Value for Money

for the year ended 31 March 2017

Catalyst

Value for Money

Introduction

As mentioned above, Catalyst continues to operate in an environment of financial, economic and political uncertainty. We have faced these challenges proactively, using the challenging environment as an opportunity to drive value for money across all areas of the business.

We define value for money as 'using our resources to deliver more of what our customers value'. This includes the provision of high quality affordable homes and a good level of customer service. We strive to achieve this by continually challenging and improving the way we work towards our 2020 goals.

Over the past year, we have focused on the following areas:

Streamlining our Leadership Team

We have reduced the size of the Leadership Team from six to four members. In doing so we have brought together the Asset Management Team and the Development and New Business Teams under a new Property and Growth Directorate, which will drive a more integrated approach to the design, construction, maintenance and performance review of assets leading to better customer experience and lower life cycle costs.

We have also brought together Finance, IT and Customer Services under the leadership of a Chief Operating Officer to drive a more integrated approach to customer service and IT, bringing stronger financial discipline to the customer service function and promoting a greater focus on value for money and performance improvement.

A smaller leadership team is already resulting in more effective decision-making and cross-team working. It also generates a substantial saving demonstrating leadership by example in terms of Catalyst's value for money agenda.

Delivering our Asset Management Strategy

We identified asset management spend as a key focus in last year's value for money statement given that our cash spend on responsive and planned maintenance has historically been a sector outlier. Following a root and branch review the Board approved a new Asset Management Strategy for the period 2016 to 2025. This is based upon updated stock condition data and a decision to meet our stated standards rather than to exceed them, without compromising the quality of work and the health and safety of our customers. Our cash spend in 2016/17 was £39 million, compared to £43 million in the previous year. This will reduce to £35 million in 2017/18 and continue at this level as we deal with catch-up maintenance. We will then reduce spend to £30 million per annum from 2021. This will bring us in line with the sector average.

The other key asset management initiative has been the production of an asset grading model which captures overall asset performance. We have used this to identify under-performing assets most of which are street properties. We will be developing a strategy for these in 2017/18, which will result in a range of outcomes e.g. refurbishment, redevelopment, change of tenure, disposal.

Building the foundations of our new Procurement Team

Over the past few months we have been creating solid foundations from which to build a sector-leading procurement capability. Our key focus is to ensure compliance with public procurement legislation and the delivery of value for money across all procurement activity.

We have had some early success delivering value for money, including:

- Undertaking competitive tendering to combine mobile and landline telephone contracts to benefit from economies of scale, resulting in a 5% cost reduction;
- Reviewing the management of our printing services and encouraging a cultural change around how we print documents, resulting in reductions of the number of printing devices, cost to print per page and our environmental footprint;
- Renewing our licences and helping the business bring our housing management system and asset management system under the same contract, significantly reducing costs and improving supplier relationships for the future; and
- Achieving a 50% reduction in training costs provided by our accounting system provider through bulk purchasing.

Improving our performance in letting properties

We established a cross-functional team to reduce the time it takes us to let and re-let properties. Over the final quarter of 2016/17 the team reduced the number of properties available for letting from 108 to 47. If sustained this will produce a saving of circa £350,000 per annum.

Exiting non-core businesses

Some time ago the Board decided to exit residential and nursing care, as they concluded that we did not have a big enough presence to operate effectively in this sector, that the returns did not justify the reputational risks involved and that the managerial challenges were a distraction from our core housing business. We are tackling this through a three part strategy:

1. In prior years we leased our Barnet portfolio of residential care homes to Barnet Council.
2. In 2016/17 we completed the sale of our only nursing home, Acton Care Centre, to Gold Care Homes – this is initially on a leasehold basis, with the freehold sale to follow in 2019 at the latest.
3. This leaves Sancroft Hall, our residential care scheme in Harrow. We are currently in advanced stages of negotiation to sell Sancroft Hall to Harrow Council. Our exit from the residential and nursing sector will improve our financial performance and ensure that we maintain focus on our core business activities.

Improving staff productivity

We have been concerned by Catalyst's relatively high level of staff sickness (4.7%). In January 2017, we introduced Catalyst Care Attendance Management. This is a multifaceted program serviced by First Care, the UK's leading absence management provider, which combines support for our people with greater accountability. In addition to this we have introduced a more rigorous return to work process and stronger management of long-term sickness cases. We expect the combination of these measures to substantially reduce absence and this is borne out by early results, with absence in the last quarter of 2016/17 falling from 4.7% to 3%. If sustained, this is equivalent to a saving, net of the costs associated with our improvements, of £250,000 per annum.

