



Orbit Group Limited

Value for money statement (VFM)

2016 – 2017

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Executive summary

We have had another strong year financially, meeting all financial targets, achieving demonstrable cash efficiencies and improving customer service.

The following table shows efficiencies achieved over the last two years and its impact on the HCA cost per unit ratio. Importantly the savings made have not had an adverse impact on customer satisfaction with this improving during the period.

	2015-16	2016-17
Efficiencies achieved (£m)	5.1	5.2
Cost per unit (HCA method) (£)	3,464	3,276
Customer satisfaction	78.6%	81.6%

We have delivered £5.2m efficiencies during 2016-17, added to the 2015-16 achievement of £5.1m. There is a lower level targeted in 2017-18 as we review current strategies. The following table shows a breakdown of how the £5.2m has been achieved.

Efficiencies achieved	£000
Operational cash efficiencies	1,809
Treasury management	1,250
Development	920
Operational transactional efficiencies	784
Savings passed on to residents	415
Total	5,178

Operational efficiencies have been delivered through a number of projects affecting maintenance spend, bad debts performance and service charge recovery.

Treasury have worked with new and existing funding partners to attract the funding we require at the best possible rates. A new £50m facility has been arranged at a rate which saves £1.25m compared to financial plan assumptions. This source of funding builds capacity to deliver an additional 200+ homes.

Our development teams have managed to negotiate additional funding of £920k for schemes already in the pipeline. This increases capacity to develop our communities further.

Customer transactions have been subject to lean reviews, cutting inefficiencies from processes, allowing teams to deal with more transactions without increasing costs.

Our Procurement team has been instrumental in achieving operational savings. One large saving made this year is around utility costs which will not directly impact on Orbit's profit but will reduce service charges for thousands of our customers.

Reviewing the high level financial trends, we can see an improvement in the headline operating margin, reflecting the improving efficiency of the business. This is despite a small downturn on operating performance of social housing caused by increased investment in planned maintenance and some one-off impairment charges in the accounts this year.

High level Group performance



The ambition to build 12,000 new homes set in 2013 will be met. This is a significant achievement considering the adverse effect of the Government's rent policy to our financial plan. The decision to reduce social housing rents by 1% a year for four years first took effect in April 2016 and will reduce rental income by circa £30m a year by 2020. The level of development could not have been achieved without delivering operational efficiencies in the last few years, efficiencies which could have propelled our house building well over 12,000 with the previous agreed rent settlement.

Our Leadership team is currently working on the 2025 strategy which is set against a backdrop of uncertainty of what the rent settlement post-2020 is going to look like. It is anticipated capital grant levels will remain low and there will be a continued focus on minimising the welfare benefit bill. We maintain ambitions to continue a significant property development programme and therefore great focus is placed on continuing to improve operational financial performance, maintaining credit ratios and strong funding relationships.

Board statement

As the board, we have ultimate accountability for driving, embedding and delivering VFM across Orbit.

We met financial targets, achieving a profit of £55.7m from a Group turnover of £333.2m, and have used this profit to great use in delivering:

- 1,788 new homes
- improved sales values and margins on market sale and first tranche shared ownership sales
- a record 529 shared ownership sales (up 55% on the previous year)
- £3.8m community investment spend, part funded by £1.4m of external funding
- £62.6m investment in existing housing
- 68% of our properties above a band C (an improvement from 66%)
- a successful pilot to increase shared ownership staircasing creating £1.5m extra cash
- Orbit Move (our pioneering tenancy sign up tool) was recognised for innovation, winning two awards
- review of garage sites leading to outsourced management, resulting in greater profitability and a sales receipt of £2.1m
- improved repairs satisfaction, reducing number of calls received by 28%
- the building of our 40,000th home.

Our purpose of 'Building Communities' remains unchanged: namely to improve the social, economic and environmental prospects of people and communities.

Purpose (Why we exist)	Building Communities By working together to improve the social, economic and environmental prospects of people and communities		
Passion (What we do)	Housing Choice Providing a wide range of homes to meet needs and aspirations	Community Investment Creating thriving and empowered communities	Customer Offer Enabling customers to make choices and take control
Resources (How we do it)	People Investing in our people, creating a dynamic culture of trust, enterprise and achievement	Value Maximising efficiency and resources through a commercial approach	Futures Harnessing insight, innovation and technology to create solutions
Principles	Live our Values Lead and influence Disciplined, open and accountable	Be 'One Team' Simplify and be consistent Make surpluses to re-invest	Innovate and change Learn from others Customer driven



In 2013 we launched our 2020 Vision with nine ambitious targets to provide the best homes and services possible for customers. This Vision guides our transformation journey to 2020, enabling us to accelerate our growth and respond to a changing external environment.

Over the last four years we have built 5,000 new homes whilst expanding our offer of home rental and ownership options and cemented our position as a key influencer across the housing sector. As we celebrate 50 years as a successful organisation we look to the next phase of transformation to ensure our mission of building communities remains relevant to a changing customer base, builds capacity for accelerating growth and ensures we are exploiting maximum value from technology.

Our strategy involves creating an organisation fit for future challenges which has the financial capacity to continue to invest in our properties and communities, as well as the significant levels of development which we have become synonymous with.

The Executive team monitor business performance monthly through its performance management framework which is reported regularly to us in the board. VFM is considered in all papers that come before the board.

Our VFM strategy and achievement of 2020 objectives can be seen in Appendix 3.

We welcome the HCA focus on VFM and as a board appreciate our role in understanding our costs. We strongly believe we comply with the HCA VFM standard which this statement demonstrates.

Our VFM strategy can be found on our website www.orbit.org.uk in the “about” section along with other VFM information.

Case Study – energy improvement programme (EIP)

Energy performance certificate ratings are calculated and issued based on a property’s ability to generate and utilise heat and energy. The following components are generally used to calculate the rating; loft, cavity wall and external wall insulation, PV electricity generators, boilers, storage heaters and windows. These components help to keep heat and energy within the home as well as generate it more effectively.

