2015 VALUE FOR MONEY STATEMENT

Published June 2016

This statement is published to ensure LYHA remains compliant with the Homes & Communities Agency {HCA} Value for Money {VFM] standard section 2.2.

Extract from HCA Value for Money Standard

> **2.2 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.**

This statement reports on the Associations main Value for Money {VFM} gains achieved in the year ended 31st December 2015 as well as delivery against our VFM strategy and compliance with the Regulatory Standards.

The HCA published a regression analysis in June 2016 after the 2015 Annual Audited Accounts had been approved and signed. The LYHA Board of Management agreed that a detailed review of the regression analysis should be completed during the summer alongside the review of the HCA Global Accounts when these are published to decide whether our VFM strategy needs adapted and to set and agree new VFM targets based on sector comparison. The Board therefore agreed that an addendum to this will be published in September 2016.

The September 2016 version of our VFM Statement will be robust version from which LYHA can be compared more accurately to others within the sector.

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1. INTRODUCTION

We are pleased to introduce our third Value for Money [VFM] Statement which summarises our VFM performance in 2015. It sets out how we have delivered against our VFM strategy and action plan and includes our self-assessment against the HCA VFM Standard 2012. This statement also includes an updated action plan to ensure at LYHA we continue to deliver VFM in an open and transparent way.

LYHA has a December year end and therefore we must publish our Statement within 6 months of the year end, along with our annual accounts. This year we have taken a different, more concise approach to improve transparency.

- In our annual accounts we have included a summary of our VFM gains and performance to complement our financial statements.
- This document is our full statement. We have condensed and focused this to ensure our vfm gains and plans for further efficiency are more evident. We will again publish an Annual Report and an Annual Report to Tenants.

The HCA [Homes and Communities Agency] Global Accounts and other benchmarking information is not available to us at the time of writing this report which makes it more complex for us to compare ourselves to others and set targets based on benchmarking and comparative data.

In addition, the HCA published its regression analysis research "***Delivering better value for money; understanding differences in unit costs***" on 8th June 2016. LYHA has briefly considered prior to the publication of this report and where appropriate, included some supplementary information to highlight key issues. We plan to fully evaluate the Regression Analysis reports over the summer alongside the NHF [National Housing Federation] and other reports published in June and the publication of the HCA Global Accounts and other benchmarking data.

We will therefore produce a revised VFM Statement in September 2016 which will be an addendum and update to this document. This will:

- Align our VFM documents to those produced by the majority of the sector
- Enable us to better understand our performance and direction of travel and set 2017 targets that are based on the most accurate and up to date information.
- Ensure that when the HCA consider the VFM statements as part of their regulatory activity and to feed into the next Regression analysis to be published in 2017; that LYHA is not disadvantaged for comparison with the rest of the sector.
- Give great transparency to our customers and stakeholders.

We have confirmed in our Audited Accounts that we comply with the Regulatory Standards and this was certified following a robust self-assessment at the Board in May 2016. This Statement includes a summary of our self-assessment against the VFM standard – see section 4.

2. OVERVIEW

Value for Money has for many years been a key priority for LYHA. A new VFM strategy was approved in 2012. This was reviewed, updated and approved by the Board in January 2016. Our VFM strategy has enabled us to confidently produce VFM statements and be compliant with the HCA VFM Requirements as we established it to deliver clear VFM gains. We are pleased that in 2015, LYHA continued to deliver against this strategy despite the challenges and unexpected financial impacts experienced from the changes to the Rent Setting Regime and announcement of the 1% per annum rent cut.

2015 was a challenging year for the housing sector and LYHA. Prior to July 2015, our robust VFM strategy recognised we were higher cost than many others but rather than significantly cut costs and run the risk of reduced services and increased financial losses; our plan was to grow our business without increasing our costs.

The Government's announcement on 8th July 2015 that a previously agreed Rent Settlement which we had shaped our Business Plans against was changing and introduced a 1% rent cut for four consecutive years resulted in a c£30million cumulative impact on our 30 year Long Term Financial Plan [LTFP]. During 2015, we comprehensively reviewed our LTFP and examined our strategic approach to VFM and whether it remain the right strategy and deliverable.

Due to prudent financial management and sensitivity testing that has already been integrated as part of our core business; we were able to respond proactively to the announcement.

Rather than make short term cuts to services or staffing to reduce our operating costs; we opted to be bold. We continued with the planned efficiencies in the overheads and for 2016 accelerated this over and above the initial 3% with a 3.14% reduction in overheads. Alongside this in respond to other government as well as local priorities, we increased our borrowing securing another £5m in the year and restructured our financial plans to fast track and increase our growth programmes. Providing more new homes sooner than originally scheduled [*April 2015 plan included 208 homes by 2018, our revised plan now a further 262 homes by 2018 and plans for a minimum of 23 per year thereafter*] brings in additional income that offsets the lost revenue from the rent cuts. By increasing our number of homes owned and implementing efficiencies on our operating costs; we are driving down the operating cost per unit at a faster rate than originally planned. We are measuring this with a focus on our costs as a percentage of turnover which has improved for three consecutive years and the 2016 budget will see this improve even further, demonstrating our resilient but positive response to the risks we faced.

This statement also captures the changes we have made to our long term financial plan and illustrates that we have listened to the requirements of the politicians to drive down costs and build more new homes whilst ensuring we remain true to our vision and values.

3. 2015 VALUE FOR MONEY SUMMARY

Our Audited Annual Accounts include a summary of our VFM gains and more detail is included from page 9 of this Statement.

In 2015, we agreed an additional facility of £5m on a revolving credit basis at rate of 1.75% above base rate taking our borrowings to c£22m. We also completed a full review of all of our Titles and now have c£30m of unsecuritised assets – homes we can borrow against in the future to build more new homes. This excludes the 262 new homes being built or procured by 2018 with an estimated borrowing potential of £25-30m.

We increased our asset base by £5m to nearly £44m by end of 2015 due to the new homes into management during the year. Four of these were existing homes gifted to us following several years of negotiations and support to a local Almshouse charity. This was a big success for LYHA in 2015 and its VFM relevance is reported in VFM Gain 2 on page 10.

As well as increasing our asset value; the 28 new homes increased income by c£200k in 2015.

It was a year where our VFM journey could have stalled due to the unexpected challenges. We are delighted that we maintained our resilience and built on our strengths to achieve the majority of our objective. We delivered on our aim to keep our costs constant or reduce them and we delivered operational performance better than the targets included in our 2015 budgets.

2015 is however the year when we shaped the VFM journey for the future. We:

- Restructured our operations to ensure we have the right people and the right skills focusing on the services that maximise income and reduce losses. This was achieved without any uplift in revenue spend.
- Invested time into new partnerships to secure new homes for the future. By the end of 2015 we had secured and agreed 107 new homes to be built or acquired in 2016 and a further 130 in 2017 with an indicative scheme part funded through Affordable Housing Grant by the Homes & Communities Agency being completed in 2018.
- We agreed to diversify into shared ownership to respond to changing needs and the home ownership agenda.
    - Approved 29 shared ownership homes which remains <10% of our new growth programme. The value for money gains associated with this include:
        - Potential sales receipts of more than £2m
        - Self-funding sales to support future investment and growth
- Comprehensively reviewed our Long Term Financial Plan to
    - Release capacity and stretch our covenants; to fund more new homes for the future.
    - Our new June 2016 plan, which has been subject to substantial stress and sensitivity testing; includes in addition to the 262 homes further growth of a minimum of 23 new homes per year from 2019 onwards increasing our turnover by approximately £1.5m

- Increase efficiency and reduce operating costs. We re-appraised our long term financial assumptions; and we reduced our operating costs in the 2016 budget by £84,000 from the 2015 actual spend.