Adopting the Sector Scorecard

It is important that we continue to challenge and improve the way in which we assess and benchmark value for money. In March 2017, we signed up to the pilot 'sector scorecard' for housing providers, which has received government and sector-wide backing. Developed during the last 18 months by a working group of 15 housing associations, it is intended to create an agreed set of metrics, which providers can use to compare their performance on an even playing field and help provide assurance that value for money is being delivered.

The scorecard consists of 15 efficiency indicators split across five categories of business health, development (capacity and supply), outcomes delivered, effective asset management and operating efficiencies. We have used the scorecard as a basis for presenting this Value for Money Statement. We have compared with data from the Homes and Communities Agency (HCA) and G15 (a group of the 15 largest housing associations based in London) where available in order to understand how we are doing relative to our peers.

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Business health

Indicator	2017	2016	2015	HCA 2016*	G15 2016**
1. Operating margin for all activities***	35.6 %	30.5 %	27.9 %	27.6 %	32 %
2. Operating margin for social housing lettings	35.1 %	32.9 %	30.1 %	32.1 %	36 %
3. EBITDA MRI (% interest cover)	245.1 %	234.4 %	215.6 %	170 %	190 %

*HCA 2016 Global accounts
**Revised by G15 based on HCA definitions
***Excluding surplus on disposals of fixed assets

During the year we have continued to focus on reducing our operating costs. One of our key measures of value for money as an organisation is our operating margin on social housing lettings as this provides us with an insight into how well we are running our business to achieve our core purpose, the delivery of social housing.

Our operating margin for social housing lettings (operating surplus on social lettings divided by turnover from social housing lettings x 100) has continued to increase this year and has reached 35.1 %, which is in line with our business plan and represents a record achievement for Catalyst. This has been driven by the improvements we have made to the way we manage our asset management programme and the savings delivered through better contractual arrangements with suppliers.

Our operating margin and our operating margin for social housing lettings are higher than the sector average.
Our continued focus on value for money and reducing costs across the business through enhanced procurement activity and financial management means that we are confident that we can continue to drive better financial performance moving forward.

Our EBITDA MRI (Earnings before Interest, Tax and Amortisation, Major Repairs Included), which is used as a measure of cash generation as a percentage of interest (net of amortised cost), has increased during the year benefitting from our new Asset Management Strategy, which is discussed further in the 'effective asset management' section of the report.

Development – capacity and supply

Indicator	2017	2016	2015	G15 2016*
4. Units developed	228	613	811	781
5. Units developed as a % of units owned	1.08 %	2.91 %	3.89 %	2 %
6. Gearing	30.1 %	32.0 %	32.2 %	45 %

*Revised by G15 based on HCA definitions

The low number of completions in 2016/17 was partly due to the hiatus in our pipeline following the 2011-15 national programme and partly because of construction delays, which caused a number of completions to fall in 2017/18.

We expect to increase our home completions to c650 in 2017/18. We have focused our attention on acquiring new sites and opportunities, and at the end of the financial year had secured sites that will allow us to increase significantly the number of new homes during the financial year.

Our aspiration is to develop at least 1,000 homes each year from 2020 and we are continuing to secure other opportunities to meet this aspiration. However, while we need to continue to compete for land a changing market may impact on both the form and nature of the opportunities we pursue and production timetables.

Our gearing levels (total debt and finance leases divided by carrying value of housing properties x 100) are below the G15 average of 45 %. Our loan covenants, including our gearing levels, are assessed and stress tested under various economic conditions to determine the level of development activity that we can undertake. We can demonstrate that we have enough financial capacity to develop 1,000 units per annum, in line with our 2020 aspiration, and remain comfortably within our gearing covenants.

There are two key development challenges. The first is the lack of construction sector capacity resulting in higher tender costs and inconsistency in quality and completing developments on time. During 2016/17 we commissioned an external review of our build costs and in 2017/18 we will be reviewing our whole approach to how we develop new schemes in order to achieve better value for money. This will look at procurement, the use of joint ventures, design standards, and our internal capabilities and structures.

At the same time the housing market continues to change, particularly in London. Not only are there indications of reducing House Price Inflation but there are price reductions in specific areas where prices per square foot are over £1,200, though the most significant price movement is in the very high end of the market. We will need to adjust our programme to take account of the market as we move forward.

