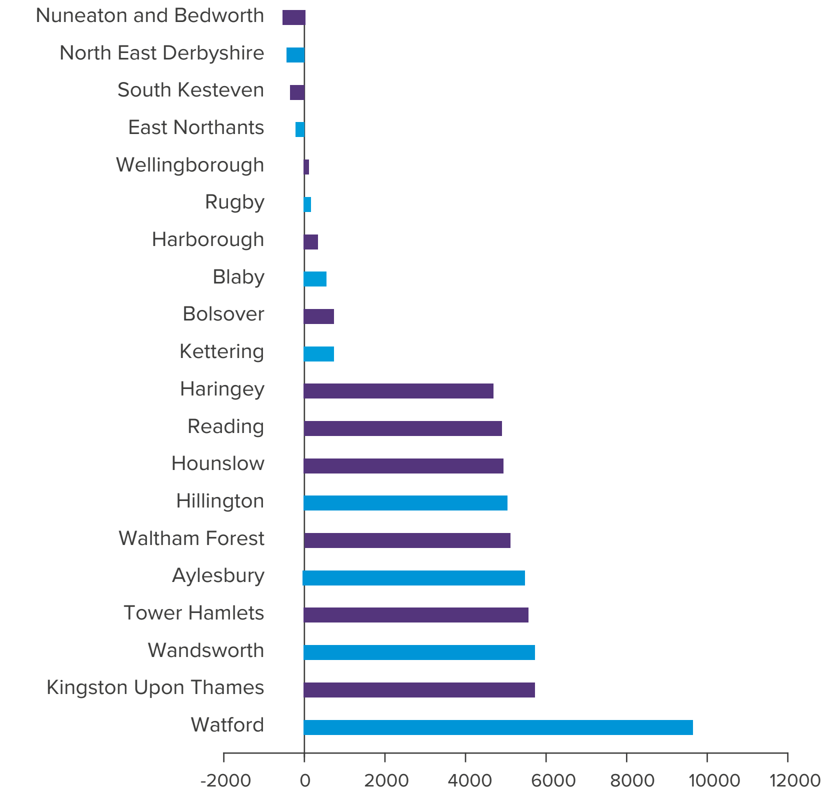
The work carried out informed Board discussion and decision about assets which are located on the geographical fringe of asra's area of operation, and options to pursue divestment of some of these assets are being pursued during the 2017/18 financial year. These disposals, if achieved, will inject cash receipts into the business for reinvestment in new and existing stock, and will eliminate some significant longer term repair and maintenance liabilities. Residents in the properties are expected to benefit from being transferred to a more local service provider who can better meet their needs.

More broadly, the return on assets analysis performed gives insight into asset performance based on a range of different segmental views. This can be used to provoke discussion on service delivery methods as well as investment / divestment decisions – for example, by examining areas where day to day repair costs appear to be higher than average and from there looking at ways in which they can be reduced.

Across the asra stock, an average annual return of c. £1,900 per property is generated. But this masks some wide disparities in performance by location, tenure and property type. The summary graphs below provide some examples of what this analysis is currently telling us.

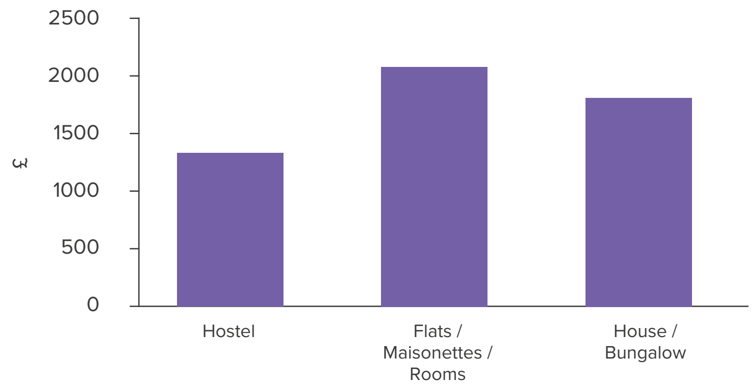
This first graph displays the average return per property across our ten worst and best performing local authority areas (a number of middle-ranking local authorities have been excluded). As one would expect, the overall trend exhibits a wide disparity in performance between regions, with London and the South (where rent levels are significantly higher) performing much better than the Midlands:

Average return by local authority



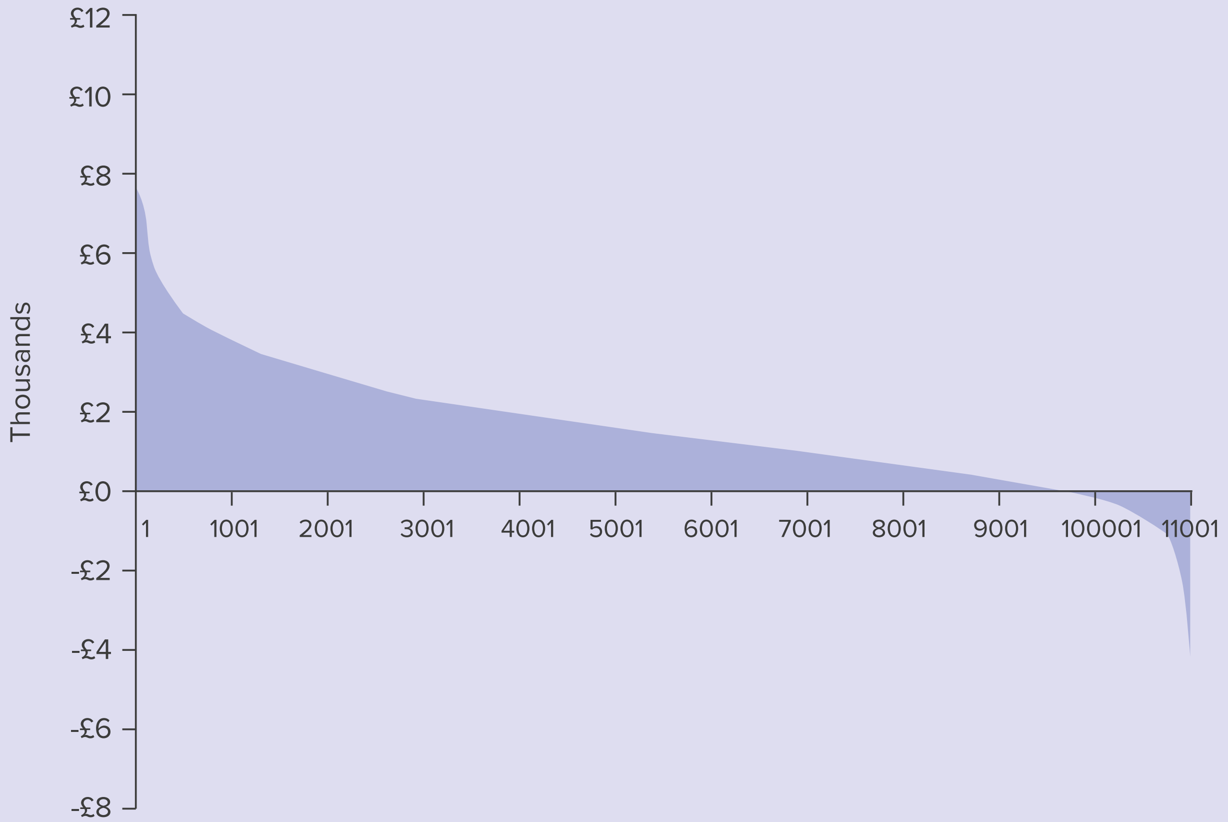
This graph summarises the average returns achieved by each main property type. Flats and maisonettes outperform houses and bungalows, largely due to the lower repair and maintenance costs incurred per unit:

Average return by property type

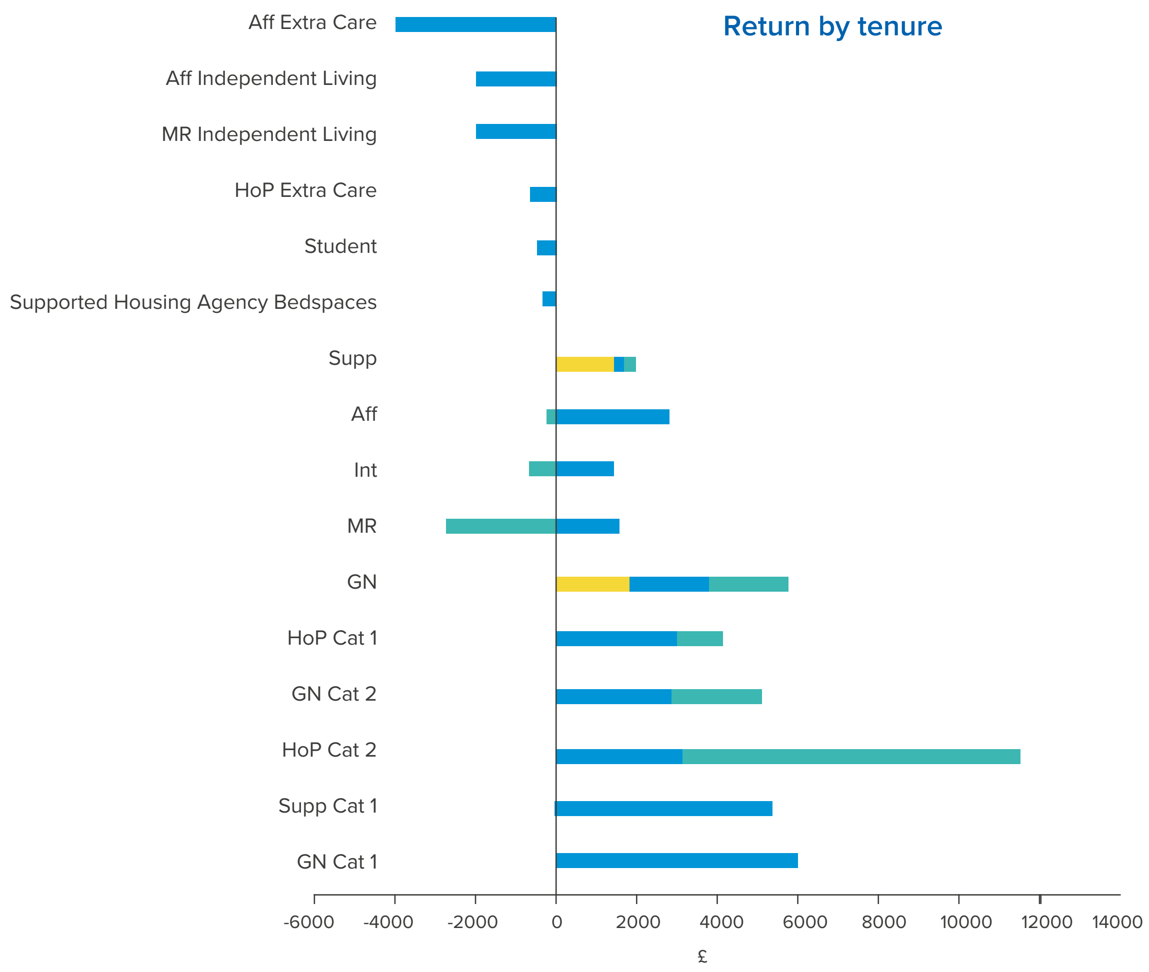


This graph ranks all of our properties in order of the financial return generated, from highest to lowest. At the right hand end of the graph we have 1,678 properties which make a loss. Our challenge is to focus on measures to improve the returns on these units, or to make divestment decisions if we believe those improvements cannot be achieved.

