Shoreline Housing Partnership

Value for Money Self-Assessment 2016-2017

Contents

1 Introduction

This document is the Shoreline Housing Partnership (Shoreline) value for money self-assessment for the year April 2016 to March 2017. Our value for money assessment is set in the context of what Shoreline wants to achieve for its customers and the communities that we work in.

2 Shoreline at a glance

We are a registered provider of affordable housing and we own and manage 7,869 homes in North East Lincolnshire, although this number is falling at the moment as we rationalise our housing stock. Our homes were formerly run by North East Lincolnshire Council before the tenants voted by a ratio of more than two to one to transfer the management of their homes. We are a non-profit-making charitable organisation, established on March 21st 2005, with a Board of seven full members and two co-opted members.

We are a local provider of affordable homes and our commitment is to improve the lives of our residents and the quality of our neighbourhoods. Our vision is to create homes and to support communities to be proud of, and we recognise that we have an important influence on the communities in which we work.

Our Board has determined our governance purpose to be "*Making prudent strategic decisions to secure the long-term future of the business and create a positive legacy for North East Lincolnshire, developed in partnership with our residents and strategic partners.*"

Most unusually Shoreline operates in an area where in some localities our rent levels plus service charges are comparable with market rent levels because of the very low levels of demand for the latter. Our tenants therefore have a readily available and affordable alternative to social housing. This means the rental market competitive environment is highly challenging for us and (existing or new) customers for rented homes are very sensitive to price and quality differences of the rental homes available. This, amongst other factors, has historically increased our property turnover levels with the associated impact on void rent losses.

Although there is no overall crude shortage of housing supply in the borough we know that there is a major mismatch in terms of demand for certain areas and the quality of the product that we have to offer.

We have achieved a modest increase in property numbers over recent years though 'Section 106' planning gain purchases and our own development activity. We have undertaken stock options' appraisals for our worst performing stock and in September 2014 the Board took the decision, following extensive tenant consultation, to proceed with the demolition of our 6 high rise blocks and associated low-rise maisonette blocks in the East Marsh area, amounting to c7% of our total stock.
We continue to scrutinise the performance of our property assets using 'net present value' methodology to make decisions about any future disposals or demolitions or investment

decisions, and in November 2016 after further consultation the Board agreed to the phased clearance of a significant part of the Washdyke Estate in Immingham; and also agreed proposals to consider clearing up to seven sheltered housing schemes across the borough (subsequently reduced to 6 schemes following representations).

The on-going roll out of welfare reform, particularly the introduction locally of Universal Credit in June 2015 (with full roll-out confirmed locally for December 2017), has further impacted on our tenants' financial circumstances. In response to Universal Credit we have realigned our staff resource to concentrate more time on supporting people to pay the rent owed to Shoreline promptly. If our tenants' ability to pay their rent is undermined, this will result for us in increased void losses, bad debts and arrears.

3 Our Corporate Plan

Our Corporate Plan which covers the period 2016-2019 sets out our objectives, with **one core priority** that overrides all others which is to be an **Excellent Housing Provider.**

We have four **Main Delivery Priorities** which support the delivery of the core objective above and with specific clear outcomes to be delivered. They are:

1. Dealing with areas of **Unpopular Housing** through regeneration, clearance, disposal and/or renewal – our areas of unpopular housing are identified through our asset management work. Our worst performing stock is identified annually and the decision about the future of this stock is agreed by the Board at separate strategy events.
2. The acquisition of **New Homes** - we increase our new homes by developing ourselves and by purchasing Section 106 properties from local developers. This is predominantly in the North East Lincolnshire local authority area. We have identified six target areas just beyond the NELC boundary for new homes' acquisition. During 2016-17 due to timing issues we only added 5 new homes to our stock for rent and shared ownership through self-development with HCA support, but we have a much larger pipeline of s106 purchases confirmed for subsequent years.
3. Achieving our **Social Objectives** – for Shoreline this means, providing and working in partnership to provide, apprenticeships, internships and supported employment opportunities, where possible – but as section 10 below makes clear, since the cutbacks we made in 2015/16 in response to the rent reduction regime this aspect of our work has sadly all but disappeared in 2016/17.
4. Delivering **Affordable Warmth** – our Affordable Warmth Strategy has an overall target to increase the average SAP level for our properties. Unusually during the year we actually saw a *fall* in our average SAP rating from 66.5 at the end of March 2016 to 63.6* at the end of March 2017 – this is an anomaly directly linked to our asset review programme, for with the removal of our six high rise blocks in the East Marsh

from our stock count in 2016/17 we depressed our average SAP rating as those units were above-average performing stock.
*[This compares to our long-term investment-backed SAP target of 71.]

The Board has also agreed a number of **Value for Money Objectives,** as it recognises that the delivery of VFM is vital to the success of the business and its ability to maintain services for customers. The Board has agreed that the four purposes for the value released through achieving VFM can be:

- To reinvest in services explicitly to improve VFM still more and drive further efficiency
- To apply the value gained to invest in new, enhanced or different services in order to fulfil the Board's objectives
- To ring-fence the value to contingencies which can then be held for future use
- To apply the saving to reduce either rent or service charges to tenants

4 Our approach to VFM

Value for money is part of every decision we make at Shoreline. We focus on value for money at each level within the organisation and with our engaged customers.

Board

Shoreline has adopted an integrated process of planning, measuring, monitoring, reporting, and controlling all of our business right from the high level corporate objectives set by Board though to individual service plans and projects necessary to deliver service to our customers.

The Board has ultimate responsibility for ensuring we deliver value for money and meets at least twice per year in a 'strategy' setting to consider the medium and long-term objectives and challenges for the business, with a focus on viability and sustainability.

The Board has two Committees, one of which is the Finance and Performance Committee. This committee has delegated powers to consider all matters relating to the financial, performance and asset management aspects of the Company's activities. [The full Board also receives the management accounts and performance information monthly.]

The Finance and Performance Committee now meets monthly immediately prior to the Board itself to scrutinise in greater detail our management account performance, key performance indicators, benchmarking information and customer satisfaction levels. This Committee takes the lead on behalf of the Board to monitor and review our asset management activities through Board member representation on the company's Re-Investment Panel which undertakes the detailed scrutiny on potential property acquisitions, disposals and options appraisals, before they are discussed by the full Board.

Management team

Our Senior Management Team, comprising the Chief Executive and at the outset of the year 3 directors (but restructured mid-year to 2 directors for efficiency reasons) are responsible for delivering our strategic approach to achieving value for money, and this is underpinned by our Value for Money policy. The policy sets out how we will seek to consider value for money in all of our activities and identifies a number of actions that we will engage in to ensure that we can proactively demonstrate value for money for our tenants.

Effective procurement is key to achieving value for money, and this is supported by a dedicated procurement team, who work with operational heads of service to continue to procure services and goods at competitive prices, at a quality agreed with our customers.

Our asset investment decisions are subject to a robust evaluation using a discounted cash flow (DCF) modelling technique. We use this for major investment projects, but also utilise this to determine the net present value of cash flows generated by a single property, a street, or a neighbourhood in order to inform our decision making for potential acquisitions or disposals.

Our corporate objectives are underpinned by service plans with specific goals, targets, value for money implications and measurable outcomes. Every department in Shoreline has a Service Plan and they form the basis of our annual departmental budgets.

Staff

The key delivery targets and outcomes in Service Plans are cascaded to staff members through a robust employee performance management framework, which includes annual appraisals and regular one-to-one reviews to drive improved performance against measurable objectives linked to the Corporate Plan. Financial management is a key competency requirement for all levels of staff. Staff are actively engaged in suggesting ways to improve value for money.

Customers

We offer a range of involvement activity for our customers that help us to understand their preferences and priorities when making spend decisions. During 2016-17 our team of involved residents and our regulatory panel have been involved in reviewing a number of policies and procurement activities. They undertake scrutiny of our key services to ensure we are achieving value for money, for example in 2016/17 they considered the grounds maintenance and communal cleaning outsourced contract performance, rent competition with the private rented sector and reviewed the VFM self-assessment, amongst other items. During this year we have also undertaken major consultations with our customers on a variety of large scale asset management proposals in Immingham and at four sheltered housing schemes.

Compliance and risk management

We have in place a comprehensive system of internal controls, overseen by our Audit and Risk Committee. The controls are designed to manage key risks and provide reasonable assurance that planned business objectives and outcomes are achieved. The Audit and Risk

Committee receives regular updates on corporate risks and mitigating actions, particularly in terms of compliance with our health and safety obligations, together with the reliability of financial and operational information and the safeguarding of our assets and interests.

