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shropshire housing group

Value For Money Self Assessment

2016/17

Shropshire Housing Group – VfM Self Assessment 2016 – 2017

Introduction and context

This is Shropshire Housing Group's (SHG'S) fifth and final annual Value for Money self assessment. On the 27th of July 2017 Shropshire Housing Ltd changed its name to Connexus Housing Ltd to reflect the fact that on the same day Connexus came into being, representing the merger between SHG and Herefordshire Housing Ltd. Connexus brings together the resources, energy and ambitions of two successful housing groups; individually, each has established a reputation for delivering high quality homes and support services which encourage a sense of well-being and belonging in their communities. Coming together as equals, we are well placed to leverage our combined buying power and expertise to connect more people, to more opportunities, in more communities across the rural West Midlands – and beyond.

This self assessment can be read independently from our previous self assessments which remain available to view on our new Connexus website. It continues SHG's value for money story, outlining the steps the Group has made to be as efficient and as effective as possible, making the most of available resources and assets to achieve clear corporate ambitions. Having carefully reviewed its options and responding to both the challenges and opportunities in the sector the decision to create Connexus was a relatively straight forward one, providing the best long term returns to the business, customers and communities.

Our commitment to value for money and cost drivers

SHG's Corporate Plan 2015-2020 sets out our core purpose, values and ambitions and outlines a culture where value for money runs through the business and is an everyday part of how the Group operates and where activities/actions provide 'a return', whether financial or social, to our business, customers, and communities.

Our **purpose** is to support our residents and communities by providing and managing quality homes.

Our **Values** are encapsulated in:

Our ambitions

Our ambitions are to be well run, to provide excellent services, to provide more homes with more choice to grow our business and to work towards more sustainable communities, thus:

Our Corporate Plan describes some longer term VfM targets such as growing our surpluses to 12% and increasing operating margins to 29% by 2020 whilst maintaining a minimum spending and income ratio widely used by funders (EBITDAMRI) of 115% throughout the life of the Business Plan. Using this working target has enabled the Group to create additional capacity in the business. The Group completed the year on track with all of these measures:

- Surpluses exceeded 16%
- Margin improved to over 32.9%
- Lowest point EBITDAMRI was over 118%

The Group's Business Plan and Financial Strategy reflect both pressures in the market such as the annual 1% rent reduction which came into effect in April 2016 for 4 years and an ambition to grow through development. The Plans have been thoroughly stress tested and the Financial Statements signed off by our external auditors, Mazars. A joint Business Case has been prepared for Connexus and the Long Term Financial Forecast robustly stress tested by consultants, TradeRisks. We continually monitor the economic climate and stress test our business responses to it.

VfM Progress and Improvements

Our main focus for delivering VfM in 2016/17 has been:

- Introducing a year long pilot for responsive repairs based on price per property and zonal working aimed at cutting costs whilst maintaining a good service
- Comprehensively reviewing our IT needs for housing management and our maintenance team, TRL, to make technology work better for tenants and the business
- Reviewing our Rent and Tenancy Policies in response to challenges such as the Local Housing Allowance Cap
- Enabling our Customer Services Team to offer more services at first point of contact
- Forming new development subsidiaries to support our FLOREAT brand and more effectively develop new homes across a range of tenures, whilst
- Maximising our return on assets by selling and replacing properties which 'under perform' against an agreed set of cost, income and demand data.
- Pursuing a merger with HHL.

Areas to concentrate on in 2017/18

With the Merger with HHL and the creation of Connexus in July 2017 so that we can be stronger together. Our focus for 2017-18 is to improve our resilience in an ever more difficult financial environment whilst maintaining high quality services. Some of the specific VfM outcomes we are aiming from this merger are detailed below.

Financial

By combining our two organisations we are aiming for long term recurring efficiencies of over 5% per year from year 3 and 6.3% from year 5.

Development, services and growth

If successful, the efficiencies we make would enable us to either reinvest an additional £1.9 million net per annum in services or build additional new homes. The merger will thus provide the new organisation with opportunities and clear business choices. Merging will also strengthen our combined finances and borrowing power.

Resilience

SHG has had to withstand the impacts of rent reduction and welfare reform and strengthening our ability to cope with further shocks is essential. The existing rent reductions will remain in place to 2020 and after that date certainty on rent setting will be conditional on the sector responding positively to the Government's growth agenda and helping to resolve the housing crisis. Bringing the two Groups together will strengthen our financial resilience and enable the combined business to expand our core rental business and support customers to weather any future financial storm

Efficiency

Sharing back office services would mean that more of our customers' money can be spent on new homes and services that directly benefit customer.

Expertise and employment

One of the limiting factors for an organisation the size of SHG can be that the capacity to attract, develop and retain the best colleagues is limited. The geographical remoteness of the Marches area has sometimes proven to be a barrier for colleagues seeking career development by perhaps joining the business as an apprentice and building a career path. With a combined workforce of over 500, this merger would improve our capacity to attract, train, develop and deploy our colleagues in more effective ways

Engagement and enterprise

As a larger, but still very "locally focused", organisation with greater financial resources we will have significant spending power and contributor to the local economy and we will be better placed to work with our key strategic partners to problem solve, make a difference, and get things done.

Meeting our 2016/17 VFM targets:

Targets Met

Targets	Outcome
Reduce tenancies terminated from 8.43% of stock to 7.3%, by continuing to focus on preventing tenancy failure. 2016/17 Target for total number of permitted tenancy terminations: 326 (329 actual in 2015/16).	2016/17 out-turn: 6.98% or 314 properties – 12 better than target and 15 better than last year, which at a notional void turnover cost of £2,387 is equivalent to a saving of £35,805
Improve current rent arrears by 0.01% to 2.03%	2016/17 out-turn: current rent arrears have improved significantly, by 0.22% to 1.81%, which was top quartile performance by the year end. On a turnover of £23m this improvement is equivalent to a saving of circa £51,200. Cash collected – 98.7%.
Reduce cost of management for development from over £5,100 per unit delivered to under £5,000	All appraisals within the approved development plan included a sum of £4,819 per unit but due to recruitment delays against approved establishment the out-turn cost of delivered homes was £3,019.
Introduce performance incentive pay within TRL	All TRL colleagues have agreed terms and signed new contracts of employment. TRL staff turnover has reduced by 14% in 2016/17.
Increase non-group turnover of TRL by £50,000	TRL turnover on group work was up by £80,000, totaling £400,000
Introduce responsive repairs Cost Per Property pilot capturing efficiencies of over £150,000	This has been a very successful cross team project. Evaluation is being undertaken at present with financial savings of over £100,000 plus other operational efficiencies. We have evaluated the project and it returned the following outcomes: • Reduced operative travel • Increased repairs per day and per operative • Reduced internal administration between teams • Maintained high levels of customer satisfaction

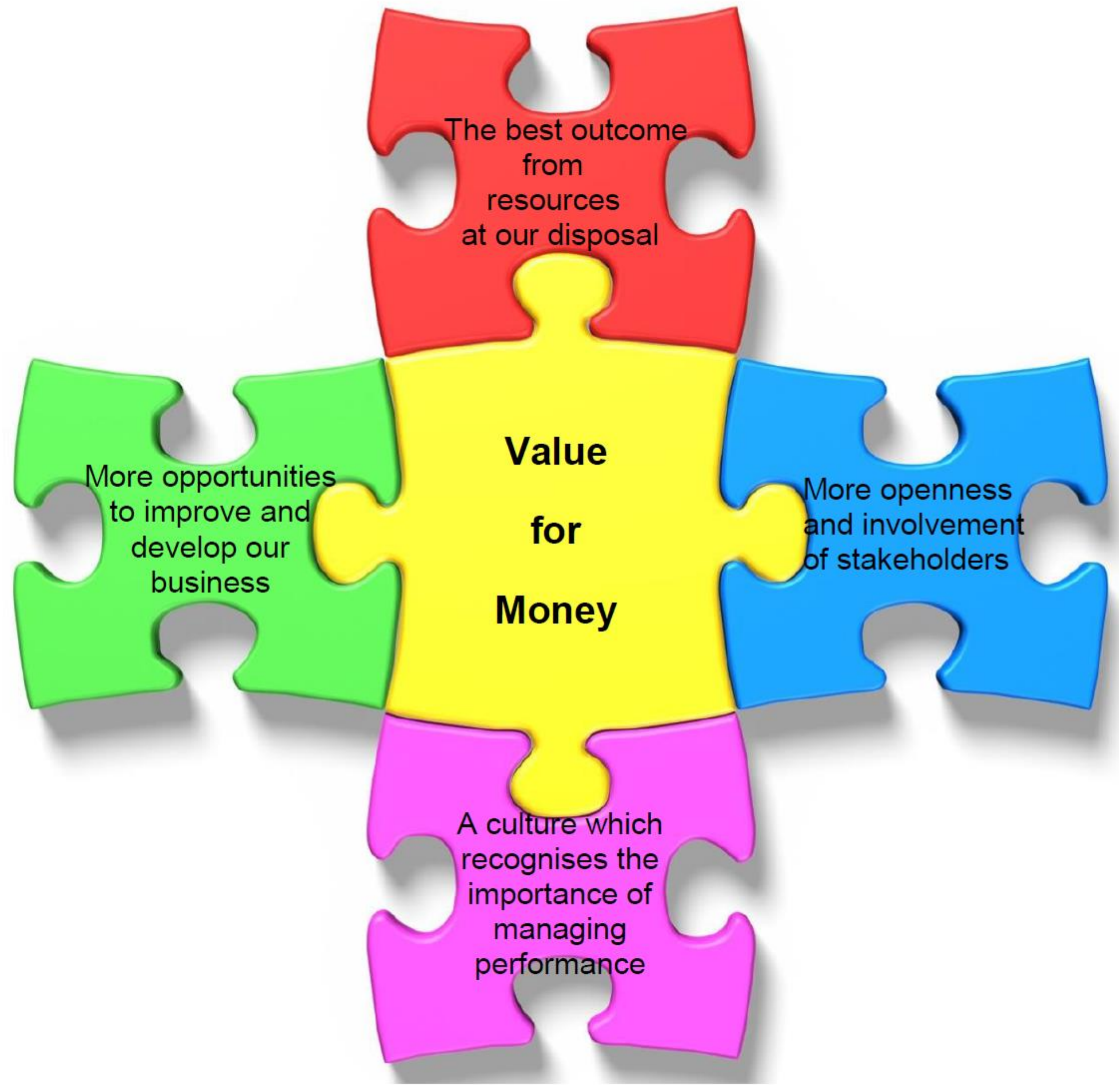
	at 95.3% (target 95.4%). • Over £150,000 of recycled efficiencies, including- • £100,000 reoccurring savings
Procure replacement/renewed IT contracts for housing and TRL saving £30,000 on budgeted estimates	Actual savings of £27,000 included extra modules not originally specified with projected ongoing yearly savings of £30,000 on system maintenance.
Evaluate our asset management system under the ISO55000 quality mark.	Mock audit completed in March 2017. As the ISO55000 accreditation is an area this assessor wished to expand into, they undertook our assessment at no cost.