Return distribution



Finally, this graph summarises the average returns by tenure, with a further breakdown by property type where applicable. Older persons' bungalows are our most profitable tenure / property type combination, whereas non-older persons' extra care accommodation makes the heaviest losses.



Paragon did not have a similar systematic analysis tool in place prior to the establishment of PA Housing, and we will be working to expand this work to cover the whole of our stock in the year ahead.

However, Paragon did have systems in place for identifying suitable assets for disposal, based on a combination of investment requirements, management suitability and market value. This produces an ongoing small programme of vacant property disposals, and during the 2016/17 financial year Paragon sold four properties generating cash proceeds of £1.3m and an accounting surplus of £0.8m. These funds indirectly subsidise the new development programme through deferral of loan draw down requirement. The action taken also avoided costs of £0.3m which would have been incurred in order to bring the properties up to modern standards prior to re-let.

Our Board understands the important role granular return on assets analysis plays in support of the VFM agenda. It is only through building a true and detailed understanding of how our assets perform that we can make informed decisions about asset investment or divestment, service delivery and business growth. We will continue to develop our approach in this area to ensure that such decisions are underpinned by full insight into performance levels and how they can be influenced. Over time, this should support a gradual improvement to average returns in order to enhance future investment capacity.

Review of 2016/17 VFM targets

Paragon and asra's separate 2016 VFM Statements both contained targets to be achieved during the 2016/17 financial year, although the two organisations did take quite different approaches to how they presented their 2016 Statements.

The Paragon version included a high number of detailed targets – progress against all of these has been assessed and reported to our Board. Of the 72 targets set at the start of the year, 46 were fully achieved and 13 were partially achieved. Of the 13 which were not achieved, a large proportion were deferred due to the impending amalgamation between Paragon and asra, where planned action was replaced with work associated with that amalgamation. In particular, several IT related actions were instead wrapped up in the amalgamation work, which will continue through 2017/18. In total, cash savings of £1.8m were achieved and a number of quality related VFM enhancements were delivered.

This section of PA Housing's 2017 VFM Statement reflects on the headline targets contained therein (excluding those already reported on in the 'VFM highlights in 2016/17' section of this document), and assesses how we performed against them.

Review of Paragon headline targets

Target 1: Deliver savings through a revised approach to procurement and delivery of cyclical maintenance.

Long term internal and external contracts have been procured from two suppliers, and management of these contracts has been insourced. This has delivered net savings of £170,000 per annum versus a target of £300,000. At the same time, the cyclical redecorations life cycle has been extended from five to seven years, in line with Board approvals. This action has met the target saving of £270,000 per annum.

This target has been **partially achieved** overall.

Target 2: Implement new replacement life cycles for kitchen and bathroom replacements.

At the start of the year we extended our kitchen standard life cycle from 20 years to 25 years, and our bathroom life cycle from 30 years to 37 years. This was in line with Board approvals, the decision being based on evidence of stock condition following a period of significant stock investment. This measure achieved savings of £500,000 in the year based on the volume of replacements delivered on the new life cycles compared to the old, matching the target set at the start of the year.

This target has been **achieved.**

Target 3: Consider bringing the grounds maintenance service in-house at the Franklands Park estate (joint venture with Accent Group)

This was actioned during the year, generating annual savings of £42,000 compared to the previous outsourced contract. These savings are passed on to residents via the service charge. In addition to the cost savings delivered, this gives us direct control over service quality and a more consistent on-site presence to support customer relationships and improve our approach to proactive management of insurance liability risks, fly tipping and other common estate management issues.

This target has been **achieved.**

Target 4: Reduce expenditure on 'non-core' voids to save costs and speed up re-let times, where this does not have a detrimental impact on lettability.

Spend on non-core voids was reduced by £191,000 during the year, and the new approach contributed to an overall reduction of two days to average re-let times.

