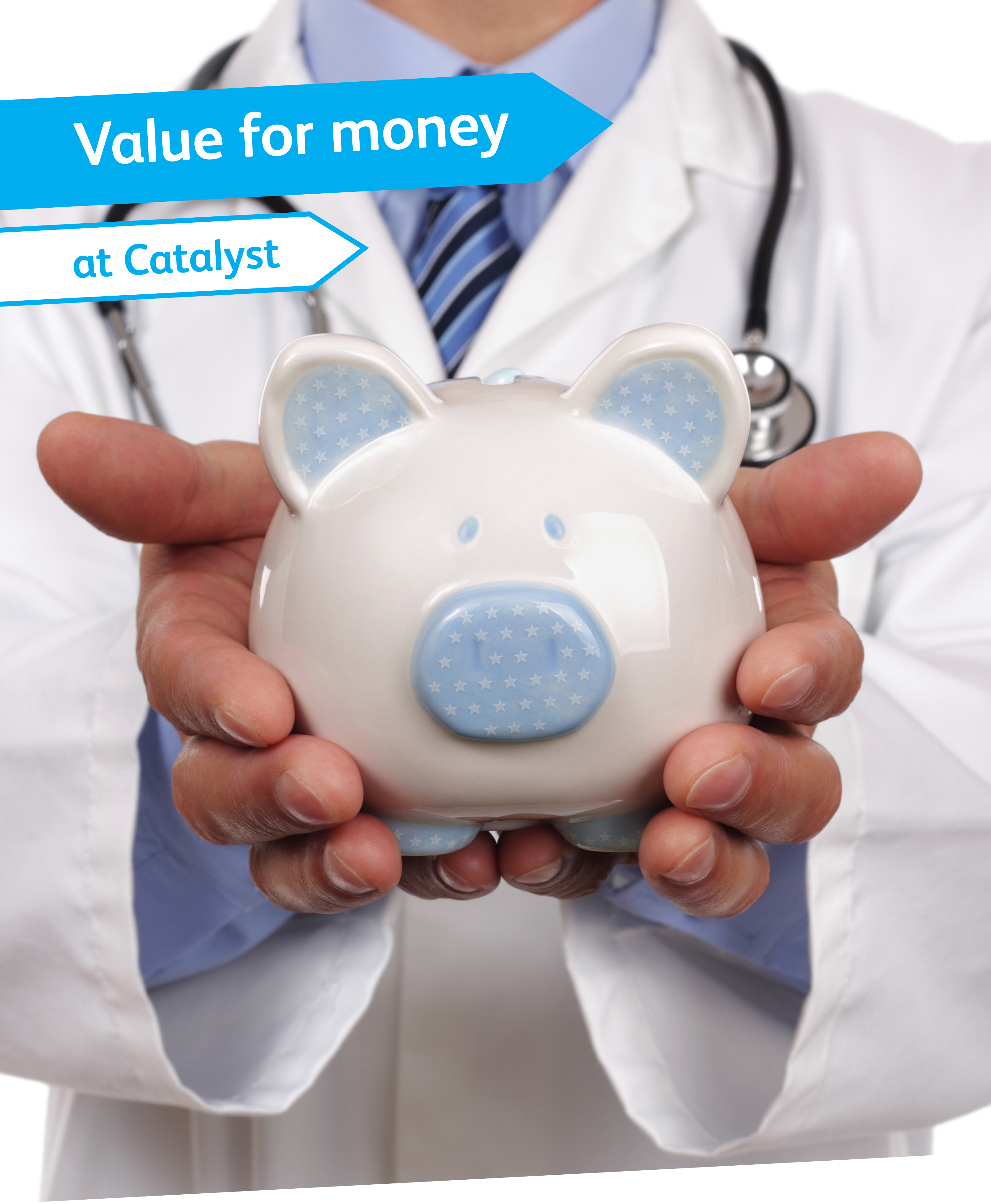
Value for money

at Catalyst



Catalyst Housing

Value for money at Catalyst

Our approach

Value for Money (VfM) is a key business driver at Catalyst and we are mindful that it sits at the heart of running an effective business. As it is a key objective within our three-year strategic plan, we are confident our approach to VfM will help us deliver more homes and better services.