Targets not met

Targets	Outcome
4.2% (£300,000) saving on base budget of 2015/16	Disappointingly, the actual saving was only 3.1% as efficiencies become increasingly difficult to source
Reduce overall cost per unit to £3,230	Taken from statutory accounts overall cost per unit reduced to £3,380 from an accounting figure of £3,570 for 2015.
Freeze pay and benefits envelope	Overall, the envelope has increased due to factors such as increased pension contributions.
Reduce average relet times in both general needs and housing for older people stock to 25.6 days.	2016/17 out-turn: Cumulative average re-let time: 34.2 days. This is a disappointing performance. We had significant turnover in the staff team, plus some issues with demand for some homes. The team is now at full establishment and our new Group is investing in market research.
Commence selling and replacing 60 "poor performing" properties on a rolling 2 year cycle	The sale of our poorer performing assets has been slow in 2016/17 as we work with tenants to find suitable accommodation. We have disposed of 10 properties, and recorded capital receipts, after costs of £968,000. Overall we still consider this strategy is appropriate, even though we aren't meeting our targets for disposals, the fact that properties are still tenanted means we are still collecting rents

Our Strategy and Communications

SHG is committed to delivering excellent value and services. Our Value for Money Strategy is to be a strong and effective business well placed and able to support and benefit our tenants, customers and communities. Our Strategy is a way of describing how we behave, our decisions and actions. It provides us with a simple way of demonstrating to ourselves and others that we have a clear and comprehensive approach to ensure that we can make the most of all of our resources, operating efficiently, effectively and economically whilst achieving our social goals.



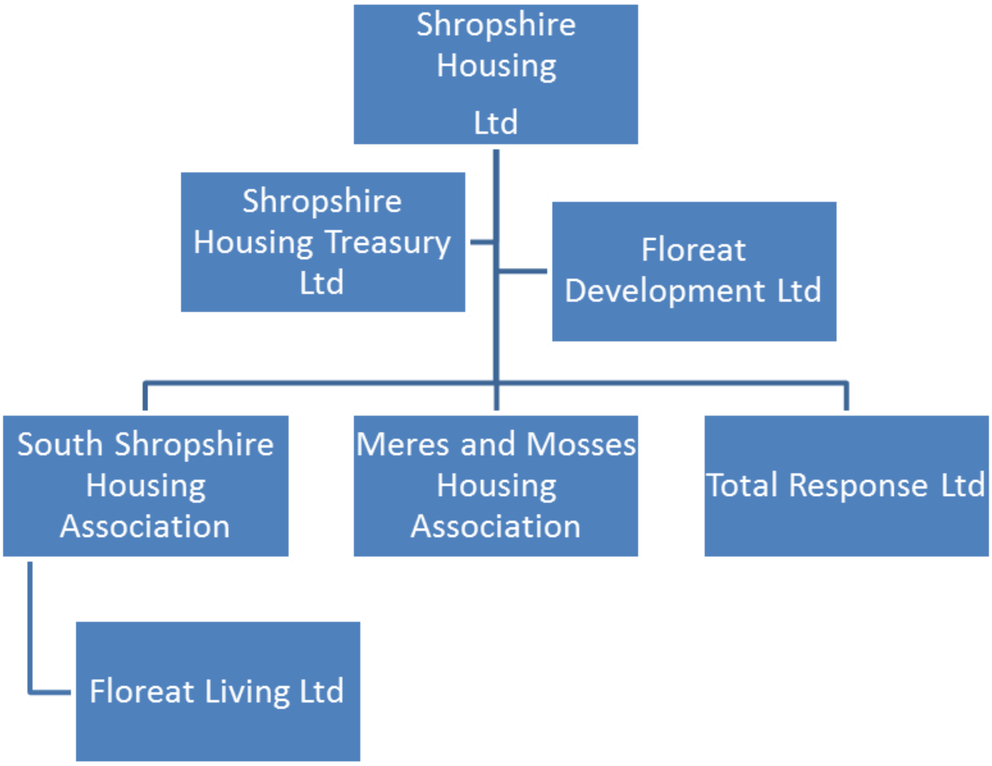
We communicate our corporate ambitions, our performance against our targets and the Regulatory Standards, including VfM, to our tenants through regular meetings of the Executive and our tenant representative bodies TASS and TARCA, via quarterly newsletters to all tenants, our Annual Report and our website.

Delivering Corporate priorities

We report at least annually to our Board on progress against corporate ambitions and every two years hold Stakeholder events (September 2016) showcasing our activity, whilst on alternate years, we hold a staff conference (May 2017) reviewing progress and looking to the future. In this case a shared future with Connexus colleagues.

Our governance arrangements and working with others

Shropshire Housing Ltd. is the parent company for South Shropshire Housing Association, Meres & Mosses Housing Association and Total Response Ltd. Shropshire Housing Treasury Ltd is a non-trading organisation that distributes resources within the Group. Also within the Group are two recently formed development subsidiaries Floreat Living Ltd. and Floreat Development Ltd. The Group owns and manages over 4600 homes and commercial properties in Shropshire and Herefordshire including sheltered housing schemes, a supported housing scheme for young people and a refuge for women. Total Response Ltd undertakes the majority of repairs and maintenance work for the Group's own portfolio of properties as well as having repairs contracts for other Housing Associations in the area and for private landlords.



Shropshire Housing Group refinanced in July 2014 and changed governance arrangements to co-terminus Boards in December 2014. We are now stronger and leaner with a smaller single group of board members alongside a tight executive team. The result of these changes is ongoing savings of £90,000 p/a. The HCA reclassified the Group to the top Viability Rating V1 (from V2 in 2014/15), this has been retained alongside the existing Governance Rating (G1).

Delivering VFM is a partnership between the Group's Boards and Executive but is fundamentally a matter for everyone in the Group. The Parent (Shropshire Housing) Board of Management is responsible for setting corporate objectives and the strategies needed to deliver them, including the VfM Strategy and related strategies such as our Strategic Asset Management Plan and our Procurement Strategy. The Audit and Risk Committee completes an annual review of VfM and has oversight of performance whilst the Executive and Senior

Management Teams (SMT) are responsible for regular monitoring of performance and ensuring that targets are delivered and budgets kept.

Our tenant scrutiny panel TRIP continues to make a valuable contribution to our quest for value for money through the in depth reviews it carried out. We enjoy strong relationships with our Local Authority partners in Shropshire and Herefordshire, with many shared aspirations and meaningful partnership working. We have continued to engage with local communities and Parish Councils, working with them directly on a range of community led projects but also through the Shropshire Association of Local Councils (SALC).

Our active collaborations with other housing associations and Shropshire Council's ALMO (STaR) has enabled us to directly compare what we do, learn from each other and in some cases to strengthen our offer, for instance, through the SUSTAIN Consortium which provides support services across Shropshire. The Group provides full HR and Finance services, including payroll, to local social enterprises and community organisations and was founder member of Central Housing Investment Consortium enabling the Group to achieve savings through aggregated procurement arrangements.

SHG is outward looking, is a member of Place Shapers, and has this year strengthened its relationship with Herefordshire Housing Ltd resulting in a successful merger. The Group Chief Executive is the current Chair of the Rural Housing Alliance and member of the round table on Voluntary Right to Buy.

Our Financial Health

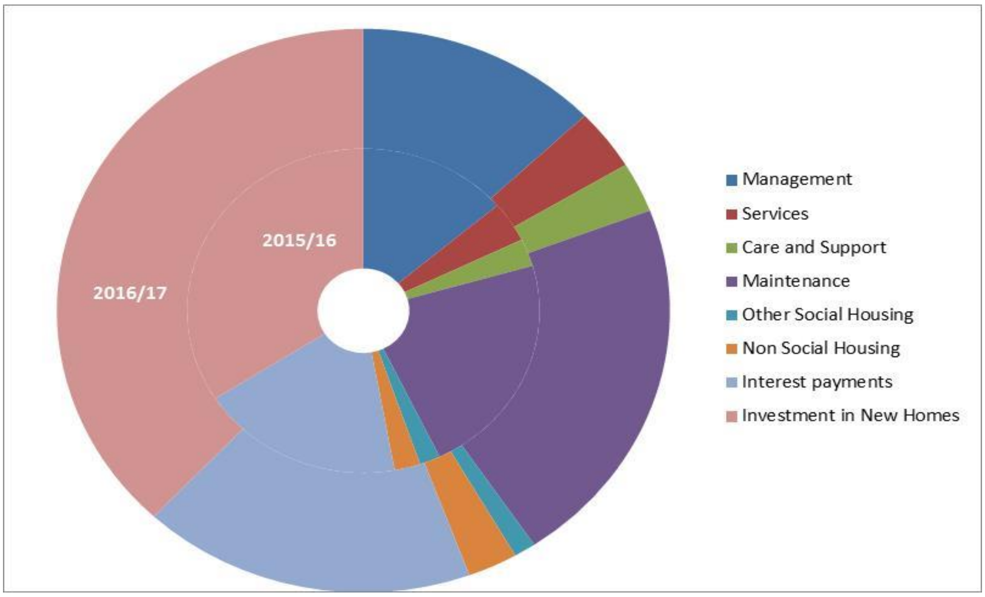
Overview

The 2015/16 Global Accounts show that the aggregate sector surplus increased by 26.9% on the previous year. Over the same period SHG surpluses rose 56.8% to £4.21m, and by year end 2016/17 they had achieved £4.1m. Sector turnover rose by 8% in 2015/16 compared to a 19.5% rise in turnover for SHG over this period. SHG turnover decreased in 2016/17 by 8.5%, from 29.747m in 2015/16 to £26.04m, due to a reduction in sales and taking account of the 1% rent cut. As a percentage of turnover, surpluses increased from 14% (2015/16) to 15.8% (2016/17). The 2015/16 Global Accounts show sector operating cost increases of 7.4% compared to 15.8% at SHG over the same period. The Group operating cost increase was a result of increased development costs falling in the year. In the last 12 months total overheads as a % of turnover improved from 10.46% in 2015/16 to 9.8%. About £500,000 of costs was saved through re-tendering of general insurances, publicity and promotion activities and staff related costs. In 2016/17 Group operating margins improved again to 32.7% against 30.9% in 2015/16. The following table summarises progress against our VfM cost indicators.

