Value for Money

Self Assessment

2015 - 2016

Shropshire Housing Group - VFM Self-Assessment 2015/16

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Introduction and Context

This is Shropshire Housing Group's (SHG'S) fourth annual Value for Money self assessment. It can be read independently from our previous self assessments, all of which are available to view on our website. It continues our value for money story, outlining the steps we are making to be as efficient and as effective as we can be, making the most of available resources and assets to achieve our corporate objectives. In our 2014/15 self assessment we concentrated on our delivery against Corporate Plan ambitions. This year having had regard to the Homes and Communities Agency (HCA's) review of self assessments (June 2016) and taken advice from our internal auditors, Beever and Struthers (May 2016), our self assessment is a simpler, more visual document which focuses on clearly explaining our absolute and comparative costs and how we are making the most of our assets to deliver agreed priorities.

Our Commitment to Value for Money and Cost Drivers

SHG is committed to delivering VfM and our new Corporate Plan 2015-2020 sets out our core purpose, values and ambitions. It outlines a culture where value for money runs through the business and is an everyday part of how the Group operates and where activities/actions provide 'a return' – whether financial or social to our business, customers, and communities on the investments made.

Our **purpose** is to support our residents and communities by providing and managing quality homes.
Our **Values** are encapsulated in:

Our **Ambitions** are:

Our Corporate Plan sets some longer term VfM targets such as growing our surpluses to 12% and increasing operating margins to 29% by 2020 whilst maintaining a minimum spending and income ratio widely used by funders (EBITDAMRI) of 115% as a working target to create additional capacity in the business. This technical measure, although not a covenant on our loans, has been adopted by the Group; following advice from our treasury advisors Savills, as the single best way of tracking income and expenditure throughout the life of our business plan. We are currently on track with all of these measures.

The Government's emergency budget of July 2015 provided some immediate challenges for the whole sector which SHG responded to soundly by re-submitting financial forecasts to the HCA in the autumn and remodelling its business plan to accommodate the loss of income. The Group Business Plan and Financial Strategy approved for 2016/17 are a direct response to the annual 1% rent reduction which came into effect in April 2016 for 4 years. The Plans have been thoroughly stress tested and the Financial Statements signed off by our external auditors, Mazars. The plans balance on-going savings with growth and place Group finances on a firm footing. This twin pronged approach has improved our immediate financial health and given us the capacity to boost our corporate development ambitions initially set in May 2015.

We continually monitor the economic climate and stress test our business responses to it, whilst the implications of the BREXIT vote in June 2016 will be further monitored, evaluated and fed into future plans.

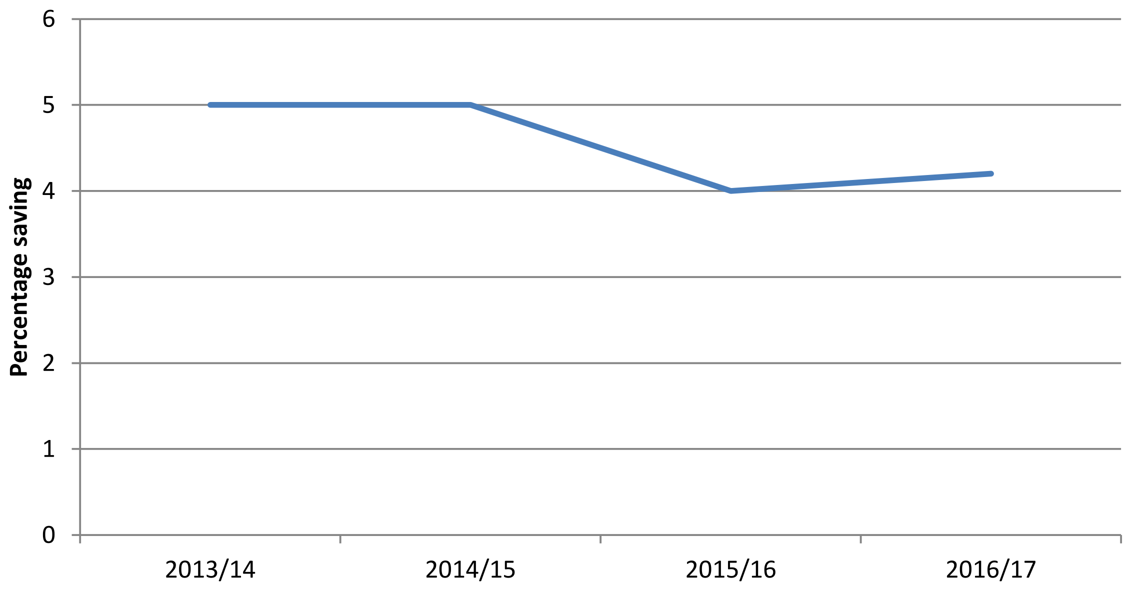
VfM Progress and Improvements

£200,000 saving built into 2015/16 budget

Our main drivers for delivering VfM in 2015/16 have been:

- A focussed look at management costs/overheads
- Partnership working and procurement to achieve efficiencies
- Systematic reviews of service charges, voids and tenancy management to reduce costs and improve income
- Getting repairs right first time, being more effective and improving performance

Percentage savings built into base budget and delivered over time



Areas to concentrate on in 2016/17

We will continue to build on these themes, particularly in securing income due, whilst:

- Introducing a year long pilot for responsive repairs based on price per property and zonal working aimed at cutting costs whilst maintaining a good service
- Comprehensively reviewing our IT needs for housing management and our maintenance team, TRL, to make technology work better for tenants and the business
- Reviewing our Rent and Tenancy Policies in response to challenges such as the Local Housing Allowance Cap
- Enabling our Customer Services Team to offer more services at first point of contact
- Forming new development subsidiaries to support our FLOREAT brand and more effectively develop new homes across a range of tenures, whilst
- Maximising our return on assets by selling and replacing properties which 'under perform' against an agreed set of cost, income and demand data.

Meeting our 2015/16 VFM targets:

Targets met

- Projected operating margins of 29% ~ margin improved to over 30.9%

- Securing efficiencies in the Board and Executive restructures exceeding £80,000
  - Actual savings achieved £90,000

- Securing savings over £100,000 pa from procurement exercises including insurances and mobiles
  - Insurance tender secured an initial saving of £115,838.25
  - Mobile and landline tender delivered year on year savings to SHG of £68,386

- Exceeding our 50 new homes a year target on average through efficiencies and recycled sales proceeds
  - Analysis of 2011/15 new home delivery evidences £2.5m of savings against budgets

- Reducing average re-let times towards our target of 25.3 days, improving income at an average of £12.51 per property per day (based on a Group average weekly rent of £87.62)
    - Group cumulative general needs re-let times improved from 34.3 days to 29.8
    - Group cumulative housing for older people re-let times improved from 43.4 days to 31.8 days
    - Together, improving rental income by £27,321.84 (based on the above rents).

- Securing over £25,000 of savings pa following 2014/15 TRIP review of "Right First Time".
    - Actual responsive repairs savings of £26,000.

Targets not met

- Improving first time access for gas servicing from 72.8% to 85% capturing the associated savings
    - Actual improvement to 83.3%, realising savings of £20,975 by the year end.

- Reducing tenancies terminated from 8.8% of stock to 7.3%, by addressing tenancy failure and capturing the associated costs and savings.
    - Tenancy turnover reduced to 8.43%, with ongoing focus on improvement, saving £7,161 associated with reduced tenancy turnover alone.

Cost controls and financial management for 2016/17

As a starting point for 2016/17 we are reducing our base budget by 4.2%, or £300,000 against the 2015/16 budget and committing to maintain EBITDAMRI at 115% or greater. In addition we have a number of specific VfM targets and priorities.

Value for Money targets and priorities for 2016/17

- **Reduce overall cost per unit to £3,230**
- **Freeze pay and benefits envelope**
- **Reduce tenancies terminated from 8.43% of stock to 7.3%, by continuing to focus on preventing tenancy failure. Target for total number of permitted tenancy terminations of 326.**
- **Further reduce average relet times in both general needs and housing for older people stock to 25.6 days.**
- **Improve current rent arrears by 0.01% to 2.03%, and the total cash collected (both as a percentage of the annual rent debit) to 100.1% by the year end.**

- Reduce cost of management for development from over £5,100 per unit delivered to under £5,000
- Introduce performance incentive pay within TRL
- Increase non-group turnover of TRL by £50,000
- Introduce responsive repairs Cost Per Property pilot capturing efficiencies of over £150,000
- Procure replacement/renewed IT contracts for housing and TRL saving £30,000 on budgeted estimates
- Commence selling and replacing 60 “poor performing” properties on a rolling 2 year cycle resulting in increased rental income growth of 12%, reduced long term maintenance evidenced by an increased nett present value total of the stock
- Evaluate our asset management system under the ISO55000 quality mark.

Our Strategy and Communications

VFM Strategy and communicating what we do

SHG is committed to delivering excellent value and services. Our Value for Money Strategy is to be a strong and effective business well placed and able to support and benefit our tenants, customers and communities. Our Strategy is a way of describing how we behave, our decisions and actions. It provides us with a simple way of demonstrating to ourselves and others that we have a clear and comprehensive approach to ensure that we can make the most of all of our resources, operating efficiently, effectively and economically whilst achieving our social goals.

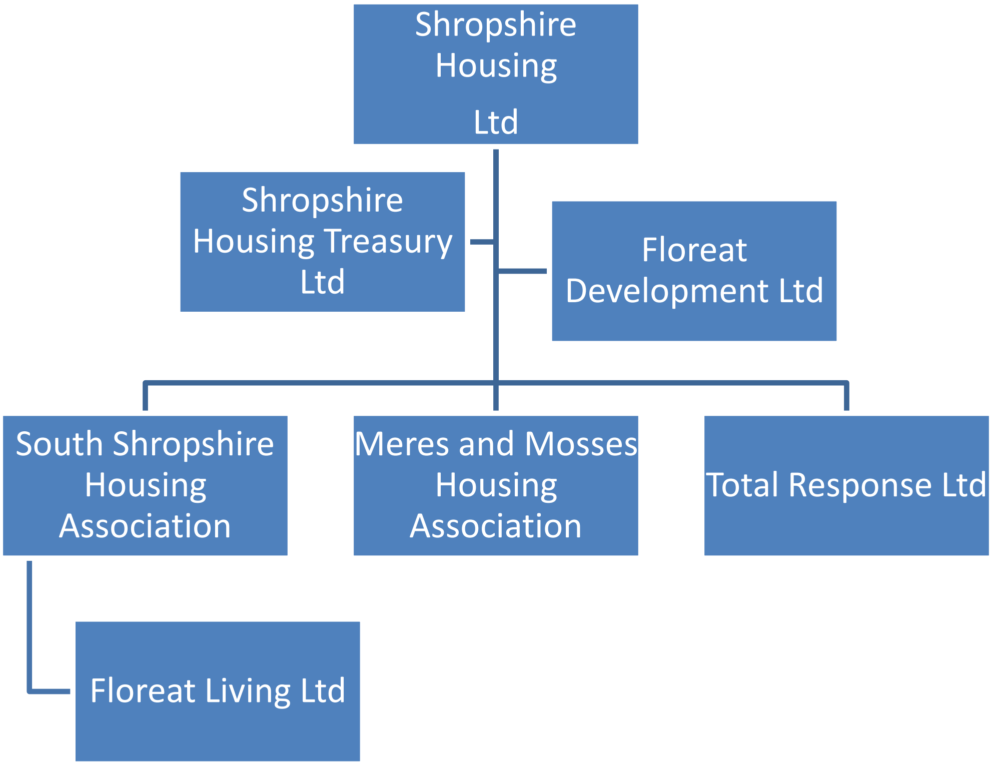
Our Strategy underscores our triple bottom line:

We communicate our corporate ambitions, our performance against our targets and the Regulatory Standards, including VfM, to our tenants through regular meetings of the Executive and our tenant representative bodies TASS and TARCA, via quarterly newsletters to all tenants, our Annual Report and our website.