VfM has assumed increased importance in our sector due to the reduction in public subsidy for new housing, a tighter rent regime and the potential squeeze on our income arising from welfare reform. Every pound needs to deliver maximum value – it is derived both from what resources we put into the business, and making sure we deliver optimum economic and social outcomes. We are as interested in creating or adding value as we are in saving money and do not confuse value for money with cost cutting. Indeed, we have recognised the need to spend more on things that are important to us and on securing our future success. We have increased our investment in our housing stock in order to improve peoples' homes and lives; and during the year we have invested in our capability (people and systems) in order lay a foundation in which we are better placed to thrive in a much tougher policy and financial climate, and to manage a more entrepreneurial and therefore more risky business model. These investment choices will enable us to be a better business and increase our capacity.

Whilst VfM is embedded throughout our business, and we therefore don't consider it to be a standalone strategy, we are mindful that we need to ensure our stakeholders understand our approach and that we clearly show how our strategy is linked to regulatory requirements on VfM. In the following summary, we will be describing our approach, performance and plans in the following areas:

- Financial performance and understanding our costs
- Investing our surplus in delivering better services
- Making the best use of our assets

Value for Money at Catalyst

Financial return and understanding our costs

Current approach and financial outcomes – setting foundations for future growth

In 2013/14 we focused on establishing firm foundations for creating future growth and success. There are work strands that are in their infancy and will be prioritised in 2014/15, however, we are pleased that this year we have delivered increased surpluses through our commercial activities, which will continue to facilitate further growth and improved service delivery. Whilst we are mindful that operating costs increased in the year, they will stabilise in 2014/15, and these additional investments were a conscious decision which will help us to achieve measurable successes in the future.

Our key ***financial outcomes*** in 2013/14 were:

- increase in operating surplus by £12.1 million in the year to £46.1million
- through an increase in income generated from sales, we delivered a net surplus of £40.4 million, an increase of 80% on 2012/13, and similar to the net surplus level for 2011/12
- although our operating surplus on social lettings reduced by 1.8% to £25.9 million, we absorbed the following additional investments and financial pressures:
    - we increased our total investment in our stock by £2.2 million
    - we invested an extra £1.7 million in people and related services to manage an increase in planned maintenance, to deliver better services, and to respond to the challenges of welfare reform
    - we absorbed an unbudgeted spend of £1.4 million in responsive repairs to comply with new fire and asbestos regulatory requirements
    - we also absorbed a loss in net rental income due to late handovers on one scheme
- we transferred our Barnet residential care business to another provider, which will improve our efficiency and improve our focus on our core business
- we restructured our development and sales teams to ensure we are in a position to maximise our opportunities and increase our income from sales

We have chosen to spend more on things that are most important to us. Our additional expenditure on our stock will not only enhance our property assets, but deliver better homes for our customers: new windows, kitchens, and bathrooms; re-wiring: environmental improvements: and an excellent decoration programme. Our investment in systems and our people will help us to deliver better services, and improve the working environment for our colleagues. Because these are investments particular to us, beyond what our peers might spend, a summary of the **impact of these additional investments** described above is provided below:

	2014 £m	2013 £m	2012 £m
Operating surplus	46.1	34.0	33.2
Net surplus	40.4	18.4	40.7
Net surplus – excluding additional investments below	**38.5**	**39.0**	**32.9**
Operating costs – per accounts	(92.4)	(91.4)	(77.5)
Operating costs – excluding additional investments below	(84.8)	(86.4)	(77.4)
Additional Investments:			
Systems - revenue	0.3	0.2	0.1
Systems - capital	2.1	1.2	-
Total additional investment in SYSTEMS	**2.4**	**1.4**	**0.1**
Total additional investment in PEOPLE	**1.5**	**1.7**	**-**
Properties - revenue	5.8	3.1	-
Properties - capital	2.9	3.4	-
Total additional investment in PROPERTIES	**8.7**	**6.5**	**-**
Total I&E impact of additional investments	**7.6**	**5.0**	**0.1**

Value for Money at Catalyst

Financial return and understanding our costs (cont'd)

Summary of financial ratios

The revenue investments shown above are reflected in our increased operating costs and reduced surplus per general needs unit, although our efforts to control overheads are reflected in a downward trend as shown below.

