



# VALUE FOR MONEY STATEMENT 2013-14

# EXECUTIVE SUMMARY

Octavia Housing is one of the country's oldest housing associations. Our work derives from Octavia Hill the Victorian pioneer of social housing. In line with her wider vision to make "Individual lives noble, homes happy and family life good" we still consider our role to go beyond the provision of accommodation. The 'theory of change' that underpins the impact we want to make is simply that "good homes make for better lives". In the coming year we will develop our approach further on how we view and measure the impact made by our work and link this directly back to our belief in providing good and affordable homes as the foundation to build better lives.

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*"Tenants attach great importance to secure tenancies, modest rents, and a social mix by keeping social housing in high-cost areas".*

*"Housing is the main thing. Life has been a bit of a rollercoaster, but now I'm trying to rebuild my life".*

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The Board consider Value for Money (VFM) on a regular basis, both as a standalone item and as part of the consideration of wider aspects of our work. These considerations are informed by a strong commitment to extensive resident engagement, which includes involvement at Board level and a strong resident voice on our Services Scrutiny Panel, and which helps determine an appropriate balance between service improvement, growth and cost efficiencies.

## How decisions are made about competing resources

We allocate resources based on our corporate plan and our long term financial forecasts. These

major plans are supported by an annual budget, development strategy, care strategy, asset management strategy and service improvement plans. Our plans and strategies are designed to support the organisation in meeting its overall objectives on a VFM basis.

## Optimising our return on assets

With the vast majority of our homes in high property value areas, the rental income we charge is significantly below that which would be charged in an open market assessment. This means that the social dividend on what we do is substantial. At its most simple, the gap between Octavia's rent charges and the theoretical market rent on our homes, with average rents

less than 28% of the market rent, equates to a social return on the £184.7m of grant funding invested by the state of almost 30%.

Our ambition is to develop and retain for the long term a sustainable portfolio of homes in inner London. This means that development is not simply to produce financially sound projects but to produce places to live that are attractive for the long term. We work closely with a number of inner London property developers to ensure that the homes produced through section 106 agreements are of a good standard.

We are active in optimising our loan book and have implemented a number of changes to our funding arrangements that have resulted in substantial cost savings. We are also active in managing our property portfolio, and have processes in place to assess the potential for disposal as and when units become available, for example we made disposals in the year where the costs of repair were disproportionate to the long term value. The properties together sold for £2.2m. However like our residents we believe in the value of affordable social housing in the areas we operate in to help sustain mixed communities in the heart of London, therefore our approach to disposals is careful and targeted so that irreplaceable assets are not lost.

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*"I think it's a good thing to be in a mixed area. If you live around here, you can see that there are people who look like they are doing well, you can see that it's possible to achieve it – you can see it. But when you are in an area where everyone is at the bottom, it's a bit hard, you don't see anything".*

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*"The rent, certainly, that allows me to do what I do. I couldn't afford to do that otherwise – working with kids, and I work with a charity. I couldn't afford to do that if I had to pay Notting Hill [market] rent".*

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## Performance management and scrutiny functions

The Board considers operational performance each month. The suite of 72 performance indicators is comprehensive and covers all areas of our work. Performance on the majority of key indicators last year was in the upper or upper-median quartiles compared to our peers. This included meeting ambitious goals for completing repairs to target time for all categories of repairs and lower rent arrears despite challenging economic times and welfare reforms.

The Board is supported by a series of committees and panels each of which include residents, independent experts and Board members. Effective resident scrutiny has played an influential part in improving performance especially in areas identified as priorities from resident feedback including how we respond to noise nuisance reports and the quality of our service charge information.

## The costs and outcomes of service delivery

The cost of service provision is benchmarked over time and against peers using indicators produced by Housemark. Costs compared to the previous year were stable or reduced in most areas. Costs per property on major works and cyclical maintenance are higher compared to some of our peers; we have a large proportion of street properties built in the Victorian era in



our stock and we took the decision to continue investing further in planned works in anticipation of long term savings.

A number of services implemented changes that improved VFM in the year. Our routine repairs and gas servicing contracts included options to review after five years. We have taken the opportunity to challenge the VFM of the service and introduced a price per property funding approach. The first year of operation thus far indicate an annual saving of approximately £200,000. An annual 2% reduction target has also been included in the programme which could deliver a further £200,000 over the remaining 5 years of the contract. Our new 3 year capital works contract is 6% lower than previous arrangements, representing an estimated £165,000 saving.

We consider service outcomes in many ways but perhaps the most direct measure of outcome is resident satisfaction. In 2013 we commissioned BMG Research to conduct our first STAR satisfaction survey. The findings showed improvements on all indicators. Under Housemark benchmarking our resident satisfaction scores place us in the upper or upper median quartiles compared to our peers.

Beyond the financial, our work also has a 'social' value. Our Care and Support services provide essential support and help to elderly and other vulnerable residents. Each of these projects helps to sustain tenancies and support independent living. In particular our floating support and outreach services effectively help to avoid the greater costs of residential or more supported accommodation that some residents may require without these services in place. We also established, support and work closely with the Octavia Foundation which runs a variety of community projects that help to build local community life and support people

in disadvantaged situations. During 2013-14, 1,258 local people and Octavia residents were supported through the Foundation. Using the social value metrics developed by HACT and the LSE the monetised value of these community initiatives in 2013-14 was £5.9m and the Social Return on Investment ratio was 1:9.88 (namely for every £1 invested, there was a social return equivalent of £9.88).

