



VFM Self-Assessment 2016/17.

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Front cover photograph: Brett Russell and Laura Kennedy, with their son Freddie have moved into a new Karbon Homes property in Pelton, County Durham.

About Cestria Community Housing

Our organisation has grown and developed significantly in recent years, and on April 3rd this year Cestria amalgamated with two other social landlords in the North East under the new name of Karbon Homes.

Until that date, Cestria managed just over 4,200 homes, having been created through a large scale voluntary transfer from the former Chester-le-Street District Council on 4th February 2008. Cestria had a turnover of almost £20 million and employed around 153 staff.

Since 2014, Cestria had been working with Isos Housing Ltd within the Isos Housing Group. We continued to seek value for money (VFM) gains through growth with other similar minded housing associations. Following consultation with our residents', staff and partners, Cestria amalgamated with Isos and Derwentside Homes to create Karbon Homes.

By combining the collective strengths of these organisations into one new company, we have created a financially strong, more flexible and resilient organisation, that is:

- better placed and more efficiently structured to meet future challenges;
- able to maximise opportunities for new developments and service improvements;
- able to maintain investment in existing properties and the long term viability of the business;
- sufficiently versatile and robust to respond to changes to meet the needs of its customers.

This Value for Money Self-Assessment covers the period of 2016/17 for Cestria Community Housing Association, preceding the amalgamation.

Further information is also provided in respect of the Futures Programme, which was created as part of the amalgamation of the Isos Housing Group and Derwentside Homes and also the vision and strategic aims of Karbon Homes.

Executive Summary

We recognise that obtaining VFM is fundamental and it is identified as a key area of focus within our Interim Strategic Plan.

Global Accounts Analysis

Following the publication of cost variations in the social housing sector by the regulator in June 2016, we carried out some analysis of our costs compared to the sector average and we discussed our findings with the Board. We will continue to use the data from the analysis of the Global Accounts to understand how we compare and how we can make improvements.

Governance

The Board receive regular reports on all areas of the business and review the efficiency and effectiveness of operations.

Stronger Together

Our Stronger Together Programme, which concentrated on the alignment of Cestria and Isos systems, processes and structures has achieved total efficiency savings of over £2.5 million per annum. The Stronger Together programme now forecasts £10 million of efficiency savings over the 5 year period of the business case for the partnership. Investment costs were around £1 million, creating net efficiency savings of £9 million. This is £5.6 million more than originally forecast in the business case.

Futures Programme

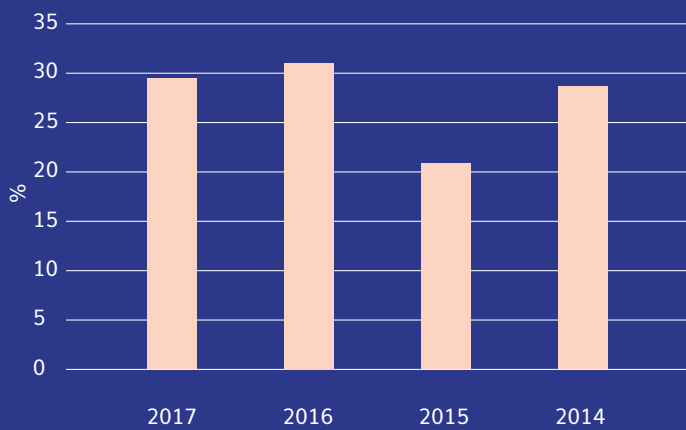
As part of the amalgamation of the Isos Group and Derwentside Homes and the creation of Karbon Homes in April 2017, we established the 'Futures Programme'. The Futures Programme comprises functional work streams that will align people, process and technology in order to deliver the strategic plan of the new organisation and establish the very best practice. The business case has identified recurring £3.5 million per annum savings by year 5 from consolidating our business and over £10 million within the first 5 years. The efficiency savings generated from amalgamating will be re-invested into the development of new homes. The size of our programme is forecast to more than double from c. 5,000 to 11,000 over the lifetime of the business plan.

Financial Health

We have broadly maintained our operating margin at 30% in 2016/2017 compared to 31% in 2015/16. The marginal reduction is due to a combination of the rent reduction, increased pension costs and a provision of impairment of housing properties and fixed assets.

We have re-invested our surplus of £5.5 million into supporting investment in the homes on our balance sheet. This has negated the need for additional borrowing which in turn has resulted in reduced borrowing costs of around £275,000 per annum. This enables us to fund an additional 4 homes.

Operating Margin



New Developments & Asset Sales

During 2016/17 Cestria:

 49

new properties built

 2

properties for outright sale and 3 shared ownership property generating a surplus of £208,000;

 23

properties via Right to Buy, generating a surplus of £469,000.

Our community investment programme funded a fantastic scheme to provide handymen in Hendon, Sunderland, through the CHANCE project. Paul Hadden (front) with project co-ordinator, Julie Maven, and volunteer handyman Andrew Maven.



2016/17 VFM Objectives

In our VFM Self-Assessment 2015/16, we set out our 2016/17 VFM objectives, which are shown below:

2016/17 VFM Objectives	What We Achieved
Continue to seek Value for Money gains through growth and/or mergers with other similar minded housing associations.	On 3 April 2017, Isos Housing Ltd; Cestria Community Housing Association Ltd and Derwentside Homes amalgamated to create Karbon Homes.
Continue to embed the core principles of Value for Money through our lean systems approach to streamlining our current processes and practices and continue to undertake service and/or process reviews.	Lean systems approach used through the Stronger Together Programme and also the Futures Programme in respect of aligning core systems.
During 2016/17 we plan to carry out a lean review of our process for recharging customers for repairs, our process for rectifying defects on new properties and our complaints process.	Lean process reviews undertaken with efficiencies identified and processes improved.
Continue to deliver the Futures programme which is one part of a wider transformational programme which includes a review of office accommodation, ICT requirements, staff terms and conditions including pensions and other benefits.	The Futures Programme was put in place in 2016 and is over 3 phases.
Continue to work with our Board to understand how our cost and performance compares with others and how we can make improvements. We will be providing the Board with comparisons of our costs against our peers using data from the Global Accounts, in addition to presenting the Board with a series of 'deep dive' reports, starting with Responsive and Planned Repairs.	Performance & cost bench-marking is reported to Board. Board received a 'deep dive' report in respect of the Isos Group Repairs and Maintenance Services.
Continue to focus on cost control during the budgets process. We will also closely monitor actual costs against budget due to a reduction of £1.3m in the 2016/17 budgets compared to the previous financial year.	The required cost reductions savings were achieved.
Look to extend the Grounds Maintenance service currently provided via the cost sharing vehicle to other organisations in order to increase efficiencies. As part of the Isos Group, we will also consider whether other services can be provided to others via the CSV. This enables us to reduce the cost of overheads to the Association.	The Grounds Maintenance service was not extended. We do however plan to further expand the CSV in the coming years in order to maximise efficiencies.

2016/17 VFM Objectives

Listen and respond to feedback from our customers, including acting on the results of customer satisfaction information, in order to improve our services.

We will make improvements to the customer journey as a result of the lean review of our complaints process.

Deliver against our target of completing 48 new homes and selling 5 new build home ownership properties.

What We Achieved

We value all customer insight to help improve services.

We reviewed the way we manage complaints and following customer feedback, improved the process.

A full review of our complaints process was undertaken resulting in a new Complaints Policy and new efficient processes.

Completed 49 new homes and sold 3 shared owned properties and 2 properties outright.