	2014	2013	2012
Operating costs per general needs unit – £	5,529	4,470	4,417
Operating surplus on social lettings – £000s	25,889	28,242	28,562
Operating surplus on social lettings – %	24.2%	26.1%	29.5%
Management costs per social housing unit (1)	794	985	1,108
Maintenance expenditure including capitalised costs per social housing unit (1) – £	2,720	2,274	2,023
Overheads per social housing unit (1)	480	536	439
Overheads as a % of income (1)	8.3%	9.1%	7.7%
(1) 2014 excludes the Barnet residential care home business which was leased to Barnet council at the end of the prior year.			

Benchmarking – how do we compare?
And the impact of our additional investment in maintenance

Through both our normal operating and our development activities, we are generating healthy surpluses year on year, which we are reinvesting in services, our existing asset base, and creating new homes. As can be seen below, when compared to the average in the sector (when compared to Global Accounts 2013) we generate a 24% surplus ***after*** our additional investment in our properties. Our return ***before*** these investments are taken into account is 30%, which is comparable to the average in the sector.

	2014 Including additional investment costs	**2014** excluding additional investment costs	**Global Accounts 2013**
Operating Surplus housing %	24%	30%	30%

Performance compared to others

We also take advantage of our g15 network to compare some of our key financial performance indicators at a basic level. As signposted in our 2013/14 accounts, a schedule of key comparative indicators for 2013/14 with our g15 peers (using a slightly different basis of calculation than above) is now available and provided below, showing that whilst our operating margins are lower than our comparator group in the year, this is strongly influenced by our decision to invest more fully in our housing stock (as shown by our maintenance cost per unit). If this factor is removed from the calculation, our performance compares favourably, near the top of our peer group.

	Catalyst 2013/14	**Peer Group Average* 2013/14**
Operating Margin	26.7%	29.8%
Operating Margin – Housing	21.1%	29.3%
Operating Margin – Housing exc. Maintenance	48.0%	46.5%
Operating Margin – Sales	38.7%	28.8%
Maintenance Cost / Unit	**2,459**	**1,569**
Management Cost / Unit	**1,159**	**1,099**

Value for Money at Catalyst

Financial return and understanding our costs (cont'd)

Looking ahead – Our plans to understand and improve our costs

- Driving efficiency and improving financial management – We will be redoubling our efforts to control our costs and improve financial management and budgetary control in the business. This will include:
  - setting targets for more efficient management of overheads and management costs (see below)
  - we will work with budget holders and implement a new Purchase to Pay system which will improve our business processes, transparency of financial information and financial management across the business.
  - improving our reporting of value for money, asset management and development to ensure cost and performance are clearly visible to stakeholders
  - ensure our reporting and management of costs include identification of baseline budget for specific areas of activity, and discretionary spend which relates directly to additional business and social benefits
  - agreeing and using a benchmarking 'club' to enable us to more effectively compare our costs to others
  - using our customer excellence programme to reinforce a culture of accountability and using sound judgement
- Whilst we will stabilise our investment in our operational cost base in line with 2014/15 budgets, we will set clear cost targets for 2015/16 and beyond which will demonstrate operational cost efficiencies
- Maximising sales to support our investment in new affordable homes – Having recently restructured the sales team, we will maximise our return on this investment by improving our sales surpluses by maximising sales revenues through proactive marketing and sales, and delivering our sales targets
- Managing the effects of welfare reform – We will maintain our investment in front-line staff, and monitor our effectiveness in supporting our customers and maintaining levels of income collection