Delivering Corporate priorities

We report at least annually to our Board on progress against corporate ambitions and every two years hold Stakeholder events showcasing our activity, whilst on alternate years, as was the case in May 2015, we hold a staff conference reviewing progress and looking to the future.

Our Governance and Working with Others



Shropshire Housing Ltd. is the parent company for South Shropshire Housing Association, Meres & Mosses Housing Association and Total Response Ltd. Shropshire Housing Treasury Ltd is a non-trading organisation that distributes resources within the Group. Also within the Group are two recently formed development subsidiaries Floreat Living Ltd. and Floreat Development Ltd. The Group owns and manages over 4600 homes and commercial properties in Shropshire and Herefordshire including sheltered housing schemes, a supported housing scheme for young people and a refuge for women. Total Response Ltd undertakes the majority of repairs and maintenance work for the Group's own portfolio of properties as well as having repairs contracts for other Housing Associations in the area and for private landlords.

Shropshire Housing Group refinanced in July 2014 and changed governance arrangements to co-terminus Boards in December 2014. We are now stronger and leaner with a smaller single group of board members alongside a tight executive team. The result of these changes is ongoing savings of £90,000 p/a. The HCA reclassified the Group to the top Viability Rating V1 (from V2 in 2014/15), this was retained alongside the existing Governance Rating (G1) in 2015/16.

Delivering VFM is a partnership between the Group's Boards and Executive but is fundamentally a matter for everyone in the Group. The Parent (Shropshire Housing) Board of Management is responsible for setting corporate objectives and the strategies needed to deliver them, including the VfM Strategy and related strategies such as our Strategic Asset Management Plan and our Procurement Strategy. The Audit and Risk Committee completes an annual review of VfM and has oversight of performance whilst the Executive and Senior Management Teams (SMT) are responsible for regular monitoring of performance and ensuring that targets are delivered and budgets kept.

Our tenant scrutiny panel TRIP continues to make a valuable contribution to our quest for value for money through the in depth reviews it carried out. This year TRIP has completed two reviews on grounds maintenance and customer services. We enjoy strong relationships with our Local Authority partners, with many shared aspirations and meaningful partnership working. We have continued to engage with local communities and Parish Councils, working with them directly on a range of community led projects but also through the Shropshire Association of Local Councils (SALC).

Our active collaborations with other housing associations and Shropshire Council's ALMO (STaR) has enabled us to directly compare what we do, learn from each other and in some cases to strengthen our offer, for instance, through the SUSTAIN Consortium which provides support services across Shropshire. With the support of the Local Enterprise Partnership, SHG established Marches Community Land Trust services to enable communities to take action to develop homes in their town or village to meet local needs. The Group provides full HR and Finance services, including payroll, to local social enterprises and community organisations and was founder member of Central Housing Investment Consortium enabling the Group to achieve savings through aggregated procurement arrangements. A collaborative arrangement with Severnside Housing enables cost effective management and delivery of IT services through unITe solutions as well as reciprocal arrangements for disaster recovery/business continuity.

SHG is outward looking, is a member of Place Shapers, and carries out best practice visits to other organisations, including this year, Herefordshire Housing, Accord, Orbit, Bourneville Village Trust and Yarlington Housing Group. The Group Chief Executive is the current Chair of the Rural Housing Alliance and since September 2015 has been working with the National Housing Federation and the Government on the introduction of Voluntary Right to Buy.

Our Financial Health

Overview

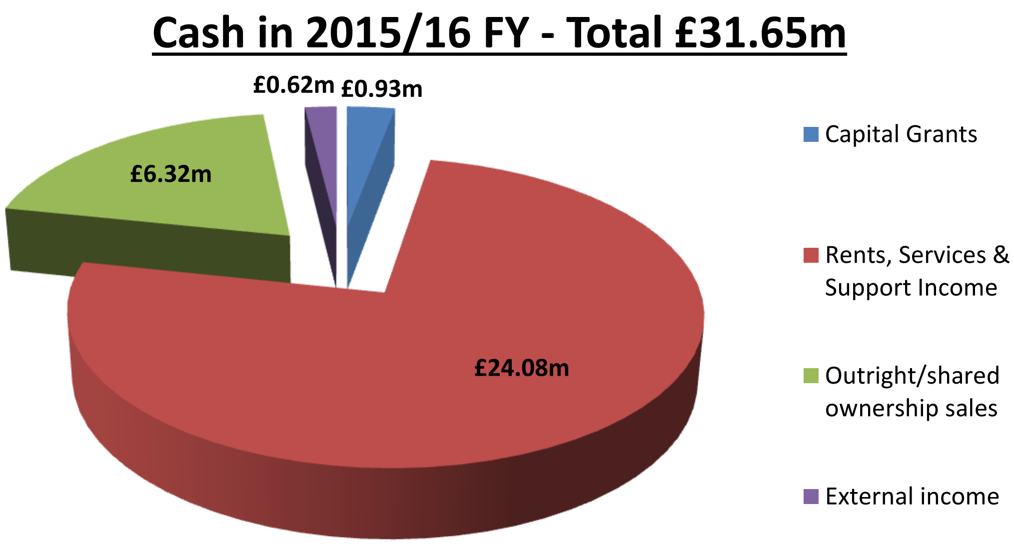
Balancing income and expenditure is crucial for good financial health. We improved our surpluses by 59% from a restated position of £2.7m in 2014/15 to £4.2m. We improved surpluses through increasing rental income, outright sales, shared ownerships sales and cost control. We reinvested our surpluses into existing and new stock in line with what our customers and stakeholders have said is important to them – spending £9.477m acquiring, constructing and improving our housing properties.

We have improved turnover, overheads and operating margin as shown below:

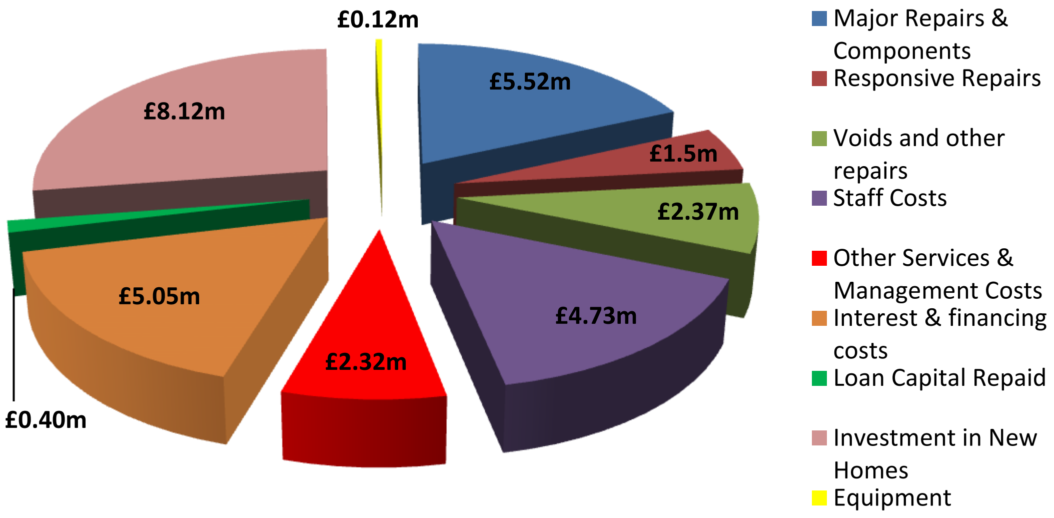
VfM Indicator	2014/15 outturn	2015/16 outturn
Turnover	£24.888m	£29.749m
Overheads	£3.521m	£3.112m
Total overheads as a % of total turnover	14.15%	10.46%
Operating margin	30.7%	30.9%

How we spend our money

In 2015/16 the Group received £31.65million of cash and spent £30.12million. As can be seen the majority of income received continues to come from rent with under 20% being derived from sales.



Cash out 2015/16 FY - Total £30.12m



As we track our business against EBITDAMRI, managing cash flow and costs has become a major driver for the organisation. During 2015/16 the Group spent £5.05m on interest payments compared to £4.00m in 2014/15. This non-discretionary cost increased in 2014/15 as a result of refinancing, and the full effect has now impacted in 2015/16.

How our Costs Compare

In order to compare our costs with other providers we use information from the Homes and Communities Agency's Global Accounts and the HouseMark benchmarking club. In both cases data from 2014/15 has been used as this is the latest available. Our Housemark peer comparison group used for the purposes of this report consists of 26 other broadly similar stock transfer housing associations. This includes our immediate neighbours Severnside and Herefordshire Housing, with whom we share comparative data.

Global Accounts

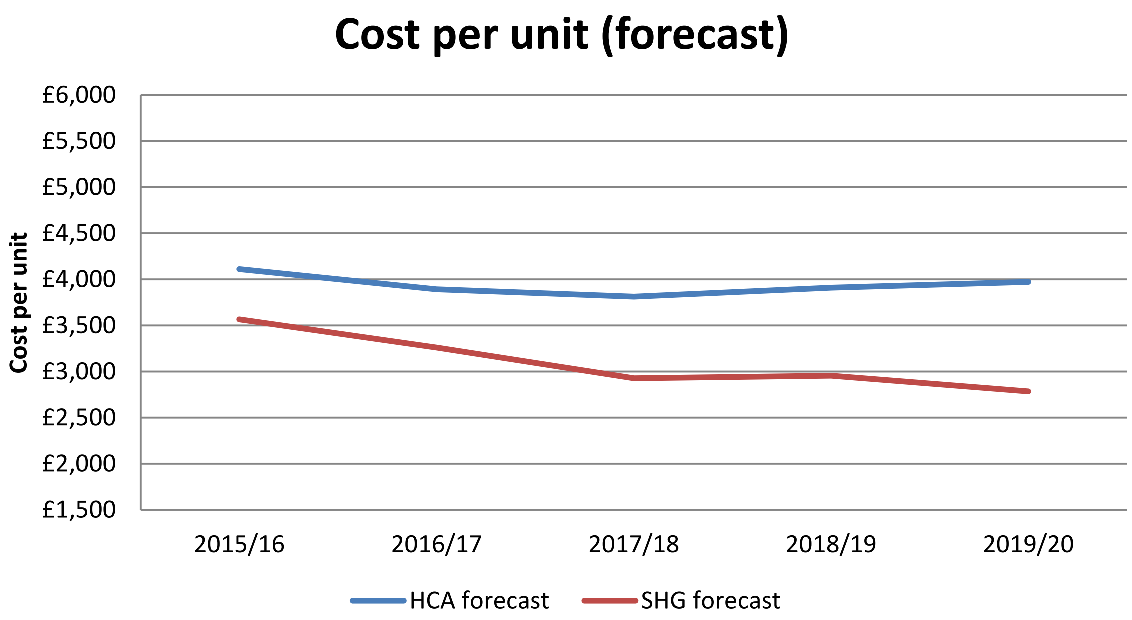
The Homes and Communities Agency (HCA) recently published research based on the Global Accounts (2014/15) to help registered providers understand their costs and how these costs differ from other providers. The research has been considered by SHG Board and confirms that our headline social housing cost per unit in 2014/15 (£3,580) was higher than the average for other social housing providers in England (£3,550) reflecting the Board's desire to invest in our stock where appropriate. Our lower cost per unit of management (£940) against the median (£950), reflects the Group's push to reduce management overheads and helps to identify where future efficiencies may be found enabling choices to be made on investment decisions. During 2016/17 we will further analyse the HCA's research, in particular examining higher than average costs that make up the headline figure.