Our Approach to Value for Money

Our aim is to ensure that everything we do is as effective and efficient as possible so that any capacity within our resources can be reinvested into our communities, either in terms of new homes or improved services. Continued growth, sensible asset management, sustainable procurement, the use of benchmarking, undertaking lean service reviews, a rounded review of current performance and stretching targets for the future remain key, but we also plan to release the untapped capacity within our business plan to provide added value.

Our success in delivering VFM is judged by the quality of our services, the resources used, whether the services are fit for purpose and ultimately, the satisfaction of our customers. It is also about how each individual staff member understands that they have a part to play in achieving VFM and ensuring our organisation and team goals and priorities are achieved in the most efficient, effective and economical way possible.

We recognise that if we want to deliver our strategic aims we have to find the additional financial capacity through a combination of managed cost savings and income generation.

Adhering to the above principles is now more critical than ever given reductions in rental income. We will continue to seek efficiency savings through business growth via partnerships or amalgamations with other like-minded housing associations.

Business Improvement

Our Business Improvement & VFM Framework ensures a consistent approach to the way service performance, quality, economy, efficiency and effectiveness are achieved, managed, monitored, reviewed and reported at all levels across the Isos Group.

A successful framework helps to promote a culture where staff are committed to the delivery of efficient and effective services in line with the Group's strategic priorities. The framework therefore ensures individuals understand what the organisation is aiming for, how that translates into key priorities and how staff and teams contribute to achieving the key strategic priorities. The annual appraisal process helps support staff through this and there are clear communication channels where staff can easily access performance information.

Annual targets are set for key performance measures and these are monitored through our Executive meetings, Corporate Management Team and service team meetings and reported to Board. Performance information is available on the intranet which ensures that performance is being monitored using current and up to date information and is made available to tenants and published on the internet.

Sector Efficiency Scorecard Pilot

The new efficiency scorecard pilot was launched January 2017 and aims to create an agreed set of metrics upon which housing providers can compare our performance and ensure we are providing VFM for our customers. It will also demonstrate our approach in optimising efficiency in the achievement of our objectives.

We will take part in the year-long pilot to thoroughly test the scorecard. The purpose of the pilot is to gather more views as to how we can make best use of the scorecard for the benefit of the sector and if needed, refine the indicators within it.

Lean Service and Process Reviews

In order to embed a culture of continuous improvement, a programme of lean service and process reviews will continue to ensure our services are delivered as efficiently and effectively as they can be.

Lean service and process reviews have been fundamental when aligning core systems and ensuring we eliminate wasteful processes, enabling us to be more efficient. We will measure our success by improved customer satisfaction and performance.

For each core service across the Group, teams of staff have analysed how each part of the former Isos Group delivers services, particularly in the areas of responsive repairs, void properties and income management, and have devised a future model of service delivery for Karbon Homes that builds on all the existing best practice to improve performance and seek further efficiencies.

Following a number of successful lean service and process reviews we have achieved the following results:

Re-lets

 15 days

Reduced the average number of days to re-let a property from 46 days (67% improvement).

 0.79%

Re-let performance also links to rent loss performance, which has improved from 1.53%

 92%

Increased customer satisfaction from 88%.

Responsive Repairs

 5 days

Reduced the average number of days to complete a repair from 8 days

 89%

Increased customer satisfaction from 84%

Lean systems methodology is fundamental through the Futures Programme as we analyse how each legacy organisation currently delivers services, with a view to designing a future model of service delivery that builds on best practice to improve performance and seek further efficiencies.

‘Stronger Together and Efficiency Savings

The partnership between Isos Housing and Cestria Community Housing which was formed in October 2014, combined the specific strengths, expertise and services of the two organisations to achieve increased cost effectiveness and improved outcomes in front line services and back office functions.

The focus of the Stronger Together alignment programme was to establish a ‘one team, one system’ approach. We moved to a single senior team enabling us to reduce our costs by around £458,000 per annum. We also took opportunities to review staffing when vacancies arose, where possible moving to a Group solution.

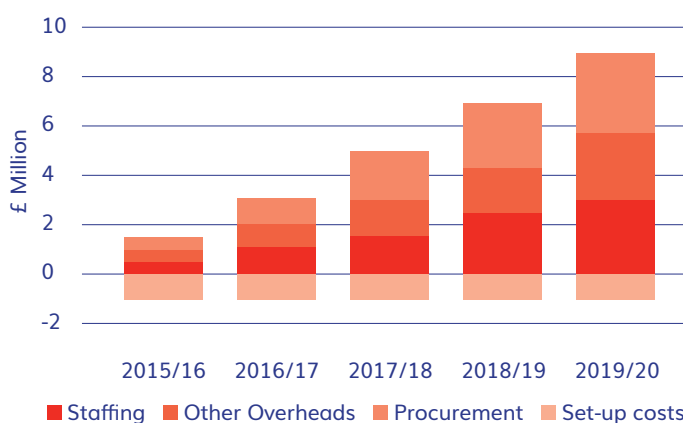
We also moved to a single Housing System, Finance System and an integrated HR and payroll system across the Group creating savings of around £100,000 per annum.

Other Stronger Together achievements include shared approaches to Customer Services Management, Income Management, Treasury Management, managing anti-social behaviour, property sales, communications and marketing and helping tenants manage the impact of welfare reform. Alignment of service improvement methods has led to an improvement in responsive repairs times and void loss as well as substantial efficiency savings through group-wide procurement of materials and services such as repair contracts, vehicle fleets, insurance and audit.

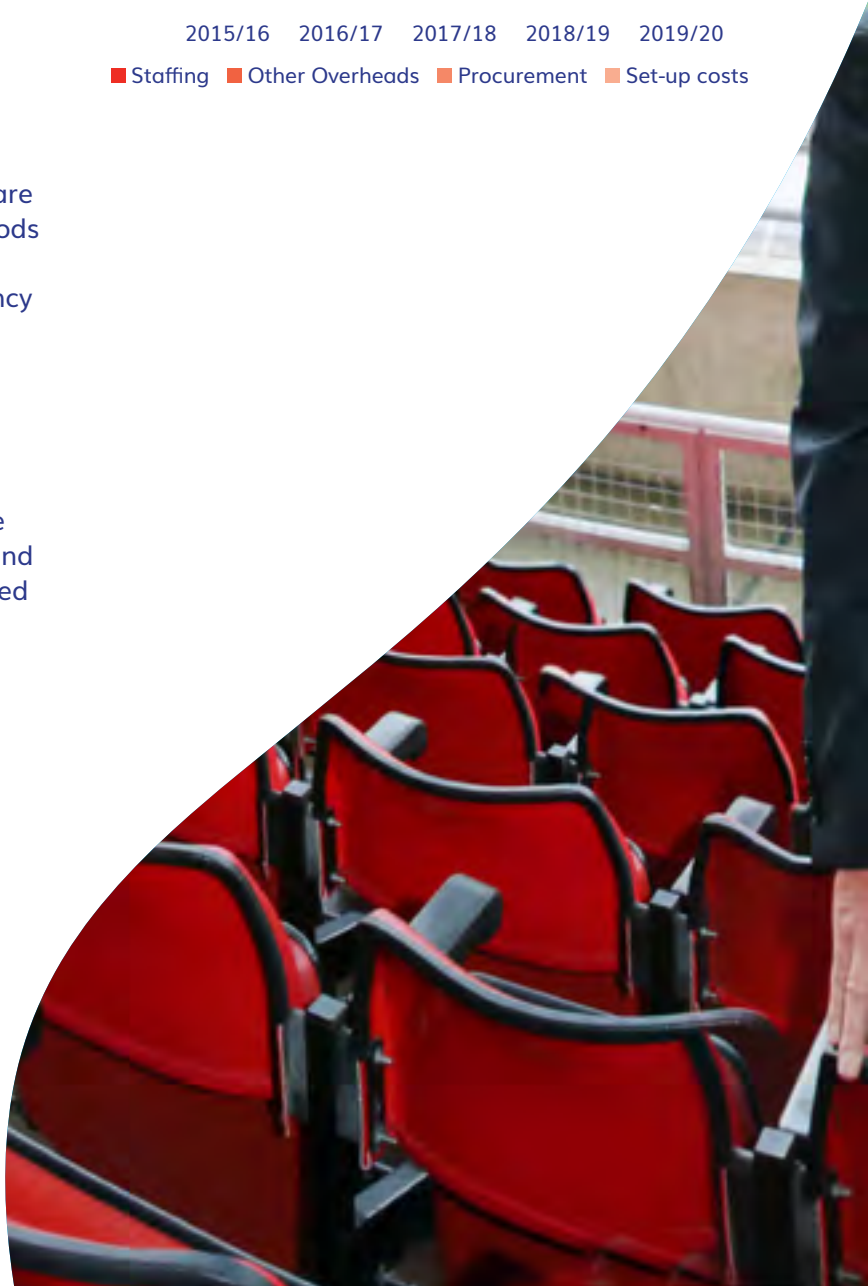
The business case for the partnership included a forecast of net efficiency savings over five years, excluding set-up costs and annual efficiency. The savings are recorded as Group savings for Isos and Cestria. Where savings are unable to be attributed to each individual operating company, they are allocated on the basis of property numbers.

