Value for Money Statement 2016

This Value for Money (VFM) Statement is an update on last year's. The government and the regulator continue to be concerned that operating efficiency is demonstrated by housing associations large and small.

Part of any such review should include looking at how the organisation could work better by, for example, sharing back office services, joint procurement or by joining another organisation.

The Ducane Board took the view that the Association should continue to develop more homes. This has been possible in the past by making best use of our own land – we built on air gaps between blocks and on existing structures. Looking forward, the board considered that although we had skills in-house to do more development, that site acquisition would be very difficult. With our balance sheet capacity we could not expect to compete effectively with others in the market place for sites. The Octavia proposition was to deliver a doubling in our stock size in the next 5 years and the Board took the view that some loss of independence was acceptable – we would become a Group member – in return for a new way for the Association to deliver on its charitable objectives.

The Board also anticipated more difficulty in recruiting staff of the right calibre in future if the organisation was essentially management only.

Joining the Octavia Group was considered by the Board as bolstering the future of the Association and its ability to play a part in meeting housing need in London. The merger itself will deliver a number of cost efficiencies which will become evident in the next year or so as contracts are terminated or new suppliers taken on, however both organisations were clear in their submission to the regulator (the HCA), that the driver to merge was development driven on both sides.
Octavia benefits from the Ducane expertise in intermediate market and access to additional security. Ducane benefits from a £6m contribution to development funds (in October 2016), and a commitment to deliver 250 new homes, and a clearly more sustainable future.

The regulator approved the merger with effect from 31 March 2016.

1. The Rate of Return on Assets

	12 months to Dec 2013	**12 months to Dec 2014**	**15 months to Mar 2016**
Surplus for the year – net income £000's	756.9	772.5	**769.2**
Average total assets (gross) £000's	21,848	24,045	**26,170**
Return on Assets	4.77%	4.49%	**4.68%**

2. Investment

In 2011 the Association committed to investing in its homes to make sure they were fit and attractive to live in for the 21st century. A major programme of investment was started across the majority of the housing stock to maintain the high standards of living enjoyed by our tenants. A major refurbishment and new build programme was completed towards the end of 2012 at a cost of £13.5 million for a complete refurbishment of 112 homes and the building of 44 new homes. The newly insulated walls, new high specification fenestration and the air source heat pumps in the new homes all reduce running costs for tenants.

The return on capital employed fell slightly in at the end of March 2016 due to the timing of the completion of capital expenditure on the construction of 31 new homes (Dorothy Hodgkin House), as well as a delay in achieving full rental income due to the timing of the project completion. In addition there was an increase in management voids for additional work, (latent defects) undertaken by the contractor.

3. The efficient use of land

Ducane's latest development, Dorothy Hodgkin House, completed in May 2015, is on a site that adjoins land owned on Du Cane Road. The site, a former petrol station, was acquired at a cost effective price. This acquisition, when combined with an existing strip of land, enabled the Association to develop these 31 new homes for key workers.

However in the future, the ability of the Association to acquire new sites independently was seen to be seriously constrained, and the prime objective of the merger with Octavia is to give the Association access to new development opportunities.

4. Procurement

The Association will, going forward, make use of the Octavia Group's procurement capacity to reduce running costs in back office services and maintenance procurement. In subsequent years these savings will deliver greater efficiencies.

5. Finance

	12 months to Dec 2013	12 months to Dec 2014	15 months to Mar 2016
Earnings before Interest and tax £000's	756.9	**772.5**	**769.2**
Capital employed £000's	20,728	**23,040**	**24,755**
Return on Capital Employed	3.65%	**3.38%**	**3.30%**

Earnings before interest and tax reduced partly as a result of a pension scheme revaluation which necessitated a £48k write off, an increase in voids associated with finalising defects works, more planned and major works than originally planned and the costs of the merger process itself. These costs it should also be noted are all taken over a fifteen month period to March 2016 compared to 2014 figures taken over a 12 month period. The 15 month period was to re align our financial year end with Octavia's.

Capital employed and the return on capital declined as a result of an increase in current asset.

