Catalyst

Value for money at Catalyst 2014/15

Value for money at Catalyst

Our approach

At Catalyst it is our primary aim to use commercial disciplines to deliver our social purpose, and using commercial disciplines means that we must be measuring and delivering value for money (VfM) across our business in a number of ways. Our approach is driven by four complementary business objectives highlighted in our strategic plan.

- To increase resident satisfaction
- To build more homes
- To increase the quality of our housing portfolio
- To increase our operating margin before sales

We have made good progress in ensuring the foundations of our VfM strategy are in place and we will consolidate our approach in 2015/16. Our VfM objectives have been focused in the following areas:

- **Understanding our cost base and improving operating margins**

  We gain knowledge from our g15 comparatives to help us to understand how we compare to our peers. We have a project in progress to improve the granularity of our information and ensure we can demonstrate the extent to which our expenditure improves value and our delivery offer. We are also looking hard at our bottom line and are on a trajectory to improve our operating margins.

- **Driving 'value' – delivering improved service and performance, delivering social return**

  Our 'Making it Easy' customer service and culture change programme, and investment in communities, are at the heart of ensuring we can more clearly deliver improved performance in the areas our customers care about. We want to ensure we can demonstrate the value of our services and are currently establishing strong foundations for delivering exceptional service and value.

- **Understand and develop plans for improving asset performance**

  Strategic asset management and our stock investment programmes are currently our biggest VfM challenges at Catalyst. We know we currently spend significantly more than our peers on our stock. An external review of our stock investment found that we are achieving exceptionally high standards of improvement and refurbishment – standards rarely seen elsewhere in the sector. However, this impacts on our operating margins and explains much of the difference between our social housing operating margin and that of our peers. We need to improve our information base and planning processes to ensure we are able to make clearer, more informed decisions on this significant area of investment. We have also evaluated specific categories for our assets, and need to further develop our evaluation tool which will help us manage the assets more strategically across our whole stock portfolio.

- **Delivering our ambition to build 7,000 new mixed tenure homes by 2020, and ensuring our business is as cost-effective as possible, therefore underpins our growth aspirations**

While a key element of our approach is to focus on improving our cost-efficiency, we understand that VfM is not always synonymous with cost cutting and that in order to add value to our business we need to invest in Catalyst to benefit from future returns. We have committed funds therefore to improve a range of key business areas including IT, community investment, income recovery and customer service, to deliver our strategic plan and to enable Catalyst to prepare for future challenges as an innovative and sector-leading organisation.

Residents at their Catalyst home in Burnham, Buckinghamshire

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Financial outcomes 2014/15

Although we did not meet all of our targets in 2014/15, we saw an improvement against the previous year in all of our operating ratios:

- We increased our surplus and margin on social housing lettings, although our increased expenditure on maintenance meant that we fell short of our target 30% margin
- During the year we took the decision to change our major repairs and planned maintenance programme while we reviewed our approach to planning and investment. In total, our maintenance and major repairs costs (capital and revenue costs combined) were less than budgeted, but we increased maintenance expenditure, which had a negative impact on our I&E and operating margins
- We reduced our management, operating cost and overhead costs per unit and exceeded our target savings for the year

£53 million
surplus
in 2014/15

	2016 Target	2015 Target	2015 Actual	2014 Actual
Operating surplus – social housing lettings	£35,682	£34,308	£30,402	£25,889
Operating margin – social housing lettings	30.0%	30.0%	27.1%	24.2%
Management costs (including overhead cost) per unit	£1,280	£1,297	£1,258	£1,321
Overheads per unit – social housing	£412	£481	£414	£480
Maintenance expenditure including capitalised costs per social housing unit	£2,531	£2,371	£2,545	£2,720
Operating cost per general needs unit	£4,988	£5,178	£5,185	£5,529

How do we compare?

We analyse our performance against our peers, a group of 15 large London providers of social housing (g15), and against the sector average as described in the HCA global accounts which is outlined in the table on page 5. To this end we have rejoined HouseMark in order that we can benefit from more granular benchmarking data and analysis in the future, and this will drive a review of high-spend business areas.

Overall our operating margins are strong, our low gearing supports strong financial foundations, and the cost analysis shows an improving trend. From both of the analysis tables on page 5, however, we can see that the margin we are achieving is lower than our peers (as a result of our costs being higher). We know that this is partly because we have chosen to invest, more than others, in our existing stock, through a programme of focused refurbishment and through our choice to deliver high-quality standards which exceed our minimum obligations. Our approach to asset management and stock investment has been the subject of intensive review this year, and in 2015/16 we are implementing a strategic planning programme which will ensure we can more transparently demonstrate the value-derived expenditure in these areas.

