Added Value –
2015-16 Self-assessment

Contents

Summary

Having come together as a group in April 2015, this is our first VFM self-assessment. It sets out the work performed and key achievements in the Group's first year of operations and how we have demonstrated compliance with the HCA's Value for Money standard. We have done a lot of work in 2015/16 to understand our business and, in particular, our assets. This has culminated in the development of FATAL as a management tool to assist in making investment decisions.

During the year we have put into place a Group VFM working group who are responsible for implementing the Group's VFM Strategy and reporting work done and progress made to the Parent Board. The Group has achieved a huge amount in a short period of time and the VFM savings identified in the self-assessment are the starting point for us as a Group to build on. We recognise that there is still a lot of work to do in embedding a VFM culture and maximising the value we derive from our assets and our resources and we have plans in place to progress this.

The Regroup programme of strategic projects is the first step in developing a group of organisations who can work more efficiently and effectively and maximise value for money. We have identified a number of specific savings targets which feed in to the high level targets set by the Regroup programme. These savings targets will be monitored throughout the course of 2016/17 and reported through next years' self-assessment. We believe we have made significant progress in 2015/16 in establishing a robust group who can deliver value for money to all stakeholders and will continue to build on this as we develop the organisation and the internal structures to deliver our services.

Key VFM gains achieved in 2015-16

We have set out, throughout the narrative of our self-assessment, the key VfM gains and achievements realised during 2015-16, which are as follows:

Actions	Outcomes	Page
Providing joint training to all involved tenants at the same time, rather than separately for each subsidiary landlord.	A saving of **£1,674** per subsidiary landlord.	p10
Subscribing to benchmarking organisation HouseMark as one group, rather than three separate landlords.	An annual saving of **£10,221**.	p4
Investing in iPads for Parent Board members to reduce printing and paper requirements for Parent Board meetings.	Estimated recurring annual savings of **£6,264**.	p14
Durham City Homes converted	A new revenue stream worth	p24

Lansdowne Road Community Centre in Coxhoe into a four bedroom adapted bungalow.	c.**£5,500** per year.	
Dale and Valley Homes converted Millfield Community Centre in Crook into a four bedroom bungalow with disabled access.	A new revenue stream worth c.**£5,335** per year.	p25
The Group's investment programme costs were reduced by 12% in 2015-16 in response to the 2015 Summer Budget.	A saving of **£2.5m** realised without any adverse impact on the programme's outcomes.	p22
Renegotiating the lease terms on our commercial properties.	**£17,000** additional annual income, corresponding to **£565,000** extra income over the life of the leases.	p23
Renegotiating the lease terms on East Durham Homes' office at Meridian Court in Peterlee.	An annual saving of **£100,000** compared to the previous lease. A saving of **£1m** over the life of the lease.	p24
Consolidating and procuring a single multi-functional device contract for the whole Group.	Direct cost savings of **£33,000** over the life of the contract.	p27
Dale and Valley Homes carried out a procurement exercise for their solid fuel servicing work.	A cost saving of **£10,000** per annum was realised.	p27
Worked with Durham County Council to refine the service level agreement (SLA) in place regarding grounds maintenance.	A saving of **£76,500** in the cost of the SLA to the Group.	p28
East Durham Homes developed an in-house customer training programme.	A cash saving of **£4,000** compared to using an external trading provider.	p29
Developed the 'Time to get online' digital inclusion project.	Secured **£11,500** of external funding for the programme. Generated social value in tenants' improved knowledge of digital technology.	p29
Dale and Valley Homes investing in the Colouring Pads scheme using apprentices to redecorate void properties.	An estimated **£45,000** in social value generated by the scheme.	p30
Dale and Valley Homes secured external funding to extend the Mickle Grove training hub pilot scheme, providing a dedicated local training scheme in an area of high unemployment.	An estimated **£50,000** in social value generated in the first year of the pilot.	p31

Introducing County Durham Housing Group

County Durham Housing Group ("the Group") was established in April 2015 following the transfer of Durham County Council's homes to landlords within the new Group. The Group received the following properties at transfer:

Property Type	Number
General needs social housing stock	18,373
Garage blocks	3,193
Garage plots	860
Retail properties	34
Leaseholder properties	194
Other non-social housing stock	261

The Group is structured as follows:

County Durham Housing Group
2016 Group turnover: £67.6m
Stock size: 3 homes
Group stock size: 18,271 homes

Dale & Valley Homes
2016 turnover: £15.7m
Stock size: 4,198 homes

Durham City Homes
2016 turnover: £22.6m
Stock size: 5,848 homes

East Durham Homes
2016 turnover: £29.5m
Stock size: 8,222 homes

Note - figures are stated as at 31 March 2016. Stock is defined as general needs social housing properties owned by the Group.

The Group is made up of a parent company – County Durham Housing Group Ltd, which is also landlord to three shared ownership properties; and three local landlords who lead the delivery of housing services. Dale & Valley Homes operates in the rural west of the county; Durham City Homes operates in Durham City and its surrounding areas; and East Durham Homes operates in the more densely populated heritage coastline covering the east of the county.

The size of the Group has facilitated access to more competitive and favourable borrowing rates which in turn means that the Group is better placed as a larger organisation, rather than three separate individual entities, to maintain and develop services linked to customer priorities whilst maintaining a local landlord for customers and realising economies of scale.

The Group is at the beginning of its journey in building and embedding a value for money culture but has already realised some early benefits of being a group structure.

VFM in action – Realising savings through our group structure

Subscriptions

Prior to the formation of CDHG, each of our local landlords had an individual subscription to the benchmarking organisation HouseMark. In 2015, we were able to leverage our position as a larger group to negotiate a new group subscription covering all our landlords. The new subscription fee represented an annual saving of **£10,221** over the cost of three individual subscriptions.

Treasury

The group's purchase of the housing stock, as well as the future investment programme is funded through a £150 million loan facility. At 31 March 2016 the Group had drawn down £115 million of this facility.

The funding arrangements secured were at **a rate of 3.74%** which is in place for ten years at which time the rate defaults to 4.15%. This compares favourably to average cost of funds for the social housing sector, reported in *Social Housing* on the 28th April 2016 as 4.59%, and demonstrates the value for money that the Group was able to achieve in obtaining a funding arrangement for the whole Group rather than on an individual entity basis.

Strategy and objectives

Our Vision

County Durham Housing Group exists to create a place where everyone feels they belong by challenging the assumptions of the past and present. The Group has worked with tenants, employees, Board members and other key local stakeholders to agree a core purpose and vision for the Group, which is that:

> ***We believe in a life without barriers****. If everyone expects more, they can achieve more and we can transform lives together. It is this power of "more" that will let people realise what is possible – change perceptions, raise aspirations and create inclusive, vibrant communities.*

Our Values

The Group has also agreed a series of values and beliefs with its stakeholders. These are:

People first

People are at the heart of everything we do. In our communities the way we listen and respond to people will determine the way we grow. It is only by connecting with and trusting people that living can be fully brought to life.

Outstanding delivery

Push the boundaries of customer service and added value through proactive behaviour. Because the smallest detail can make the biggest difference, outstanding must be the new standard and the new routine.

Proud communities

Taking responsibility and feeling confident only occur when there is a sense of pride and optimism at home. Positive steps lead to more positive steps and as a result, there is an ability to create and seize better opportunities.

Corporate strategy

Our first group wide corporate plan sets out our transformational vision for the Group. It reaffirms our commitment to the delivery of outstanding homes, neighbourhoods and services and to our belief in a life without barriers. Its direction provides the blueprint to take the Group to the next level in amazing service, and make an already excellent housing offer truly outstanding.

The corporate plan will be brought to life through the delivery of 'Regroup', the plan's associated far reaching, cross group transformational change programme. Regroup represents a series of key projects which will enable us to take a bold and imaginative approach to transforming our service design and delivery. The programme will see us join up our organisational structures; improve and modernise our systems; strengthen our approach to financial planning and management; and creatively engage with stakeholders to shape our offer. The projects and targets associated with Regroup are explained in more detail on page 12 and 13 of the self-assessment.

Our Objectives

In 2015/16, all four organisations within the Group adopted shared objectives. These four business objectives define the delivery of services in the years to come.

Our shared objectives are to:

- Enhance our customers' experience of their homes, neighbourhoods and the services we provide
- Build vibrant and resilient communities
- Create an environment for long lasting business success and growth
- Establish the County Durham Housing Group brand.

The delivery of value for money is a vital element in contributing to the Group's achievement of these objectives.

Our approach to value for money (VFM)

What is VFM?

Value for money is not just about cutting costs but making sure we get the best return for every pound we spend. It measures costs, performance and satisfaction, and is often defined as achieving the right balance between economy, efficiency and effectiveness:

- **Economy**: minimising the cost of resources used or required (inputs) – **spending less**;

- **Efficiency**: the relationship between the output from goods or services and the resources to produce them – **spending well**; and
- **Effectiveness**: the relationship between the intended and actual results of public spending (outcomes) – **spending wisely**.

VFM is high when there is an optimum balance between all three – relatively low costs, high productivity and successful outcomes.

Each landlord within the Group is registered with the Homes and Communities Agency (HCA) as a "registered provider". One of the requirements for Registered Providers is to meet the HCA Value for Money standard. The details of what the Standard requires of us can be found in Appendix A.

The HCA VFM Standard has been taken into account in the development of the strategic objectives and action plan for Group's VFM strategy.

Value for Money Strategy

The social housing sector operates in a challenging environment. In the face of such challenges, optimising resources to achieve better services for customers isn't just value for money, but also good business sense. With this at the forefront of our thinking, we have developed a VfM Strategy which sets out how we aim to deliver value for money across the Group. It contains the actions that we are undertaking to improve the value for money of the services that we deliver and how we are measuring progress in achieving our objectives.

The vision for the Group's VFM Strategy is:

"to maximise the use of our assets and resources to invest in our people, our communities and deliver outstanding services"

The VFM strategy was approved by the Parent Shadow Board in November 2014, prior to stock transfer, and a revised action plan was presented and approved by the Board in December 2015. The strategy applies across the whole group, but the actions are also incorporated within the annual delivery plans for County Durham Housing Group Limited (the "parent") and Dale and Valley Homes, Durham City Homes and East Durham Homes (the "subsidiaries").

The Group's VFM strategy sets out our five objectives for achieving value for money:

1. Manage our resources effectively to achieve the strategic priorities of the County Durham Housing Group

2. Actively promote and embed a value for money culture
3. Ensure a common approach to understanding cost and performance comparisons by all providers within the Group
4. Use procurement to deliver value for money
5. Achieve an optimum return on our assets

Establishing a value for money culture

We have implemented processes to ensure that VFM is considered throughout the Group and forms part of the organisations' day-to-day operations and thinking, rather than representing an 'add-on' considered in isolation. VFM is embedded into all policies and procedures, so it remains at the forefront of key decisions and forms and integral part of how we work. VFM is also incorporated into staff objectives and development plans, confirming that it is the responsibility of everyone, not just senior staff and executives, to deliver value for money.

In January 2016, CDHG established a VFM working group to support the delivery of the Group's VFM strategy and to monitor and report progress against objectives and targets. The working group's membership consists of senior members of staff from the parent and subsidiary landlords who have a role and influence in the development and delivery of services and is chaired by The Group Director of Finance and Resources with the Head of Finance as vice chair.

Board assurance on value for money

The Parent Board ultimately has overall responsibility for ensuring the delivery of the Group's VFM strategy and objectives.

VFM actions were incorporated into local delivery plans for each member of the Group for 2015/16 and these documents were approved by the respective Boards in March 2015.

The VFM working group is overseen by the Parent Board and reports annually to the Board on progress against VFM objectives.

In addition, the Parent Board has oversight of a range of other information from both internal and external sources, which provides assurance of the Group's performance in respect of achieving value for money. All reports presented to the Board include a section covering the VFM implications of the report and this helps to ensure the Board maintain their oversight of the Group's VFM position.

Involving our teams

In consultation with the Group's VFM Working Group, a Value for Money training plan has been created to develop knowledge and understanding of the core principles of VFM to enable employees to apply and embed VFM into our ways of working.

The training plan involves an external training provider delivering training to a group of 'VFM Champions' who, in turn, will deliver training specific to CDHG to all employees across the Group. This will ensure that all staff and teams across the group are aware of VFM, its importance to the Group and how they can contribute to delivering the group's VFM objectives and strategy.

Following the training, value for money will remain a standing agenda item for team meetings, keeping it at the forefront of what we do and maintaining team involvement in the Group's approach to delivering a value for money service to its customers.

Customer involvement and scrutiny

Throughout the Group there is a comprehensive approach to customer involvement delivered primarily locally by the three subsidiaries. Whilst this approach varies, each landlord has methods of involvement which encourage customers to review the services we deliver, challenge performance information and drive forward improvements.

The Customer Working Group formed an integral role in the process for transfer, working with officers on each stage of transfer including developing key Group strategies and policies. This year they have been involved in shaping the Corporate Plan, setting out the actions needed across the Group to achieve our objectives.