In 2013 we reviewed our stock and identified 10,179 properties which fell below an EPC rating of band C. A programme was put in place to try and resolve the problem and improve the efficiency of our properties. A dedicated project team has been put in place to make sure all properties are getting the correct level of investment and are meeting the requirements of band C.

To date 1,941 properties have had improvements installed with an investment of £13.5m. A further investment of £66.6m has been identified and approved ensuring funds are available to bring the remaining 8,238 properties up to standard by 2030. This investment will be subsidised by the sale of 500 poor performing homes.

This investment is fuelled by the desire to improve the quality of our customers’ homes and to help tackle the fuel poverty crisis which is affecting millions of people in the UK every year. The programme has so far yielded the following benefits for our customers:

- 43% of customers saved money on their heating bills
- the customers who indicated a saving in energy cost, reported an average annual saving of £620
- up to 83% of customers have stated their homes are now warmer
- 46% of customers experienced improved health
- 45% of customers no longer have mould or damp

Ensuring our customers are happy and healthy within their home environment is the main priority for Orbit and these statistics show the investment in efficiencies is helping to improve conditions for our customers.

This programme also delivers us reduction in the following areas:

- void periods
- rent arrears
- repairs and call outs
- customer contacts
- management and overhead costs

The financial benefits achieved will be used to increase our capacity to build new homes and invest in our communities.

VFM at Orbit

Staff understand the more efficient we are as a business, the more capacity we have to deliver our social purpose – investing in our properties and communities and building new homes. The following table shows our success over the last few years in driving efficiencies while maintaining customer satisfaction and building new homes.

	2015-16	2016-17
Efficiencies achieved (£m)	5.1	5.2
Cost per unit (HCA method) (£)	3,464	3,276
New homes delivered (number)	1,750	1,788
Customer satisfaction	78.6%	81.6%

VFM gains

We targeted £3.1m of efficiency savings in our 2016-17 budgets. A total of £5.2m has been achieved as shown in the table below. These savings have helped us absorb the 1% rent cut (circa £8.3m in 2016-17) without reducing services to customers.

Efficiency achieved	£000
Securing cheaper funding sources	1,250
Development of new properties	920
Property maintenance	918
Efficiency of housing transactions	495
Management costs	374
Transactional efficiency – shared ownership sales	289
Improved service charge recovery	250
Improved bad debt performance	200
Other optional savings	67
Subtotal	4,763
Procurement savings – passed to customers	415
Total	5,178

Some efficiency has been driven through specific projects.

The service charge process has been reviewed to make it more efficient which will lead to further efficiency savings.

With our shared ownership development programme increasing in recent years, a review of the sales process has been carried out to make sure it is scalable to the higher sales levels required. This has delivered a £289k saving compared to the previous sales process.

The Procurement team has been involved in a number of exercises to ensure new contracts are sourced at the best value in terms of cost and quality of service. Their largest project this year was to save £415k on utility costs – a saving which is passed on to customers via reduced service charges.

The Treasury team has responded to the low interest rates on offer and secured low-cost funding for a new £50m facility, saving an annual interest charge of £1.25m.

Other efficiencies have been made through strong contract and budgetary management, especially in our maintenance services.

Case Study – customer service centre

The customer service centre received over 400,000 calls in the last year relating to a range of queries. Dealing with these calls quickly and efficiently to make sure our staff are fully utilised and keep our customers happy is a priority for us. The customer service centre Management team has been working hard to find cost and time savings to make sure the operation is being run as efficiently and effectively as possible.

Ensuring calls are dealt with appropriately first time has been a focus over the last few years, saving time and money. This extra time gives the customer service centre the opportunity to gather a greater amount of data from contacts, helping to speed up the overall process and reduce chase-up calls further. In the last year we have seen chase-up calls fall by 14%, saving the business over £30k.

In the past year we have also seen 85,000 self-service payment contacts being made. In the past these contacts would have been made by a phone call to the customer service centre helping to save £200k in resourcing costs.

All these savings and efficiencies are being made while the breadth of work being done by the customer service centre has been increasing. The team are making more detailed notes and resolving more queries themselves than ever before. This is helping the wider business by reducing the number of tasks being passed to other departments, generating financial savings and more importantly saving our staff time to try and help customers in other ways.

The customer service centre has also started to make outbound calls to new customers welcoming them to their home, helping them to get settled as quickly as possible and helping them learn about our processes. They run through how to make payments, log queries and give customers the opportunity to ask any questions. These proactive calls replace a visit from one of our housing officers, which saved the business £45k last year. This time was then used to help our existing customers with more urgent issues.