LYHA is a vibrant responsive and flexible business; one that clearly demonstrates we are focused on being efficient as a business but with a clear focus on the delivery of services and products to local people and communities.

VFM has consistently been achieved at LYHA and will continue to be achieved in the future. This is due to VFM being embedded in our culture. Our committed colleagues, our strong Board and Executive and our co-regulatory approach with our customers involving them in our VFM journey and continually finding new efficient ways of working combined with an excellent network of partners and stakeholders has ensured that we have delivered on value for money and should give confidence that will continue to deliver our charitable and social purpose whilst being an increasingly efficient and effective business and deliverer of new homes.

Lisa Pickard	David Craig
Chief Executive	Chair of the Board

4. 2015 VALUE FOR MONEY GAINS

The table below provides an overview of our financial performance and evidence of delivery against our VFM objectives. We have also included the 2016 budget and projected outturns to demonstrate our direction of travel.

<table>
<tr><th></th><th>2014 Actual</th><th>2015 Budget</th><th>2015 Actual</th><th>2016 Budget</th><th>VFM</th></tr>
<tr><td>OPERATING COST PRE FRS102 including depreciation</td><td>£3,921k</td><td>£4,184k</td><td>£4,053k</td><td>£4,171k</td><td rowspan="5">Our operating costs in 2015 were 3.13% less than budget equivalent to a £131k reduction.
For the 4th consecutive year we delivered on our minimum target of 3% efficiency savings.
The cost of £4,053k is an increase of £132k on the 2014 outturn but this is driven by the increase in our assets, number of new homes and depreciation. VFM Gain 4 demonstrates the efficiencies achieved in our overheads in 2015.
The planned increase in 2016 is due to additional depreciation due to our accelerated growth programme.
As a result of accounting treatments through the introduction of FRS102, our operating costs technically increased by £270k, a 6% uplift. For VFM tracking purposes LYHA compares operating costs pre FRS102 with and without depreciation.
Depreciation costs included in the operating costs increased by c3% from 2014 to £601k in 2015. This is set to significantly increase due to the planned growth in new homes.
In 2016 we expect to see depreciation costs equivalent to 17% of the total operating costs.</td></tr>
<tr><td>OPERATING COST POST FRS102 Including depreciation</td><td>£3,859k</td><td>n/a</td><td>£4,323k</td><td>£4,200k</td></tr>
<tr><td>Impact of FRS 102</td><td>-£62k</td><td>n/a</td><td>+£270k</td><td>+£29k (est)</td></tr>
<tr><td>DEPRECIATION Included in above</td><td>£583k</td><td>£612k</td><td>£601k</td><td>£705k</td></tr>
<tr><td>Depreciation as a % of operating costs</td><td>14.8%</td><td>n/a</td><td>14.9%</td><td>17%</td></tr>
<tr><td>OPERATING COST PRE FRS102 excluding depreciation</td><td>£3,338k</td><td>£3,572k</td><td>£3,452k</td><td>£3,466k</td><td>Excluding depreciation helps us accurately track and understand the costs of providing social housing services to our customers. This includes all of our running costs and is an intrinsic element of the HCAs approach to regression analysis.</td></tr>
</table>

					• Our operating costs in 2015 rose in total by 3.4% however a further 31 new homes were added to our ownership; equivalent to a 2.4% increase. VFM Gain 4 summarises the breakdown of our operating costs. This increase is attributable to a planned investment into homes and neighbourhoods in 2015 prior to the announcement of the 1% rent cut.
No of homes	1,308	1,339	**1,339**	1,427	• When we consider the value money in terms of operating cost per home; we can demonstrate that a combination of reducing operating costs and increasing the number of homes we own is resulting in efficiency and vfm gains. • Including depreciation; the 2015 operating cost per unit is **3.14% less** than budgeted for the year. It is an increase of 1% from 2014 despite an increase of 2.4% in homes owned for the same period. This demonstrates that we are proportionately driving down costs. • Excluding depreciation; the **cost per unit was 3.4% better than budget** and only 1% more than in 2014.
Cost/Unit (pre FRS102) including depreciation	£2,997	£3,125	**£3,027**	£2,923	
Cost/Unit (pre FRS102) excluding depreciation	£2,552	£2,668	**£2,578**	£2,428	
Cost per unit had 50 new homes been delivered in 2015			**2542**		
Cost/Unit (post FRS102)	£2,950	n/a	**£3,229**	£2,943	

- We had expected our operating costs per unit [excluding depreciation] to be better that outturn but this was affected as some of the planned new homes were not handed over in the year. In our 2014 VFM statement we planned 140 new homes between 2015 and 2017. Had we delivered 50 new homes in 2015 [instead of 31] the average cost per unit would have been £2542, **a reduction of 0.4%** on the previous year and a **huge 4.7% less than budget.**
- This demonstrates the impact new homes has on the vfm strategy and gains.
- Operating cost per unit is £98 less than the 2015 budget set. This is equivalent to a 3.14% in year improvement in reducing operating costs per unit.
- In 2016 we are scheduled to increase by a minimum of 88 new homes which is equivalent to 6.6% growth from 2015 and 9% growth on 2014.
- By driving down our operating costs in 2016 and not increasing staffing costs; we forecast that our operating costs per unit will reduce by a minimum of £150 per unit ; **an improvement of 5.8%. This is achieved through growth of 6.6% a**nd minimal overhead increases despite the increased homes. This demonstrate operational efficiency.
- Comparing the 2016 budget to the 2015 budget shows and £240 per unit year-on-year budget reduction (9%).

Detail of VFM gains

The approved and signed 2015 Annual Accounts include a summary of our VFM gains in section 8.5. This section of the Statement expands on the summary included in the Audited Annual Accounts.

VFM Gain 1 : Surplus The Association has generated a surplus significantly better than budget due to efficiency savings being realised and improved performance against a backdrop of significant change in 2015. Excluding the reported FRS102, accounting changes and excluding the benefit of the HFF gift [see VFM gain 2]; the Association generated a surplus on normal business activities £230k greater than budget or that deemed necessary in the LTFP. **This is equivalent to 21% improved performance** and surplus generation.

	2013	2014	2015	2016 budget & forecast
Surplus £	£0.96m	£1,233m	£2.59m	£1.82m (£2.5m inc sales]
Surplus greater than budget	-	£238k	£230k	n/a
% out performance	-	24%	21%	n/a
No of homes	1308	1308	1339	1439
Surplus per home owned	£734	£942	£1,934 [inc HFF] £785	£1,263

This shows that we have continued to deliver increasing surplus which is supporting our ability not only to invest in our existing homes but to build and procure new ones. The forecast for 2016 illustrates the planned efficiency savings and the positive impact this will have; resulting in a planned surplus excluding sales that should be double that delivered in 2013 and with the surplus generated per home in management improving by 72% over three financial years. This is being achieved by:

1. Continued operating efficiency improvements
2. Growth in new homes
3. Increasing the positive net present value and return on investment of our assets

VFM Gain 2 – Horsforth Flower Fund
Following several years of intensive negotiation, LYHA successfully completed a project known as the Horsforth Flower Fund. This resulted in four homes being gifted to LYHA at no cost along with a cash gift of £1.4m [including the going concern cash]. This cash gift was bequeathed to invest in the provision of new homes in Leeds. In addition, the transaction included LYHA taking on the long-term lease of land of which the freehold is being secured at a cost of c£100k further increasing our asset value and enabling the Association to build new homes. Furthermore, LYHA took on the Corporate Trusteeship of a sister Almshouse that remains in operation and now brings additional income to the Associations.

