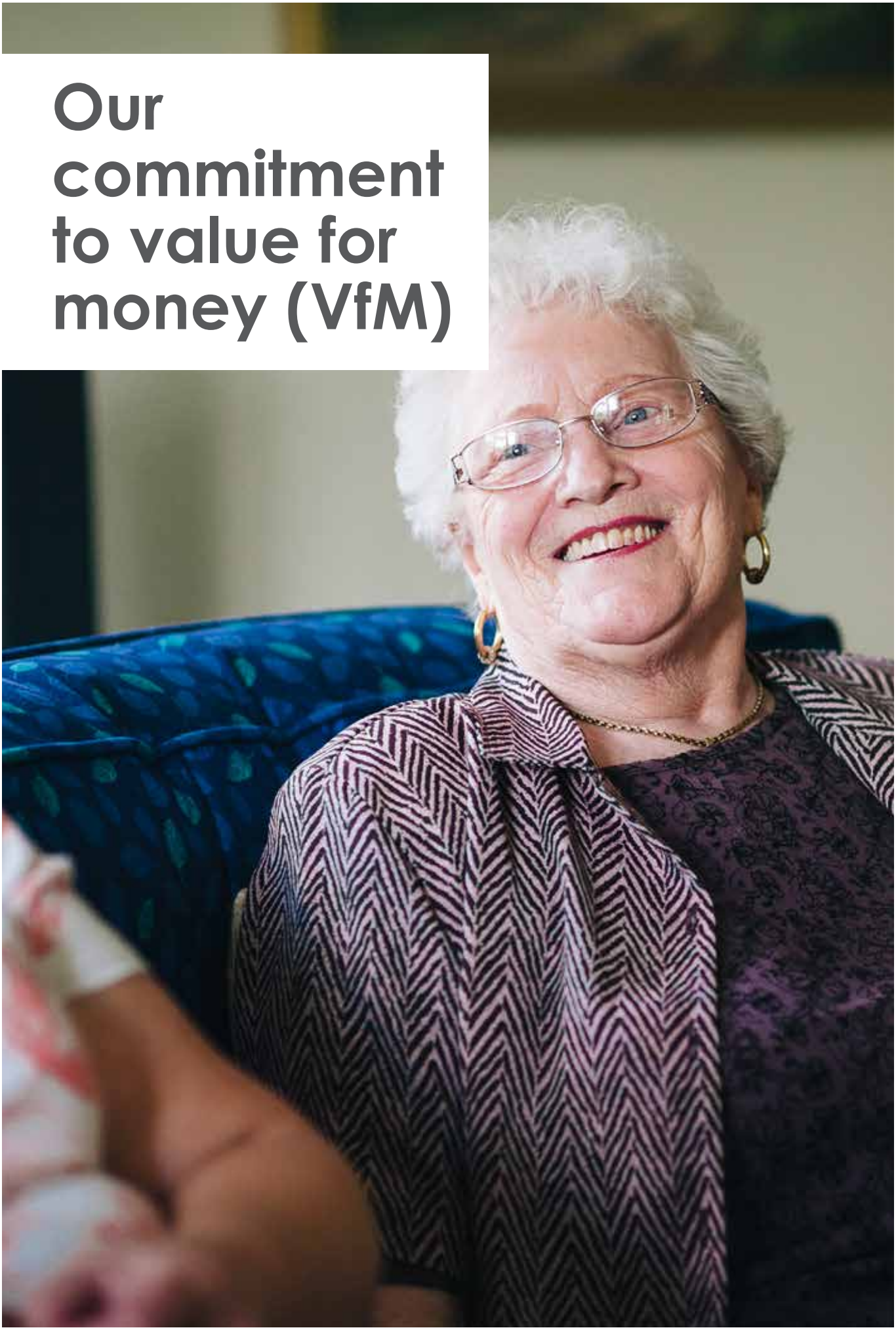
Bromford.