## Planning ahead

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

- investing in improving the energy efficiency of our buildings:
- increasing use of technology to enable staff to be more mobile and to allow residents to do more on line
- continuing to develop private sales to assist our overall development programme
- developing the smarter use of data to tackle tenancy fraud to safeguard scarce social housing
- promoting and targeting our 'extra' support services to meet wider needs;
- and retaining a focus on welfare reform to avoid the additional costs to the wider community when tenancies break down (not to mention the social and familial costs to the people affected) by actively supporting residents through the changes so they remain in their homes and build better lives.

## I. INTRODUCTION

The Homes and Communities Agency (HCA), which regulates the work of housing associations, requires that each year each association produce a self-assessment of their approach to VFM against the HCA's VFM Standard. This document is that assessment for 2013-14.

Octavia's Board consider VFM on a regular basis, both as a standalone item and as part of the consideration of wider aspects of our work. We want to consider VFM in the context of the 'impact' made by the work we do and the services we provide. There is no sector standard approach to measuring impact, and we are at the early stages of developing our approach. It is our intention to develop this approach more fully in the coming year with our Board, staff, and residents

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

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



## 2. BACKGROUND

Octavia Housing is one of the country's oldest housing associations. Our work derives from Octavia Hill the social reformer who, in 1865 persuaded John Ruskin to invest £750 in securing three houses in Marylebone to be used as homes for the poor. Those same houses today would sell for seven figure sums.

Many of the properties that Octavia Hill developed and acquired remain in our ownership. These have been added to by her successors who have concentrated on the provision in inner London of homes for those on low incomes. In line with Octavia Hill's wider vision we still consider our role to be one that goes beyond the provision of accommodation. We provide a range of care and other support in an integrated set of services that address a wider need. In meeting our objectives we work closely with the Octavia Foundation, an independent charity we set up that provides services to Octavia residents and others in the local community. We support the work of the Foundation but without recourse to monies raised from residents.

We now own and manage a property portfolio of over 4,000 homes, in the most expensive boroughs in the country including Kensington and Chelsea, Westminster, Hammersmith and Fulham, Camden, Southwark. These are locations where capital values are high and there have been real value increases over the last few years. Furthermore in each of these areas the need for affordable housing is intense. The portfolio of homes that we manage is irreplaceable as a social asset and the Board take seriously their responsibilities to future generations to manage the stock efficiently in a way which preserves the buildings, meets the needs of residents, supports Local Authority partners in meeting their legal obligations, and represents excellent VFM.

Unsurprisingly our broad approach to VFM is

to take a long term perspective. Our ambitions are to provide top quartile performance levels, at average costs; to invest in all of our homes ensuring they are desirable for the long term; to develop a staff team that is well trained and motivated and is able to provide an efficient and friendly service but also one which is flexible, able and cost effective. Our approach is to develop long term supplier relationships where mutual understanding can develop thus saving time and money, but at the same time to couple this with regular and detailed market testing mechanisms to ensure that relationships do not become stale or costs out of line with best value. Our aim is to grow our portfolio by building on our success as being responsive housing managers and the strong relationships we developed with Local Authorities, development partners and others. Our ambition is to expand the number of homes we provide whilst maintaining rents at levels that are within reach of those we seek to house and without those same individuals having to have excessive recourse to benefit. Our aim is to ensure that members of the communities where we operate are not forced to move to less expensive areas, away from their jobs and family support networks. We take our understanding of Value for Money to encompass not simply the organisation's own narrow financial focus but also the wider public sector costs and benefits of social provision. Our development programme seeks to minimise grant costs and the management of our property portfolio recognises the responsibilities and costs that Local Authorities incur when nomination rights are lost through stock disposals and the costs to individual families of community breakdown.

We have a long standing commitment to extensive resident engagement, including involvement at Board level, a strong resident voice on our Services Scrutiny Panel, and through a diverse range of project groups, which it uses to strengthen all of its service reviews to ensure that we are securing an appropriate balance between service improvement, growth and cost efficiencies.





### 3. HOW DECISIONS ARE MADE ABOUT COMPETING RESOURCES – MAKING AN IMPACT

We allocate resources based on our corporate plan and our long term financial plans. Both are designed to support the association in meeting its overall objectives which were originally voiced by Octavia Hill as being to make “Individual lives noble, homes happy and family life good”. In 2014 we reviewed the summary of how we describe our work for the benefit of staff, residents, partners and other stakeholders. The statement starts:

*“Octavia believes that good homes make for better lives. Inspired by our founder Octavia Hill,*

*we are a not-for-profit organisation providing thousands of people with good quality affordable homes in inner London...”*

Our corporate plan and long term financial plans are supported by the annual budget, development strategy, care strategy, asset management strategy and service improvement plans, all underpinned by the objective of obtaining VFM.

The process is determined by the Board – who set the overall ambitions and plans and who are supported by a series of groups including a Service Scrutiny Panel of residents and independent experts who examine individual aspects of service provision. Alongside the Services Scrutiny Panel, Octavia operates a Development Panel, that ensures all major capital investments are scrutinised not only from a financial perspective but that they will also produce “good places to live”, a resident steering group and a series of resident groups, which consider a wide variety of different aspects of

our work including changes to policy and the performance of key services.

The day to day operations are managed by the Directors team which is also responsible for detailed capital project assessments (to an agreed threshold) within the broad framework set down by the Board and the management of operational activity.

The process of resource allocation is determined through an annual planning cycle which involves Board members, external stakeholders, residents and staff members across the organisation with outcomes and performance reported against key indicators and financial performance criteria each month.

## 4. OPTIMISING OUR RETURN ON ASSETS

Octavia manages its assets with a long term perspective. We aim to keep our homes to a good standard, our estates well managed and with improvements made over time. We want to be “proud of every property”.