This is a significant VFM gain for the Association. It has:

- ✓ Increased our surplus in 2015 by £1,430k cash and by £108k due to property fair value because of 4 homes being added to our balance sheet, acquired with zero purchase cost. LYHA generated a total surplus of £2,879k compared to budget of £1,111k including the above savings (pre FRS 102).
- ✓ Created additional income to LYHA due to four new tenancies. These four homes provide a positive NPV [net present value] from day one due to the value and limited investment cost.
- ✓ HFF bank account cash c£70k was received to ensure the four homes are invested in and maintained.
- ✓ Minimal legal fees were incurred and these were depreciated against the asset value
- ✓ Increased our unsecuritised assets for future borrowing
- ✓ Enabled LYHA to successfully obtain planning permission on the gifted land; using the bequeathed sums to build 13 new homes in 2016/17. Assessed against the Associations financial appraisal model these homes generate a positive NPV of £145k and pay back in year 31. This is based on assumption that LYHA would borrow money to fund this scheme. Taking into account the bequeathed sums plus grant secured from the local authority totalling £1.941M this equates funds 100 % of the total scheme costs; therefore, this scheme will generate a positive NPV and return on investment; and improve our interest cover and our surplus from year 1.
- ✓ In total 17 homes are being provided increasing our asset value; our stock numbers and driving down our operating costs per unit
- ✓ The £1.4m cash resulted in LYHA not having to draw down as much loan as planned in 2015, resulting in interest savings and coupled with the main lender Santander; agreeing to extend the draw down period and facility at no extra cost; this was a significant gain.
- ✓ Social and environmental savings were realised as the eight tenancies [including the four retained Almshouse tenancies] were protected and no re-housing costs were incurred

VFM Gain 3 - **Income collection**
Rent received in 2015, excluding HFF was significantly better than budget. An additional £41k income was received in 2015; 1% more than budgeted.

2015 was a very challenging year for income collection as our operating environment changed significantly with the continued roll out of welfare reforms.

In 2015 we collected £5,428,468. We had 516 customers in arrears, with an average debt of £453.56. Current tenant arrears were slightly above the target at £233,526, which equates to 4.28%. The main reasons for the increase in the arrears relates to the HB payment cycle, delays in processing new HB claims and the suspension of some HB cases due to changes in the customers circumstances. Had this not occurred our arrears would have dropped to £199,626 or 3.67% which would have been a reduction from 2014 of £15,715 or 0.48%. Income collection will remain very challenging over the coming years as welfare reforms continue to roll out.

VFM Gain 4 – efficiency gains of 3.36%
Despite a significantly challenging environment, the Association delivered 3.36% efficiency saving on our operating cost expenditure versus a 3% target. Whilst as a percentage this may appear low or not challenging enough; this was achieved during a year of significant change to equip the Association to respond to the 1% rent cuts and other challenges and the 2016 budget reflects a more significant reduction in cost per unit to £2,984 compared to the 2015 outturn of £3,027 per unit. In 2015, £120k operating cost savings were realised excluding depreciation.

As reported above; the operating costs for 2015 excluding depreciation were £3,452k. The table overleaf below breaks down spend in each area contributing to the total overheads; this enables us to clearly evidence our vfm approach and gains and illustrates where investment decisions do positively and adversely impact on vfm performance.

Operating cost overhead £	2014 Actual £	2015 Budget £	2015 Actual £	2016 budget	2015 v 2014	
Salaries	1189.8	1188.3	1174.3	1206.3	16 1.3%	1.3% reduction in staffing costs despite an organisational restructure, growth of 2.4% and increases in pension contributions
Develop-ment	17.2	16.6	37.7	21.0	(20) (116%)	116% / £20k increase in costs in preparation for significant growth in 2016-2020
Legal & Professional	0.6	7.5	0.6	5.0	0	n/a
Estate & Community Investment	11.8	134.4	91.9	66.0	(80) (678%)	In 2014, the board agreed to invest more into estate and community investment and set aside £134k to address issues on estates that could potentially affect the future value of the homes and communities. £92k was spent in 2015, an increase of £80k or 678% on the 2014 spend which has increased the operating costs. This has been reduced in 2016 to £66k budget but remains much higher than 2014.
Governance & HR	117.2	131.2	129.9	101.3	(13) [11%]	Costs were £13k higher than in 2014, equivalent to 11% increase due to recruitment and retentions and also increased costs and advice associated with new pension legislation.
Customer Marketing	9.9	15.5	16.4	10.3	(7) (71%)	Costs for communication with residents increased by £7k or 71% BUT resident involvement was £7k under offsetting this overspend.
Corporate Marketing	33.1	20.1	34.1	24.0	(1) (3%)	Corporate marketing remained similar to 2014 but was higher than budget. Vfm savings have been planned to reduce this in 2016 by 30%
Office Managemen t	196.9	207.8	214.10	198.80	(17.2) (8.73)	Spend was £17k higher due to increasing utility bills and also the contribution to estate maintenance and management previously offset through the estates team and service charges.

Operating cost overhead £	2014 Actual £	2015 Budget £	2015 Actual £	2016 budget	2015 v 2014	
Finance	129.0	66.8	107.4	83.1	22 17%	The £22k reduction equivalent to 17% was due to a lower spend on consultant and advisory fees
Housing Management	103.4	214.0	100.5	166.2	2.9 2.8%	Performance improved by 2.8% manly due to ongoing prudent management of bad debts. Performance was £114k better than budget due to the welfare reforms being mitigated.
Technical	1016.8	1065.4	1065.2	986.0	(48) (4.7%)	Technical increased by £48k or 4.7%. This was in the main due to an increase in emergency repair costs and voids. A separate section on technical spend and investment into homes is included.
Service costs	349.0	304.7	320.2	309.8	29 8.3%	As part of our service cost reduction strategy, costs reduced by a further 8.3% in 2015 equivalent to £29k
Support costs	41.4	42.1	42.5	44.0	(1.1) (2.67%)	n/a
IT	96.6	128.1	98.0	115.7	(1.4) (1.4%)	n/a
Resident Involvement	25.1	29.6	17.9	29.3	7.2 28.7%	Savings of £7.2k were achieved due to greater use of digital and ICT to engage and a new approach to customer events. The savings made here offset the increased costs of customer communications
Contingency	0.0	0.0	0.0	100.0	0	To drive a culture of vfm and continuous improvement; the board set the budget for 2016 more challenging but set aside a contingency of £100k if needed. If utilised along with other budgets the operating costs for 2016 will be 0.5% less than 2015 BUT a further 88 new homes will be added with no net increase in costs. Excluding the £100k contingency; the operating costs for 2016 are targeted to be c£84k less than in 2015 equivalent to a 2.43% reduction in operating costs. Taking into account the growth of c 88 homes in 2016 is equivalent to 6.6% this represents a significant vfm targeted gain in 2016 against the backdrop of the 1% rent cuts.
Total operating costs excluding depreciation	**3338.0**	**3572.0**	**3450.6**	**3466.9**	**(113) (3.3%)**	
Total operating costs excluding depreciation & 2016 contingency	**3338**	**3572**	**3450.6**	**3366.9**	**n/a**	

Excluding the estate & community investment expenditure which was a strategic investment decision; on a like for like basis, operating costs in 2015 would have been less than 1% higher than 2014 spend despite a 2.6% increase in homes. Excluding this from the revised and challenging 2016 budget would demonstrate an operating cost reduction of 0.75% with a 6.6% planned growth in new homes. This will have a major impact on the planned operating cost per unit and following further review of the regression analysis which illustrates that LYHA social housing operating costs are in the medium to top quartile; further reductions in 2016 an future years budgets may be agreed.