This target has been **achieved.**

Target 5: Invest in additional market rent properties to generate profits for reinvestment into new development schemes

One new market rent property was completed during the year, generating additional income of £12,000 per annum. A contract for a further 16 new units has been entered into, with completion of build estimated for February 2018. This scheme will generate additional income of £24,000 per annum when let.

This target has been **achieved**, although we have ambition to continue modest expansion in this area.

Review of asra headline targets

Target 1: Achieve 95 per cent first time fix to customer enquiries

This target focussed on improvements to customer services, and it arose from direct customer feedback following a large scale survey carried out in 2015. Achievement of the target was predicated on a major restructure of our customer contact centre, with digital solutions allied to a range of new tools designed to increase the range of enquiry responses our contact centre staff are able to deliver.

This project remained ongoing throughout the year and has not yet fully completed – therefore it is too soon to judge final outcomes against the headline target. However, reported results for the year were highly encouraging with a full year average of 95 per cent achieved and results for the final five months of the year consistently higher than this.

This target has been **achieved** to date although long term outcomes still need to be monitored.

Target 2: Deliver at least 250 new homes.

During the year we suffered significant delays to two key schemes, Crown Street (57 units) and Park Royal (99 units). The schemes are now back on track, but failure to complete them during the year as planned severely hampered our overall programme results and diverted management time from other planned projects. We completed on 73 units in total, of which 42 were rental properties, 20 were shared ownership and 11 were outright sale.

This target was **not achieved**, largely due to the delays experienced on two large schemes.

Target 3: Strive to achieve and maintain customer satisfaction of 90 per cent.

Regular overall customer satisfaction surveys were carried out during the year. The average achieved across the year was 83 per cent, with a peak of 86 per cent achieved in March 2017. The changes we have made to our operating model, including introducing new digital services, are major and there has been a degree of turbulence during the year. However, overall satisfaction has been maintained at over 80 per cent throughout and we remain confident that the direction of travel is appropriate. Clearly the formation of PA Housing brings with it a new set of challenges around customer services delivery, and further work will be needed to develop a fully integrated service offering to all residents (including access to digital services). But this does not change our commitment to achieving high service standards and satisfaction levels going forward.

This target was **not achieved** but it remains a key target for PA Housing.

Target 4: Aim to achieve an operating margin of no less than 34 per cent.

Our audited financial statements for 2016/17 report a headline operating margin of 33.4 per cent. However, during the year we incurred one-off costs of £0.9m relating to the PA Housing amalgamation. If these are excluded, operating margin increases to 34.4 per cent. Going forward, PA Housing will continue to target operating margin levels in excess of 34 per cent.

This target was **achieved**.

We want residents to have a sense of pride in their homes.

VFM targets in the year ahead

The following sections of this VFM Statement examine the key component elements of our business in more detail. Each section sets out the work we will be doing in the year ahead which either directly responds to our VFM priorities, or will deliver VFM benefits alongside other expected outcomes. The 'top 10' headline targets for the year are denoted as such, and these targets will be reviewed in detail in next year's VFM Statement.

Landlord services

VFM in this area of the business is about the following key elements:

- Providing core services which are well regarded by residents
- Delivering strong operational results when compared to the sector
- Carefully managing our service input costs to promote efficiency of operations