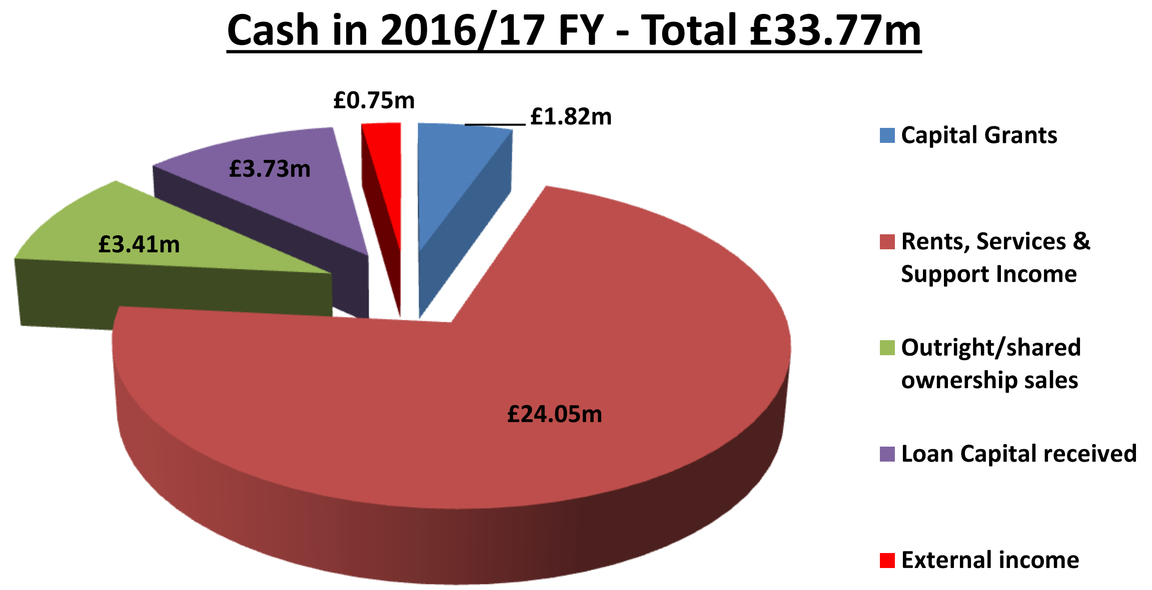
VfM Indicator	2015/16 outturn	2016/17 outturn
Turnover	£29.749m	£26,041m
Overheads	£3.112m	£2,561m
Total overheads as a % of turnover	10.46%	9.8%
Operating margin	30.9%	32.7%

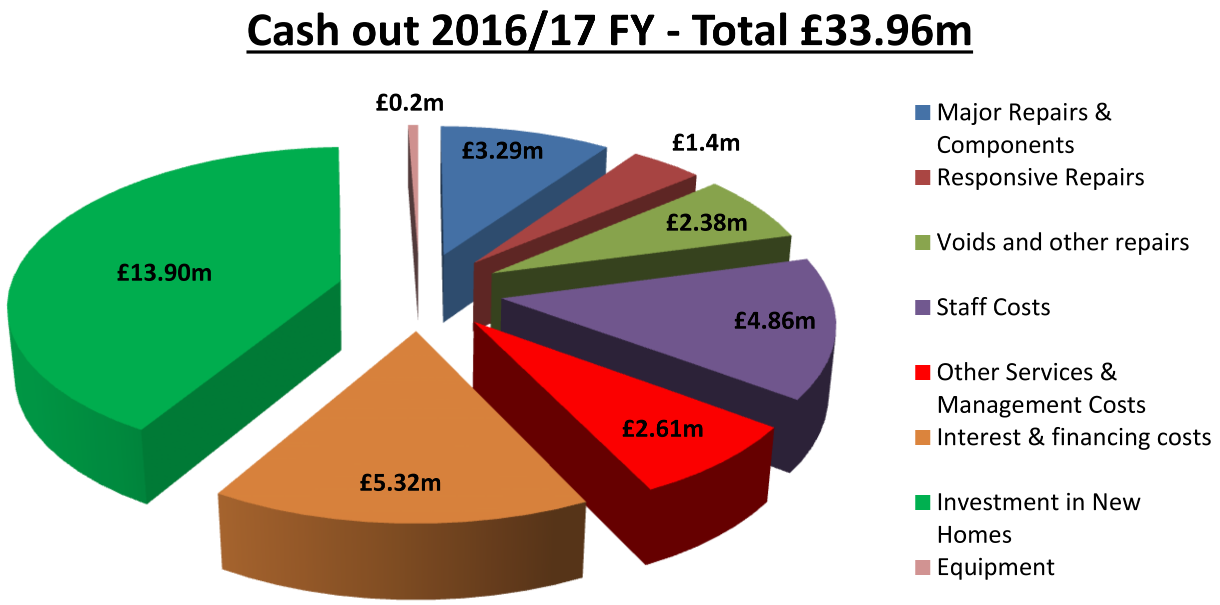
How we spend our money

Balancing income and expenditure is crucial for good financial health. The total operating cost of Shropshire Housing Group in 2016/17 was £17.7m compared to £20.2m in 2015/16. The 12.5% decrease was due to less development costs falling in the year. In addition to this the Group spent £5.3m on interest payments compared to £5.2m in 2015/16. This non-discretionary cost increased slightly in 2016/17 as a result of drawing down from the Revolving Credit Facility to support the development programme.



We invest the lion's share of our income in new homes and planned maintenance, providing decent homes for our tenants and security for our loans. In addition to the expenditure shown above, the Group spent £17.1m in acquiring, constructing and improving our housing properties. We are a people centred organisation and as we appraise and address business risks we have recognised the increasing pressures that our tenants face from welfare reform and have continued to invest in housing management, and in particular money management, improving income and losses due to bad debts. We have also invested significantly in digital inclusion activity and supported other small social enterprises working with us to improve IT literacy and support into work projects for tenants. We have invested in customer support and complaint handling, and continue to support our tenant scrutiny panel, TRIP, and new Community Panels to refine what we do and deliver local regeneration projects through their "Neighbourhood Plans".





As we track our business against EBITDAMRI, managing cashflow and costs has become a major driver for the organisation. During 2016/17 the Group spent £5.32m on interest payments compared to £5.05m in 2015/16.

How our Costs Compare

We compare costs of delivering services with other similar organisations like Herefordshire Housing and Severnside and by participating in benchmarking exercises. Comparison with peers on a repair costs per property basis shows we are on par with the HCA identified median but are looking again at how we can deliver further efficiencies.

Global Accounts

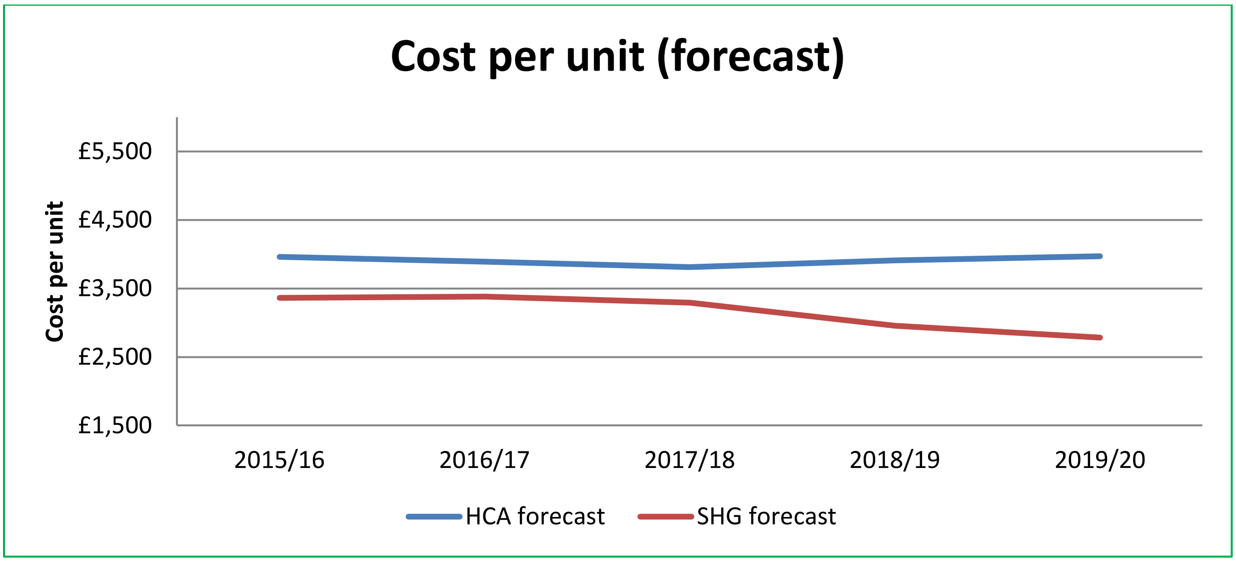
Taken from the HCA's analysis (February 2017) our operating cost per unit was £3,360 in 2015/16 (excluding new development for outright sales, depreciation etc.) a decrease of 6% from the previous period compared to a sector average of £3,970 which showed an increase of 1%. The Group Board has set clear VfM targets to become more efficient, to drive down the cost of management and improve operating margins with overall costs increase to £3,380 in 2016/17 before falling to £3,290 in 2017/18 releasing capacity to the business.

The following table shows a direct like for like comparison with the HCA Median over time including accounting figures for 2016/17 out turn and 2017/18 budget estimates.

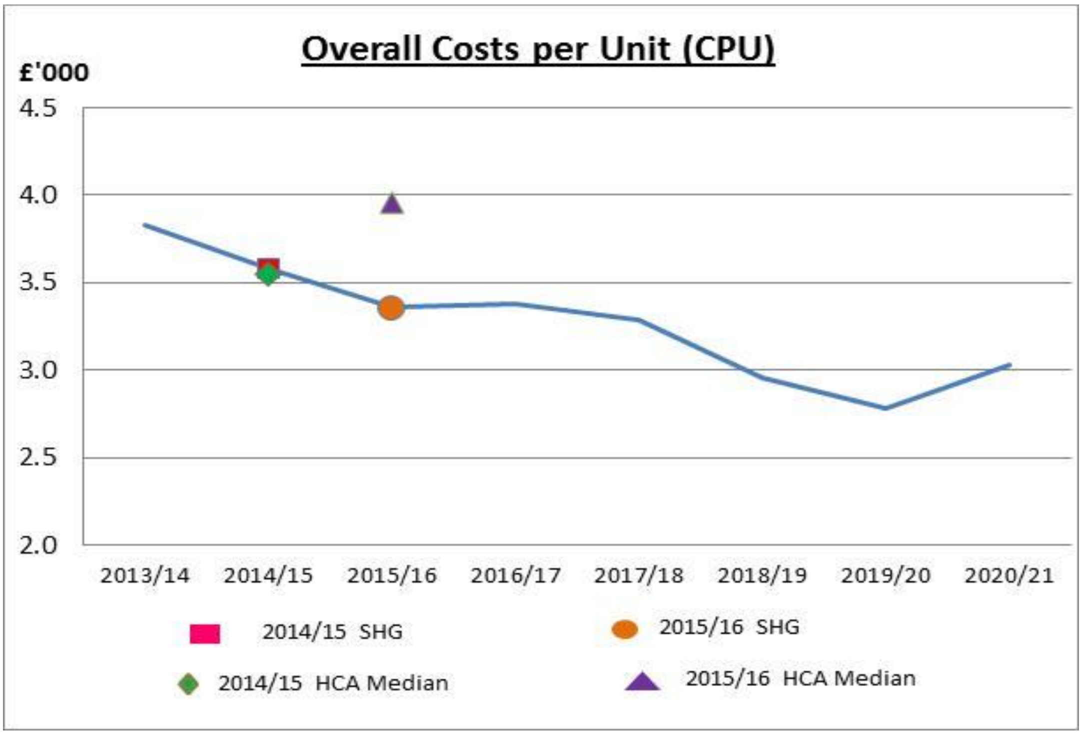
SHG Cost Per Unit over time

£,000s	2012/13	2013/14	2014/15	SHG 2015/16	HCA median	2016/17 Actual	2017/18 budget
Overall Costs per unit (CPU)	3.54	3.83	3.58	3.36	3.96	3.38	3.29
Management CPU	0.94	0.96	0.94	0.82	1.04	0.82	0.80
Service Charge CPU	0.20	0.20	0.23	0.24	0.53	0.23	0.22
Maintenance CPU	1.12	1.32	1.30	1.34	1.00	1.38	1.34
Other social housing CPU	0.28	0.30	0.29	0.28	0.52	0.25	0.24
Major Repairs CPU	1.00	1.05	0.82	0.69	0.88	0.70	0.65

The HCA's data shows there was considerable variation in unit costs between providers in 2015/16 and uses financial forecast returns (FFRs) from all providers owning and/or managing 1,000 units or more to project future cost reporting. Overall the sector is planning to make cost reductions on all the key cost measures between 2017 and 2020. Against this SHG, also shown on the chart below, is planning similar cost reductions through to 2019/20.