### 4.1 Decent homes

The vast majority of our homes meet or exceed decent homes standard. We are not aware of any decent homes failures. We have a programme of regular property surveys and upgrades to maintain the portfolio, and thus avoid expensive major works that can arise through lack of planning and regular maintenance. We are also preparing to conduct a new stratified stock condition survey in the coming months and that will provide us with a more detailed assessment.

## 4.2 Commitment to social housing in expensive areas / affordable rents

Octavia’s long term commitment to affordable homes in inner London goes back to our earliest days. Octavia Hill writing in 1888 on the problems of finding homes: “but where are the poor to live?” While fully cognisant of the fact that much of the stock could be sold and additional homes provided elsewhere such a move on any scale would run counter to our long term objective of supporting those on low incomes to live close to their work and their communities and yet to do so without any significant additional cost to the public sector.

In the last year we published research from the LSE on resident views on living in high value areas on low incomes. The report highlighted some of the hidden benefits to individuals and also to the public sector of mixed communities in London:

*“Tenants believe that social housing in expensive areas is vital to retaining a social mix and building an inclusive society. They think that their children benefit from attending schools in these areas and aspire higher as a result. Tenants worry that moving to other cheaper areas would damage their work chances and their children’s education. They would lose local support.”*

While we regard it as fundamental to our objectives to be working in the areas where we do, there are wider social and financial reasons for preserving an inner London portfolio of properties. The Local Authorities where we operate all have substantial housing obligations and each property disposal in inner London



results in significant cost elsewhere in the public sector. Furthermore in an increasingly low wage world it is increasingly important that there is a stock of affordable homes for those that work and have family support networks in inner London. The savings which flow from the ownership of a stock of affordable homes, when measured against the alternative costs of housing families in temporary accommodation, are huge and unlikely to decline.

We aim to set our rents at 'affordable' levels. There is no universally accepted definition of affordability in social housing, therefore we conducted research to arrive at a proportional measure of housing costs as a percentage of income to guide our approach. We looked at common measures for acceptable residual income and used Universal Credit Benefit caps as assumed income for modelling purposes. The findings ranged around 35% as the maximum housing cost to income affordability percentage and this has formed a basic principle underpinning our rent setting in the last 2 years. Overall the rental income we charge is significantly below that which would theoretically be chargeable in an open market assessment. According to a detailed study undertaken by Jones Lang LaSalle in 2014 the average general needs unit value is approximately £470,000 and the average rental some 28% of market rental. The social dividend on what we do is thus substantial. At its most simple, and as described in more detail in Octavia's annual accounts the gap between the our rent charges and the theoretical market rent on our homes is equivalent to a social return on the £184.7 million of grant funding invested by the state of almost 30%.

### 4.3 Targeted disposals / a local landlord

There are still opportunities that arise simply by

virtue of working in the areas where values are high and we are active in managing our stock of assets.

In the past few years we have transferred properties which were outside the main area of management to other associations. Our processes now allow for a review of the potential for disposal of individual units as and when they become available. In the last year we disposed of two properties (one in Brent, one in Hammersmith) because the costs of repair were disproportionate to the long term value. The properties together sold for £2.2m. We took the decision to refurbish the Hammersmith property before sale and this generated an additional £700,000 surplus.

In 2014 we completed an exercise to review all possible developments on small pieces of land which we already own and planning investigations are now under way.

### 4.4 Stock management

Octavia has undertaken a number of stock management activities over the past year. We are redeveloping the site of the Kensington Day Centre. This will provide a new local facility and 13 accessible flats for the authority in place of homes that had reached the end of their useful lives. During the year we have redeveloped a former day centre for the elderly in Maida Vale and through restructuring a building we have been able to re-provide the centre and also to provide a dementia unit of five homes. The redevelopment meets a defined need of the Local Authority who funded the works through grant. We have also converted part of our main office building from offices to a day centre for older people. By adjusting the use of office space for staff we have been able to create the opportunity for an additional local facility without needing to acquire additional buildings.

Our approach to development is to review each

site to determine the most economic form of development. For example at the scheme at Sulgrave Gardens (which includes low cost rented homes, shared ownership and outright sale and was let/sold in 2013), all of the properties are to passivhaus standards with greatly reduced energy costs for all the users. With the combination of sales of high value units the scheme has been economically viable.

## 4.5 New homes

Octavia's ambition with development is not simply to produce financially satisfactory projects but to develop places that are attractive and cost effective for the long term. We partner with other associations to reduce costs (we lead the Connected development partnership) and provide Agency services to a number of smaller associations – to both recover some of our costs and assist them in utilising development capacity. We work closely with a number of inner London property developers to ensure that the homes produced through section 106 are of a good standard and will be attractive for the long term.

Octavia has employed a number of innovative approaches to development and also to the funding of the development programme. We have in place a series of loan facilities at attractive financial margins but which are potentially restrictive in terms of our overall development capacity in the long term. To address this problem we set up a separate subsidiary (Octavia Living) which undertakes development which include outright sales as a cross subsidy and Octavia Hill Ltd as part of a strategy for undertaking additional development once the gearing limit in Octavia Housing has been reached.

Both of these organisations are controlled by Octavia Housing.

In 2013-14 we completed 203 new homes. This included our first 77 market sales; the income generated is being reinvested into the work of Octavia Housing.

