Riverside

Business effectiveness

Value for money self-assessment 2017
The Riverside Group Limited

Contents

Our value for money story

Riverside has developed an approach to value for money which we call 'Business Effectiveness'. This is embedded in our corporate plan. We have come to define value for money as the delivery of our corporate objectives in the most cost-effective way possible – doing more, with our limited resources.

Context is important and Riverside has always adapted to face challenges in the external operating environment. Following the EU referendum and 2017 general election, we face considerable uncertainty. The imperative to achieve value for money has never been greater.

Our underlying costs are reducing, and are projected to fall further, primarily driven by a major transformation programme and ongoing repair and maintenance savings. Once service charge costs are removed, Riverside's overall unit costs are below sector average, and those of our larger peers. All of this will enable us to reinvest more to benefit our customers, homes and neighbourhoods.

Group operating margin is below that of many of our larger peers, however this partly reflects the blend of our business streams, and in particular our commitment to retaining a substantial care and support business.

Our active approach to asset management continues, and return on assets has increased. Whilst the net present value (NPV) per property has fallen slightly in the past year, this is entirely because of the Government-imposed 1% rent reduction. Without this we would have comfortably exceeded our target to grow average NPV by 6% over three years.

Looking at wider outcomes, we achieved 16 of the original 28 targets set out in the 2014-17 corporate plan, achieving improvements to eight other measures beyond the original baseline. Particularly strong areas of performance included the number of new homes we built, customer satisfaction (net promoter), and our support for customers into employment and through money advice. We have also seen significant improvements in key 'cash leakage' measures: rent arrears, income collection rates, re-let times and void loss.

The journey continues, and our new 'We R Riverside' corporate plan provides the framework for driving further efficiencies over the next three years.

We are also committed to greater transparency in demonstrating value for money, and Riverside has played a role in helping develop a Sector Scorecard. Many of the agreed indicators are similar to those we have reported over the years through this Business Effectiveness report. There is strong continuity with our existing approach.


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Introduction: Business effectiveness

Business effectiveness

Each year Riverside undertakes a self-assessment against the Regulator's value for money standard, where we demonstrate how we are managing our resources and assets to further our purpose and objectives, and how we are re-investing the efficiency gains we make to benefit customers and neighbourhoods.

This is the fifth year we have published a statement summarising this self-assessment, providing in an accessible and transparent way a detailed commentary on the delivery of our corporate objectives; our costs, performance and return on assets over time, and comparison to our peers through appropriate benchmarking.

The following six sections set out in further detail how we are achieving value for money at Riverside:

— **Context**: A profile of Riverside, our objectives and the challenges presented by the ever-changing operating environment. Any judgement of value for money needs to be seen in the environment in which we work.

— **Costs**: An analysis of our costs as they have changed over time, how they compare to peers, and how our different business streams perform. This draws from internal data, the Regulator's annual analysis of unit costs, and HouseMark benchmark comparisons.

— **Assets**: The overall approach to strategic asset management, and the returns generated through investing in those assets. The value of homes is by far the biggest asset, and the way in which we manage them is fundamental to our financial strategy.

— **Performance**: The broader outcomes we have achieved through our last Corporate Plan, 'One Riverside': outcomes for customers, the taxpayer and funders.

— **Driving future efficiencies**: Future plans for driving further efficiencies through our new Corporate Plan, 'We are Riverside'.

— **Conclusion: realising the gains**: Demonstrating how we are re-investing value for money gains to further objectives and create better outcomes for stakeholders.

A summary of this document can be found in our Financial Statements for 2016/17.


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01. Riverside in context

Riverside in context

The imperative to achieve value for money at Riverside has never been greater as we strive to do more with constrained revenues.

Riverside is one of the country's largest providers of affordable housing, care and regeneration services, established 90 years ago. A group of complementary businesses driven by a clear social purpose, the charitable housing association is at the core. We solve housing problems for a range of customers. These include some of the poorest and most vulnerable people in society, as well as those seeking to become homeowners. We do this by providing affordable homes, excellent services and opportunities for customers to improve their lives.

Every three years we produce a Corporate Plan which sets high level objectives for the Group, and establishes appropriate measures and targets. This document assesses the value we have delivered during the third and final year of the 'One Riverside' plan, 2014-17.

Operating environment

The imperative to achieve value for money at Riverside has never been greater as we strive to do more with constrained revenues.

The country has a deep and complex housing crisis, with housebuilding rates at barely half of what is required. As a nation we simply need to build more homes, and as one of the country's leading housing associations we are striving to play our part despite government subsidy being in short supply. This poses a number of challenges in both high and low value areas, compounded by government policies including the reduction of housing association rents by 1% each year for four years. We are also yet to feel the full impact of welfare reforms, with Universal Credit Full Service roll-out still at a relatively early stage, the lowering of benefit caps, and the proposed limitation of housing benefit available to tenants from 2019 through the application of LHA caps.

At the same time, the communities in which we work are facing profound changes in their demographic and economic make-up. We are developing new products and services for growing numbers of older tenants, whilst doing more for younger people who are locked out of the housing and employment markets. At the same time, cutbacks in support are making those on low incomes (both in work and out) more vulnerable to debt, risk of eviction and shortage of necessities. Homelessness is on the rise, and our impact and reputation as one of the country's largest providers of homeless services is growing, as we continue to provide innovative services both for short-term emergencies and longer-term prevention.

Recent events, such as the tragic fire at Grenfell Tower, are seeing a renewed emphasis on quality, standards and compliance. We are seeing a return to a dialogue around the responsibilities and duties of care of social landlords, and the importance of open and constructive engagement with tenants. There are clear implications for governance, asset management, customer service, and community cohesion.

All of these challenges have been compounded by political and economic uncertainty following events triggered by the 2016 EU referendum and more recently, the 2017 general election. To what extent there will be significant longer-term economic and housing market consequences which will affect the housing sector remains to be seen, but most commentators agree that a prolonged period of instability is bound to impact investor confidence.