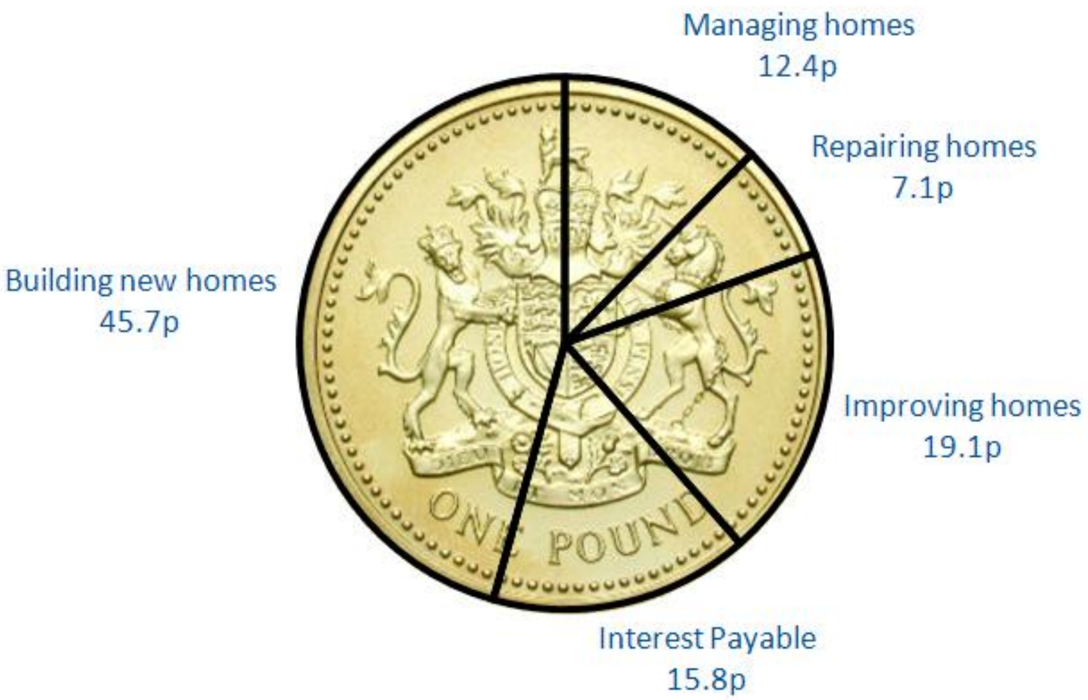
We have reviewed our projected costs for 2014/15, and devised plans to save over £2m against our existing budget, generate savings through cost reduction and growth.

	2015 Target	**2014 Actual**	**2013 Actual**
Operating costs per general needs unit – £	5,178	5,529	4,470
Operating surplus on social lettings – £000s	34,308	25,889	28,242
Operating surplus on social lettings – %	30.0%	24.2%	26.1%
Management costs per social housing unit (1)	816	794	985
Maintenance expenditure including capitalised costs per social housing unit (1) – £	2,371	2,720	2,274
Overheads per social housing unit (1)	481	480	536
Overheads as a % of income (1)	7.9%	8.3%	9.1%

Value for Money at Catalyst

Financial return and understanding our costs (cont'd)

Where our money goes



Value for Money at Catalyst

Investing our surplus in delivering better services and improved performance

Current approach and performance outcomes

A key lynchpin of our business strategy in 2013/14 has been to re-invest our surpluses in establishing a robust foundation for growth and improved services. This programme of work has already delivered some improvement in our core KPIs (see below) and we expect this trend to improve substantially, particularly with the roll-out of our new customer excellence programme in 2014/15. We are therefore poised to deliver measurable improvements in the areas that are the most important to us.

Our approach is demonstrated by the following key work streams, all of which are in-progress.

- We are investing in comprehensive information and support systems (our ‘Diamond Programme’) to enable all colleagues to provide better services, as well as mitigating the impact of welfare reform, including:
    - a new arrears module and software which has led to a 1% reduction in arrears (further reduction to be targeted for 2014/15)
    - the implementation of an integrated customer contact and electronic management solution, which has already helped improve service and respond to a higher number of queries at first point of contact
    - a new complaints module and processes which has led to a reduction in complaint escalation and a 5% increase in satisfaction with the complaints process
    - an ongoing implementation of a CRM system which will improve the information available to all employees and will enable us to deliver more seamless services
    - a “real-time” diagnostic tool to improve our understanding of the drivers of customer satisfaction and will inform future service improvements and our ability to fix things right the first time