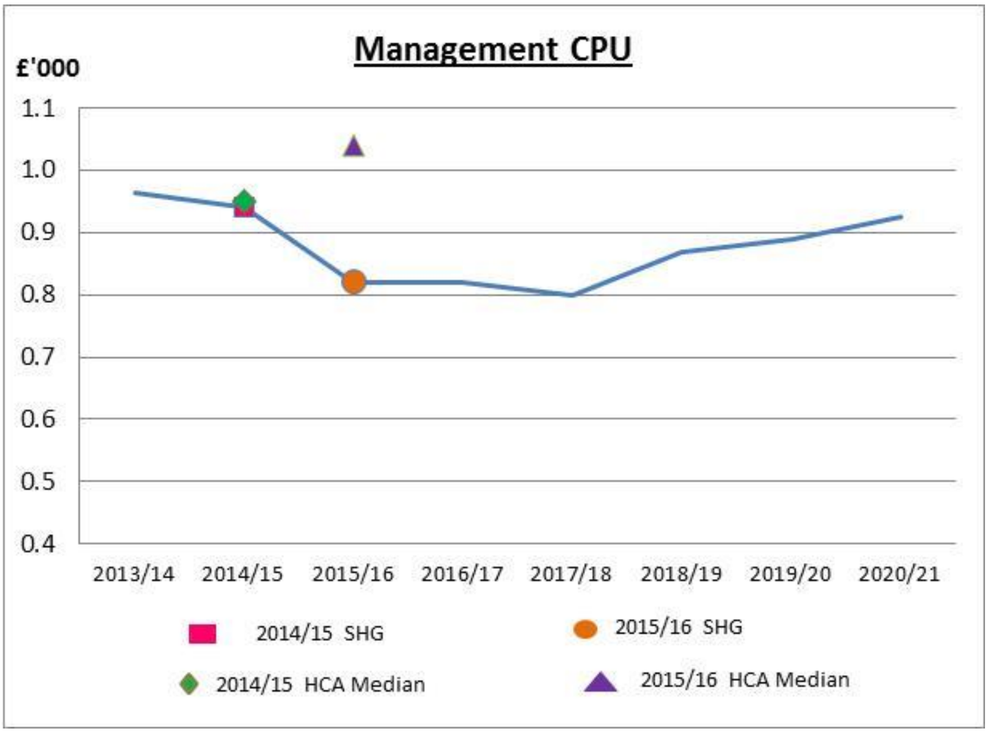


Subsequent graphs track our actual and projected Cost Per Unit profile from 2013/14 to 2020/21.



Looking at our Management and Overhead Costs

We recognise that our rurality and overall organisational complexity for our size contribute to higher operating costs than some. In 2014/15 the Group's comparative overheads against peers was bottom quartile and the Board set clear VfM targets to become more efficient, to drive down the cost of management and improve operating margins to 29% by 2020. In addition to reducing management costs, SHG's overhead costs have come down to 10.46% of total turnover in 2015/16, 9.8% in 2016/17. The following chart which focuses on management costs matches SHG costs with HCA Global account data for 2014/15, 2015/16 and projects the Groups position forward.



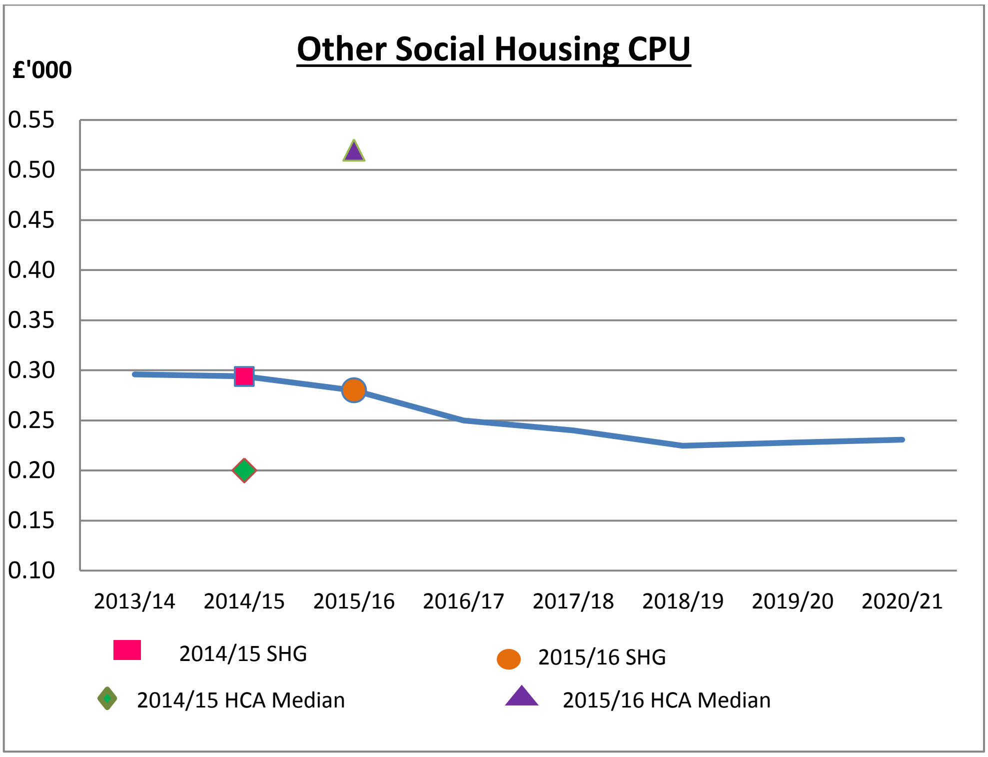
To help put our higher than average overheads in context we:

- Pay a price for operating in Shropshire and Herefordshire, a large and deeply rural area with dispersed population and stock

- Are a relatively complex organisation for our size:-

    - Having a large supported housing team in the SUSTAIN consortium
    - Providing a domestic violence refuge and a foyer, working with young people to support their transition to independence;
    - Having diversified our business into other areas such as our Homelife service - this optional "pay as you go" service provides valuable "top up" services to our own customers, and also to other private residents;
    - Operating an in-house contractor, Total Response Limited (TRL), for repairs and maintenance, whilst managing the large workforce, with over 100 employees increases our overheads, but is offset by VAT savings;
    - Supporting local social enterprise Grow Cook Learn, in running the Shropshire Hills Discovery Centre visitor - attraction, training centre and local amenity.

This complexity has historically contributed to higher "other social housing costs" against the HCA Global Account averages as at 2014/15 but whilst SHG other social housing costs have decresed moderately the 2015/16 HCA sector median has significantly increased. Our cost reductions are due to reducing Supported Housing staffing costs arising from changes to the SUSTAIN contract with Shropshire Council and TRL efficiency savings but more work is required to better understand sector changes.



Drive for Efficiencies and Savings

In addition to identifying savings to the 2016/17 base budget the Senior Management Team tracks VfM efficiencies at its monthly meetings. Here is a summary of some of the additional cash savings suggested by staff and secured throughout the year:

VFM Item	Savings Made
Renegotiated price of UKATA asbestos course	£1,560
Switch of supplier for former tenant debt recovery	£8,300
Renegotiation of motor insurance renewal	£2,113
Changed supplier of flu jabs	£74
Upgrade of franking machine	£1,620

Procurement

Smart Procurement is central to delivering VfM but is particularly challenging for a relatively small organisation which is less able to benefit from economies of scale. However, with our clear strategy and programme in place for rolling review we have achieved some significant savings.

2016/17 is our sixth year of procuring goods and services through the Central Housing Investment Consortium. We have been benchmarking purchases from our 2011/12 baseline. . Although prices have fluctuated they have remained lower than our baseline throughout. We can show total cash savings of £718,923 overall and £112,731 for this year alone.

This approach, procuring at catalogue prices, is balanced with spot purchases elsewhere to ensure that we get the very best price whilst supporting the local economy. Importantly, this also helps us to manage the market place and ensures SHG gets competitive prices all year round. We tender a number of services each year to ensure competitive prices.

In 2016/17 we worked with CHIC, Procure Plus and Efficiency North through a consortia known as Re:allies. Their collective buying power continues to influence market prices and leverage savings for SHG. Re:allies drives best practice and acts as an honest broker to innovative products. Through this route we continue to explore off-site methods of construction for our new build programme and will deploy if cost and quality benchmarks are achieved.

Our procurement plan for 2016/17 set a target of 2% efficiency gains and covered the following areas:

Procurement Plan	2% savings achieved?	Y/N
Legal Services (property and housing management)	CHIC framework – savings based on usage, however initial examination would suggest 35% reduction in benchmarked costs	Y
Treasury advice	Tendered on budget	N
Cleaning of office and foyer accommodation	Tendered and savings made through both change of supplier and efficiencies in specification.	Y
CHIC merchants	Framework for 2018/2023. Current framework runs until 2018. Benchmark costs suggest an average saving of 30%.	Y
DLO system (Accuserve)	On budget utilising crown commercial framework	N
LED lighting	Examined supply and fit of same quality lights as pilot to some areas by in-house contractor rather than a 2 year payback deal. Savings to come via energy savings year on year. Roll out to estate in 2017/18	-

Procurement activity for 2017/18 includes:

- Total Response Ltd. Vehicles
- Office Refuse collection
- Office hygiene supplies
- Grounds Maintenance mowers
- PPE
- Woodchip provision

A number of planned initiatives have now been re-profiled due to the creation of the Connexus Group and the emergence of new opportunities and requirement to procure single providers for corporate work such as treasury advice and Auditors, identified within our merger business case.