As a charitable housing association, Riverside is facing these realities by continuing to deliver better value for money, in order to meet the needs of our current and future customers. As we embark on an ambitious plan for growth over the next five years, our strong balance sheet and improving margin offer a good basis for this investment.

Riverside at a glance

A charitable housing association: established nearly 90 years ago with a strong sense of our corporate social responsibility, and a strong belief in accountability to our customers.

Operating at scale: over 50,000 homes and nearly 100,000 customers.

Over a range of housing markets: 160+ local authority areas in England and Scotland; focused on some of the nation's hardest pressed communities. 49% of stock in the country's 10% most deprived neighbourhoods.

With a diverse offer:
- **affordable homes for rent** for singles, couples and families (77%);
- **care and support** for the elderly, the homeless and others who need support (18%);
- **affordable homes for sale** for shared owners and leaseholders (5%);
- **market homes for sale** to generate profits for the charity (through commercial companies);
- **extra services** to help sustain tenancies: money advice, employment support, affordable warmth.

A major developer: building over 800 affordable homes each year for rent, shared ownership and outright sale.

A leader in the sector: with the highest standards of governance and viability, and a strong influencing programme.


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02. Our costs

Our costs

Reducing unit costs founded on genuine efficiency savings, which compare well with sector and peer group averages. Improved income collection and less rent lost from empty properties.

Any coherent approach to improving value for money depends upon a detailed understanding of costs, and then a sustainable approach to their reduction through genuine efficiency measures. This section considers Riverside's unit costs, operating contributions and income collection performance, using evidence drawn from our own management data and two further sources: the Social Housing Regulator's unit cost comparison exercise published as part of the Global Accounts, and the sector's own benchmarking club, HouseMark.

Headline social housing cost per unit

The HCA has recently published a sector-wide breakdown of headline costs per unit (CPU) for social housing for a second year, based on a comparison of annual accounts for 2015/16. We have updated this analysis for 2016/17 using the same methodology, although comparative figures across the sector are only available for 2014/15 and 2015/16.

The chart below (fig 1) shows how our costs per unit have changed over the past three years, broken down by element.

At the headline level, Riverside's overall social housing CPU has moved up and down over this period within a small 5% band.

Fig 1: Riverside headline costs per unit (£000s)

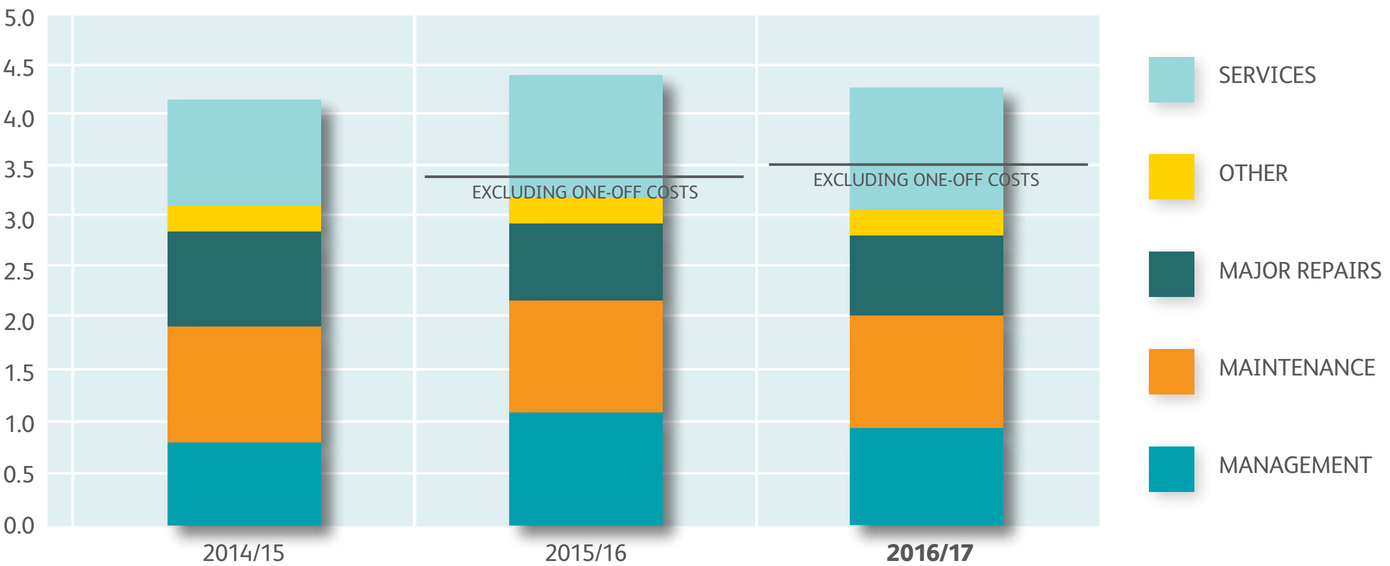
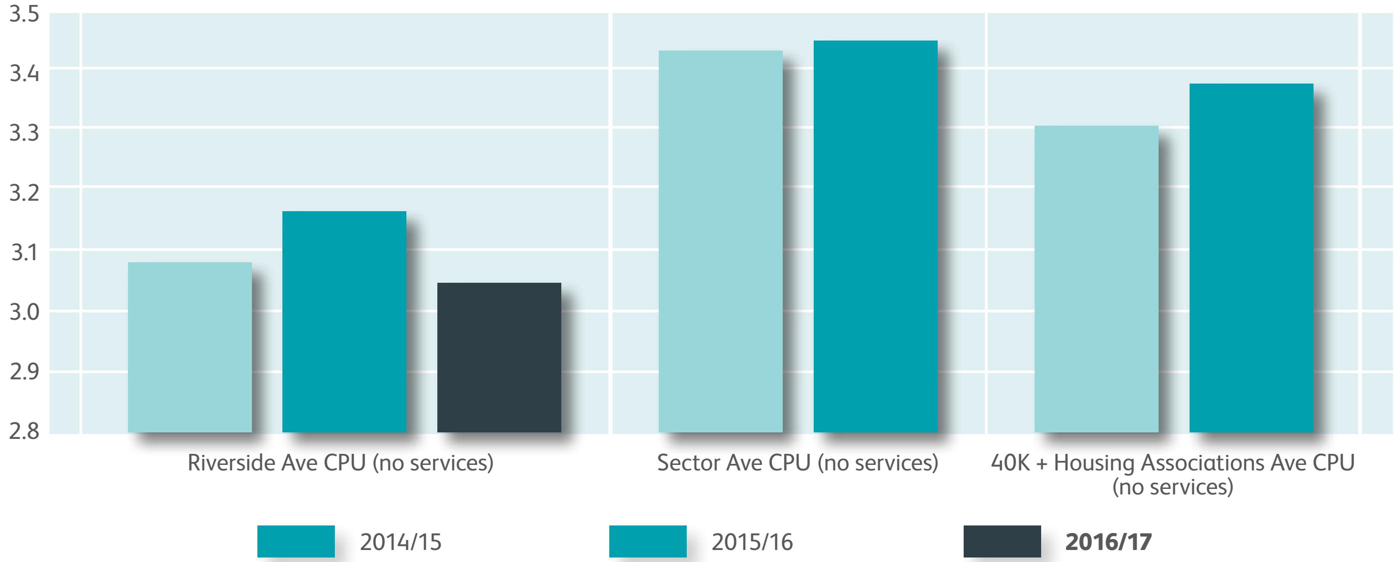