The following table shows a direct like for like comparison over time including a positive projection for 2015/16 out turn and 2016/17 budget. **SHG Cost Per Unit over time-**

£,000s	2011/12	2012/13	2013/14	SHG 2014/15	HCA median	2015/16	2016/17 budget
Overall Costs per unit (CPU)	3.61	3.54	3.83	3.58	3.55	3.57	3.23
Management CPU	0.88	0.94	0.96	0.94	0.95	0.88	0.91
Service Charge CPU	0.20	0.20	0.20	0.23	0.36	0.24	0.24
Maintenance CPU	1.16	1.12	1.32	1.30	0.98	1.33	1.12
Other social housing CPU	0.27	0.28	0.30	0.29	0.20	0.29	0.23
Major Repairs CPU	1.10	1.00	1.05	0.82	0.80	0.83	0.76

SHG's outturn operating cost per unit in 2015/16 has reduced to £3,570 (excluding new development for outright sales, depreciation etc.) and is forecast to fall to £3,230 in 2016/17 releasing capacity to the business.

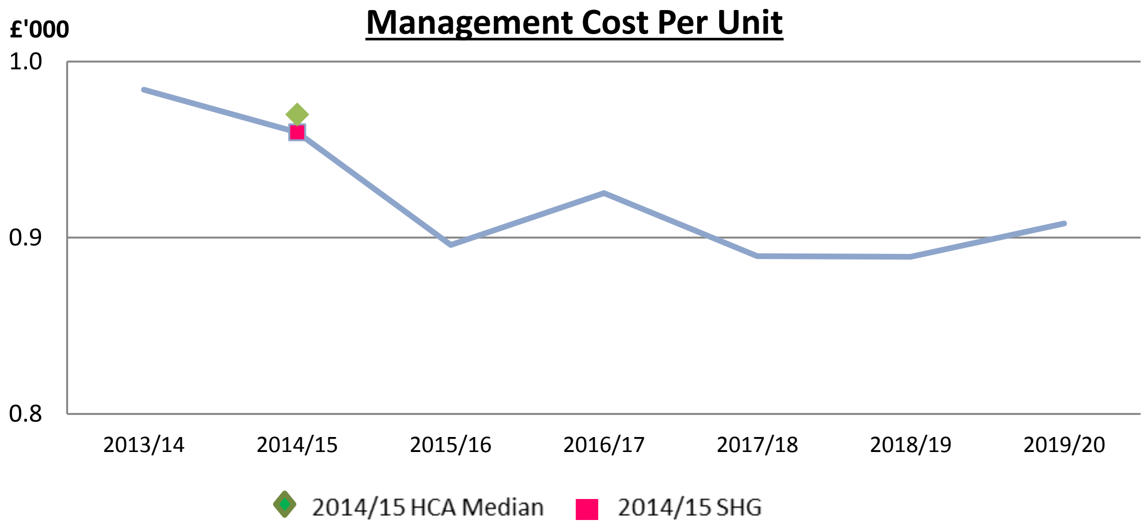
The HCA's data shows there was considerable variation in unit costs between providers in 2014/15 and uses financial forecast returns (FFRs) from all providers owning and/or managing 1,000 units or more to project future cost reporting. Overall the sector is planning to make cost reductions on all the key cost measures between 2016 and 2020. Against this, SHG also shown on the chart below is planning similar cost reductions through to 2019/20.



Subsequent graphs track our actual and projected Cost Per Unit profile from 2013/14 to 2019/20.

Looking at our overhead Costs

We recognise that our rurality and overall organisational complexity for our size contribute to higher operating costs than some. In 2014/15 the Group's comparative overheads against peers was bottom quartile and the Board set clear VfM targets to become more efficient, to drive down the cost of management and improve operating margins to 29% by 2020. The following chart matches SHG costs with HCA Global account data for 2014/15 and projects the Groups position forward.



In addition to reducing management costs, SHG's overhead costs have come down to 10.46% of total turnover in 2015/16 and as can be seen from the table below using 2015/16 Housemark data, to 12.53% of adjusted turnover.

Business Activity	Measurement	2015/16		2014/15		2013/14	
		Our Result	Peer Average	Our Result	Peer Average	Our Result	Peer Average
Overheads	% Of Adjusted Turnover	12.53%	12.19%	14.15%	11.96%	14.08%	12.49%
Major Works & Cyclical Maintenance	Total Cost Per Property	£1,366	£1,527	£1,520	£1,636	£1,705	£1,391
Responsive Repairs & Void Works	Total Cost Per Property	£664	£794	£727	£797	£775	£776
Housing Management	Total Cost Per Property	£438	£424	£463	£422	£418	£445
Estate Services	Total Cost Per Property	£123	£124	£120	£128	£102	£142

The number and selection of organisations taking part in Housemark's core benchmarking varies year to year. For 2015/16 our peer group was LSVT Central organisations (2500-7500 units).

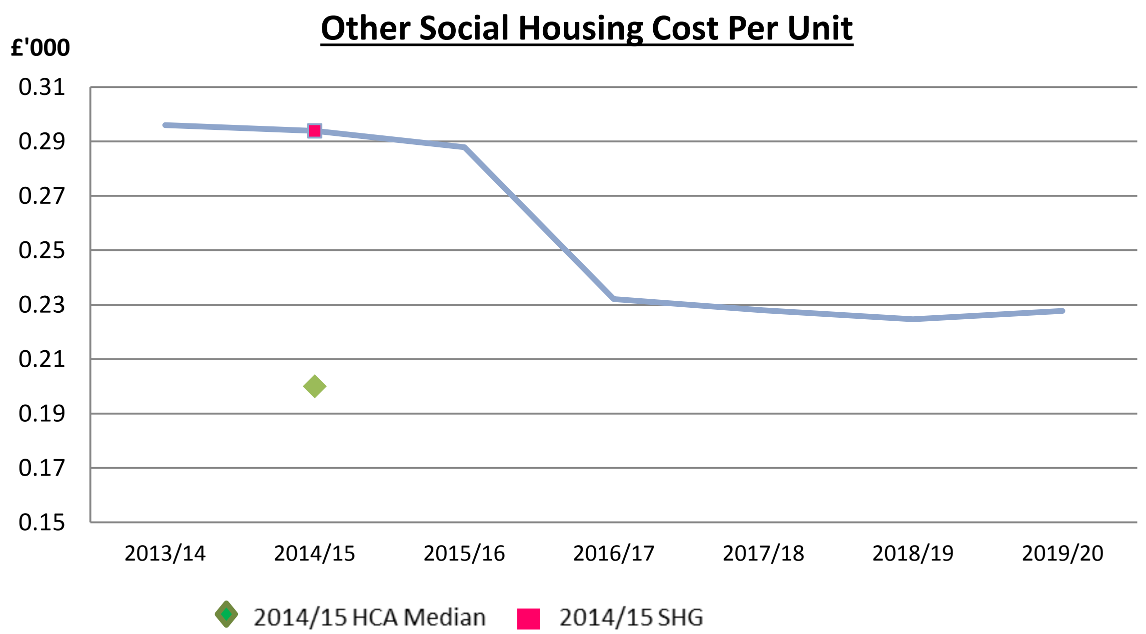
To help put our higher than average overheads in context we:

- Pay a price for operating in Shropshire and Herefordshire, a large and deeply rural area with dispersed population and stock

- Are a relatively complex organisation for our size:-

    - Having a large supported housing team in the SUSTAIN consortium
    - Providing a domestic violence refuge and a foyer, working with young people to support their transition to independence;
    - Having diversified our business into other areas such as our Homelife service - this optional "pay as you go" service provides valuable "top up" services to our own customers, and also to other private residents;
    - Operating an in-house contractor, Total Response Limited (TRL), for repairs and maintenance, whilst managing the large workforce, with over 100 employees increases our overheads, but is offset by VAT savings;
    - Supporting local social enterprise Grow Cook Learn, in running the Shropshire Hills Discovery Centre visitor - attraction, training centre and local amenity.

This complexity has also contributed to higher "other social housing costs" against the HCA Global Account averages for 2014/15 but these have decreased in 2015/16 due to reducing Supported Housing staffing costs arising from changes to the SUSTAIN contract with Shropshire Council and TRL efficiency savings. They are projected to level out at just above the global average beyond 2016/17.



Drive for Efficiencies and Savings

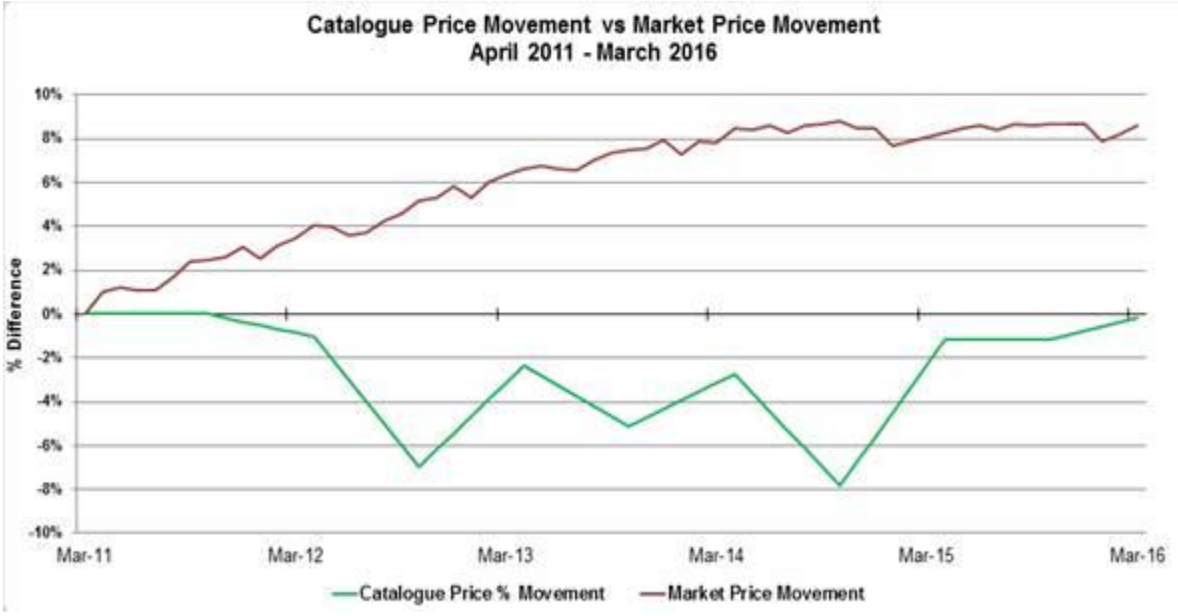
Although the base budget for 2015/16 was cut by £200,000 from the outset, here is a summary of some of the additional cash savings suggested by staff and secured throughout the year:

VFM Item	Savings Made
The assets team introduced a cyclical inspection and appointment system in April 2014 over the year this has shown a mileage saving	Mileage saving £2,080 p/a
Non-renewal of TPAS membership in favour of purchasing of 'one off' advice	£1,350 p/a
Cancellation of Shropshire Chamber of Commerce subscription	£638.40
Shropshire Star recruitment bundle negotiated savings for the online package	£5,000 saved
Negotiated renewal of the swipe card contract to begin April 2016	£3,000 p/a
Used an energy company to get us the best deal on gas supplies from April 2016	£19,000
Water temperature testing undertaken by staff as part of their H&S checks	£300 p/a
Changed PR consultants and reduced costs	Total £2,695.50
Inside Housing Subscriptions reduced for digital and print versions	£948.64

Procurement

Smart Procurement is central to delivering VfM but is particularly challenging for a relatively small organisation which is less able to benefit from economies of scale. However, with our clear strategy and programme in place for rolling review we have achieved some significant savings such as for mobile phones where implementation of joint Microsoft licensing agreements and other work with Severnside Housing via unITe, our shared IT, team has saved the Group £48,000 year on year.