	2014 budget	2015 budget	2015 actual	2016 budget	
Total operating costs excluding depreciation	**3338.0**	**3572.0**	**3450.6**	**3466.9**	**(113) (3.3%)**
Total operating costs excluding depreciation & 2016 contingency	**3338**	**3572**	**3450.6**	**3366.9**	
Total operating costs excluding estate and community investment	**3326.2**	**3,438**	**3,358**	**3,301**	

After estate and community investment; the overhead area which had the most impact on total overheads and efficiency savings was the spend on technical services. In 2015, spend was 4.7% higher than in 2014; mainly due to increased costs associated with voids and emergency repairs. The table below illustrates the spend on investing in homes and assets.

	2015	**2014**	**2013**	**2012**
Capitalised investment	894,000	763,000	641,000	676,000
Revenue investment	342,000	403,000	467,000	302,000
Total investment on planned works	1,236,000	1,166,000	1,108,000	987,000
No. of repairs	2253	2094	1883	1731
Average repairs per home	1.77	1.68	1.55	1.46
Responsive repairs	399,000	379,000	250,000	254,000
Voids	334,000	229,000	287,000	235,000
Total spend on investment and maintenance	1,969,000	1,774,000	1,645,000	1,467,000
Spend on estate improvement and investment	23,000	135,000	121,000	47,000
Total spend on our homes	**1,992,000**	**1,909,000**	**1,766,000**	**1,514,000**

This illustrates that in 2015, LYHA spent 4.34% or £83k more on repairs and investment than in 2014 and there has been a significant increase in expenditure since 2012 and 2013.

Focusing solely on the investment into our customers' homes; spend in 2015 was £195k higher than in 2014, an increase of 11%. This was a strategic decision of the LYHA board to maximise the surplus and increase the asset value of our homes. As set out in the asset register section; this has to date proven successful; along with targeted overhead reductions in management costs to increase the net worth of our homes and assets.

However we have seen increases in the average number of repairs being reported, despite our asset investment programmes being on schedule and decent homes compliance being maintained and surpassed. Similarly we have seen an increase in void expenditure; some of this due to increased voids and turnover and some proactive movement of customers to address the bedroom tax and under occupancy.

The budget for 2016 has returned to the levels set aside in 2013 and 2014 with vfm plans in place to drive down cost, better manage demand and expectation and increase investment to prevent reactive repairs. In 2016 we will complete a full procurement of our technical services and deliver agreed outcomes from our Active Asset Management strategy which will see some high value homes disposed of to improve growth opportunities but also investment and disposal decisions taken to tackle our high costs homes.

VFM Gain 5 – Growth

In 2015 we delivered 27 new homes. This increased our asset base by 2.3% and supported the reduction in operating costs per unit. In 2015, the Long-term financial plan has been restated, with additional funding and increased surplus to increase reserves and headroom to create a 20% growth programme and delivery of over 250 new homes by 2018. The VFM strategy is to increase the number of homes the Association owns and manages without increasing its operating costs; other than the costs of maintaining and insuring the homes. The management and operating costs will be maintained thereby driving efficiency and reducing operating costs per unit measurement indices.

Building more new homes without increasing our operating costs [management and corporate overheads] and striving to ensure the management and maintenance of these news homes is efficient and effective is a key strand to delivering our value for money strategy. By 2017 we will exceed 1500 homes owned by LYHA; a growth programme of nearly 30% in 3-4 years alongside consecutive year on year efficiencies in operating costs.

With 262 more new homes planned in 2016 to 2018, we expect our operating costs per unit to significantly reduce. At the end of 2015 the operating cost per unit excluding depreciation [which will increase as we develop more new homes] was £2,578. In 2016 this is expected to reduce by c6% to approximately £2,428. We are targeting this to reduce to below £2,300 which will be a 14% improvement over 3 years.

VFM Gain 6 – return on assets.

A comprehensive review of our asset register has been completed alongside an individual assessment on the return on investment for each asset the Association owns. This along with strategic and management intervention has resulted in the Association having only five homes generating a cumulative negative NPV of £28k. This equates to less than 0.5% of the Associations assets and we are planning to address these in 2016. The vfm statement is that we have a plan to resolve this in 2016. The remaining 99.6% of assets are generating a positive return on investment. In addition; a full review of title and value has been completed resulting in LYHA having c£30m of free assets to borrow against once the full capacity of the Santander £18m loan has been realised. There has been no impairment in 2015, no adverse write backs and no deprecation or negative impact on balance sheet

During 2015, we completed a comprehensive review of our asset register; analysing every single home and asset to understand the "Net Present Value" [NPV] – the return it makes over the 30 year long term financial plan. We understood the relationship between maintenance and investment and the impact reducing costs and overheads have.

In July 2015 when we initially completed the assessment; the total NPV of our assets was £26,059,663. It revealed we had 98 homes [7.79%] of our stock which were making individual losses combining to £995,871.

Every loss making asset has been reviewed and the maintenance obligations for the future considered. Management actions have been taken to improve the viability of these homes. The Board following these evaluations decided to dispose of 4 homes but invest in all others.

Alongside this; with a better informed understanding of our costs and how thee impact on the individual and collective viability of our assets; when the asset register was re-run in May 2016 with a much reduced overheads budget and forecast; the total NPV of our homes increased by nearly £3m to £28,991,501, an performance improvement of c11.25% in one year.

The homes which were generating a loss reduced from 98 to 24 homes with now only 1.91% of our stock generating a negative value over the long term financial plan; these 24 homes are all being reviewed for future investment and disposal decisions. In 2015; we reduced the losses by £741,768 over the plan, equivalent to performance improvement of 75% reduction in losses.

Table 1 and 2 below illustrate the journey and impact. These tables also illustrate the collective impact the rent reduction had on the viability of our assets. With no changes to our spend, operating costs and assumptions; the number of homes generating a loss increased from 7.79% to almost one in every 5 homes.

Table 1 – summary of NPV for all LYHA assets and collective negative NPV homes

Time line	-NPV	+ Total NPV
July 15	995,871	26,059,663
March16	422,515	28,594,297
May 16	254,103	28,991,501

Table 2 – summary of individual homes split by NPV band

	July 2015		Nov 2015 post 1% rent cut		March 2016		May 2016	
NPV Value	**No of homes**	**% of stock**	**No of homes**	**% of stock**	**No of homes**	**% of stock**	**No of homes**	**% of stock**
Voids	8	0.64%	8	0.64%	8	0.64%	3	0.24%
Negative < £0	98	7.79%	221	17.57%	83	6.6%	24	1.91%
£0 -£5k	87	6.92%	167	13.28%	71	5.64%	48	3.82%
£5k-£10k	102	8.11%	201	15.98%	175	13.91%	100	7.95%
£10k - £20k	364	28.93%	357	28.38%	416	33.07%	387	30.76%
More than £20k	599	47.62%	304	24.17%	505	40.14%	696	55.33%

In 2016, the focus is on understanding the asset value of the homes generating less than a £5k return over the life of the plan and considering how these can be further improved. In 12 months we have reduced this risk with less than 4% of our assets compare to 7% now falling into this bracket.