Catalyst Development, First Central, Royal Park, Acton

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Outcomes delivered

Indicator	2017	2016	2015	G15 2016*
7. Customer satisfaction with service provided by landlord	74.5 %	76.1 %	79.2 %	76 %
8. £s invested in new supply for every £ generated from operations	2.35	1.11	1.18	1.2
9. £s invested in communities for every £ generated from operations	0.04	0.01	0.02	n/a

Revised by G15 based on HCA definitions

The increase in investment in new housing supply reflects the step-up in our development pipeline described in the previous section.

In 2016/17 we implemented a number of team changes that impacted our customer satisfaction levels, which fell to 74.5 %. We are disappointed with this result, and the Board has identified improving customer service as our top priority. Under the leadership of our Chief Operating Officer we will undertake the following activities over the coming financial year:

- Update our Customer Experience Strategy to clearly set out how we intend to achieve our 2020 goal to deliver brilliant, low-effort, multi-tenure customer service;
- Improve the way in which we report on, and monitor, customer satisfaction and other core customer-related KPIs;
- Refine the structure of our Customer Services Team and enhance leadership capability within the function; and
- Sustain the improvement in letting described above and deliver a series of other improvement focussed on a number of key areas including complaints-handling, customer engagement, handovers and service charges.

Effective asset management

Indicator	2017	2016	2015	G15 2016*
10. Return on capital employed (ROCE)	3.6 %	4.2 %	3.5 %	4.5 %
11. Occupancy	1.00	1.00	1.00	n/a
12. Ratio of responsive repairs to planned maintenance	0.41	0.37	0.40	0.64

Revised by G15 based on HCA definitions

ROCE (return on capital employed, calculated as (operating surplus + surplus on disposal of fixed assets + share of surplus in joint ventures divided by capital employed) x 100) has reduced slightly this year to 3.6 % and is below the 2016 G15 average of 4.5 %. Delays in sales resulted in more assets being held at year end and a lower operating surplus than anticipated. In addition, we have undertaken a significant refurbishment programme on our key worker portfolio of units, which has led to a large number of these units being vacant for an extended period of time during the financial year.

We continue to have lower than desirable margins from our care activities and expect to have exited from them completely by the end of the next financial year.

Our occupancy levels, calculated as the proportion of available general needs units that are let, has remained stable throughout the year at 100 % demonstrating that the housing that we are providing is desirable to potential customers and that we are efficient in ensuring that available units are let. The number of general needs units vacant due to being unavailable at the end of 2017 was 0.78 % (2016: 0.56 %) of total general needs units owned and managed. As described above we initiated a Service Improvement Group in January 2017 to improve void performance by focusing on improved staff training and reporting. We have already seen results from this in the period to March 2017 and expect there to be a further reduction in void turnaround times this year.

Our responsive repairs to planned maintenance ratio is higher than in the previous year; our significant work to reduce planned and major works expenditure has resulted in the proportion of expenditure on responsive maintenance appearing higher. As part of our asset management strategy we are focused on ensuring that planned and major works are delivered to optimise financial return.

Operating efficiencies

Indicator	2017	2016	2015	G15 2016*
13. Headline social housing cost per unit £	4,638	4,728	4,853	4,933
14. Rent collected (%)	99.5 %	100.1 %	101.6 %	98 %
15. Overheads (% of adjusted turnover)	13.2 %**	9.9 %	11.4 %	11.7 %

Revised by G15 based on HCA definitions
**Estimated based upon our calculations using the HouseMark allocation process*

Indicator	2017	2016	2015	HCA 2016*	G15 2016**
Headline social housing cost per unit	4,638	4,728	4,853	3,589	4,933
Split by:					
Management cost per unit £	1,190	1,179	1,147	1,077	1,278
Service charge cost per unit £	668	696	614	550	613
Maintenance cost per unit £	727	809	963	704	1,084
Major repairs cost per unit £	1,757	1,939	1,830	1,170	855
Other social housing cost per unit £	296	189	529	725	860

HCA 2016 Global accounts
**Revised by G15 based on HCA definitions*

Our headline social housing cost per unit has reduced year on year to £4,638 per unit, which is below the G15 average of £4,933 per unit. Management cost per unit has remained broadly in line with the previous year and is favourable when compared to the G15 average. We continue to scrutinise how we design our back office services to support our core business and look to drive efficiencies in the way we operate.

