



VALUE FOR  
MONEY STATEMENT  
2016-2017

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# 1. EXECUTIVE SUMMARY

Our work derives from Octavia Hill, the social reformer, who bought her first homes more than 150 years ago, creating what became “social housing”. We own and manage a property portfolio of over 4,600 homes in the most expensive boroughs in the country. Capital values in our local areas are high and the need for affordable housing is intense. Our homes are irreplaceable as a social asset. Our approach to Value for Money (VfM) is, therefore, to take a long term view, and is grounded in our vision “Good Homes, Better Lives”.

**The HCA carried out an In Depth Review on Octavia Housing in Spring 2017, and recently confirmed our ratings as Grade One for both Governance and Viability.**

Octavia Housing has six subsidiaries:

- a) **Octavia Living Limited** develops the homes for outright sale on housing developments led by Octavia, markets and manages property sales for Octavia and provides related commercial advice.
- b) **Octavia Development Services Limited** develops social housing on a design and build basis.
- c) **Octavia Foundation** provides community support to people in central and west London.
- d) **Kensal Enterprises Limited** deals with the traded goods that are sold through Octavia’s charity shops.
- e) **Ducane Housing Association Limited** develops and manages intermediate housing for postgraduate students and key workers.
- f) **Ducane Commercial Services Limited** manages property for third parties.

## 1.1 Strategic approach

There are 3 key principles in our strategic VfM approach:

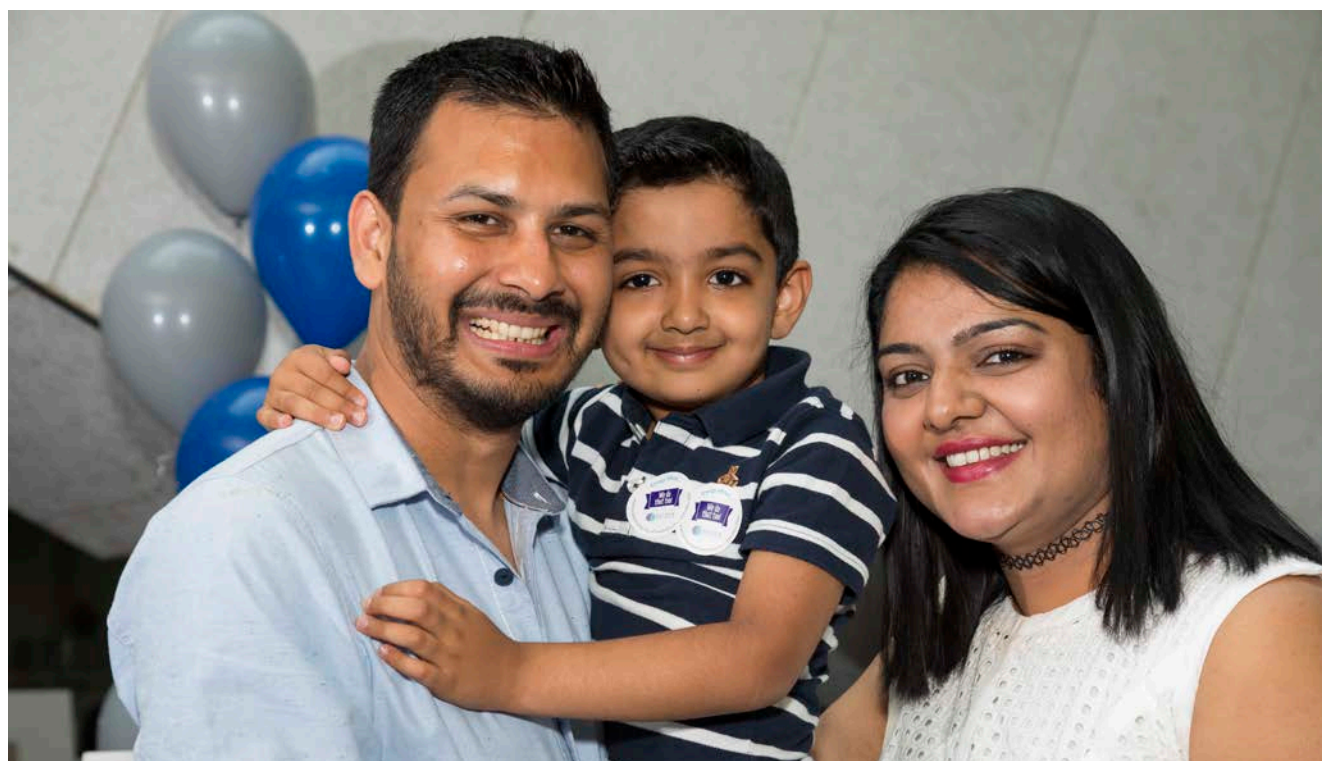
OCTAVIA VFM FORWARD PLAN		
1. A LONG TERM PERSPECTIVE	2. A BROAD BASED PERSPECTIVE	3. MISSION FIT
Our overall operational strategies are geared towards solutions that look at the overall cost, over the full term, and ensure our homes are safe and attractive places to live.	We consider the wider public sector aspects of the decisions we take, rather than limiting our consideration to what is best solely for “Octavia Housing”.	We examine expenditures and approaches to achieve our objectives, ensuring decisions taken contribute to our mission - Good Homes, Better Lives”.