2015/16 brings to the end our fifth year of procuring goods and services through the Central Housing Investment Consortium. We have been benchmarking purchases from our 2011/12 baseline. The following chart tracks market price movement against catalogue prices purchased at. Although prices attained have fluctuated they have remained lower than our baseline throughout. We can show total cash savings of £572,188 overall and £175,454 for this year alone.



This approach, procuring at catalogue prices, is balanced with spot purchases elsewhere to ensure that we get the very best price whilst supporting the local economy. Importantly, this also helps us to manage the market place and ensures SHG gets competitive prices all year round. We tender a number of services each year to ensure competitive prices. During 2015/16 we achieved the following efficiencies:

- Renegotiated waste disposal contract saving £8,020.27 p/a
- Re-procured GPS tracking for TRL vehicles saving £4,127 on capital installation and a further £8,387 p/a on running costs
- Re-procured publicity and promotions, saving £3,757

In 2015/16 we worked with CHIC, Procure Plus and Efficiency North through a consortia known as Re:allies. Their collective buying power continues to influence market prices and leverage savings for SHG. Re:allies drives best practice and acts as an honest broker to innovative products. Through this route we are exploring off-site methods of construction for our new build programme. In 2016/17 will see a trial scheme to demonstrate this off site approach testing our aim to increase quality while reducing the capital cost of delivery.

Our procurement plan for 2016/17 covers the following areas:

- Property Legal Services
- Treasury advice
- Housing Management Legal Services
- Cleaning of office and foyer accommodation
- Builders merchants
- Replacement/renewed IT contracts for Housing and TRL

We have set ourselves a target of 2% savings from these exercises.

Our Assets and Development Ambitions

Workforce Planning

SHG responded to the reduction in rental income by consulting staff, liaising with the Staff Consultation Group and agreeing a freeze in the salary and benefits envelope rather than having to make any redundancies. A business-wide review of employee recognition and reward has also been put in place, partly to address below median pay levels identified through benchmarking. The new pay structure links pay increases more clearly with performance. TRL operatives pay and performance is similarly being linked through an operative productivity scheme. There is wide recognition amongst staff that these measures help secure the long term financial viability and competitiveness of the Group.

As well as appropriate performance related award arrangements, we continue to ensure that other measures are in place to enable us to manage our human resources effectively. The Group’s Remuneration and Human Resources Committee receives regular updates on staffing numbers, recruitment, retention, sickness absence and work place accidents. Staff turnover during 2015/16 was 13.05% compared to 15.3% last year which was median compared to peers at the time. Average days lost per employee increased in 2015/16 to 8.4 compared to 7.6 in the previous year, which was top quartile at the time. With 270 full-time equivalent employees in March 2016, SHG remains a significant, well regarded employer locally, retention of our Gold Investors in People status/accreditation being confirmed in August 2016.

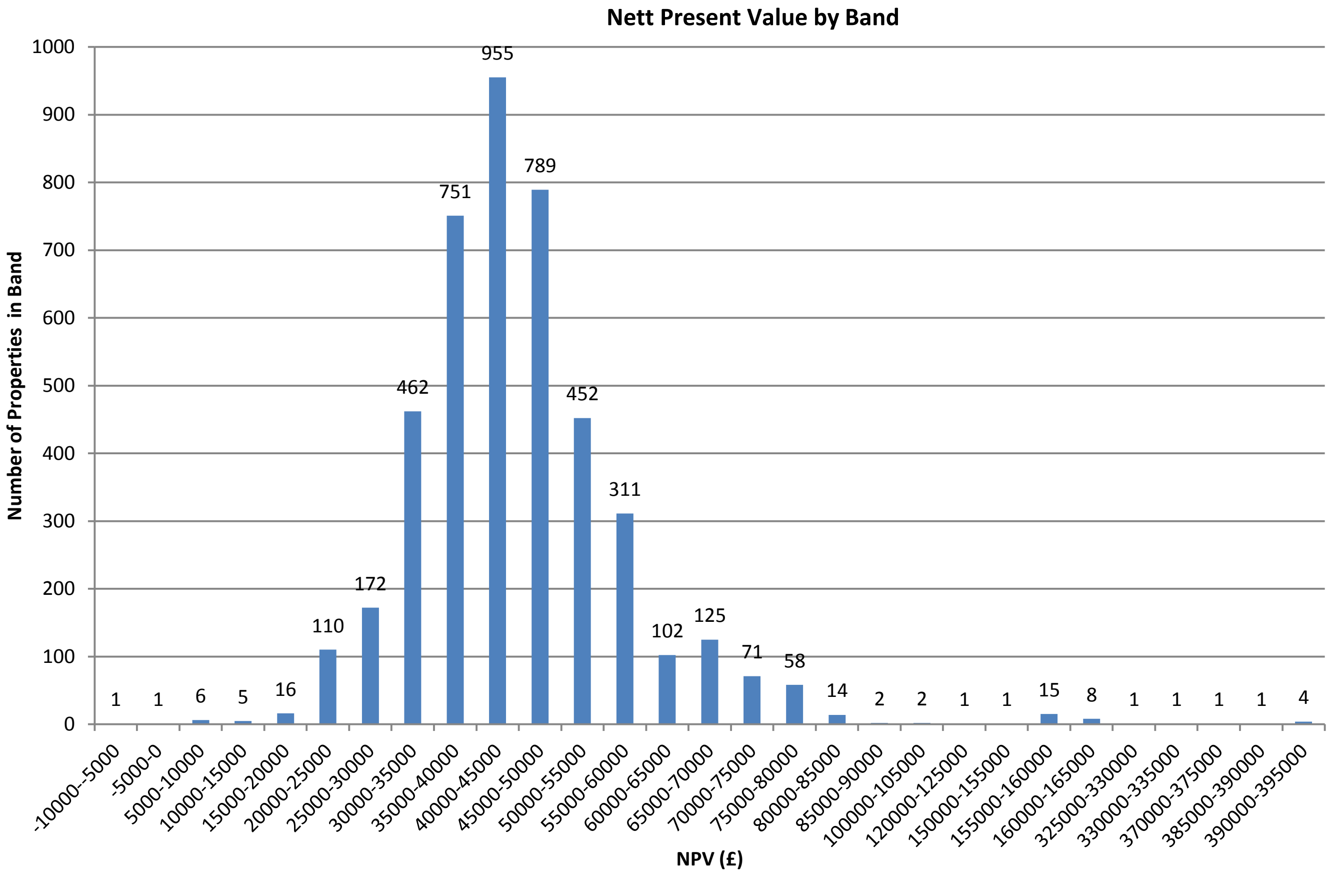
We believe that well trained staff contribute to our effectiveness. The Group introduced a new e-learning portal in 2015/16 to deliver a wide range of training in house. This is already proving to be a cost effective and convenient method for staff especially the mobile workforce. We anticipate efficiencies and/or savings to be reported next year after a full year of operation.

Asset Management – Investment and Disposal Plan

The Group now holds properties at existing use value for social housing properties in excess of £177.9m. Following the reduction in rent we continue to monitor valuations and invest in our assets to improve asset values and letability.

We aim to make the most of all the property we own and make informed decisions about sales and investment. We have carried out a systematic review of void properties and regularly evaluate stock based on demand, demographic and thermal performance. As a result, we have in place an Asset Investment and Disposal Plan for 2016/17 and propose to dispose of 61 of our “worst performing” assets and create a reinvestment reserve for 61 replacement homes by 2017/18.

Our Board monitor our headline performance via analysis of the total nett present value of our stock. This has improved from £194,876,905 in 2014/15 to £203,368,966 in 2015/16.



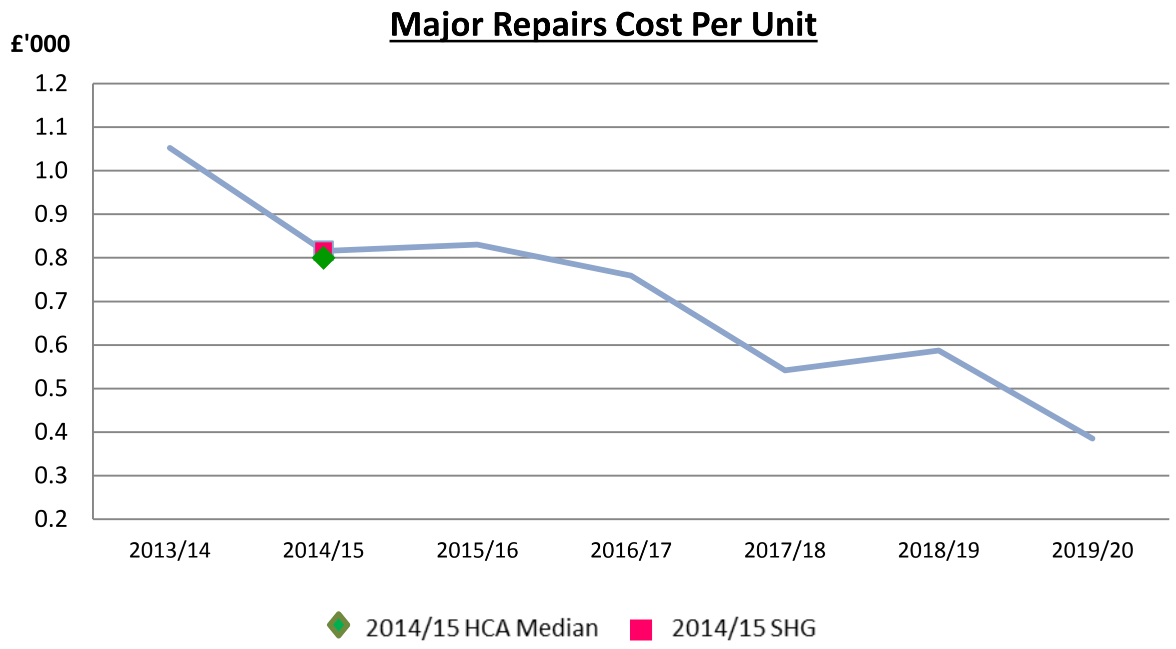
During 2015/16, we disposed of 10 properties as a fore runner to the disposal and reinvestment plan generating a capital receipt of £441,000. We also sold a further 8 properties through Right to Buy and 1 through Right to Acquire, which provided a net income of £531,000. Part of this income was released to invest £50k in maintaining our customers' independence in their homes through our adaptations programme, which is supplemented by accessing disabled facilities grants. In 2015/16 we invested over £185,000 in major and minor disabled adaptations. The remaining income will be recycled into our reinvestment reserve for replacement homes by 2017/18.