Value For Money self assessment

For the year ended 31 March 2015

Our commitment to value for money (VfM)



Message from our Chair

In the July budget, the Chancellor announced a decision to impose 1% rent reductions on Housing Associations for each of the next four years. This change reduces our expected income by around £50m over that period and has led us to revise our business plan in response. We are in a strong financial position – not least due to our strong commitment to delivering Value for Money - and are well placed to adapt to the changed circumstances. We have a very strong core operating margin (41%) and will continue to seek further efficiency improvements, but the main outcome is a reduced capacity to develop new homes - over a 10 year period we expect to deliver some 2,500 fewer homes than would otherwise have been the case. Despite this, we are confident that with the continued commitment of all our colleagues, the support of our partners and a deep focus on strong, risk based governance, Bromford will continue to succeed and help our customers thrive.

Our VfM approach

Our business plan sets out how we intend to achieve our strategy and allocate our resources. Generally we operate to a five year planning horizon and the business plan is subject to our VfM planning framework.

We have a good understanding of the costs of our services, the returns we achieve on our assets and how our performance compares to our peer group. The detail of this is set out in the 'Benchmarking' section below and in the benchmarking annex to this VfM self-assessment.

Our fundamental purpose is to inspire people to be their best. We believe that by doing so, we create and maintain social value. The further development of systems to capture social value outcomes is a major priority for us. We have for the second year produced a Social Value Assessment (SVA), setting out our vision, progress and plans in this area.

VfM overview

We have three top level VfM metrics:

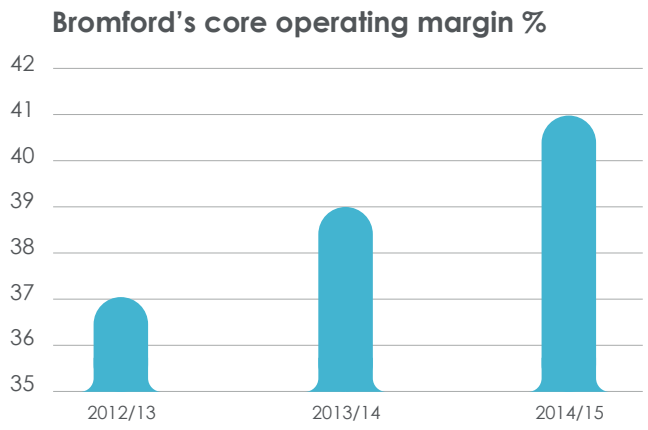
- Customer advocacy - a proxy for 'value'
- Core operating margin - a proxy for efficiency and effectiveness
- Additional income retention - a way to drive improvements in efficiency and effectiveness.

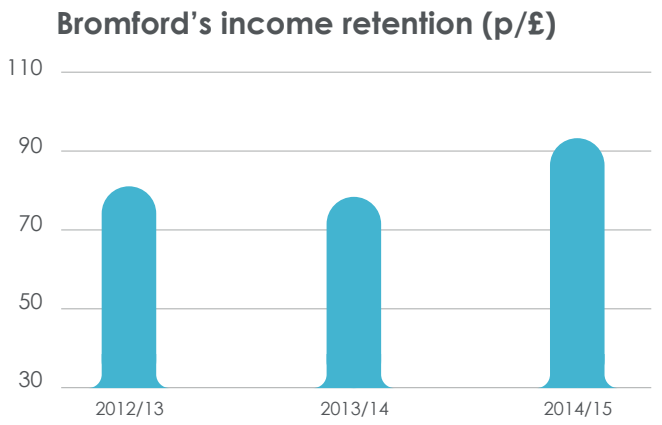
We narrowly missed our customer advocacy target for the year but, having taken corrective action, this is now on an upward trend and in quarter four was ahead of target. We monitor and report customer feedback in a wide range of areas using our **'tell us how it really is' report** and our **'customer annual review'.** Further information is available in the 'Our assessment of our performance' section of this report.