## 4.6 Environmental impact

We are aware that our development and stock management plans impacts on the environment and have an Environmental Strategy in place to minimise the negative environmental impact of our activities. We also want to build new homes that are energy efficient to the benefit of the wider environment and in terms of lower utility costs for residents; our Sulgrave Gardens scheme mentioned above is a prime example of our ambitions in this area. Whilst the strict standards and associated costs of passivhaus will be challenging to repeat in the near future, the underlying 'fabric first' principle is being adopted for all new homes.

A key objective in the strategy is to ensure all our homes achieve a minimum of an EPC "C" rating with an average 30% CO2 reduction by 2023. In 2013-14 we undertook energy efficiency works to 596 properties, securing over £230,000 of grant towards the works. Of those properties, 266 achieved an EPC "C" rating, the others had partial improvement works carried out while carrying out other planned major works. The impact of energy efficiency works carried out in the last 4 years has improved the average SAP rating of our stock from 64 in 2010 to 71.

In addition to making homes more energy efficient we have trained all frontline staff to give basic Energy Advice to help further reduce fuel poverty in these challenging economic times for many of our residents.

Going forwards we will continue to deliver an annual programme of 200 homes raised to a minimum EPC "C" rating, and consider new technologies to help us reduce our carbon footprints further, for example exploring the use of PV arrays and the "feed in tariffs" associated. We will also set targets in a number of areas to drive improvements including on use of sustainable materials, water efficiency, energy usage in the office, and savings from running IT services remotely with the move to Office 365.



## 5. PERFORMANCE MANAGEMENT AND SCRUTINY FUNCTIONS

Performance management in the organisation is ultimately the responsibility of the board. As set out in section 2 above detailed monitoring is undertaken by the Directors group, Service Scrutiny Panel, the Development Panel, an Audit Committee, Health and Safety group and Treasury functions. Our internal auditors also monitor areas of our activities.

Each of the groups reporting to the Board has an ambition to achieve VFM. The Board consider an annual report on VFM and use Housemark reporting to support their understanding of relative costs. Fundamental to the Board's

approach is the use of resident involvement to ensure that we are, as far as possible, providing services that residents require and in a manner which is cost effective. The Services Scrutiny Panel undertake scrutiny of key service areas based on assessment of residents' priorities and where improvements can be made in particular areas; the Panel report their findings directly to the Board.

### 5.1 Top Quartile Performance

We report on performance to the Board each month. The suite of 72 performance indicators is comprehensive and covers all areas of work, notably: income; lettings; repairs; planned works; anti-social behaviour; estate services; home ownership; development; care; health & fire safety; human resources; and resident satisfaction. Figure 1 provides a summary of performance for key indicators:



Figure 1 – performance on KPIs

Performance Indicator	London (Housemark) extracted May 2014	2013/14 Outturn	Rating
Rent collection as % of rent due	Median – 99.8% Top quart – 101%	99.88%	Upper median
Former tenant arrears as % of rent roll	Median – 1.1% Top quart – 0.6%	0.6%	Top quartile
Standard voids – average re-let time (in days)	Median – 24 Top quartile – 16	20	Upper median
Void loss as % of rental income	Median – 0.6% Top quart – 0.4%	0.4%	Top quartile
% of emergency repairs completed on time	Median – 97% Top quart – 99.8%	100%	Top quartile
% of urgent repairs completed on time	Median – 95.5% Top quart – 98.9%	99.4%	Top quartile
% of routine repairs completed on time	Median – 93.8% Top quart – 96.7%	99.6%	Top quartile
% of boilers with a current certificate	Median – 99.9% Top quart – 100%	99.9%	Upper median
Shared ownership – arrears	Median – 2.3% Top quart – 2.1%	1.18%	Top quartile
Time from completion of scheme to sale (in days) – S/O	Median – 109 Top quart – 60	91	Upper median

Outturn and benchmarking data (where available through Housemark) is provided to Board at the beginning of each year in order to set challenging and VFM targets for the coming year. Our ambition is for our performance to be top quartile compared to peer providers. Figure 1 above shows that we are achieving this ambition in many areas but will need further improvements in some areas to be top quartile across all performance areas. In 2013-14 particular successes included:

- Meeting ambitious targets for completing repairs within target times for all categories of repairs: emergency; urgent; and routine.
- Exceeding rent arrears and rent collection targets despite the tough economic climate impacting on our residents. Our overall income performance actually improved from the previous year despite welfare reforms being rolled out.

## 5.2 External quality assurance

In addition to our own internal performance reporting, we believe there is great value in having external checks on the quality of our service. In 2013-14 we were members of Service Matters, an external quality assurance scheme, who carry out customer polling on our services throughout the year and carry out desktop audits every six months. The overall results from our last audit in June 2014 were:

- We retained enhanced Service Matters accreditation overall;
- We exceeded enhanced accreditation standard for all 10 service areas audited (reception, communications, tenancy management, neighbourhoods, maintenance, income, complaints, engagement, VFM, and diversity), with an average score for each area of 82% (+2% from the previous 6 monthly audit);
- We ranked 2nd overall of all members nationally;
- We were the top ranked London based member.

## 5.3 Resident Scrutiny

Effective resident scrutiny has played an influential part in improving performance, and has engaged residents directly in the discussions on where we should focus our improvement work given our finite resources. To help determine what are priorities for residents, and therefore the service areas to be looked at by our Services Scrutiny Panel:

- We ask residents attending our annual (and largest) resident event called Yourspace to vote on their top priorities for service improvement;
- The findings from this resident vote are discussed at our next Tenant Steering Group (our main resident involvement group) meeting;
- The findings from the Yourspace vote, views of the Tenants Steering Group, and the findings of our other main resident feedback work (including satisfaction surveys and learning from complaints) and latest performance data are brought together for the Services Scrutiny Panel to inform their decisions on which service areas to scrutinise in the coming year.