	As at Dec 2013	As at Dec 2014	As at Mar 2016
Debt per unit managed	£32,145	£40,534	£40,438
Adjusted net leverage	30.3%	34.7%	36.6%
Operating margin	48.6%	47.6%	37.7%
Interest cover to EBITDA	5.20:1	5.00:1	4.50:1
Gearing ratio	46.9%	56.4%	61.5%

Budgets have regularly included targets for efficiency gains as well as improvements to services. Some of these improvements have necessitated prudent investment, for example in the Association's older homes.

6. Governance

The Board reviews the Association's work to make sure that value for money is delivered. Members look critically at annual projected budget expenditure and will question staff about cost increases, seeking assurance that the expenditure is necessary. There is regular financial reporting to the Board via management accounts, cash flow projections, explanations and commentary on any deviation from the budget Bank covenant compliance is also closely monitored and reported on.

One Ducane board member sits on the main Octavia Board and members are also represented on the Audit Committee and the Octavia Living Board. An Octavia board member, in addition, now sits on the Ducane board. Going forward regular reports will be made to the Group board on key operational performance measures.

7. Performance indicators

The Cost and Quality of Services Provided

The Board takes its assurance on VfM from a number of sources. This includes benchmarking with other small London housing associations (via Acuity), and nationally through HouseMark.

There has been a welcome increase in tenant satisfaction to 96% (85% in 2014) which was the level typically achieved in the past. Listening to tenants views on how the service could be improved and acting on this, may well have assisted in achieving this better score.
Tenant satisfaction with the maintenance service has improved since 2014. Both the level of the in-house service and the completion by a contractor of defect works may have contributed to that improved score.

Tenant satisfaction on VfM for rent has decreased marginally, even though Ducane rents as a percentage of market rents have gone down. In 2014, average rent levels compared with market rents were 59% and in 2016 are at 54%, (Foxtons). The reduction in Affordable rents by 1% in 2016, taking effect after the last tenant survey, may increase satisfaction levels in the coming year.

Other measures	12 months to 2014	15 months to 2016	Peer Group Upper Quartile	HouseMark Upper Quartile
% of repairs fixed on first visit	100%	**100%**	98%	95.7%
Average re- let time (days)	17	**16.5**	21	18.6
Current rent arrears	0.7%	**0.3%**	3.44%	1.73%
% void losses	3.09%	**6.54%**	0.2%	0.65%

Re let times were at 16.5 days on average and this score ranks 2^{nd} best in the g320 benchmarking group.
For rent arrears, Ducane was the top performer in the group. Void loss (rent lost whilst properties are empty), was however high, and this is explained by additional management voids being required during the

year. A number of properties were held vacant so that a contractor could carry out post completion defect work.

Resident satisfaction	2014	2015	Peer group Upper Quartile	HouseMark Upper Quartile
% of residents satisfied or very satisfied with our services	85%	**96%**	90%	89%
% of residents satisfied or very satisfied with repairs and maintenance	76%	**83%**	85%	84%
% of residents satisfied or very satisfied on VFM for rent	85%	**80%**	90%	84%

Operating Costs	12 months to Dec 2014	15 months to Mar 2016	Peer Group Upper Quartile	HouseMark Upper Quartile
Weekly operating cost per property (£'s)	108.39	**131.71**	88.25	No data available
Operating Costs as a % of turnover	52.4%	**62.3%**	66.63.%	No data available
Average weekly management cost per dwelling (£'s)	25.04	**30.15**	19.67	No data available

Weekly operating costs were higher for this period. This was partly a function of higher costs incurred ahead of the completion of new homes in May 2015, the merger costs and costs spanning a 15 month period. In contrast, operating costs as a percentage of turnover, are ranked best in the g320 group, even though the Association was middle to low ranking in terms of total turnover.

8. Ducane Commercial Services Ltd (DCS)

This is the commercial subsidiary of Ducane Housing Association and currently has one contract with the Directors of Perryn House Ltd under which DCS acts as managing agent for a block of leasehold flats in Ealing. It also manages the car parking facilities for the Association.

DCS made a profit of £46,451 for 15 months to 31 March 2016 (12 months to 31 December 2014: £45,052) which it will Gift Aid to the Association and which is therefore included in the operating surplus of the Association shown in the financial statements.

In 2016 the Directors of DCS sought a substantial increase in fees from its client and this was agreed albeit phased over a 3 year period but with an immediate uplift this year to a level commensurate with usual commercial fees.