Key VFM actions for 2017/18

1. Progress the former asra digital transformation project, expanding to former Paragon residents and achieving 30 per cent take up by residents based on transaction volumes
2. Achieve average re-let times of 21 days for minor works re-lets and 27 days for all re-lets **(headline target)**
3. Achieve gross current tenant rent arrears of 3.7 per cent **(headline target)**
4. Continue the ongoing work to improve service charge costs collection and apportionment, to ensure fairness and accuracy of charges passed on to residents
5. Improve the way in which service charge accounts information is presented to residents, so contributing to increased satisfaction with the value for money of the service charge
6. Complete implementation of new Section 20 consultation processes with leasehold residents, so contributing to increased satisfaction with this aspect of the home ownership service
7. Fully implement a new Neighbourhood Co-ordinators service, as specified in the resident scrutiny action plan following review of the housing service
8. Progress resident employment opportunities in partnership with external agencies as part of the tenancy sustainment effort
9. Forge partnerships with agencies who will work with our residents to improve their access to and knowledge of digital services, in support of the digital transformation project
10. Establish social impact reporting to feed into broader VFM reporting, based on reliable measurement methodologies
11. Carry out a VFM review of the former asra furnished tenancies service
12. Set up a hardship fund to support tenancy sustainment
13. Expand 'first time fix' services such as the former Paragon Super Caretakers
14. Commence planning for delivery of an integrated PA Housing staffing structure in order to deliver efficiency savings
15. Establish a framework for directly involving interested residents in major procurement processes / decisions which affect the services provided to residents
16. Complete business process 'lean' reviews to inform and achieve efficient ways of working

Asset management

VFM in this area of the business is about the following key elements:

- Ensuring appropriate levels of investment in our properties at competitive unit costs
- Taking a strategic view of asset performance and making informed investment / divestment decisions
- Working proactively with key contractors to maximise performance for our residents and value for our business

Key VFM actions for 2017/18

1. Undertake a complete overhaul of our in-house direct labour organisation which currently services c.2,000 of our Midlands properties, making it suitable for future expansion to other geographic areas of the business should the Board decide that this is the preferred strategy. This will include work to reduce materials costs and improve labour productivity **(headline target)**
2. Progress plans to introduce an integrated repairs and maintenance service to PA Housing residents, using the model which offers the best overall scope for achieving the required levels of service quality and cost efficiency **(headline target)**
3. Re-tender key property health and safety and major component contracts based on a five year programme **(headline target)**
4. Review our property energy datasets, undertake audits of the worst performing schemes / blocks / localities and complete pilot upgrade projects to improve efficiency and reduce associated future repair and maintenance costs – this will incorporate grant funding applications to subsidise the costs **(headline target)**
5. Continue the programme to replace expired / obsolete property elements (e.g. single glazed windows, storage heaters) to improve the comfort and energy efficiency of homes for residents **(headline target)**
6. Continue delivery of the former asra strategic asset management project (approved 2015), which entails disposal of occupied geographically remote properties, market sale of vacant poorly performing properties (based on pre-determined golden rules) and cash flow optimisation of existing assets **(headline target)**
7. Expand the proactive Property MOTs service to reduce long-term repairs costs and achieve a positive return on investment
8. Reduce the average volume of repairs per annum required by the top 100 users of the repairs service by 50 per cent, and consider the scope this offers to amend service delivery models
9. Review the potential for cost savings through changes to our boilers specification and associated inspection cycle
10. Continue the programme of disposal of vacant properties with an energy performance rating of F or below
11. Commence delivery of the 'Paragon garages' project, with the target being to reduce garage void rates by at least 50 per cent over the two years ending March 2019
12. Implement a harmonised approach to return on assets and property valuation analysis for all PA Housing stock, using this to drive appropriate strategic asset management decisions
13. Fully implement the Paragon customer champion project recommendations on communal key management, delivering a fully auditable key system across some 700 properties to improve service efficiency and customer satisfaction
14. Achieve customer satisfaction with the communal cleaning and grounds maintenance services at 80 per cent, including through implementation of recommendations made following former Paragon residents' scrutiny of these services

15. Implement improved processes for cancellation of repair jobs where appointments have been missed by the resident, in order to improve efficiency of the repairs operation

16. Bring electrical testing of properties in-house, saving £60,000 in 2017/18 and generating recurring future years savings of £160,000 once fully implemented

17. Implement changes to maintenance of sewerage pumping stations, saving £21,000 per annum

18. Commence planning for delivery of an integrated PA Housing staffing structure in order to deliver efficiency savings

19. Complete business process ‘lean’ reviews to inform and achieve efficient ways of working

In addition to the above new targets, various VFM initiatives introduced in previous years will continue to generate recurring cash savings of £1.5m per annum throughout 2017/18 and beyond.