## 1.2 2016-17 VfM headlines

HIGH LEVEL TARGET	In response to the government's policy to decrease social rents, we set a high level 2% target in budget reduction for 2016-17. We exceeded the target achieving savings of 2.7%.
SAVINGS AND EFFICIENCIES	We reduced VAT on energy works completed in the cyclical programme saving £160K. Our kitchen and bathroom replacement contract introduced a target cost model delivering £311K savings. Re-procurement on a range of other services saved a further £237K. Our price per property approach on repairs realised savings, estimated at £0.3m over four years up to 2018.
INVESTING IN THE LONG TERM	As part of our long term strategy, we continue to invest around £26m on planned works over five years up to 2022 to ensure our homes are safe, attractive, and in anticipation of lower lifetime costs. These plans will be revisited once investigations into the Grenfell Tower fire are concluded and the impact of the findings become clear. Our residents' safety is paramount.
RETURN ON ASSETS	The gap between the Association's rent charges and the market rent on our homes represents the social dividend from the historic investment in Octavia's properties – a return of 30% on the capital grants received. Our aim was to expand our property portfolio by 3% in 2016-17. We completed 35 new homes with a number of developments delayed as a result of skills shortages experienced by contractors. The surplus from property disposals and first tranche shared ownership sales collectively in the year was £1.7m.
SUSTAINING TENANCIES	We met rent collection targets. We take a segmented approach to manage the challenges of welfare reform effectively. No households affected by welfare reform have been evicted.

<p>RELEASING CAPACITY</p>	<p>We developed our use of technology assisting our Call Centre team to resolve more enquiries at first point of contact and release capacity in specialist teams to deal with more complex enquiries. The team increased its activities by 9% and collected £855K rental income.</p>
<p>TOP QUARTILE RESIDENT SATISFACTION</p>	<p>Performance on the majority of key indicators are at top quartile or upper median compared to our peers. Areas and plans for improvement are identified. Our 2017 STAR survey saw resident satisfaction with our overall service increase and in the top quartile compared to our peers.</p>
<p>SOCIAL VALUE</p>	<p>VfM is not simply about the financial. Our inter-generational community initiatives impacted just under 2000 local people, achieving a social value of £16.1m (using metrics by London School of Economics), representing a SROI (Social Return on Investment) ratio of 1:23.</p>



## 1.3 Planning ahead

VfM is central to all aspects of our work. In planning ahead the key areas that we are working on include:

- To achieve the 'high level' target of 3% savings set by our Board on the overall organisational budget between April 2016 and March 2018.
- Prepare for new repairs and maintenance partnering contracts in 2018, review the current Price Per Property approach, and look to achieve the best VfM possible from the new contracts.
- Our property portfolio will require significant levels of investment to protect property value, ensure homes are safe and attractive, and avoid higher costs later. We envisaged spending just under £26m on planned works over five years to 2022. Following the events at Grenfell Tower, it is likely that the investigations will make recommendations on fire precautions in residential accommodation. It is too early to assess the costs and impact, however, our priority is and will be the safety of our residents.
- We remain committed to improving the energy efficiency of our homes through a range of energy measures. All our properties will be at least EPC 'C' standard by 2023.
- Improve further our use of information technology through a series of projects. In particular ensure the repairs and maintenance tender deliver contracts with contractors whose systems interface effectively with our systems, and develop additional workflows and scripts to support our Customer Contact Team.
- Continue to support households affected by welfare reform to sustain their tenancies with a particular focus on contact with increasing number of households claiming Universal Credit.
- Deliver on our development aspiration to grow our property portfolio by 4% each year (an average of 200 new homes per year over the 5 years 2017-22). We have 24 properties for outright sale completing in early 2017-18, generating significant surpluses which will be re-invested in building more social housing.

## 2. INTRODUCTION

The Homes and Communities Agency (HCA), which regulates the work of housing associations, requires that each year each association produce a self-assessment of their approach to VfM against the HCA's VfM Standard. This document is the assessment for Octavia Housing for 2016-17.

Attached to this statement, at Appendix One, are the Regulatory expectations on VfM, and:

- Section 2 below gives an overview of Octavia and our broad approach to VfM;
- Section 3 describes how Octavia makes decisions on the use of resources and how it reconciles the various competing demands;
- Section 4 describes our approach to optimising the return on assets, including how we review alternative models and gives some examples of the work that we are doing to improve performance or reduce costs, in pursuit of our overall objective. The section discusses the return on assets which the association achieves in pursuit of its objectives;
- Section 5 describes the performance management and scrutiny functions and refers to some of the work that has been undertaken by them in delivering improved VfM;
- Section 6 describes the costs and outcomes of a number of services, which factors influence these costs and how they do so. The section also sets out some examples of where alternative approaches have improved VfM in the last period; the value for money gains that have been and will be made over time; and some of the VfM challenges we have encountered;
- Section 7 describes the focus of some of our planning in terms of VfM.



### 3. HOW DECISIONS ARE MADE ABOUT COMPETING RESOURCES

The association's resource allocation process centres on the corporate plan and our long term financial plans. Both are designed to support the association in meeting its overall objectives:

*“Octavia believes that good homes make for better lives. Inspired by our founder Octavia Hill, we are a not-for-profit organisation providing thousands of people with good quality affordable homes in Central and west London”*

Our corporate plan and long term financial plans are supported by our annual work plan, annual budget, development strategy, care strategy, asset management strategy and service improvement plans, all underpinned by applying the VfM principles set out in 1.1 above.

The process is determined by the Board, who set our overall ambitions and plans. The Board are supported by a series of groups including a Services Scrutiny Panel consisting of residents and independent experts who examine individual aspects of service provision. The association draws on the experience of a Development Panel that ensures major capital investments are scrutinised from a financial perspective and will produce safe and attractive places to live, and resident groups who consider different aspects of our work.

The day-to-day operations are managed by the Directors Group, who are responsible for detailed capital project assessments (to an agreed threshold) within the broad framework set down by the Board.

The process of resource allocation each year is determined through an annual planning cycle which involves all stakeholder groups, with activity and financial performance reported against key indicators each month.

External challenges, not least the 1% decrease in social rents over four years from 2016, means that decisions made about competing resources is always a focus. In addition to the above, we also look to the following to inform spending decisions:

- Examine benchmarking costs and areas where we are spending more than our peers, understand the reasons, and identify any further efficiency gains we can make;
- Use the findings from our stock condition survey to inform our future Asset Management spend;
- Include a lean thinking component in service reviews to design out waste whilst retaining quality;
- Have regard for and value resident feedback and priorities, and thus focus on work with real impact.