£212.5 million **total income**
for 2014/15 **Up by 23.4%**

£154.3 million
total expenditure
Up by 22.3%

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Benchmarking our profitability

Financial performance indicators	Catalyst 2016 Target	Catalyst 2015 Actual	g15/HCA 2014 benchmarking[1] g15 group average	Catalyst g15 group ranking	HCA 2014 global accounts
Operating margin – social housing	30.0%	27.1%	29.2%	14	31.9%
Operating margin	30.4%	27.4%	29.6%	13	29.6%
Net surplus	26.3%	24.9%	19.2%	4	15.0%
EBITDA MRI interest cover	169%	209%	158%	8	154%
Debt per unit	£35,188	£28,475	£31,091	7	£22,474

[1]2013/14 accounts are the most recent figures available.

Benchmarking our costs

Financial performance indicators	Catalyst 2016 Target	Catalyst 2015 Actual	g15/HCA 2014 benchmarking[1] g15 group average	Catalyst g15 group ranking	HCA 2014 global accounts
Management costs per unit[2] (using benchmarking definition)	£1,139	£1,113	£965	8	£990
Routine and planned maintenance costs per unit	£1,419	£1,495	£1,073	14	£1,015
Capitalised repairs per unit	£835	£765	£577	14	£695
Total maintenance and repairs per unit	£2,254	£2,260	£1,649	14	£1,928
Overheads per unit	£367	£368	n/a	n/a	n/a
Operating cost per unit	£4,441	£4,603	£4,503	6	£4,020
Operating cost per unit– social housing	£4,988	£5,185	£5,400	5	£4,357

[1]2013/14 accounts are the most recent figures available.
[2]This represents a £3m efficiency gain on operating costs per unit compared to last year.

Culture change – focus on efficiency

Notwithstanding the fact that we will be revisiting our targets, we remain determined to improve our efficiency. Reducing our cost base will require a fundamental shift in our thinking, as we remain committed to investing in the things that are important to us, and ensuring we allocate sufficient resources to being an agile, professionally run business. Now that we have taken a decision not to merge with Network, we will redouble our efforts to drive efficiency through our standalone business and aim to improve our currently approved budget position.

However, we have already laid the building blocks for improvements in culture and procurement by:

- Furthering the implementation of our electronic purchase ordering system
- Changing our financial reporting to ensure further clarity on financial performance and efficiency
- Initiating a new, more robust, zero-based budget setting process, on which we will build in 2016

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Driving ‘value’ – delivering improved service and performance

Focus on customer service

Our ‘Making it Easy’ customer service programme, which we introduced this year, is the start of a new era for Catalyst. We are at the very early stages of the programme, where we have focused our attention internally on our structures, behaviours and systems. While we are disappointed therefore that some areas of core performance have marginally declined, particularly our customer satisfaction, we are very pleased that in the areas that received focused attention in previous years, such as income collection and rent arrears, there is improved performance. Other areas will see improvement in the coming year.

Service performance indicators	2016 Target	2015 Target	2015 Actual	2014 Actual
Residents’ satisfaction overall	80%	80%	79.2%	80%
Bad debts – % of rental income	0.2%	0.5%	0.2%	0.4%
Current arrears as a % of rent debit	4.5%	6.0%	3.3%	5.9%
Rent loss due to voids	0.8%	0.8%	1.2%	1.0%
Relet times (avg) – social housing	28 days	26 days	36 days	38 days
% of rent collection	101%	100%	100.2%	101.2%
% of emergency repairs responded within target	98%	98%	97.5%	99.4%
Gas safety compliance	100%	100%	99.9%	99.5%

Social return on investment – Catalyst Gateway – customer impacts

At Catalyst we recognise that VfM is not just about achieving efficiencies in how we run our business. It is equally important to us that we use the expertise and skills within **Catalyst Gateway**, our community investment arm, to support and improve the communities where we are based. This is demonstrated in the level of investment allocated to Catalyst Gateway at £2.2 million. We have already reported on the outcomes of this valuable work for our customers and communities earlier in this review.

New comprehensive neighbourhood service delivery model

Catalyst Gateway piloted a ‘triage’ model in the London Borough of Brent. A range of interventions were provided to support the social, economic and financial inclusion of residents and to increase the life opportunities available to them through ‘individual’ or ‘neighbourhood’ offers. Using a Social Impact Value (SIV) model, which is being developed with our colleagues in the sector, the analysis shows considerable potential return on investment, which will be analysed and monitored during the roll-out. An analysis of return on our investment for the triage pilot demonstrated a saving of £2.18 on every £1 invested, as a result of savings from a reduction in evictions, void losses, court fees and time.

The triage model will now be extended across our nine priority areas, and roll-out will include a delivery plan, with our indicators of success, so that we can measure and demonstrate the added value of our resident involvement interventions.

We also engaged with 85 residents of whom 30 achieved positive outcomes to include the following:

- Preventing one eviction which may have cost up to £50,000, as well as a court hearing
- Saving residents a total of £4,000 on utility bills
- Accessing £2,000 of discretionary housing payments to assist residents in urgent need
- Helping two residents back into employment

Value for money at Catalyst

Return on assets

In line with our commitment to better understand our asset performance, and fully understand our investment requirements and standards for our existing housing stock, Catalyst is developing a toolkit to ensure we are making the most appropriate use of our assets. The toolkit will combine a review of the financial performance of groups of assets, with the social value of the asset as currently used, and the potential for the generation of greater social value through redevelopment or disposal. While it was our ambition to roll-out this toolkit in 2014/15, further work on stock data was required. The asset performance modelling will be informed by the results of a stock condition survey, which was commissioned in the year.