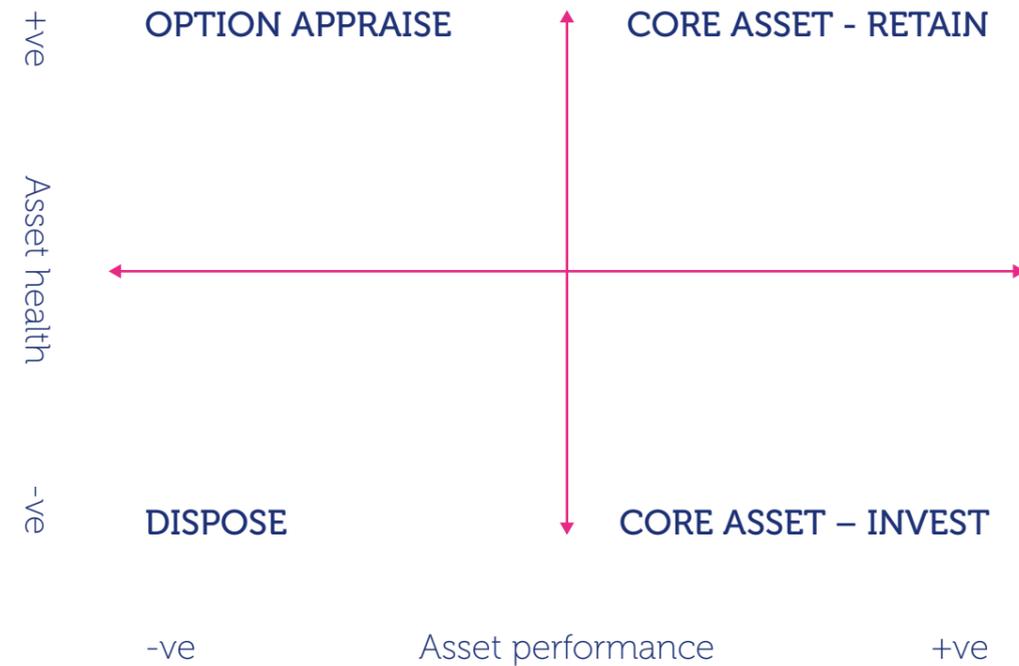
In 2016 the customer service centre was shortlisted for the Small Contact Centre of the year in the European Contact Centre & Customer Service Awards with acknowledgment of the work being done by the team to help the wider business being a particularly strong area. This is a positive sign that even with all the work being done to reduce cost the service being provided is getting stronger and smarter.

Asset management

Housing assets, how they are utilised and their financial value are the prime source of our strength, independence and self-determination. In the current environment, asset management becomes central to making best use of our financial capacity.

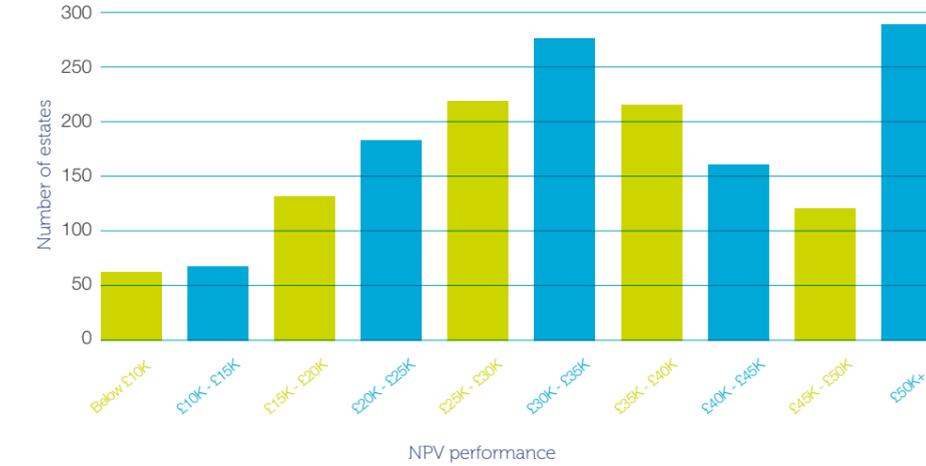
Traditionally, asset management for housing associations and local authorities has focused on maintaining existing stock through repairs and maintenance, cyclical and planned programmes. The changing regulatory and operating environments enforce a more sophisticated and intelligence-led approach.

We are investing in the relevant skills, IT infrastructure and data capture to enable a better level of decision making for our existing stock. Taking all of the relevant data for each individual property, we can then assess possible actions by mapping scores on a four box model:



The graph below shows the result of assessing the net present values (NPVs) of the 32,286 rented properties we own, split into 1,713 estates. This is a key factor in asset performance. Our policy is to focus on the bottom 10% in terms of NPV performance, running these worst performing estates through an option appraisal and making suggestions for future use. Aligning this financial information with the views of housing management and maintenance experts will lead to recommendations around future use and investment decisions.

NPV of Orbit estates



Success to date

Shared ownership

We ran a pilot in 2016-17 to actively target shared ownership customers who may wish to buy further shares in their properties. To date the project has succeeded with 18 customers taking the option to staircase ownership in their property. This has brought in £1.5m of sales income, releasing financial capacity from our existing stock.

Garages

We have a significant garage portfolio which, over the years, has not been managed to its potential. The commercial team has worked to review each site and assess suitability for development, improve the profitability of managed sites and make sure health and safety factors are addressed. The project has delivered a better garage management function and sales receipts of £2.1m. A number of sites have also been earmarked for potential residential development.

Social impact

Community Investment at Orbit delivers tangible results for our communities and to Orbit. Using the Housing Association Charitable Trust's (HACT) (social) value calculator, our programmes are estimated to generate social value of £11.36 for every £1 invested. During 2016-17 our community investment programme helped:

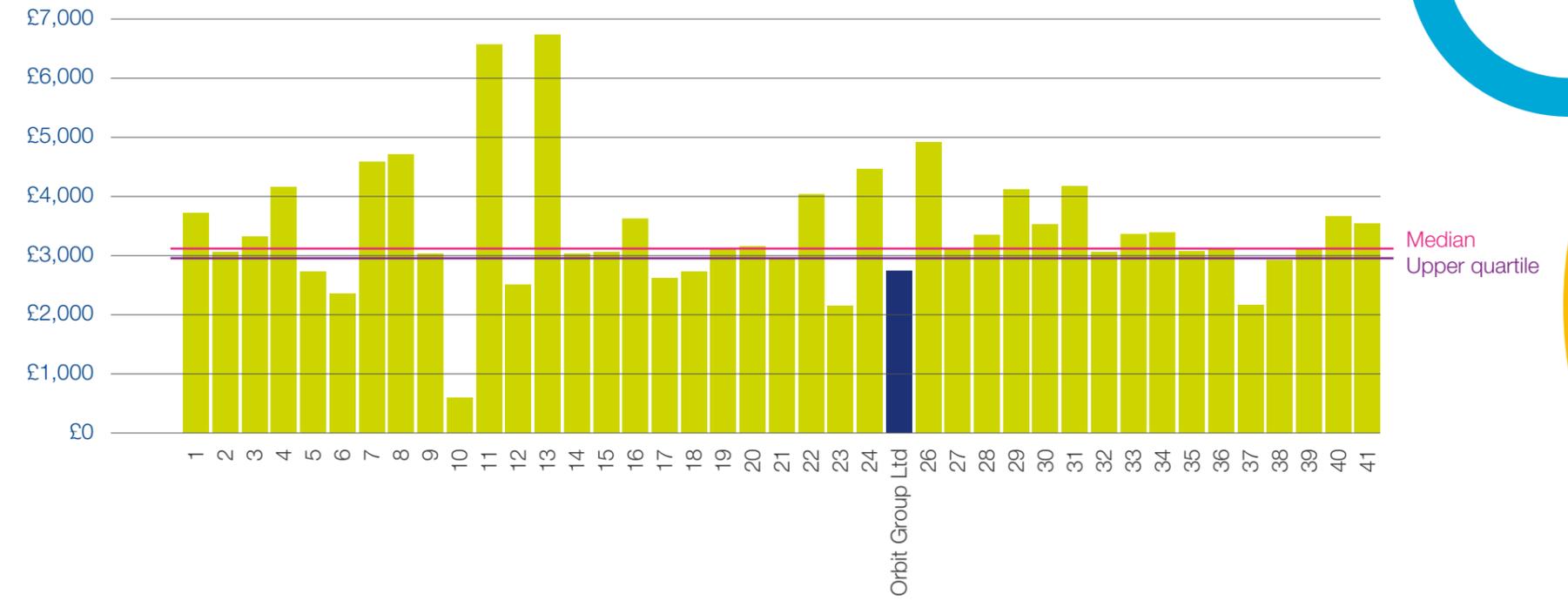
- 324 customers in to jobs
- 1,480 customers to undertake employment related training and skills
- 2,682 customer with wellbeing programmes to help manage mental health and anti-social behaviour
- 3,035 customers with financial advice
- 3,148 customers with energy advice

Benchmarking

Orbit uses benchmarking against a relevant set of peers to help understand our costs, inform cost and performance targets and identify areas for potential improvement. We take part in a number of user groups to discuss best practice and understand results. Our benchmarking group compares financial and non-financial statistics.

The graph here shows a social lettings operating cost per unit against all associations with 20,000+ properties. If we review total social housing costs, we are a top quartile performer. The following graphs show the headline social housing cost per unit and the four areas that make up this headline cost.