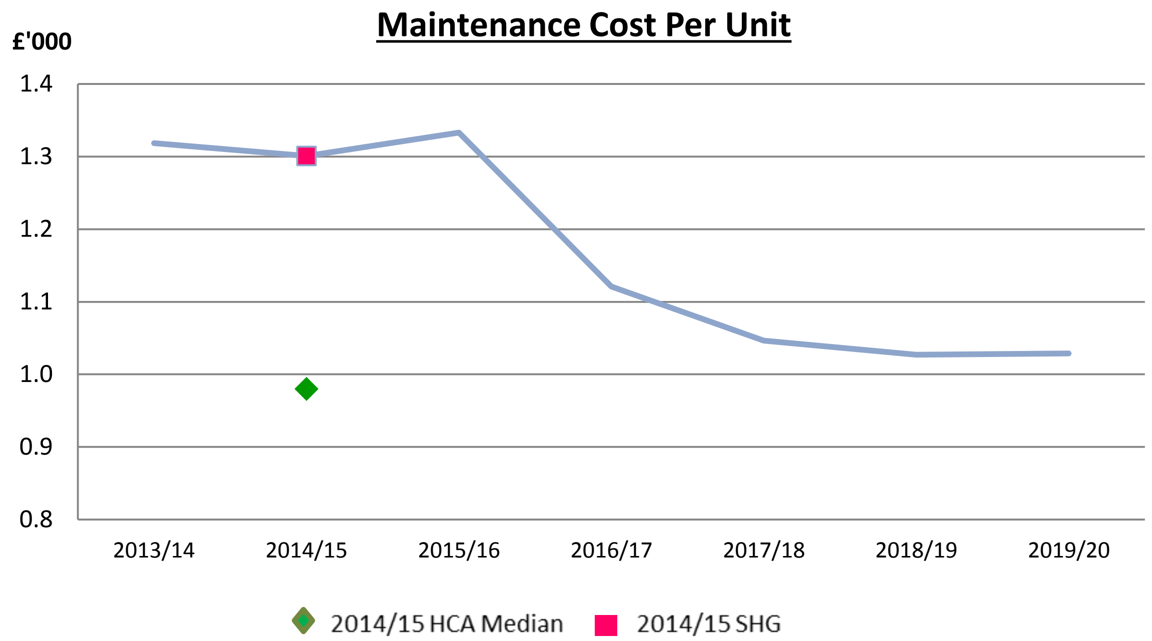
SHG has signed up to the Government's Voluntary Right to Buy "deal" and will, during 2016/17, put in place a policy and implementation plan.

Looking at Repairs and Maintenance Costs and Performance

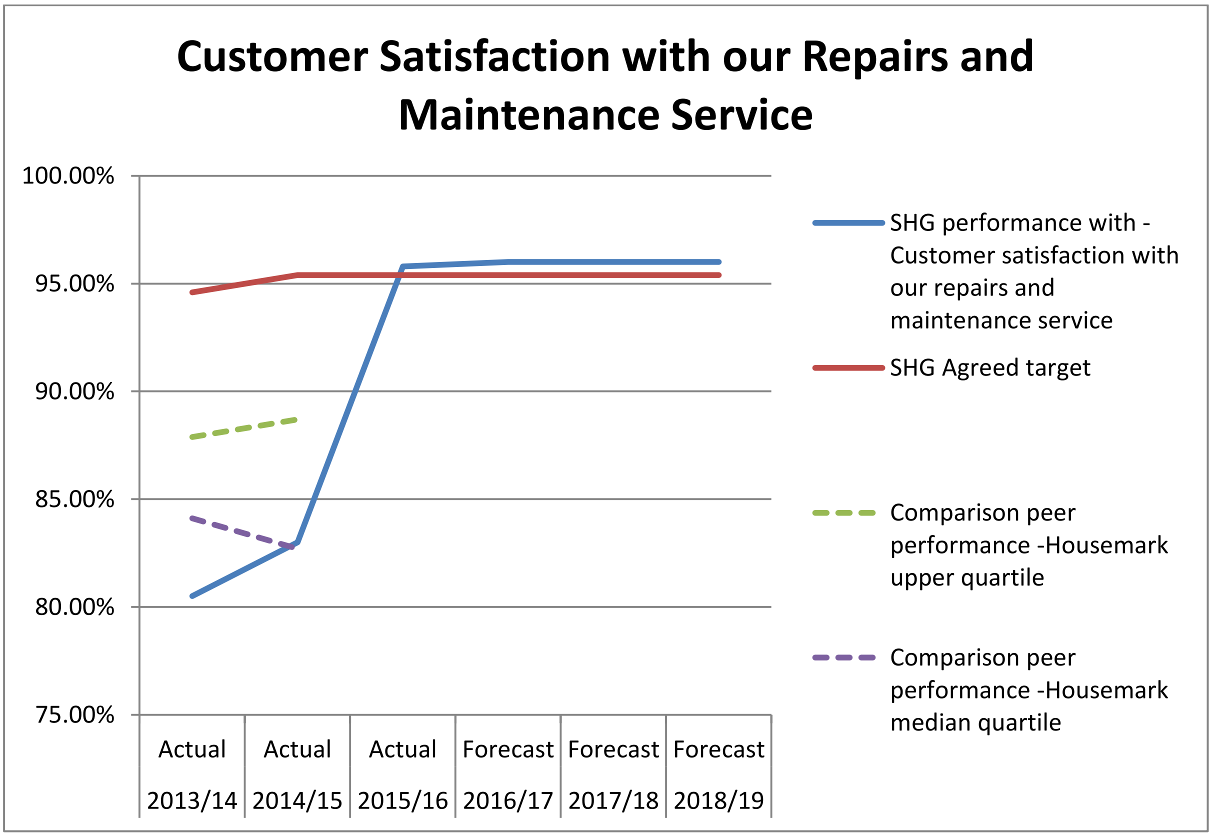
Maintaining the quality of our homes is hugely important to our business, our tenants and our funders. Working through our in house contractor, Total Response means we plan and schedule work more effectively whilst demonstrating cost savings.

Cost per property comparison with the HCA's Global Report shows we are on par with the median cost per property for major repairs. Major repairs expenditure increased slightly in 2015/16 from 2014/15 but is projected to continue it's overall downward trend comparable to our peers. The chart below based on the HCA Global Accounts shows the cost per property for major repairs rising to £830 in 2015/16 from £820 in 2014/15 before dipping to £760 in 2016/17.



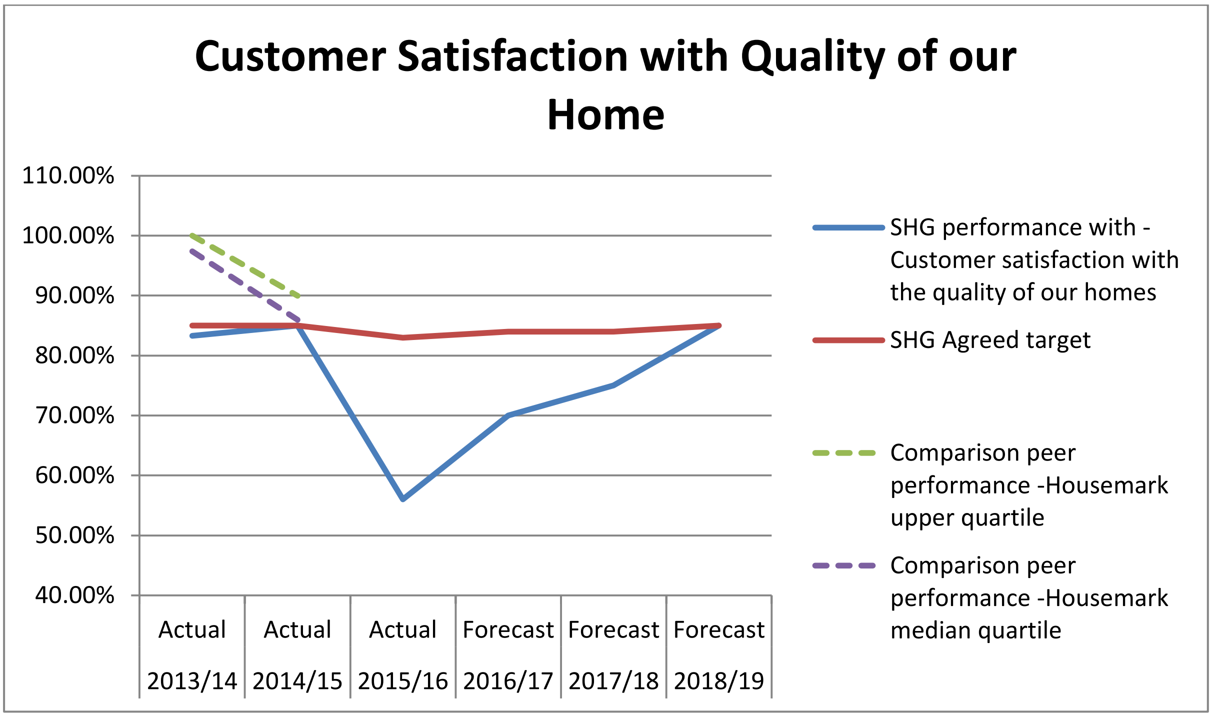


Our overall maintenance cost per property comprises both routine and planned maintenance. The above chart uses HCA Global Accounts to show our absolute and relative costs for maintenance which show a slight increase in 2015/16 before reducing from 2016/17. Within this our routine repairs (voids and responsive) cost per property has reduced whilst our planned maintenance costs increased slightly in 2015/16. Following a review of our expenditure on stock we expect to see a more consistent reducing trend. We continue to monitor customer satisfaction with our repairs and maintenance service and have been seeking to improve satisfaction whilst reducing costs.