In 2013-14, resident involvement and scrutiny have been particularly influential regarding:

- **Noise nuisance – the Services Scrutiny Panel** checked our responsiveness to reports about noise and resident satisfaction with the service. Panel members considered the different demands on resources as some of the possible building solutions were costly and could divert resources from elsewhere, as opposed to other solutions such as better communication, mediation and remedial measures. Several key recommendations are already being implemented: we are recruiting ‘tenant friends’ to act as advocates for complainants, and we are holding quarterly focus groups to provide us with more qualitative insight to support satisfaction data about the service.
- **Service charges – the Panel** started work looking at the service charge information we provide to residents, the accuracy of service charging, and the responsiveness of the service. Again Panel members had to consider the costs of possible improvements such as new systems versus the gains of waiting for forthcoming developments of our existing “Smarter Working” project. This scrutiny project is yet to conclude but the Panel’s current focus is on cost effective solutions such as clarity of information, effective quality checks, and raising awareness of services charged for in particular through our website and at key points of contact.

## 5.4 Development Panel

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

- Scrutinised the progress on all projects in development and considered the reasons for and any lessons arising from schemes with

cost overruns;

- Completed an annual review of resident satisfaction on recently completed projects (overall satisfaction with new homes was 94%, a 2% increase from the previous year);
- Considered research into design issues;
- Worked with Resident Inspectors to get their feedback on the standards of new homes.

## 5.5 Audit Committee

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

The areas our Internal Auditors looked at in 2013-14 included our response to welfare reform and our performance reporting to Board. They found no significant gaps / concerns in either area.

## 5.6 Treasury

The Treasury task and finish group was set up to oversee a number of major transactions and completed its work in April 2013. Our Board now oversees the cost effectiveness of our Treasury function directly for individual complex / significant transactions.

In May 2013 an interest rate “swap” transaction was completed with another association. Completion of this transaction which had been under discussion for some months resulted in savings of £240,000 (being a saving of £10,000 per annum over 24 years) as against the rates that would have been payable had we used the traditional banking route.

We agreed new £10m 30 year fixed rate loan arrangements with an investment bank at an interest rate of 4.16% per annum. This is 0.53%



below the market rate and equates to £53,000 savings per annum.

We renegotiated offset arrangements with another bank allowing an additional £50,000 per annum to be earned from our deposits.

## 6. THE COSTS AND OUTCOMES OF SERVICE DELIVERY

This section looks at the cost of our key services, which factors influence these costs and how they do so. We also set out some examples of where alternative approaches have improved VFM in the last period, the value for money gains that have been and will be made over time, and the added value provided by some of the 'extra' services that we provide to support our residents (in addition to our core housing service) and helps sustain their tenancies.

### 6.1 Service provision

#### 6.1.1 Service costs

In terms of operational activities (as set out above in 5.1) the Board set standards of performance and annually allocated resources. Performance is monitored monthly against a comprehensive set of indicators and the cost of service provision checked against indicators produced by Housemark. Services are reviewed on a regular basis and a detailed assessment for the purposes of continuous improvement undertaken annually. The Board also monitor satisfaction levels and resident feedback.

Our performance compared to peer providers is set out in 5.1 above. Housemark cost comparison for 2013-14 for our peer group is not available until November. We will analyse that data when available and target any areas where

we are in lower quartiles for investigation and improvement. Our topline costs overtime is set out in Figure 2:

Figure 2: Costs in key service areas (£s per property) 2013/14 compared to previous year

Cost per property	2012/13	2013/14
Housing management	512	516
Responsive repairs and void works	1003	872
Major works and cyclical maintenance	1653	1096
Estate services	299	374
Leasehold management	466	299
Shared ownership management	855	551

Housing management costs are generally stable compared to last year. We have reduced per property responsive / voids and major / cyclical works costs compared to the previous year. However, our cost per property on major works and cyclical maintenance is an area where costs are higher compared to a number of our peers. This reflects our commitment to invest in homes and on the profile of our stock (we have a large proportion of street properties, many built in the Victorian era). In 2013-14 we carried out cyclical works across 553 homes, and replaced 110 boilers, 87 kitchens and 79 bathrooms.

#### 6.1.2 Service outcomes / resident satisfaction

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

In March 2013 we commissioned BMG Research to conduct our first STAR satisfaction survey; our first large scale randomised survey since our 2010 STATUS survey. We reported on the initial findings in our 2013 VFM Statement. Additional surveys were carried out in quarter 1 2013-14, and the full sample scores are summarised in Figure 3 below. The findings showed improvements on all indicators compared to 2010, in many instances substantial improvements. Satisfaction with our overall service improved to 82% (+14%). These outcomes evidence real positive impacts made to our service over the last 3 years, in particular to the repairs service which (unsurprisingly) remains the key driver of resident satisfaction. Satisfaction that rent provides value for money also improved significantly to 80% (+10).

Under Housemark benchmarking our resident satisfaction scores are in the top or upper median quartiles compared to other London based Registered Providers. All of our STAR

satisfaction scores are in the top quartile compared to the L9 (a peer group of similar sized organisations based in London).