Our aim has been to improve our operating margin year on year. By setting ourselves the objective of retaining at least 60p of every £1 of new income that we receive, we generate a cap within which cost increases have to be contained. Overall this drives improvements in our core operating margin.

This VfM framework sets a context in which we continue to improve economy, efficiency and cash generation, which, in-turn, enables us to make greater investments to achieve our aim of 'inspiring people to be the best they can be'.

Our performance on these financial metrics continues to meet our expectations:

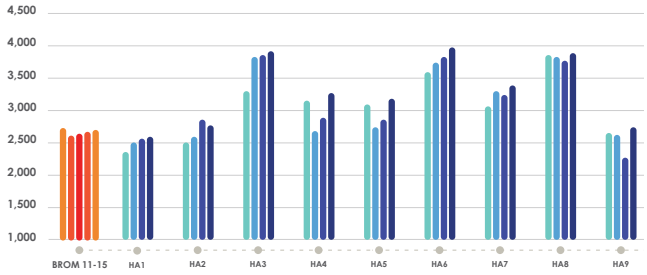




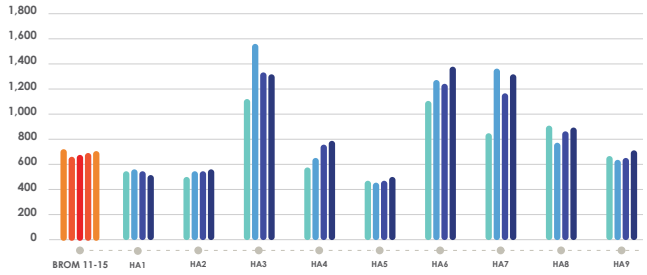
Benchmarking

Here, we have set out a broad range of key performance comparison measures which demonstrate our financial strength, focus on customer affordability and success with cost control relative to our peer group of HAs, whose data is shown below, taken from 2013/14 statutory accounts. Bromford's performance is shown for both 2013/14 and 2014/15). *Five year trend graphs start with 2010/11.*

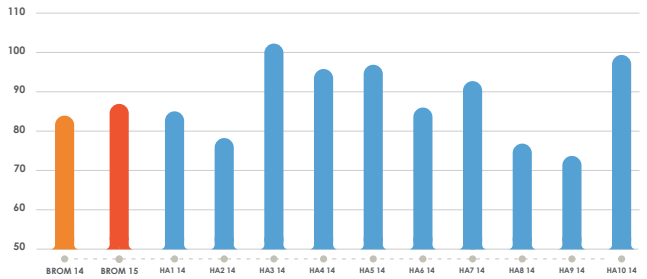
Social operating cost / unit - five year trend - £



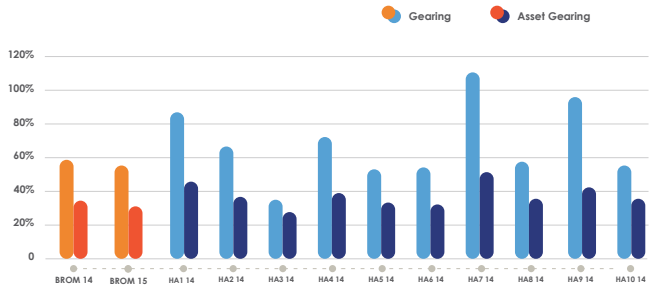
Management cost / unit - five year trend - £



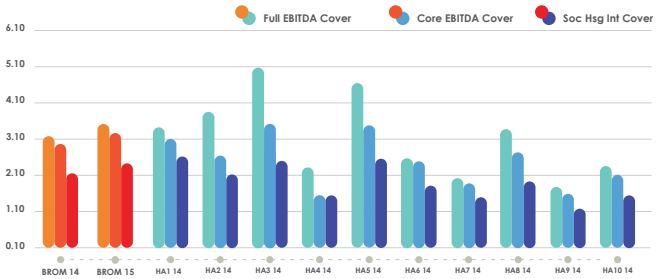
Statutory accounts - average rent / week - £