Our Assets and Development Ambitions

Workforce Planning

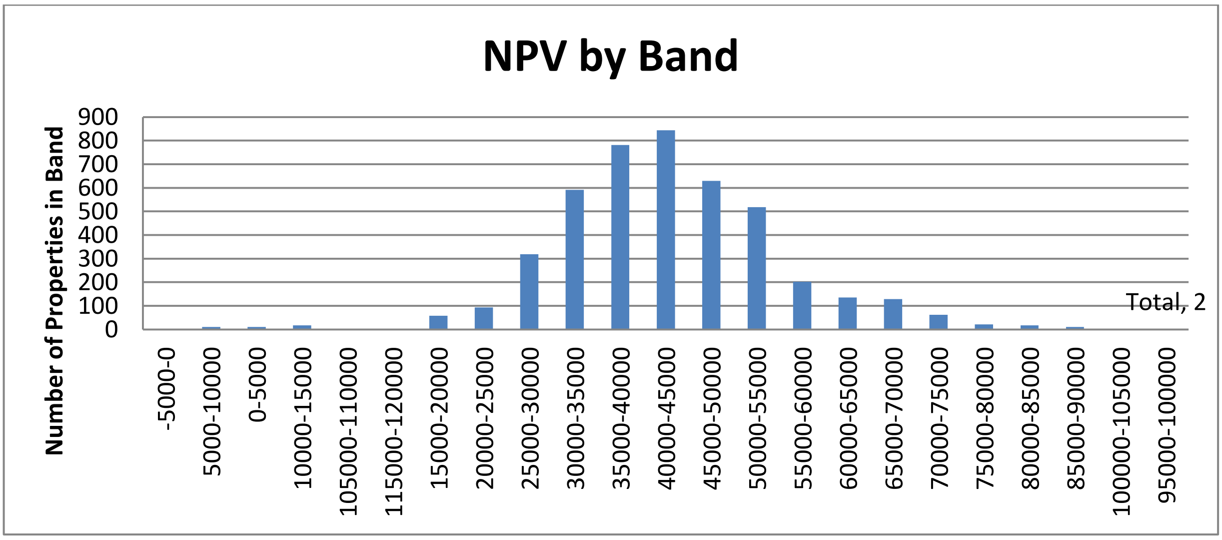
SHG responded to the reduction in rental income by consulting staff, liaising with the Staff Consultation Group and agreeing a freeze in the salary and benefits envelope rather than having to make any redundancies. A business-wide review of employee recognition and reward has also been put in place, partly to address below median pay levels identified through benchmarking. The new pay structure links pay increases more clearly with performance. TRL operatives pay and performance is similarly being linked through an operative productivity scheme. There is wide recognition amongst staff that these measures help secure the long term financial viability and competitiveness of the Group.

As well as appropriate performance related award arrangements, we continue to ensure that other measures are in place to enable us to manage our human resources effectively. The Group's Remuneration and Human Resources Committee receives regular updates on staffing numbers, recruitment, retention, sickness absence and work place accidents. Staff turnover during 2016/17 was 14.95% compared to 13.05% last year. Average days lost per employee increased in 2016/17 to 9.7 compared to 8.4 in the previous year. With 256 full-time equivalent employees in March 2017, SHG remains a significant, well regarded employer locally, retention of our Gold Investors in People status/accreditation being confirmed in August 2016.

We believe that well trained colleagues contribute to our effectiveness, introducing a new e-learning portal in 2015/16 to deliver a wide range of training in house.

Asset Management – Investment and Disposal Plan

The Group now holds properties at existing use value for social housing properties in excess of £161million a reduction from £177.9m in 2015/16 to reflect industry 1% rent reductions.
Our Board continues to monitor our headline property performance via analysis of the total nett present value of our stock. In 2015/16 we re-assessed our approach removing service charge income from calculations and restated nett present value at £184,847,663 (against £203,368,966 previously). This restated figure improved to £191,082,491 in 2016/17.



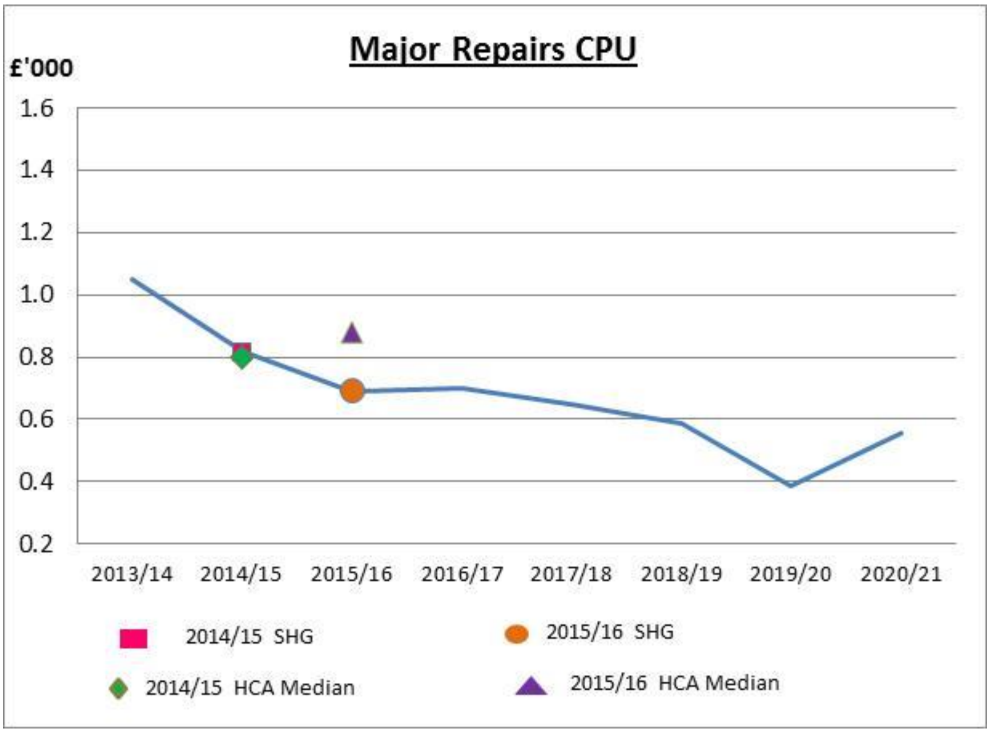
We aim to make the most of all the property we own and make informed decisions about sales and investment. We carry out systematic reviews of void properties and regularly evaluate stock based on demand, demographic and thermal performance. As a result, we have in place an Asset Investment and Disposal Plan for 2016/17 and proposed to dispose of 61 of our "worst performing" assets and create a reinvestment reserve for 61 replacement homes by 2017/18.

Against this plan, during 201/17 we disposed of 10 properties generating a capital receipt of £968,000. We also sold a further 18 properties through Right to Buy which provided a net income of £1.1m. Part of this income was released to invest £50k in maintaining our customers' independence in their homes through our adaptations programme, which is supplemented by accessing disabled facilities grants. In 2016/17 we invested over £227,000 in major and minor disabled adaptations. The remaining income will be recycled into our reinvestment reserve for replacement homes.

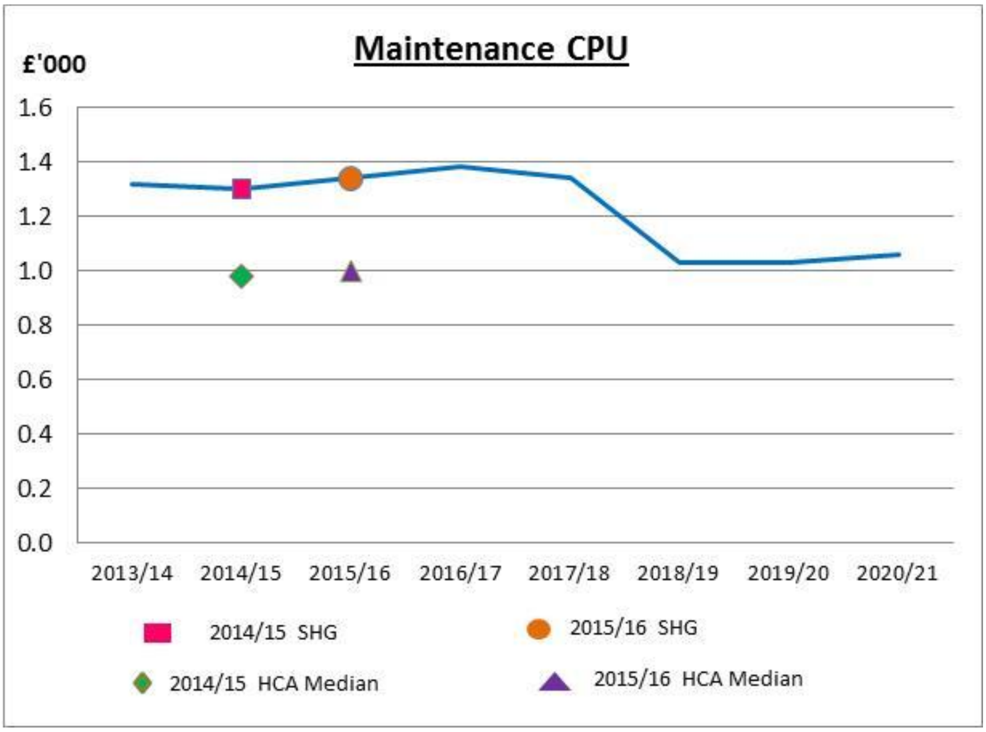
SHG has signed up to the Government's Voluntary Right to Buy "deal" and awaits progress.

Looking at Repairs and Maintenance Costs and Performance

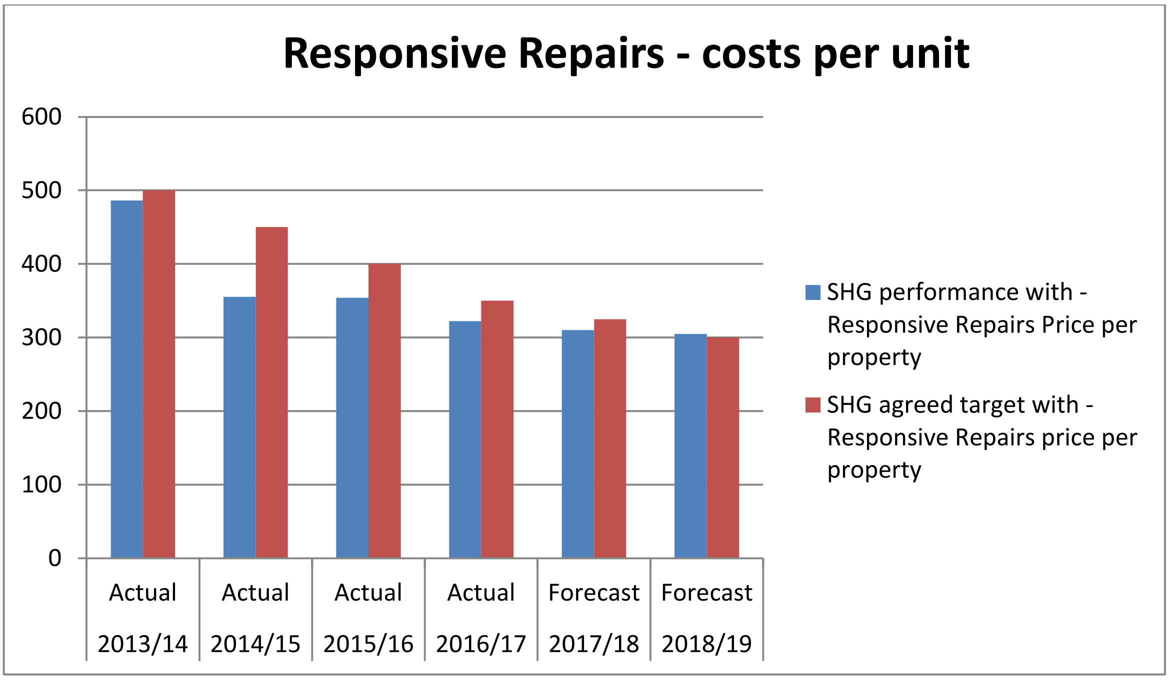
Maintaining the quality of our homes is hugely important to our business, our tenants and our funders. Working through our in house contractor, Total Response means we plan and schedule work more effectively whilst demonstrating cost savings. Cost per property comparison with the HCA's Global Report shows we have improved on Global median costs per property for major repairs. Major repairs expenditure increased slightly in 2016/17 and is projected to continue on an overall downward trend comparable to our peers. The chart below based on the HCA Global Accounts shows the cost per property for major repairs increasing slightly to £700 in 2016/17 having decreased to £690 in 2015/16.