Business support

VFM in this area of the business is about the following key elements:

- Maximising capacity for business investment and growth
- Putting in place systems and processes which help us to deliver efficient services
- Executing strong commercial management of our resources, including our approach to procurement and supplier management

Key VFM actions for 2017/18

1. Deliver phase 1 of staff structure integration, incorporating senior management roles, Finance, HR and Communications, and deliver the planned cost savings **(headline target)**

2. Tender key business support contracts (primarily insurance and external audit) to procure a cost efficient harmonised service which meets quality standard expectations

3. Embed new procurement standards throughout PA Housing, incorporating both tendering processes and active supplier / contract management

4. Deliver structural improvements to decision support services offered to the business by the Finance function

5. Decide on PA Housing’s benchmarking services requirement going forward, and develop benchmarking analysis tools within this to inform business discussion around VFM

6. Establish departmental VFM logs for ongoing capture and reporting of VFM activities within teams

7. Establish a regular VFM blog on the PA Housing intranet to promote VFM themes and results

8. Develop suitable VFM reporting for external stakeholders, taking into consideration any changes to the VFM regulatory regime

9. Develop departmental VFM summaries for presentation to involved residents, so they can review and comment on the VFM of services being delivered

10. Establish a framework for directly involving interested residents in PA Housing staff recruitment processes, so residents have a say in the appointment of people who provide their services

11. Explore options around use of commercial subsidiary companies and / or cost sharing vehicles to maximise group-wide financial efficiency

12. Investigate further options for restructure of the PA Housing debt and treasury portfolio to improve the risk / return balance, within the constraints of approved treasury policy and strategy

13. Implement accounts payable transaction processing software to recover historic payment errors and minimise risk of future errors

14. Introduce an integrated hybrid mail system for all PA Housing offices

15. Investigate options to reduce / reclaim business rates payable to local authorities

16. Complete business process ‘lean’ reviews to inform and achieve efficient ways of working

Business growth

VFM in this area of the business is about the following key elements:

- Building high quality homes in areas of good demand which have an efficient cost in use for residents
- Managing build costs effectively so that growth capacity is efficiently utilised
- Utilising internally generated resources to fund activities, thus minimising reliance on the public purse

Key VFM actions for 2017/18

1. Assess capacity for an expanded new development programme taking into account the current and expected operating efficiency position, internal financial golden rule limits, and external stakeholder requirements on financial stability **(headline target)**
2. Progress three key delayed schemes towards completion with measures to mitigate losses incurred due to contractor performance and deferral of income
3. Develop the new PA Housing sales function to ensure speedy and efficient sales processes in line with target pricing
4. Develop a land banking approach to strengthen the pipeline of future schemes, in line with approved criteria
5. Strengthen relationships between the Development team and the Housing and Asset Management teams in order to improve the design and specification of new build schemes with a view to reduced whole life costs
6. Increase the standardisation of new property components to reduce future maintenance costs

PA Housing as an employer

VFM in this area of the business is about the following key elements:

- Recruiting and retaining a motivated and highly performing workforce.
- Giving staff access to the training and support they need to perform effectively.
- Offering salary and benefits packages which are sufficiently competitive to attract people with the skills we need, but which are mindful of our status as a charitable provider of social housing.