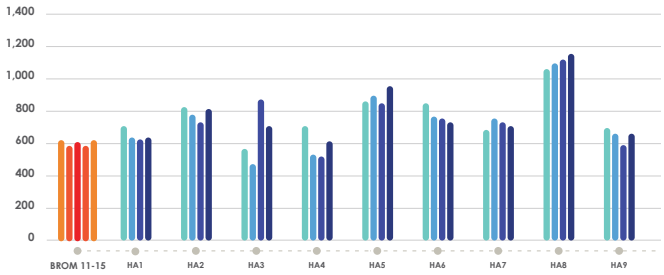
Statutory accounts



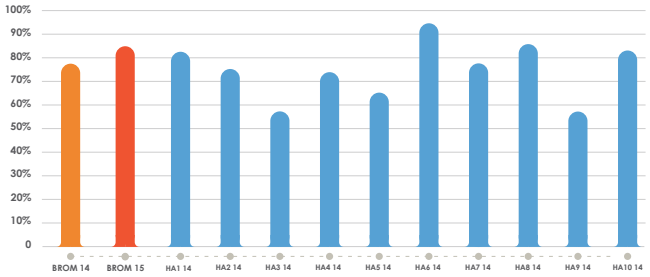
Statutory accounts - interest cover



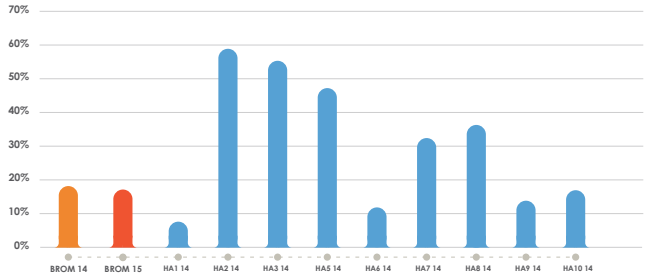
D2D repairs cost / unit - five year trend - £



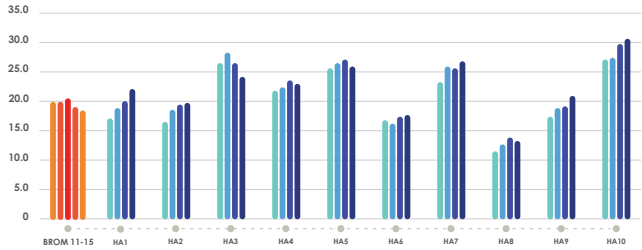
Statutory accounts - % social housing turnover