- In order to focus our services around the needs of our customers, we are improving our customer insight by:
    - rolling out the first phase of a customer census which will deliver important information to help us develop our service offer
    - carrying out a customer journey mapping exercise for responsive repairs to inform contact specification for a new contract in 2014/15

- We have also significantly invested in employee resources in key service areas to improve services, mitigate the impacts of welfare reform and ensure that we are well-placed to deliver future growth, including investment in the following departments:
    - customer contact centre
    - asset management
    - income collection team
    - a new multi-disciplinary welfare reform and financial inclusion team
    - a new ‘after-care’ team to support residents of all tenures of newly developed properties

- We have reviewed and are implementing changes to Catalyst Gateway (community development) to deliver more effective community projects (project plan to be delivered by end 2014/15)

- We are also investing in our people to ensure they are motivated and well-placed to deliver our ambitious strategy. For example, we have increased our investment in:
    - recruitment, learning and development, and
    - apprenticeship, intern and graduate schemes

- As stated above, we have exciting new plans to deliver a new customer excellence programme which will embed a new, invigorated culture across the organisation, with the assistance of market-leading external facilitators.

Value for Money at Catalyst

Investing our surplus in delivering better services and improved performance (cont'd)

2013/14 KPI results

Although we are in the early stages of this programme implementation, we are delighted that we are already seeing improvements in customer service and core KPIs, whilst recognising that there is work to do on our void performance and this will be a priority area for us in 2014/15. A summary of our core KPIs is provided below:

	2014 Actual	2014 Target	2013 Actual	2012 Actual
% of tenants satisfied with overall service	80%	76%	74%	74%
Current arrears as % of rent debt	5.9%	6.5%	6.9%	7.2%
% of rent collection	100.2%	100%	99.4%	98.7%
% of emergency repairs responded within target	99.4%	98.0%	98.8%	96.4%
% of rent loss due to voids	1.0%	0.8%	1.3%	1.1%
Average relet turnaround time in days	38 days	28 days	34 days	41 days

In addition to these core KPIs we have also delivered:

- an increase in first contact resolution from 6% to 54%
- a decrease in calls per property from 1.17 to 0.77, a 34% decrease

Looking ahead – Our plans to understand and improve our service and performance

- We will use our customer excellence programme to drive service improvements through the organisation, and therefore increase customer satisfaction across all business streams
- We will further develop our VfM/performance management tool to drive improved value and performance in the business
- We will carry out a comprehensive review of void processes and ensure we deliver our target of 0.8% rent loss, and 28 days turnaround time
- Ensuring we get more value out of our new maintenance contracts by setting targets for right first time as a key performance measure
- Ensure the delivery of the next phase of our information and support systems programme in line with our project plan

Our core performance targets for 2014/15 are:

	2014 Actual	2014 Target	2015 Target
% of tenants satisfied with overall service	80%	76%	80%
Current arrears as % of rent debt	5.9%	6.5%	6%
% of rent collection	100.2%	100%	100%
% of emergency repairs responded within target	99.4%	98.0%	98%
% of rent loss due to voids	1.0%	0.8%	0.8%
Average relet turnaround time in days	38 days	28 days	28 days

Value for Money at Catalyst

Making best use of our assets

With a carrying value of £1,815.7 million on our balance sheet, our asset base sits at the core of our business purpose – we provide homes for a wide range of people, across a wide geographic area. As we widen our tenure mix with reduced levels of capital grant, it is imperative that we ensure that our assets are fit for purpose, and delivering the optimum social value and the appropriate financial return.