## 6.2 Staff and services

Some of our work on staff restructuring in order to improve efficiency in 2012-13 came to fruition in 2013-14:

- For residents the key service provision is asset management (which includes routine repairs). This is an increasingly complicated and highly regulated sector, which has forced many into having to use expensive consultants and specialist contractors. We think that this is an expensive and potentially unsustainable route. One example is the introduction of the Regulatory Order for Fire Safety that requires that Fire Risk Assessments (FRAs) are renewed or reviewed at regular intervals. We mentioned in our last VFM Statement that we had employed our own Fire Safety Officer to oversee the assessment programme, undertake

Figure 3: STAR survey topline scores

STAR satisfaction survey	STAR 2013	STATUS 2010	+ / -
Taking everything into account, how satisfied or dissatisfied are you with the service provided by Octavia?	82%	68%	+14%
How satisfied are you with the overall quality of your home?	78%	74%	+4%
How satisfied are you with your neighbourhood as a place to live?	86%	80%	+6%
How satisfied are you that your rent provides value for money?	80%	70%	+10%
How satisfied are you that your service charges provides value for money?	66%	-	n/a
Generally, how satisfied or dissatisfied are you with the way Octavia deals with repairs and maintenance?	72%	65%	+7%
How satisfied or dissatisfied are you that Octavia listens to your views and acts upon them?	65%	50%	+15%

High and Medium risk FRAs, and trained our building inspectors to undertake low and some medium risk FRAs. This work has been done while they are undertaking site supervision duties on major works programmes. As well as optimising the use of staff and saving money, the strategy has brought added bonuses improving the skills of our work force. This continuing work has also raised the profile of Health & Safety across our staff. Our approach is saving over £50,000 per annum against the fees quoted by external providers.

- In our last VFM Statement we also mentioned bringing in-house the sales function for shared ownership and private sales properties. In 2013-14 we have seen an acceleration in the processing for the private sale units for the scheme at Sulgrave Gardens and Elizabeth House. We sold 77 private sale homes. Average sale times improved significantly and met targets for shared ownership and private sales in the year.
- In 2013-14 we carried out a review of Octavia salaries against market salaries and linked our salaries to the median payable as advised by an independent consultant. These will be reviewed on a three yearly basis. Related to this we have implemented a competency framework that links to the values of the organisation to ensure we all work to shared objectives. Our overall Human Resources aim is to recruit and retain well qualified staff. We are strongly supportive of staff development and were a member of the Times 100 best employers group when we last entered the survey in 2012.

### 6.3 Repairs and stock investment

Our routine repairs and gas servicing contracts included options to review after five years in 2013. Although resident satisfaction with the repair service improved over the period of the contract we took the opportunity to challenge the VFM of the service and to further improve the

service offered. In doing this we have remodelled the way we worked and introduced a Price per Property funding approach to cut down on administration. We have also introduced Open Book accounting which allows us access to contractors' accounting records and a 'pain/gain' mechanism to encourage further improvements. This 'shared saving' approach with the contractors encourages on-going savings.

The first year of operation thus far indicate an annual saving of £200,000 compared to charges that would have applied under previous arrangements. An annual 2% reduction target has also been included in the programme which could deliver a further £200,000 over the remaining 5 years of the contract.

Procurement can be expensive and time consuming. We have implemented a number of strategies for minimising these costs and improvement in the quality of service delivered to our residents. These have included making use of established procurement clubs and entering into long term partnering contracts, supported by challenging performance indicators and shared reward systems to incentivise our Partners to deliver innovation:

- Our 2010-13 Kitchen and Bathroom contract saw year on year reductions. We estimated a saving of £100,000 over the 3 year contract. After 3 years of the original contract we undertook a marketing exercise for a new 3 year contract and the same contractor was once again chosen having the best price and quality submission. The new 3 year contract is 6% lower than previous arrangements, representing an estimated £165,000 saving over the course of the contract.
- We tender 25% of cyclical works outside of our main partnering programme. In 2013-14 this portion of the cyclical works carried out reduced costs by £100,000 (20%). We are using this outcome to work with our main partner contractor to identify ways to reduce our overall cyclical work costs (which increased) in the coming year.



- We replaced our Out of Hours reactive repairs contractors and appointed our main partnering contractor to this contract from April 2014. This will save an estimated £35,000 per year. In addition having the same contractor providing both our normal hours and Out of Hours services provides a more seamless service to our residents.

In addition to the normal maintenance of buildings Octavia has a long term commitment to enhancing the homes we manage in line with changing expectations and also as part of a strategy designed to protect public investment. In the past twelve months we have been investing through our cyclical programme, the kitchens and bathroom programme and an energy improvement pilot.

Each programme is procured with care taken to strike the correct balance between cost and service level. Batching of work can have a major impact on cost. Therefore, where possible we aim to batch works of different types together and we aim also to batch properties in the same area. In the past 18 months we have undertaken a pilot scheme as part of developing a cost effective approach to improving energy efficiency. In order to minimise costs we have:

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

## 6.4 Service charge utility costs

We know utility costs are a real worry for many of our low income families. In addition to the energy works to our buildings, service charge utility costs were retendered in June 2013. This gave rise to savings for residents of approximately £100,000 per annum. We will retender utility costs again in 2014 to secure further VFM improvements

## 6.5 Insurance costs

In the past twelve months we have undertaken detailed cost reviews of insurances. Tendering insurance cover reduced overall premiums on a like for like basis by £70,000.

## 6.6 Legal costs

We joined Housing Association Legal Alliance (HALA) last year. This means we benefit from joint procurement, some free legal helpline advice, some free legal training, and hourly fee rates from the panel law firms as a result of competitive tendering. HALA retender their panel from time to time to ensure that the law firms on it provide a good quality service on a cost effective basis. It is too early to quantify the related VFM gains for Octavia from joining HALA; we will carry out an assessment of this in about six months' time.