We are currently undertaking a review of involvement and engagement across the Group to ensure that there is a consistent, efficient approach in place in the future which meets the needs of our customers. This is due to be concluded and changes implemented during 2016/17. The review has considered both the methods used to engage with customers, the resources (including both staffing and non-staffing costs) available to deliver the service and the changing needs of our customers. Central to this review is to ensure that outcomes are maximised from any interaction we have with our customers both now and going forward and to ensure that our engagement focuses on driving outstanding services and ensuring that we are contributing to the core objectives of maximising rental income and minimising void properties. The governance review (discussed further below), working alongside the involvement and engagement review, has also taken the opportunity to ensure that the customer voice is heard within the developing governance framework so that both the strategic direction and the shaping of service delivery can reflect customer needs appropriately. As part of resident involvement, consideration will be made to setting up a Customer Panel for constitution in 2016/17 to form part of the formal governance framework of the Group.

VFM in action – Tenant training

Prior to the formation of the Group, our local landlords had provided training to involved tenants separately, utilising an external training provider. In 2015-16, we arranged for the Tenant Participation Advisory Service (TPAS) to provide training jointly to all our involved tenants across Dale and Valley Homes, Durham City Homes and East Durham Homes. This resulted in a saving of **£1,674** per landlord when compared to the cost of providing three separate training programmes.

Currently each landlord has their own scrutiny panel reporting into their Board structures. These panels see customers reviewing service delivery and identifying both strengths and recommendations for improvements. Each recommendation is assessed for cost implications and the impact of the recommendation so that value for money is considered in any changes made. In order to maximise the outcome from these reviews, findings are also shared between the landlords where relevant to ensure that the learning can be used across the Group.

Specific value for money groups have operated in both EDH and DVH. The EDH VFM service review was set up to bring officers and customers together to discuss value for money and help achieve the efficiencies set for the year. Customers have also been encouraged to make value for money suggestions through this group. The DVH VFM group involves officers and customers in carrying out VFM reviews of service areas.

VFM in action – Tenant scrutiny recommendations

Recent recommendations made by DVHs Tenant Scrutiny Group include:

- To carry out a cost benefit analysis of the contract with the Citizen's Advice Bureau and alternatives which has resulted in procurement exercise being incorporated into the 2016/17 procurement work plan to assess the options available for this service and consider how best to improve value for money.
- For Call Centre staff to periodically shadow surveyors to familiarise themselves with repair diagnostics and gain a better knowledge of the repairs process. Staff shadowing is ongoing and the outcomes, for example with regards levels of misdiagnosed repairs cases, will be monitored to judge the impact of this exercise.

Responding to a challenging environment

The Government's Summer Budget announced a 1% reduction in social rents for a four year period from 1 April 2016. This news came as a huge shock, particularly as it came less than three months following the stock transfer and the establishment of the Group.

The reduction in rent by 1% for the next four years, together with wide reaching welfare changes, has major implications on the Group directly as well as our customers and the sector as a whole.

We projected that these changes would have an adverse impact on the Group somewhere in the region of £21m over the next four years. Over the course of our 30 year business plan, the effects equated to £350m.

These financial pressures required us to review our Business Plan and realign our original forecasts to ensure long term sustainability. We developed a recovery business plan to address the reduction in income and impact of the Summer Budget, which incorporating the following adjustments from our original 30 year plan:

- reducing the level of our set-up costs in year one by £900k
- removing £70.8m of uncommitted aspirational spend across 30 years
- eliminating a £6m capital provision for new office accommodation
- decreasing planned maintenance and capital investment by 12% in 2015-16 and 2016-17, saving £124m over 30 years without impacting on stock needs
- lowering the fees provision on capital investment by £3.8m
- increasing forecast VAT shelter income by £3.4m by reviewing details within the capital programme
- increasing costs by £7.1m over 30 years to reflect changes to national insurance arising from the changes to contracted out rates for the state pension

In the development of the Recovery Business Plan, a series of stress tests were run and a perfect storm created to combine stress tests to 'break the plan'. This process ensures it is fit for purpose and capable of dealing with any future surprises. The stress tests performed were aligned to our corporate risk register to ensure they were specific to our business and the risks it faces. Performing the tests allows the Board to prepare a mitigation strategy on how similar situations would be addressed in the future.

The stress tests included a combination of the following factors:

- variations in the rate of rent changes after the current four year period of rent reductions has elapsed
- variances in inflation rates
- changes in interest rates
- increases in our voids and bad debt rates
- inability to meet cost savings targets and VAT shelter income forecasts
- changes in right to buy (RTB) activity
- increases in building costs
- increases in pension costs
- increases in repairs and maintenance contract costs

<u>Our transformational change programme</u>

In January 2016, in response to the challenging environment highlighted above, the Group embarked on a transformational change programme, entitled ‘Regroup’, which represents a series of key projects which will enable us to drive our future focus, deliver efficiencies and help to build better business resilience. The programme will see us join up our organisational structures; improve and modernise our systems; strengthen our approach to financial planning and management; and creatively engage with stakeholders. Additionally, following the stress testing of the Group’s Business Plan, the Group’s Executive Management team were also set the task of identifying and achieving efficiency savings of £4million over the three years to 2018/19, and this forms one of the Regroup key projects.

Figure 2: The Regroup Programme

Regroup is focussed on ensuring no negative impact to the customer and has four overarching themes:

- **Transform services** – bring together our operational teams into one directorate so they deliver consistently outstanding services in local communities, helping us to benefit from shared expertise, capacity, skills and economies of scale to deliver outstanding operational performance.
- **Transform people** – ensure that people working across the business are enabled to do an outstanding job by implementing consistent and fit for purpose structures and processes; and establish a joined up organisational culture that is led by strong and effective decision makers.
- **Transform systems** – develop cutting edge IT systems that support the delivery of outstanding services across the whole Group; and benefit from economies of scale to purchase, develop and deliver outstanding services through common IT systems.
- **Transform finances** – ensure the Group remains financially robust, provides value for money, delivers targeted efficiencies and remains constantly vigilant in testing risk and stress testing the business plans.

Governance Structure and review

At transfer in April 2015, the Group implemented a governance structure that has proved to be inefficient to operate and administer. Four Boards operate across the Group, 45 Board Members have been in position at various points across the first year of operation and there have been 63 Board and Committee meetings held during the year. There has been duplication, a lot of demands placed upon secretarial and governance support together with the expense in facilitating that volume of meetings.

The HCA conducted an In-Depth assessment of the Group from November 2015 to March 2016 resulting in a G2/V2 grading – defined as compliant but requires improvement. Duplication and inefficiency were identified by the HCA as a consequence of the governance and operational structures control framework, which are not sustainable. However the positive narrative accompanying the grading highlighted the self-awareness of the Group in recognising the inefficiencies in the existing governance structures, the positive action taken in commissioning a governance review so early in the Group's life cycle and the good use the Group has made of internal audit services to objectively assess governance arrangements.

In seeking to achieve the Group's objective to establish the County Durham Housing Group Brand, and in recognition that the current group structure does not represent value for money, a detailed governance review was initiated in January 2016. The review was independently facilitated by consultants, Altair, and the initial findings, subject to consultation and final decision in August/September 2016, were presented to Board in May 2016. The agreed brief was for Altair to identify a more efficient and effective governance structure for the Group. Approved recommendations from that review will be implemented throughout 2016/17.

The Group adopted the 2015 NHF Code of Governance at Parent Board in February 2016 and identified actions required to both ensure and enhance compliance. These actions are being monitored and completed. In addition, the Group has commenced a transition to electronic Board Papers at Parent Board level in an effort to reduce the administrative and cost implications of facilitating the current governance structures. The Regroup programme incorporates the governance review and electronic solution mentioned and is anticipated to see a savings contribution from governance of around £45k.

VFM in action - Governance

We identified that a significant volume of paper and printing was required for each Parent Board meeting, with a corresponding cost to the Group. A decision was taken to introduce iPads for Parent Board members to reduce the printing requirements for future meetings. The initial 3 year investment in iPads totals £16,642, but we anticipate achieving a minimum saving of **£18,792** over 3 years (£6,264 p.a.), as well as improving effectiveness and access to a wider range of documents.

Making best use of our assets

Our asset base

As at 31 March 2016 County Durham Housing Group directly managed 18,271 homes, 3,133 garage blocks, 860 garage plots, 191 leasehold assets and 284 retail, community and other assets. Additionally, the Group leased 9 offices throughout its area of operation.

Our asset management strategy (AMS)

Approximately 97% of CDHG's income is derived from our housing properties and, as such, this forms the focus of our current asset management strategy.

The AMS provides a framework for identifying the range and type of homes CDHG provides for the people of County Durham and considers local demand and markets. It also provides a mechanism to review stock to ascertain whether it is fit for purpose and to consider options for poorly performing stock such as altering, re-modelling, demolishing or changing the tenure or stock disposal. As a new stock transfer organisation it is imperative that the primary focus is on the financial sustainability of stock to ensure that future investment decisions are based on sound business principles.