We have worked hard, and have demonstrably reduced our maintenance and major repairs cost per unit but recognise that there remains work to be done in this area. The coming year will see us continue to review our contracts and negotiate further savings.

We recognise that our service charge cost per unit is high compared to the wider sector. We have established a project to review our service charge process and consider steps that can be taken to drive efficiencies and improvements.

We are in a strong financial position, which comes from a drive to keep our overheads low. We are making sure that all expenditure is subject to scrutiny and that an appropriate procurement process is undertaken. In 2017 the overheads as a percentage of adjusted turnover increased by 3.3 % to 13.2 % due to lower than anticipated turnover from property sale. We are committed to reduce our costs and in the 'looking ahead' section below we talk about some of the measures we will be taking to achieve this.

Rent collected across the last three years has been consistently high, with less than 0.1 % of rent and service charge written off as unrecoverable each year. Nevertheless, we have been continually taking measures to ensure our rent collection rates improve.

Catalyst Development, St. Bernards Gate, Southall

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Looking ahead

The sector scorecard indicators provide us with a valuable insight into how efficiently our business is operating compared to other similar organisations. Whilst there is an encouraging upwards trend in most areas, it is clear that there are areas for improvement. Our value for money activity over the coming year is focused on continuing to drive efficiencies across all areas of the business and includes the following:

'Improving Customer Services'

- As mentioned in the Strategic Report, improvement of our Customer Services Team will be our key priority for the coming year. We are strengthening leadership across the team and developing our Customer Experience and Neighbourhood Experience Strategies to redefine our service offering and optimise service delivery. This work will begin to show an upwards trend in our customer satisfaction over the coming year.

'Building on our procurement capability'

- We will continue to build our new Procurement Team, who will lead on identifying efficiencies and cost savings across all areas of the business. They will embed ownership of savings targets and will work proactively with teams to ensure that business requirements for all procurement activities are robust and linked to key operational activities or business priorities before considering the best route to market to achieve value for money. A major opportunity in 2017/18 is the re-procurement of our maintenance contracts.

'Reducing people costs'

- Our budget for 2017/18 includes a target cost saving of £1million for people costs which, whilst achievable, will require us to be more disciplined around how we monitor savings and ensure that any staff changes do not impact on our key business priorities. The savings target will help us to continue to challenge the way we operate as a business, consider how business processes can be refined and improved to remove manual intervention and look to reduce use of consultants across the business.

'Improved financial management'

Over the coming year we will:

- Fully enforce a 'No PO, No Pay' policy meaning that only purchase orders raised and approved on our purchase-to-pay system will be paid. This will ensure that we have tighter control over purchasing decisions;
- Work closely with budget holders to enhance their financial understanding and support them with the delivery of efficiencies and savings in their area of the business;
- Revise our budget-setting and forecasting methodology to ensure that controls around the setting of budgets are enhanced and that savings delivered are clearly identified and ring-fenced;
- Introduce a new financial management tool which will provide budget holders with 'live' financial information, enhancing their ability to make key business decisions; and
- Revise our suite of financial reports so that they are simpler, easier to interpret and can be used by budget holders to make more effective business decisions.

'Enhancing performance management and benchmarking'

- We will enhance our performance reporting across all areas of the business to gain further insights into our existing performance and what is driving this. This will allow us to continue to challenge and improve the way we work, ultimately leading to better outcomes for our customers. We will also continue working with other housing providers to support the development of the sector scorecard as a fair and transparent way to benchmark performance and drive value for money.

'Ensuring better use of assets'

- We will complete a strategic review of the "C class" (poorly performing) assets identified by our asset grading model and agree an approach to deal with these and a detailed programme of measures for two identified portfolios using options ranging from refurbishment and/or change of tenure through to redevelopment or disposal.

'Delivering better value for money from development'

- We will establish different programme management methodology and measures so we are better able to identify, anticipate and control cost and delivery risks; providing a greater level of delivery predictability to the business. We will adopt our revised employer requirements (ERs) so that we are able to reduce life-cycle costs. We will work with others to use their skills in delivery and supply chain management. We will increase the level of construction supervision to ensure that we reduce levels of defects and customer dissatisfaction.

Catalyst

Catalyst Housing Limited
Ealing Gateway
26-30 Uxbridge Road
London W5 2AU

020 8832 3334
www.chg.org.uk

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Catalyst is one of the leading housing associations in London and the South East. Our vision is to create a self-sustaining business, which uses commercial disciplines and profits to provide affordable homes, improve neighbourhoods and change lives.