At the end of the second full year of the partnership we exceeded our target by making recurring efficiency gains of almost £2.5m per annum which is almost £10m over the period of the business case through a combination of staff, procurement and other overhead savings.

Net Efficiencies - Stronger Together



We signed up again with the Foundation of Light to deliver vital community programmes. (L-R) Paul Hadden from Cestria, Sarah Howell from FoL, Martin Warhurst, MD of Cestria, and Mark Pae from FoL.





Our Performance

This section provides a rounded review of performance using two main benchmarking sources:

- Global Accounts: Financial indicators have been compared with the statutory accounts from our HouseMark peer group;
- HouseMark: a recognised benchmarking information provider within the Housing Association sector.

Cestria's peer group is made up of 18 housing providers which are Large Scale Voluntary Transfers (LSVTs) organisations in the North of England with between 2,500 and 7,500 homes. The organisations within the peer group are shown in appendix 1.



We worked with Keepmoat's safety mascot Luke Safe to take a site safety message to Newker Primary School in Chester le Street.

Global Accounts Analysis

KPI	Benchmark (Median)	2012/13	2013/14	2014/15	2015/16	2016/17
		Actual	Actual	Actual	Actual	Actual
Surplus per Unit	£885	£1,009	£1,176	£917	£1,385	£1,308
Social housing lettings operating margin	28%	28%	29%	22%	31%	28%
Headline Social Housing Cost per Unit	£3,464	£4,823	£5,294	£4,917	£4000	£3,264
Net margin	18%	27%	30%	23%	29%	28%
Weighted cost of capital	5.0%	4.3%	5.3%	2.7%	5.0%	5.0%
Debt per home	£13,560	£2,487	£1,916	£3,081	£3,804	£3,804
Gearing	88%	21%	13%	21%	23%	24%
Interest cover	257%	951%	1140%	1083%	781%	739%
Return on capital	6.4%	18.57%	16.14%	9.6%	14.99%	6.92%

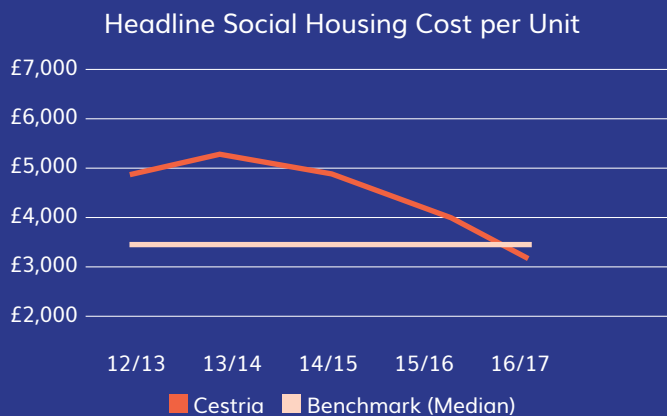
The analysis shows that Cestria's financial health compares favourably with others in all indicators. We have a strong balance sheet and are using the spare capacity to good effect by delivering more housing. Over the next 5 years we plan to develop over 400 new homes in the Chester-le-Street area.

The social housing lettings operating margin (which is the ratio of operating surplus as a percentage of turnover) has decreased marginally in 2017 due to a combination of the rent reduction, an increase in pension costs and the creation of a provision for impairment of housing properties and fixed assets.

Our regulator, the Homes and Communities Agency, considers headline social housing costs per unit as the best general-purpose cost definition to begin to inform consideration of costs across the sector as a whole.

'Headline social housing costs per unit' is made up of the main components of management, service charge costs, maintenance, major repairs and other social housing costs. It is a broad measure and so is not generally affected by different approaches to apportioning costs between narrow lines. It is a 'proxy cash' measure that excludes notional expenditure items – depreciation, impairment and bad debts – that are sensitive to different accounting policies and presentation of data within financial statements. It excludes costs of sales and includes capitalised as well as expensed major repairs. It is divided by social housing units.

Cestria's headline social housing costs per unit have reduced over the last few years as we have completed the home improvement programme and the high levels of investment required following the transfer from the council. Unit costs for the 2016/17 financial year compare favourably with the benchmark median of our peer group.



Volunteer Lisa Walker serves a young customer in Nettlesworth community café which received a donation of tables and chairs from Cestria. With them are (L-R) Paul Hadden from Cestria and John Barclay from the Kimblesworth and Nettlesworth Community Task Force.



HouseMark

Value for Money



1. Responsive repairs and void works
2. Rent arrears and collection
3. Anti-social behaviour
4. Major works and cyclical maintenance
5. Lettings
6. Tenancy management
7. Resident involvement
8. Estate services

We compare costs and performance with our peers using HouseMark. The results of our most recent benchmarking for Cestria, using the year 2015/16, are summarised in the HouseMark VFM benchmarking dashboard above for a number of our key business areas.

When designed, will show how we compare with the benchmark using traffic lights and we will indicate the trend using up or down arrows.

We are currently working to determine our 2016/17 benchmarking position. As a result, within the detailed breakdown of the results from the above benchmarking, the cost figures for 2016/17 are shown within the tables below as the 2015/16 actuals uplifted for inflation at 1.3%. The benchmark position for 2015/16 has also been uplifted by 1.3% (as per the HouseMark standard). Other performance figures are based on the actual position for 2016/17.



Responsive Repairs & Voids

Key Performance Indicator	Meeting or exceeding benchmark?	Benchmark (Median)	2016/17	2016/17	2015/16	2014/15	2013/14	2012/13
			Target	Actual	Actual	Actual	Actual	Actual
Direct Cost Per Property of Responsive Repairs & Void Works	●	£673	-	£721	£712	£706	£630	£580
Total Cost per Property of Responsive Repairs & Void Works	●	£834	-	£996	£983	£975	£868	£797
% respondents very or fairly satisfied with repairs and maintenance (GN & HfOP)	●	86	-	89.1	89.1	89.1	84	84
Average number of calendar days taken to complete repairs	●	8	6	5.12	4.79	5.78	6.87	6.87
Average number of responsive repairs per property	●	3.7	3.7	3.3	3.7	3.7	No data	No data
Average cost of a responsive repair	●	£100	-	£118	£121	£120	£91	£82
Percentage of repairs completed at the first visit	●	89.75	92	92.06	92.03	89.65	97.12	96.77
Average cost of a void repair	●	£3,399	-	£3,399	£3,355	£3,235	£2,524	£2,151

Performance associated with service delivery and customer satisfaction is comparatively strong which in many respects is reflected in the relatively higher costs compared to our peer group median.