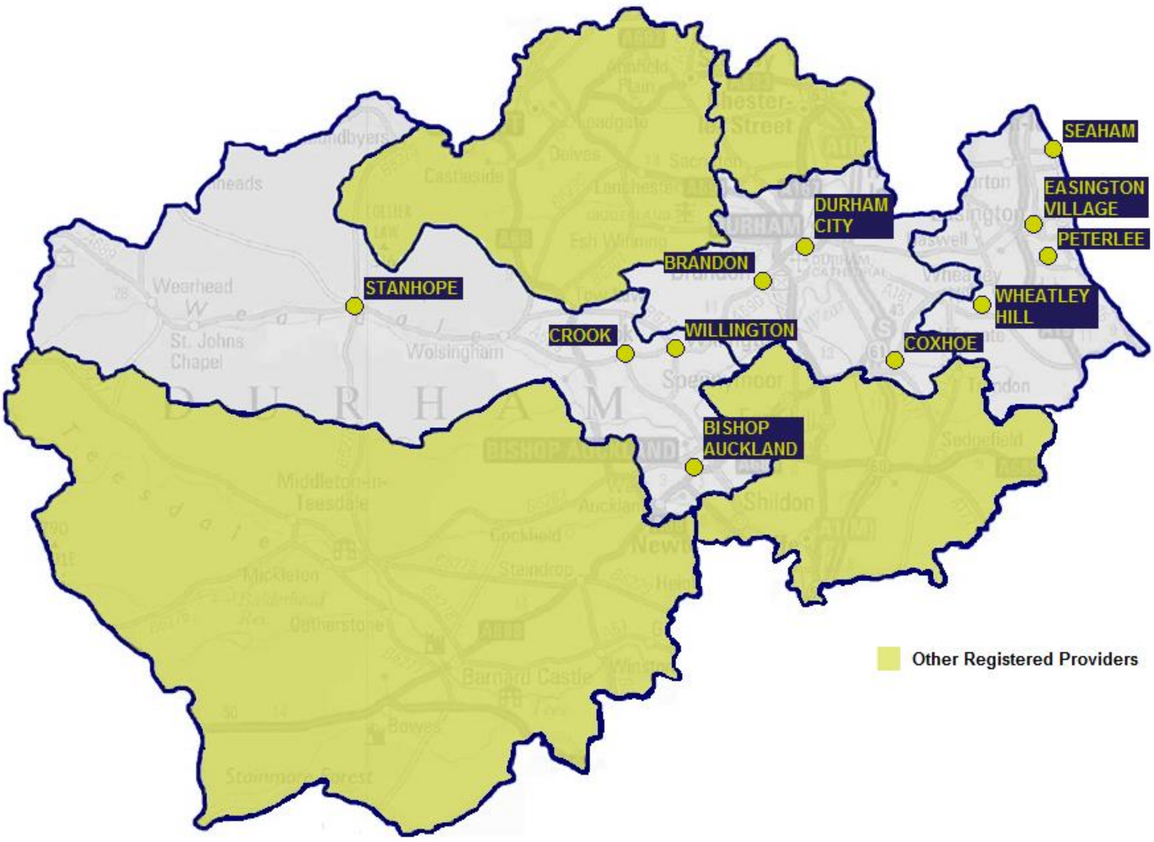


Figure 3: Map showing County Durham Housing Group's operating areas

<u>*How we assess the performance of our properties*</u>

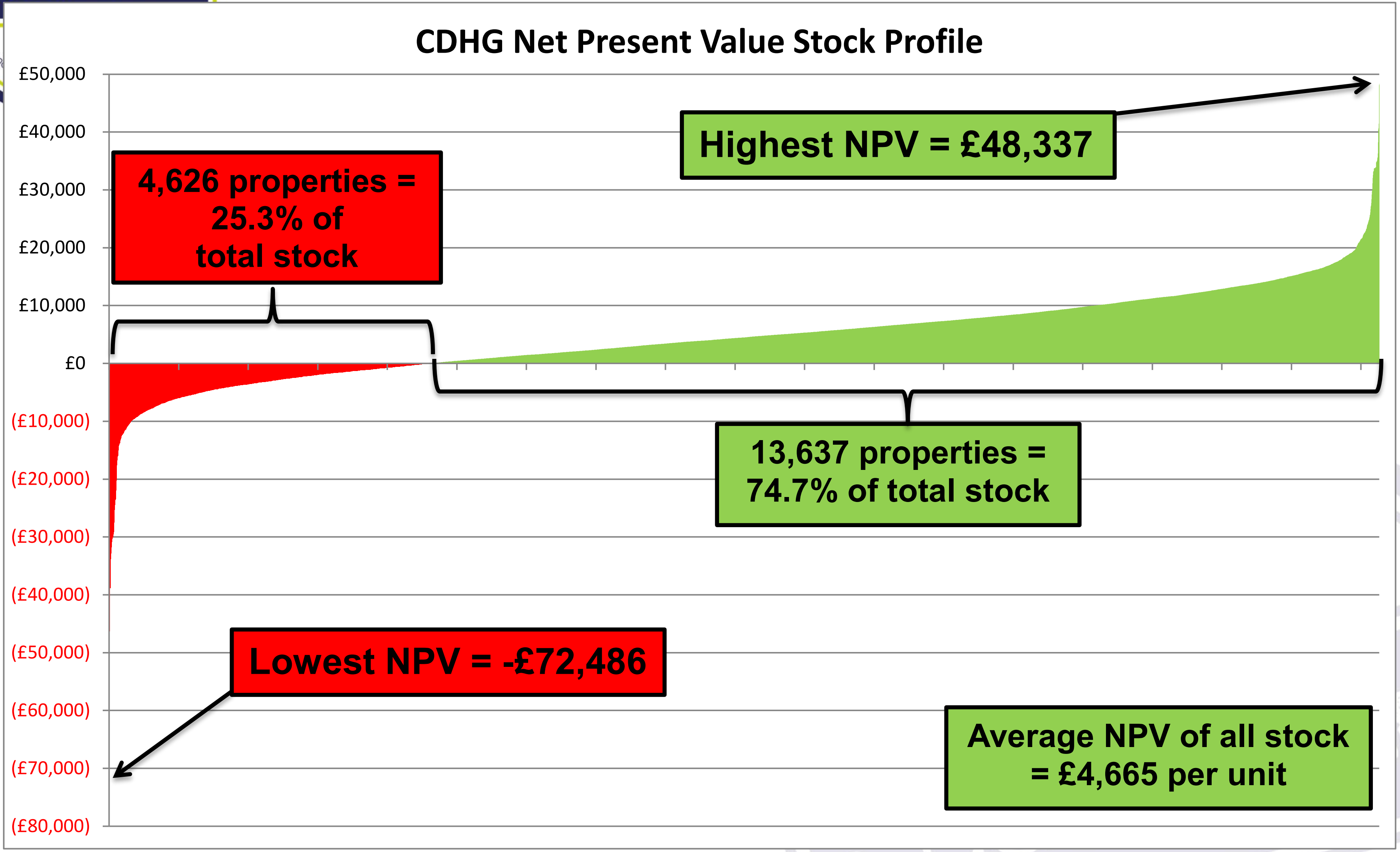
A key action within the AMS was to develop a sustainability matrix to ensure that any investment is primarily based on financially sustainable stock. To this end CDHG developed a financial appraisal tool entitled "Financial Assessment Tool and Asset Locator" – FATAL.

This tool uses, as far as practicable, real financial data to provide every individual property owned by the Group with a value representing its contribution to the Group's financial position. The model covers 30 years from 2015/16, aligning it with the Group's business plan, and makes use of the information held on the Group's asset register, housing management systems and stock condition database PIMSS. The output of the model is a net present value (NPV) which shows, in current values, whether a property will have a net positive or negative financial contribution to the Group over the 30 year term. This allows identification of those properties that represent a financial drain on the business and targeting of them for an options appraisal.

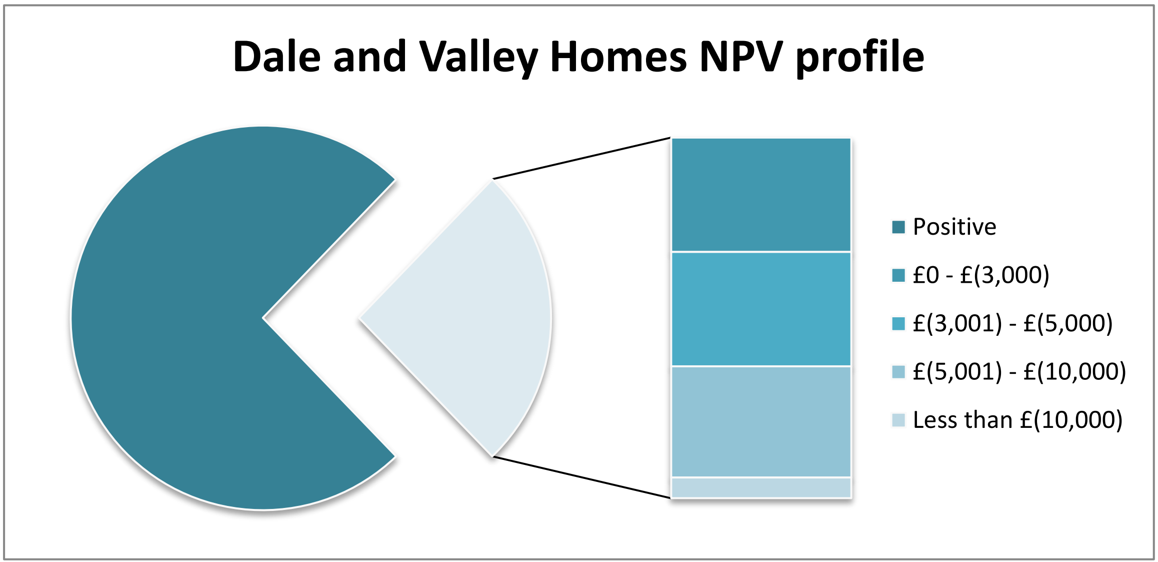
The FATAL model is part of a wider suite of information and tools used in options appraisals to arrive at a final decision with regards the future of a property or group of properties. Whilst the financial performance of a property is an important consideration, other factors such as the social and environmental impact are also considered.

Utilising the FATAL model, we can be smarter in determining where to focus investment in our stock, withholding investment where a property is loss-making until a final decision on that property's future, either to invest or to dispose, can be made. By having the data in the model held at a granular property level, we can implement a more sophisticated asset management strategy, which may involve different decisions and outcomes for properties on the same street.

The following graphs show the FATAL 30 year NPV profile of the Group as a whole and also the average 30 year NPV by location for CDHG's three subsidiaries as at 31 March 2016. These figures have created a baseline that will be used to measure the performance of the assets in future years.

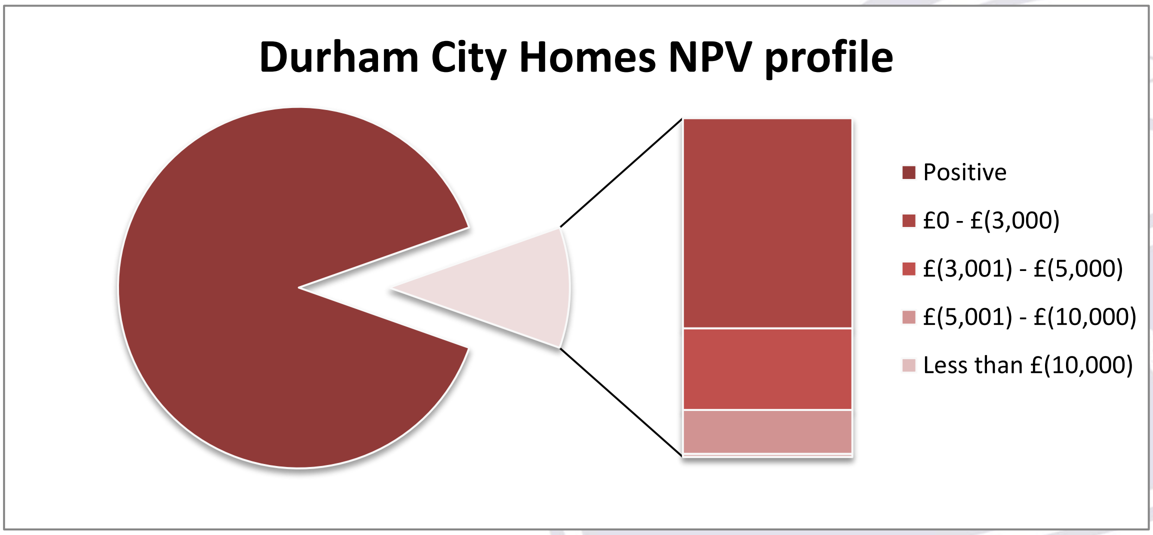

CDHG Net Present Value Stock Profile
£50,000
£40,000
£30,000
£20,000
£10,000
£0
(£10,000)
(£20,000)
(£30,000)
(£40,000)
(£50,000)
(£60,000)
(£70,000)
(£80,000)
4,626 properties = 25.3% of total stock
Highest NPV = £48,337
13,637 properties = 74.7% of total stock
Lowest NPV = -£72,486
Average NPV of all stock = £4,665 per unit

Dale and Valley Homes – average 30 year NPV by location



- The average NPV per property in DVH is £3,099.
- Three locations within the DVH catchment have a negative average NPV and these are the areas where particular consideration will be given over future investment.
- Overall, two thirds of the DVH stock has a positive NPV, whilst 8.3% of the stock currently returns an NPV of less than -£5,000 – it is these properties that are our particular focus, with options appraisals required as and when the properties become void.

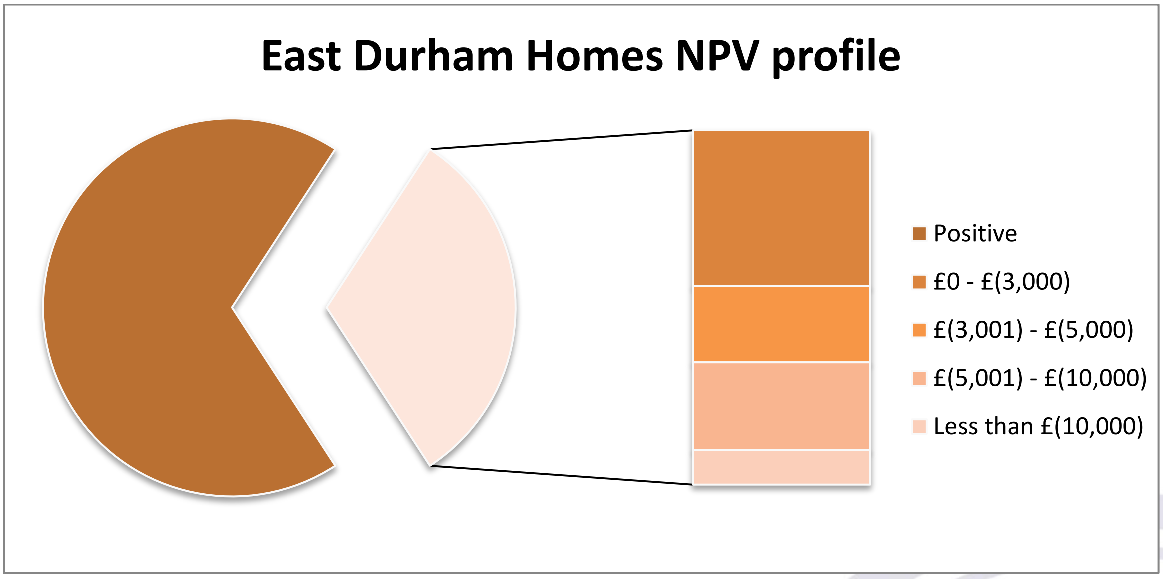
Durham City Homes – average 30 year NPV by location



- The average NPV per property in DCH is £7,880.

- Only one location within DCH's catchment has a negative average NPV and this area has just one development of 24 properties, comprising bungalows and 1 bedroom flats. Further analysis will be undertaken on this development to identify the underlying reasons for the poor financial performance and, where necessary, we will take appropriate remedial action to improve performance or dispose of those properties causing a financial drain on the business.
- Overall, strong rent levels in the DCH area means that almost 90% of the stock has a positive NPV and only 4% of the stock has an NPV of less than -£5,000.

East Durham Homes – average 30 year NPV by location



- The average NPV per property in EDH is £3,178.
- Six locations within the EDH catchment area have a negative average NPV. The financial-based outputs of the FATAL model are being combined with the knowledge and experience of our local management team at EDH to understand the situations in these locations and where best to focus our resources to realise the greatest improvement.
- In total, almost 70% of the EDH stock has a positive NPV, whilst close to 18% of the stock has an NPV of less than -£5,000.

Understanding our assets and making use of what we know

A major factor in understanding our assets is to have a better understanding of their investment needs. As part of the AMS action plan CDHG undertook a review of its stock condition database system (PIMSS) and made an early decision to consolidate the three subsidiary databases into one single Group database. The information taken from PIMSS has allowed CDHG to have confidence in the data it currently has and also to programme further stock condition surveys based on any gaps in data (see charts below). This programme of stock condition surveys is commenced in July 2016 and will improve the quality of the outputs from the FATAL model as property investment costs are one of the key inputs to the NPV calculation.