Fig 2: Comparison of headline cost per unit (adjusted for services): Riverside, sector and largest housing associations (£000s)



However, these movements have been distorted by significant one-off costs incurred over the last two financial years, accounting for around 20% of our headline unit costs. These exceptional 'spend to save' costs have arisen as a result of three main factors:

- The upfront investment cost of our transformation programme, primarily related to change management, IT investment and redundancy costs. The Board has agreed a total investment of £25m over five years.
- Pension restructuring and de-participation costs, associated with the closing of the Riverside Pension Scheme and exiting a number of Local Government Pension schemes. These costs were £12.4m in 2016/17, or £256 per unit.
- The non-recurring Income and Expenditure impact of the construction of the 300+ unit Hull Extra Care scheme, delivered through a PFI initiative.

The impact of stripping out these costs is shown on the chart, revealing a 15% downward trend in our underlying CPU between 2014/15 and 2016/17 to £3.58k.

Nearly half of our CPU comprises maintenance and major repair costs, and despite underlying building cost inflation, we have reduced these costs by nearly 10% to £1.87k over the two year period between 2014/15 and 2016/17, with savings split evenly between routine maintenance and major repairs. This has been driven by the continuing roll-out of our proactive approach to maintenance and improved supply chain management, with the majority of repairs now undertaken by our in-house contractor, Evolve (see section 4).

Sector comparison

To put this in context, we have compared our average unit costs with those of our peers, and after we have adjusted for the high service costs associated with our care and support business, the results are favourable.

At headline level, our 2015/16 costs are around 10% higher than the sector average (mean) of £3.97k. However HCA regression analysis published in 2016 indicates that the most significant driver of cost differentials between providers is stock mix, and in particular the scale of supported and housing for older people provision which drives significantly higher costs, especially for services[1]. This comprises around 20% of Riverside's total stock.

To get a better insight into our CPU in comparison with the rest of the sector, we have removed service charge costs for the three years 2014/15 to 2016/17, and compared this with the mean for the sector and for providers with more than 40,000 homes in management (data only available to 2015/16). The chart above (fig 2) shows that Riverside's adjusted CPU in 2016/17 was £3.04k, a 3.9% reduction on the previous year. When compared to the adjusted sector average of £3.45k for 2015/16, Riverside's CPU of £3.16k was 8.2% lower. What is more, Riverside's adjusted CPU was also significantly lower than the adjusted average CPU for other associations managing more than 40,000 homes at £3.37k.

[1] Note: Higher unit costs for specialist housing are mostly accounted for by service charges – in 2015/16 the average service charge across the supported housing/housing for older people sector was five times higher than that in general needs housing (SDR). This reflects the facilities management costs associated with running complex schemes for vulnerable client groups.

Savings

Short-term movements to unit costs can disguise what is happening to the longer-term cost base. As we have outlined, Riverside is implementing a new operating model as part of a wider programme that will transform services and rebase operating costs at a significantly lower level. We are putting in place changes that will drive recurring savings once the programme of transformation has been completed, rather than basing our gains on one-off cuts or simple reductions to service levels.

In order to monitor this, we have put in place a 'savings tracker' to provide the Board with assurance about the scale and nature of the savings being made. This tracker is showing very significant progress after the first full year of delivery, despite the fact that savings are not yet fully evident in the bottom line because of heavy upfront investment.

In 2016/17, we achieved gross savings of £15m, against an original budget of £11.8m. These mainly related to headcount reduction – arising from an ongoing restructure process based on a new operating model – reduced pension contributions, improved procurement practices and property related savings. As recurring savings these will continue throughout the business plan.