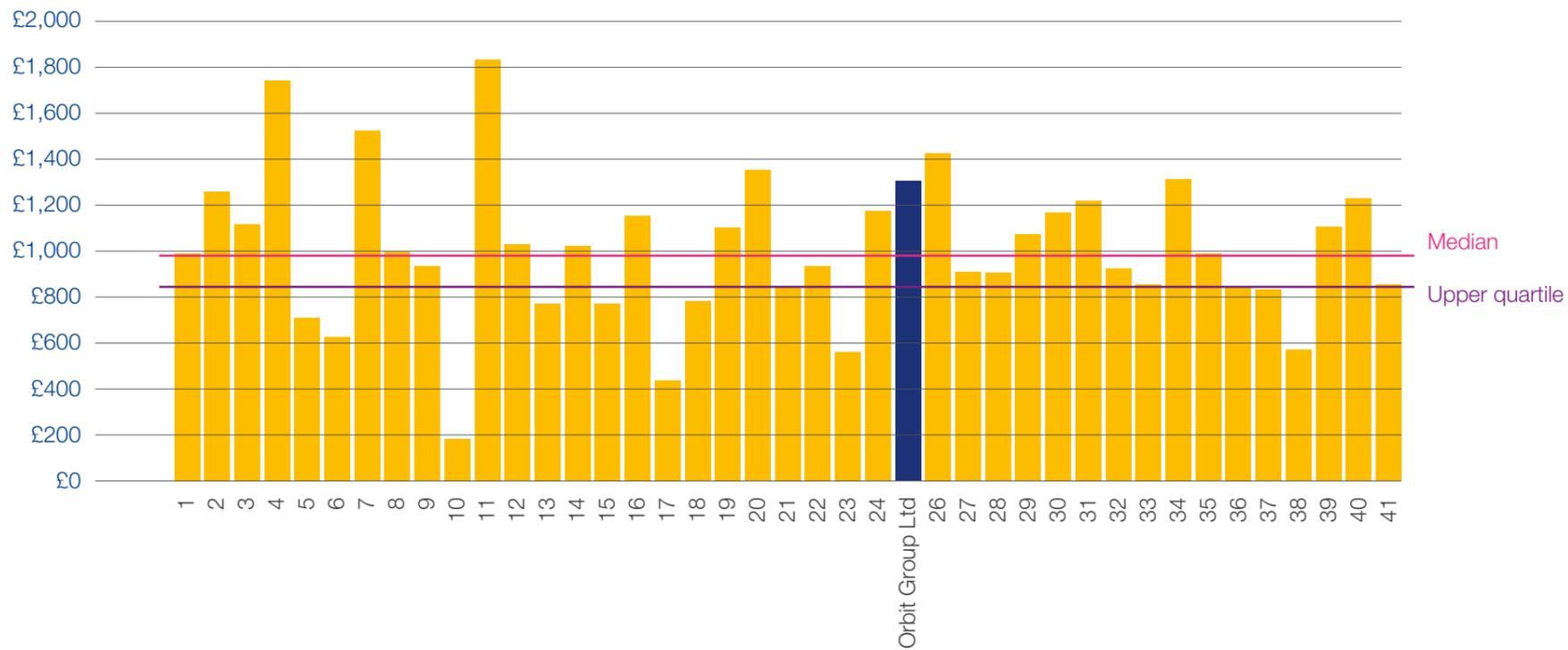
Headline social housing cost per unit



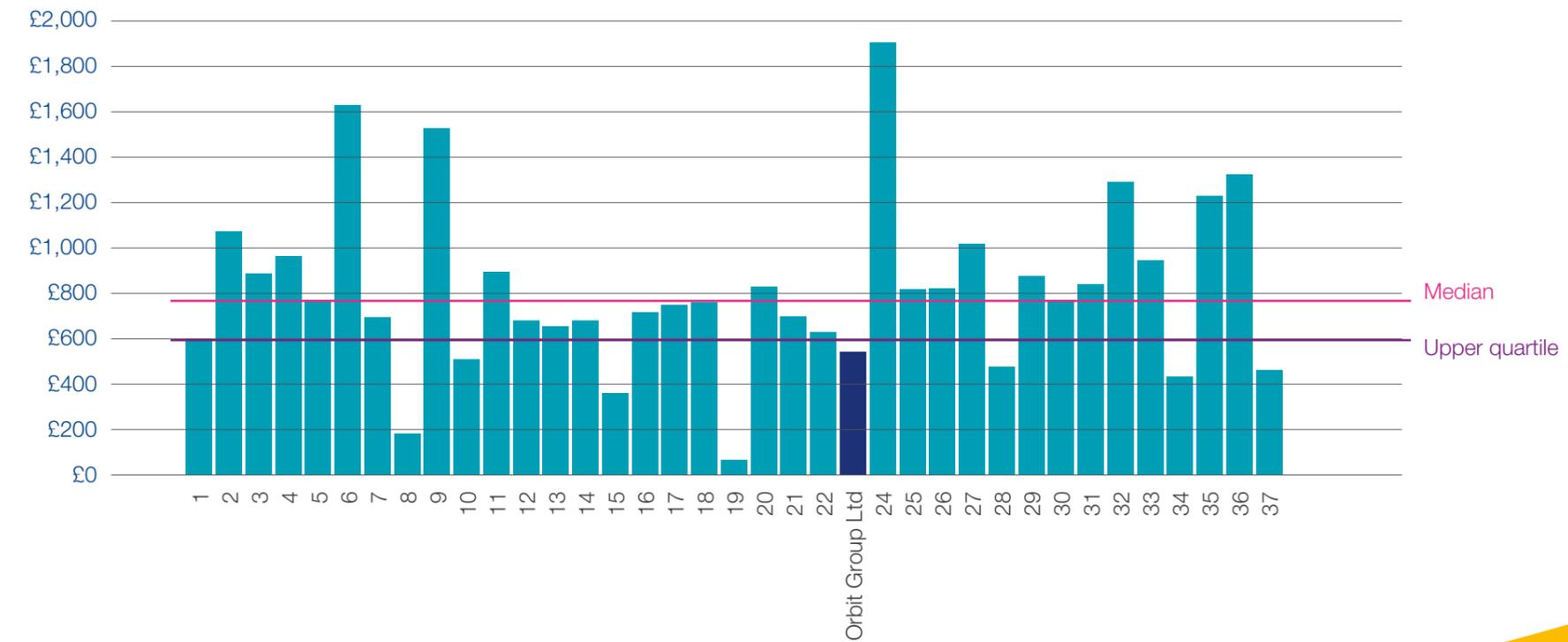
If we review this in more detail, Orbit is seen as above median cost per unit on property maintenance and below median on major works per unit. This is an area Orbit is investing in to redress this balance.



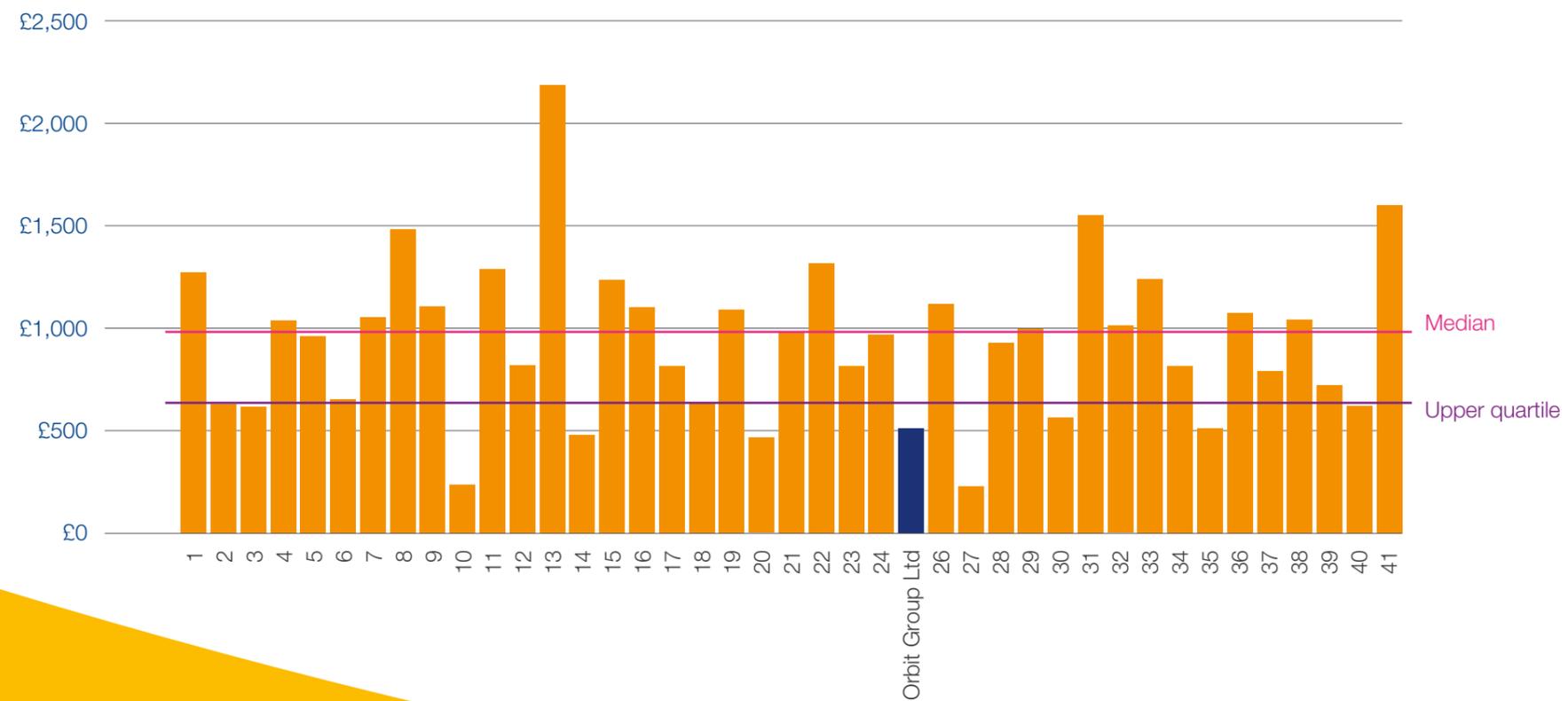
Planned and routine maintenance cost per unit