The evaluation of our costs and spend profile and impact on the assets is not only shown in the returns now forecast but also the number of homes which have shifted into a higher return bracket. In July 2015, 47.62% of our stock generated a return greater than £20. This has now increased to 55.33%. Looking at all assets more than £5k we initially had 1,065 homes [85% of stock] generating positive and safe returns. This has increased to 1,183 [94% of our assets].

Our growth programme is all underpinned by a positive NPV approach as well as being able to generate a return in less than 30 years and have an internal rate of return higher than 6%. When these homes come into management; we expect the positive NPV to continue to improve; and this combined with management actions on the lower yield homes will shift our assets producing a strong positive NPV to more than 95%

VFM Gain 7 – extension to facility £5m loan

LYHA negotiated an additional facility of £5m to extend borrowings with Santander to £18m. This was concluded within 14 weeks with no adverse cost to the loan. The Association renegotiated the covenants to provide a cushion on gearing to facilitate growth and to manage peaks in the plan in the first 5 years. This was at no additional costs. The prudent management, production of cash generated surplus and the windfall of £1.4m from HFF; the Association did not need to draw down on this loan as early as planned. The initial tranche facility was extended by a further 15 months with no penalty clauses of interest cover.

Due to effective relationships with Santander and an already good borrowing facility agreed, in 2015, we negotiated a further £5million facility as a new tranche of borrowing under a revolving credit arrangement; payable in 2024 in line with the initial tranche of £8m secured the previous year. This additional facility was agreed to fund the revised and increased growth programme. Agreed under a cost effective 1.75% margin above base plan; the facility revolved until 2017Xx and then becomes payable.

The benefits of this include:

- C100 additional new homes included in our plan to increase income and turnover and reduce our operating costs per unit; as well as importantly delivering on our primary purpose of providing homes
- This has given us confidence to deliver the programme and enter into contracts to secure prices and avoid risks of market changes
- Consolidated our position with Santander as our main lender increasing borrowing to £13m
- A negotiated gearing covenant of up to 80% which support us to continue to grow our business with increased flexibility
- Ability to forward fix the loans to benefit from low interest rates and have certainty on payments into the future

VFM Gain 8 – sustained and improved performance
Improvements in cash collected and cash losses contributed to the 3.13% efficiency savings. Full details of the performance outturns is included in the VFM statement and self-assessment.

The focus on improving operational performance is to minimise losses, improve income and cash into the organisation and reduce waste to make processes more robust and effective.

LYHA has a robust performance management framework which has been reviewed and launched in 2015 / 2016 to underpin and complement a new strategic approach to understanding and managing corporate risk. The table below summarises and highlights some key performance areas where performance outturns are tracked as part of our value for money and risk management strategies.

<table>
<tr><th></th><th>2013</th><th>2014</th><th>2015</th><th>Comments</th></tr>
<tr><td>% rent collected</td><td>100%</td><td>100%</td><td>99.5%</td><td>Performance dropped slightly by 0.5% points to 99.5% due to new homes being handed over late in the year and the income not being collected prior to the year end. The yearend outturn remains aligned and within the assumptions in the Long Term Financial Plan</td></tr>
<tr><td>Current rent arrears as a % debit</td><td>4.96%</td><td>4.15%</td><td>4.28%</td><td rowspan="4">Arrears - Whilst the percentage of rent debit owing to rent arrears increased by 0.13 percentage points and £18,184, this was significantly better performance than we have expected and budgeted for due to welfare reform changes. The operations team restructured in 2015 with no increase in management or operating costs and this has ensured that arrears have been controlled. Arrears are now 6% lower in cash terms than at the end of 2013. Despite the percentage of tenants claiming part of full benefit increasing; the number of tenants in arrears has fallen for the 3rd consecutive year; a reduction of 8.2% in three years and equivalent to 4.4% improved performance since 2014. We now know we have fewer but more complex cases; the average arrears increased by £45.72 in 2015 and now stands at £453.56. These cases are monitored by specialist income officers.</td></tr>
<tr><td>Current Rent Arrears £</td><td>£248,674</td><td>£215,342</td><td>£233,526</td></tr>
<tr><td>% Customers in arrears</td><td>44.66%</td><td>42.89%</td><td>41.01%</td></tr>
<tr><td>Average arrears per household</td><td>£475.50</td><td>£407.84</td><td>£453.56</td></tr>
</table>

FTA'S	1.5%	1.49%	1.12%	o In 2015 we have focused more on preventing and managing former tenant debt; resulting in the first notable reduction in percentage for four year; now at 1.12%, this is equivalent to a 25% improvement since 2013. The number of cases has reduced by over 15% since 2013 against a backdrop of increasing homes.
Customers with an FTA	131	120	111	
Rent loss	0.64%	0.92%	0.94%	
Total Void loss as a % of debit	1.25%	0.98%	0.95%	o Improving our voids performance and minimising the cash losses resulting from empty homes is a key part of our VFM strategy. For the 3rd consecutive year voids performance has improved. Void losses as a % of debit remain below 1% and the cash lost, despite the number of lettings increasing; fell to £52,100 which is an 18.6% improvement in 3 years. o Key to this has been the improvement in average relet days which improved; albeit marginally and at 19.2 days is 24% better than in 2013. We should also remember that in 2011; the average relet period was c40 days. o The increasing turnover trend is a concern. In 2014 this increased by 3.13 percentage points equivalent to a 39% reduction. It was hoped that this was an exceptional peak however this trend has continued and increased by a further 0.05 percentage points. This is a priority for 2016 to review, understand and take action to reduce turnover as this is key to reducing cash losses. The increasing turnover of homes is also a factor in increasing void maintenance costs.
Void loss £	£64,000	£53,000	£52,100	
Lettings	95	136	141	
Turnover	7.91%	11.04%	11.09%	
Re let days	25.3	19.3	19.2	
Average cost of a repair	£94	£141	£119	o Average cost of each repair has reduced by £22 equivalent to c15%. This is being closely monitored as the volume of repairs is continuing to increase therefore the vfm savings from driving down individual repair costs are not being realised due to increasing demand. In 2016 we have set a tighter budget to better control and reduce operating costs whilst still ensuring we deliver fair and effective repairs services to our customers.

VFM Gain 9 - organisational

Whilst a direct financial saving is not attributable to this gain; the Association in 2015, restructured its business and operations to be better equipped to deal with the financial pressures and impact of welfare reforms. This was achieved within the existing budget and operating costs per unit were £98 per unit less than budget. All redundancy, recruitment and staffing costs were contained within the budget; services were nor restricted, all maintenance obligations, revenue and capital were delivered and performance targets were generally met across the board. This gain has strengthened the Associations ability and capacity to deliver value for money in future years and is reflected in the 2016 budget that is estimating operating costs per unit to be £2,984 or 4.8% less than the 2015 Budget.

In 2015 we are able to report better than budget performance on both arrears and both, although noting arrears have increased; this is significantly better than the initial risk assessment completed when welfare reforms were announced. However, the biggest wave of impacts will be realised in 2016 and 2017 and the dedicated income management officers should be well placed to respond to this and control and manage rent losses.