5 Our VFM gains for 2016-17

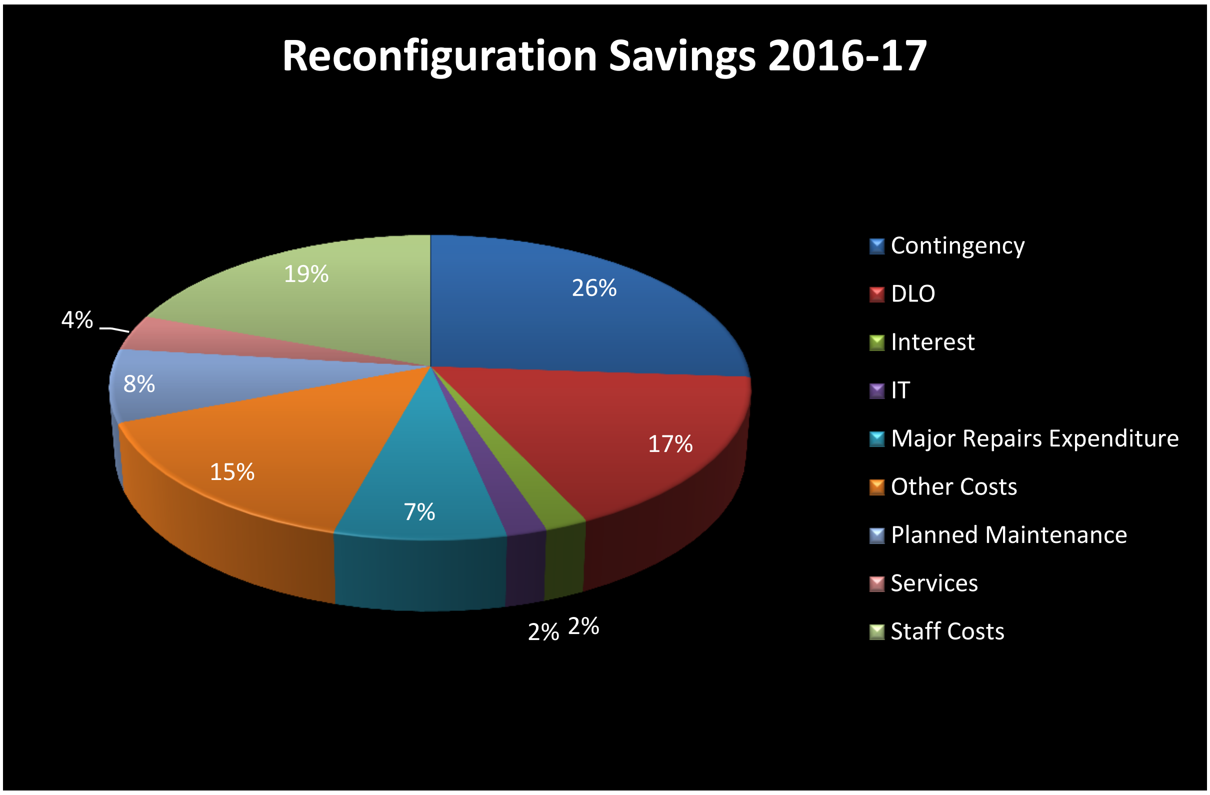
Our Value for Money self-assessment for 2015-16 set out a number of major planned actions that we said we would complete during 2016-17 which would deliver operating efficiency savings in future years. These were:

Full implementation of the in-house repairs service
2016/17 was the in-house service's second year of operation following the transfer from Mears and the year saw a continued steady improvement in efficiency, service standard delivery, and safety. We also launched a brand new responsive repairs' service offering 8am to 8pm appointments 7 days per week – an achievement which saw us shortlisted for the 2017 UK Housing Awards.
This trajectory of improvement is expected to continue into 2017/18.

Rehousing of residents and demolition of the properties in the High Rise and Comber Regeneration area
The major decision to disinvest from 640 homes and demolish the high rise blocks and Comber Place had already been taken[1] and rehousing all the residents was completed ahead of schedule during 2016/17, and by the end of the year the site was being prepared for the demolition process which is forecast to take place during 2018.
The decision was predicated on a detailed life-cycle cost analysis undertaken over a thirty year time horizon which produced an estimated net present value of savings of circa £6 million. In reality the decision mitigated an immediate requirement to spend well in excess of circa £20 million on refurbishing the infrastructure and services to the properties over the next five years and crystallised a number of inherent risks associated with continuing to operate properties of this nature.

Staff reductions to align staff numbers with the reduced stock number
The 2014/15 "fail safe" plan we had in place to reduce estate service costs was not required, because the stock options' appraisal decision was to remove that stock completely and thus the associated management cost.
A subsequent restructure plan was approved by the Board to reduce housing management staff numbers in line with the stock number reduction; however this too was completely overtaken by the announcement in July 2015 of the new rent regime for affordable housing 2016-2020, which lead to the Board approving a £3.5m (rising to £4m) annual operating cost saving plan for 2016/17 in December 2015.
The implementation of the necessary service and structure reconfigurations were all delivered on budget and on time for 2016/17 and the chart below shows where the savings were successfully made and which are in line with expectations:

[1] In September 2014



Continued pressure and a variety of operational actions to improve our performance with void turnaround and turnover levels

We completely changed the staff structure and resources to create two teams solely responsible for delivering improved void performance. One team is in Property Services and the other in Customer Services, but they share common goals and targets and work closely together. Performance has improved dramatically during the course of the year and continues to do so into 2017/18.

Continued resources targeted at rent collection and arrears management to combat the risk from Universal Credit and other welfare reform changes

During 2015/16 we had established a dedicated income management team with money support staff. The efficiency gain has come through good control of our rent arrears delivering high performance. In addition we made extra provision in the business plan for bad debts, void losses and increased levels of current and former arrears.

However the full extent of these provisions was not required during the year, because of the tight controls in place by the Income Management team. Due to the staff restructure changes to find the £3.5m efficiency savings, in 2016/17 this team has been amalgamated into one generic housing services team; but in view of the anticipated threat posed by the full local roll-out of Universal Credit in 2017 an additional £100,000 per year of revenue resources was agreed in the 2017/18 budget to provide additional capacity to support tenants.

Based on updated NPV values hold a Board strategy event to agree our future (dis) investment plans
In December 2015 the Board received a comprehensive report setting out the NPVs of our stock with suggested future strategies for three discrete groupings (Immingham flats; sheltered housing schemes; and miscellaneous individual properties) which were consulted on and adopted during 2016/17. Further details are in the section 9 below *"Managing our Assets"*. These properties are being considered on a phased basis and resident consultation on individual phases of the plan commenced in June 2016 and continues in batches all the way through to March 2018 on a scheme-by-scheme basis.

Deliver a strategy by April 2017 to reduce our operating costs by a further £3.5m
The strategy was developed and the vast majority of actions implemented by the end of the 2016-17 year. Cost savings were found from a whole range of business areas including service reductions, staff redundancies, staff training and welfare, financial support to external agencies, accreditation subscriptions and membership of a variety of organisations, releasing contingency levels, dramatically reducing provision for revenue projects, etc. As part of this overall approach to efficiency savings we decided to rationalise both of our satellite offices to reduce the amount of staff resource required and the running costs of the buildings; and the last phase of this was the closure of our town centre office at the end of March 2017.

In conclusion all of the value for money actions that we said in 2015/16 that we would complete during 2016-17 have been successfully delivered to plan.

Included in the table below are the other Value for Money gains over a £10,000 threshold achieved for the last financial year 2016-17. There are in addition numerous smaller savings and efficiencies that have been made or are planned across the organisation.
These listed gains are new for 2016/17 and therefore on top of any prior-year VFM savings previously reported (even where they were multi-year including 2016/17):

Activity	New VFM Gain in 2016/17	New Future Gains	Comments
Capital Improvement Programme with Keepmoat	£1,580,379	Pro-rata to size of programme	Up to £6,269 per home reduction in whole house costs across 15 individual building component elements with a 26% reduction in the measured works rate and also a 5% savings on prelims compared to 2015/16.
Electrical Contractor Rates	£200,000	Pro-rata to size of programme	An 8% saving on rates compared to 2015/16 on periodic electrical testing; electrical remedial works; and ad-hoc electrical works.
Heating System Installation components	£156,000	Pro-rata to size of programme	A saving of £300 per installation (12.5% saving compared to 2015/16)
Window Cleaning Services	£11,798	£35,213	Competitive procurement exercise with a 4 year contract period and an annual saving of 47% on previous

Activity	New VFM Gain in 2016/17	New Future Gains	Comments
			contract costs

6 Value for Money Policy

Our Value for Money policy included a 2014/15 target to reduce our operating costs by £0.5m per annum going forward. However this target was overtaken in July 2015 by the Government's direction to reduce rent levels by 1% per annum in real terms for four years starting from April 2016. Our efficiency actions from that point have been geared to delivering a minimum of £3.5m saving from our operating costs annually and this was more than achieved in 2016-17.
Our VFM Policy is due for review and revision during 2017/18.

7 Knowing our costs and performance

We annually track our high level cost and performance indicators to show our direction of travel. These have been chosen to make the information readily accessible to all of our stakeholder groups.

Operating costs

	2016/17	2015/16	2014/15 (Restated)
	£000	£000	£000
Turnover	**31,225**	**31,439**	**32,698**
Operating costs excluding depreciation and exceptional items	**16,012**	**22,740**	**23,975**
Operating surplus	**10,663**	**2,281**	**3,424**
Operating margin	**34.1%**	**7.3%**	**10.5%**

Source: Statutory Accounts page 10

After several years of increasing operating costs, the last two year shows the start of our very strong downward pressure on these costs. Operating costs have fallen by 30% between 2015/16 and 2016/17 (and 5% between 2014/15 and 2015/16), representing a very significant reduction in our controllable expenditure.

The main areas of variance between years are identified as follows:

- High Rise and Comber Place Regeneration

The decanting of the East Marsh high rise estate which began in the previous year came to a conclusion with the six blocks now fully empty and ready for demolition. In addition the associated Comber Place site was emptied and demolished within the year. The costs of home loss and disturbance payments expensed in the year in relation to these two projects were £0.269m (2016: £1.441m).

- Housing Asset Review Programme ('HARP')

The organisation's on-going asset review program has resulted in further home loss and disturbance payments being expensed during the year, specifically in relation to Washdyke Lane, Immingham were £0.233m (2016: £NIL)

- Employment Costs

This year shows the full year effect of the reduction in staff costs associated with the re-organisation following the government's decision to impose a four year rent reduction. Salary costs have reduced to £7,506m (2016: £8,625m)

- Restructure Costs

In response to the government-imposed rent reduction the organisation approved and began the implementation of a restructure in late 2015/16. The restructure was completed in the current year with costs of £0.239m (2016: £0.643m).

- Van Fleet Set-Up Costs

In 2015/16 the organisation made the decision to bring the repairs' function in-house. The costs of establishing the expanded van fleet to support this decision were all incurred in the previous year. Therefore the costs in the current year were £NIL (2016: 0.241m)

- Void Repairs

The cost of repairs to void properties including ancillary costs of shuttering, clearance, energy costs and council tax etc. have decreased to £2.506m (2016: £4.201m). This reduction is in part due to a greater use of in-house resources thus reducing the more expensive option of using external contractors.

Void loss (cost of lost rental income from unoccupied properties) reduced significantly during year to 1.68% (2016: 4.56%). The number of voids in management has decreased across the year with the numbers in management at 31 March 2017 being 143 (2016: 149).