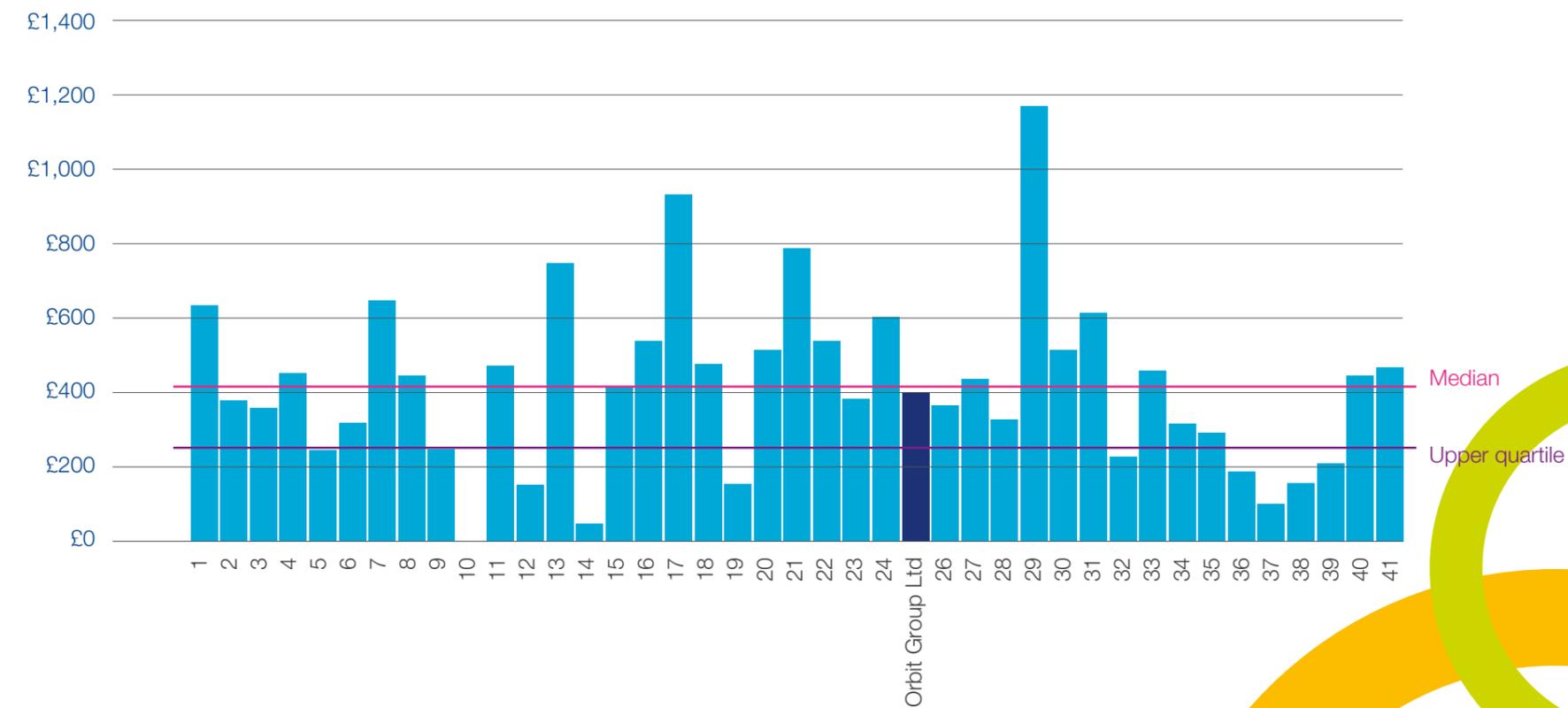
Major repairs cost per unit



Management cost per unit



Service charge cost per unit



Conclusions

Orbit has had a successful year, delivering on its key objectives. We continue to focus on improving the efficiency and effectiveness of our processes – creating cash savings that do not have a detrimental impact to customer service.



This is the progress we have made against last year's stated VFM objectives:

1. Stronger contract management

Greater emphasis has been placed on our relationship with key partners, resulting in a positive influence on overall customer service reported, as well as satisfaction with our repairs service.

2. Modelling of responsive maintenance and planned maintenance costs to achieve an optimum planned responsive works mix

We have increased investment in planned works from 2017-18, which will lead to a better balance of planned/responsive spend. This will lead to greater customer service scores in the future.

3. Service charge review has a long-term potential to increase profits by up to £1m a year

A project is underway to ensure the process is as efficient as possible with all relevant costs being recovered.

4. New strategic asset management director and team in place to drive more value from investment, disposals and property usage/redevelopment

New team is in place as well as investment in systems to better understand our stock performance. Some early success in improving performance and selling sites not fit for use.