## 4. OPTIMISING RETURN ON ASSETS

Octavia manages its assets with a long term perspective. We aim to keep our homes to a good standard, our estates well managed and with improvements made over time. The association is developing this theme under a banner of “proud of every property”.

### 4.1 Decent homes

The vast majority of our homes meet or exceed decent homes standard. We have a programme of regular property surveys and upgrades to maintain the portfolio, and thus avoid expensive major works that can arise through lack of planning and regular maintenance. From our last stratified stock condition survey, we estimate 99% of our stock meet Decent Homes standard. The main reason for properties not meeting the standard is due to energy efficiency works not yet completed.

### 4.2 Commitment to affordable housing in our local areas

Octavia’s commitment to affordable homes goes back to our earliest days. In 1888 Octavia Hill is quoted as saying “*but where are the poor to live...*” when a landlord was unwilling to rent a property to those in most need.

There are wider social and financial reasons for preserving an inner London portfolio of properties. The Local Authorities where we operate have substantial housing obligations. Each property disposal results in significant costs elsewhere in the public sector. The savings from the ownership of a stock of affordable homes, when measured against the alternative costs of temporary accommodation, are huge (estimated at £24K per household per year in London by the Centre of Housing Policy) and unlikely to decline.

We aim to set our rents at genuinely ‘affordable’ levels. Our social rents are set around a third as the housing cost to income affordability split and significantly below that which would theoretically be chargeable in an open market assessment. Our average Affordable Rent is below 40% of market rent. Octavia receives overall a low return on its assets – the gross rental yield represents a 1% per annum return on the replacement value of its social housing assets of £2.3 billion and a rather higher 10.7% on net historical value. According to a study

undertaken by Jones, Lang, LaSalle the estimated market rental on our portfolio is £85m per annum as against the rents actually charged in the financial year of £25m. The difference represents the social dividend which the local community and government receives from the historic investment in Octavia's properties – a return of some 30% on the capital grants received in respect of this housing.

### 4.3 Targeted disposals / a local landlord

There are opportunities that arise by virtue of working in the areas where values are high. Our policy is to review asset management options for property voids with a market value of £1m plus.

We are active in managing our stock and review the potential for disposal of individual units as and when they become available in line with our Disposal Policy. The triggers include: properties outside our core areas, the costs of bringing the property up to standard exceed £50K, the property has a 'hard to let' history, and a flat in a block where we have a minority leasehold interest.

Our Projects Panel consider proposed disposals. When we dispose of high value void properties, we use the monies generated to finance schemes in the borough of the disposed property.

In the last year we disposed of one property in line with policy. The surplus from that property disposal and the surplus from first tranche shared ownership sales was £1.7m collectively. The surpluses helps us to deliver our ambition to grow our social and affordable rented housing.

### 4.4 Stock management

We were pleased to receive a significant donation towards the redevelopment of the site of the Kensington Day Centre. The new Reed Centre is due to complete later this year, and is named after local entrepreneur Richard Reed who generously donated to help build the

Centre. In addition to a new Community Hub this will provide 13 accessible flats to replace homes that had reached the end of their useful lives.

We continue to review small pieces of land which we own to identify opportunities to build. For example in 2016-17 we identified land attached to a scheme at Princes Place W11 as suitable, and gained planning permission to build on the site.

## 4.5 New homes

Our ambition is to produce financially satisfactory development projects and places that are attractive and cost effective for the long term. We partner with other associations to reduce costs (we lead the Connected Development Partnership) and provide Agency services to a number of smaller associations. We work closely with a number of inner London property developers to ensure homes produced through section 106 (legal agreements between local authorities and developers linked to planning permissions) are of a good standard. We strongly support the use of the planning system to ensure that an element of major developments is available to those on low and average incomes.

To help realise our development ambitions and keep our finances sound, we have in place a series of loan facilities at attractive financial margins but which are potentially restrictive in terms of our overall development capacity in the long term. To address this problem the association set up a separate subsidiary (Octavia Living) which undertakes development including outright sales as a cross subsidy. The merger with Ducane Housing Association in 2015-16 also frees up resources for future development. Our aim was to expand our property portfolio by 3% in 2016-17.

According to the British Property Federation (May 2017 press release) longstanding construction skills shortages in the UK have been made worse post the Brexit vote. As a result of skills shortages experienced by the contractors working with us to deliver our programme of new homes, a number of new development completions were delayed beyond March 2017 (to May and June 2017) and 35 new homes were delivered in 2016-17 compared

with the total of 120 that we were expecting. The contracted development programme at 31 March 2017 for new homes to be completed in 2017-18 represents a 4% increase in the portfolio of social / affordable housing. The remaining development costs to be incurred were estimated at some £17.5m and Social Housing Grant of £2.6m expected. This net investment of £14.9m in new social housing development is more than covered by existing secured and available borrowing facilities of £18.5m and the existing free cash and deposit balances of £9.6m. Shared ownership sales estimated at £8.6m are expected and will be used to repay revolving loan facilities.

We reinvest the surpluses we generate in order to expand our affordable housing stock. During the year one of the Group's subsidiaries, Octavia Hill Ltd, transferred all its net assets to Ducane HA under a "transfer of engagements" and was wound up. This allowed Ducane HA to build its capital base further and to acquire a block of 24 homes on the Ducane Road from Octavia. The first year results from Ducane HA have been very satisfactory with a reported surplus of £1.3m. Ducane will aim to develop a further 250 new homes for rent over the next five years and we have started to seek new funding to achieve this.

The economics of providing new social rented housing are such that cross subsidy from sales is required. Having completed two successful developments with outright sale in recent years, Octavia Living Limited recently completed the development of our Gladstone Village site in Brent. This provides affordable homes along with 24 properties for outright sale. Subject to property prices at the time of sale, the scheme is anticipated to generate significant additional surpluses which will be re-invested in our social housing.