Organisational change and amalgamation of resources will have an effect on the business model that will move towards retaining high levels of service delivery while at the same time improve cost control.

Paul Mooney joined (L-R) Cestria chair David Butler, chief executive Paul Fiddaman, Cestria MD Martin Warhurst and Coun Mike Dixon from Durham CC at the opening of The Elms Extra Care in Chester le Street.

Rent Arrears & Collection

Key Performance Indicator	Meeting or exceeding benchmark?	Benchmark (Median)	2016/17	2016/17	2015/16	2014/15	2013/14	2012/13
			Target	Actual	Actual	Actual	Actual	Actual
Direct Cost Per Property of Rent Arrears & Collection	●	£92	-	£65	£64	£64	£62	£62
Total Cost per Property of Rent Arrears & Collection	●	£142	-	£101	£100	£103	£103	£96
% of rent collected from current and former tenants (excl. arrears b/f)	●	99.44	100	99.7	100.06	100.13	102.63	99.84
Current tenant arrears as % of rent due	●	3.5	1.6	1.69	1.42	1.33	1.79	5.08
Former tenant arrears as a % of rent due	●	1.87	-	0.88	0.86	1.09	1.04	1.17
Gross arrears written off as % of rent due	●	0.51	0.5	0.25	0.3	0.22	0.48	0.68

The cost of rent arrears and collection compare very favourably with the benchmark costs.

Performance in respect of current tenant arrears has remained very strong against the benchmark despite increasing slightly on the previous year. Increases in arrears over the past two financial years are a result of the continued rollout of Universal Credit and other welfare reforms. During 2017/18 enhancements to the housing management system will deliver increased ability to monitor these accounts.

In respect of former tenant arrears, performance on these measures compares favourably against the benchmark with write-offs decreasing on the previous year.

Anti-Social Behaviour Summary

Key Performance Indicator	Meeting or exceeding benchmark?	Benchmark (Median)	2016/17	2016/17	2015/16	2014/15	2013/14	2012/13
			Target	Actual	Actual	Actual	Actual	Actual
Direct Cost Per Property of Anti-Social Behaviour	●	£34	-	£24	£24	£27	£24	£30
Total Cost per Property of Anti-Social Behaviour	●	£60	-	£37	£37	£41	£38	£45

Although costs compare favourably to the benchmark median, in 2015/2016 a group ASB service was implemented to maximise the use of resource. A further review of service delivery will be undertaken as part of the Futures transformation programme.

Elms resident Jean Lee with two of the school children who worked on an artwork project, Grace Brown and Jordy Armstrong








Major Works & Cyclical Maintenance Summary

Key Performance Indicator	Meeting or exceeding benchmark?	Benchmark (Median)	2016/17	2016/17	2015/16	2014/15	2013/14	2012/13
			Target	Actual	Actual	Actual	Actual	Actual
Direct Cost Per Property of Major Works and Cyclical Maintenance	●	£1,194	-	£1,239	£1,223	£1,638	£2,779	£3,275
Total Cost per Property of Major Works and Cyclical Maintenance	●	£1,300	-	£1,346	£1,329	£1,760	£2,957	£3,481
% of respondents very or fairly satisfied with the overall quality of their home (GN &HfOP)	●	87.9	-	88.1	88.1	90	90	90
% of dwellings that are non-decent	●	0	-	0	0	0	0	0.71
Average SAP rating	●	70.4	-	67.7	67.7	67.3	68.5	66.7
% of dwellings with a valid gas safety certificate	●	100	100	100	100	100	100	100

The cost per property of major repairs and cyclical maintenance has reduced significantly over the last five years and is almost in line with the benchmark. Customer satisfaction is also higher than the benchmark median.

Although the average SAP rating remains constant, we continue to strive towards meeting an improved rating which compares more favourably.

Lettings Summary

Key Performance Indicator	Meeting or exceeding benchmark?	Benchmark (Median)	2016/17	2016/17	2015/16	2014/15	2013/14	2012/13
			Target	Actual	Actual	Actual	Actual	Actual
Direct Cost Per Property of Lettings		£40	-	£38	£38	£45	£46	£41
Total Cost per Property of Lettings		£67	-	£65	£64	£80	£81	£67
Number of tenancies terminated as % of properties managed		9.32	10.5	9.8	9.53	10.38	11.06	9.95
Average re-let time in days (standard re-lets)		22.37	18	15.26	16.17	19.8	21.03	42.14
Rent loss due to empty properties (voids) as a percentage of rent due		1.23	1	0.79	1.12	0.89	1.08	1.53

The cost of lettings continues to compare favourably with the benchmark position and has continued the downward trend over the past four years. This is attributable to a reduction in staffing resulting in lower direct costs and shared overheads for total costs.

The number of tenancies terminated as a percentage of properties managed has increased slightly on the previous year. The rehousing of a number of existing tenants into new build developments has attributed to the inflated number of terminations for 2016/17. These terminations represented 0.5% of the stock, without which performance would have been 9.3%, a reduction on previous year's performance and consistent with the benchmark median.

Performance in respect of average re-let times has continued to improve year on year, since the lean systems review of void management which was carried out in 2012/13. Performance for 2016/17 at 15.26 days represents a 64% reduction since 2012/13 and represents a further 6% reduction on 2015/16 performance. The continued success in this area is due to focussed performance management and heightened visibility across service delivery teams.

Void rent loss at 0.79% for 2016/17 represents a reduction on the previous year's performance and is significantly better than the benchmark median.

Housing Management Summary

Key Performance Indicator	Meeting or exceeding benchmark?	Benchmark (Median)	2016/17	2016/17	2015/16	2014/15	2013/14	2012/13
			Target	Actual	Actual	Actual	Actual	Actual
Direct Cost Per Property of Housing Management	●	£251	-	£234	£231	£261	£265	£274
Total Cost per Property of Housing Management	●	£422	-	£376	£371	£428	£432	£425
Average re-let time in days (standard re-lets)	●	22.37	18	15.26	16.17	19.8	21.03	42.14
% of respondents very or fairly satisfied with the service provided (GN & HfOP)	●	89.2	-	91.7	91.7	91.7	88	88
% of respondents very or fairly satisfied with their rent provides value for money	●	86.1	-	84.6	84.6	84.6	83	83

There has been a significant reduction in overall housing management costs, both direct and total, from previous years. This is as a result of staffing resources being redirected to manage the implementation of the housing management system, contractual savings as a result of procurement and an overall reduction in staffing for housing management activities. Further efficiencies will be sought through the Futures programme, using lean techniques.

We co-sponsored a children's sports day held at the Riverside Athletics Track in Chester le Street.



Tenancy Management Summary

Key Performance Indicator	Meeting or exceeding benchmark?	Benchmark (Median)	2016/17	2016/17	2015/16	2014/15	2013/14	2012/13
			Target	Actual	Actual	Actual	Actual	Actual
Direct Cost Per Property of Tenancy Management	●	£48	-	£61	£60	£69	£63	£54
Total Cost per Property of Tenancy Management	●	£81	-	£106	£104	£127	£118	£110

The costs per property of tenancy management are above benchmark median however the overall downward trend over the past four years has continued with 2016/17 costs at their lowest since 2013/14. This is attributable to a reduction in staffing resulting in lower direct costs and shared overheads for total costs.

It is anticipated that by maximising the use of technological advancements (mobile working solutions in particular,) through the implementation of a new housing management system, the costs of service provision will be further reduced. The reconfiguration of resources through the Futures Programme will deliver additional efficiencies.