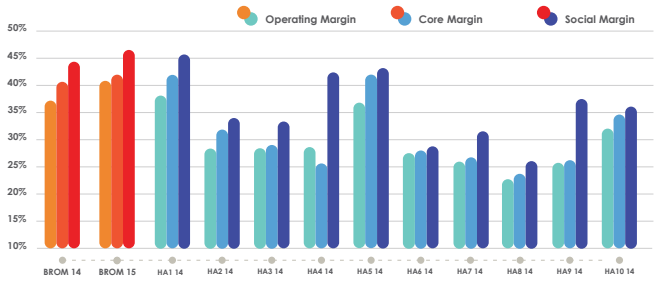


Statutory accounts - profit from sales / net profit

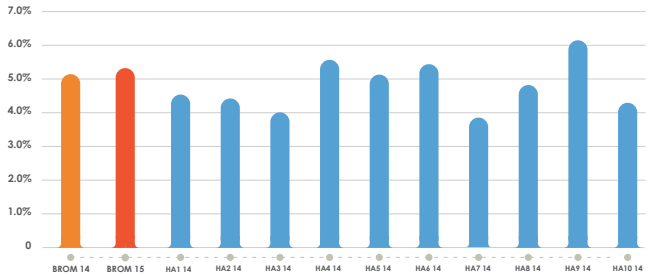


Debt per unit - five year trend - £'000

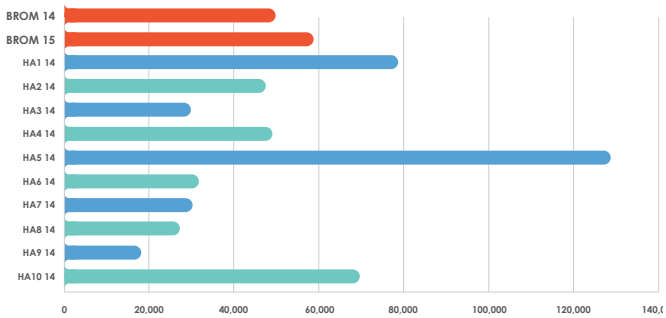




Statutory accounts - full cost of funds %



Statutory accounts - core profit per colleague £



We do not consider that current benchmarking identifies any areas in which our performance requires material improvement compared with our peers.

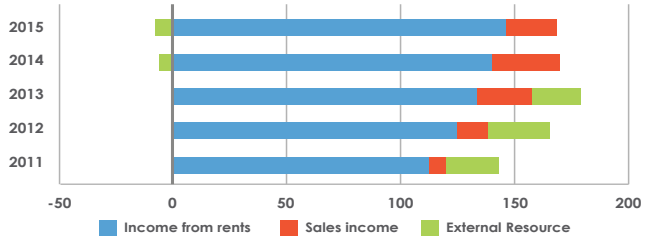
For further benchmarking comparisons, see our benchmarking report on the following **link.**

Resource generation

Our VfM framework going forward is based on cashflow and sets targets for net cash generation, from core activities and from disposals arising from our asset management plan. After meeting our loan obligations for interest and loan repayments, this leaves our free cashflow which is available for investment choices.

For the last two years, we have generated sufficient cash to fund our new homes development without the need for additional borrowing.

Resource generation £m



Resource allocation for investment

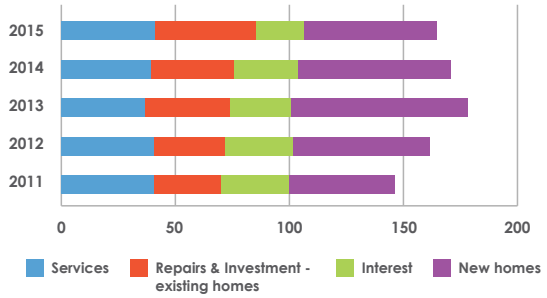
Under our VfM framework, our free cashflow materially funds our investment in three areas:

- Existing homes
- Developing our services
- New homes.

Typically, the amount we invest will exceed our free cashflow and we meet the shortfall from our own cash resources or from new loan finance.

The following graph shows the investment of resources for the last five years:

Resource allocation £m



More detail on where our cash resources come from and how they are invested in services and homes, is set out in this **blog on our record surpluses**, written by our Chief Executive, Philippa Jones.

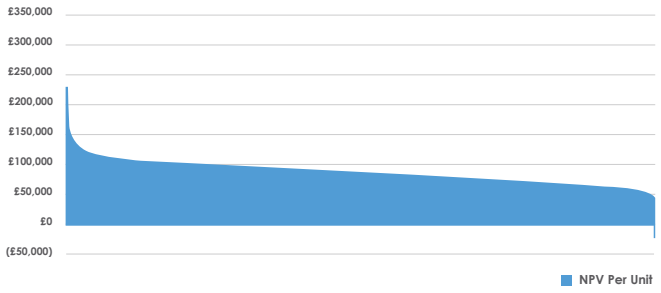
Return on Assets

Our main granular measure of return on investment is our net present value (NPV) model. This calculates the NPV by unit or scheme.