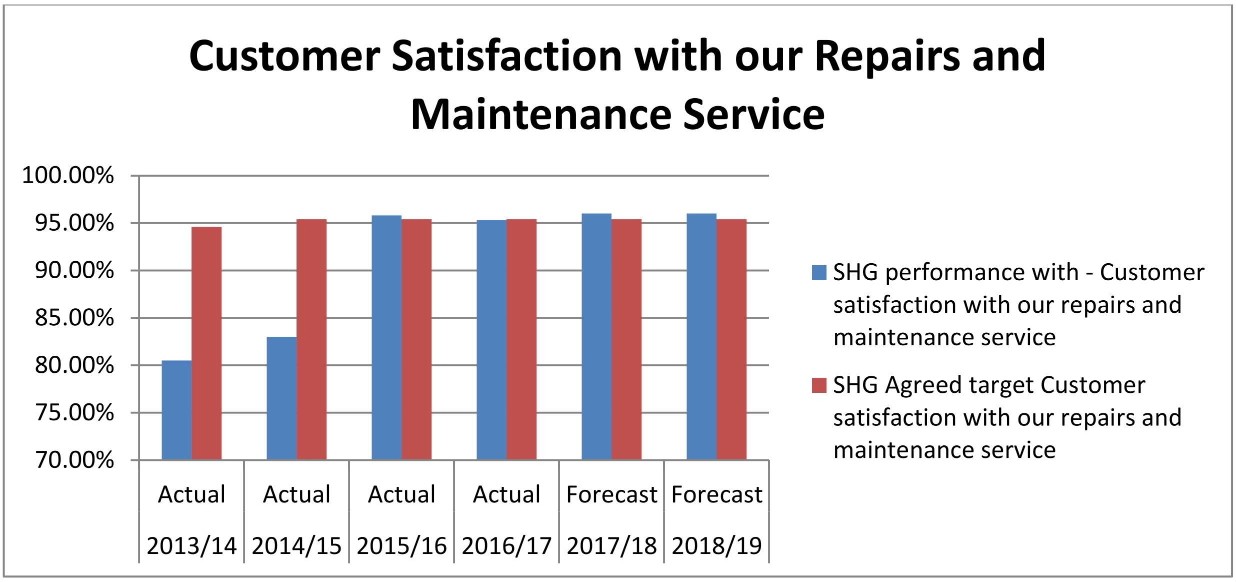
Our overall maintenance cost per property comprises both routine and planned maintenance. The following chart uses HCA Global Accounts to show our absolute and relative costs for maintenance which show a slight increase in 2015/16 and 2016/17before reducing from 2017/18. Within this our routine repairs (voids and responsive) cost per property has reduced whilst our planned maintenance costs increased slightly. Following a review of our expenditure on stock we expect to see a more consistent reducing trend.



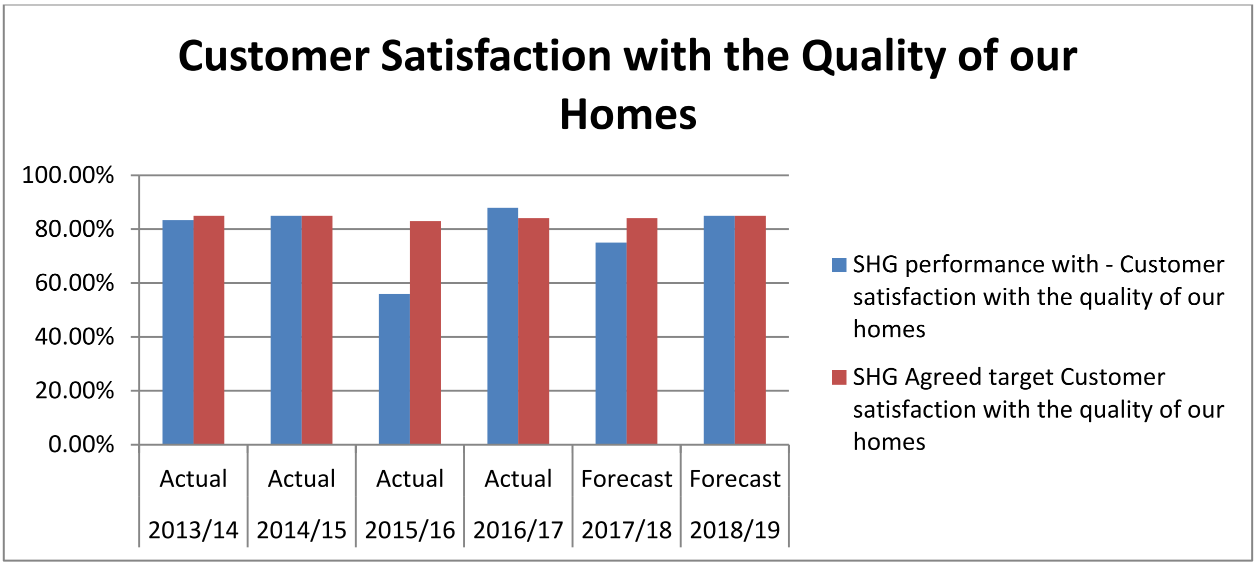
From May 2016 Total Response Ltd (TRL) our in house contractor are trialling a price per property model which should release capacity within TRL and save Group resources for potential reinvestment. The aim being to continue the downward push on repairs costs per unit.



We continue to monitor customer satisfaction with our repairs and maintenance service and have been seeking to maintain or improve satisfaction whilst reducing costs.



In 2017 we undertook a customer satisfaction survey asking a quality of home question. This recorded that 88% of our customers are happy with the quality of their home. In addition we have continued to collate data on the quality of our homes via stock inspections. In 2016/17 we asked our customers what they felt about their homes and invited issues to be reported so we could amend our investment plans. Of 441 respondents, 231 had no issues and advised that they were pleased with the quality of their home.



By using our in-house team TRL we can maintain robust monitoring and control of performance where it matters most such as customer safety and we retain a 100% record of issuing gas safety performance certificates within the service period.

TRL continue to offer all repairs by appointment with 99% of repairs appointments kept. With the TRL Price Per Property Pilot we have carefully monitored customer satisfaction as with the introduction of zonal working we have openly acknowledged that the average number of days to complete a visit will increase and stands at 14 days compared to less than 10 in 2015/16.

Assets and Liabilities

Having a clear understanding of the range of assets the Group has at its disposal is important, enabling us to make informed choices about how we get the most from them. During 2015/16 we began the process of reviewing and revising our assets and liabilities register, taking into account suggestions from our internal auditors on content and format. Our records clearly show how our property assets are used for loan security purposes. We are also clear about leases and agreements we have with others so we can easily evaluate potential implications should any of these come to an end and/or need to be terminated earlier than anticipated. During 2016/17 we have continued to work with our internal auditors to refine and improve our approach.

Delivering New Homes and Future Ambitions

Following our success to secure a HCA allocation in the 2015/18 bid round, we have delivered 101 homes for rent and shared ownership sale as part of our 385 home programme up to 2020. We currently are formulating an ambitious new development programme for the combined Connexus Group.

With our Floreat Homes private housing we have acquired a prime open market site in Shrewsbury, known as Radbrook Village, for which we have secured a detailed planning permission and plan to provide homes for sale alongside homes to rent in order to return a profit to reinvest into more affordable home provision.

Development Cost Targets/Comparisons

We continue to use Constructionline, the UK’s largest online database of pre-qualified suppliers, improving our efficiency whilst maintaining a credible select list of suppliers, returning competitive tendering and reduced costs.

Our ambition in 2016/17 has been to develop a series of headline charts which describe our development costs and performance together with comparison against peers enabling us to set efficiency targets whilst reducing the cost of management for development from £5,100 per unit delivered to under £5,000. We delivered 101 units in 2016/17 for an average of £3,019.

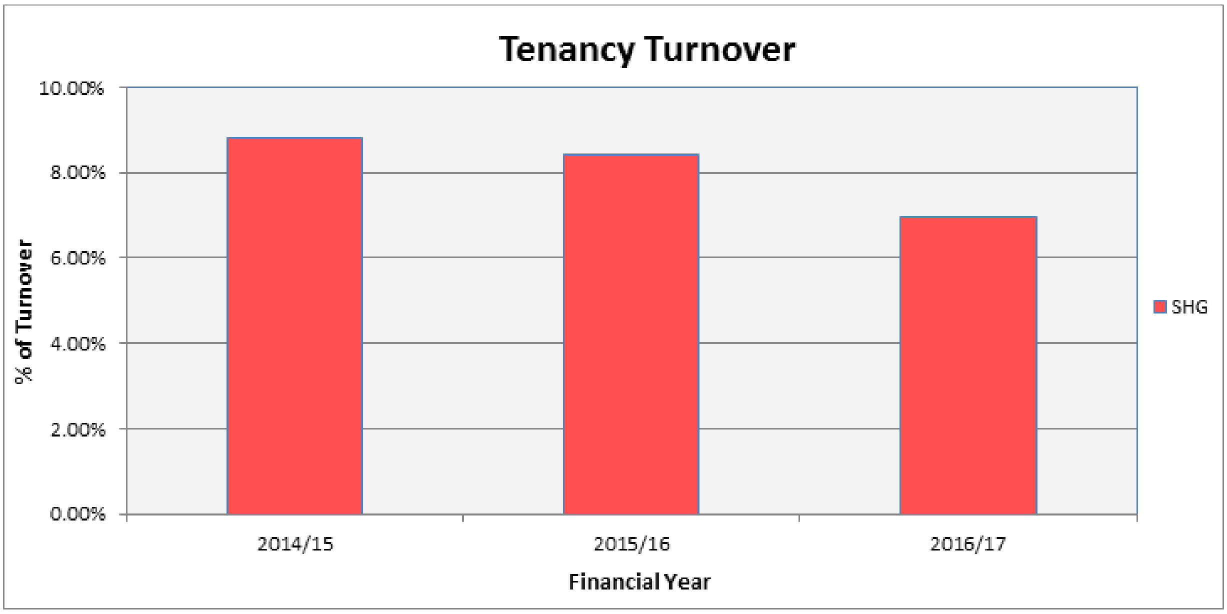
Managing our Homes and Maintaining Tenancies