Comparing business stream performance

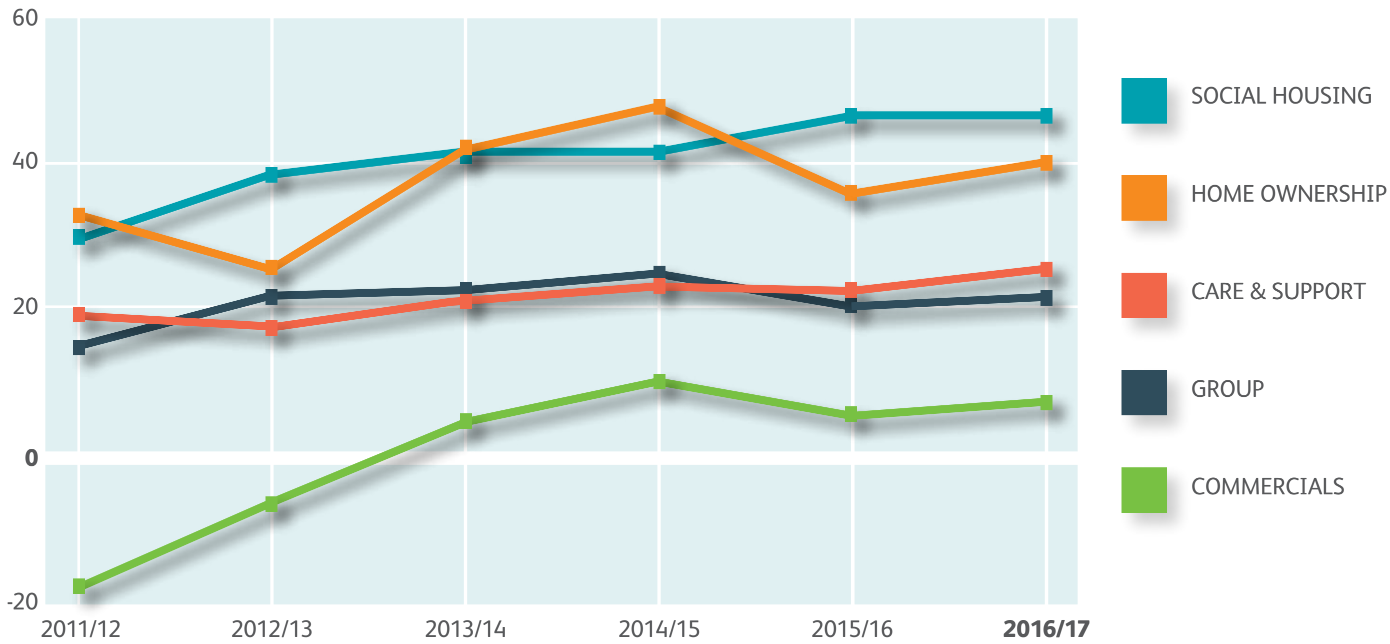
As well as looking to competitors and peers, it is important to understand performance across the different business streams **within** Riverside. Which are the most efficient, and can improvement be evidenced across the board?

A comparison of cost per unit is meaningless, because our commercial businesses do not own long-term property portfolios. It is therefore more instructive to compare operating contributions (as a % of turnover)[2] by business stream. The five year trend for these contribution rates is shown in the graph below (fig 3).

Over the last year, the operating contribution rates for all business streams have improved, with the exception of Social Housing where the contribution rate has remained static at 47%.

This continues a very positive five year trajectory across all the business streams, although the Group average contribution rate has remained relatively even at 20 – 24%, influenced not only by financial performance but also the changing blend of activities, and the larger proportion of turnover accounted for by the relatively low margin commercials, particularly over the past few years.

Fig 3: Operating contribution as a % of turnover 2012/13 – 2016/17



[2] Note: This comparison of operating contribution by business stream excludes the reallocation of central overheads.

Considering individual business streams:

- Social Housing and Home Ownership[3] have the highest contribution rates at 40% or more, although the Home Ownership contribution is subject to greater year on year fluctuation. This is because the Home Ownership contribution rate reflects both operational efficiency, which has been improving, and the volume and values of first tranche and outright sales which is far more variable in accordance with market conditions.
- Despite a gradual upward trajectory, the Care & Support contribution rate is significantly lower than that for general needs – at least 20% lower for each of the past five years. This reflects a number of factors: significantly higher scheme management and maintenance costs given much greater turnover rates and re-let costs; higher staffing ratios; and very tight margins on contracted income in supported housing. However a tough funding environment and a requirement to remain competitive have driven a culture of improvement and efficiency, underpinned by a drive to tackle financially marginal schemes.
- The commercial entities operate completely different business models with lower contribution rates, though these vary from business to business. The blended contribution rate has risen steadily from the dark days following the crash, moving into profit in 2013/14 and rising to 9% in 2016/17. Our housebuilding companies (Prospect and Compendium) typically aim for a contribution rate of 20%, whilst our internal repairs arm, Evolve, generates a far smaller rate (9.3% in 2016/17), given that its sole customer is Riverside itself. Hull PFI is also included within the commercial contribution rate, although there is little margin built into the contract.

Cash leakage

Whilst this section has focused on costs, any assessment of value for money should also consider what we call 'cash leakage' – that is income lost arising from non-payment of rent or empty properties. At Riverside, this is monitored very closely by the Board through its Neighbourhood Services Committee, and can be benchmarked with a peer group of comparable housing associations through HouseMark.

Our performance across a range of key cash leakage metrics has continued to improve (see fig 4), and for over half of the selected measures, is now better than that of our HouseMark peers. This reflects a significant focus on service improvement which will continue as we reconfigure our operating model. One of the consequences has been a relatively high rate of eviction for rent arrears compared to our peers, although this has fallen since 2014/15.

Re-let performance has been particularly strong, with the average time taken to let a property improving by nearly ten days over the past two years, a reduction of almost a third. This has an obvious knock-on impact on reducing rent loss, as well as increasing the supply of available homes.

Current rent arrears (%) have continued to fall, although they remain in the lower middle quartile when compared to peers. By way of contrast, former tenant arrears (%) have increased slightly, however they are still marginally better than the median for our peer group. Better than average income collection rates should help in the ongoing reduction of both current and former tenant rent arrears.

The extent of historic rent arrears has meant that the % of current and former tenant arrears written off has increased and is now lower quartile. This was particularly high in 2015/16 when write-off practices were brought in line with the rest of the sector.

Fig 4: Cash leakage measures in comparison with HouseMark benchmarks

	Riverside			Housemark	
	2014/15	2015/16	**2016/17**	Median	Upper Quartile
Current arrears (%)	4.82	3.95	**3.94**	3.07	2.64
Former tenant arrears (%)	5.40	1.66	**1.73**	1.77	1.05
Average relet time (days)	30.00	26.24	**20.59**	25.00	19.68
Income collection rate (%)	98.68	99.91	**99.83**	99.69	100.15
Rent loss due to voids (%)	1.18	0.92	**0.84**	1.04	0.75
Written off current and former tenant arrears (%)	0.26	4.05	**1.08**	0.70	0.41
Evictions due to rent arrears (%)	0.66	0.72	**0.59**	0.37	0.25

Quartile

- Lower
- Lower Middle
- Upper Middle
- Upper

[3] Note: The Home Ownership business stream is responsible for shared ownership, leasehold and intermediate rented products.