During the past year we have worked on improving the accuracy of our modelling. This has resulted in a reduction of the number of negative NPV units from 73 to 6.

Our model does not currently reflect the rent decreases set out in the budget. We are working to update the NPV model to reflect these changes and will publish new information when available. Overall net present value will be reduced for our rented homes.

NPV Per Unit



We implemented our asset management strategy for disposals during the year, which resulted in the following strategic disposals:

Type of Disposal	Number of Units	NPV per Unit
Sale of homes that cost more than they make	4	Poor
Sales of high maintenance homes	11	Poor
Sales of non traditional homes	2	Poor
Sale of regency homes in Cheltenham (flats)	24	Poor
Sales of homes in non core areas	6	Average
Total	**47**	

In addition we also disposed of eigth units to help fund the 2011-15 HCA development programme. These disposals generated profit of £1.0m.

Managing our assets

We have evaluated our assets against a number of criteria to ensure we are providing homes that meet our customers' needs and maximising the value for money of our assets. These criteria include:

- Location (are they in our priority areas or not?)
- Density (are they isolated properties or in a community?)
- Construction (are they traditional or non-traditional?)
- Maintenance Costs (have they reached an age where a lot of expensive maintenance is required?)
- Cost vs income (do the costs of keeping the home exceed the income?).

Using all of this information we have developed a list of homes that are likely to be sold on the open market if and when they become vacant. We are aiming to sell around 790 homes over the next five years.

Energy efficiency

We have analysed all of our homes against the A-G rating used on Energy Performance Certificates and are on track to meet our target to have no E, F or G rated homes by 1st April 2018.

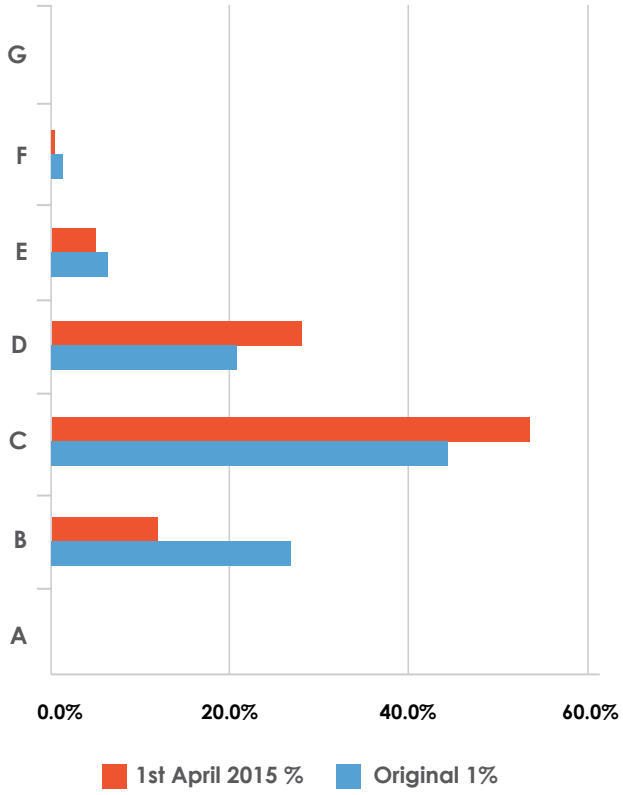
The table below shows the number of homes we have in each category and the progress we are making towards our target. The change in the numbers of properties in each category is due to two reasons:

1. The energy efficiency works we have undertaken to meet our commitment to having no E, F or G rated homes by 1st April 2018.

2. The work we have undertaken to establish a 100% EPC or EPR rating for each home. The original figures were based upon an extrapolation of the sample of EPCs we had in place, whereas the existing numbers are based upon a full data set.