5. Implement revised asset management strategy to improve investment and disposal decisions

Asset management strategy currently being reviewed and will be signed off by board.

6. Improvement in core operations to reduce waste and repeat work

Demonstrable efficiency savings made. We have had success in the customer service centre with a 14% reduction in repeat calls. This is an ongoing process which will remain high on the agenda.

A wider discussion around future strategy (Shaping our Future) is taking place which will inform future VFM targets. The six objectives above will continue to be monitored.

Appendix 1 – self assessment

We have structured proposed actions using the regulators key areas of assurance with each individual area colour-coded to indicate our current level of self-assessed compliance. We followed this methodology from the start of the self-assessment regime and show previous year ratings in brackets.

Understanding the cost of delivering specific services and how these relate to benchmarks – GREEN (2016: AMBER)

Our KPIs are monitored on a monthly basis and there is a clear understanding of how these measures impact upon our success and financial strength. A review of benchmarking information has been carried out and a new service introduced which enables us to get data quicker, spending more time analysing and learning from the information.

The efficiency gains which have been and will be made and how these will be realised – GREEN (2016: GREEN)

We have set clear targets for efficiencies, plans how to deliver targets, and a track record of delivering against targets. The budget setting process captures efficiencies and managers have an objective to achieve them. We have a quarterly budget reforecasting exercise which reviews spend, cutting out any underspends from future budgets and reallocating resources where they are required.

A rigorous approach to assessing options for VFM improvements including potential benefits from alternative delivery models – GREEN (2016: GREEN)

Business cases are provided for all projects which now include benefits realisation and a statement of the alternatives that have been considered. All papers presented to boards or executive teams consider VFM.

Performance management and scrutiny functions are effective at driving and delivering improved performance with outcomes and outputs clearly measured – GREEN (2016: AMBER)

Executive team and board have regular sight of Group wide KPIs – controlled through a central reporting system. Senior management teams also see their KPIs on a monthly basis. The work put in place to improve the monitoring of performance, and compliance in particular is showing improved performance outcomes. Key H&S compliance performance is at target levels, and a generally improving performance trend across the majority of the wider performance scorecard can be seen through the year. Boards and customer groups have regular discussion and challenge on key performance metrics, identifying areas for further improvement action as necessary.

A robust approach to decision making on the use of resources, including an understanding of opportunity costs and clear evidence of delivery – GREEN (2016: GREEN)

All new projects are approved at Executive team level, ensuring each approved project is aligned to our business plan and 2020 Vision.

An understanding of the return on assets and a strategy for maximising future returns – GREEN (2016: GREEN)

We have invested in a Strategic Asset Management team including an upgraded option appraisal system to make sure the best investment decisions are made on our current stock – both financially and for our customers.

Key:

Green – full assurance

Amber – partial assurance i.e. we can demonstrate consistency and/or it is not fully embedded

Red – cannot provide assurance

Appendix 2 – financial performance

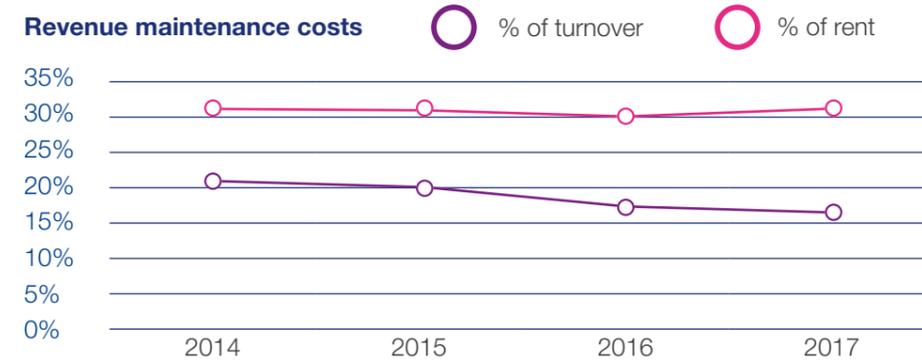
These graphs show high level financial trends and are generally positive.

High level Group performance



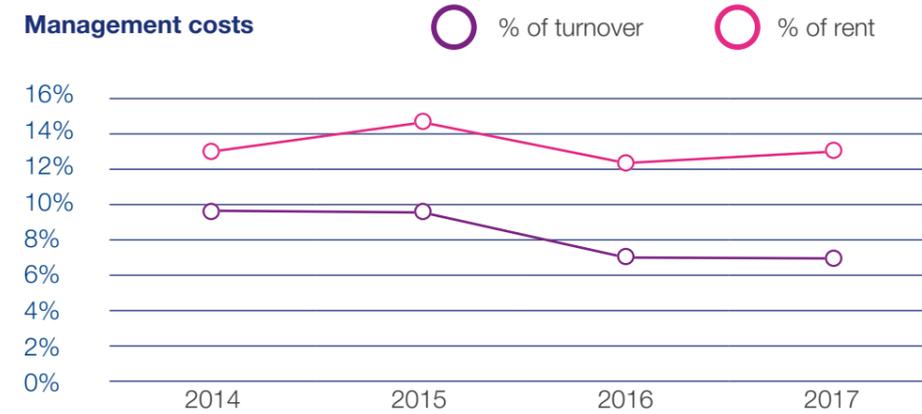
The high level performance shows an improvement in the headline operating margin, reflecting the improving efficiency of the business. This is despite a small downturn on operating performance of social housing assets caused by increased investment in planned maintenance and some one-off impairment charges in the accounts this year.

Revenue maintenance costs



Maintenance spend as a percentage of turnover has continued to reduce. As a percentage of rent, there is a small increase reflecting additional planned investment.