Tenancy Turnover

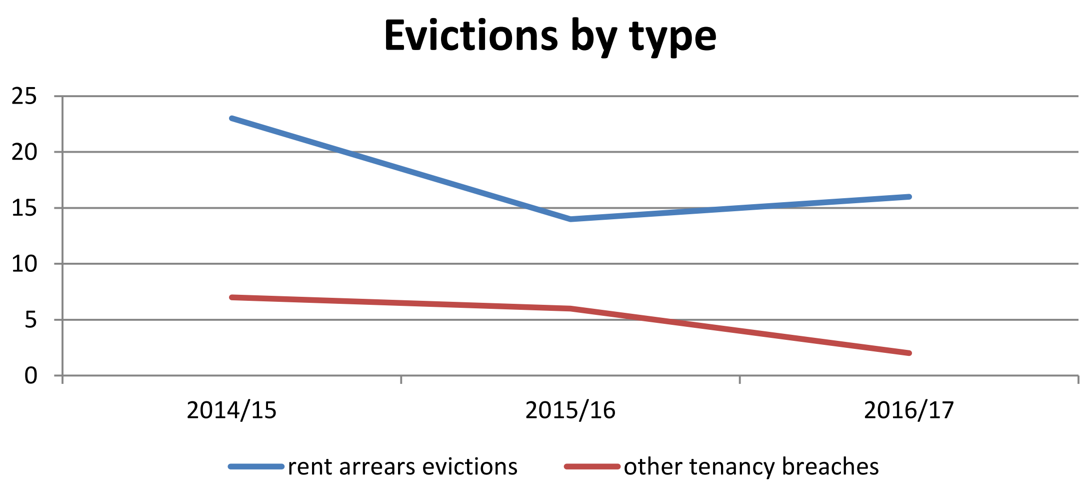
We set ourselves a target for 2016/17 to further reduce tenancies terminated from 8.43% of stock in 2015/16 to 7.3% in 2016/17 by addressing tenancy failure.

Tenancy turnover has reduced to 6.98%. With, an average void cost of £2,387 per void this is equivalent to a notional saving of £35,805.

Each Neighbourhood Management Officer has a personalised target for turnover in their patch, reflective of the stock and tenant profile they manage. Performance is monitored and influences pay awards under our new performance related pay system. This drives team ownership of the target..



In 2015/16 total evictions reduced to 20 (of which 15 were for arrears and 5 for other tenancy breaches). By the end of 2016/17 overall evictions had reduced again to 18 (of which 16 were for arrears and 2 for other tenancy breaches) demonstrating a return on our focus on sustaining tenancies whilst maximising income. As each failed tenancy ending in eviction costs the Group in the region of £4,200, this change in emphasis saved an estimated £8,400.



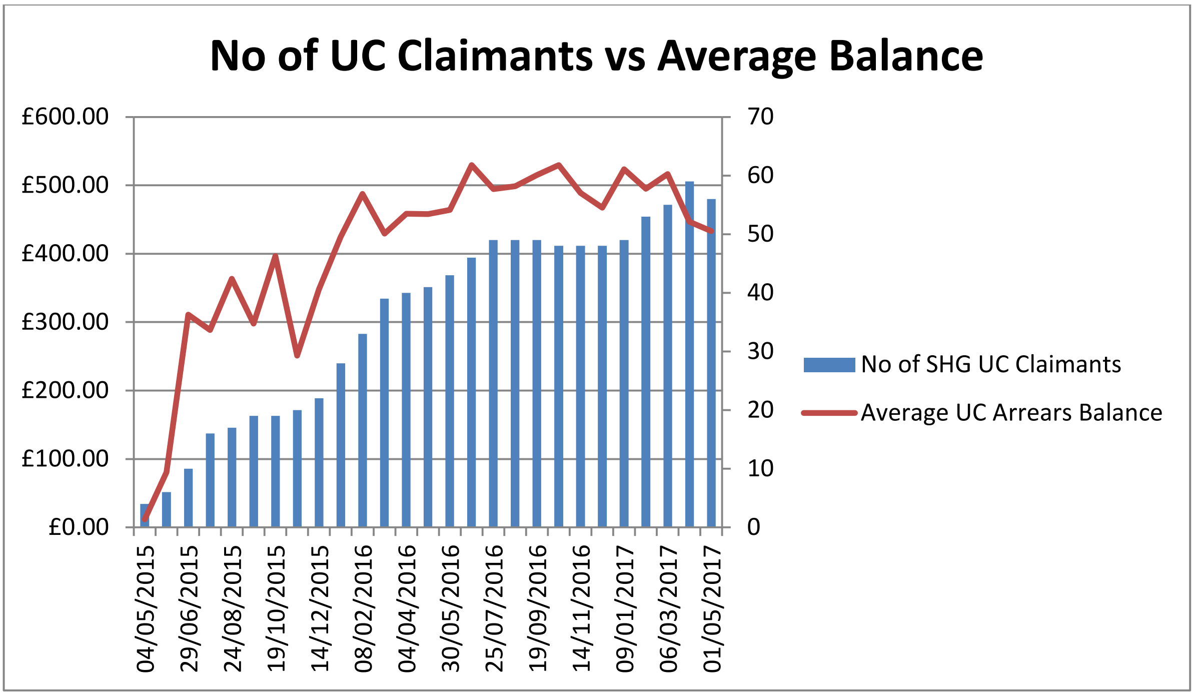
Welfare Reform

During 2016/17 we undertook further actions through our WR Action Plan including:

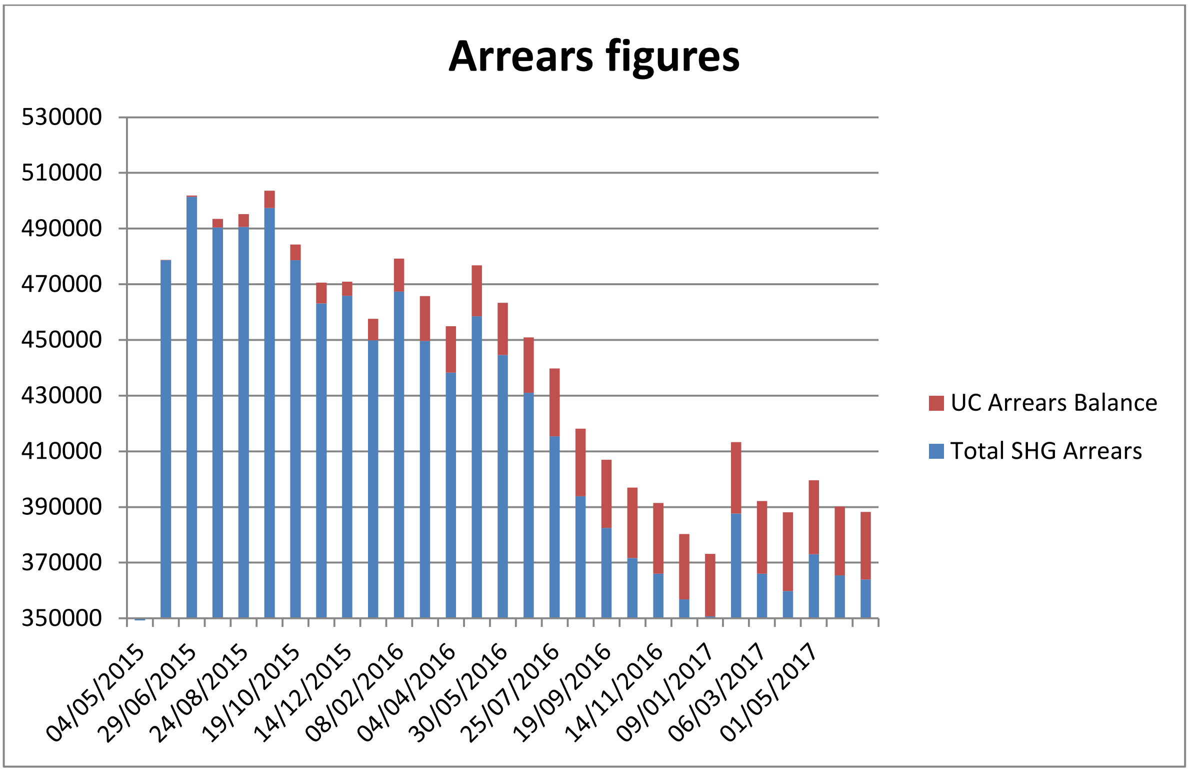
a) **Commissioning a valuable information session from Curo Group** who have been grappling with the roll out of the digital Universal Credit service for the last 12 months. The session was offered out to all social landlords in Shropshire and to the Local Authority.
b) **Communicating –** welfare reform updates in our tenant newsletters and targeted leaflet campaigns on the benefit cap and family premiums.
c) **Keeping bad debt provision under review -** currently set to increase from 3% to 5% for the 3 years from 1st April 2018.
d) **Iidentifying 47 tenants potential affected by the benefit cap.**
e) Introducing a disclaimer for all new general needs tenants whose tenancies commenced after 1 April 2016, confirming the conversation that had taken place with the household to make them aware of how they may be affected by the LHA cap from 1 April 2019.
    - We have identified 60 properties where rent plus service charge exceeds current LHA levels and are looking at ways to reduce service charges to improve affordability.
    - We have analysed the location and income of tenants aged under 35 who will only receive the shared room allowance rate and reviewed our Rent Policy to possibly subsidise rents for a property. We continue to work closely with Shropshire Council to ensure that funding is maximised and to ensure we're involved with commissioning decisions for supported accommodation.
    - We are mindful that the cap will impact older people who are under-occupying and have built in checks at all changes of tenancy.
f) Training Income Officers to manage tenants in receipt of Universal Credit to prepare for the changes to come.

To date 92 tenants have made a claim for UC with 56 live claims. Three have been evicted (all were in arrears of more than £500 when they made their UC claim). UC arrears management remains resource intensive and unpredictable.

The impact of UC on arrears is monitored through a suite of K.P.I.s. There is a slightly improving picture in average arrears balances, despite the increasing numbers of cases.



Despite this improving picture in our management of UC with reductions in average balances of sums owed, the impact on our overall debt is well illustrated below:



Rent Collections and Arrears

Current arrears improved to 1.81% by the end of 2016/17, an improvement from 2.12% for 2015/16. Former tenant arrears also improved 1.51% of rent income due over the same period. The totatl number of tenants in arrears reduced from 1093 to 962 in 2016/17.

The continuing improvement in both current tenant arrears recovery and numbers of tenants in arrears is due to the dedicated rents team, introducing alternative payment options; strengthening the wording of letters and improving arrears automation. Each team role has specific performance targets, linked to performance related pay decisions. This has incentivised cross team working dramatically, with colleagues constantly alert to improving practice and associated performance out-turn.

We continue to improve our practice in the collection of former tenant arrears which has resulted in a reduction in the level of debt being written off from £76,132.54 in 2015/16 to £57,835.46 in 2016/17– a saving of £18,297.08.