## 4.6 Safety and environmental impact

We are aware that our development and stock management plans impacts on the environment and have an Environmental Strategy in place to minimise the negative environmental impact of our activities. We want to build new homes that are safe and energy efficient. This benefits the wider environment and results in lower utility costs for residents. Our previous Sulgrave Gardens passivhaus scheme is a prime example of our ambitions in this area. Whilst the strict standards and associated costs of passivhaus will be challenging to repeat in the near future, the underlying principles are being adopted for our new homes.

A key objective is to ensure all our existing homes are energy efficient also. To achieve this our target is for all our homes to have an EPC “C” rating with an average 30% CO2 reduction by 2023. In 2016-17 521 homes benefitted in some way from energy efficiency measures, including 63 units where we have installed wall insulation to the rear of properties, and 221 properties where we carried out draught proofing works. The impact of energy efficiency works carried out has improved the average SAP rating of our stock from 64 in 2010 to 68.4 at March 2017.

In addition to making homes more energy efficient we have trained all frontline staff to give basic Energy Advice to help further reduce fuel poverty amongst our residents in these challenging economic times. In 2016-17 we carried out a pilot installing Switchee devices (these are smart and connected thermostats) on a number of properties to help residents track their energy use and make beneficial changes, and also provide data to Octavia so we have a better understanding of residents’ use of energy. We will be evaluating the data later this year.

The safety of our residents and the homes we build and maintain is paramount. We have a programme of fire safety inspections across our portfolio of properties, and completed all the inspections in the 2016-17 programme. Current gas safety certificates were at 100% at the end of March 2017. We will review the recommendations from the investigations into Grenfell Tower when available, and respond as quickly as practicable.

## 5 PERFORMANCE AND SCRUTINY

The Board sets performance targets each year. Detailed monitoring is undertaken by the Directors Group, Service Scrutiny Panel, the Development Panel, an Audit Committee, Health and Safety Group and Treasury functions. Our internal auditors also monitor areas of our activities.

The Board consider an annual report on VfM and use Housemark (the social housing sector's main benchmarking club) reporting to support their understanding of relative costs and performance. The Services Scrutiny Panel undertake scrutiny of key service areas based on resident feedback.





## 5.1 Top Quartile Performance

The Board receives a performance report each month. The suite of over 80 performance indicators is comprehensive and covers all areas of work, notably: income; lettings; repairs; planned works; anti-social behaviour; communal services; home ownership; development; care; health and fire safety; safeguarding; human resources; complaints; and resident satisfaction. Figure 1 provides a summary of performance for key indicators compared to other London based Associations as reported by Housemark:

*Figure 1 – performance on KPIs*

PERFORMANCE INDICATOR	OCTAVIA 2016/17 OUTTURN	OCTAVIA 2015/16 OUTTURN	LONDON HOUSEMARK COMPARISON
General needs rent arrears as % rent due	4.6%	4.5%	Upper median
General needs rent collection as % of rent due	100.7%	99.21%	Top quartile
General needs standard voids – average re-let time (in days)	20	26	Top quartile
Supported Housing standard voids – average re-let time (in days)	73	49	Lower quartile
% of emergency repairs completed on time	99.5%	100%	Top quartile
% of gas appliances with a current certificate	100%	100%	Top quartile
Average call answering in seconds	12	10	Upper median
% complaints responded to within timescale	95%	96%	Upper median
Staff turnover	18.5%	16%	Upper median

Outturn and benchmarking data (where available through Housemark) is provided to Board at the beginning of each year in order to set challenging and VfM targets for the coming year. Our ambition is for our performance to be top quartile compared to peers. Figure 1 above shows both those areas where we are achieving this ambition and those areas where improvements are needed to achieve our targets. In 2016-17 particular successes included:

- Meeting ambitious targets for completing repairs within target times for all categories of repairs: emergency; urgent; and routine.
- 100% of gas appliances with current servicing certificates.
- Top quartile performance on speed of call answering.

Rent arrears overall is stable despite residents impacted by welfare reforms being adversely affected by a reduction to benefits due the Spare Room Subsidy for under-occupation or the Benefit Cap and those on Universal Credit waiting 6 to 8 weeks for first payments. Further improvements are possible compared to our peers. We are expanding the role of our Customer Contact Team to take more payments and deal with straight forward income enquiries. This releases capacity in our Income Team to resolve more complex enquiries.

We have started a review of our Supported Housing provision consulting with local authority partners to better understand their priorities for Supported Housing and assess how our schemes can help meet those priorities.

Three areas were identified in 2015-16 Housemark benchmarking as focus areas. We are awaiting updated 2016-17 benchmarking data on these aspects of our service and continue to deliver on the improvement plans for these areas:

- Void loss (including major voids) - Our Voids Monitoring Group meet weekly to ensure current voids are being progressed through maintenance and lettings phases efficiently. We carry out more pre-inspections, and we changed our tenancy start dates from being on a Monday for all lettings to any day of the working week.
- Temporary staffing – our Human Resources Team track the use of temporary staff. The service areas concerned specify why temporary staff are required and provide anticipated timescales for the end of temporary appointments.

- Service charge deficit – We are examining the schemes in deficit individually. The implementation of Ensemble software will help us to set charges accurately on items and by scheme.

## 5.2 Resident Scrutiny



We actively support scrutiny of our service quality by residents. Effective resident scrutiny has played an influential part in engaging residents directly in the discussions on where we should focus our improvement work given finite resources. To help determine priority areas to be looked at by our Services Scrutiny Panel (SSP), we ask residents attending our annual (and largest) resident event called *Yourspace* to vote on their top priorities for service improvement. The findings and results from other resident feedback work are reported in quarterly customer insight reports to the SSP.