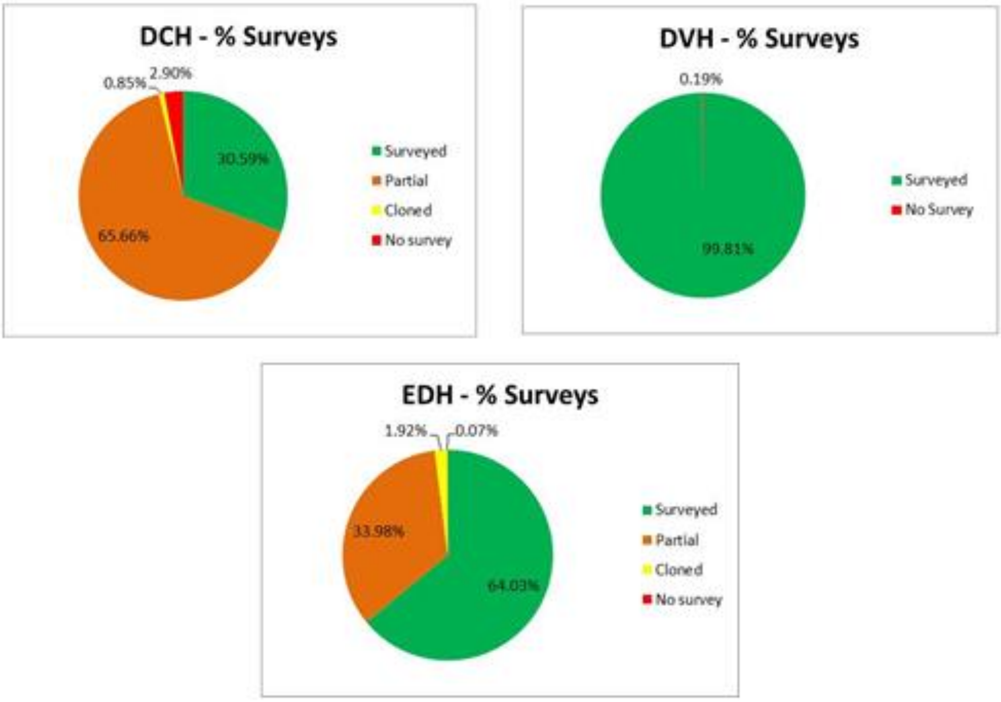


Figure 4: Stock condition survey position as at March 2016

The FATAL tool has already contributed to investment decisions on poorly performing stock. For example, we are withholding investment in assets with negative NPVs where we have had tenant refusals on the investment programme, that otherwise might have been added back on to investment programmes. This means we can ensure the additional investment required in these properties is only made where it makes long-term financial sense and, where investment isn't made, the funds can be channelled into an alternative property that will provide a healthy future return to the Group.

Additionally, we are also beginning to utilise our understanding of our asset to make decisions around whether to retain or dispose of void properties. Our Asset Management Strategy identified one of the key aims of the organisation, post transfer, as to "*dispose of stock that is no longer fit for purpose, releasing equity to best meet the needs and aspirations of the Group*". We are developing a process to appraise stock as it becomes void with the aim of identifying properties that are not financially viable and disposing of these properties. Disposal would generate funds for investment in improving our viable stock and in developing new properties that better meet the needs of current and potential future customers. The outputs from the FATAL model are one of key elements of this appraisal and we have determined that, when a property becomes void and has an NPV of -£5,000 or less, a detailed options appraisal will be carried out on the property to asses:

- The cost of the void works
- The NPV assessment from FATAL in more detail
- The likely long term demand for the property

Where this assessment determines the property is no longer viable for the Group, we intend to dispose of the property, with the attachment of a covenant requiring the sale to an owner occupier in line with the Group's aim of achieving strong sustainable communities. The Parent Board approved this planned approach in May 2016.

Financial return on assets

As well as the FATAL tool mentioned above, it is also possible to measure the financial return our assets are generating through figures taken from our financial statements, specifically looking at the surplus generated as a proportion of our housing stock net book value (NBV – this is the initial cost of the properties, plus the value of works subsequently undertaken on the properties, less the depreciation charged against each property).

Using figures from our financial statements allows us to compare our performance against our peers, both locally and nationally, using the Homes and Communities Agency 2015 Global Accounts of Housing Providers, which are produced from the financial statements of regulated providers of social housing. The return on assets of CDHG, as well as each local landlord, for 2015-16 is as follows (note – details of organisations within the peer groups used for benchmarking are provided in Appendix B):

County Durham Housing Group (18,271 units)	2015-16 £'000	2014-15 Benchmark £'000
Operating Surplus	**26,410**	**18,673**
Housing Property NBV	**133,229**	**355,469**
Return on Assets	**19.8%**	**5.3%**

County Durham Housing Group has reported an operating surplus in excess of £25m for 2015-16, a figure around 35% above the 2014-15 peer group benchmark figure. Equivalent figures for the individual subsidiaries show some variation, with Dale and Valley Homes round 23% lower than the sector benchmark, but Durham City Homes and East Durham Homes approximately 8% and 35% higher than the sector benchmark respectively. Despite varying operating surpluses, the Group has generated a return on assets almost four times the sector benchmark figure – a result that suggest the Group is deriving significant value from its assets, generating a strong surplus to reinvest in future years.

The high return on assets reported is due to the significantly lower net book value of the housing properties across the Group, when compared to our peers. The NBV of the properties is lower than the peer group average, in part, due to valuing the properties based on the cost paid for them, rather than at their existing use value. The cost of the properties to the Group reflected local rent levels and so, because social housing rents in the north east of England tend to be lower than in the rest of the country, the value of the properties is below the national benchmark level.

Investment Programme

A two year investment programme was agreed by Shadow Board pre transfer with year one (2015/16) seeing a £23.8m investment in the Group's properties.

The investment programme was reduced by 12% following on from the Summer Budget as part of the Group's Recovery Business Plan. In 2015/16 the investment programme budgets underspent by 3.4% in comparison to the revised budgets and still achieved output targets – a key reason for this being close management of the procurement for the programme and utilisation of detailed property surveys.

Whilst year two of the investment programme is currently underway a further three year investment programme is being developed which will be considered by Board in November 2016. The programme will form the basis for the procurement of a contract to deliver the programme. We are reviewing our investment programme standards to ensure they continue to provide value for money to the Group and excellent outcomes for our customers.

The future investment programme will be primarily based on the stock condition information contained within the asset management system (PIMSS) and will aim to ensure that all sustainable stock (per the FATAL tool) continue to meet the Government's Decent Homes standard. The draft programme will then be considered by the local delivery teams to assess whether there are any other factors such as responsive maintenance issues and also demand considerations that need to be taken into consideration. As a stock transfer organisation, consideration will be made to the Offer Document and whether any schemes assist in delivering the promises made to tenants whilst ensuring that value for money is being achieved by doing so.

Commercial property strategy and plans

In addition to our housing assets we own the freehold to land and premises that are leased to commercial tenants. These commercial assets include premises such as retail shops and community buildings as well as land subject to ground-leases.

Our commercial assets only account for a small proportion of our total property portfolio but we still require an understanding of their financial performance, any scope for increasing the financial return from them, as well as the obligations required of us as a landlord and those obligations required of our tenants; ensuring we manage the assets effectively and that they provide value for money.

In this regard we have commenced strategic reviews of our retail shops, community buildings and garage site portfolio this year. Once concluded these reviews will provide us with a clear position statement around the current performance of each asset as well as their current financial return to the organisation, including whether they are attaining current market rents and what their future return is expected to be in light of anticipated management and investment costs. The reviews will also provide us with an opportunity to consider options for any underperforming assets and how we ensure each continues to provide value for money for the long-term.

If the reviews find that our commercial assets are not being used in the best way or that they do not provide a good financial return for us, consideration will be given to them being used for an alternative purpose or whether disposal of the asset is appropriate.

In addition to these on-going reviews we have also begun the process of re-negotiating some of our commercial leases this year. Renewal negotiations have been completed on 5 of our 26 retail shops (19%) which has seen a 68% uplift in rental income as the properties move from historic passing rents to market rents. In numbers this will see the Group receive an additional £17,000 per annum in rental income, an additional £565,000 in total over the lifetime of the leases which have been agreed.

Further lease renewal negotiations, as well as periodic rent reviews, are anticipated for our commercial assets during 2016/17 particularly following outcomes from our strategic reviews of the portfolio which are on-going.

We also have a small number of offices (9 premises in total) that we lease from a number of differing landlords to run our business from. Each of these leases have been agreed on varying terms and conditions and are therefore currently subject to an overarching strategic review. In the interim however, we continue to ensure we attain value for money where possible from such premises and that we look to secure efficiencies and reduce our financial expenditure on them where possible.

VFM in action – Office Accommodation Lease Renewal

East Durham Homes' office accommodation at Meridian Court in Peterlee was due to expire in December 2015 and therefore required lease renewal negotiations in 2015/16. A rent of £11.95 per square foot (set in 2006) was previously paid for the accommodation.

Comparable market rents were established for similar office accommodation in the area, which evidenced that current market rents were actually far less. Negotiations were held with our landlord and an agreed rent of £4.50 per square foot was accepted, presenting a cost saving of just over **£100,000 per annum** to East Durham Homes.

The new lease (which commenced on the 1st January 2016) has been agreed on a new term of 10 years with an option to break at Year 5 (2021). In total it provides a rental saving of **over £1 million** over the course of the lease period.

During 2015-16 we have conducted a review of our community rooms to identify those where usage is very low, but where we are still continuing to pay maintenance and utilities costs. Rather than continuing to make a financial loss on these assets, we reviewed the options for their future and found that, as an alternative to demolition, it would be beneficial to the business to convert the spaces into dwellings, to better utilise what we have available. After an initial investment in the works required, conversion provides a new income stream to the Group for years to come and also provides tenants with a new, up-to-date property to live in.

VFM in action – Making best use of our assets

Example 1

The first conversion of a community building took place in 2015-16 at Lansdowne Road Community Centre in Coxhoe. We took a space that was not being used, and was costing the Group in excess of £1,250 a year, and converted it into a four bedroom adapted bungalow. A local family has immediately benefited from the new property - they had overcrowding problems in their previous home and a daughter who is a wheelchair user and so required adaptations that could not be provided at their previous property.

The conversion required an initial investment of around £38,000 but is now generating approximately **£5,500** per year in rent and has provided a local family with a new property exactly suited to their specific needs.

VFM in action – Making best use of our assets continued

Example 2

The Millfield Community Centre was in a state of disrepair when DVH took over the management of the building and the site had become a target for anti-social behaviour. The decision was taken to renovate the property into a four bedroom bungalow with disabled access at a cost of £45,200. This allowed DVH to house a family in suitably adapted accommodation, reduce anti-social behaviour in the area and realise an income of **£5,335** per annum.

New developments

In addition to our existing stock, the Group has ambitions to develop 700 new homes by 2022. This follows the offer made to tenants as part of stock transfer and embeds the Group's vision of building proud communities which put people first.

In 2015/16 we secured our first new build homes via section 106 planning agreements. This will see CDHG acquire 32 new affordable homes to rent between April 2016 and November 2018; seven in Bishop Auckland and twenty-five in Ushaw Moor. Details of each scheme are set out below alongside anticipated completion dates.

Bracks Farm, Bishop Auckland

Number of Units:	7
Unit Type:	All two-bed (4 person) General Needs Housing
Completion Dates:	September 2016 to June 2017

Middlewood Moor, Ushaw Moor

Number of Units:	25
Unit Type:	15 two-bed (3 person) General Needs Housing 2 two-bed (4 person) General Needs Housing 8 three-bed (5 person) General Needs Housing
Completion Dates:	April 2016 to November 2018

These particular acquisitions provide CDHG with new build homes which have cost some 38% less than if we were to develop them ourselves whilst still providing a very good affordable product that generates an income to the business for the next 30 years plus.

Announcements by Government in autumn 2015 proposed significant changes to section 106 legislation (included in the Housing and Planning Act 2016) allowing developers to provide starter homes at a 20% discount to market value to satisfy the need for affordable homes on new build development schemes. The details and timescales surrounding these proposed changes are still to be finalised so, in the interim, a window of opportunity remains for CDHG to progress section 106 opportunities which developers may be continuing to deal with under current arrangements.

As a group we also have a large portfolio of land which can be used to support our development aspirations. Around 34 hectares of land was transferred from Durham County Council as part of stock transfer and this has been appraised and prioritised during 2015/16 to establish a 'pipeline' of potential future schemes.

To facilitate development, either by way of our own new build schemes on land owned by the Group or via the acquisition of continuing section 106 opportunities, the CDHG Board approved provision for up to 145 new homes in the Group's 2016-2045 Business Plan.

In all cases any development proposal must be tested against the Group's agreed financial appraisal tool, which was endorsed by our Assets & Growth Committee and Parent Board in 2015/16. The tool enables a robust evaluation of all new development activities and provides key financial information in respect of total loan requirements, the NPV pay back within 30 years and cash flow assumptions against agreed appraisal criteria such as voids and bad debts, interest payments, and management and maintenance costs. The tool also takes into account the rent reductions that will take place from 2016/17 to 2019/20.

By using this approach, and by applying the tool consistently across all new development activities, we can ensure value for money is embedded within our development proposals from inception.

Making best use of our resources

Our approach to procurement

During 2015/16, the Group developed a comprehensive Procurement Strategy to cover the period 2015-2018. The strategy outlines the Group's approach to procurement, including the role of procurement in achieving value for money. We also established a centralised procurement function to deliver the Group's procurement strategy and deliver better value for money by procuring goods and services as a Group rather than as individual entities.

CDHG recognises that effective procurement is essential to providing high quality and cost effective services both in relation to our customers and the business as a whole.

In the context of value for money, the procurement strategy states that CDHG will deliver value for money by rationalising the supply chain and ensuring sufficient benchmarking and market testing inform purchasing decisions.

We recognise that achieving value for money does not always mean selecting the lowest cost option however in some circumstances the lowest cost may be the correct option. We aim to achieve value for money through procurement using MEAT (Most Economically Advantageous Tender) criteria.