- Insurance

2016/17 was the first year of a three year contract with a new insurance broker and resulted in premiums being reduced to £0.342m (2016: £0.440m).

Homes and Communities Agency

The HCA also provide comparative information in the global accounts. Our headline figures from 2015-16 are shown in the table below (2016/17 data not yet available). This data helps us to understand the differences in the unit costs of housing providers from across the social housing sector and how we compare:

2015/16	Units managed	Headline social housing cost (CPU in £k)	Management (CPU in £k)	Service charge (CPU in £k)	Maintenance (CPU in £k)	Major repairs (CPU in £k)	Other cost (CPU in £k)
Shoreline	8,052	3.33	1.64	0.18	0.86	0.59	0.05
Upper quartile		4.30	1.27	0.61	1.18	1.13	0.41
Median		3.55	0.95	0.36	0.98	0.80	0.20
Lower quartile		3.19	0.70	0.23	0.81	0.53	0.08

All unit cost measures are drawn exclusively from Global Accounts data for 2015/16 submitted by providers to the regulator. During 2015/16 our costs were between the median and lower quartile level, except for our management cost which was higher than the sector upper level.

Using the information from our Statutory Accounts for 2016/17 our calculation of the same per unit figures are below:

2016/17	Units managed	Headline social housing cost (CPU in £k)	Management (CPU in £k)	Service charge (CPU in £k)	Maintenance (CPU in £k)	Major repairs (CPU in £k)	Other cost (CPU in £k)
Shoreline	7,947	3.24	1.16	0.16	0.61	1.27	0.04

Our headline cost per unit to manage our stock has reduced again from last year, as have all the other 'CPU' indicators, reflecting our major cost savings' programme delivered at the start of the year.

Our resources

The vast majority of our income comes from the rents paid for our properties and, despite the headline reduction in the rents that we can charge, but thanks to our improving performance we have still been able to hold our income up at 99.3% of last year's level:

	2016/17	2015/16	2014/15
	£000	£000	£000
Rent income	**28,266**	**28,696**	**29,055**
Service charge income	**912**	**1,061**	**1,158**
Shared ownership sales	**127**	**163**	**1,001**
Other income	**1,920**	**1,519**	**814**
Total income each year	**31,225**	**31,439**	**32,028**

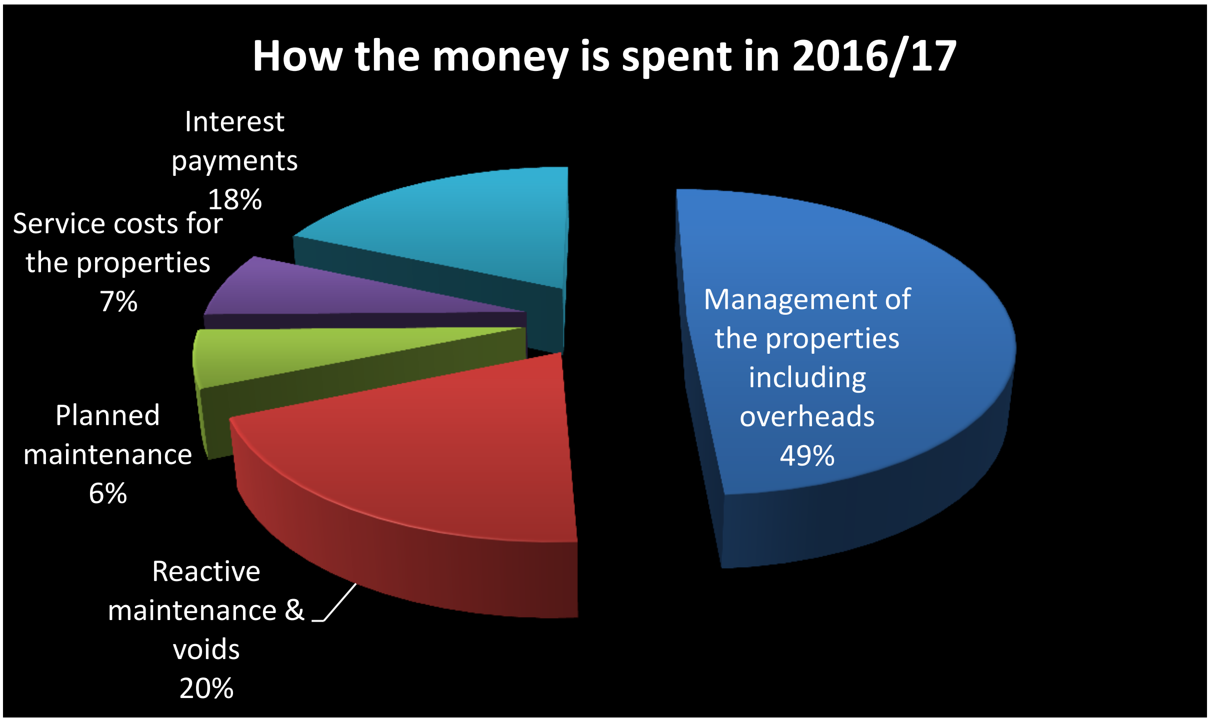
Source: Statutory Accounts page 10

How we spend our resources

The table and then the chart below show the five main areas of our expenditure - all of which show reductions (some very sizeable) for the positive reasons set out above.

	2016/17		2015/16		2014/15	
	£000				£000	
Stock	**7,869**		7,986		7,993	
		Per unit		Per unit		Per unit
Management cost (including overheads)	£9,253	£1,176	£13,117	£1,650	13,439	£1,681
Reactive maintenance cost (including voids)	£3,717	£472	£5,784	£724	4,915	£615
Planned maintenance cost	£1,136	£144	£1,177	£147	1,740	£218
Services	£1,295	£131	£1,483	£187	1,889	£236
Net interest payable	£3,381	£430	£3,557	£445	2,768	£346

Source: Statutory Accounts Pages 10 & 39



Performance in the round

The indicators in the table below have been selected by Board to provide a broad representative picture of our value for money performance overall and shows a generally positive and improving programme. These we track annually to give a high level view of our performance on value for money.

	2016/17	2015/16	2014/15
Current rent arrears	1.73%	1.72%	1.62%
Cash collection	100.0%	100.6%	99.40%
Bad debts per unit	£15	£34	£55
Void loss per unit as % of turnover	1.68%	4.34%	4.26%
Number of new build homes (including shared ownership)	5*	16	38
Gross development expenditure	£0.591m	£1.982m	£3.688m
Average weighted interest rate	4.68%	4.83%	4.77%
Interest cover	4.47	2.77	2.53
Loan debt per unit	£8,910	£8,754	£8,728
Staff cost as a % of turnover	24.04%	27.43%	21.65%

*Timing issue of completions, with the position expected to recover strongly in 2017/18 and beyond due to the secured development pipeline that we can see.

8 Benchmarking comparisons

Our participation in the 'HouseMark' benchmarking service enables us to compare our costs and performance against similar organisations. We use as our comparison peer group LSVT national landlords with a minimum of 7,500 properties. For 2016/17 this is a comparison group of 28 stock transfer associations.

Shoreline efficiency summary – cost and performance 2016/17

Total cost per property

Service Area	**2016/17**	**Quartile***	**2015/16**	**Quartile**	**2014/15**	**Quartile**
Overheads (total) as % of adjusted turnover	13.58%	Fourth	13.58%	Fourth	13.5%	Fourth
	Cost per property	**Quartile**	**Cost per property**	**Quartile**	**Cost per property**	**Quartile**
Responsive repairs and voids	£1,212	Fourth	£1,187	Fourth	£1,108	Fourth
Major works and cyclical maintenance	£925	First	£906	First	£997	First
Housing Management	£486	Fourth	£475	Third	£559	Fourth
Estate Services	£195 Second	Third	£191 Second	Third	£224	Fourth
Rent arrears	£133		£130		£145	Fourth
Lettings	£97	Third	£95	Third	£127	Fourth
Tenancy management	£105	Third	£103	Third	£123	Fourth
Anti-social behaviour	£69	Third	£78	Third	£78	Third
Resident Involvement	£83	Fourth	£81	Fourth	£86	Fourth

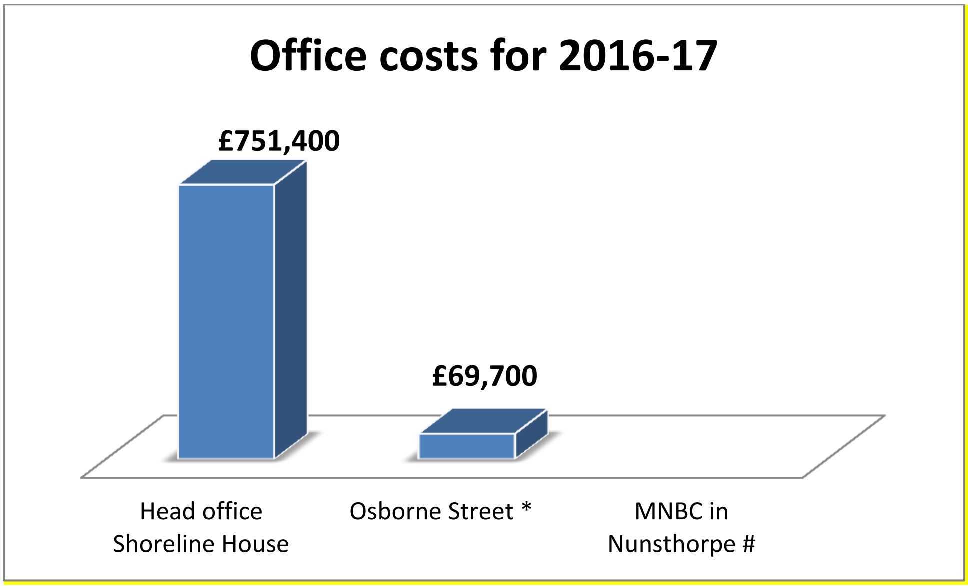
*[Note: Because we do not yet have the 2016/17 comparative quartile data this assessment is against the 2015/16 benchmarks.]