## 6.7 Mobile Caretaking

We reviewed our contract cleaning service; the contract comes to an end in December 2014. We plan to replace this with an in-house mobile caretaking service. This will give us more control over quality, provide greater flexibility to respond to changing estate needs, and build on the excellent reputation of our existing residential caretaking service. The change is expected to save an estimated £32,000 per annum.

## 6.8 Commercial properties

We have a number of commercial properties in our portfolio. In 2013-14 we renegotiated rents on a number of these properties giving rise to an increase in rents of £100,000 per annum. The income is used to support our other activities.

## 6.9 Welfare reform

As mentioned above, we met rent arrears and rent collection targets in 2013-14 despite the challenges of welfare reform. In advance of welfare reform being implemented we commissioned GRE Consulting to carry out



research with our residents, and they found concerning low levels of understanding about welfare reforms amongst our residents and many households fed back that they were already struggling financially before reforms were implemented:

*"There is a general awareness that welfare reform is happening but a very low understanding of the exact details of the changes and whether it would actually apply to them – just one-third of those residents who are going to be impacted actually knew they would be affected".*

*"My bank account is empty. I don't think I have more than £40 or £50 in there. I had some savings but it's all gone. I was talking to my daughter and she said she might come and stay with me. So I don't know, we are just struggling. I just don't know what to do".*

Following the GRE Consulting research we put in place a number of measures to support households affected by welfare reform to help them to sustain their tenancies. We created a new Financial Inclusion post to add value to the work of the Income Team and specifically to make targeted contact with households affected by welfare reform. This was underpinned by a segmentation framework so we make best use

of resources and prioritise households for early contact by assessed risk. We also devised and implemented a targeted publicity campaign so that households affected by different aspects of welfare reform received information that was specific to their circumstances. With these support measures in place, the financial impact of welfare reform thus far on Octavia has been modest.

We have 5 households affected by the benefit cap. For this group the household with the highest arrears balance is £108.25.

We are not aware that any Octavia household is in receipt of Universal Credit thus far. In our areas of operation, Universal Credit has been rolled out only in the Hammersmith Job Centre area to single people newly unemployed in W6 and parts of W14.

The main welfare reform impact on Octavia has therefore been the removal of the Spare Room Subsidy for under-occupation. We have managed this impact well in 2013-14 and made contact / visited all the households affected. 98 households are currently affected by the removal of the Spare Room Subsidy, 14 other households affected earlier in the year have downsized:

- Rent arrears of households affected by the removal of the Spare Room Subsidy at 2013-14 year end was just under £40k;
- 22 affected households have been issued with Notices, the majority are engaging with repayment plans, and there have been no evictions of affected households;
- Rent arrears of households affected by the Spare Room Subsidy increased by £1.4%, and their arrears were 0.8% higher than our general needs households overall.

## 6.10 Some challenges

We have learnt from a number of VFM challenges in 2013-14.

As mentioned above, the 25% of cyclical works tendered outside our partnering programme

reduced costs for this part of cyclical works by £100,000. However, despite this saving the overall cost of cyclical works in 2013-14 was approximately £100,000 higher than budgeted. The two works packages were not made up of identical properties, so direct comparisons cannot be made. However a review is now underway with our main contract partners to identify any learning from the efficiencies demonstrated by the 25% of works undertaken outside of our partnering programme, with access costs a particular focus for improvement.

The average revenue cost of void works has increased over the year by 8%. Our teams involved and the contractors are working with Cameron Consulting to reduce this level of spend. An early focus is looking at recent specifications against policy standards to check if improved monitoring is required in this area.

Our Smarting Working Project to use technology to improve our systems and processes is not as advanced as we had planned. We have employed a dedicated full time project manager experienced with the solutions proposed to drive the project forward, build in rigorous testing, and ensure staff will be thoroughly trained on the new applications. We have also decided to change from current applications to a Microsoft based approach and that has resulted in approximately £100,000 accelerated depreciation of associated capitalised costs. The change regarding applications will provide better supported and longer lasting solutions.

We have experienced some building issues with a few developments in recent years. Some of these costs will be covered by insurance and some from compensation paid by developers. We believe closer working between our Development and Operational departments in the design and development phases will help to prevent / minimise such problems in the future and have started a Gateway Process project to ensure that this happens.

As described above, we have made some disposals within our long term approach to



asset management. We want to make use of our strong asset position to provide excellent VFM but without jeopardising precious (and potentially irreplaceable) social housing in high value areas. Striking the right balance in this regard remains a real challenge but we will continue to make targeted disposals where this makes business sense and is consistent with the values of the organisation.

## 6.11 Added value / work with impact

We believe that 'good homes make for better lives' and want our work to have positive impact to help improve the lives of the people we house. It is a challenge to measure that impact. In addition to the homes we provide and the quality of housing management, perhaps the most direct measures are the outcomes from the 'extra' services that we provide:

Our Care and Support services provide essential support and help to elderly and other residents

so they can remain in their homes:

- Our four extra care schemes combine independent living for older people with the benefit of 24 hour care and support. All four schemes met the high standards required of them at their yearly Care Quality Commission inspection.
- 115 older people regularly attended our two day centres – The Quest and Kensington Day Centre.
- Our floating support service helped 129 older people living in Westminster and Kensington & Chelsea.
- Our Housing Caseworker (who supports residents in areas where we do not hold a Floating Support contract) supported 91 residents to sustain their tenancies.
- We completed 143 minor adaptations and 22 major home adaptations to help Octavia residents to continue living independently,



and received £92,319 Disabled Facilities Grant towards the works.

- In Westminster, our outreach service supported 319 older people and vulnerable adults over the age of 50.