During 2015/16 we have completed a cost analysis on all suppliers used across the Group, to collate information on expenditure incurred across the Group and to develop a contracts register. This information has been used by the Procurement Team to establish and develop the procurement work plan which identifies the contracts to be procured 2016/17 and beyond. By looking at existing arrangements and undertaking procurement exercises that, in many instances, will move the Group from multiple contractual arrangements to a single procured goods/service the procurement team are aiming to achieve cost savings of £1million over the next three years.

A number of procurement exercises have been undertaken in the current year as one-off procurements identified as being required to support the Group's vision and values and strategic corporate objectives, including:

- Procurement and appointment of advisors to support the Groups governance review which commenced in January 2016
- Procurement and appointment of advisors to support the development of the Group's culture and values
- Procurement and appointment of an organisation to assist in gathering information and intelligence across the Group

VFM in action – Procurement cost savings

1) In 2015/16 an exercise was undertaken to procure multi-functional devices which would replace all existing printers in offices across the Group. This has resulted in direct cost savings of **£33,000** over the life of the contract in comparison to previous arrangements. In addition, the new devices are more efficient and so will yield further indirect cost savings.
2) DVH carried out a procurement exercise on solid fuel servicing and the resulting cost saving of **£10,000** per annum is now being realised.

We recognise that we have a responsibility to our local communities and the potential of social investment opportunities available through procurement exercises, to deliver economic, social and environmental objectives.

Our procurement strategy is clear in setting out that we will ensure that internal policies and procedures do not discriminate against smaller/local potential suppliers and are actively seeking to implement methods of reducing barriers faced by small and medium sized companies when dealing with the Group. We are bound by the Considerations of the Public Services (Social Value Act) 2012 to consider how the services that are being commissioned or procured will improve the economic, social and environmental aspects of the area where these services are being delivered. In 2016/17 and beyond, when the Group is procuring larger contracts, either directly or via consortia, we will seek, where appropriate, to leverage social benefit in the form of providing apprenticeships and/or employment opportunities within the local community as part of the contract specification.

Review of service level agreements

To aid the set-up and initial operations of the Group, a number of service level agreements SLAs were put in place between the Group and Durham County Council. In total, 20 such agreements were in operation for 2015-16.

During the year, we undertook a review of all SLAs requiring renewal for 2016-17 to assess the level and quality of service provided, the scope and the cost of the agreements to ascertain whether they continued to provide the Group with value for money.

Of the 16 SLAs due for renewal at the end of 2015-16, we identified two agreements where it was beneficial to the Group not to renew for 2016-17 and one other SLA where only some elements of the agreement were required for 2016-17. Utilising alternative arrangements for the services where the SLAs were not renewed has allowed an effective and efficient service to be provided for a reduced cash outlay by the Group.

VFM in action – Grounds Maintenance SLA

The Grounds Maintenance SLA in place between the Group and Durham County Council was not due for renew at the end of 2015-16, however it was still necessary to agree the proposed cost of the service for 2016-17. CDHG and DCC held discussions regarding the service provided and worked together to identify process efficiencies and improved working practices which, when implemented, would result in a cost saving to both parties. As a result of the work undertaken by both CDHG and DCC an agreement was reached which has seen a saving of **£76,500** to the Group for 2016-17.

Our approach to community investment

One of the objectives set out in the Group's Corporate Plan is to develop a community investment strategy to inform community and neighbourhood regeneration initiatives. To date the approach to community investment has been ad hoc and implemented individually by subsidiaries, but this will change with the appointment of a Group Community Investment Manager to lead our work on community investment.

VFM in action – Community Investment

East Durham Homes has developed an in-house customer training programme which provides tenants with the opportunity to learn new skills, gain qualifications and improve their employability. Outcomes from this programme have included 11 customers achieving a Level 2 qualification in Governance, 3 tenants being helped back into employment and one customer being aided to switch to a cheaper energy tariff.

As well as realising a significant social return from the training, by developing the programme internally we estimate cash savings of **£4,000** when compared to the cost of using an external provider.

VFM in action – Time to get online

In 2015 the Group were successful in securing **£11,500 of funding** for the 'Time to Get Online' digital inclusion project. The project works in partnership between The Group and its subsidiaries and partner organisation, Teesdale Housing Association.

The aims of the project are to raise awareness, increase capability and motivation in using online services, and increase digital, financial and social inclusion. We do this by holding interactive workshops in community venues and by delivering sessions to community organisations. We match learners with a 'Digital Champion' who provides them with one-to-one support to get them online. We assist learners to learn at their own pace and focus on using search engines and comparison sites, keeping in touch via email, social media, skype and websites, completing online forms, using online banking, using YouTube and creating & uploading CVs.

The scheme has been such a success during 2015-16 that it been shortlisted as a finalist for the Digital Inclusion Award at the O_2 NextGen Digital Challenge Awards 2016 – a fantastic achievement for all involved.

Social return on investment and the approach we are developing

Social value is increasingly becoming an area of focus for housing providers to understand the impact of the work they do. Social Value can be defined as the broad impact on the wellbeing of people, communities and the environment by the actions of an organisation. Social Return on Investment (SROI) is an attempt to establish a monetary value for these impacts and to compare this with the cost of the programme that created it.

There has been some limited use of the HACT model for calculating social value in the landlords to assess the impact on wellbeing of a particular initiative or project.

A CDHG approach to measuring social value is being developed going forward using the HACT methodology and this will be implemented as part of the delivery of the new Community Investment Strategy. This will allow the organisation to monitor the outcomes and value arising from projects supported through the strategy and support decision making for future projects.

VFM in action – Social return on investment

The Colouring Pads scheme was set up as a pilot project in November 2012. The three year programme was initially funded through external grants and contributions, which were for a three year period. The scheme employed up to 4 apprentices at a time to undertake redecoration work in void properties under the supervision of a mentor.

Prior to this scheme, customers were offered decoration vouchers to help with the redecoration of newly let properties. Anecdotal evidence indicated that the scheme had some significant drawbacks including vouchers not being used to purchase materials for the property intended, multiple reissues of vouchers where tenancies were short-lived and lack of help for those physically unable to carry out the decorating.

The total annual cost of the Colouring Pads scheme was around £75k compared to an annual cost of £34k for the previous decorating scheme. However, the overriding aim of the project was social return and employability and therefore understanding the value of the scheme was not as simple as looking at its monetary cost.

During 2015-16, the DVH Value for Money Working Group reviewed the economy, efficiency and effectiveness of the Colouring Pads scheme and looked specifically at the value of the social benefit provide using the HACT model of social return. Using this approach, it was calculated that the equivalent monetary benefit of the scheme was **£45,400** – the majority of this value resulted from the employment provided to the apprentices.

VFM in action – Social return on investment

In 2014-15, DVH was successful in bidding for NE Procurement Future Sparks funding totalling £45,000. The funding was to refurbish Mickle Grove Training Hub in Leeholme, near Bishop Auckland, and create a dedicated training facility for the local community in an area of high unemployment

The initial aims of the scheme were to improve tenancy sustainability, provide support to customers and residents to progress into training and to provide routes into employment.

The facility allows customers to access training at a level suitable to them and breaks down traditional barriers to learning by providing training in a relaxed, informal atmosphere with free on-site childcare and transport

During the pilot year of operation, our employability programme has led to tangible results including six trainees who have gained new or improved employment after undertaking courses. Customers have improved basic skills, gained vocational qualifications and increased self-confidence.

Utilising the HACT social value model we estimated that the social value resulting from first year of operations exceeded £50,000.

The Mickle Grove pilot has been extended to a second year and has attracted funding of £20,000 from external sources to support the continuation of the scheme.

Staff volunteering impact

During 2015-16 our staff have taken an active part in their communities, with many giving up their time to support worthy causes throughout the region.

The Group is immensely proud of the difference all our people make to their communities and fully supports their commitment to the various causes they volunteer for. Over the forthcoming year we are looking to record all the good work being done by our people to allow us to quantify their time given and impact made.

Staff wellbeing

During 2015-16, we undertook a staff wellbeing survey which has identified the need for the organisation to consider the role of managers in leading their teams effectively; creating opportunities for greater autonomy; building confidence, trust and encouraging feedback; minimising stress; and reducing sickness absence.

Wellbeing action plans are currently in development; training is being provided to employees on resilience and managing change; the occupational health SLA with

DCC has been reviewed and extended; employee representative forums and change advocate groups have been established across the Group; employee health plans are in development; and a manager's development programme is in development.

Our performance and how we compare to others

Overview of our performance framework

County Durham Housing Group is committed to achieving outstanding performance across all of its constituent organisations and services. Our Performance Management Framework has been developed to help the Group to achieve this by setting the tone for effective performance recording, reporting and review, which in turn supports the continuous improvement of services right across the Group.

Our agile performance toolkit supports the Group Performance Management Framework by providing staff with guidance and advice when setting targets and reviewing performance. It helps to ensure that performance right across the Group is regularly assessed, analysed, evaluated and understood and that that any issues are resolved as quickly as possible.

County Durham Housing Group is responsible for agreeing and monitoring a suite of Key Performance Indicators (KPIs) that correspond with our strategic objectives, such as those outlined in our Business Plan and other key plans. Although the selection of KPIs is set centrally by the Group, until June 2016 when a central performance team was formed, the three subsidiaries were individually responsible for capturing and analysing data used to report on KPIs to the parent company.

Our performance scorecards have been developed with the involvement of Board members from both the Parent Board and subsidiaries, with facilitation from HouseMark, to ensure that they provide the appropriate mix to demonstrate assurance to the Boards that the organisation is running well, achieving objectives and meeting statutory requirements.

Benchmarking our Costs and Performance

We have a clear understanding of the costs and performance in delivering our key services. We are using this insight to strategically manage our resources to reshape and improve the efficiency and effectiveness of our services.

Following the publication of 'Delivering better value for money: Understanding differences in unit costs' (HCA, June 2016), we have taken on board the HCA's findings that there remains scope for greater transparency on the part of providers,

and for boards to challenge themselves, and their organisations, even more robustly on the economy, efficiency, and effectiveness of their expenditure.
We have therefore utilised our 2015-16 financial statements to calculate the 'headline social housing cost per unit' for each subsidiary and across the Group, in line with the HCA's definitions. This provides us with a consistent and robust general measure of costs across providers. The regulator believes that this measure is most appropriate for meaningful comparison of the costs of different providers.

We also continue to benchmark headline performance indicators on a quarterly basis throughout the year, using the HouseMark Priority Benchmarking tool, which allows us to track our own performance against sector trends throughout the year. We have agreed an appropriate peer group for comparing our costs with HouseMark (which is set out in Appendix B) considering a variety of factors such as stock size, region, organisation type and services provided. We understand that the more relevant our peer group to County Durham Housing Group's specific attributes and operating environment, the more assurance and challenge it will provide, and we will review our benchmarking arrangements over the coming year.

We have recognised that whilst we would intend in future years to provide comparative costs, both with our peers but also over a time period, this is not appropriate in our first year operating as a group. All associated costs and performance relates to 2015/16 as the first year as County Durham Housing Group, reflecting that the roles and makeup of the organisations before this point would make the timeline information unhelpful.

Through our Regroup programme we expect to realise savings and efficiencies through providing consistent, streamlined and efficient services in the future. There are a number of specific projects focussing on different areas of the business as part of Regroup which are aimed at providing the most appropriate services in the most cost effective way. This is a 3 year programme so we will start to realise the benefits of the work carried out so far in 2016/17.

Headline social housing costs per unit

The 'headline social housing cost per unit' is made up of the main components of management, service charge costs, maintenance, major repairs and other social housing costs. The table below is based on the 2015-16 statutory accounts figures, adjusted for the one off impact of the recognition of the Group's pension liability which impacts on both the Group and subsidiary costs.

	2015-16 CDHG	2015-16 DVH	2015-16 DCH	2015-16 EDH
Management	£17,980,144	£4,319,295	£5,559,863	£7,737,384
Service Charge Cost	£907,122	£81,198	£460,725	£365,199
Routine Maintenance	£13,996,662	£3,095,765	£4,435,206	£6,465,692
Planned Maintenance	£4,511,950	£999,913	£1,352,035	£2,160,002
Major Repairs Expenditure	£984,497	£0	£448,481	£536,016
Capitalised major repairs and re-improvements	£22,967,585	£5,644,872	£8,342,446	£8,980,267
Other social housing activities	£186,648	£10,249	£65,571	£110,828
	£61,534,609	£14,151,292	£20,664,327	£26,355,389
Social Housing Units	18,271	4,198	5,848	8,222
Social Housing Cost per Unit	**£3,368**	**£3,371**	**£3,534**	**£3,205**
2014-15 HCA Sector Mean (weighted)	**£3,950**			
2014-15 HCA Median by provider (unweighted)	**£3,550**			
2014-15 Benchmarking Peer Group Mean	**£3,591**			

From this analysis, it can be seen that Durham City Homes' social housing cost per unit is the highest of the three subsidiaries, with East Durham Homes the lowest. This is likely to reflect the economies of scale achieved through managing a larger number of properties within East Durham Homes. The social housing cost per unit for all three subsidiaries is below the weighted sector mean and the mean of our benchmarking peer group. The HCA's own analysis has shown that factors impacting the headline social housing cost per unit include variances in regional wages, which is, in part, likely to explain why the figures reported for the group's companies are below the weighted sector mean. Our Regroup plans, to reduce our costs and overheads, will help us to maintain our below-average cost per unit in future years.