VFM Gain 10 – customers

2015 has seen our approach to customer involvement and scrutiny really embed and deliver sustainable change with almost 100 recommendations made and accepted by the board; aimed to improve services, reduce waste, improve efficiency and deliver better outcome. Our Customer Committee has reported on these in the 2015/16 Annual report to tenants. In the Summer they will produce a summary of VFM for customers building on this LYHA Statement and including more practical examples where VFM has been shaped by customers or by the organisation that has improved the effectiveness of service delivery or affordability of services.

5. DELIVERY OF OUR 2014/15 VFM ACTION PLAN

In the 2014 VFM Statement we set out the board approved VFM action plan for 2014/15. This has been reported to board on three occasions throughout 2015/16 to assess progress; evaluate results and for some actions, to agree a change in the action or desired outcome due to changing circumstances.

Of the 35 actions, 24 [69%] have been completed, 7 [20%] are in progress and 4 [11%] were modified or not completed. The table below provides a summary against each action and where appropriate sets out further VFM actions required in 2016/17.

VFM 2015 ACTION PLAN: SELF-ASSESSEMENT	2016 self-assessment against the 2014/15 action plan.	2016 Further actions required
1 Procurement & efficiency in responsive and planned repairs: We will		
a) Fully evaluate increasing demand and costs and work with customers to drive down demand and prioritise investment	✓ Voice session held with customers. ✓ New “High services users policy agreed and in place. ✓ Move to active asset management. ✓ Launched the Big Conversation	1. Complete the evaluation and segmentation of repairs by customer & property profile 2. Identify repair trends to cluster and achieve better procurement and economy of scale.
b) re-procure the maintenance service with vfm alongside customer excellence being the core to the exercise	✓ This project was originally planned for 2015, but following the summer budget 2015 and the possible impacts on LYHA investment plans, the Board agreed to extend the current arrangements and the project is now under wat and due for completion in 2016. Procure for Housing has been engaged to support the project which is required to go through OJEU procedures. Customers will play a part in the whole process.	3. Complete the re-procurement of the repairs & maintenance service
2 Embrace a Digital approach to vfm: We will		
a) implement the ICT investment project to ensure our systems are fit for purpose	✓ Circa £180,000 invested in ICT in 2015. Project supported by Alysium and a post implementation review is due in 2016 to measure the impact of the investment.	4. Analyse 12 month post implementation review or outputs v expected outcomes. 5. Complete implementation of invoice management system.

b) Implement & utilise a robust forward thinking customer relationship management system to enable us to use our data smartly and to tailor services, identify efficiencies and become more effective	✓ CRM module in place and impact will form part of the 2016 review / assessment	6. Complete full evaluation and implement segmentation approach to service delivery
c) improve our website to ensure it is fit for purpose and also web enabled to increase customer access to reduce demands on the CST and front facing staff	✓ Website review has slipped in to 2016 and should go live in June / July 2016. Creative Concerns engaged to support the project	7. Complete website implementation and agree targets to drive change to a self-service system to reduce operating costs.
d) Roll out mobile working	✓ Mobile working rolled out to front facing teams. Impact to be reviewed in 2016	n/a
e) Implement an integrated telephony system linked to CRM to speed up and improve accuracy of customer access points	✓ New system in place, needs to form part of the ICT review of impact in 2016	n/a
3 Improve affordability for our customers. We will:		
a) Develop and publish an affordability strategy with clear priorities on what we will do; where we will invest and where we will support	✓ Work done Elmetes heating and now St Ann's but overall strategy is still outstanding. This was paused after the rent reduction as the priority needed to be to deliver rent reductions.	8. Review added value investments as part of the 2017 budget setting round once full scale of rent cuts has been evaluated 12 months in.
b)Explore potential insulation initiatives and use solar heating	✓ Held discussion with Euro Energy Services, but the removal of Government grants meant to possible scheme was not viable. Not progressing at this stage.	n/a
c) Assess vfm in increasing investment into affordable warmth to increase and improve the affordability of our homes	✓ Full assessment of heating needs at the Elmetes undertaken which lead to installing the Clear Heat system, which was more expensive to LYHA, but would deliver lower ongoing repair costs and lower energy bills for the customers	9. Explore partnerships as unable to include additional revenue or capital funding into affordable warmth without direct VFM returns.

d) Host Voice events to listen to customer views and priorities to help shape future ways of working	✓ Voice sessions held at the Heart Centre 20+ customers attended to give feedback on where LYHA should invest in its stock. The main feedback was we should install more energy efficient products, help customers move suppliers and look at how we can improve insulation in the homes.	10. Review the Voice event findings to determine in light of increasing pressure on operating cost budgets and specifically repairs what actions can be afforded and to consult with customers to agree a priorities list for future investment.
e) Build on our partnerships ethos to identify third parties to collaborate with to better support LYHA customers	✓ We have worked with the Y&H smalls group to look at joint procurement. Held discussion with Euro Energy Services and Connect Central about joint work. Work with LATCH.	n/a
4 Achieve operating efficiencies. We will:		
a)Complete a full review of our operating costs	✓ Review complete with a target to reduce operating costs by a minimum of 3% each year	11. Detailed review of all operating costs which increased in 2015 to be completed 12. ½ year comprehensive review of spend v budget against VFM strategy and realignment of budget mid-year to deliver vfm outturns.
b) Revisit efficiencies to be achieved through better us of ICT and smarter ways of working	✓ See 2 a, b, c above	n/a
c) Review front line service delivery to ensure it is fit for purpose and delivering the aims of the organisational restructure as well as demonstrating vfm	✓ Restructure complete and went live on the 4th January 2016. New income officers and community co-ordination roles. Overall increase in the balance of customer facing roles with less support staff.	13. Review the Customer Services Function to ensure it is driving forward the digitalisation agenda and efficiencies are being reinvested back into service provision / income collection

d) Review our executive function and approach to risk and performance management to ensure it is equipped to deal with future risks and opportunities	✓ Review complete, role of H of CS introduced. ✓ FD appointed in 2015. ✓ Risk and performance management moved in the H of CS function.	n/a
5 Asset and Liabilities register. We will:		
a)Complete the triangulation of data: asset management / performance and customer insight and produce a 3-5 year priority response plan	✓ Project completed on time and reported to the Board. Will remain a live project going forward. Board approved a revised response plan of active asset management	14. Complete review of all homes generating less than 5% NPV and continually update the active asset management programme 15. Identify high value homes for potential disposal and creation of additional homes
b) Complete the implementation of our garage strategy and agree a 5 year investment plan	✓ Project part complete, performance improved in 2015 with empty garages falling by 16% and garage arrears reducing.	16. Asset investment v disposal options to be completed and resultant investment and cash flow to be included in the 2017 budget.
c) Identify "at risk" properties and undertake through a risk based programme a full options appraisal and Board backed investment of disposal decisions	✓ At risk properties reviewed by the Board, option appraisals completed for stock in negative value and in principal decision to dispose of high value asset for the reinvestment back into social rented homes.	17. Continue to identify and agree individual asset management response plans for assets at risk of or making a loss.
6 Manage Income		
a) Complete a full impact assessment and review of pending welfare reforms	✓ Review complete and reported to Board in January 2016, update report due in August 16	18. Maintain as a red risk and report on new initiatives as planned and implemented.