Category	Original Number	Number 1st April 2015
A	19	16
B	6,365	2,919
C	10,634	12,896
D	4,962	6,751
E	1,572	1,259
F	347	149
G	60	13
Total	**23,959**	**24,003**

This shows that the number of E, F or G rated homes has dropped from 1,979 (8.25%) to 1,421 (5.92%).



We plan to invest £30m in heating systems over the next five years to improve the energy efficiency of our homes.


Sebastian Bubb
Bromford

Redevelopment

We have now constructed our first redevelopment scheme at Akeman court in Cirencester and are continuing the build at our second scheme at Fortey House in the Cotswolds. We are now also developing options for a number of schemes in Lichfield, the Cotswolds and throughout our assets where redevelopment could be the best solution for our current and future customers and for us - redeveloping new, better homes using existing land.

Our VfM matrix

We use our **VfM matrix** to map how our services deliver VfM for our customers and other stakeholders. The Matrix includes:

- Who the stakeholders are
- How we measure VfM delivery
- Where we monitor the measures
- What the drivers of performance are
- Our assessment of our performance

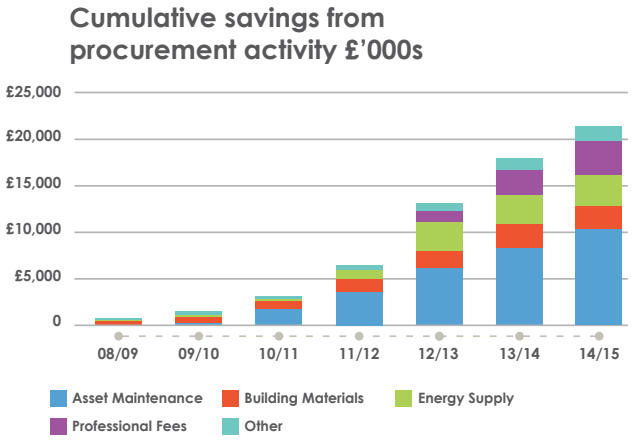
Our VfM infographics

We have developed a series of infographics that provide evidence of our VfM delivery in the following areas *(click the links below)*:

Services Delivered	**Social Value**
Great Place to Work	**Business Health**

Procurement

Our target was to achieve cumulative savings of £24m by March 16, and we have in fact achieved savings in excess of £21m to March 15.



The 2014/15 procurement savings include:

- £1.6m - Kitchen and bathroom replacement
- £0.9m - Professional services
- £0.3m - Component replacement
- £0.2m - Asbestos works
- £0.2m - Cleaning Contracts
- £0.1m - Telephony
- £0.1m - Water hygiene works
- £0.1m - Materials
- £0.1m - Cyclical decorating
- £0.1m - Roofing works.

We also procured new IT systems, helping us to deliver efficiency improvements in several key areas of the business, including Repairs and Human Resources.

For contracts where Bromford secured cash saving, 37% of these will have a direct benefit fot customers paying service charges.

The 2015/16 procurement programme includes the following:

- Landline and broadband services
- Mobile telecommunications
- Utilities
- Fleet services
- Roofing works
- Plant and equipment
- Domiciliary care services
- Appliance maintenance services

Procurement decisions are based on a range of factors including price, quality and social value. Whilst price is clearly a very important factor, it is one of several. Quality is a critical issue; ensuring that we get the best service for ourselves and for our customers.

Social value assessment (SVA)

Our aim is to create social value from the investment decisions we make. Measuring the social value created by what we do ensures that we squeeze the maximum value from every pound we invest, enabling us to make informed and evidenced investment decisions by measuring the outcomes that are important to our customers and external stakeholders.

Our 2014/15 social value work has extended the analysis carried out in 13/14 to a number of new areas:

Service Offer Pilots - a range of new service offers that focus on supporting resilient, self-motivated customers to achieve personal goals and make a positive contribution to neighbourhoods and society.

Employment and Skills - supporting customers to gain the skills and confidence to access appropriate and sustainable employment outcomes.