Resident Involvement Summary

Key Performance Indicator	Meeting or exceeding benchmark?	Benchmark (Median)	2016/17	2016/17	2015/16	2014/15	2013/14	2012/13
			Target	Actual	Actual	Actual	Actual	Actual
Direct Cost Per Property of Resident Involvement	●	£32	-	£46	£45	£56	£70	£83
Total Cost per Property of Resident Involvement	●	£52	-	£66	£66	£77	£93	£107
% of respondents very of fairly satisfied that their views are being listened to and acted upon	●	75.43	-	72.5	72.5	72.5	69	69

In 2016 a review of all resident involvement was commissioned with a view to developing a new model which is more inclusive, accessible and demographically representative with a clear focus on tangible outcomes and greater VFM.

The new model is comprised of five principle elements, each underpinned by increased use of customer insight data to enable tenants to more effectively challenge and influence service delivery and performance. The model will evolve further as new technology is implemented.

Non staff costs have been significantly reduced for 2017/18 in anticipation of increased digital engagement whilst staffing resources have been redirected to support community investment activity.

Cestria funded a project to provide vital safety equipment at Bullion Lane Childrens Centre in Chester le Street. Pictured are Jonathan Fletcher and Paul Hadden (right) from Cestria, with Tammy Gillum from the children's centre.

Estate Services Summary

Key Performance Indicator	Meeting or exceeding benchmark?	Benchmark (Median)	2016/17 Target	2016/17 Actual	2015/16 Actual	2014/15 Actual	2013/14 Actual	2012/13 Actual
Direct Cost Per Property of Estate Services	●	£109	-	£89	£88	£83	£89	£112
Total Cost per Property of Estate Services	●	£135	-	£135	£133	£129	£130	£162
% of respondents very of fairly satisfied with their neighbourhood as a place to live	●	88.4	-	88.4	88.4	88.4	88	88

Both cost and performance for Estate Services compares favourably with our peers. Customer satisfaction has been maintained and also compares well.



Customer Services

Key Performance Indicator	Meeting or exceeding benchmark?	Benchmark (Median)	2016/17	2016/17	2015/16	2014/15	2013/14	2012/13
			Target	Actual	Actual	Actual	Actual	Actual
Average time to answer telephone calls (seconds)	●	29	-	13	15	19	No data	No data
% of complaints upheld at Stage 1	●	56.4	-	59	48	55	No data	No data

Performance on call handling compares very favourably with our peer group.

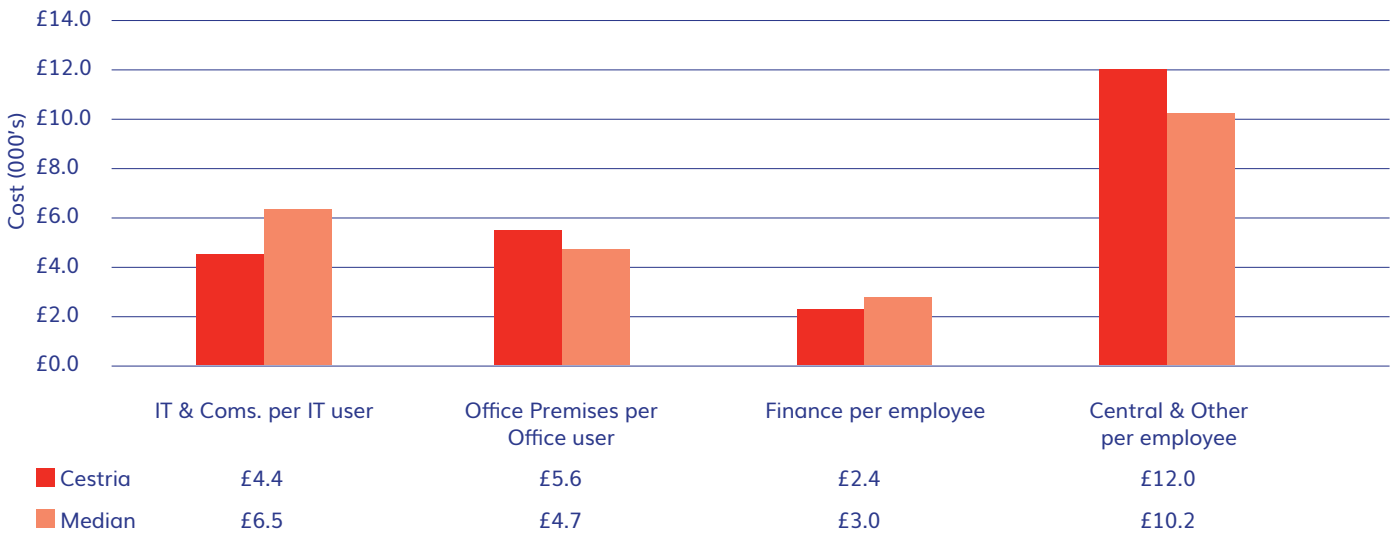
Listening to our customers and the management of complaints remain a business priority, particularly in terms of understanding the reason for complaints and to implement learning so that we can continue to improve services.



Overhead Costs

Overhead costs per user are shown below and have been taken from the HouseMark report for 2015/16.

Overhead cost per user (£000's)



This benchmarking analysis shows that whilst several of our key services are high performing compared to others, we still need to improve on cost. We recognise that this will be a challenge, however in order to improve, we will have a continued focus on efficiency and will focus on:

- delivering the Futures programme, which is our transformational programme focusing on efficiency, transforming the business to deliver our vision and strategic aims;
- looking to further address a number of cost indicators which demonstrate that we are not performing as well as our peers, particularly in respect of central overhead costs;

- completing the aligning of our core Housing, Finance and HR/Payroll system across the whole of Karbon Homes;
- using 'lean' methodologies, empowering our staff to come up with effective and efficient solutions that drive improved performance and quality of service to the customer;
- considering the lessons learned from the 'Stronger Together' alignment programme in respect of project management arrangements, project governance, communication and benefits realisation as we continue with the Futures Programme;
- reviewing our operating model to maximise technology and increase digital engagement with our customers to create efficiency savings and improve customer choices;
- undertaking a review of office accommodation in light of increased mobile technology to maximise use of office space and reduce overhead costs.



Our development colleagues Zoey Hawthorn and Stephen Riding hosted a visit by HCA staff to The Elms, to learn about its outstanding design features.

VFM and Procurement

Our procurement processes ensure all of the works, goods and services we buy deliver the best VFM for our customers. During 2016/17 we tendered and awarded a range of contracts on a 'best value' basis ensuring that suppliers and contractors were pre-qualified to the Group standards and that bids were evaluated on both cost and quality.

The total annual value of new contracts delivered by the Procurement team during 2016/17 was in excess of £2.6m including VAT.

VFM was measured by three main strands:

- Budgeted Savings – contracts delivered for lower cost than anticipated
- Cost avoidance – contracts delivered on budget, but lower than the anticipated market value
- Increased output – contracts delivered on budget, but which provided increased scope

Procurement activity for the year, excluding rollover measures, realised the following:

 £154^k

including VAT was achieved in budget savings and rebates

 £63^k

including VAT was achieved in cost avoidance

Procurement savings in 2016/17 were realised in the main from the tender of our planned maintenance programme works in addition to banking and communications. We also procured new consultant frameworks for engineering, valuation and legal conveyancing services and this programme will continue into 2017/18 to ensure we further improve VFM across our development activities.

To help reduce project costs, we utilise Isos Developments Limited to enable recovery of VAT payable on professional fees associated with the development of new homes activities.