Overheads
We know that our overhead costs are high and have remained fairly static for the last four years. This means we have been in the bottom quartile consistently during this period. We continue to identify solutions to move us to towards the median level for our peers, which is 10.7%. Overheads include four separate areas of cost; IT and communications, office premises, finance and central overheads. When compared to our peer group we are more expensive for office premises, central overheads and IT. We are just below the median level for finance costs.

Offices
During 2016/17 we reduced our office base to just one office from three and in 2017/18 now just operate from our head office Shoreline House. Notwithstanding this our office premises costs continue to be a significant area of spend which account for a proportion of our higher overhead costs largely because at the time that we signed the lease deal on the HQ premises it was the height of the commercial property boom in 2007. We are unable to do anything about this until the lease expires in 2022.

Now we have completed our current organisational restructure we are actively looking to sub-let spare office space in order to mitigate this cost.

The graphic shows our 2016/17 expenditure per office excluding staff costs.



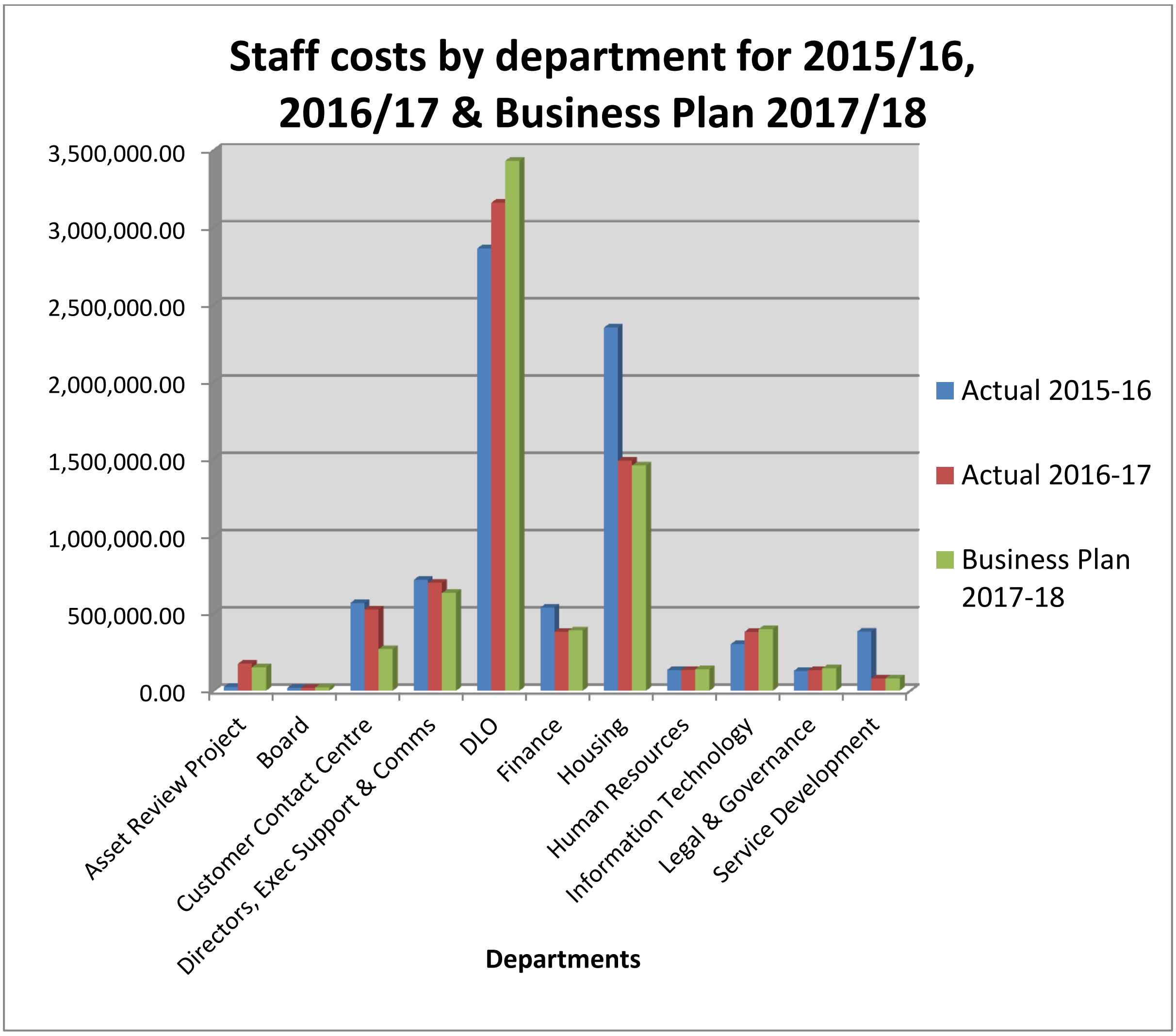
Source management accounts

[* Closed at the end of 2016/17; # Closed at the start of 2016/17]

Central Overheads
During the year central overheads were circa £1.175m of non-pay related costs. Some of the exceptional items in year were consultant costs associated with preparations for possible merger in 2017/18.

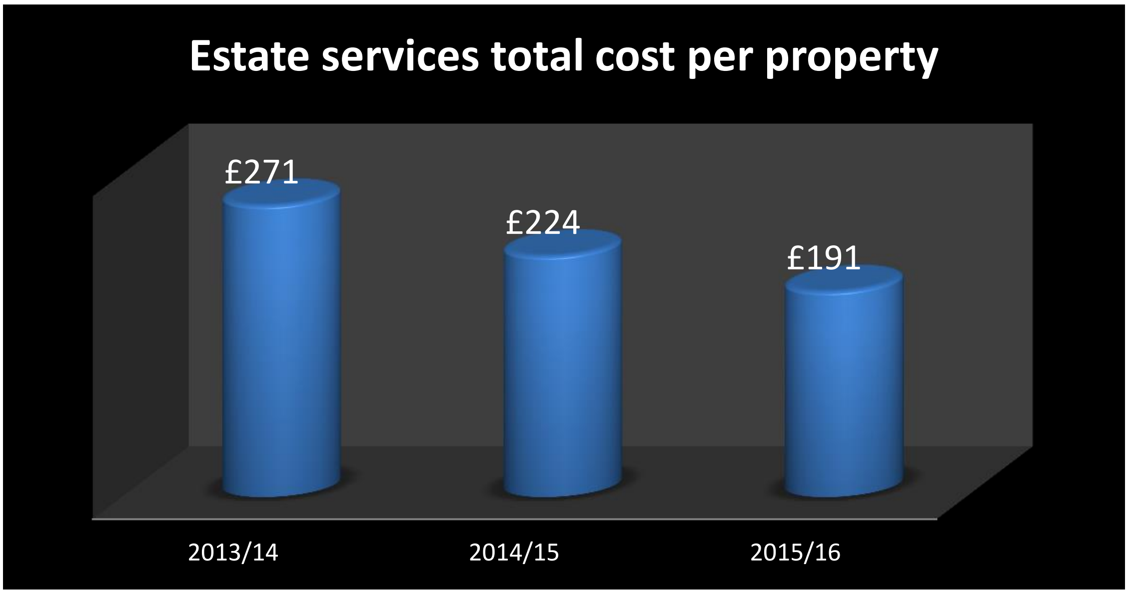
Housing Management
For housing management we have moved back into the fourth quartile from the third quartile in the previous year. Our total cost per property for housing management has increased between 2015/16 and 2016/17 and this is accounted for by the rapid fall of the number of units in management during 2016/17 due to our stock rationalisation programme.

The impact of the staff reductions already agreed were seen fully in 2016/17. The chart below shows our total salary cost for 2015/16 and 2016/17 by department. The additional Asset Review Project and HRCR staff cost incurred is time-limited to 2017/2018:



Estate services
During 2013 we had a comprehensive look at our estate services and their value for money. The majority of our estate service costs were caused by the management of our high rise tower blocks. This piece of work then moved onto a detailed options' appraisal on these properties. The outcome was a decision in 2014 to rehouse the residents and demolish these high rise flat blocks.

The implementation of this decision has been on-going during the last three years and concluded during 2016/17. We have been pushing these costs lower which in turn has reduced service charges to our customers. The median figure for our peer group in 2015/16 was £155 per property a reduction of £10 per property from last year and we are currently awaiting the figures for 2016/17 so have not been able to provide an updated comparison below:



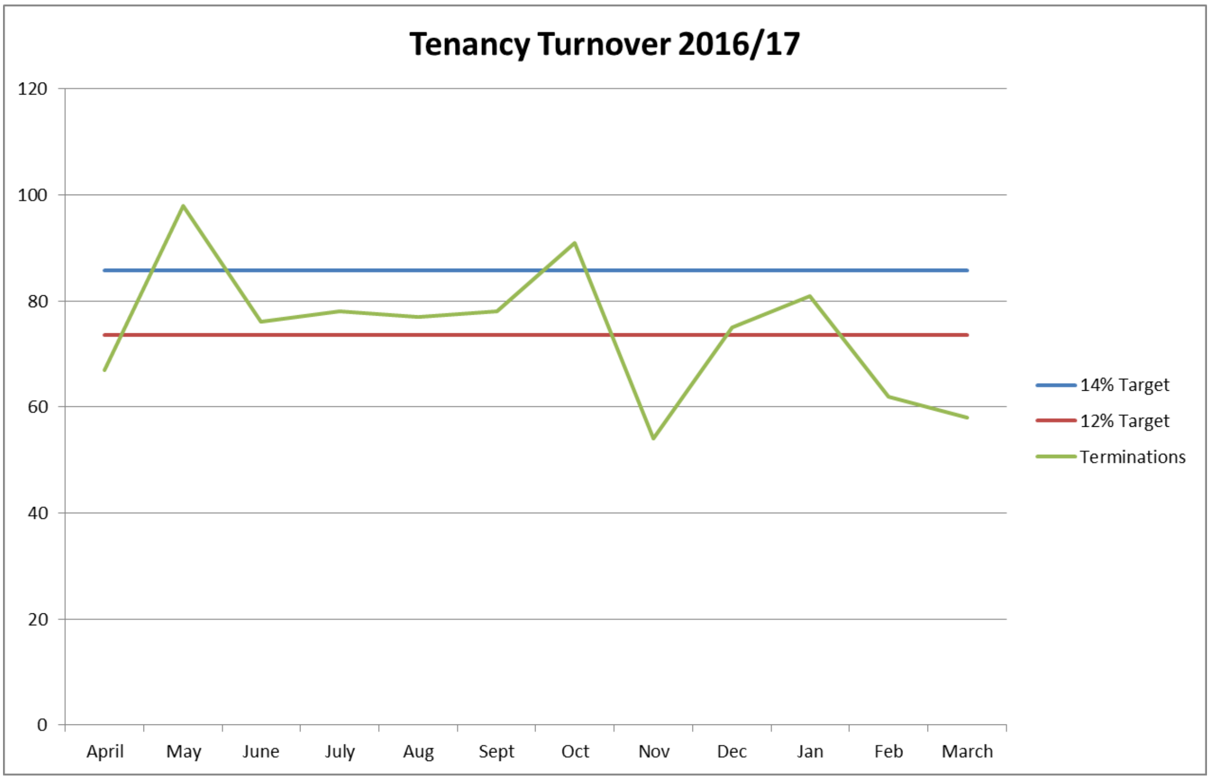
Rent arrears
For rent arrears' collection cost per property, we have maintained our quartile position in the second quartile from being in the fourth quartile for 2012-15. This combined with our reduction to third quartile performance where we are just 0.10% behind the median position for collection of current and former tenant rent arrears combined (which has reduced by 0.21% to 4.02%) is a significant value for money achievement. We have improved performance from 2014/15 when the combined figure was 4.41%

A focus on early intervention, with the support of a money advice team, has ensured that our rent collection and arrears recovery performance remains excellent, particularly given the challenges of welfare reform and the financial pressures facing many of our tenants. We have taken the view that with the significant risks from Universal Credit we will continue to dedicate resources to this area of our work and mitigate the risks to Shoreline from Universal Credit.

Lettings
Our cost per property for lettings has remained in a third quartile position for a second year after three years of being fourth quartile. This combined with the return of the repairs and maintenance to an in-house service in June 2015 is starting to give us substantial performance improvements.

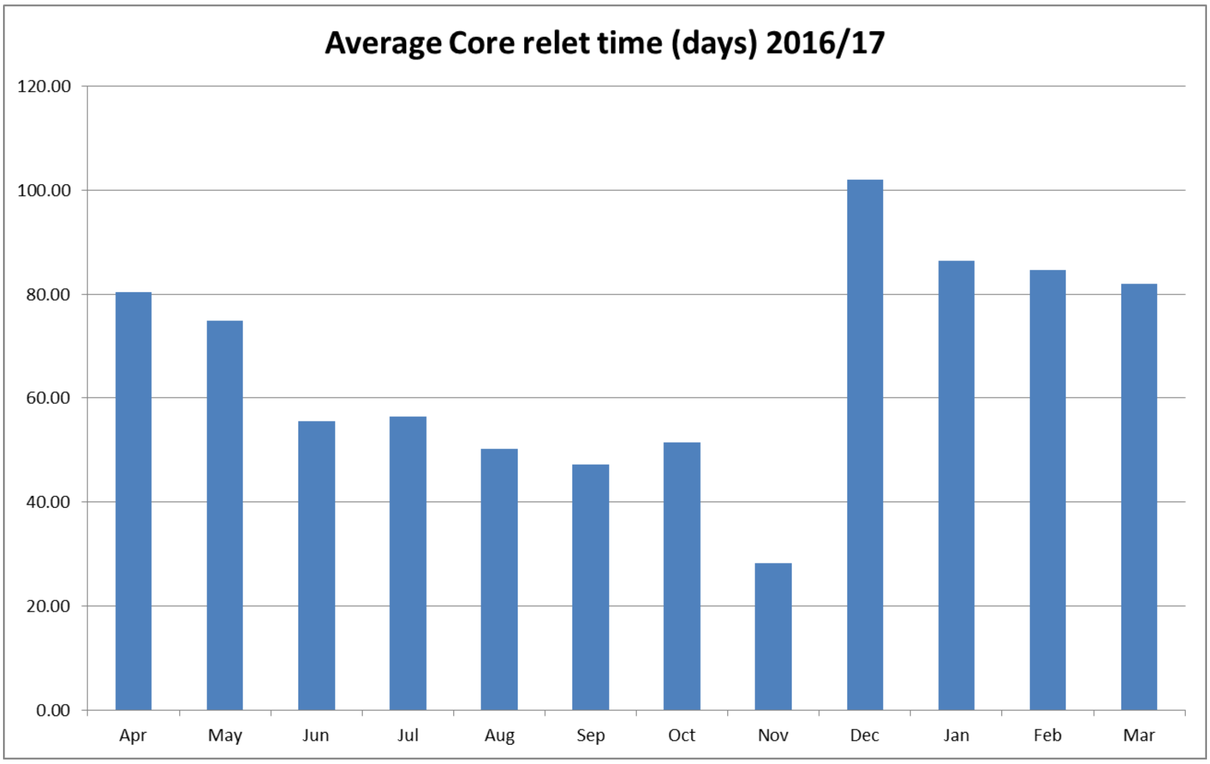
We still have challenges from low demand for some of our properties and we are lower quartile for a number of the voids and lettings indicators. For example we continue to be in the fourth quartile compared to our peers for both the percentage of income lost to voids and our average re-let periods, but we have significantly narrowed the gap for both indicators, with average re-let times reducing from 110 days in 2015-16 to 67 in 2016-17 and income lost to voids reducing from 4.56% to 1.71%. While the median of our comparators have reduced re-let times by 1 day, and income lost to voids by 0.25%.

Our challenge in this area of our work is however underlined by our tenancy turnover - which has reduced to 10% in 16/17 and is our best performance for over 5 years - but is still higher than our peer group with the median level at 8.51%, so we have significantly narrowed the gap while comparator performance has stayed steady.



[Note in this graph the 12% target line was our 2016/17 objective; and the 14% target line our expectation allowing for the high number of decants associated with the emptying out of the East Marsh high-rise estate.]

Our look forward to 2017/18 is even more positive. At the end of 2016/17 year our number of voids in management was down to 143 and this improving trend has continued into 2017/18 with 113 void properties in management in late September 2017.



Core re-let times (above) had progressed well during 2016/17 until December 2016 when the impact of the release of previously (often long) held Washdyke Estate empty properties back into management had a major negative effect on our performance, which we subsequently started to recover in the last quarter of 2016/17 and have continued to do so into 2017/18 - this figure had fallen back to 54 days at the end of August 2017.

Tenancy management
Tenancy management has remained in the third quartile for the second year being up from the fourth quartile previously.

Anti-social behaviour
We have maintained a third quartile position for total cost per property of our anti-social behaviour team.
Anti-social behaviour was one of our lower performing areas for satisfaction last year (2015/16). We had completed a review of our anti-social behaviour function that included revising our policy and procedures, adopting a toolkit approach to case handling, the introduction of a process management module on our housing management system, new standard templates and letters and training for all staff.

This took a while to embed, but we are now seeing improving satisfaction with this service. We monitor satisfaction every time we close an anti-social behaviour case. Satisfaction has increased from 84.8% in 2015/16 to 87.6% in 2016/17.

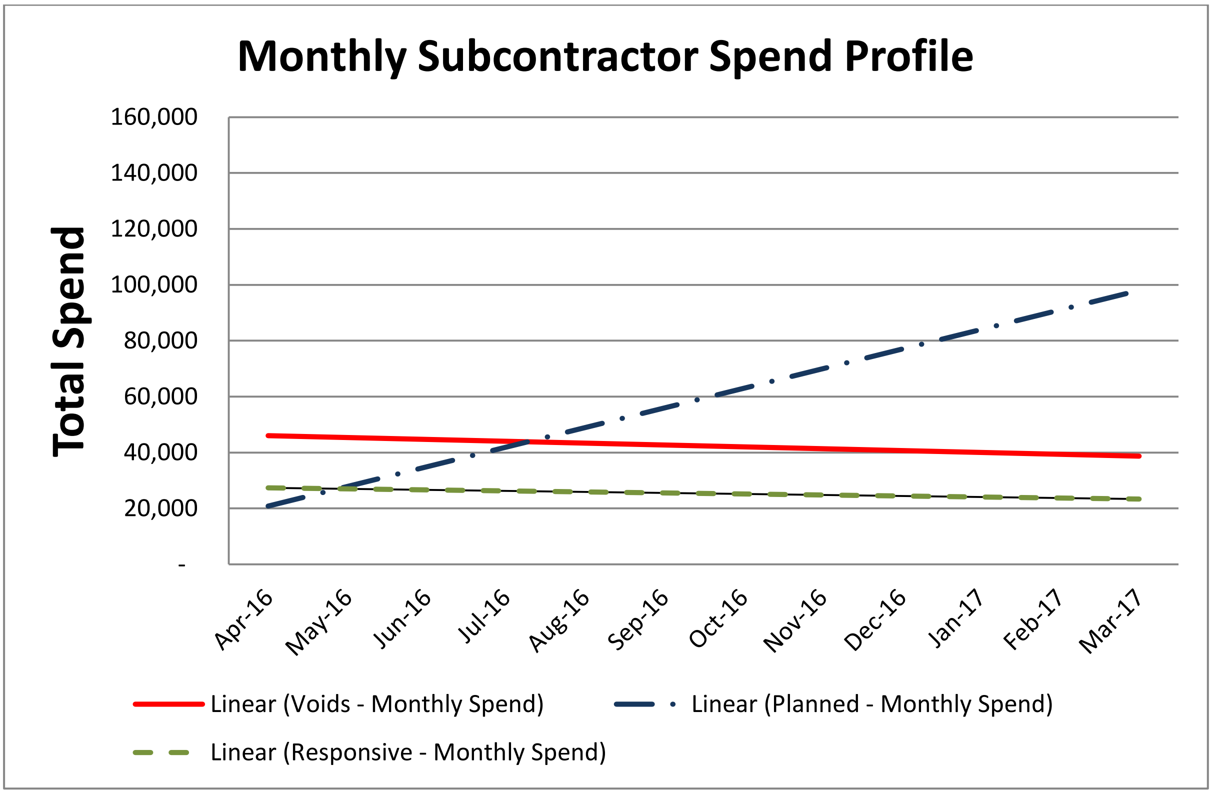
Resident involvement

Resident involvement is the only part of the service which remained fourth quartile for cost per property in 2016/17. This has already been addressed as part of our restructure with significant cost reductions in this area. How satisfied customers are with how well we take their views into account has remained at the median level of 76%.