Short-term housing-related Support Services - developing and maintaining a person's ability to live independently, either in their own home or in supported accommodation.

Young Families Support Service Pilot
The detailed outcomes are set out in our **14/15 Social Value Report.**

How we measure social value

We continue to use two methodologies based on cost benefit analysis (CBA) and social return on investment (SROI). Both models are concerned with two key questions:

- Has our intervention caused a change in outcome?
- What is the value of that change?

Our approach to evaluation is based on the New Economics Foundation methodology and principles of measuring social value in a clear and transparent way.

The majority of our pilots are yet to be completed, so our analysis is based on the results to date. Our evaluation indicates that we created additional social value of ~£60.1m per annum from the services evaluated. The annualised cost of delivering these services totalled £6.6m, returning a social value of just over £9 for every £1 invested.

Future VfM plans

We will continue to have VfM at the heart of what we do. We have a programme of business improvement projects, the majority focussed on the use of technology to improve both the customer and colleague experience and produce efficiency gains from smarter working. These projects are managed and coordinated through our Project Portfolio Board and include:

- New paperless support field system
- New automated direct debit update system
- New repairs field system
- New document management system
- New CRM system
- New human resources system
- Various system upgrades (to newer versions).

Future Outlook

Welfare Reform

We gained valuable insight from participating in the Department for Work and Pension's (DWP) Shropshire pilot and are running our own internal pilot of direct payment. At year-end we had 300 customers receiving benefits direct, mainly within Lichfield and Shropshire, with arrears at 4% - slightly higher than the general level of arrears. We continue to keep close to Universal Credit development and implementation issues and are represented on key DWP working groups.

Supporting customers affected by under-occupancy and welfare caps is now 'business as usual'. At the year-end we had 1,742 households (13/14 2,061 households) affected by under occupancy. We expect this decline in numbers to continue – new lettings being made on the basis of the new regulations. Our interventions over the year have proved effective with year-end arrears for this group averaging at 5.38%, only slightly above our overall average arrears of 4.2%. 50% of customers have clear accounts, proving that, with the right support, customers are adapting to the change. Benefit Cap arrears at year-end were only £13k (6%).

Our financial planning allows for an increase in arrears and bad debts and for additional resources, which we believe will be required going forward. However, we expect to maintain our current strong financial position.

Supporting People contracts

Continued pressure on local authority funding has led to reductions in services and funding and we are reviewing our position on a contract by contract basis. We have been unsuccessful in some retendering exercises, most notably in Birmingham. Generally in these circumstances, TUPE rules apply, and colleagues transfer to the new provider. In some cases, however, we have had to make a relatively small number of colleagues redundant. Where possible, we have found suitable alternative work for colleagues, most notably involving them in our service offer pilots. Over time we expect our Supporting People activity to continue to reduce.

Benefit freezes / cuts

We will continue to take into account the details of benefit freezes and cuts, once clear, when assessing the affordability of our rent in the future.

Right to Buy extension

On the basis of early modelling we expect that the proposals will lead to a reduction in affordable homes – broadly, even with full and timely compensation for the discount, it will take three RTB sales to finance two new rented homes. We will keep our assessment under review as more detail emerges.

Financial Strategy

In summary, our strategy is to operate on a VfM basis to generate the maximum funds possible for investment in new services (the Deal), our existing homes and new homes. We aim to target that investment to produce the greatest possible social value and to inspire people to be the best they can be, with the objective of fostering self-reliance to help sustain those customers who are already economically active and helping those who are not become so. All this remains unchanged – although there are clearly significant uncertainties facing the sector as a whole and these will affect the detail of how, and at what speed, we deliver our strategy.

We are well placed to meet the challenges of the future – benefiting from:

- A proven track record of service delivery and innovation combined with VfM
- Committed and well-motivated colleagues who are open to change
- A sustained strong financial performance.

We will publish our forward looking VfM targets following the approval of our revised business plan.