Riverside

03. Our assets

Our assets

A strategic approach to managing our assets, through the better planning and delivery of repairs and maintenance, and targeted stock disposals. The overall result – an improved return on assets and increases to the net present value of our homes.

In 2016/17 we invested a further £80m in repairs and maintenance to our existing stock (capital and revenue). After taking in to consideration the returns from Evolve, our wholly owned repairs subsidiary, our routine maintenance costs reduced by £4m on the previous year – a reduction of 7.4%. If we exclude the returns from our subsidiary, the amount spend on routine maintenance per unit still reduced year on year but by a more modest 1% as shown in the cost per unit analysis. We also continued our programme of stock renewal, generating over £22m surplus through the sale of c.600 homes, nearly £9m more than in the previous year, replacing them with 841 new homes for rent, shared ownership and sale.

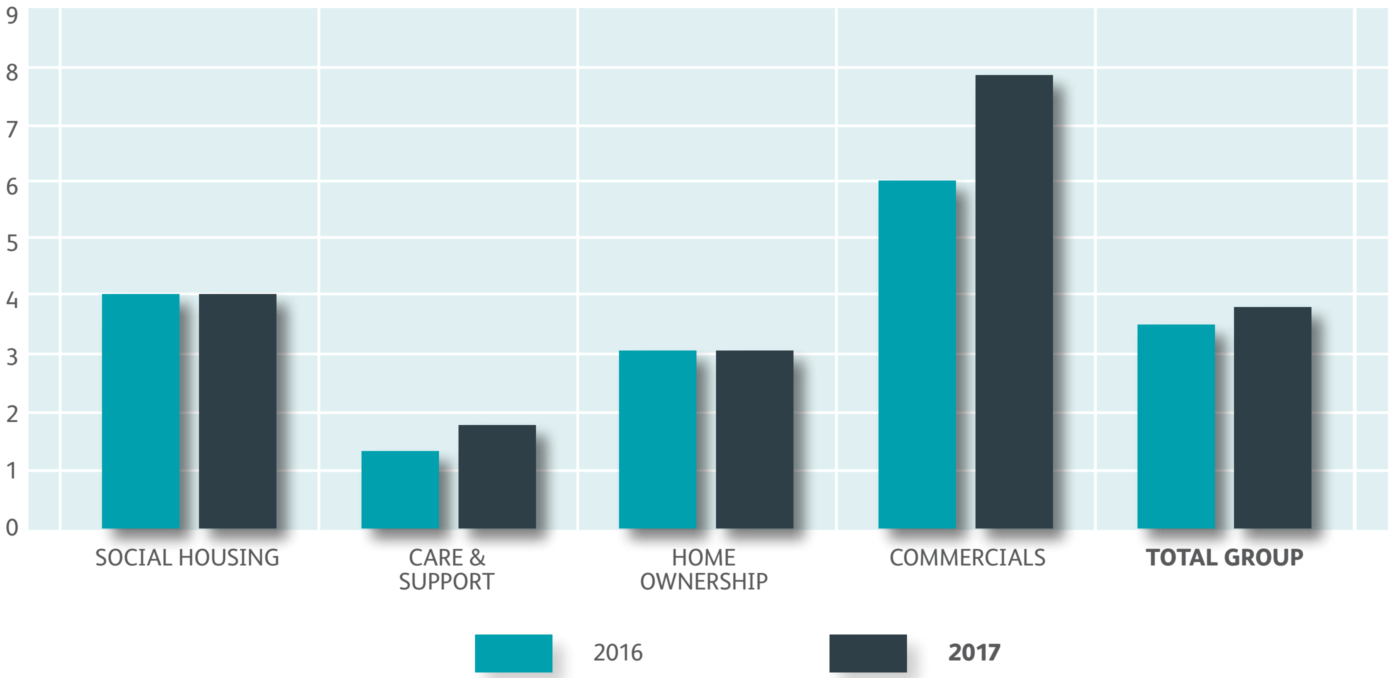
The roll out of our 'Think Homes' initiative continues to transform the approach to asset management, and for two of the past three years we have seen an increase in the average net present value (NPV) of our stock (see section 4). Despite the impact of the 1% rent reduction, which has resulted in the average NPV falling back slightly in 2016/17, it is still higher than the baseline position in 2014.

We have developed a strategic approach to asset management, which is founded on improving our data and using it intelligently to inform robust investment decisions, and we were delighted when this was recognised through the UK Housing Awards in 2017 (winner: Outstanding Approach to Repairs and Maintenance category).

This approach includes:

- Improving stock condition data, with over half of the stock surveyed in the last five years.
- Planning at a neighbourhood level using our Neighbourhood Investment Strategy toolkit. This is now in its tenth year and enables us to chart how neighbourhoods have improved or declined over a decade.
- Introducing a new stock option appraisal scheme in April 2016, using a range of evidence including our property level discounted cash flow model, to understand where it is more cost effective to dispose of a property than to continue to invest in it as social housing.
- Maximising the use of our in-house contractor, Evolve, to deliver responsive, void, cyclical and programmed works across the Group. Last year saw the successful expansion of Evolve into the North East and Hull, and this will continue as its areas of operations expand into Cumbria and South and Central region. In 2016/17 Evolve increased its turnover to £44m, and delivered significant VAT savings of £3.6m, an increase of £0.4m from 2015/16.

Fig 5: Return on Assets by Business Stream (%)



— Further roll-out of the proactive approach to responsive repairs through property MOTs, now extended to our Care and Support business. In 2016/17 over 5,000 MOTs were completed across the group.

— Driving down the cost of void repairs, through introducing a more flexible void standard and strict cost thresholds to trigger earlier option appraisals for high cost voids.