Responsive repairs and voids

The total cost per property for responsive repairs and voids has remained in a fourth quartile position. Our total cost per property has increased from £1,187 in 2015/16 to £1,212 in 2016/17. The median level for our peers is £858. The changes being made since we brought the service back in-house have taken time to embed and are not yet reflected in the year-end figures.

Since transferring the DLO from Mears in June 2015 to date, there has been a focus on reducing external sub-contractor spend and increasing self-delivery. On transfer to Shoreline, the DLO was heavily reliant on sub-contractor support with over 50 sub-contractors being used. A sub-contractor rationalisation programme was completed between October 2015 and January 2016 consolidating the number of sub-contractors to 2 principal contractors and 23 specialist contractors (drainage, asbestos etc.).
All sub-contractors are now engaged on agreed negotiated rates which are competitive to the market. The pricing negotiation and switch to two new principal sub-contractors has achieved a saving of £ 1,203 net per void repair.
The reduction in sub-contractor spend since taking the DLO in house is best illustrated by the trend graph below:



At 31st March 2016, sub-contractor spend for 2015/16 was 49% (£4.5m) of the total cost of the DLO, but by year-end 2016/17 we had successfully significantly reduced this down to 25% of total DLO costs (£1.4m), with a target to hit 20% in 2017/18.

Having reduced reliance on external sub-contractors, we have plans to improve productivity and capacity of the in-house team to increase self-delivery, thereby reducing external contractor spend further in 2017/18. A shift working pattern of 4-on-4-off has increased capacity to offer an 8am to 8pm, 7 days a week repair service, introduced in June 2016.
A terms and conditions' review was implemented at the end of December 2016 achieving a consistent terms and conditions' package for the workforce which will increase capacity and improve productivity; although at that date a small number of operatives remained in formal dispute with us which took until early 2017/18 to fully resolve.
The new terms and conditions are an opportunity to achieve a step change in culture amongst the workforce, as a platform to deliver a transformational change for the service to be demand rather than capacity led.

The benefits from this are anticipated to be seen during 2017/18 and beyond.

Major works and cyclical maintenance
For cost per property we have remained first quartile with comparatively low expenditure levels compared to our peers. Our total cost per property has increased to £925 from £906 in 2015/16.
This is positive expenditure on our housing stock and as such we have plans in place to increase it. In earlier years the amount spent has been too low amply demonstrated by the median level of peers at total cost per property of £1,631.
Our plans to increase expenditure will help to improve some of the lower quartile performing areas. For example our average SAP rating at 63.6 is below the median of our peers who achieve 71.0.
A contract for major works delivery with construction partner Keepmoat commenced in February 2016 and the contract has a potential duration until 2020. This has provided us with a major delivery partner with the capacity to deliver major works, which due to our geographical location has historically been problematic in sourcing a suitable-sized contractor. Performance so far has been good, with high levels of customer satisfaction and delivery against programme being achieved and with unit costs being driven down between years by an average of 25.71% (see page 9).

In terms of Decent Homes' delivery then at year end 2016/17 we had a failure rate of 1.49%, which was the result of a March 2017 jump in the figures as a direct result of the cloning process undertaken within the 'APEX' stock condition system to update stock asset information for all properties (for comparison the February 2017 the figure was 0.34%). All these properties are in the 2017/18 improvement programme.

Satisfaction with the service
To determine what our customers think of the service we provide, we use transactional surveys of customers immediately after they have received a service and we use the sector-wide 'STAR' satisfaction questions. This helps us to understand the value our customers place on the services we provide, which are incorporated into our decision-making.

For the STAR questions we compare our customer satisfaction measures with other providers. Our results for the last three years are below. For overall satisfaction we have achieved satisfaction this year of 89.6% which is a slight dip (by 0.5%) compared to 2015/16 and still want to achieve more and have a target level of 91%. The upper quartile for overall satisfaction compared to peers is 91.6%. We have also seen deterioration in our net promoter score during the year to 29.3 which has dropped us back to the sector median quartile.

Overall our satisfaction position has been largely maintained despite the challenges we have faced during the year with our very significant decanting and rehousing programmes and reduction in staff delivering front-line services.

It is particularly notable that we have jumped to top quartile in four categories:

- VFM of the rent;
- VFM for service charges ;
- Satisfaction with quality of the home;
- Satisfaction with repair and maintenance services

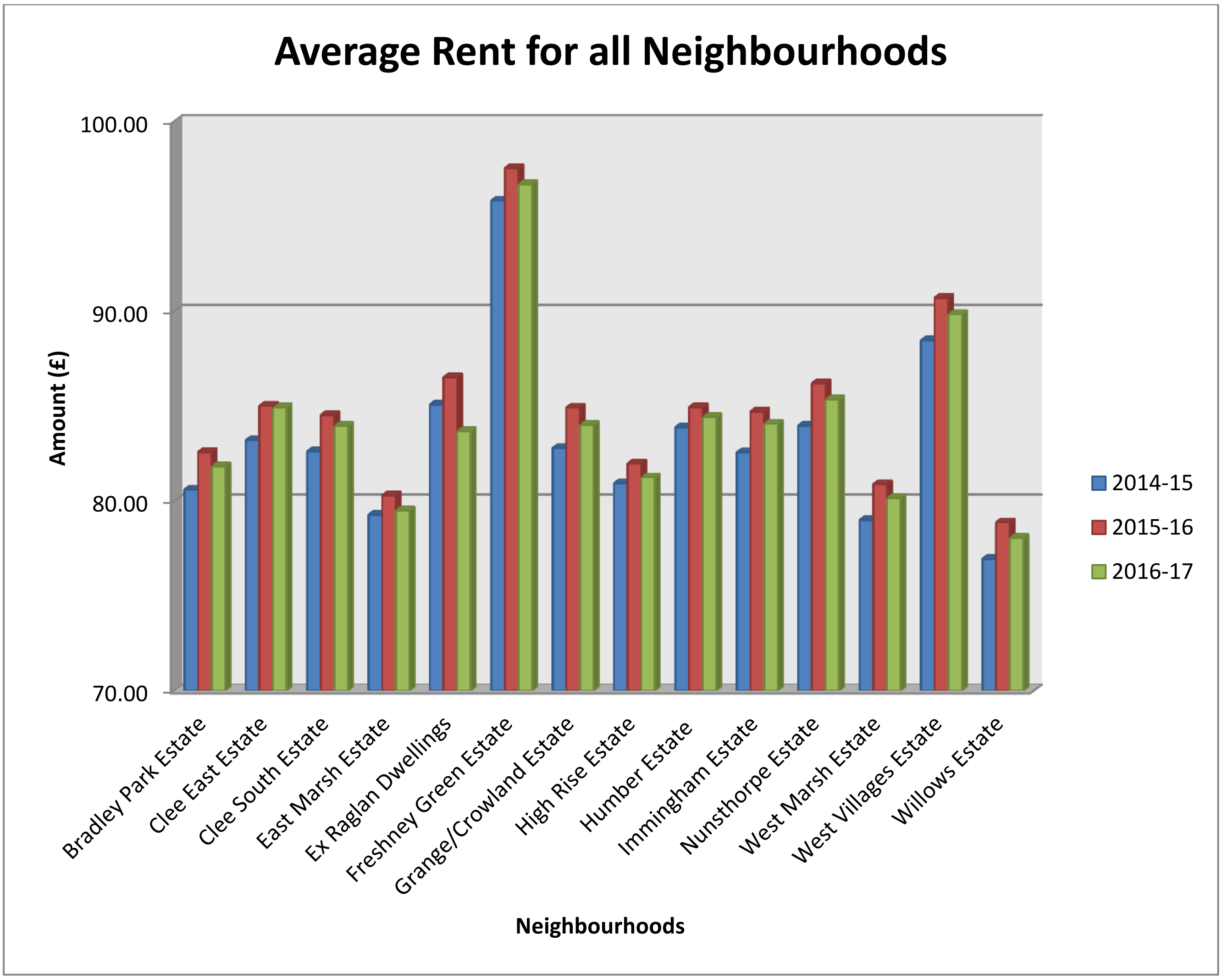
All of which is highly encouraging evidence for the successful delivery of our VFM strategy.

STAR satisfaction comparisons						
	2016/17	**Quartile***	**2015/16**	**Quartile**	**2014/15**	**Quartile**
Tenant satisfaction with the overall service	**89.60%**	**Third**	**90.10%**	**Third**	**89.60%**	**Third**
Tenant satisfaction with VFM of the rent	**91.80%**	**First**	**82.10%**	**Fourth**	**84.80%**	**Third**
Tenant satisfaction with VFM of the service charge	**76.00%**	**First**	**68.10%**	**Fourth**	**72.20%**	**Third**
Tenant satisfaction with the quality of their home	**91.70%**	**First**	**85.60%**	**Third**	**85.80%**	**Third**
Tenant satisfaction with the neighbourhood as a place to live	**86.70%**	**Third**	**85.70%**	**Third**	**86.10%**	**Third**
Tenant satisfaction with the repairs and maintenance service	**88.10%**	**First**	**83.30%**	**Third**	**82.70%**	**Third**
Tenant satisfaction that their views are being listened to	**76.20%**	**Median**	**76.00%**	**Median**	**73%**	**Third**
Net promoter score	**29.3**	**Median**	**36.5**	**Second**	**30**	**Median**

*Note – Quartile positions for 2016/17 are not yet available so our 2016/17 performance is rated against the 2015/16 quartiles for now.