Cost avoidance was achieved in contracts awarded for flooring, structural void works and insurance where rates paid through tender were on average lower than standard market levels, and added value within the tender process.

Increased outputs were achieved via the delivery of additional works beyond the expected programme in our garage refurbishment works contract, disabled adaptations and legal services in relation to anti-social behaviour.

In addition, procurement savings from contracts let in previous years (due to the contract period rollover) were calculated as £106k including VAT. Meanwhile newly procured contracts will continue to be measured for the term of the respective arrangements.



High quality new homes for older residents in Bowburn, County Durham

VFM and Asset Management & Development

Our approach to VFM put a strong emphasis on asset management and investment across the Isos Group, ensuring asset performance is a key consideration when setting investment and intervention priorities and plans.

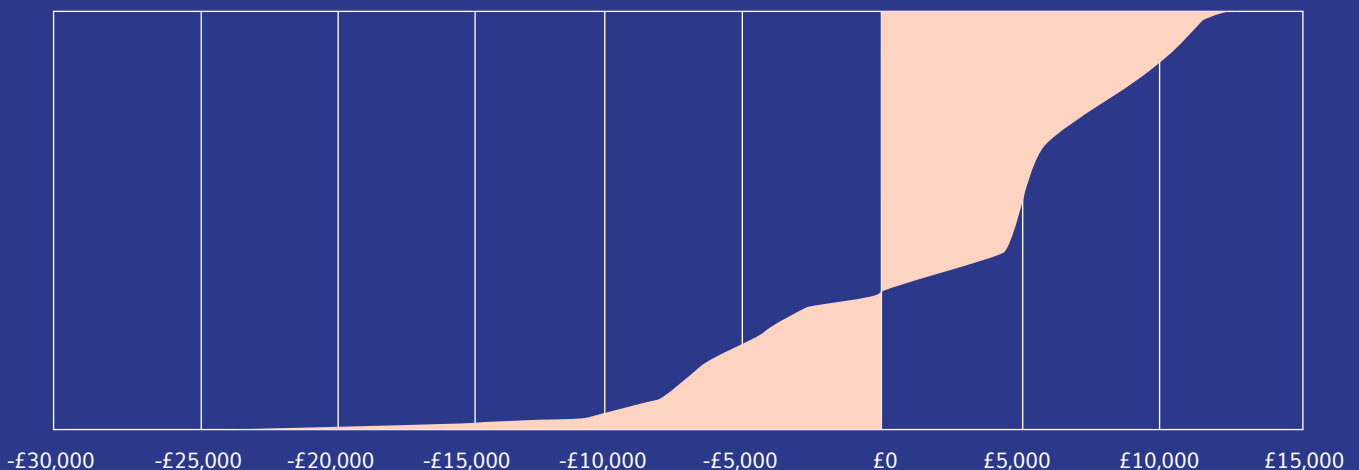
We use an 'asset performance evaluation' (APE) tool to calculate the net present value (NPV) of housing stock at individual property, estate and stock levels. The NPV compares future rental income, investment costs and management costs discounted back to a current value. We use this tool alongside operational intelligence to inform investment decisions.

An example of a reporting output (a tornado graph) from the model is provided below which highlights at an asset group level, the average NPV over 30 years. On interrogation, this report highlights asset groups which at the lower end of the tornado achieve a negative or marginally positive NPV.

The output from the model is used along with information on neighbourhood sustainability, demand and operational views on stock condition. By 2021 we are aiming to improve the quality and strength of our portfolio; by delivering a range of interventions to address poorly performing properties as well as to ensure that we target investment where it has the greatest impact on the estates we wish to retain. In addition, through analysis of NPV against market values, we will identify potential market disposals to generate receipts that can be used to support the delivery of new homes and/or wider strategic objectives.

We will deliver the maximum possible number of new, high quality homes for a range of tenures, within the capacity of our business plan. We will also diversify into new tenures including market rent and outright sale, maximising net income to support investment in existing and new affordable homes and neighbourhoods.

30 Year NPV per unit



Case Study

During 16/17 we utilised the APE model to identify underperforming assets which had regeneration potential. This resulted in a funding bid being made to the Homes and Communities Agency under the Shared Ownership and Affordable Homes Programme 2016-21 that will address 22 low demand, low NPV properties which will be replaced with 45 new mixed tenure homes.

Going forward, we will be undertaking several key service developments to consolidate asset strategy, policy and business process, some of which were deferred from 2015/16 in light of the amalgamation of Isos Housing, Cestria Community Housing and Derwentside Homes.

As Karbon Homes, these will include:

- select and apply, a new financial performance and sustainability model for all Karbon Homes' assets.
- update investment standards and specifications and review performance measures across responsive and planned repairs;
- develop a new 5 year investment plan that utilises the results of the new finance and sustainability model to ensure underperforming/unsustainable stock is omitted from the 5 year programme until an option appraisal has been carried out;
- develop an option appraisal process to find the best solution for each property being assessed;
- consider conversion of tenure, conversion of property type or outright disposal of property if declared surplus as part of the option appraisal;
- maximise disposal receipts where properties are declared surplus.

We will measure our success against set targets for Karbon Homes for 2017/18:

 431

new homes over a range of locations, to be completed

 90%

customer satisfaction with new rented homes

 90%

customer satisfaction with new shared ownership homes

 43

new build home ownership sales

 100%

compliance on decent homes

Effective Staff

We aim to maximise the return from our staff as our people are our most important asset and we spend around £5m per annum on staff costs. We aim to maintain an effective and supportive working environment as research shows that this helps staff engagement which leads to high customer satisfaction.

We have continued to be recognised as a great employer through external validation. We have maintained the prestigious Investors in People Gold accreditation and achieved the Better Health at Work Bronze accreditation.

We are now delivering a new organisation structure and a new set of terms and conditions in support of our Karbon Homes' strategic vision and Ambition to Grow. We need to be in the best possible shape so we can respond to the new political and economic environment and we will therefore create a structure that helps us to be more flexible and adaptable as we continue to change and grow.

Involving Customers

Throughout 2016/17 a new model for customer engagement (including tenant scrutiny) has been developed and implemented in order to ensure we continue delivering tangible outcomes and greater VFM in this area.

The new model was informed by a full review of previous arrangements as well as significant research into best practice and extensive tenant consultation. Business and customer feedback highlighted that our previous, more traditional, customer engagement methods were perceived as being one-dimensional; focussed primarily on face-to-face interactions which restrict opportunities for involvement for all but a few of our customers.

The model is comprised of five principal elements, each underpinned by increased use of customer insight data to enable tenants to more effectively challenge and influence service delivery and performance. The five elements are Tenants Panel; regional forums; digital engagement methods (including surveys, Facebook, Twitter and website options,) local engagement and scrutiny.

VFM & Measuring the Impact of Our Investment

Financial and Social Inclusion

With the continuing and rapid changes to the housing and welfare sectors over the year, we have remained committed to investing in our communities and delivering services to support our tenants and residents in areas of financial, digital and employment advice.

Some of our achievements are:

Our Money Workers supported

 352 tenants

with their finances, increasing their overall annual income by a total of

 £501,127

making each tenant on average 27.37 perweek better off;

 £101,673

discretionary housing payments were gained during the year which is a

 46%

Increase on the amount gained in 2015/2016;

 £247,167

of tenant debt was consolidated and

 £18,155

written off from receiving debt advice from the service. That's a 47% increase in debt consolidated from the previous year;

Our Employability Officer engaged with

 124 residents

of which

 97

moved into employment (which is 78% of those who engaged with the service moving back into work).

We worked alongside our contractors to keep children at Lumley Junior School informed about our local construction project – and warn them about the dangers of entering the site.