Current approach and financial outcomes

In 2013/14 we have continued an ongoing process of consolidation and continual review of our assets, including the following work strands:

- consolidating our position in existing and contiguous areas by new development and the acquisition of stock from others
- investing in our existing stock to maintain and enhance customer satisfaction and stock value
- executing a regular planned programme of surplus social housing sales to help fund our stock investment programme, thus releasing rental income to fund new affordable homes
- supplementing this with selective one-off disposal of other surplus assets
- redeveloping our existing stock where greater value and enhanced community cohesion can be achieved, usually by densification and improved design
- adding value to our market sale programme by good design and marketing thereby maximising the funds to be reinvested in new homes
- improving decision-making about our stock based upon a rounded judgement of value, return and utility
- promoting the opportunity for shared owners to achieve full ownership thereby also generating more funds for investment in new homes
- incentivising tenants to downsize to ensure best use of larger homes

We have identified a small programme of asset disposal following an early review of our stock portfolio, whereby we looked at a number of portfolio attributes, including, for example: location, value, condition, investment requirement, community impacts and demand. Furthermore, when properties become empty, we also take the opportunity to assess their contribution to our business purpose, using an option appraisal methodology.

We are developing our insight further through the development of an in-house asset rating model, which will help decision making about retention, disposal, change of use and redevelopment.

The table below shows that the cash return generated through our management and sale of assets, as well as a summary of reinvestment outcomes. The Value for Money gains which we achieved in 2013/14 have enabled us to increase the base home building programme in our business plan from 600 units to 660 units per annum.

Income generated from management of assets:		**2014 £'000**	**2013 £'000**	**2012 £'000**
Planned disposals	Cash generated	17,085	3,818	3,375
	Net surplus	**11,664**	**2,205**	**2.153**
One-off disposals	Cash generated	19,950	1,263	22,832
	Net surplus	**5,150**	**939**	**17,367**
Market sales	Cash generated	39,735	5,082	11,635
	Net surplus	**17,950**	**938**	**1,712**
Total	Cash generated	76,770	10,163	37,842
	Net surplus	**34,764**	**4,082**	**21,232**
Reinvestment in assets:				
Investment in existing stock		**£34m**	**£26m**	**£20m**
Investment in new homes *		**£114m**	**£142m**	**£144m**

* Investment spend fluctuates with the timing of land acquisitions and the letting of business contracts. Budgeted spend for 2014/15 will exceed that of 2012/13.

Value for Money at Catalyst

Making best use of our assets (cont'd)

Further examples of how we are ensuring that we make best use of our assets are:

- We are using our understanding of our stock condition and customer needs to re-focus our investment in existing stock to ensure that our homes are well maintained, well beyond minimum standards and meeting customer needs. As can be seen above, in 2013/14, we invested a total of £34 million in our planned maintenance programme, an increase of £7 million on previous year
- We have identified Friary Park in Acton as a major redevelopment/densification opportunity, and will identify and appraise further areas where redevelopment will increase the number and social utility of homes while reducing future cost liabilities
- We are carrying out research into our shared ownership portfolio, resulting in a long-term programme to promote full ownership, thereby releasing funds to build more affordable homes
- We have moved 45 tenants into smaller accommodation to release larger homes

Looking ahead – Our plans to make sure we make best use of our assets:

We understand that there is still more work to do in order that we can most effectively realise the potential of our existing asset base. With this in mind, our priorities for 2014/15 will be to:

- populate our new asset rating model and have it in full use by the end of 2014/15, thereby consolidating our understanding of the 'utility' of our property portfolio. This will lead to further reinvestment and disposal considerations
- launch our programme to promote staircasing in our shared ownership portfolio
- complete the appraisal of Friary Park with a view to a mixed tenure and mixed income redevelopment project (akin to our successful Wornington Green redevelopment)
- continue programme of one-off disposals by identifying historic assets with significant investment needs and limited utility for disposal
- continue with our stock investment programme (budgeted cash spend of £32 million), and assess investment profile of existing stock
- continue with our regular planned programme of surplus social housing sales (budgeted to generate £7 million cash and £3 million net surplus)
- complete over 200 market sales (budgeted to generate £93 million cash and £29 million net surplus, 57% of which is forward sold), much of it on redeveloped Catalyst assets

Catalyst Housing Limited
Ealing Gateway
26–30 Uxbridge Road
London W5 2AU
020 8832 3334
www.chg.org.uk

Catalyst Housing

A charitable housing association

Better Homes.
Better Future.
Better Service.