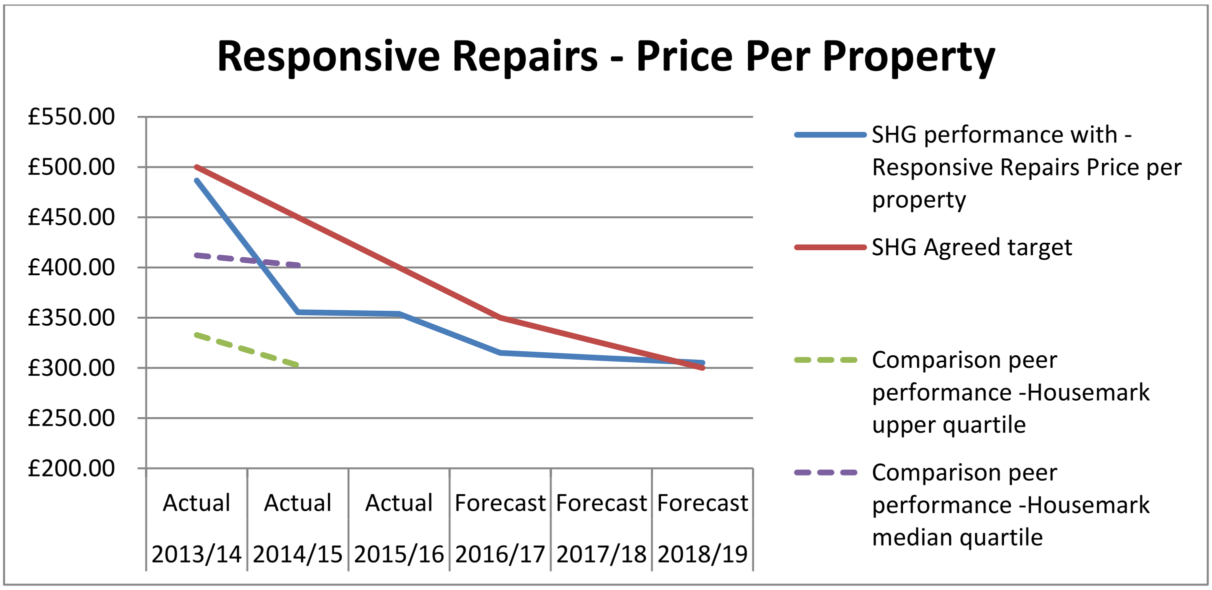


Historically, we have collated data on the quality of our homes on a two yearly cycle. In 2015/16 we asked our customers what they felt about their homes and invited issues to be reported so we could amend our investment plans. We asked 542 (12%) customers this question, 303 had no issues and advised that they were pleased with the quality of their home. From 2015/16, we will use this measure as our assessment of our customers' views on the quality of their home.

79% of customers who highlighted an issue with their home, and subsequently received an improvement, said they were very satisfied with the quality of their home, the remainder confirmed they were satisfied.

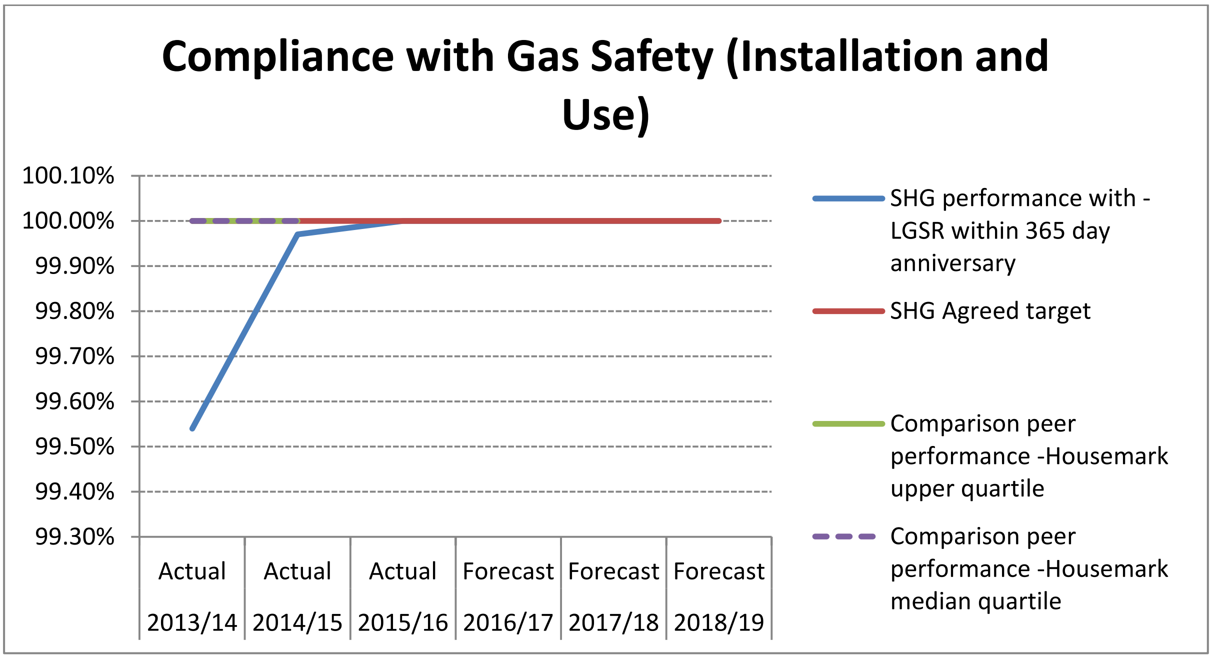


From May 2016 Total Response Ltd (TRL) our in house contractor are trialling a price per property model which should release capacity within TRL and save the Group £150,000 for potential reinvestment.

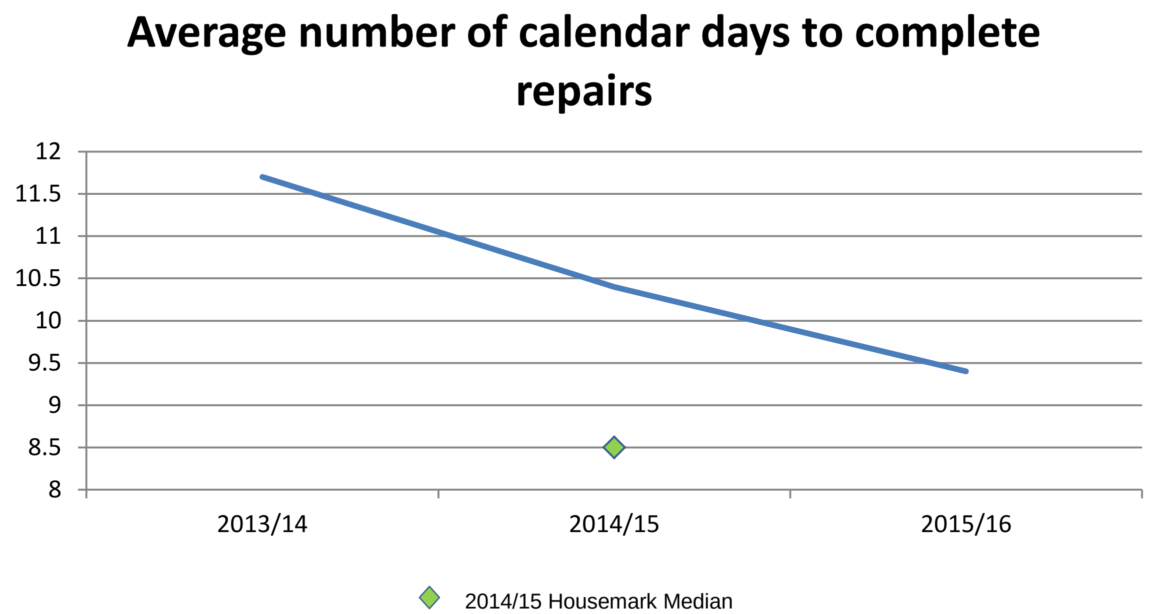


Total Response Ltd returned a small profit for the Group of £29K in 2015/16 compared to a deficit (restated) of £56k in 2014/15. TRL remain the most cost effective way for the Group to provide quality services to our tenants within an agreed market benchmark cost. For 2016/17 we plan to continue to grow TRL turnover from outside the Group.

By using Total Response, not only can we plan and schedule work more effectively but we can improve performance and deliver cost savings. Over the last 12 months TRL has, for instance, a 100% record on issuing full gas safety performance certificates.



TRL continue to offer all repairs by appointment and have once again showed an improvement in the percentage of repairs appointments kept from 99.3% to 99.4% in 2015/16. It is acknowledged that the average time to complete repairs may be impacted by the Price Per Property trial.



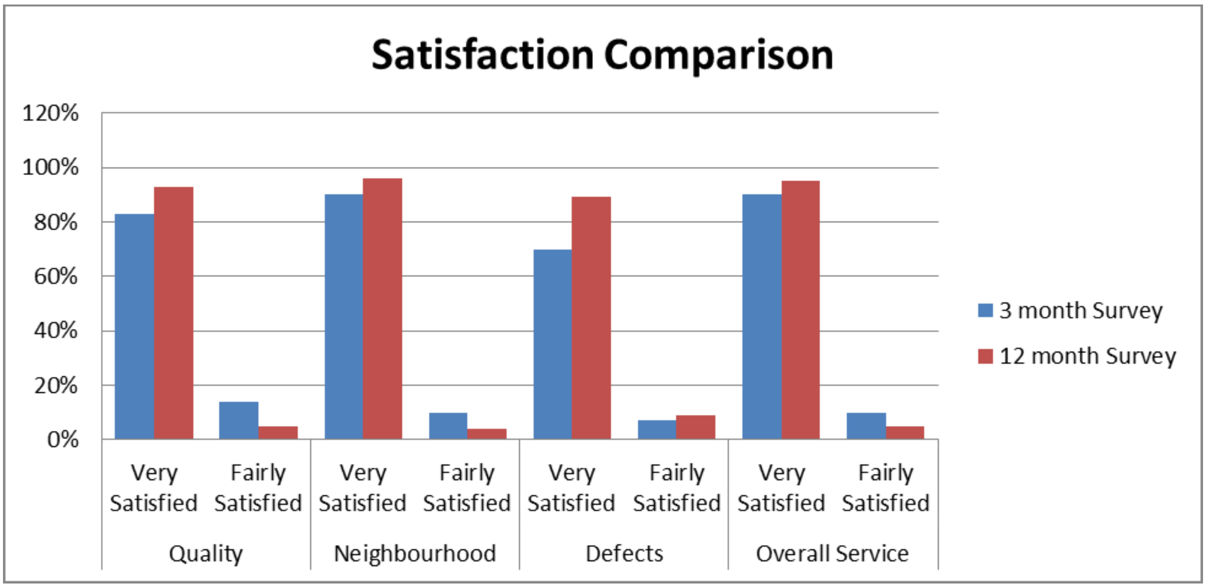
Assets and Liabilities

Having a clear understanding of the range of assets the Group has at its disposal is important, enabling us to make informed choices about how we get the most from them. During 2015/16 we reviewed and revised our assets and liabilities register, taking into account suggestions from our internal auditors on content and format. Our records clearly show how our property assets are used for loan security purposes. We are also clear about leases and agreements we have with others so we can easily evaluate potential implications should any of these come to an end and/or need to be terminated earlier than anticipated.

Delivering New Homes and Future Ambitions

Applying our New Homes Strategy, we have successfully bid into the HCA's 2015-18 programme, once again demonstrating our valued role in delivery, initially securing funding for 148 homes, and at year end having a grant programme in place to 2020 for 267 homes. As part of our ambition to build at least 50 affordable homes a year to 2020, this year we completed 23 homes, and started 80.

Through our private housing brand Floreat Homes we successfully completed two highly regarded schemes providing greater than estimated returns to the business. In 2016/17 we plan a managed extension of our open market homes programme through strategic land acquisition and development. Over the last 12 months we have closely monitored occupants of new homes, 122 in total. We have understood the difference between initial satisfaction when moving in, through to the levels of satisfaction after 12 months of occupancy.