Community Investment

Online Owls continued its second year of delivery providing services to residents to increase their digital inclusion. We ran learner-led workshops, techy tea parties and provided direct support to help 121 people make the most of their devices. By the end of the year over 440 residents had been supported by Online Owls.

We delivered our third annual Enterprise Week giving 13 young people a fantastic opportunity to run their own business and learn all aspects of managing a business. Some young people managed to move into work, others into apprenticeships or further education.

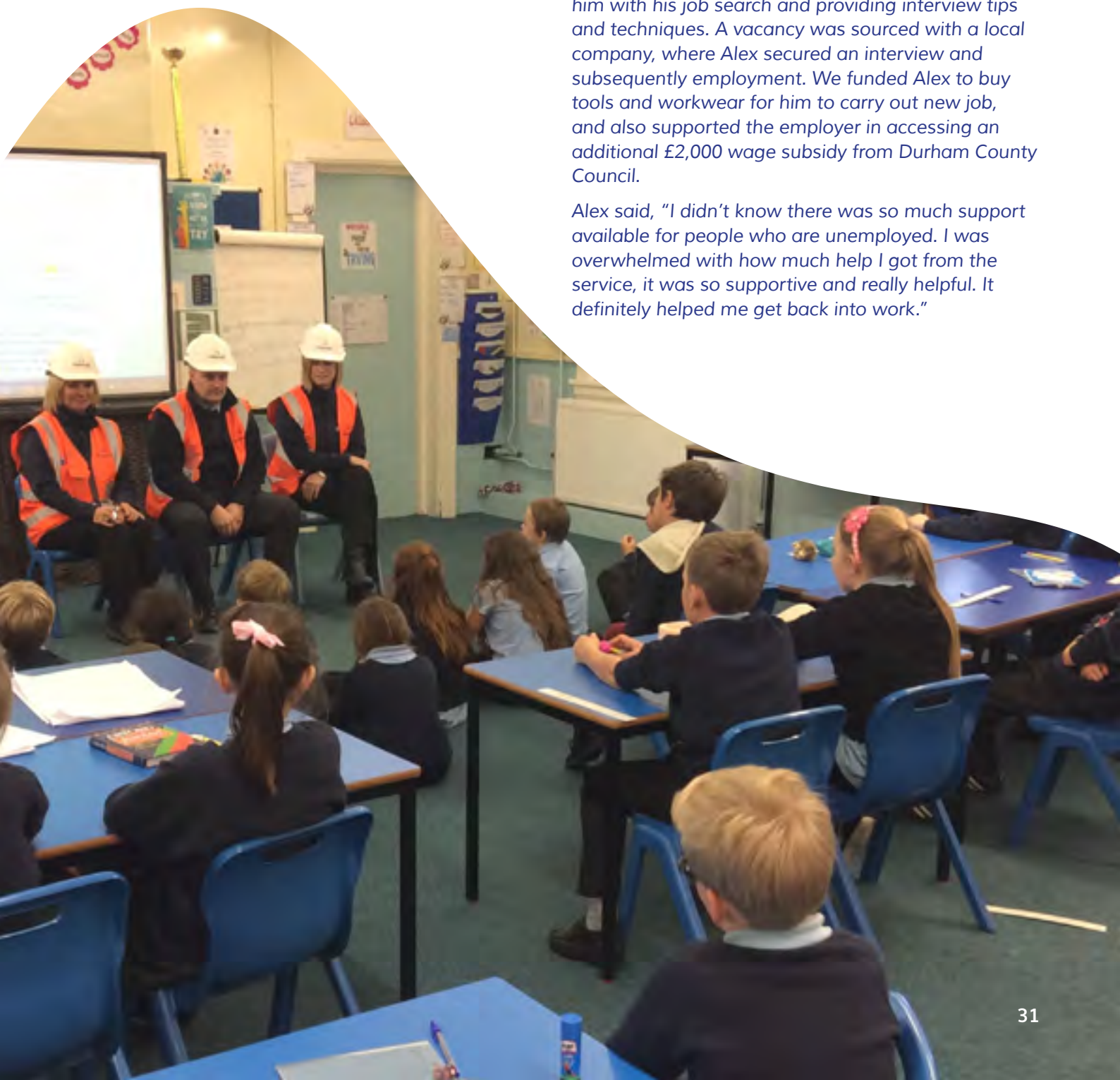
Employability Case Study

Alex, 24 years old, engaged with our employability programme after returning to the UK from Canada, where he had been working as a Sports Coach with young children. He was claiming Job Seekers Allowance and was referred by Job Centre Plus.

Alex advised that he would like to secure employment within the construction industry as he had experience through previous employment. To enable Alex to secure work within construction he needed to obtain a CSCS card, which is a requirement within the industry. A course was sourced and funded for Alex through one of our partners, Durham Works.

Alex was supported with updating his CV, helping him with his job search and providing interview tips and techniques. A vacancy was sourced with a local company, where Alex secured an interview and subsequently employment. We funded Alex to buy tools and workwear for him to carry out new job, and also supported the employer in accessing an additional £2,000 wage subsidy from Durham County Council.

Alex said, "I didn't know there was so much support available for people who are unemployed. I was overwhelmed with how much help I got from the service, it was so supportive and really helpful. It definitely helped me get back into work."



Karbon Homes

Towards the end of 2016 and in early 2017, we held a series of consultation workshops with senior managers, staff, customers and Board Designate with the purpose of considering our identity (building on the best of our three organisations' existing cultures), to develop our new name and identify our priorities. Strong themes emerged which informed the development of our new name, Karbon Homes along with clarification of our core purpose, our promise to customers and a description of our unique characteristics:

Our Purpose

To provide a strong foundation for life

This is the reason we exist as an organisation

Our Promise

The possibility to develop the life you want

This is what we offer our customers

Our Characteristics

A strong business head and a strong social heart

This is who we are as a business, our personality. We are efficient, effective, agile and sustainable, as well as being caring, friendly, understanding and fair.

Our vision and strategic aims are aligned with our collective strategic priorities as shown in our Interim Strategic Plan 2017-18. Over the course of the Interim Strategic Plan, we will undertake further consultation with a view to developing our longer-term vision, strategic aims and values. This will help to build a strong culture that recognises and embraces our new vision, values, and behaviours.

Our Vision

'We will be financially strong, flexible and resilient and one of the biggest contributors of new homes amongst northern housing associations, helping people meet their aspirations across a range of tenures. Our services will enable customers to lead successful, independent lives, sustain our business and communities and make maximum use of technology. Our customers will be very satisfied and our brands seen as a guarantee of high quality'.

'We will improve continuously and be highly efficient, helped by additional income from our successful commercial activities. We will be a valued regional provider of services, including through cost-sharing, and welcome others into our Group. We will have a strong reputation and significant influence regionally and nationally and will grow throughout the North East and beyond as the first choice for customers, partners and employees'.



An artist's impression of our new Blencathra Way homes in Chester le Street.

Our Strategic Aims

Aim 1

To provide as many good quality homes as we can

We will build and continue to supply new homes across the North of England providing a range of tenures including homes that are truly affordable, to meet the acute level of housing need and strengthen our asset base.

We will aim to be as efficient as possible using innovative construction methods; recycling increased income from property sales, including Right-to-Buy; redeveloping under-performing assets and by operating through subsidiary companies.

We will continue to explore joint ventures, form partnerships with private house-builders and seek suitable opportunities to acquire stock from other

housing providers who want to review their stock profile.

We will optimise our investment standards to increase customer satisfaction, strengthen demand, reduce reactive repairs and maximise our procurement advantage.

We will improve our competitiveness and customer offer by addressing low demand, out-dated homes through a range of investment solutions; improving our neighbourhood environments and investing in homes that are 'harder to heat' to reduce fuel poverty, improve affordability and comfort levels of customers in these homes.