We use a STAR well-being rating with residents living in our Care schemes and the majority of residents rated their wellbeing as having significantly improved since moving into the scheme; the overall average score in 2013-14 was 9 out of 10 (increased from 8 in the previous year).

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*"Staff at James Hill House and the day centre look after her health and wellbeing and inform me of everything that goes on. The flat has allowed her to get her independence back. They offer a professional service and there's nothing more we can expect. I would like to say thank you for the way they after my mum and treat her always with dignity and respect".*

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*"I felt like I had a lack of confidence and needed help with writing CVs and preparing for interviews, I always felt nervous... Being unemployed isn't fun and it's not something I wanted to set as an example to my kids. Octavia really, really helped me and I am very grateful. They helped me achieve my ambition of working in healthcare".*

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Our community charity – the Octavia Foundation – also run a variety of community projects that help to build local community life and support people in disadvantaged situations. During

2013-14 we were able to help 1,258 local people and Octavia residents through our strong partnership with the Foundation. The range of community initiatives includes:

- Our Employment and Training programme supported 272 residents and local people into work, training, volunteering, work placements and to be more job ready.
- We continued our Apprentice scheme, placing local young people out of work with different departments in Octavia so they can learn new skills and build confidence.
- Our BASE project and young people's summer projects help children and teenagers to build confidence, learn life skills, promote healthy living, and learn creative skills through theatre and film workshops. These projects worked with 200 young people.
- Our befriending service supports older people and vulnerable adults over the age of 50 who live in Westminster. Last year we matched 83 people who were experiencing loneliness and isolation with volunteer befrienders.
- The Debt and Welfare Benefits Advice service (delivered through the CAB) helped 342 residents to manage their debts and maximise their income. We changed the service to introduce greater flexibility with drop in sessions.
- The Foundation provided 110 residents with welfare or education grants providing essential household items and assistance to pursue education.
- Our Handyman service provides a free service to elderly residents with small jobs that are normally not a landlord's responsibility. Last year 350 residents used the service. In a recent survey disabled residents told us they would also value such a service. We have therefore reviewed the demand on the service and younger disabled residents are now able to access the service. This 'extra' value will be achieved within budget by slightly limiting the



number of jobs available per resident.

- Our Foundation shops operated with the help of 131 volunteers bringing additional income to assist with the work of other Foundation projects.

How social value is measured is much debated in the sector, and we are continuing to develop our thinking in this area. One of the most widely

used methods currently in the sector is that developed by HACT and the LSE. Using the social value metrics in their approach the monetised value of the Octavia Foundation's work in 2013/14 was £5.9m and the Social Return on Investment ratio was 1:9.88 – meaning that for every £1 spent an equivalent £9.88 in terms of social value was achieved.



## 7. PLANNING AHEAD

Value for money, in its broad sense, is central to all aspects of Octavia's work. In planning ahead the key areas that we are working on include:

- An increased use of technology to enable staff to be more mobile and cost efficient and to allow residents to do more on line. Residents can already undertake a range of activities digitally and we expect this to increase over the next few years with our new website and linked new contact management system. We anticipate that greater use of technology will allow us to increase contact with residents and reduce the costs of administration. We are also investing in the use of greater technologies to gain a greater understanding of our stock and to help us segment our resident group beyond our work on welfare reform and target our services.
- We are currently investing approximately £1.5 million per annum in improving the energy efficiency of our buildings. We have been successful in leveraging in significant amounts of grant funding to meet the costs of this programme and we will continue to make best use of available funds. We are also concerned to ensure that we programme the works in the most effective ways to secure best value. The programme will continue until 2023.
- We continue to review the development programme and the ways in which we can manage our treasury activity, so that we can continue to provide new homes despite reductions in grant and our ambitions to retain a rent policy that maintains rents that are genuinely affordable to those in greatest housing need. As part of being 'commercial for a purpose' we will continue to develop some private sales to subsidise our overall development programme. Our ambition is to grow our social / affordable rented stock by at least 3% year on year.
- We recently reviewed our work tackling tenancy fraud to work more closely with local authority partners and ensure we are thorough in investigating all suspected cases. In the coming year we will be smarter at using data checks to assess for tenancy fraud risk and to evidence (or discount) suspected cases in order to target our resources. This investment has huge benefits to the sector to protect scarce and valuable social housing resources.
- We set up Octavia Hill Ltd to facilitate our ambitions to grow and avoid being close to gearing covenants and thus potential renegotiation of the terms of existing loan facilities which could cost as much as £12m over time (this estimate is subject to changes in interest rates). Work is underway to utilise Octavia Hill Ltd as a conduit for much of Octavia's future development activity.
- We will retain a focus on welfare reform and supporting residents through the changes so they sustain their tenancies. We will review and refresh our welfare reform segmentation data to ensure households at most risk receive prioritised contact. We plan to carry out research to gauge 'resilience' in the face of welfare reform, so we better understand what are the factors that are helping affected households to cope and what Octavia can do to help make sure that those coping strategies are sustained.
- We believe that VFM is about economy and efficiency, but it is also about making the most positive impact with the resources at our disposal. An essential part of ensuring impact ('to help build better lives') is to increase awareness amongst residents about the range of services that we provide and how they can access those services, and to target the services effectively. In the coming year we will mount a phased campaign to promote our 'extra' support services through our 'Did you know...' project – which is designed to ensure that all residents are aware of all of the difference services that we offer.



## Appendix I - Value for Money standard

### Required outcomes

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

### Specific expectations

1.1 Registered providers shall:

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

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

The assessment shall:

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

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*Extract from the "Regulatory framework for social housing in England from April 2012" published March 2012*