Tenancy Turnover and Empty Properties

It is disappointing that we have not been able to sustain the improvement in average re-let times that we reported in 2015/16 (from 34.3 days - excluding major works to 29.8 days in 2015/16). In 2016/17 cumulative average relet time was 34.2 days. The reasons included significant colleagues turnover and some demand issues which we are investigating.

We have seen an absolute reduction of tenants moving home in 2016/17 to 314 from 329 and have encouragingly improved the number of homes let on first offer from 65.2% to 73.4%.

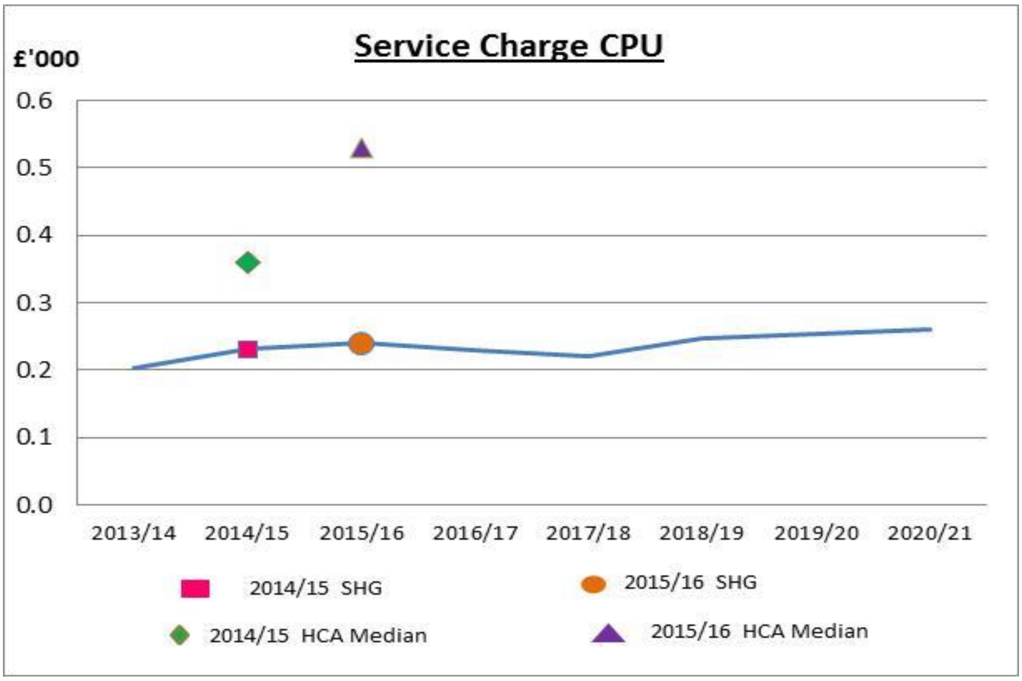
We have worked within our voids budget in 2016/17 spending £937,441 against a budget of £998,500 and continue to investigate any possible demand issues.

Anti - social behaviour

The percentage of cases recorded as “resolved” was 93% cumulatively over the year – an improvement of 5.3% on 2015/16. Unfortunately satisfaction with outcome reduced over the same period to 89.7% We continue to prioritise our customers but are satisfied that further investment will not greatly improve the outcomes reported.

Service Charges

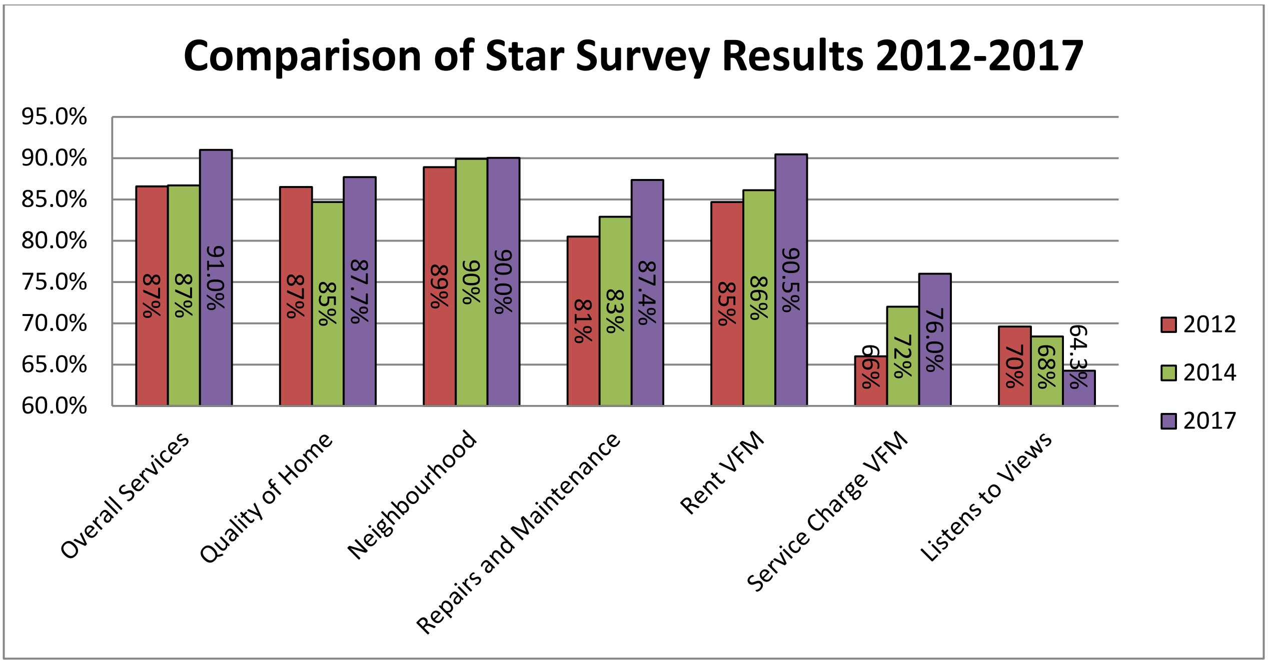
We remain committed to improving our processes to ensure that we achieve full cost recovery of eligible charges, and also ensure that we create sinking funds to ensure that we spread the cost of larger items that could potentially cause large annual spikes in charges for tenants. At the same time we remain very aware that higher service charges can adversely impact on affordability for our customers, particularly with the introduction of the LHA cap.



Customer Satisfaction and Customer Services

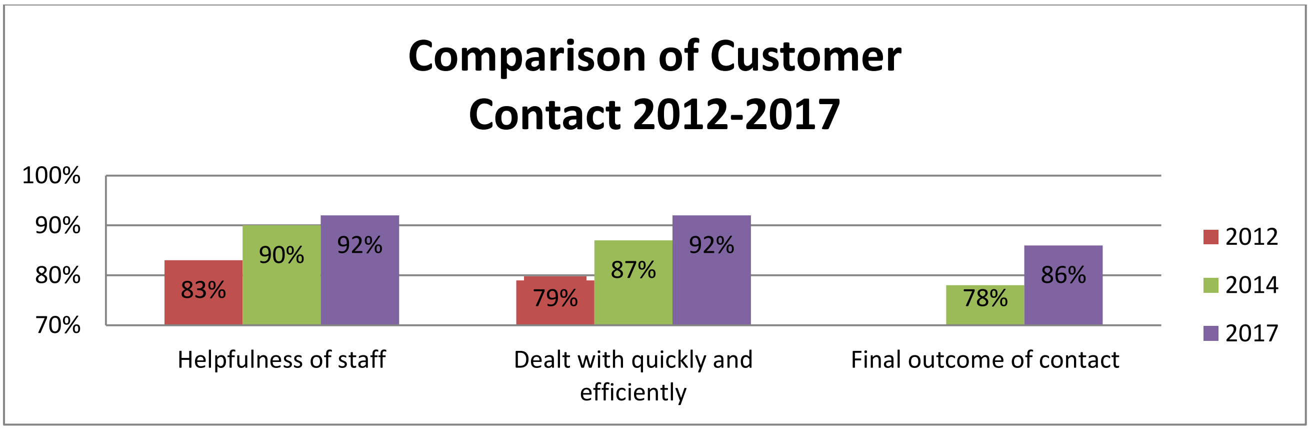
During the year we undertook our latest comprehensive STAR survey of customers. Overall satisfaction with SHG's services has risen 4% to 91%.

Satisfaction with repairs, a key driver for overall satisfaction has risen by 5% and trust in SHG has risen by 6%, which is an indicator of increased customer loyalty.



Last year we committed to concentrate our effort on better understanding the needs of younger tenants under 35. Further analysis of STAR reveals significant satisfaction in the under 35's and in particular starter tenancies (97%) which demonstrates the extra effort we have made in this area to better enable them to sustain their tenancies. Disappointingly, the STAR survey has recorded a slight downward trend in "listens to views" and we are working to better understand this, but belive relates to increased service charges in supported housing schemes.

Last year we made the decision to move Customer Services Team into the Neighbourhoods Team to better integrate working practices in a drive to further improve service delivery, in particular the number of customer enquiries dealt with at the first point of contact nearer to our 80% target.



The key areas for future focus are:

- Listening to views and acting
- Satisfaction of tenants with disabilities and those resident in independent living schemes

Our approach to complaint handling and our focus on resolving complaints at an early informal stage, empowering colleagues to take control of situations and put it right has continued to provide significant efficiencies. In 2016/17 we received a total of 279 complaints, 225 of which were first addressed at operational level (with only 26 progressing on to stage 1. Heads of service responded to a total of 35 complaints in 2016-17, compared to 42 complaints in 2015-16. This is a further time saving of approx. 22.5 hours for the Heads of Service in the year.

We intend to build on these efficiencies and results in the coming year as we focus on the introduction of technology to deliver an interactive digital customer service option enabling customers to do business with us and troubleshoot solutions remotely

Social Value and Environmental Returns

We measure "Social Return on Investment" because some of what we do within the Group does not produce a direct financial return but does have wider social value. Whether it is money colleagues raise on our behalf for local charities or apprenticeships generated through contracts let, it is a return to the communities we serve.

This year we invested £40,000 directly on community regeneration projects through our two Community Panels - who are careful to allocate funding only to projects which can demonstrate they will benefit SHG residents, attract additional funding and lead to volunteering opportunities in our communities as set out in the Community Panel's Annual Report.

In addition to this sum we also invest in our communities by supporting local partners that, like ourselves, make a positive difference to people's day to day lives such as the Mayfair Trust, The Furniture Scheme and Grow, Cook, Learn.

Concluding Remarks

What has impressed me the most in recent years is the degree to which everyone in the organisation understands what we do and why we do it. In recent years we have progressively improved value for money within the Group and have now taken the decision that the best way to serve our customers and communities is together as Connexus.

Jake Berriman
Group Chief Executive

I have worked closely with the Executive in putting together our self assessment of value for money and have once again been impressed by the way that all colleagues put our customers first and try to squeeze efficiencies out of our business to spend resources where they matter, which is on delivery of our Corporate Plan ambitions.

James Williamson
Vice Chair
Chair of Audit and Risk Committee, Shropshire Housing Group