In 2016-17, resident involvement and scrutiny have been particularly influential regarding:

- Communal areas cleaning standards – The SSP commissioned Housemark to inspect a cross section of our estates, examine our inspection systems and ratings, and make recommendations for improvement. Housemark rated the service second compared to 29 other Associations. Further improvements were recommended, in particular the use of photobooks to clarify standards and increasing resident involvement on inspections.
- Repairs right first time – The SSP is currently concluding this project looking at how we can improve on completing repairs right first visit where possible and also on how we communicate with residents where this is not possible so that expectations are clear.
- Service standards – Our Resident Inspectors carried out mystery shops on call backs requested and on the customer journey when an ‘expression of dissatisfaction’ is made. The results have informed improvement plans for the teams concerned, and highlighted the need to refresh and re-launch our service standards. A review of our service standards is in our work plan for 2017-18.

### 5.3 Development Panel

While the Board approves the overall development strategy and scrutinises all major projects, the Development Panel, which includes residents, independent experts and Board members, deals with more detailed matters including budgets, design, and resident feedback. In the past twelve months the panel have:

- Scrutinised the progress on all projects in development and considered the reasons for, and any lessons arising from, schemes with cost overruns;
- Completed an annual review of resident satisfaction on recently completed projects;
- Reviewed M and E aspects of schemes.

We are also working to ensure that Octavia’s standard specification is compatible with that used by Development, operational teams are fully involved in the planning on all new

developments, and individual procurement decisions are reviewed with long term costs in mind. We aim to achieve this through our Gateway Process Project; the project group brings together all the stakeholder departments.



## 5.4 Audit Committee

The Audit Committee undertakes a scrutiny function on behalf of the Board and reviews internal systems and improvements to controls. The Committee works closely with independent Internal Auditors on a programme of work that covers all of the association's activities over time and they receive as part of each internal audit report a comparison on our control systems against other organisations.

In 2016-17 Mazars carried out their programme of internal audit reviews. BDO LLP carried out their work as external auditors. There have been no regulatory concerns requiring any

regulatory authority to intervene in Octavia Housing’s affairs, and no internal controls failures requiring disclosures in our financial statements.

## 5.5 Treasury

The Board oversees the cost effectiveness of our Treasury function directly for individual complex / significant transactions, and sets our Treasury Strategy annually. Octavia’s Duration (being an indicator of the average fixed interest life of the overall loan book) is set at a target range of 9 to 13 years. Given the long term nature of Octavia’s investments in social housing, our borrowings tend to be long term. Subsequent to the year end we have arranged a new £30m five year revolving loan facility, and we are finalising an additional £40m loan which will be available to Octavia Housing and Ducane HA, both arrangements will help us to manage borrowing costs.

Details of interest rate fixing by maturity are given in the table below:

*Figure 2: Interest rate fixing against targets*

RATE FIXING PERIOD	TARGET	AT 31 MARCH 2017	AT 31 MARCH 2016
Fixed for more than 10 years	At least 50%	58%	65%
Fixed for 1 year + but - 10 years	Between 0% and 50%	19%	14%
Variable /Less than one year	Less than 25%	23%	21%

Further interest rate fixings are under consideration to reduce the level of variable rate debt during 2017-18.

## 6 SERVICE COSTS AND OUTCOMES

This section looks at the cost of our key services, which factors influence these costs and how they do so. We set out some examples of value for money gains and the added value provided by our 'additional' services.

### 6.1 Procurement and Asset Management Strategies

Our Procurement Strategy sets out how we aim to secure the best VfM in our procurement activities. We analyse our current portfolio of procurement activity using a model that divides expenditure into 4 categories: Strategic (High Risk, High Value), Leverage (Low Risk, High Value), Non-Critical (Low Risk, Low Value), Bottleneck (High Risk, Low Value). We adopt certain procurement methods depending on the activity and market including: Partnering (for example our maintenance contracts); Collaboration (for example developments through our Connected Partnership); Tendering (and in compliance with EU tendering rules); Procurement Clubs (for example savings from being a member of Housing Associations' Legal Alliance); and Negotiation (in exceptional circumstances and with Directors approval). This is supported by a Contracts Register to improve the visibility of contracts across the organisation.

Asset Management accounts for the majority of our operational spend. Our Asset Management Strategy sets out how we will maintain and improve our homes to ensure they are safe and attractive. Based on Ridge and Partners' stratified sample stock condition survey, we estimate we will continue to invest in our stock at around £26m over five years until 2022. To ensure we are investing to the right levels and to check on quality, we will undertake a 20% stock survey annually. The priorities are: to ensure our homes remain safe; the responsive repairs service meets good standards; we invest in the long term and make the links between reactive and planned works where possible to save costs and minimise disruption for residents; and we upskill our staff to address the needs of more complicated facilities management needed in our new homes.

## 6.2 Service costs

The cost of service provision is set in budgets, tracked using monthly management accounts, and checked annually against comparative indicators produced by Housemark for the purposes of continuous improvement.

The Homes and Communities Agency provided us with data in 2016 comparing our costs nationally which showed our costs were above the national median. Following this our Board commissioned Ridge Consultants to provide an independent assessment of our Asset Management Strategy. Ridge concluded that our stock had received appropriate continuous investment and our total cost per unit rate is within their expected benchmark range for a central London Registered Provider.

Our performance compared to London peers is set out in 5.1 above. Our main service costs compared to our peers are in Figure 3 (2016-17 Housemark comparative cost data is awaited):

*Figure 3: Costs in key service areas (£s per property)*

COST PER PROPERTY	2015-16	2014-15	LONDON HOUSEMARK MEDIAN
Housing management	£717	£704	£711
Responsive repairs & void works	£1,144	£1,041	£1,111
Major & cyclical works	£2,356	£2,695	£1,809

Housing management costs and responsive repairs / void works costs are around median compared to our peers. Our cost per property on major works and cyclical maintenance are higher compared to a number of our peers. This reflects our commitment to invest and maintain our valuable assets which include a large proportion of street properties, many built in the Victorian era. 2016-17 was the fourth year of our proposed ten year programme of energy improvement works to bring all our properties up to an energy rating of 'good'. See 6.4 below for more detail.