The HCA have also provided sector-wide benchmark figures for each cost category that makes up the headline social housing cost per unit. We have used these figures to identify how our performance within each category compares to our peers.

Cost per unit	15-16 CDHG	15-16 DVH	15-16 DCH	15-16 EDH	*14-15 HCA sector mean (weighted)*	*14-15 HCA median by provider (unweighted)*	*14-15 Benchmarking Peer group Mean*
Management and service charge	£1,034	£1,048	£1,030	£985	*£1,540*	*£1,360*	*£1,271*
Maintenance	£1,013	£976	£990	£1,049	*£1,010*	*£980*	*£1,016*
Major repairs	£1,311	£1,345	£1,503	£1,157	*£930*	*£800*	*£963*
Other social housing activities	£10	£2	£11	£13	*£470*	*£200*	*£342*

The analysis above shows that, across the Group, management and service charge costs per unit are lower than the sector benchmark figures. The group figure is 33% below the HCA sector mean, but only 19% below the benchmarking peer group mean, suggesting our costs are more closely aligned to other organisations with similar stock numbers. Our management costs are likely to be below average due to the Group's location in the North East of England, where office costs, staffing costs and other overhead costs tend to be lower than in the rest of the country. Additionally, with 2015-16 being the Group's first year of operations, we have not operated for the whole year with a fully staffed structure in a number of the central functions such as Finance and Procurement.

Maintenance costs per unit are lower than the sector benchmarks for DVH and DCH whilst slightly above average for EDH. The overall group position is between the sector mean and the peer group mean. We are currently reviewing how our assets and operations teams are structured and operate and this will see increased efficiency and consistency in future years, with a corresponding positive impact on service cost that should see it fall below the sector mean.

We have identified that our major repairs costs across the Group are higher than the sector benchmark figures, with the overall group position being around 41% higher than the sector mean and 36% above our benchmarking peer group mean. Independently from this analysis, during 2015-16 we identified that we were incurring high capital void costs across our stock and this is something we are currently assessing and working to understand the reasons for. It is likely that the high capital void costs we've identified are a significant driver behind our major repairs costs being higher than our peers.

Other social housing costs per unit are significantly lower, across the Group, than the HCA benchmarks, with the Group's position being 98% lower than the sector mean.

This is due to the fact the Group does not manage any supported housing and, being a new organisation, has yet to diversify into any other significant social housing activities beyond its core offer. In the coming year we will also undertake a review of how our costs are classified to understand whether we have costs currently classified in another category which would be better reported under other social housing activities.

Benchmarking Analysis 2015/16

In addition to the headline social housing cost per unit cost comparison, we also benchmark our performance and costs annually using the HouseMark CORE data tool. We use the dashboard to map service cost and performance, which enables us to the drill down to track progress and trends over a three year period.

We have identified differences and apparent inconsistencies between the results of the HouseMark benchmarking and the outputs of the headline social housing cost per unit comparison. We have carried out further work to understand the reasons for these differences and determined that, in most cases, they relate to variations in how specific costs are categorised and apportioned within the HouseMark analysis when compared to the social housing cost per unit analysis in particular in relation to the internal charges across the Group. The disparity in the cost benchmarking results is something we will investigate further in 2016-17 with the aim of aligning our approach to both exercises to provide consistent, meaningful insight with regards our absolute and comparative costs.

The following dashboards summarise cost compared to performance for key service areas.

<table>
<tr><th colspan="2">Subsidiary dashboards 2015-16</th></tr>
<tr><th>Key</th><th>Dale and Valley Homes</th></tr>
<tr><td>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</td><td>
</td></tr>
</table>

East Durham Homes	Durham City Homes
	

Costs for the majority of service areas across the three subsidiaries are relatively high when compared to HouseMark peers. This reflects the position of the Group in its first year of operation, where the Group has incurred substantial set up costs, in excess of £2 million, in establishing new structures and ways of working but has not yet had time to realise the cost efficiencies and economies of scale which the Regroup transformational change programme programme has been developed to deliver.

The transition of Dale & Valley Homes and East Durham Homes from Arm’s Length Management Organisations (ALMOs) to not-for-profit private registered providers of social housing (PRPs) in their own right and Durham City Homes from the housing department of Durham County Council to a PRP, has involved separating costs from the council and apportionment of budgets. This means that cost comparisons for the subsidiaries between 2015/16 and the years before transfer are largely unhelpful. However, 2015/16 dashboards will provide a baseline for tracking the progress of the Group in delivering value for money in the future.

Responsive repairs and void works

The dashboard information and unit costs, show that overall costs for responsive repairs are above the peer group average across all three landlords. This can largely be attributed to the cost apportionment which took place at transfer and the way overhead costs have been apportioned in 2015/16. In particular, costs associated with management of responsive repairs are significantly higher than the peer average at DVH.

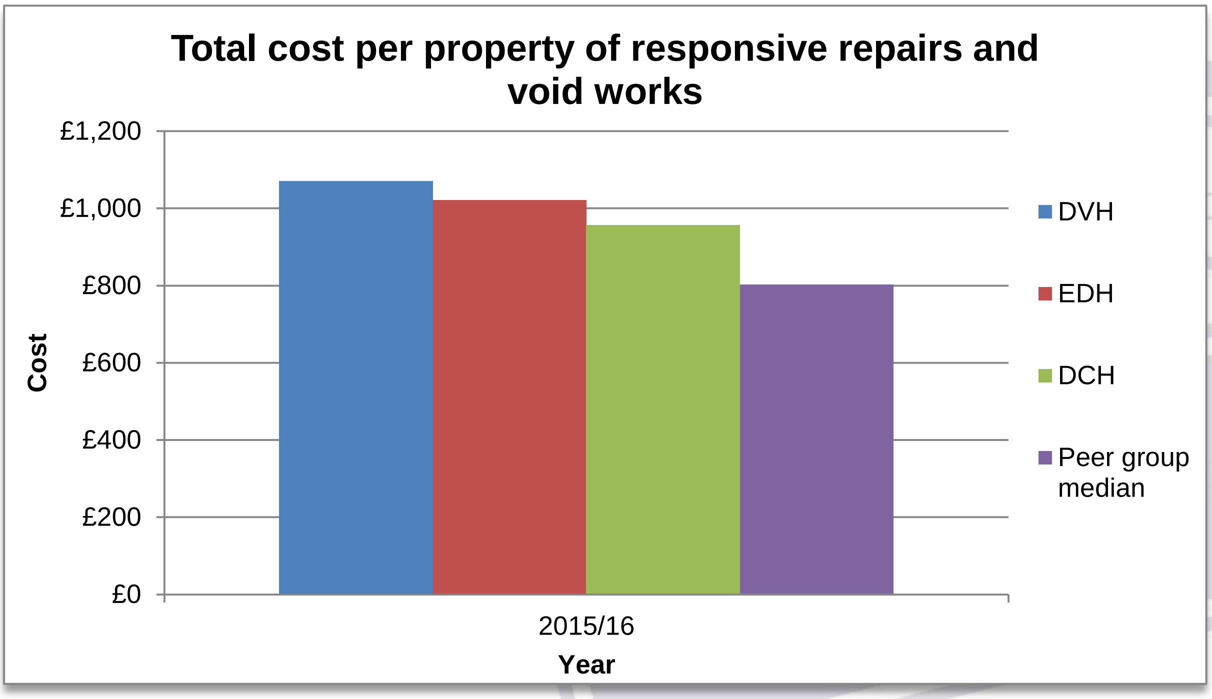
Each of the subsidiaries currently has different arrangements and contracts in place for providing repairs and maintenance services: at East Durham Homes, responsive repairs are provided through their partner Morrison Facilities Services, Dale and Valley Homes’ repairs partner is Gentoo whilst Group Property Services (GPS), a division of County Durham Housing Group, is responsible for repairs and maintenance in homes owned and managed by Durham City Homes. GPS also provides gas servicing to Dale & Valley Homes. We recognise that this is an inefficient model for delivery of the service and is likely to contribute to higher overheads costs seen from our benchmarking analysis.

Performance is currently above the peer average in two of our landlords. Whilst we recognise that performance is currently below the peer average for DCH, there has been some significant improvements in the first year of being part of CDHG and we are working to continue this. Average days to complete a repair have reduced compared to previous year in both DVH and DCH, while EDH continues to perform above the average.

Satisfaction is also above average for DVH and EDH and has seen significant improvements for DVH.

As part of the Regroup programme, a restructure of Strategic and Operational Assets is taking place during 2016. This will seek to provide more stringent and effective contract management whilst also realising some efficiencies in the management of the current contracts. This new structure will be in place before the end of 2016/17.

Further to this, over the next three years, County Durham Housing Group is looking to align repairs and maintenance service across the Group, to further develop a consistent and more efficient approach. A full options appraisal will be undertaken to establish what delivery model will offer the best value for money. All options will consider the expiry dates of the existing contracts with Morrison and Gentoo.



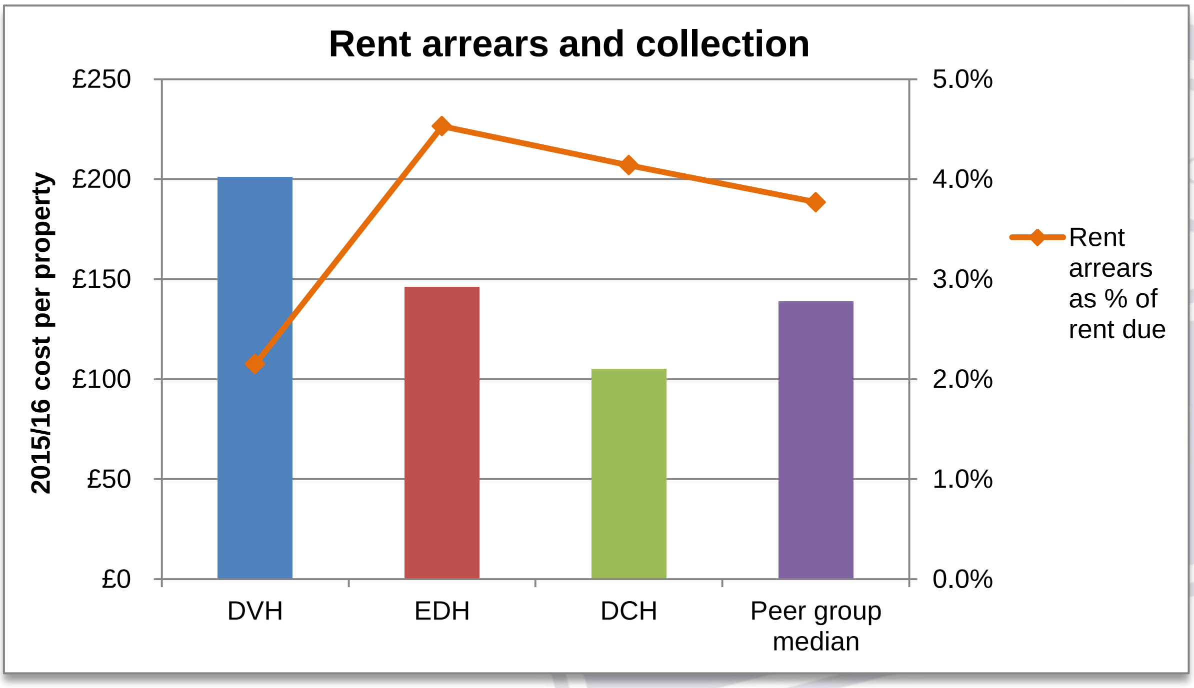
Rent arrears and collection

The benchmarking analysis shows that rent arrears and collection is comparatively high cost within DVH and EDH, whilst it is comparatively low cost in DCH. With regards performance, DVH is above the peer group average, but EDH and DCH are below the peer group average.

In Durham City Homes, high levels of former tenant arrears and higher than average write offs have contributed to the overall picture of poor performance on rent arrears and collection. Of the Group's three landlords, EDH has been most impacted by welfare reforms introduced in 2015-16. This has resulted in below average rent collection and higher than average arrears (owed by both current and former tenants).

We have identified the impact of welfare reform as a significant risk to our business and so, during 2016, we instigated a group-wide income review. The income review aims to reassess our approach to income collection and arrears management to deliver an efficient, consistent, effective and modern service that maximises collection rates, minimises collection and arrears management costs and delivers an excellent service for customers. The review addresses the challenges posed by welfare reform and in particular Universal Credit, managing and minimising the risk to the Group whilst supporting customers.

In addition, the restructure taking place within the Group to create one Operations Directorate will see there being one consistent way of operating and will also streamline the management associated with income collection with a view to reducing our costs and improving performance in future years.