b) Consider the wider risk map associated with a further £13b of welfare reforms	✓ Red risk on the CRM and reported every meeting to the A&R committee	n/a
c) Explore the options to provide more intensive management and support of welfare reforms and income management	✓ Staff teams restructured to reflect the possible impact of welfare reforms	n/a
7 Improve Services. We will:		
a) Fully evaluate the 2014 STAR survey and publish results	✓ Survey results published on the website. ✓ Response plan agreed by the Board. Plan monitored and signed off by CC	19. Complete a 2016 Star Survey and design more stretching research on VFM.
b) In partnership with customers, staff and Board, identify the priorities for action and agree improvement plans	✓ See a) above - complete	n/a
c) Agree SMART measures and targets to track performance	✓ New performance monitoring introduced, with support from external consultants linked to Corporate Risk Map	n/a
8 Benchmarking & Demonstrating value. We will:		
a) Complete the benchmarking review	✓ Annual benchmarking reviews undertaken based on data supplied by House Mark	20. Business case evaluation to change year end to 31st March to align with majority of sector
b) Publish a benchmarking statement separate to the vfm self-assessment once our 2014 data has been validated and compared to our peer group.	✓ Not completed due to 1% rent cut and resources required to produce new long term plan and budgets	21. Addendum / revised VFM statement to be published in September 2016 to respond to regression analysis, Global accounts and sector benchmarking

c) Complete an independent challenge and assessment against our performance results, performance reporting and Balanced Score Card	✓ Completed by Bill Gill Associates	n/a
d) Review performance reporting with Board to align this to our Three Lines of defence approach and risk management	✓ New reported system agreed with Board and in line with 3 lines of defence	n/a
9 Manage Risk. As part of our CRM approach; we will:		
a)Assess the risks of but not exclusive to RTB extension to HA's and further welfare reforms	✓ Internship appointed to complete the project. Impact assessed and reported to the Board	22. VRTB Policy to be published after the publication of the NHF Guidance.
b) Consider the vfm implications of the risks	✓ Complete	n/a
c)Revisit our business plan and vfm strategy to ensure it is robust and responsive to the challenges	✓ Business plan completed ✓ VFM strategy revised and approved in January 2016 ✓ Revised stress tests completed on 2016 budget and revised LTFP	23. Publish the stress and sensitivity testing smarty
d) Building on the three stress tests of our business plan already completed; we will complete a stress test and robust assessment of our LTFP plan on a bi-annual basis	✓ Stress testing with support from DTP, is embedded in the LYHA way and signed off at the recent IDA. ✓ Completed in December and June	n/a
10 VFM Strategy. We will:		
a) Review this during 2015 and issue a new 3 year strategy and priorities	✓ completed	n/a

6. BENCHMARKING & COMPARISON

LYHA is a full member of Housemark and participate in their benchmarking service. However having a December year end means that when we prepare the VFM statement; we do not have access to the latest benchmarking data – the data for the year ended 31st March 2016; which is LYHA's yearend 31st December 2015 is not available until the autumn.

We use benchmarking data as a can opener to better understand how we compare and use this to then understand our costs and the interface with cost and service. We have found however being a smaller organisation that even a slight staffing apportionment can disproportionately affect our league tables of performance.

The tables below summarise some of our 31st December 2015 performance data against the last Housemark data available. This gives an indication of our performance but does not take into account that there has been unprecedented changes across the sector and until the next suite of information is available, LYHA and others are unable to predict the impact this has had on benchmarking. The data is therefore used at this stage to gauge the performance and prioritise areas for review.

Performance trends v Housemark 2015 data

Performance area	2013	2014	2015	Quartile	Comments / Action
Current arrears %	4.47%	4.15%	4.28%	3rd	o Arrears performance reports as 3rd quartile however our December year end is not the most accurate point of arrears performance. LYHA has a monthly debit which doesn't correspond with the Housing Benefit system. This means that there is a shortfall in 12 out of 13 HB payments made each year. Our October performance is our best measure. At 31st October current tenant rent arrears were £xx equivalent to xx%. Benchmarked with the sector; this would have seen LYHA perform in xxx quartile.
% rent collected	100%	100%	99.5%	3rd	
% CTA	4.96%	4.15%	4.28%	3rd	
Former Tenant Arrears	1.5%	1.49%	1.12%	3rd	o n/a
Rent loss	0.64%	0.92%	0.94%	2nd	o n/a

Turnover	7.91%	11.04%	11.09%	BOTTOM (4th)	o We have identified this is a concern. This is a priority for review in 2016 to better understand why the churn of our homes is so high; to consider specific property types of VFM initiatives to reduce turnover.
Re let days	25.3	19.3	19.2	TOP (1st)	o This is excellent and without this performance our void losses would be significant worse. Our assumption in the LTFP is that voids will not exceed 1%. This is therefore a VFM priority
Total Void as a % debit	1.25%	0.98%	0.95%	2nd	
Average cost of a repair	£94	£141	£119	3rd	o It is positive that performance improved in 2015 otherwise at levels similar to 2014; the quartile would have been the lowest and this would continue to present challenges on our operating cost reduction strategy.

HCA Regression Analysis

In June 2016, the HCA published their 1st regression analysis and wrote to every Association with their results. **The HCA advised LYHA of the following:**

		Closing social housing units managed	Headline social housing cost CPU (£K)	Management CPU (£K)	Service charge CPU (£K)	Maintenance CPU (£K)	Major repairs CPU (£K)	Other social housing costs CPU (£K)
	LYHA	**1,231**	**3.27**	**1.48**	**0.27**	**0.83**	**0.62**	**0.07**
Sector Benchmarking	Lower quartile		4.30	1.27	0.61	1.18	1.13	0.41
	Median		3.55	0.95	0.36	0.98	0.80	0.20
	Upper quartile		3.19	0.70	0.23	0.81	0.53	0.08
	LYHA comparative / quartile position		Middle upper	Lowest	Middle upper	Middle upper	Middle upper	Top

The Board has briefly reviewed this but there was not sufficient time to analyse it in depth and prepare a response. They agreed that a full review of VFM and the regression analysis would be completed over the summer, and following the publication of the HCA Global accounts; an addendum to / a revised VFM statement will be published in September 2016. This will:

a) Ensure that LYHA has robustly considered the regression analysis approach and findings and understand the relevance to our business.
b) Provisionally run the figures using our December 2015 year end data
c) Enable us to publish a response comparable to others given the HCA has confirmed they will run the regression analysis again in 2017 using the 2016 VFM statements.
d) Improve transparency and comparability. LYHA is very conscious that its December year end does not always compare favourably or translate readily into a comparable publication for our customers and stakeholders. An updated document in September will provide improved transparency and more up to date information.
e) Enable the board to revisit its VFM targets and objectives and re-set these based on sector comparisons, risks and align these to the 2017 budget.

Our "best" performance appears to be on "*other social housing costs*". This often relates to social investment etc. We know from this VFM statement that our operating costs didn't reduce as much as expected in 2015 because of the additional investment into social and community activities. This will be reviewed to understand how it will impact on our perceived VFM and how it aligns to our strategic value around making a positive difference locally.

Our "worst" performing headline is "*Management costs per unit of social housing"*. The definition of this is "*Management + Service charge costs / closing social housing units managed*". This shows that our outturn as £1480 per unit compared to the sector median of £950 and bottom quartile of £1270. LYHA is 56% above the median / average and 16% more expensive than the bottom quartile. We have been aware that our management costs are higher than average however adding in service charges appears to have distorted this given we have a high % of tenancies that incur service charges. We need to better understand these costs and determine whether we feel as a standalone indicator this is a risk for us.