Development Cost Targets/Comparisons

We have continued to use Constructionline, the UK's largest online database of pre-qualified suppliers, improving our efficiency whilst maintaining a credible select list of suppliers, returning competitive tendering and reduced costs.

We continue to drive down costs for new homes against a backdrop of increasing prices. Recent analysis undertaken by The Homes and Communities Agency showed our cost per m2 for construction delivery rising from £1,179 for the 2011/15 programme to £1,231 for the 2015/18 programme so far, an increase of 4.4%. This compares favourably to a peer average of £1,313/ m2 and £1,476/ m2 respectively.

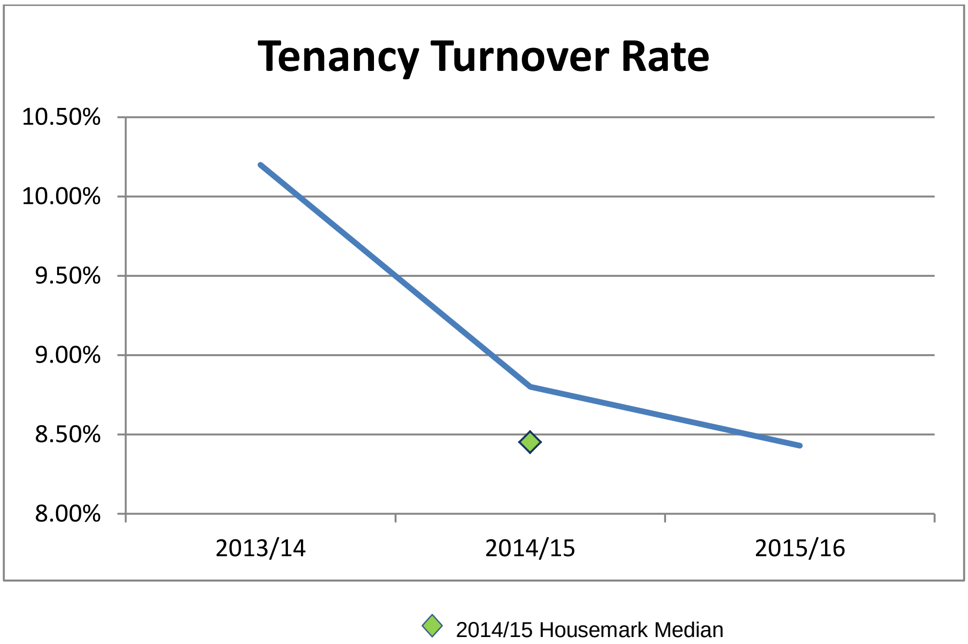
Our ambition in 2016/17 is to develop a series of headline charts which describe our development costs and performance together with comparison against peers enabling us to set efficiency targets whilst reducing the cost of management for development from £5,100 per unit delivered to under £5,000.

Managing our Homes and Maintaining Tenancies

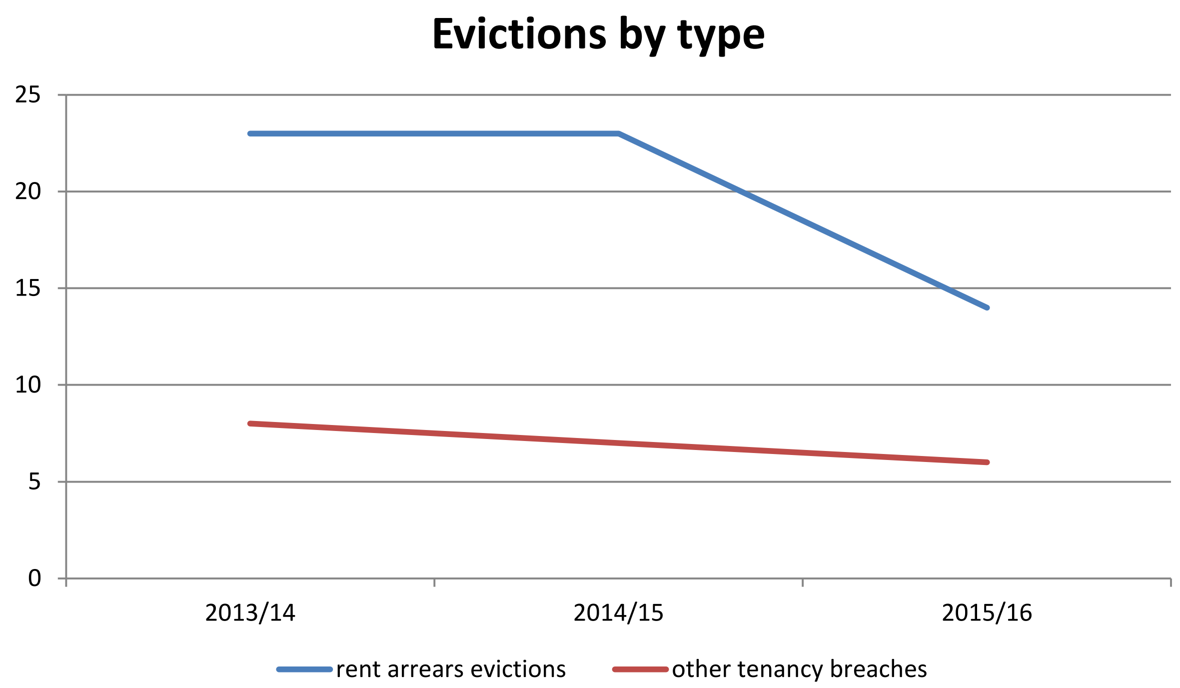
Tenancy Turnover

We set ourselves a target for 2015/16 to further reduce tenancies terminated from 8.8% of stock in 2014/15 to 7.3% in 2015/16 by addressing tenancy failure.

Tenancy turnover has reduced to 8.43% (placing us now at median quartile) but this remains an ongoing focus for improvement, with the intention to achieve top quartile performance (7.3%) by the year end. The reduction in 2015/16 is equivalent to 3 fewer tenancies terminated over the year at an average void cost of £2,387 per void. Each Neighbourhood Management Officer now has a personalised target for turnover in their patch, reflective of the stock and tenant profile they manage. Performance is monitored and will influence pay awards under our new performance related pay system, driving team ownership of the target.



In 2014/15 total evictions reduced (of which 23 were for arrears and 7 for other tenancy breaches) to 20 in 2015/16 (of which 15 were for arrears and 5 for other tenancy breaches) demonstrating a return on our focus on sustaining tenancies whilst maximising income. As each failed tenancy ending in eviction costs the Group in the region of £4,200, this change in emphasis saved an estimated £42,000.



Welfare Reform

In 2015/16 we undertook our own Direct Payments mini pilot, looking at three months of new sign-ups – running their accounts by different rules – testing the interventions that made most difference with tenants who received their housing benefit direct. Building on this learning in January 2016 we introduced a new Tenancy Policy and restructured our team so we now:

- Have a starter tenancy then 5 year fixed term tenancy regime for all except transferring Assured Tenants. This assists us to better enforce tenancy obligations from the start of the tenancy.
- Insist on 1 week rent in advance, at sign up even for benefit claimants – and then continue to reinforce this as a tenancy condition.
- Do pre-tenancy interviews for all applicants with a Credit Reference check for all new tenants helping us to identify applicants who are already in significant debt signposting them to debt mediation. This also helps applicants to make more informed choices about whether they can afford the new tenancy.
- Agree support plans and interventions when signing up “riskier customers”
- Have patch visits by Neighbourhood Management Officers – whose performance targets are based on sustaining tenancies.
- Reviewed our SLA with the CAB – and brought the service in-house, using this funding to invest in a second Money Management Officer.

We continue to update our Welfare Reform Action Plan to manage related risks including total household benefit cap, ongoing under occupation deduction, the prospect of the removal of entitlement to housing subsidy for younger customers and the introduction of Universal Credit. We await the outcome of decisions in respect of the local housing allowance cap on supported housing and local authority supporting people funding. We remain concerned about the impact on the most vulnerable, the under 35's and elderly in supported housing.

Rent Collections and Arrears

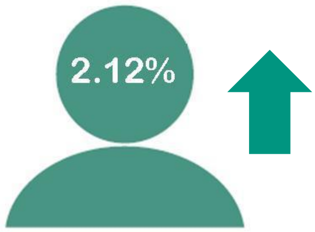
Current arrears have improved to 2.12% by the end of 2015/16, an improvement from 2.18% for 2014/15.

Performance figures as at 31.03.16

Performance better than 2014/15

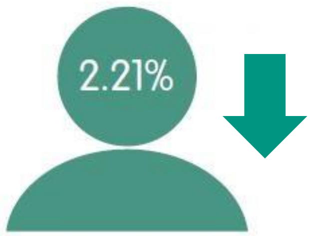
Performance worse than 2014/15

Current Tenant Arrears



Current tenant arrears as a percentage of rent income due

Former Tenant Arrears



Former tenant arrears as a percentage of rent income due

A number of initiatives have been taken to improve arrears recovery including establishing a dedicated rents team; introducing alternative payment options; strengthening the wording of letters and improving arrears automation. All of which has reduced the total number of tenants in arrears.

Number of tenants in arrears

We have improved our working practices in the collection of former tenant arrears. We have an effective, and continually negotiable, service level agreement in place with a debt collection agency working alongside us to make immediate contact with outgoing tenants. This has resulted in a reduction in the level of debt being written off from £112,885.12 in 2014/15 to £76,132.54 in 2015/16 at no additional cost to the business – a saving of £36,752.58.

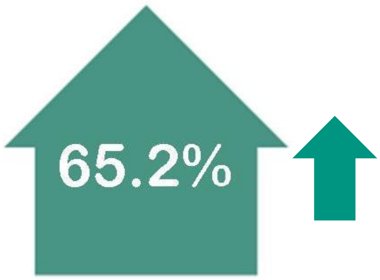
The simplest way to summarise our rent arrears improvement journey is to look at cash collected as a percentage of rent debit on a rolling 4 week cycle (the point housing benefit is received). Total cash collected has been slowly rising year on year, from 97.6% at the start of April 2012 to 98.6% at the start of April 2016. This gradual increase over 4 years is worth approximately £200,000 by 2016 (assuming an average annual rent debit of approximately £21 million).

Tenancy Turnover and Empty Properties

In 2014/15 we highlighted our concern with the fact that our average re-let times for properties had deteriorated to 34.3 days (excluding major works). We began a year long cross team project to examine the issue, and undertook a multitude of small actions to improve the situation to an average of 29.8 in 2015/16.

Average relet time (days)

We have seen an overall reduction of tenants moving home 2015/16 to 329 and improved the number of homes let on first offer. By the end of March 2016 87.5% of SSHA properties and 62.5% of MMHA voids had been re let within target time with an ongoing improvement in properties let on first offer.