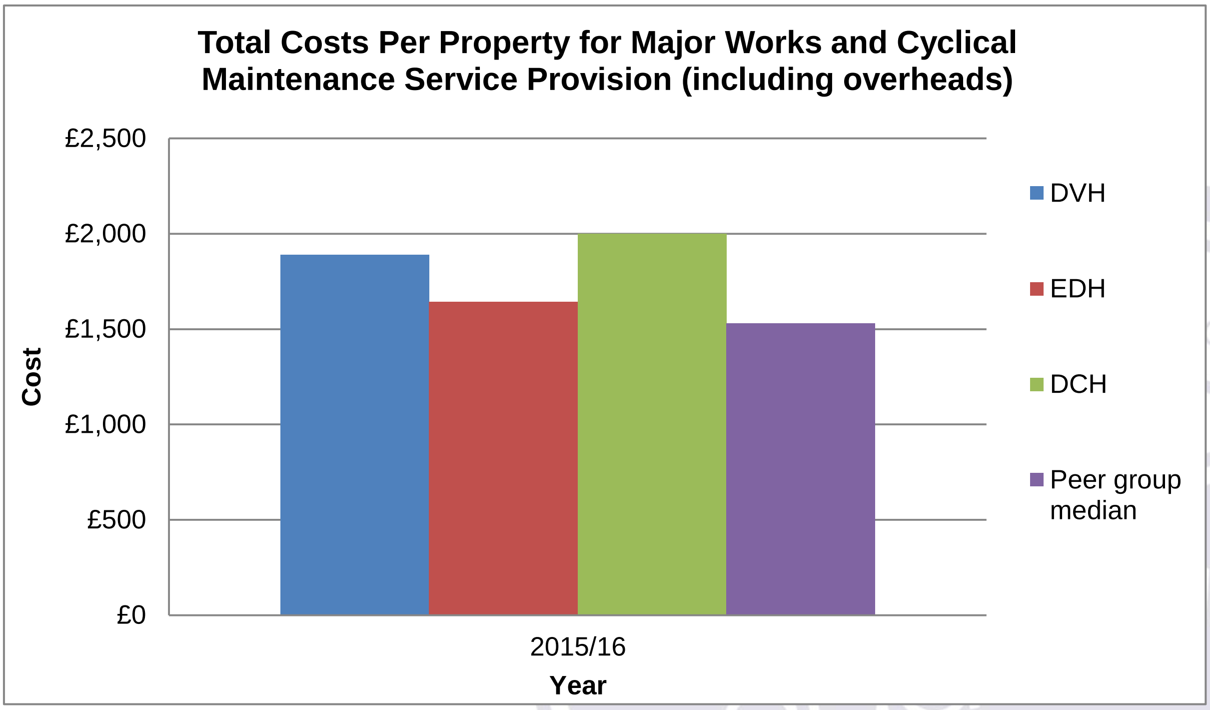


Major works and cyclical maintenance

Major works and cyclical repairs in DVH and EDH are both shown as good performance, but higher than average cost, whilst DCH also has higher than average costs, but poor performance.

Durham City Homes first achieved 100% Decent Homes Standard in 2010/11, Dale & Valley Homes in 2011/12 and East Durham Homes in 2015/16. The focus of the three subsidiaries now is therefore on maintaining this standard. However, we acknowledge that our costs, particularly for major works, remains above average when compared to our peers. To try to address this, part of the Regroup programme has focussed on rationalising our operational structures, including our assets teams with the aim of streamlining our cost base and reducing inefficiency and duplication. Our aim is that a revised operating model will translate into better service provision to our customers as relatively low levels of satisfaction, particularly in DCH, continues to depress our performance indicators in this area.

Additionally, in July 2015, the three subsidiaries entered into a framework agreement with Keepmoat to deliver the home improvement programme for a two year period. Procurement is currently taking place to secure a new contract for the improvement programme, with a view to promoting a single consistent service, high quality work and value for money. The new contract will commence in July 2017.



Lettings

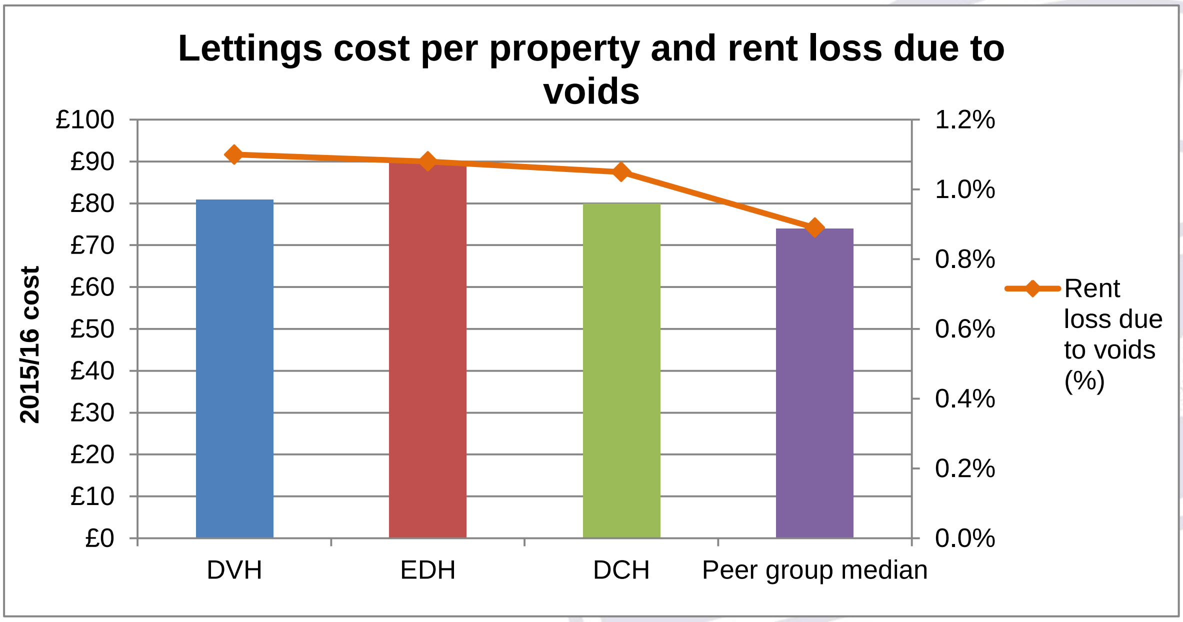
Our lettings service has been benchmarked as high cost and poor performance across all three subsidiaries.

Our group has been adversely impacted by recent welfare reforms and this has undoubtedly impacted the lettings environment in County Durham. However, we acknowledge that our peers have also been impacted by these reforms and, as such, our performance relative to them must also be driven by other factors.

The cost and performance of the lettings service across the Group are included within the Regroup programme's operations review, with structures and working procedures being rationalised and standardised to improve efficiency and effectiveness.

Void management, in particular, is an area that will be reviewed during 2016/17 as we aim to reduce the costs of reinstating empty homes, minimise the rent loss from homes and standardise the approach to re-letting homes across the Group, from when a property is terminated through to the new tenant moving in. In addition, the EDH tenant scrutiny panel have considered the approach to hard to let properties during 2015/16 and came up with a number of recommendations to assist with letting these properties, which we are intending to improve performance in future years.

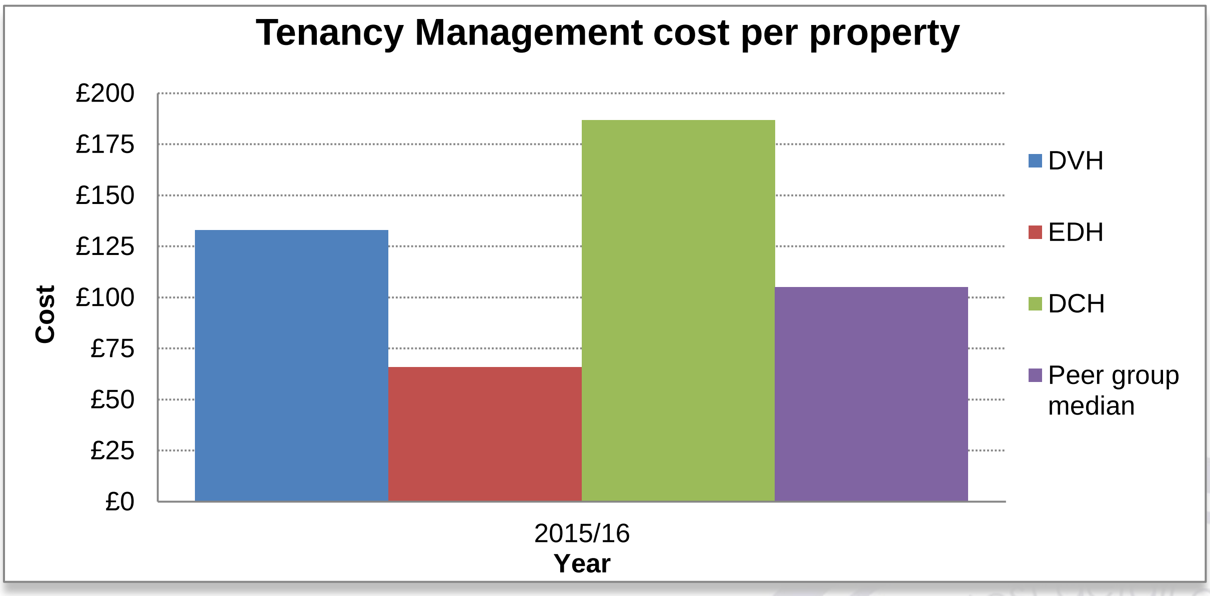
In the longer term, the Group's new FATAL model will form the basis of options appraisals for decision making around the future of void stock and will be used to identity poorly performing areas. A process for identifying and disposing of unviable void stock is currently being developed with appraisals due to commence during 2016-17.



Tenancy Management

Tenancy management shows a mixed picture across the Group. EDH shows good performance and low cost compared to peers, DVH also has good performance but has high costs. DCH has both high costs and poor performance. The variation across the three subsidiaries is indicative of the inherent differences in structure and operating procedures that existed at each organisation prior to the creation of the Group.

Streamlining operating structures and procedures and sharing good practice across the Group are aims behind the creation of a single housing operations directorate. Transforming this service will ensure that housing management policies, procedures and practices across the Group are consistent and efficient, maximise income collection, support tenancy sustainment and deliver improved value for money.

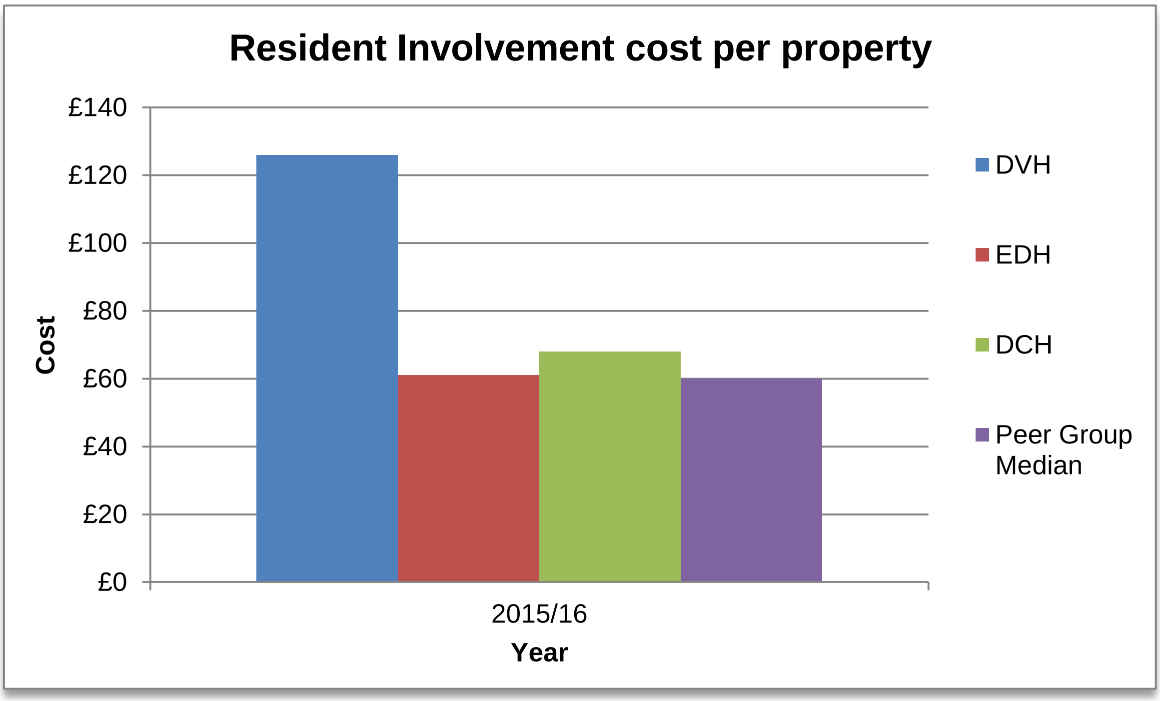


Resident Involvement

Resident Involvement has been identified as high cost and poor performance within DVH and DCH, whilst being of average cost and performance within EDH.

We are already aware of the need to radically rethink the way we engage with tenants and, during 2015-16, we initiated an engagement review to assess the methods by which we communicate and involve tenants, as well as the timing frequency of communications. As part of this process a staffing review of the service is being carried to create a centrally managed approach to involvement – this will help us to better manage the costs associated with the service and also provide a better quality, more consistent service to our tenants. The review is due to be complete, and a new structure put in place, by April 2017.