## 6.3 Service Outcomes / Resident Satisfaction

We consider service outcomes in many ways. We gather resident involvement feedback together in a monthly report to Board, and carry out satisfaction surveys specific to a range of services (including new developments, communal services, care, complaints handling, and our response to anti-social behaviour). We look at findings from projects carried out by Resident Inspectors, and we measure the well-being of Care residents using the Care Star well-being ratings.

We carry out Housemark's STAR survey (the sector's most common satisfaction survey) every three years. Our last STAR survey was completed in 2017 working with BMG Research. The findings showed improvements on the majority of indicators compared to the previous survey. Satisfaction with our overall service improved to 83%; we are in the top quartile for London Associations on all except one of the satisfaction indicators. These outcomes evidence real positive impacts made to our service over the last few years, in particular the repairs service which (unsurprisingly) remains the key driver of resident satisfaction. The survey was completed recently and we are analysing results by scheme to identify reasons for lower satisfaction with *service charges providing Vfm* to inform improvement plans. We already plan to hold consultation events at identified schemes at service charge budget setting and to review the information we provide to residents about service charges.

Figure 4: STAR survey topline scores

STAR SATISFACTION SURVEY	STAR 2016-17	STAR 2013-14	+ / -	LONDON HOUSEMARK COMPARISON
Taking everything into account, how satisfied or dissatisfied are you with the service provided by Octavia?	83%	82%	+1%	Top quartile

How satisfied are you with the overall quality of your home?	84%	78%	+6%	Top quartile
How satisfied are you with your neighbourhood as a place to live?	87%	86%	+1%	Top quartile
How satisfied are you that your rent provides value for money?	86%	80%	+6%	Top quartile
How satisfied are you that your service charges provides value for money?	59%	66%	-7%	Upper median
Generally, how satisfied or dissatisfied are you with the way Octavia deals with repairs and maintenance?	77%	72%	+5%	Top quartile
How satisfied are you that Octavia listens to your views and acts upon them?	69%	65%	+4%	Top quartile

## 6.4 Repairs and planned works

Our routine repairs and gas servicing contracts introduced Open Book / price per property arrangements from 2013 which allows us access to contractors' accounting records and a 'pain/gain' mechanism to encourage further improvements. This 'shared saving' approach with the contractors encourages on-going savings. We made a further 1% saving on the price per property budget for 2017-18. The estimated savings over the last two years of the contract to 2018 is £300K.

Our gas servicing contract achieved savings by shifting gas servicing to the summer months. This meant that during winter months engineers can concentrate on repairs, thus reducing overall resources required. The associated savings for Octavia over the year was £14K.

In addition to the normal maintenance of buildings Octavia has a long term commitment to enhance our homes to protect public investment. In the past twelve months we have carried out cyclical works across 675 homes (15% of our stock), replaced 102 boilers, 122 kitchens and 64 bathrooms, and carried out energy efficiency measures in 521 homes.

We aim to batch works together by type and to batch properties in the same area. Similarly we have developed a cost effective approach to improving energy efficiency by:

- Focusing on doing works to sub-standard properties whenever they become void;
- Undertaking other works as part of cyclical maintenance programmes;
- Undertaking insulation works when we are fitting new kitchens and bathrooms.

Our planned programme of works is designed to ensure that after cyclical works there is limited spend to properties for the next seven years. During the year we negotiated a reduction in VAT applied to energy works carried out during the cyclical programme (backdated for four years), realising a saving of £160K.

Our new kitchen and bathroom replacement contract started in 2016-17, and we introduced a target cost model. This has delivered savings totalling £311K in the year.



## 6.5 Insurance and other re-procurement

In 2016 we carried out a competitive Official Journal of the European Union (OJEU) tender exercise on group insurances. Coupled with the effect of Ducane joining the Octavia Group, the savings on insurance spend in the year was £126K.

Re-procurement on a range of other services in 2016-17 including office supplies and telephony resulted in a further £111K savings.

## 6.6 Tackling tenancy fraud

Two years ago we employed two specialist Investigation Officers (as part of a restructuring exercise which meant no additional costs were involved). A main focus of these roles is to investigate suspected tenancy fraud to ensure that scarce social housing is provided to families in genuine housing need. We have seen the benefits of having this dedicated resource. In 2016-17 we recovered 8 properties. According to the Centre for Housing Policy each recovered property saves the tax payer around £24K per year based on the average cost to house a family in temporary accommodation in London.

## 6.7 Legal costs

We joined Housing Association Legal Alliance (HALA) in 2014. This means we benefit from joint procurement, some free legal helpline advice, and hourly fee rates from the panel law firms as a result of competitive tendering. Combined savings in 2016-17 from the discounted legal advice rates and a range of free training offered are estimated at £62K.

## 6.8 Staff and learning and development

We have restructured a number of areas and carried out a range of learning and development initiatives in order to improve efficiency and effectiveness, strengthen skill sets and increase staff satisfaction:

- Housing Management costs remains stable despite increasing stock numbers with no increase in housing management staff numbers across tenures. We restructured the teams: developed our Customer Contact Team to deal with more enquiries, upskilled Resident Services Officers to mainstream our work supporting residents affected by welfare reform, and introduced new Investigation Officer roles to tackle Anti-social Behaviour and tenancy fraud more effectively (as detailed above).
- Our Adaptations service is now managed from within our Support Team. This approach benefits from support workers taking part in needs assessments on adaptations to provide a more joined up service.
- In 2014-15 we carried out a review of the salaries of office based staff against market salaries and linked salaries to the median payable as advised by an independent consultant. Related to this we implemented a competency framework that links to the values of the organisation. In 2016-17 we began the review of salaries of our remaining staff against market salaries to be completed in the coming year.
- Our overall Human Resources aim is to recruit and retain well qualified staff, and support staff development. We refreshed our staff induction ensuring new staff are clear on our values (Reliable, Responsive and Respectful). We invested in training for managers commissioning Mast consultants to deliver a Learning and Leadership programme. All managers took part in the programme.
- Our internal staff survey in 2016 found increasing staff satisfaction with working at Octavia; 88% of staff said they would recommend Octavia to their friends (+3% compared to 2015). In 2017 we were awarded Silver accreditation by Investors in People (IIP) and won the National Care Employer Award.