— Improved Programmed Repairs planning to maximise efficient delivery and drive further savings through supply chain relationship with suppliers such as Wolseley. A procurement process with Echelon is under way to secure a £8m contract within the South region which will drive further value and with the intention of improving customer experience.

— Reducing on-costs through undertaking the bulk of stock condition surveys (including Energy Performance Surveys) and quality assurance inspections in-house.

Return on assets

The growth in operating surplus from £72.8m to £80.1m contributed to an increase in the Group's return on assets to 3.7% compared to last year's return of 3.5%.

When viewed across the different business streams Care and Support and our commercial companies contributed to the increase whilst Social Housing and Home Ownership maintained their level of return (fig 5). The operating surplus in Social Housing increased slightly on the year despite absorbing £12.4m of de-participation costs as the Group continued to reduce its exposure to defined benefit pension schemes. However the asset base also increased on the year as a result of holding more cash at year end, meaning the return on assets employed stayed level.

Key contributions to the overall growth in return on assets were made by both Care and Support and our commercial companies, in particular Prospect. The operating surplus in Care and Support increased as it generated additional income and operating efficiencies reduced the cost base. The steady growth in Prospect's home building business continued, and the increase in homes sold resulted in an increased contribution.

04. Performance

Performance

Strong delivery against our corporate objectives – new homes, improved customer satisfaction, jobs and financial support. Outcomes for customers, the taxpayer and our funders.

Any full assessment of value for money needs to look beyond financial measures and consider how we use our resources to deliver measureable outcomes for stakeholders: customers, the taxpayer and funders. In doing this we have used the objectives set out in the Corporate Plan as a yardstick.

The 2014-17 'One Riverside' Corporate Plan set out three objectives: Connected Customers, Resilient Lives and Better Places. Through these we articulated detailed plans to improve services, support customers and build and invest to create great neighbourhoods. The plan also identified two key enablers, or what we call 'routes to success' –Great Team and Effective Business. These two enablers are key to improving and managing the business to achieve our aims.

To track the delivery of the plan, we identified 28 strategic measures to reflect the diversity of objectives, setting ourselves ambitious targets and reviewing them each year.

We have achieved or bettered 16 out of 28 of our original 2014 targets (nearly 60%), with results for a further eight measures showing improvement beyond the original 2014 baseline. In addition we set nine stretch targets for the final year of the plan (2016/17) of which we met five. At Riverside we set challenging targets, and so we see this as a strong set of results.

Our best performance has been in the delivery of the 'Better Places' and 'Resilient Lives' objectives, where we set goals to build more homes, improve assets and places, and support customers through very challenging times. Performance with the 'Effective Business' route to success has also been strong, showing how we have generated and managed the resources required to meet our aims.

The detailed results are set out in the following tables, where: red = below target, below baseline; amber = below target, above baseline; and green = above target.

Baseline reflecting actual performance in April 2014 is shown.

Connected customers

	Base	Target	Result
Customers			
STAR Net promoter score	8%	14%	**22%**
% of customers satisfied with the way Riverside deals with repairs and maintenance	73%	82%	**75%**
% of key service transactions accessed by customers online through self-service approach	n/a	33%	**38%**
% repairs completed without customers having to chase up the repair	70%	85%	**94%**
Taxpayers			
% of general needs working age tenants in full time employment	25%	30%	**24%**
% of new lettings to working age tenants in full time employment	26%	36%	**37%**

Connected Customers

We have achieved tangible improvements in customer satisfaction with net promoter score – a measure of overall satisfaction – now 14% above the 2014 baseline. However, satisfaction with the responsive repairs service has not improved as much as we had hoped, and remains considerably short of our target. This will continue to be addressed throughout the course of our 2017-20 corporate plan, with shorter-term improvement plans already in place to drive up repairs satisfaction, including a move to digital repairs reporting/self-service.

Whilst significant progress has been made, our housing services modernisation programme has been subsumed within a more ambitious transformation initiative. Initially this has focused on key strategic and enabling functions, although the roll out of a new front line service model is now practically complete. We have been successful in delivering our first on-line services (rent statements) to over one third of customers within the framework of a digital strategy, but because of a necessary focus on replacing our housing management system, we are not as far along the digital journey as we had hoped to be, and this is a major priority for the new plan.

We have continued to focus on improving core services, achieving major improvements to performance. Property MOTs have been rolled out in all English regions, and practically all reactive repairs are now completed without the customer having to chase. New web-based lettings approaches and employment growth have helped achieve a gradual shift towards a working age customer base in full time employment.

Resilient Lives	Base	Target	Result
Customers			
Number of customers assisted into paid employment	543	640	**590**
Total annualised cashable gain arising from money or affordable warmth advice (£'000s)	£2,785	£4,000	**£4,962**
Taxpayers			
% tenants receiving support who are maintaining a clear rent account	n/a	35%	**80%**
% active leads for health and care contracts via tender or negotiation	n/a	35%	**35%**
Proportion of Care and Support turnover commissioned to deliver health/care outcomes	n/a	35%	**14%**
% Care and Support services funded by self payers	8%	16%	**12%**

Resilient Lives

Our Care and Support business is now one of the largest in the country, securing £3.5m of contract income in 2016/17 and providing services to over 17,000 customers. We have diversified the service offer, taking advantage of delivery partnerships to support new and existing client groups, leading to tendering success via our re-shaped Business Development team. We have also undertaken a comprehensive review of Retirement Living, resulting in the introduction of a new operational structure and a major five-year programme of investment in buildings. However due to the lack of properly funded commissioning opportunities we have yet to make significant inroads into the health and social care markets and need to explore new ways of making our offer a good match for opportunities, utilising new thinking on social return on investment. Ongoing austerity has also meant that the increase in 'self-payers' for our supported housing services has been modest, significantly below that planned.

We have continued to sustain tenancies through employment and training, money advice and affordable warmth services. High volume outputs have been achieved, and we can also demonstrate a measurable impact on the rent accounts of the majority of customers receiving advice and assistance, with eight in ten maintaining a clear account. More streamlined referral arrangements are in place for these services, enabling us to target tenants who are likely to be impacted by welfare changes such as Local Housing Allowance caps.