Homes let on first offer %

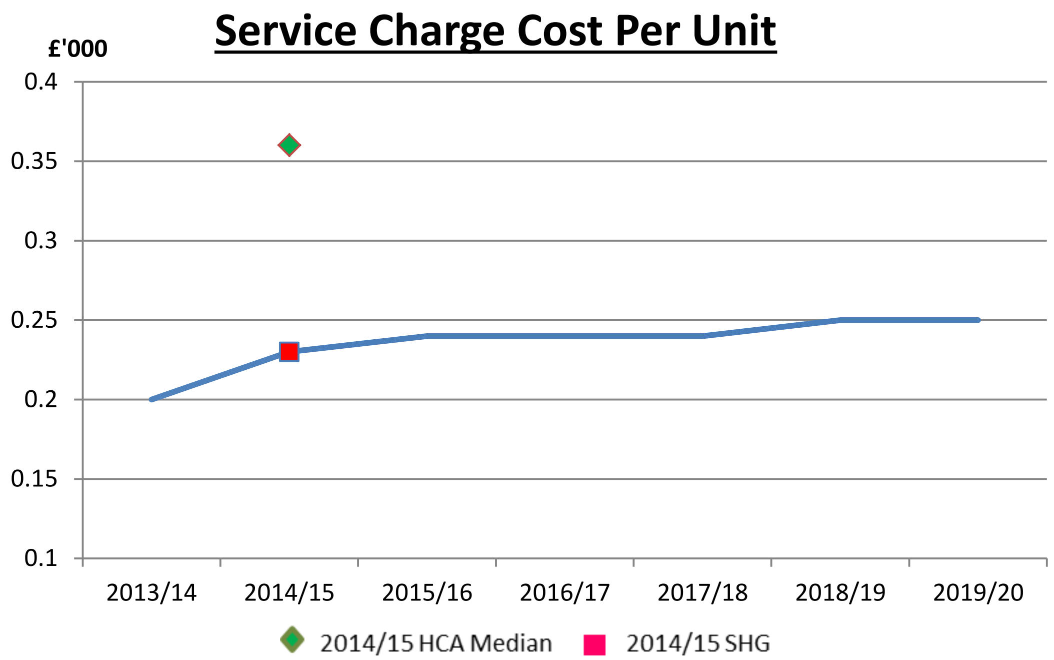
We worked within our voids budget in 2015/16 spending £970,317.85 against a budget of £1,007,000.

Anti - social behaviour

At the end of March 2016 we recorded 100% satisfaction with both outcome of report and satisfaction with handling – but poor performance earlier in the year led to a cumulative year to date figure of only 79% and 81% respectively. The percentage of cases recorded as “resolved” was 91.1% in March, but only 88.3% cumulatively over the year – a reduction of 2.3% on 2014/15. We are satisfied that further investment will not greatly improve the outcomes reported.

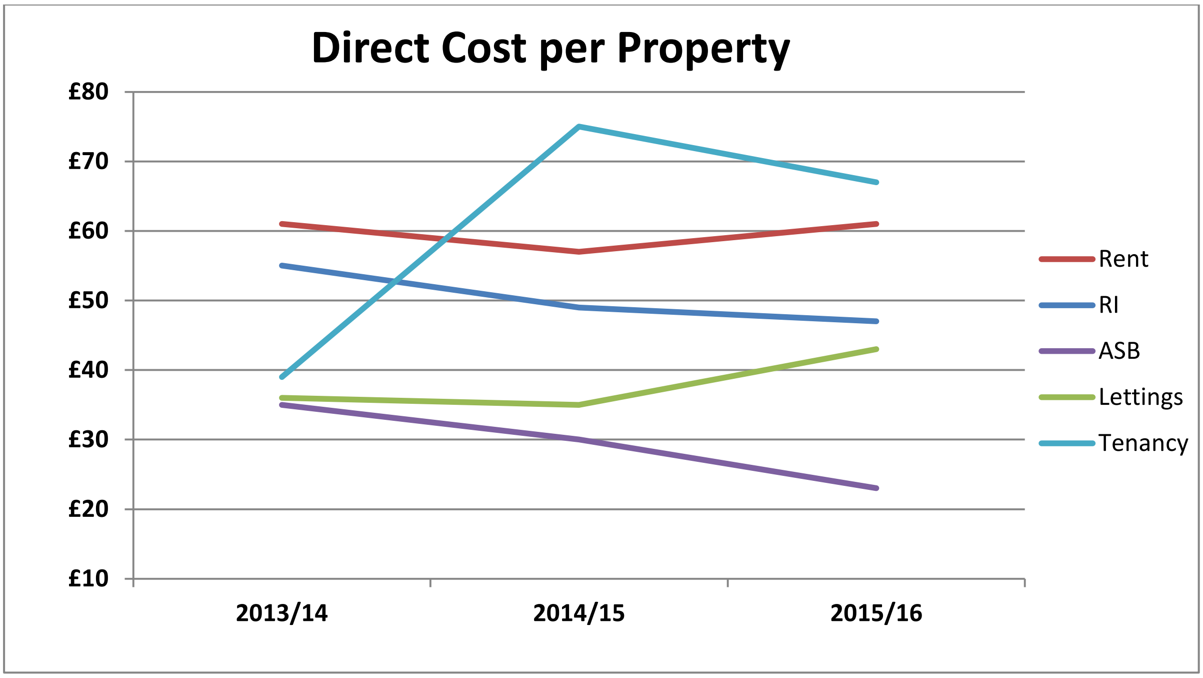
Service Charges

We have been reviewing service charges for a number of years and continue to roll-out changes which better recover costs incurred and make sinking fund provisions whilst continuing to be affordable to our tenants. We are extremely conscious of the future potential impact of Welfare reforms on our tenants and in particular the Local Housing Allowance Cap. Our Service Charges Cost Per unit profile against the HCA Global Accounts figures is shown below.



Looking at Housing Management costs and performance

Our housing management cost per property increased slightly in 2014/15 whilst we responded to welfare reforms by investing more in income collection and support to sustain tenancies. These costs have now stabilised and reduced slightly in 2015/16 with the full impact of Universal credit roll-out still some time away. The total cost per property of housing management in 2014/15 was £463.29 whereas in 2015/16 it was £438.26, slightly higher than the Housemark median of £423.73.



Customer Satisfaction and Customer Services

Due to a reduction of 11.5% in incoming calls into the customer services team we have been able to reduce the number of staff within the team by 0.5 FTE and have instead invested this resource into the development of our customer insight strategy to be completed during 2016/17. The team received over 4,000 fewer calls in comparison to the previous year partly due to customers receiving their promised call-back following the introduction of new “tasking” software that allowed us to ensure customer queries were responded to promptly and customers did not have to call back. Efforts to provide clearer information to customers upfront also reduced call-back queries.

We intend to build on these efficiencies in the coming year as we purchase new housing management software with integrated customer relationship management, mobile working and dynamic scheduling.

The Customer Services team will continue to increase the number and range of standard customer queries addressed at the first point of contact – to liberate more back office “expert staff time” in resolving complex queries, especially around Universal Credit and direct payments.

Following our comprehensive STAR survey of customers in 2014 we put an Action Plan in place to address areas with weaker satisfaction whilst building on our strengths. In the short term we have concentrated effort on better understanding the needs of younger tenants under 35 and moved the customer services team into the Neighbourhoods Team to better integrate working practices in a drive to improve the number of customer enquiries dealt with at the first point of contact nearer to our 80% target. One of our targets for 2016/17 is to commence work on a Customer

Insight Strategy. We envisage this will help us to better understand our customers and the local marketplace helping us to improve our service offer, enhance customer experience and improve demand for our services.

During the year we benchmarked customer services with other landlords and our TRIP scrutiny panel carried out a web survey looking at customer services as defined/provided by 7 other housing associations. From this benchmarking TRIP concluded "SHG was the only organisation to have information on their website which is unequivocally a Customer Service Strategy.

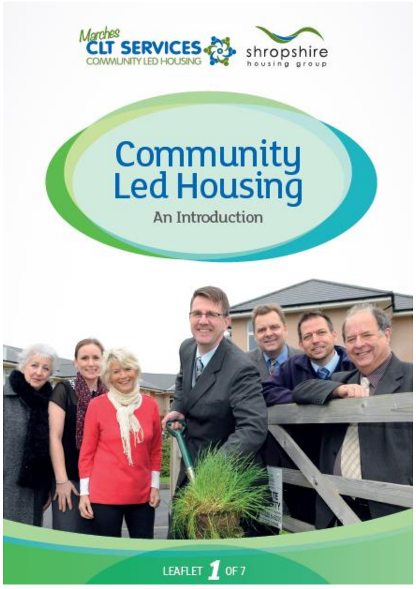
We introduced a new complaint process in August 2015, with the focus on resolving complaints at an early and informal stage. This has empowered front-line staff to quickly take control of a situation and put it right where necessary and has also created efficiencies in working practices. Over two thirds fewer complaints were elevated to Heads of Service last year a saving of approximately 318.5 hours. Similarly, directors dealt with a third less complaints liberating over 60 hours.

Our focus in 2016/17 is to introduce an interactive digital customer service option enabling customers to do business with us and troubleshoot solutions remotely. This approach will provide customers with the option to resolve their own issue/requirement at a time that suits them without the need for personal help from the customer service team. The aim is to deliver services in a more cost efficient way whilst increasing satisfaction with those customers who increasingly demand more than a 9-5 service.

Social Value and Environmental Returns

We measure "Social Return on Investment" to better understand and evaluate the trade-offs and opportunity costs of spending decisions in terms of their impact on the lives of our customers and the neighbourhoods they live in. We recognise some of what we do within the Group does not produce a direct financial return but has wider social value. This year we invested £85,000 on community regeneration projects identified by our Community Panels as providing the greatest return to our customers and communities as set out in the Community Panel's Annual Report. Taking a wider perspective, we have once again supported local charities, the Mayfair Trust and Grow, Cook, Learn, deliver their community promises.

We pride ourselves in being recognised nationally as a “voice” and champion for rural housing and leading light when it comes to community led housing development. In recent years we have completed over 100 homes where the process from start to finish was led and managed by communities themselves and through which we have returned £168,000 to Shropshire communities.



Our approach to social value is embedded and we are auditing our social return on investment each year. Our Social Accounts are published on our website alongside our comprehensive VfM self-assessment.

Our 2015/16 Annual Report - ‘Helping our Environment’ focuses on our environmental returns for the year underscoring our commitment to the environment and sustainable living.

Concluding Remarks

What has impressed me the most in recent years is the degree to which everyone in the organisation understands what we do and why we do it. Feedback from our Investors in People assessment this year validated what we have known for some time, that our staff are fully engaged with our core purpose and our ambitions, and that they appreciate our drivers for change. Our VfM audit confirmed that everyone “gets” VfM and recognises how they can contribute individually, as teams and corporately to deliver our triple bottom line; benefit to our business, customers and community.

Jake Berriman
Group Chief Executive

As Chair of Audit and Risk Committee I have worked closely with the Executive in putting together our self assessment of value for money. We have reviewed our approach, taken advice and changed the format of the document this year. Building on a solid track record of delivering value for money over the last few years we are now clearer than ever about the efficiencies we need to deliver over the longer term to respond to pressures on our rental income and our ambition to expand our asset base helping to respond to the national housing crisis.

James Williamson
Chair - Audit and Risk Committee

As Chair of Board of Management I have been impressed by the response shown by the senior team and my colleagues on the Board to the fresh challenges which we have faced as a sector this year. The continued focus on driving value for money in the sector and our business is welcome and has meant that we have been in great shape to respond positively to meeting the Government’s growth agenda and our ambitions, in particular for More Homes More Choice. I am pleased to say, however that we have done so whilst retaining a strong emphasis on helping our tenants to manage the challenges that they face from the welfare reform changes, and that we are in a strong position to continue to do so.

Tim Ralphs
Chair - Shropshire Housing Group