Value for money of the rent

The increased satisfaction level for our rent offering value for money is a pleasing, but may of course simply be driven by the 1% rent cut implemented in 2016/17 as a result of national policy. The chart below compares our average rent levels across all neighbourhoods for the last three years. It shows the start of the reducing trend of rent levels for 2016/17, which will continue for the next three years. It also provides cost comparative information for our existing and new customers, which is data our Resident Scrutiny Panel has requested.



9 Managing our Assets

As part of the Regulatory Standards covering Value for Money, the Homes and Communities Agency expects registered providers of social housing to 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).

As part of the objective assessment of Shoreline's assets the appraisal of existing stock and development opportunities are all subject to a robust business case and evaluated using a discounted cash flow modelling technique. Whilst financial return is a singular objective measure that can be used to provide an indication of value for money, it must still be set in the context of the organisation's investment priorities, appetite for risk, and its social and environment objectives.

We use this financial modelling technique in order to ascertain the net present value of cash flows generated by a single property, a street, or a neighbourhood. Having operated the technique across all of our stock, this type of modelling enables us to prioritise our attentions to ensuring that decisions around poorer performing stock are taken promptly and in the best interests of the organisation.

This has been made all the more important following the Government's announcements to reduce rents for the period 2016-2020 which has typically affected the value in use of social housing assets by up to -25%.

In December 2015 the Shoreline Board received the first comprehensive results from our NPV modelling, which is refreshed annually. The report provided a detailed proposal with a view to optimising return on assets. The proposal also accords strongly with the Corporate Objective of *"dealing with areas of unpopular housing"*.

It had long been established through anecdotal evidence that Shoreline' stock comprises a number of key areas which have traditionally suffered higher turnover levels and consequent higher void loss.

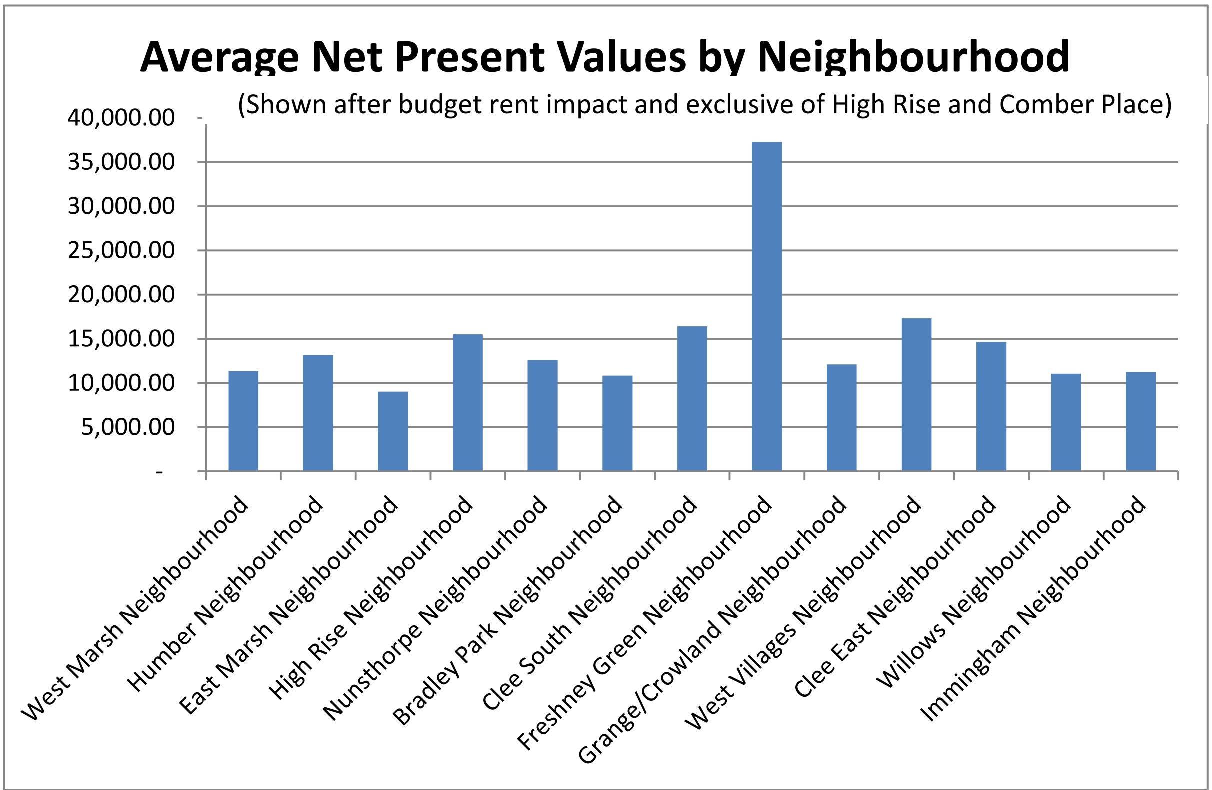
The East Marsh high rise flats and Comber Place, the Washdyke Estate flats and some older persons' schemes were identified a number of years ago as being difficult to sustain. Ultimately this led to a firm proposal finally agreed by Board in 2014 to demolish the 640 High Rise Flats and adjacent Comber Place maisonettes.

At that time, the capacity of the organisation to be able to deliver any further stock rationalisation was a restriction and temporary holding positions were taken in respect of the remaining previously identified problematic areas.

Having progressed the High Rise and Comber Place projects to a substantive point, Shoreline have moved to consider the remaining poorer performing stock. This has a two-to-five year window for delivery. This coincided with the Government's announcements on rent reductions in the July 2015 Budget and added significant financial pressures to the business with a planned £3.5m revenue budget reduction and significant changes to the shape of the organisation going forward.

The effect of the rent reduction is to reduce the value in use of social housing assets by up to 25%. When faced with stock that was already difficult to sustain, the income reduction associated with reduced rents tips the balance and moves discretionary stock rationalisation towards necessity in order to maintain financial stability and rebuild provision within the business plan.

With proposed stock reductions resulting in the loss of people's homes this is clearly not a decision to be taken lightly. It will inevitably have a human cost and is likely to result in adverse public relations impact.



Our NPV analysis includes an aggregated neighbourhood view and property type view. These "views" are built up from the individual property NPV amount. This has demonstrated that now we have implemented the strategy to tackle negative NPV properties in the high rise tower blocks and Comber Place, at a neighbourhood level NPVs are positive. The granular view however showed that certain property types in specific locations had negative NPVs. The negative NPV properties included some of our older persons designated stock (seven sheltered schemes), a collection of flat blocks in central Immingham, and some individual houses and flat blocks scattered around our stock.

Sheltered Housing Schemes

Shoreline's property portfolio for older people's schemes comprises around 2,315 homes which are designated for older persons.

Shoreline has nineteen older person scheme blocks which have a net present value of less than zero over the thirty year plan. However, twelve of these remain largely viable through to 2024 or beyond and the future negative value is caused by large capital cost occurring at or beyond this timeframe.

Consequently, continuing to operate these schemes is both financially beneficial and enables a positive public relations approach which secures the future of these and other schemes for the foreseeable future – indeed in our June 2016 asset review consultation statement we gave a public commitment to retain all assets not on the review list until at least 2026.

However, the analysis highlighted seven schemes where net present values were substantially negative, often well in excess of minus £10,000 per unit ;and it is these schemes which in 2016/17 were proposed by the Board for fundamental review and public consultation on their futures - four* in 2016/17 and three in 2017/18.

[*Note: Following local representations one of the four schemes scheduled for review in 2016/17 was subsequently dropped from the programme in late 2016, leaving three schemes that year.]

Many of these schemes incorporate a number of bedsits and were designed around fifty years ago. Since that time, there is an increasing desire and expectation for older persons to remain in sustainable independent accommodation for much longer with a move to extra-care facilities for those on the cusp of requiring greater care needs. Consequently, these schemes have suffered high levels of turnover, prolonged re-let periods and a general lack of desirability.

We consulted on our proposals on the first three schemes in the last quarter of 2016/17 and in early 2017/18 the Board determined to decommission and dispose/clear all three of the sheltered sites, and the decanting of these is expected to complete in 2017.

This then leaves three further sheltered schemes to consult on which will happen in the fourth quarter of 2017/18.

Washdyke Estate Immingham

The Washdyke estate in central Immingham is another area where we see low or negative NPV levels. There are eighteen blocks of flats that comprise a total of 224 units including 15 leaseholders, who are spread across ten of the blocks. The average net present value for individual blocks of flats ranges from c. -£13,500 to c. +£4,400.

Strategically the eighteen blocks of flats are located on an adjoined section of land which is anticipated to be around 12 acres. It is located in the centre of Immingham which, although currently economically and socially deprived has significant future potential should the Port of Immingham or the proposed Able Marine Energy Park develop further.

Given the nature of the properties on Washdyke Lane the options for the future of these flats have to be strategic and encompass the whole site. The options are ones which either seek to remove poor quality housing from the area to provide the opportunity for future investment (25% of Shoreline's stock in the area), or to seek to optimise the positive cash flows that might arise on individual disposals.

Resident and stakeholder consultation on our plans for 'phase 1' of the proposals (the southern half of the estate) concluded in September 2016 and the Board subsequently determined that based on this (showing a chronic undersupply of one bedroom units in the town) to radically amend its original plan for 100% clearance and instead only remove two-thirds of the phase 1 blocks, with the retained third being offered additional investment.

Consultation on 'phase 2' of this estate (northern section) is underway during quarter 2 of 2017/18 and due to conclude in September 2017.