Aim 2

To deliver excellent, modern services to all our customers

We will seek to make a real difference to our communities by eliminating discrimination, advancing equality and diversity and fostering good relations between different people. We will be locally responsive and offer a diverse range of services that are efficient and effective to meet the needs of our customers.

We will be active in a wider range of housing markets to enable us to meet a broad range of housing need for current and prospective tenants. Through improved customer profiling we will understand our customers' requirements based on effective and powerful insight into their needs, preferences and behaviours.

We will provide specialist housing and support services for older people, those living with long-term

conditions, mental health problems, people with physical or learning disabilities and people fleeing domestic violence and other issues.

We will follow a practice of 'right first time' and seek to improve continuously through innovation, process improvement using lean techniques and by learning from the best organisations within and beyond our sector. We will have a focus on improving those services that address our customers' priorities with the objective of making it easier and more cost effective for them to access.

Our services will be accessible 24 hours a day, 365 days a year, at a time and place convenient to our customers. We will make our services available digitally via mobile and other devices, as well as in more traditional ways.

Aim 3

To build successful and sustainable communities

We will contribute to the development of balanced and sustainable communities.

We will deliver schemes to improve the environmental fabric of our neighbourhoods, ensuring that the priorities for these scheme, alongside our property investment decisions, are driven by customers through improved consultation and feedback mechanisms.

A community investment strategy will be developed, giving priority to areas of activity which strengthen the organisation in the future. This will include facilitating and sign-posting to build more resilient communities.

Our approach will be selective and driven by business need, learning from the evaluation of our

investment to-date. Strategic partners such as charitable foundations will be commissioned and we will encourage our staff to volunteer.

We will make every effort to conserve natural resources. We will make a strong commitment to environmental sustainability which will be reflected in the management and development of our housing stock and other assets, particularly where this delivers a direct financial benefit to our customers. We will help to reduce fuel poverty for our customers, minimising our impact on the environment and reducing our contribution to climate change wherever possible. We will continue to assess our environmental impact and actively work to reduce it.

Aim 4

To grow the business and its reputation

We believe that our increased scale will enable us to develop strategic relationships with key stakeholders where our capacity and preferred partner status will be valued. We will be better placed to bid for and access start-up funds, grants and other initiatives that may be offered.

With our presence largely focussed in the North East of England, we will link into the developing regional agenda in terms of the delivery of housing and complementary service offers to support economic and social development.

We have many ongoing partnership opportunities and will continue to seek partnerships with other like-minded organisations which share our vision. We will develop key strategic relationships with other stakeholders, especially developers, local authorities and partners in health and education.

We will continue to support the growth of social enterprises and build on their successes. Existing projects already support people into employment and provide many services for Karbon Homes such as maintenance and gardening services, and the supply of low cost furniture and white goods to our residents.

Aim 5

To maximise capacity to deliver our ambitions

We will focus on driving real efficiencies as measured by improvements to operating surplus, and reductions to total unit costs. We have identified efficiencies rising to a recurring £3 million per annum (£10 million over the first 5 years) generated from amalgamating. This is a minimum ambition and will be delivered over the next 5 years. Thereafter, the next planning period between years 6 to 10 will deliver a further £17.5 million.

Our increased scale as an organisation will allow us to deliver some services directly, where they have previously been outsourced, but only where this represents the best value-for-money.

We will seek further reductions in our costs over the period of our Interim Strategic Plan and beyond, taking a balanced and measured approach, primarily through the ongoing Futures transformational programme.

Futures Programme and Efficiency Savings

In anticipation of the amalgamation of the Isos Group and Derwentside Homes in April 2017 we put in place a robust programme of alignment and transformation which we named the Futures Programme.

Via the Futures Programme we will also develop an agile, fit for the future structure including attractive, flexible terms and conditions which are appropriate to a modern employer. The programme is aimed at aligning people, process, technology and best practice to deliver our strategic aims.

We have identified efficiencies generated from amalgamating including the capacity to more than double the existing development programme from c.5,000 to c.11,000 homes over the lifetime of the business plan. We have identified a recurring £3.5 million per annum saving by year 5 from consolidating our business including over £10 million within the first 5 years.

The Futures Programme is over 3 phases:

- Pre-amalgamation - the point to which we become the new organisation, Karbon Homes
- Integration – 1 April 2017 to 1 July 2018 - the point when the new structures are all in place
- Transformation - when we begin work in earnest to fulfil our new vision, building on all the foundations we have put in place

The programme has a clear governance structure and comprises 14 work-streams, from a strategic and operational level, which collectively contribute to the overall transformation of Karbon Homes. Colleagues are working collaboratively to develop efficient, customer-focussed service delivery models which will be supported by the implementation of systems designed to deliver the service models in the leanest way possible.

The Futures Programme is a substantial undertaking and this will be balanced with the need to maintain high standards of service delivery and performance.



VFM Plans for Next Year

As we look back over the 12 months of 2016/17 at what Cestria achieved, we know we made some great strides towards achieving our vision and strategic aims.

We believe that this robust self-assessment demonstrates how we are providing a VFM service to all our stakeholders, but we recognise there are still challenges.

The self-assessment also demonstrates we can do more through our future plans, so we will be well placed to deliver on our strategic aims.

Informed by this self-assessment, over the next year, Karbon Homes will:

- continue to deliver the Futures programme which is one part of a wider transformational programme which includes a review of office accommodation, ICT requirements, staff terms and conditions and other benefits. We will also be reviewing our staffing structure to ensure that it is fit for purpose, enabling us to transform the business to deliver our strategic objectives. This will enable us to deliver the efficiency savings set out in the business case for the amalgamation;
- continue to embed the core principles of VFM through our lean systems approach to streamlining our current processes and practices. We also plan to train up to 12 staff in the principles of lean and we will complete a review of rechargeable repairs;
- continue to work with our Board to understand how our cost and performance compares with others and how we can make improvements. We will also obtain the findings from the pilot of the Sector Efficiency Scorecard;
- continue to focus on cost control during the budgets process;
- maximise the use of technological advancements and core systems to support solutions implementation, for example we will be focusing on the digital agenda and how we can improve customer access to our services via self-service;
- look to extend the services provided via our cost sharing vehicle in order to increase efficiencies and enable us to reduce overhead costs;
- listen and respond to feedback from our customers, including carrying out a customer satisfaction survey in order to improve our services. We will also make improvements to the customer journey as a result of the lean review of our complaints process;
- deliver against our target of completing 431 new homes and selling 43 new build home ownership properties.



Fighting back against loan sharks are Claire McDonald and Tracey Pearson from our Bowes office.

Appendix 1

HouseMark Benchmarking Peer Group

Our peer group is made up of 18 housing providers which are Large Scale Voluntary Transfer (LSVTs) organisations in the North of England with between 2,500 and 7,500 properties.

Organisations in Peer Group

Landlord Name	Total Stock
Broadacres Housing Association	5,856
Calico Homes	4,708
City South Manchester Housing Trust	4,670
Cobalt Housing	6,002
Community Gateway Association	6,621
Derwentside Homes	8,680
Green Vale Homes	3,767
Halton Housing Trust	6,788
Housing Pendle	3,596
Hyndburn Homes	3,557
Peaks and Plains Housing Trust	6,340
SLH Group	3,762
South Lakes Housing	4,446
Southway Housing Trust	6,132
Villages Housing Association	2,568
Weaver Vale Housing Trust	5,674
Wulvern Housing	5,674
Yorkshire Coast Homes	4,565

Striving for the line at the children's sports day we co-sponsored in Chester le Street.