In respect of our core social housing assets the toolkit has been tested in the appraisal of the 225 unit Friary Park estate in Ealing which the Board approved for redevelopment during the year, and which will provide 550–600 modern quality homes adjacent to a Crossrail station.

In 2015/16 we will be developing the toolkit as well as reviewing the segmentation of our stock to support an updated optimised stock investment, redevelopment and disposal programme, which will be captured in the 2015/16 business plan.

We have, however, conducted strategic reviews of some classes of assets. Our initial focus has been on non-core assets, care homes and shared housing for key workers. After a previous strategic review, we aim to conclude the sale of our care homes in 2015/16. During the year we also concluded a review of our key worker portfolio, the outcome of which has been to blend the disposal of poor quality, vacant stock with targeted investment in a number of schemes to deliver an overall growth in the portfolio's value.

Our current segmentation is wide (and as stated above, will be further analysed in the coming year) but shows fundamental asset performance both in terms of income generation/profitability and return on capital.

Portfolio	Turnover	Operating surplus	Operating margin	Net book value	Return on capital employed
	£'000	£'000	%	£'000	
Social housing lettings – total	112,347	30,402	27.1%	747,524	4.1%
Social housing lettings – general needs/other	88,345	20,503	23.2%	512,274	4.0%
Key worker schemes[1]	3,326	826	24.8%	28,367	2.9%
Supported and housing for older people	6,249	978	15.7%	25,457	3.8%
Shared ownership	14,427	8,095	56.1%	181,426	4.5%

[1]Based on management accounts

Value for money at Catalyst

Programme of disposals

We also have a rolling programme of disposals whereby properties are assessed in line with the principles of our evolving toolkit, taking into consideration value, condition, investment requirement, community impact, and demand. The table below shows the cash generated from these disposals in addition to the cash generated from our investment in market sales.

Income generated from management of assets, and investment in current and new homes

		2015	2014	2013
		£'000	**£'000**	**£'000**
Planned disposals	Number sold	14	18	16
	Cash generated	7,138	17,085	3,818
	Net surplus	**4,976**	**11,664**	**2,205**
Market sales	Number sold	160	83	25
	Cash generated	50,578	39,735	5,082
	Net surplus	**14,097**	**17,950**	**938**
Total	Number sold	174	101	41
	Cash generated	57,716	76,770	10,163
	Net surplus	**19,073**	**34,764**	**4,082**
	Reinvestment in assets			
	Investment in existing stock	**£34m**	**£34m**	**£26m**
	Investment in new homes	**£94m**	**£114m**	**£142m**

Looking ahead – our VfM priorities

We realise that while we have made good progress this year, there is still further work to do to demonstrate improved value for money delivery and realise the full potential of our assets. Therefore our priorities for 2015/16 will be to:

- Carry out more comprehensive analysis across the entirety of our asset portfolio and finalise the development of our toolkit to ensure we can make further informed investment and disinvestment decisions based on return of assets (both financial and social value)
- Achieve efficiency gains across our cost base, and realign our business to achieve improved operating margins, with a first step in the trajectory being to achieve a 30% operating margin by 2016/17
- Implement the next steps in our financial management change programme, including implementation of purchase ordering system, roll-out of further budgetary control processes and reporting, next stage of zero-based budgeting programme to deliver improved accountability and tighter budget setting
- Complete HouseMark analysis and use the information dynamically to explore areas where performance can be enhanced and VfM delivery can be improved

Dave Corbett from our environmental services team working on our estates in Kensington & Chelsea

Value for money at Catalyst

At a glance

811 homes built this year

300 private sale homes expected to be delivered per year within five years

We invest **£10,708 per hour** building new homes and maintaining existing ones

3,500 new homes built in the last five years

More than 7,000 new homes expected to be built by 2020

21,000 homes managed in 2014/15 Up by 2.4%

160 new homes sold earning us £14m to invest in affordable housing tenures

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At a glance

We employ over **700 staff**

£40.3 million **turnover** up on last year

27.4% **operating surplus**

£18,227 charitable donations

£6.50 per hour **apprentice rates**
Government rate is just £2.73

£2.2m **invested in Community Development**
social and economic activities and initiatives

85 residents engaged resulting in **30 positive outcomes**
Pilot triage service exceeded objectives

40,000 customers across **40** local authority areas

79.2% **customer service satisfaction**

CHL903 – Value for money at Catalyst 2014/15 – 09/15

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Registered Society
Registered Number: 16561R

Homes and Communities Agency
Registered Number: L0699

A charitable housing association

Better Homes
Better Service
Better Future

Catalyst

Catalyst is one of the leading housing associations in London and South East. We aim to be a catalyst for change and improvement where we work.