The research is clear that VFM and effectiveness is not linked to organisational size and this is reflected in the main "*Headline social housing costs per unit*" which for LYHA we are reported as £3270 against a sector median of £3550. We are performing better than the sector by 8% and our outturn is in 2nd quartile "middle / upper. The best performing Associations are averaging £3190 social housing cost per unit. LYHA at 31st December 2014 is 2.5% below this. This VFM statement shows that our total costs reduce so we would expect to see this improve for 2015 however we do not have any knowledge on how others in the sector have responded to austerity measures and in particular the 1% rent cut.

LYHA will consider what the consequences of further management cost reduction would be in terms of delivery and outturn. We will continue to track how we perform in relation to overheads as a percentage of turnover and report on how building more new homes is not only responding to the Governments priority but is also making us more efficient..

7. COMPLIANCE WITH VFM STANDARD

The Board regularly assesses compliance with VFM and its delivery of its VFM Strategy. The last full review was completed in December 2015 and in May / June 2016, the Audit & Risk Committee and the Board reviewed and signed off the VFM Statement.

In doing so, the Board confirmed that it remains compliant with the VFM Standard and confirmed that LYHA:

- Has a comprehensive Value for Money Strategy that was reviewed in 2015 following changes to the rent-setting regime and other risks and was deemed to be fit for purpose to continue to deliver VFM gains within the Association.
- Has a comprehensive asset register and active asset investment and management approach which equips the board to make informed asset and vfm decisions
- Has effectively managed its resources, ensuring that a 3% operating efficiency has been achieved despite completing an organisational restructure and realignment of the LTFP fast tracking the VFM strategy
- Increased its growth plans alongside delivering new homes in 2015 to grow our business without adversely increasing our costs.
- Demonstrated robust decision making throughout the year
- Publishes to our stakeholders how we are compliant with the standard through this summary and a detailed VFM self-assessment published by 30th June 2016. Alongside this, a bespoke summary of the VFM statement is made available to our customers.
- The Board approved plans to further ensure delivery of VFM in 2016/2017; sets out ambitious vfm gains and how we plan to further ensure VFM is embedded within LYHA. This will be reviewed after the regression analysis and Global Accounts review to ensure they are sufficiently challenging and relevant. The new plans will be included in the addendum to be published in September 2016.

HCA Value for Money Standards	LYHA self-assessment	
1. Required Outcomes		Compliant
1.1 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.	Our VFM Strategy approved in 2012 has been used as the basis for reporting since. It ensures that we can demonstrate compliance with this VFM Standard. It was reviewed again in January 2016 and with some slight amends, approved by Board as being fit for purpose. All impacts are considered as part of any new business or new investment or disposal discussion. As part of our budget settings and revision of the LTFP which takes place 2-3 times each year, we have a robust approach to sensitivity planning that enables us to understand how our costs and outcomes; our assets and resources and our capacity and borrowing interface. Our LTFP has been shaped for the 5th time running to ensure we continue to provide the services needed by our customers; that we continue to be able to invest in the management and maintenance of our homes and neighbourhoods and we continue to evidence a strategic plan to effectively drive down costs by growing our business; alongside a minimum 3% efficiency agenda each year. This means that we are increasing the number of homes and assets we own or manage as well as the same time, gradually reducing the costs of delivering services	✓
2. Specific expectations		
2.1 Registered providers shall:		
(a) 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	In 2015 we completed a comprehensive review of our asset register and now have a complete understanding not only of the value of our assets but their individual return on investment and NPV [Net present value]. Through strategic decisions to drive down costs by June 2016 we have increased the return on assets by 11.25% to £28,991,501.	✓

HCA Value for Money Standards	LYHA self-assessment	
	The data has been used to support investment decisions including disposal, investment and re-investment. We have a comprehensive opportunity and growth appraisal system in place.	
(b) 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	See above. Our plans for 2016 include the detailed appraisal of all homes making less than a £5k positive NPV	✓
(c) have performance management and scrutiny functions which are effective at driving and delivering improved value for money performance	In 2015 we introduced a new performance management system clearly linking performance to risk management and the delivery of the corporate plan. All of our VFM targets form part of the performance management approach. Our independent scrutiny group has completed 5 scrutiny reviews and made extensive recommendation for improvement including VFM recommendations.	✓
(d) Understand the costs and outcomes of delivering specific services and which underlying factors influence these costs and how they do so.	This statement shows that the organisation understand, measures and tracks its costs and performance in all service areas.	✓
2.2 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	This is the purpose of this VFM statement and the inclusion of this checklist improves transparency	✓

HCA Value for Money Standards	LYHA self-assessment	
they are achieving value for money in delivering their purpose and objectives. The assessment shall:		
(a) enable stakeholders to understand the return on assets measured against the organisation's objectives	See section on the asset register	✓
(b) set out the absolute and comparative costs of delivering specific services	An overview is included but an annendum to this Statement will be published in September 2016 reflecting on the HCA regression analysis, the July HCA Global accounts and a benchmarking report.	✓
(c) Evidence the value for money gains that have been and will be made and how these have and will be realised over time.	This statement includes trend analysis and plans for the future to become even more efficient.	✓

8. SUMMARY OF MAIN PRIORITIES FOR 2016/17

Section 5 [pages 22 to 27] sets out some continuous improvement actions identified following the Associations self-assessment against our VFM Strategy and the 2014/15 action plans.

Below is a summary of the key actions we have already agreed to undertake to ensure delivery and provide further evidence of value for money within LYHA.

2016 VFM Further actions required
o Complete the evaluation and segmentation of repairs by customer & property profile o Identify repair trends to cluster and achieve better procurement and economy of scale. o Complete the re-procurement of the repairs & maintenance service o Analyse 12 month post implementation review or outputs v expected outcomes. o Complete implementation of invoice management system. o Complete full evaluation and implement segmentation approach to service delivery o Complete website implementation and agree targets to drive change to a self-service system to reduce operating costs. o Review added value investments as part of the 2017 budget setting round once full scale of rent cuts has been evaluated 12 months in. o Explore partnerships as unable to include additional revenue or capital funding into affordable warmth without direct VFM returns. o Review the Voice event findings to determine in light of increasing pressure on operating cost budgets and specifically repairs what actions can be afforded and to consult with customers to agree a priorities list for future investment. o Detailed review of all operating costs which increased in 2015 to be completed o ½ year comprehensive review of spend v budget against VFM strategy and realignment of budget mid-year to deliver vfm outturns. o Review the Customer Services Function to ensure it is driving forward the digitalisation agenda and efficiencies are being reinvested back into service provision / income collection o Complete review of all homes generating less than 5% NPV and continually update the active asset management programme o Identify high value homes for potential disposal and creation of additional homes o Asset investment v disposal options to be completed and resultant investment and cash flow to be included in the 2017 budget. o Continue to identify and agree individual asset management response plans for assets at risk of or making a loss. o Maintain as a red risk and report on new initiatives as planned and implemented. o Complete a 2016 Star Survey and design more stretching research on VFM. o Business case evaluation to change year end to 31st March to align with majority of sector o Addendum / revised VFM statement to be published in September 2016 to respond to regression analysis, Global accounts and sector benchmarking o VRTB Policy to be published after the publication of the NHF Guidance. o Publish the stress and sensitivity testing

In September 2016, the addendum / revision to the VFM statement will include some SMART targets and forecast around VFM subject to LYHA continuing to deliver our strategy.

END