Key VFM actions for 2017/18

1. Establish a learning and development function which will actively drive and promote high levels of staff performance in a cost-effective manner
2. Establish mechanisms for recycling of the Apprenticeship Levy within the business
3. Develop standards and expectations for appropriate VFM questioning to be used in staff recruitment interviews
4. Devise appropriate VFM related clauses to be entered into staff job descriptions
5. Review and reduce the volume of 'mandatory' training courses for staff, thus saving money and freeing up staff time

VFM – a closing summary

Within this VFM Statement we have set out how both Paragon and asra have worked in the past to deliver VFM in support of corporate objectives, and how PA Housing will continue this going forward. We have shown how our operating costs and performance levels compare to others, and how that information influences our activities. We have given examples of the work we've done during the 2016/17 financial year to improve VFM, and we have set out our VFM targets for the year ahead.

PA Housing's cost base is efficient relative to most in the sector, and work is already well underway to further improve this position through delivery of the cost saving opportunities which amalgamation brings. The benchmarking information we gather shows that our performance levels are generally better than average and are broadly on an improving trend. There are some key areas where we still need to do better though, most notably customer satisfaction where our performance is currently below where we would like it to be. However, we are at a transitional phase of our project to convert to digital service delivery platforms, and we remain confident that in the longer term this is a model which will prove popular with our residents.

The social housing sector remains a highly challenging and diverse market. Key political events and decisions in recent years have cumulatively placed ever increasing financial and operational pressures on registered providers, who need to ensure that they can evidence a continuing story of strong VFM delivery which encompasses higher outputs in the form of new housing supply alongside operating cost efficiency. This presents opportunities to those organisations like PA Housing who are well placed and well motivated to meet the national agenda alongside pursuing our own corporate aims. The first two years post-amalgamation will see significant work to put the building blocks in place in order to fully respond to these pressures and priorities over the long term.

During 2017/18 the key VFM themes we will be exploring include:

- Delivering our new VFM Strategy, including achievement of the £3m recurring savings targeted by our Board
- Renewing our stock investment information and determining a revised long term expenditure strategy within the constraints of business affordability, taking into account emerging priorities in the wake of Grenfell
- Developing our approach to return on assets analysis to improve average unit performance and enhance efficiency of service delivery
- Reviewing our key repairs and maintenance service contracts and starting work on a longer term plan to bring the former Paragon and asra services together in a strategic way which maximises VFM opportunities
- Gearing up for an expanded development programme, incorporating a larger property sales programme in order to provide cross-subsidy for new rented accommodation
- Commencing the groundwork for the next phase of our loan financing requirements, in support of our longer term growth plans
- Reviewing our approach to use of benchmarking services to ensure best fit to business need and close alignment with the broader VFM agenda
- Instilling a strong culture of VFM awareness and management within the new PA Housing staff base

Governance

We recognise that our governance arrangements will need to continue keeping pace with the increasingly commercial outlook of the business and the sector. At the same time, we must ensure that we fully comply with the requirements of the HCA and other key stakeholders, offering assurance that we manage business performance and associated risk appropriately. And we must continue to focus on our core role as a charitable provider of social housing. As a newly formed entity, we are undertaking work on our governance frameworks to ensure that we will remain well positioned in this respect, but we recognise that we must continue to evolve our approach to governance in order to meet our strategic objectives and respond to the changing external environment.

Measuring success

At a headline level we will define and measure long term VFM success in the following ways:

- Enhanced financial capacity to deliver our objectives
- Delivery of specific projects and activities identified to support the corporate objectives and the VFM Strategy
- Recognition as an organisation which delivers good operational and financial results when compared to others, with generally improving trends
- Achievement of annual operating cost savings and consideration of options for reinvestment of these funds
- Recognition by all key stakeholders that we have a mature and productive approach to VFM

Finding out more

We are always happy to talk to our customers and stakeholders about how we deliver VFM. If you want to find out more, or if you have some VFM suggestions that you think we should look at, then contact us and we will arrange for Simon Hatchman, our Finance Director, to talk to you. If you are a resident and you want to get more actively involved in scrutinising VFM with us, contact our **Community Engagement Co-ordinator, Simon Martin** at **simon.martin@pahousing.co.uk** or **0300 123 2221** for more information.

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