Management costs

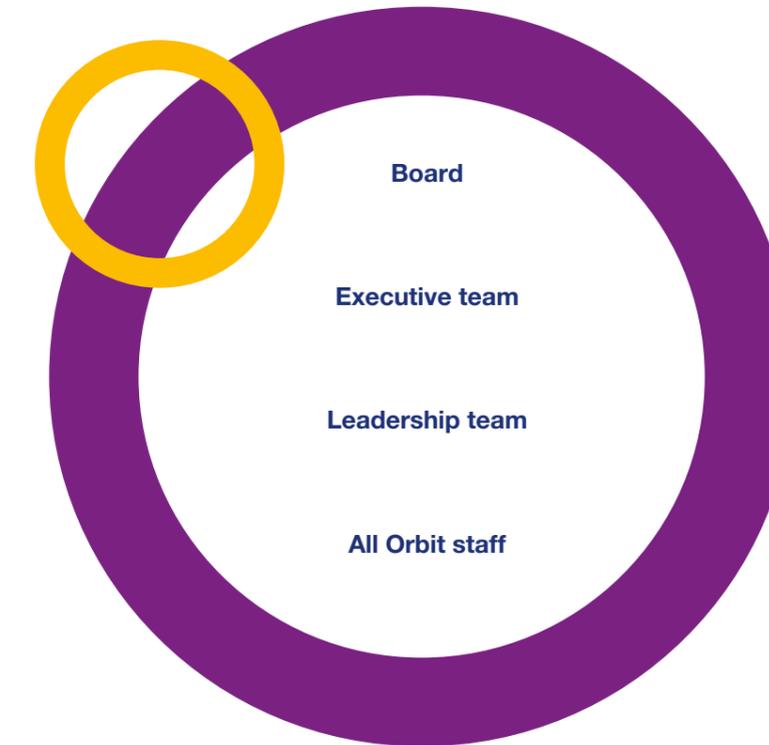


Management costs have increased slightly as a percentage of rental income as a product of investing in the management team.

Appendix 3 - VFM at Orbit

Delivering VFM is an integral part of our corporate ethos and values. Our VFM commitment is to “fully satisfy agreed customer requirements at the lowest internal cost”. It is vital in a world of tightening grant controls, increasing debt levels and economic uncertainties. This is set against a backdrop of our mission of building communities and our vision to complete 12,000 new homes before 31 December 2020.

Everyone at Orbit has a role to play in ensuring VFM is at the centre of the organisation.



Our boards lead on the VFM strategy and have ultimate responsibility for its delivery. They create the strategic direction of the organisation. Operational efficiency is an important aspect of creating the capacity to meet our corporate objectives.

The Executive team translates this strategy into actions, setting specific targets around efficiencies.

The Leadership team is responsible for delivering these actions:

- creating accurate budgets – taking out any areas of contingency
- delivering against these budgets
- stripping waste from processes
- working as “one Orbit” – reducing team silos and focusing on the end to end process rather than their specific team

This strategy applies to all staff in Orbit. No matter how small, everyone can contribute to making the organisation more efficient and more effective in meeting our objectives.

The following table shows progress against each of our 2020 objectives:

2020 Ambition	Progress to Completion
Deliver 12,000 new homes	From the start of the seven year business planning cycle in 2013, a total of 12,123 homes are fully funded and are expected to complete by 31 December 2020. As at 31 March 2017, 5,926 homes have been delivered.
Achieve a minimum of band C in our homes	We will deliver effective and efficient retrofit programmes, prioritising fabric-first solutions to move all properties towards a minimum of EPC band C by 2030 to meet our agreed Warm Homes Standard. 68% of all rented stock is currently at band C or above.
Provide a range of home rental and ownership options	The development pipeline includes a range of homes including general needs, sheltered, market rent, shared ownership and market sale. We also have the Help to Buy contracts for the East Midlands and West Midlands, helping 9,300 people in the last 12 months get a foot on the property ladder.
Provide a flexible housing journey	We use our financial capacity to provide a range of products to meet the needs of our diverse customer range. A successful pilot has been carried out to support shared owners to buy further shares in their property.
Customer satisfaction	Latest STAR survey results (June 2017) puts satisfaction at 81.6%.
Provide financial advice to 20,000 people	15,665 people have benefitted from financial and energy advice.
Have 75% customer contact online	24% of our customer transactions are online.
Provide 10,000 training and capacity building opportunities	Provided 5,897 training/digital support opportunities and helped 1,018 people into jobs.
Deliver £30m of investment into communities	Community investment spend falls into four key priorities: <ul style="list-style-type: none"> • helping customers manage their money • supporting customers into employment and developing their skills • supporting customers to get online and use the internet • improving customers' well-being <p>£11.8m investment committed into our communities.</p>

Appendix 4 – benchmarking group

A2Dominion	Metropolitan
Accent Group	Midland Heart
Affinity Sutton	Moat
AmicusHorizon	Notting Hill Housing
Aster Group	Peabody Trust
Bromford Group	The Places for People Group
Catalyst Housing Limited	Radian Group
Circle	Riverside
DCH	Sanctuary Housing
Derwent Living	Southern Housing
Family Mosaic	Sovereign Housing
Flagship Housing Group	Stonewater
Genesis Housing Association	Symphony Housing
Gentoo	Thirteen Group
The Guinness Partnership	Together Housing Group
Home Group	Torus
Housing 21	WM Housing Group
The Hyde Group	Wakefield and District Housing
Incommunities Group	Walsall Housing Group
L&Q Group	Your Housing Group



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Take a look on social media:

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Orbit Capital plc – Co Regn. No.09402193, Orbit Homes (2020) Ltd – Regn. No. 06950748, Orbit Treasury Ltd – Co Regn. No 06264601, Heart of England Housing Association Ltd – Registered Society No. 30446R, Orbit South Housing Association Ltd – Registered Society No. 27802R, Orbit Group Ltd – Registered Society No. 28503R. Registered Office: Garden Court, Harry Weston Road, Binley Business Park, Coventry CV3 2SU