<u>Miscellaneous Properties</u>

In respect of other general needs flats, these tend not to occupy large strategic sites and consequently fall to a strategy of disposal when void and/or in exceptional circumstances where it is possible to decant all tenants then disposal of the whole block.

Excluding the Washdyke estate flats which are detailed above, in 2015/16 there were a total of 33 blocks which fell below the threshold net present value of zero. Seventeen of these blocks did show that they remain viable over the medium term of the plan and continue to offer positive net present values in excess of £2,500 per property over this period. These may well form a second phase of planned action in future strategic reviews.

Accordingly, sixteen blocks, comprising 195 flats, had net present values which are negative, and if they were to be considered for continued operation as social rented units then they may be deemed to be either unviable or only just marginally viable. It is these schemes which are targeted for further investigation as to why their performance is adverse; both in terms of stock value and business plan cash generation.

This process is now undertaken by a 'Re-investment Panel' which meets monthly and includes the Chair of the Finance & Performance Committee and makes individual recommendations to the Board about every property included in the asset review list, taking account of NPV (driven by letting history, repairs/improvement requirements and rent levels); housing need considerations; housing management considerations; an neighbourhood impact.

Shoreline's general needs houses (and bungalows) are by far the largest individual section of our stock with c. 3,537 properties. Traditionally these properties remain amongst our better performing stock with average turnover rates of 10.2% and void losses of 2.3%; less than half those of flats. However, not all properties are the same. There are a small number of properties, c. 2% of our stock, that have a net present value of less than zero. Consideration to dispose of these freehold properties, when they become void, is the asset management approach being taken. They are subject to detailed evaluation and up-to-date net present value calculations reviewed by the Re-investment Panel prior to a final decision being taken by the Board.

Strong Evidence of Positive Impact of our Actions

The most recent formal valuation of Shoreline's social housing stock was undertaken by Savills on behalf of our bank in March 2017 and placed an 'existing use' value on the stock of £143m - up from the £130m at the time of the last valuation in 2014: This is particularly encouraging given that this takes into account not only the negative impact of the 1% rent reduction in 2016/17, but also the loss of stock and income as a result of the major stock rationalisation programme we embarked on in 2015/16 and which is due to run through until 2020.

Our next formal valuation is due in March 2020.

10 Demonstrating our social return on investment

Supporting tenants beyond the provision of their home had become an important element of our role as a social landlord. Helping our tenants to find employment and maximising their income has become a real focus of our activity and culminated in the launch of our dedicated employment service early in 2015-16.
Regrettably due to the July 2015 rent reduction announcement we had to take the difficult decision to cease our self-funded employment work and the manager's position which was not continued into 2016/17.

Our Money Advice Service has continued to support financially excluded families and provide budget support to our customers. During 2015/16 we were very pleased to become one of only a handful of 'Trusted Partner' pilot organisations approved by DWP, and our Money Advice Service has worked particularly closely with tenants in receipt of Universal Credit.

Following a review by the DWP in 2016-17 we have retained our Trusted Partner status, and our Money Advice team has assisted 235 families and helped to secure a total of £159k in additional income for the tenants and Shoreline this year.

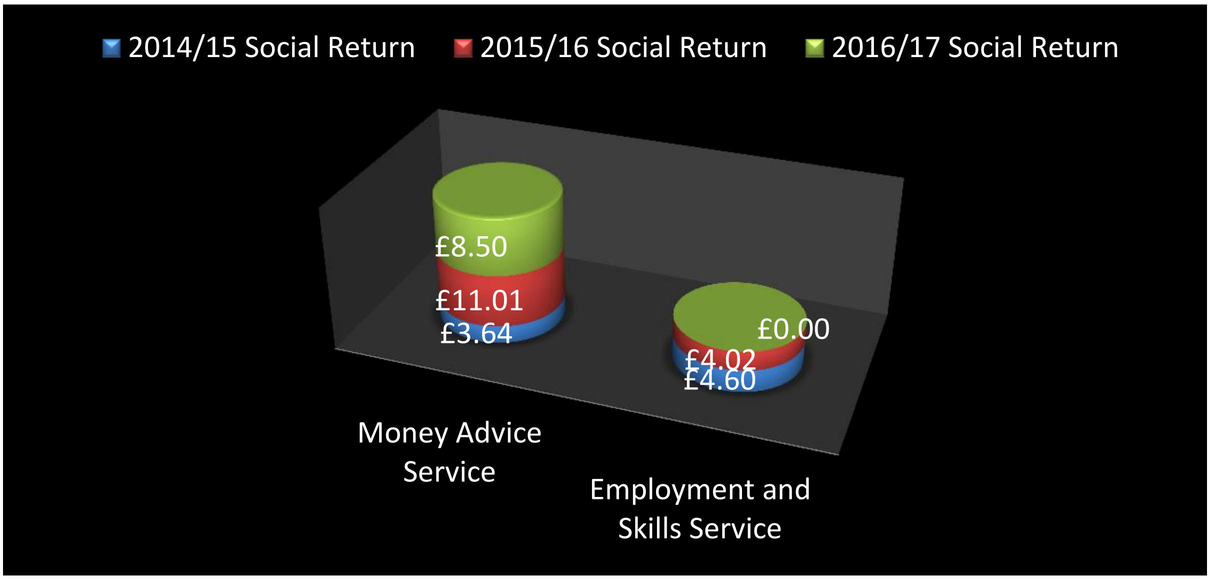
Looking ahead we now know that the full roll-out of UC to all claimants locally will commence in December 2017 and based on our experience to date - and notwithstanding our special status - consider the expanded impact of UC on our tenants' ability to pay the rent to be one of our top 5 strategic risks.

The Board has responded to this by allocating an additional £100,000 per year in the 2017/18 business plan going forward in order to support resources to assist with money advice and debt management.

Our results for the last three years are shown in the table over the page. The 2015-16 amounts for the Employment and Skills' Service reflected a part-year only and the inability to offer any further positions due to the cessation of this activity during the course of the year which resulted in nil activity in 2016/17.

[Technical note: We have developed our own methodology for calculating social return on the areas of our activity that support our social objectives.
We have used the established Social Return on Investment Impact Map to undertake an evaluative analysis of these service areas. We have identified the specific inputs for the service, pay and non-pay costs and the outputs for each of these services. We have only included primary outcomes for the service users in order not to "double count" or over inflate the social return figure. For the proxy values we have used the HACT Community Investment values from the Social Value Bank[2].]

[2] *Title:* Community investment values from the Social Value Bank
Authors: HACT and Daniel Fujiwara (www.hact.org.uk / www.simetrica.co.uk)
Source: www.socialvaluebank.org
License: Creative Commons Attribution-Non-commercial-No Derivatives license (http://creativecommons.org/licenses/by-nc-nd/4.0/deed.en_GB)


2014/15 Social Return
2015/16 Social Return
2016/17 Social Return
£8.50
£11.01
£3.64
£0.00
£4.02
£4.60
Money Advice Service
Employment and Skills Service

11 Meeting the HCA VFM Standard

Shoreline meets the requirements of the HCA value for money standard. This table summarises our actions and governance arrangements against the specific expectations:

Value for money expectations	Summary of how Shoreline is meeting the standards
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	Our Corporate Plan sets the strategic direction. Alongside this our 30 year business planning, annual budgeting, service planning and Board oversight arrangements give the framework to make robust 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	We use net present value modelling to understand the return on individual stock assets. Poorer performing assets are option appraised to identify the most appropriate solutions which are aligned with our business plan resources and our Corporate Plan objectives. The outcomes are in section 9.
Have performance management and scrutiny functions which are effective at driving and delivering improved value for money performance	Board and Customer scrutiny takes place via a governance structure, which includes a Finance and Performance Committee and a separate Resident Scrutiny Panel. This is underpinned by rigorous monthly reporting of a suite of key performance indicators and management account information. All Board reports contain the value from money implications of the particular decision being taken.
Understand the costs and outcomes of delivering specific services and which underlying factors influence these costs and how they do so	Benchmarking of operational services and our overhead costs is carried out. Improvement action plans are in place for all service areas where cost and or performance is unsatisfactory. Assessment and challenge takes place via our annual business plan and service planning process.
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	The financial performance of assets is ranked using a NPV model for our stock assets. Below this individual options appraisals are

Value for money expectations	Summary of how Shoreline is meeting the standards
	completed and stock investment/dis investment decisions taken by the Board. We use the Social Return on Investment Impact Map to understand the return on our social investment activities.
Set out the absolute and comparative costs of delivering specific services	We track our direction of travel with absolute cost information and identify actions to improve our operating cost position. We use benchmarking information from 'HouseMark' and the HCA Global Accounts to compare our cost and performance levels with other peer organisations.
Evidence the value for money gains that have been and will be made and how these have and will be realised over time.	Delivering cashable savings is a key activity for Shoreline, particularly as we face the challenges from welfare reform, the local private rented sector, low property values and the change to the rent levels announced in the budget. We have already taken a number of strategic decisions which have already delivered very large efficiency savings as clearly demonstrated by our 2016/17 annual accounts, and the future forecast adverse impacts of concluding our asset review programme (primarily impairment charges and the direct costs of decanting and demolition) have been full provided for in the business plan.

12 Our Future Plans for VFM

Summarised below are our plans for the major future efficiency savings in 2017/18:

- Implement planned procurement for building materials (target saving 10%/ £140,000 per year); and grounds maintenance (target saving 5%/£9,000 per year) amongst others.
- Continue to reduce the expenditure with external sub-contractors and undertake the equivalent value of the work internally (target proportion of total DLO spend down to 20%).
- Final rehousing of residents and demolition of the properties in the Washdyke Estate 'Phase 1' regeneration area, and from the first three sheltered housing schemes.
- Continued pressure and a variety of operational actions to continue to improve our performance with void turnaround and turnover levels.
- Continued resources targeted at rent collection and arrears management to combat the risk from Universal Credit and other welfare reform changes.
- Based on updated NPV values that fall below the zero threshold level to continue the re-investment/disposal programme on low value properties.
- Attract commercial tenant(s) into Shoreline House to take spare office space in order to mitigate the high cost of this office.