## 6.10 Welfare reform

As mentioned above, our rent arrears and rent collection performance was stable in 2016-17 despite the challenges of welfare reform.

We have put in place a number of measures to support households affected by welfare reform to help them to sustain their tenancies. The Financial Inclusion post adds value to the work of the Income Team and makes targeted contact with new households affected by welfare reform. We have automated our welfare reform segmentation work on our contact management system so we make best use of resources and prioritise households for early contact by assessed risk based on live data. Our debt advice service provided in partnership with the local Citizens Advice Bureau is fully utilised.

In 2016-17 we commissioned GRE Consulting to carry out follow up research and visit over 40 families affected by welfare reform who were previously visited by the same researchers in 2014. We will use the findings to implement a targeted publicity campaign so that households affected by different aspects of welfare reform receive information that is specific to their circumstances. The financial impact of welfare reform thus far on Octavia has been modest overall, but the increasing number of residents claiming Universal Credit is likely to require closer monitoring and even better targeting of support. At the end of March 2017 we have 30 households affected by the Benefit Cap, 84 in receipt of Universal Credit, and 116 households affected by the Spare Room Subsidy for under-occupation.

## 6.11 Some VFM challenges in 2016-17

We have learnt from a number of VFM challenges in 2016-17:

The location and composition of our stock means that we need to invest in additional works as part of each cyclical period. Given the difficulties of replacing social housing in the areas in which we operate, this investment is part of our strategy to ensure our homes are maintained to a good and safe standard over the long term. Our repairs and maintenance partnering tender in 2018 will provide further opportunities to manage costs.

As described above, we make disposals within our long term approach to asset management. We want to make use of our strong asset position but without jeopardising precious (and potentially irreplaceable) social housing in our areas. Striking the right balance in this regard is a challenge. We will continue to make targeted disposals where this makes business sense, in accordance with our Disposals Policy, and consistent with our values. We await the outcome of the new regional pilot before deciding our approach to the voluntary Right to Buy initiative.

Lower capital grant rates and potential pressures on gearing levels present development challenges. We have set up a separate subsidiary (Octavia Living) which undertakes development that includes outright sales as a cross subsidy, and used resources freed up by the Ducane merger as part of our development strategy. We completed development on 35 units in 2016-17, with completion on several schemes delayed until May / June 2017 due to skills shortages experienced by contractors we work with.

We have experienced continued difficulties accessing appropriate referrals to our supported housing. An options appraisal review has started on the suitability of the schemes beginning with discussions with our local authority partners on their priorities for Supported Housing.

As noted above, thus far we have managed the impact of welfare reform well and in 2016-17 met targets on income collection. With increasing number of Universal Credit cases over the next few years, the challenges will increase and we will need to develop our response further including faster applications for Alternative Payment Arrangements where appropriate and refining our segmentation work to target resources.

## 6.12 Added value / work with impact

We believe that providing 'good homes' leads to 'better lives' and want our work to have positive impact to help improve the lives of the people we house. In addition to the homes we provide and the quality of our housing service, perhaps the most direct impact measures relate to the 'additional' services that we provide:

Our Care and Support services provide essential support to elderly and other residents so they can remain in their homes which would otherwise increase costs for Social Services budgets:

- Our six extra care schemes combine independent living for older people with the benefit of 24 hour care and support. All six schemes met the high standards required of them at their latest Care Quality Commission inspections.
- 129 older people attended our Day Services (The Quest, Leonora, and Kensington Day Centre).
- Our floating support service helped 153 older people in Westminster and Kensington & Chelsea.
- We completed 202 minor adaptations and 32 major home adaptations to help Octavia residents to continue living independently in their homes.

We use a Star well-being rating with residents living in our Care schemes. The majority of residents rated their wellbeing as having improved since moving into the scheme; the overall average score was 9 out of 10.

Our community charity – the Octavia Foundation – run a variety of community projects that help to build local community life and support people in disadvantaged situations. During 2016-17 we reached just under 2000 local people and Octavia residents through our strong partnership with the Foundation:



- Our Employment and Training programme supported 26 residents into full time work, and 79 in training, volunteering, work placements and to be more job ready.
- We continued our Apprentice scheme, placing local young people out of work with different departments in Octavia so they can learn new skills and build confidence.
- Our BASE project and young people's summer projects help children and teenagers to build confidence, learn life skills, promote healthy living, and learn creative skills through theatre and film workshops. These projects worked with 143 young people.
- The outreach and befriending service supports older people and vulnerable adults over the age of 50 who live in Westminster. Last year we supported, with volunteer befrienders, 386 people who were experiencing loneliness and isolation.
- The Debt and Welfare Benefits Advice service (delivered through the CAB) provided over 455 advice sessions to help residents manage debt and maximise income.
- The Foundation assisted 119 residents with welfare or education grants providing essential household items and help to pursue education.
- Our Handyperson service provides a free assistance to elderly and disabled residents with small jobs that are normally not a landlord's responsibility. Last year 354 residents used the service.
- Our Foundation shops operated with the help of over 100 volunteers. In 2016-17 the shops generated a trading surplus of £0.3m to assist with the work of other Foundation projects.

How social value is measured is much debated in the sector, and we continue to develop our approach. One of the most widely used methods currently is that developed by Housing Associations Charitable Trust (HACT) and the London School of Economics. Using the social value metrics in their approach the monetised value of the Octavia Foundation's work in 2016-17 was £16.1m and the Social Return on Investment ratio was 1:23 – meaning that for every £1 spent, an equivalent £23 in terms of social value was achieved.