Better places

	Base	Target	Result
Customers			
% tenants satisfied with quality of home	78%	84%	**87%**
% homes with SAP rating less than 60	15%	11%	**11%**
Taxpayers			
Number of affordable new homes committed	1,375	1,500	**1,504**
Number of Local Authorities where we own fewer than 50 homes	77	52	**78**
Homes sold under the VRTB pilot	n/a	200	**201**
Funders			
Average NPV per property (£'000s)	£32.2k	£34.2k	**£33.2k**

Better Places

Despite considerable challenges, we have committed the whole of our 1500 home affordable homes programme in England (2014-17). In addition our commercial companies have started sites which will accommodate 831 new homes for outright sale, exceeding our original three year target of 800.

At the same time we have invested heavily in improving existing stock, which we believe is driving a 9% rise in customers' satisfaction with the quality of their homes over the past three years, including a small increase last year.

Despite disposing of over 2100 high cost/low demand homes over the period of the plan, and around 600 in 2016/17 alone, our ability to use strategic sales to 'shrink' our geographical footprint has been impeded, as other housing associations reviewing their own strategies in the light of rent reductions have been less willing to trade. However an unexpected dimension of our sales programme came with Riverside's participation in the Voluntary Right to Buy pilot. This has been hugely successful, with Riverside selling 248 homes to eligible tenants (201 at the end of 2016/17), accounting for around half of the programme.

The ultimate measure of the value we deliver in creating 'Better Places' is reflected in the movement of the average net present value (NPV) of our stock. Effective neighbourhood and asset management should drive this up, and over two of the past three years we have seen the average NPV increase, only falling back slightly in 2016/17 as a result of the -1% rent decrease. Had it not been for this Government imposed cut to our income, the average NPV per unit would have exceeded the target set in our Corporate Plan of a 6% increase over the past three years. This is partly because of more efficient management and maintenance, but is also driven by the disposal of low value assets, with the average NPV of the stock sold in the past year being £19k.

Great team

	Base	Target	Result
Customers, taxpayers and funders			
% of employees agreeing 'I have confidence in the leadership skills of the senior management team'	57%	80%	**49%**
% of employees agreeing 'my manager helps me to fulfil my potential'	62%	80%	**71%**
% managers that have completed the relevant Cornerstone module and directors who have completed leadership programme	n/a	95%	**96%**
% of business units with an up to date people plan	n/a	100%	**95%**

Great Team

Significant organisational transformation has had an impact on colleagues, and we have missed a number of our targets in building staff engagement - perhaps understandable given the reach of the transformation programme and the uncertainty many employees have been experiencing.

However a restructure of the Human Resources function has been completed and the team is providing intensive support to the organisational restructuring process. Practically all managers and leaders have completed mandatory leadership training to support change management, putting in place 'People plans' which will be reviewed and refreshed as each wave of the transformation initiative is implemented. Having achieved Investors in People (IiP) gold status, the launch of a new IiP framework is helping us to develop our approach to leadership and management and support health and wellbeing going forward.

We have a renewed focus on equality and diversity following an independent audit which has led to the recruitment of a specialist manager and the development and implementation of an ambitious action plan including a training programme for managers, the development of a model for regional planning and the launch of a diversity champions' network.

To support more effective and efficient governance at Riverside, we have completed our planned review of our local governance framework through an inclusive process, and in September 2016 wound up the Divisional Board structure, creating two committees providing oversight and scrutiny to key business streams as part of the new operating model: a Neighbourhood Services Committee, and Care and Support Committee. Our resident involvement and scrutiny structure has been reviewed and adjusted to reflect the new arrangements.

Effective business

	Base	Target	Result
Customers			
Investment in discretionary activities (£000s)	£94,721	£122,327	**£126,720**
Taxpayers			
% Return on assets	3.7%	4.7%	**3.7%***
Net savings arising from the Think Forward programme (£m) (where "-" indicates a saving)	n/a	£11,825	**£15,003**
Procurement savings (non repair) (£'000s)	£1,195	£643	**£2,723**
Annual profit from commercials (£'000s)	£2,166	£4,190	**£9,359**
Funders			
% Operating margin	22.7%	24.8%	**21.6%**

*Baseline and target have been restated to reflect the impact of FRS102.

Effective Business

Better procurement has driven down outsourced costs, with savings of £2.7m (cash and cost avoidance) achieved in 2016/17, more than double the target set for the year. The commercial companies continue to make a contribution to Group resources, with profits more than quadrupling over the period of the Corporate Plan to over £9m per annum, an increase of £4m over the last year.

As highlighted in last year's self-assessment, business transformation is at the heart of the drive to improve value for money. With £15m gross savings delivered in the first year of implementation (2016/17), we have exceeded targets and are well on our way on a journey which aims to save £32m per annum of recurring savings by the end of 2020/21.

Taken as a whole, the approach to creating an effective business has generated additional resources to invest in new and improved homes and extra services such as employment and money advice, in an era when the external funding climate has constrained both capital and revenue income. Much of this additional investment takes place 'in year' and so does not flow down to the bottom line, although over the past year our Group operating margin has increased by nearly 2% to 21.6%.

In 2016/17 we invested nearly £127m in these activities, over £4m more than we had envisaged at the start of the plan. This is the true test of our ability to deliver value for money.

05. The future: driving further efficiencies

The future: driving further efficiencies

A new corporate plan – 'We R Riverside' – with value for money firmly embedded.

It is time to look forward again, and the new 'We R Riverside' corporate plan for 2017-20 provides the framework, setting out the next steps on our journey. In doing so it presents a detailed three year plan, together with a five year outlook and ten year strategy, bringing us to the cusp of our centenary year in 2028. Naturally, the plan shows how we are adapting to the challenging times and continuing to drive value for money across all activities.

We have broken the strategy down into three strategic objectives, to show what we are planning to do:

— **Stepping up supply:** A major national housebuilder, building up to 20,000 new homes over ten years.

— **Customers first:** Providing a people-focused service that meets customers' needs in a way that suits them, efficiently and effectively.