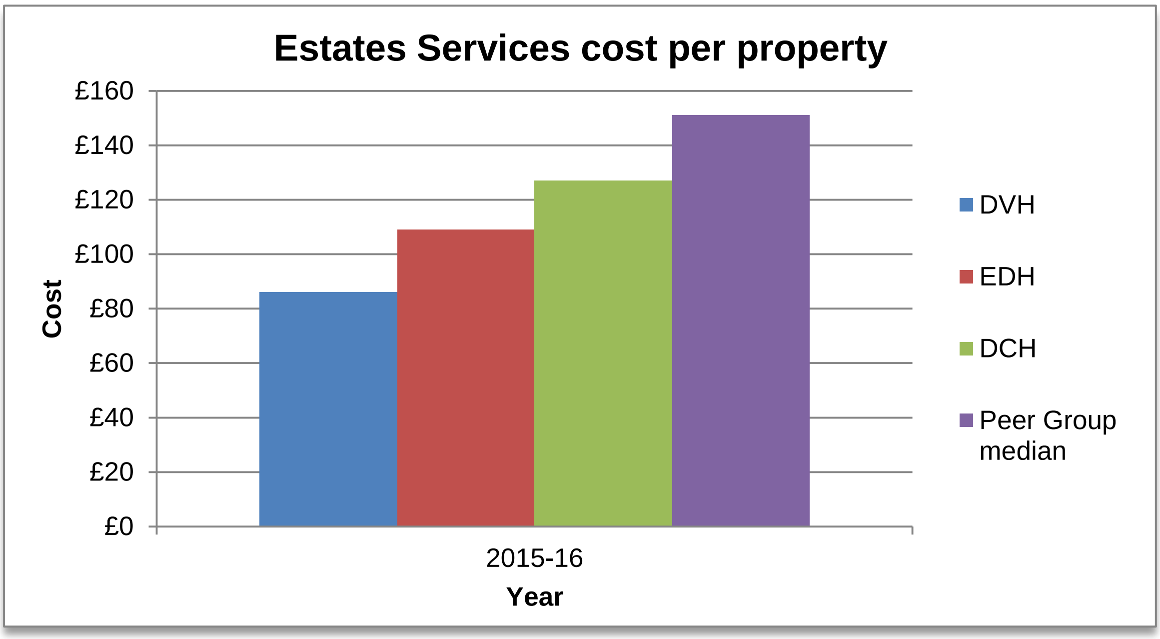
The governance review conducted during 2015-16 has also restructured and improved how we involve tenants in the overall oversight of the Group's operations. We have simplified and rationalised the governance arrangements, but maintained a strong tenant input into how the Group operates.



Estates Services
Estates services are showing below average costs for all three subsidiaries, but poor performance for EDH and DCH and average performance for DVH.

The tight control of costs in this area is in part down to the time invested in negotiating our service level agreement with Durham County Council and the work both sides have put in to improving working processes and procedures to maximise efficiency. Additionally, during 2015-16, EDH and DCH have shared an estates management team and this has brought further costs savings to the Group.

The relatively poor performance of this service has been depressed by comparatively weak customer satisfaction scores. The customer engagement review being undertaken in 2016 should allow the Group to obtain higher quality and more comprehensive feedback from tenants and we will use this to build up a better picture of the reasons for any dissatisfaction with estates services and what we can do to improve the service we provide to our customers.



Financial performance

As noted previously, our financial performance has been benchmarked with reference to our peers via the HCA 2015 Global Accounts of Housing Providers. The full list of organisations within each peer group used for benchmarking are shown in Appendix B. Assessing our financial performance in this way links directly to our VFM objective to "ensure a common approach to understand cost and performance comparisons by all providers within the Group", showing where we are achieving this objective, as well as areas we need to work on to improve further. The tables below show a range of financial indicators for the Group, demonstrating how we understand our performance in the context of our group and the wider social housing sector (note – our figures below have been calculated excluding pension liability recognition costs associated with the establishment of the Group):

County Durham Housing Group	2015-16	2014-15 Benchmark
Operating Margin	39.1%	25.9%
Retained Surplus	37.5%	14.8%
Debt per Unit	£6,211	£16,192
Interest Cover (earnings before interest, tax, depreciation and amortisation, major repairs included (EBITDA MRI), as a proportion of interest costs)	107%	110%

The Group has reported an operating margin in excess of 39% and a retained surplus of almost 38%. The peer group benchmark figures for these ratios are both less than the Group's figures. All three subsidiaries in the Group are reporting strong operating margins, varying between 12 and 16 percentage points above the sector benchmark figure. Debt per unit for the Group is £6,211, around £10,000 per unit lower than the benchmark figure, primarily due to the lower value of the Group's stock when compared to our peers. At 107%, the Group's interest cover is slightly lower than the peer group figure of 110%. The Group has invested more in major repairs work in 2015-16 than it has incurred in depreciation charges and this has adversely impacted the interest cover figure.

Value for Money future targets

Key areas of focus for 2016-17 and how these fit to our broader strategy

In 2016-17, the Group's key area of focus is the Regroup project, reviewing and transforming services to realise a more efficient and value for money organisation. Under the banner of Regroup, we will be focussing on the following strategic projects:

- Single housing management system – replacing the three different systems currently operating across the Group with a single group-wide system. This will improve operational efficiency and rationalise processes across our landlords, help to deliver a more seamless service to our tenants and provide a tangible cost saving to the Group.
- Governance review – the Group's current governance structure is complex and inefficient. A review is underway to appraise board members and streamline the governance structure and process to achieve a more efficient and effective oversight for the Group.
- Customer engagement review – a project to review the approach to customer involvement and engagement across the Group. The aim is to understand the most efficient and effective way to engage with our customers and to reassess our future plans and approach to community investment.
- People First – a project to develop the Group's culture and values and establish organisational structures and job roles that will ensure the business can meet current and future needs. The aim is to align existing employment approaches to create one common set of people policies and procedures, to remove duplication of activities within the Group and to design roles and team structures that are efficient and cost effective whilst also ensuring effective service delivery.
- Cost reduction and efficiency programme – to demonstrate that we are delivering on the promises made in the Offer Document and corporate strategy, whilst also achieving value for money, we have identified a minimum

of £4m of financial savings need to be made across the Group over a three year period starting in 2016-17. The areas where the savings will be achieved are: procurement reviews, service deliver reviews, technology reviews, a review of governance, and a review of group staffing.

The collective Regroup projects also provide the Group with an opportunity to consolidate and improve its data quality at the same time as introducing new systems and working practices. Improved data quality allows our operations to be smarter, targeting resources more efficiently to where they are most needed and where they will have the greatest impact, to provide better outcomes for our customers.

The Regroup programme directly aligns with, and contributes to, our corporate objectives through:

- enhancing the service we can provide to our customers
- creating a sustainable environment for long lasting business success
- establishing and promoting the County Durham Housing Group brand, both internally within the organisation and with our external stakeholders, providing us with the processes and means to invest our communities

Savings Targets for 2016-17

The following savings targets have been developed from our Regroup programme to allow us to assess the effectiveness of our work in each area of the Group's operations:

- People first efficiencies - £2m (over 4 years)
- Single housing management system - £0.4m (over 5 years)
- Governance review and other areas - £0.1m
- Procurement reviews - £1m (over 3 years)
- Service reviews - £0.5m

Within these categories, we have identified a number of areas where we expect the work we are undertaking will result in value for money savings for the Group. The specific targets for 2016-17 are as follows:

Better use of digital technology	
Group websites	£4,200 saving on hosting costs for a single site.
Online accessibility	£3,600 saving for single online accessibility.

Postage arrangements	£65,000 saving across the Group from rationalising postage arrangements.
Utilising the bargaining strength of the Group	
Subscriptions and memberships	Value of savings to be established.
Facilities, travel, office equipment	Aiming for £5,000 savings.
Commercial rents	Aim to attain a 5% increase where leases are due for renewal.
Office accommodation	Savings from negotiations of annual rent of office accommodation – value to be established.
Group Property Services (GPS)	Improve GPS bottom line position by £50,000 through a review of their fleet and stores.
Staffing	£40,000 saving through the use of North East Jobs website and reduced external agencies.
New build developments	Attain £200,000 additional grant funding to deliver new build developments.
Realising efficiencies from the Group structure	
Annual Report	£16,000 saving on production of Annual Report.
Tenants newsletter	£10,000 saving on production of Tenants newsletter.
Tenant surveys	Savings estimated to be up to £3,000 by using one system rather than three.
Learning and Development	Saving of £20,000 through increased use of internal resources and free external service providers.
PIMSS asset management software	Achieve savings of £13,000 per annum on PIMSS licencing agreements.
Accreditations	Group wide accreditations review – value of savings to be established.

Reassessing the ways in which we work and deliver services

Section 106 new build units	Aim to save 30% when compared to CDHG developing its own units.
FATAL	Aim to achieve a £100,000 net gain in the business plan as a result of FATAL.
Legal team staffing	£24,000 saving initially, plus potential for reduced external legal spend.

Appendix A – The HCA's Value for Money Standard

The required outcome of the Value for Money standard is that:

> *"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."*

The standard also states the specific expectation that:

"*Registered providers shall:*

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

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

- *enable stakeholders to understand the return on assets measured against the organisation's objectives*
- *set out the absolute and comparative costs of delivering specific services*
- *evidence the value for money gains that have been and will be made and how these have and will be realised over time."*

Appendix B – Benchmarking peer groups

The following organisations form the peer groups used in the benchmarking analysis referenced in our VFM self-assessment. Where applicable, the same peer groups are used in the HouseMark benchmarking analysis and our own internal analysis.

Peer Group	Organisations
County Durham Housing Group	Accent Foundation Limited Arena Housing Group Limited Aster Communities Bolton at Home bpha Limited City West Housing Trust Limited Coast & County Housing Limited Contour Homes Limited Cross Keys Homes Limited Curo Places Limited East Midlands Housing and Regeneration Limited Erimus Housing Limited First Choice Homes Oldham Limited First Wessex Great Places Housing Association Heart of England Housing Association Limited Helena Partnerships Limited Housing & Care 21 Isos Housing Limited Knightstone Housing Association Limited Knowsley Housing Trust Liverpool Housing Trust Limited Liverpool Mutual Homes Limited New Charter Homes Limited North Hertfordshire Homes Limited One Vision Housing Limited Paradigm Homes Charitable Housing Association Limited Pennine Housing 2000 Limited Plus Dane (Cheshire) Housing Association Limited Plymouth Community Homes Regenda Limited Rochdale Boroughwide Housing Limited Spectrum Housing Group Limited Stonewater Limited Thames Valley Charitable Housing Association Limited The Wrekin Housing Trust Limited Tristar Homes Limited Walsall Housing Group Limited Whitefriars Housing Group Limited Wirral Partnership Homes Limited Yorkshire Housing Limited
Dale and Valley Homes ***Durham City Homes*** ***East Durham Homes***	Accord Housing Association Limited Acis Group Limited Aldwyck Housing Group Limited Aragon Housing Association Limited Ashram Housing Association Limited B3 Living Limited Berwick Borough Housing Boston Mayflower Limited

Broadacres Housing Association Limited
Broadland Housing Association Limited
Caldmore Area Housing Association Limited
Chelmer Housing Partnership Limited
Cheshire Peaks & Plains Housing Trust
Chevin Housing Association Limited
Cheviot Housing Association Limited
City South Manchester Housing Trust
Coast & Country Housing Limited
Coastline Housing Limited
Cobalt Housing Limited
Community Gateway Association Limited
Cross Keys Homes Limited
Dales Housing Limited
Derwentside Homes
Eastlands Homes Partnership Limited
Equity Housing Group Limited
Estuary Housing Association Limited
Freebridge Community Housing Limited
Friendship Care and Housing Limited
Gedling Homes
Golden Gates Housing Trust
Golding Homes
Green Vale Homes Ltd
Greenfields Community Housing Association
Halton Housing Trust Limited
Heantun Housing Association Limited
Herefordshire Housing Limited
Hightown Housing Association Limited
Housing Pendle Limited
Housing Solutions Limited
'Johnnie' Johnson Housing Trust Limited
Liverpool Housing Trust Limited
Livin Housing Limited
Longhurst & Havelock Homes
Magna Housing Association Limited
Meres and Mosses Housing Association
North Devon Homes Limited
North Hertfordshire Homes Limited
North Lincolnshire Homes Limited
Nottingham Community Housing Association 2014 Limited
Ocean Housing Limited
Orwell Housing Association Limited
Oxbode Housing Association Limited
Oxford Citizens Housing Association Limited
Paradigm Homes Charitable Housing Association Limited
Raven Housing Trust Limited
Regenda Limited
Saffron Housing Trust Limited
Saxon Weald Homes Limited
Sentinel Housing Association Ltd
Severnside Housing
Shoreline Housing Partnership Ltd
Soha Housing Limited
South Lakes Housing
South Liverpool Homes Limited
South Northants Homes Limited
South Shropshire Housing Association
South Yorkshire Housing Association Limited

Southway Housing Trust
Spire Homes (LG) Limited
St Vincent's Housing Association Limited
Stafford & Rural Homes Limited
Teign Housing
The Havebury Housing Partnership
The Villages Housing Association Limited
Three Rivers Housing Association Limited
Trafford Housing Trust Limited
Trent & Dove Housing Limited
Twin Valley Homes Limited
Two Rivers Housing
Vale of Aylesbury Housing Trust
Wansbeck Homes Limited
Watford Community Housing Trust
Weaver Vale Housing Trust Limited
Wellingborough Homes Limited
Westlea Housing Association Limited
Wulvern Housing Ltd
Wyre Forest Community Housing Limited
Yarlington Housing Group
Yorkshire Coast Homes Limited