# 7 PLANNING AHEAD

## Update on 2016 planning ahead focus areas

In our 2016 VfM Statement we said that the key areas for us in planning ahead were:

We said...	What happened...
<p>Given rent reductions, we set a high level target of 3% savings over two years, with 2% savings in 2016-17.</p>	<p>We exceeded the target in 2016-17. Our expenditure was 2.7% lower than budget.</p>
<p>Review identified areas where we have assessed VfM gains can be made – void loss, temporary staff, reduce the service charge deficit.</p>	<p>Average standard voids re-let times improved to 20 days. The VfM Advisory Group receives reports on temporary staff usage which is decreasing. We are examining service charge deficits by scheme, and now use Ensemble software to improve our service charging.</p>
<p>Improve the energy efficiency of our buildings.</p>	<p>521 homes benefitted in some way from energy efficiency measures, including 63 units where we have installed wall insulation. Average SAP rating of our stock improved to 68.4. Our target is to get all our homes to a rating of EPC “C” by 2023.</p>
<p>Increase our social/affordable rented stock by at least 3% each year and grow our low cost home ownership products.</p>	<p>In 2016 -17 we completed 35 new homes (10 were for shared ownership). Several scheme completions are delayed to May / June 2017 due to skills shortages experienced by contractors. We expect to exceed our 3% annual growth target over 2016 - 18.</p>

Improve and integrate our use of information technology through a series of projects.	We completed workflows on income management and voids management on our CRM system, providing us with a more complete picture of customer contact on CRM.
Develop the Customer Contact Team to resolve more enquiries.	The Customer Contact Team is resolving increased number of enquiries at first point of contact including income enquiries to release capacity in specialist teams to deal with more complex enquires. The team's activities on CRM increased by 9% in the year.
Carry out a review of our governance structure.	Ducane HA joined the group in 2016. The Octavia Foundation joined the group working more closely with Housing and Care to provide a set of integrated services. A new draft structure is being consulted on. The governance review will be completed by the end of 2017.

## Going forwards...

VfM is central to all aspects of Octavia's Forward Plan. In planning ahead the key areas that we are working on include:

- Given rent reductions required by government from 2016, and following on from exceeding the 2% budget reduction in 2016-17, we have set a further 1% reduction on the organisational budget in 2017-18.
- We aim to further develop the culture of the organisation so that there is far greater awareness and knowledge about the costs of each service. We will do this through improved financial information and target setting at service level.
- We will complete cost reviews and take improvement action in identified areas where we have assessed VfM gains can be made in particular: the use of temporary staff,

void losses, improve our service charge service, and carry out an options appraisal on our supported housing provision.

- We will prepare for new repairs and maintenance partnering contracts in 2018, review the current Price Per Property approach, look to achieve the best VfM possible on the new contracts with the overall aim of keeping all our homes to a good standard so we are “proud of every property”.
- Our property portfolio will continue to require significant levels of investment to protect property value, ensure homes are safe and attractive, and avoid higher costs later. Our financial plan envisaged spending just under £26m on planned works over five years to 2022. We will review these plans as the investigations into Grenfell Tower is likely to make recommendations for changes to the way in which fire precautions are implemented in residential accommodation. It is too early to assess the costs and impact of any works required, however we are clear that our priority is the safety of our residents. We will work to implement recommendations as quickly as practicable.
- We remain committed to improving the energy efficiency of our properties through a range of measures. All our properties will be at least EPC ‘C’ standard by 2023.
- Improve further our use of information technology through a series of projects. This includes ensuring the new repairs and maintenance contracts are with Contractors whose systems interface effectively with our own, and develop additional workflows and scripts on CRM for our Customer Contact Team.
- Continue to support households affected by welfare reform to sustain their tenancies with a particular focus on contact with increasing number of households claiming Universal Credit.
- The role of the Customer Contact Team will expand further, not only resolving basic income contacts but dealing with a range of applications for transfer, mutual exchange, succession and home ownership. This will be achieved through the development of smart and efficient workflows and scripting on our contact

management system, with no additional costs involved. This will release additional capacity in specialist teams to deal with more complex enquiries.

- Deliver on our development aspirations. Our aim is to increase our property portfolio growth target from 3% to 4% each year (an average of 200 new homes each year over the 5 years 2017-22), with Octavia Living producing cross subsidy, using resources freed up through the Ducane merger, and capitalising on Section 106 opportunities where they arise. We are currently completing the development of our Gladstone Village site in Brent. This will provide 40 homes, 6 for affordable rent, 8 for shared ownership, along with 24 properties for outright sale. The scheme will generate significant surpluses which will be re-invested back into our social housing.

*September 2017*

# APPENDIX 1 - VALUE FOR MONEY STANDARD

## Required outcomes

Registered providers shall articulate and deliver a comprehensive and strategic approach to achieving value for money in meeting their organisation's objectives. Their Boards must maintain a robust assessment of the performance of all their assets and resources (including for example financial, social and environmental returns). This will take into account the interests of and commitments to stakeholders, and be available to them in a way that is transparent and accessible. This means managing their resources economically, efficiently and effectively to provide quality services and homes, and planning for and delivering on - going improvements in value for money.

## Specific expectations

### 1.1 Registered providers shall:

- have a robust approach to making decisions on the use of resources to deliver the provider's objectives, including an understanding of the trade offs and opportunity costs of its decisions
- understand the return on its assets, and have a strategy for optimising the future returns on assets – including rigorous appraisal of all potential options for improving value for money including the potential benefits in alternative delivery models - measured against the organisation's purpose and objectives
- have performance management and scrutiny functions which are effective at driving and delivering improved value for money performance
- understand the costs and outcomes of delivering specific services and which underlying factors influence these costs and how they do so.

1.2 Registered providers' boards shall demonstrate to stakeholders how they are meeting this standard. As part of that process, on an annual basis, they will publish a robust self-assessment which sets out in a way that is transparent and accessible to stakeholders how they are achieving value for money in delivering their purpose and objectives.

### The assessment shall:

- enable stakeholders to understand the return on assets measured against the organisation's objectives

- set out the absolute and comparative costs of delivering specific services
- evidence the value for money gains that have been and will be made and how these have and will be realised over time

*Extract from the “Regulatory framework for social housing in England”*