— **Neighbourhoods matter:** Closing the gap between the best and worst performing places; three major renewal programmes, and a coherent story for all our neighbourhoods.

Value for money remains embedded at the heart of the plan, and in order to deliver our three objectives, Riverside needs to be an organisation that is operating effectively. This means the right people doing the right things with the right tools. These are the things that 'enable' the plan, what we are calling our 'routes to success'. There are three:

— **Adding value**
Driving better value for money across the Group, by maximising income and driving down costs, enabled by further investment in our key IT systems and infrastructure.

— **Engaging our people**
Embedding a culture of high performance as an employer of choice, with a clear focus on engagement, equality and diversity and effective communication.

— **Raising performance**
Improving joined up planning and performance reporting across the Group, ensuring compliance with legal and regulatory standards as part of a 'safety first' culture.

Adding Value

- Within the 'Adding Value' route to success, there are several key areas of focus, starting with securing sufficient funding through financial markets for investment in new homes and neighbourhoods. We will devise an organisational growth strategy driven by the objectives and values of Riverside, and proactively explore merger and acquisition opportunities in accordance with the strategy.
- To maximise income, we will embed an intelligence-driven, proactive approach to income collection in the working practices of the shared service centre and front-line teams, consistently achieving an income collection rate above 100% with better systems for tackling fraud. We will continue to prepare customers for the roll-out of Universal Credit through targeted communications, money advice and digital support, following a service review, and maintain our 'Trusted Partner' status with the Department for Work and Pensions (DWP). We will prepare for the introduction of Local Housing Allowance (LHA) caps in 2019 through: implementing a new tenancy policy; reducing service charges; and negotiating access to local top-up funding with local authorities for supported housing services.
- Our new Target Operating Model (TOM) will be fully implemented through comprehensive organisational change delivering overall people savings of £12.5m, and £2m contract outsourcing savings delivered over three years through our central procurement team. We will achieve £5.2m of annual asset savings through: completion of property MOT roll-out; implementation of new void standard; and optimising use of Evolve, extending scope to environmental services. Efficiency will be improved by reducing the office footprint, enabled by a new range of digital services for customers and agile ways of working.
- We will deliver a resilient, secure, cost-effective IT capability, meeting current business need and laying foundations for the future. This includes: strengthening processes and controls around best practice industry standards; implementing 'Open Housing' as the Group's new housing management operational system; creating the platform to enable online, self-service customer transactions, focusing initially on repairs; and delivering other priority elements of the IT Roadmap, including new HR/Payroll and Finance systems and improved cyber security.
- Finally, we will review Riverside's programme management capability putting in place appropriate project management and governance arrangements for delivering the key objectives of our 2017-20 We R Riverside corporate plan.

What we will acheive in three years

By March 2020 we plan to achieve a Group operating surplus of nearly £90m, with benchmarked housing management and maintenance costs below median for the peer group. We envisage that this will enable us to continue to drive further improvements to customer services and invest nearly £500m in housebuilding, stock improvement and additional neighbourhood regeneration over the three years of the plan.

06. Conclusion: realising the gains

Conclusion: realising the gains

At Riverside, we take an embedded approach to value for money. It remains at the heart of our strategy.

Value for money was a key element of our recently completed 'One Riverside' corporate plan (2014-17), and this approach has continued into our new plan – 'We R Riverside' – where we have explicitly identified 'Added Value' as one of our routes to success. In fact we have come to regard value for money as the delivery of our corporate objectives in the most cost-effective way possible.

Taken as a whole and in context, our performance over the past three years has been strong, but there is more to do.

HCA data shows that underlying unit costs have been falling, and we expect to reduce them further over the next corporate plan as a result of savings delivered by the transformation programme and further repairs and maintenance savings. This is at the heart of our drive to improve value for money, and we are well on our way on a journey which aims to save £32m per annum of recurring savings by the end of 2020/21. This includes substantial savings to our biggest area of spend across the Group – repairs and maintenance.

Once service charge costs are removed, Riverside's unit costs are below average in comparison with our sector, though at Group level our operating margin remains below that of many of our larger peers. This partly reflects one-off transformation costs, but is also a product of the blend of our business streams, with Care and Support and our commercial companies returning contributions substantially lower than our Social Housing business. Margins remain a focus, and we know we need to improve them to deliver the ambition set out in our new corporate plan.

Our active approach to asset management continues, and return on assets has increased. Whilst the average net present value of our homes has slightly decreased in the past year, this is entirely because of the Government-imposed 1% rent reduction. Had this not occurred, we would have comfortably exceeded our target to increase NPV by 6% over the past three years.

Of course value for money is more than a financial exercise, and the outcomes we deliver against corporate plan targets are just as important. We achieved the majority of the original targets set as part of the 2014-17 corporate plan, demonstrating gains for all stakeholders: customers, the taxpayer and funders. But perhaps the ultimate test of value for money is the amount we generate to reinvest in the extra things we do for our customers and future customers – the cash invested each year in activities which add real value: building new homes, investing in our current stock and delivering additional services, such as money advice and employment support. Last year we invested nearly £127m in these activities. Our longer-term investment of reserves is now 80%, an increase of 2% on last year.

Despite all of this, there is still room for improvement and so Riverside has been keen to play a role in helping develop a Sector Scorecard, being part of the pioneering working group. Indeed many of the agreed indicators are similar to those we have reported over the years through this Business Effectiveness report, and so there is strong continuity with our existing approach. We have already provided data to help test the suite of indicators, and look forward to publishing the scorecard from 2017/18, together with commentary. This is likely to replace this report.

Our value for money journey continues, and given the challenges of the current environment, the imperative to achieve value for money at Riverside has never been greater. Our new 'We R Riverside' corporate plan for 2017-20 provides the framework for this, setting out the next steps on our journey and ensuring Riverside and its stakeholders can face the future with confidence.

Get in touch or find out more

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Customer Service Centre
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Speak to a member of our team

We are happy to accept **Next Generation Text** (NGT) calls. Press '3' once connected

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