Riverside

Business effectiveness

Value for money self-assessment 2016
The Riverside Group Limited

Contents

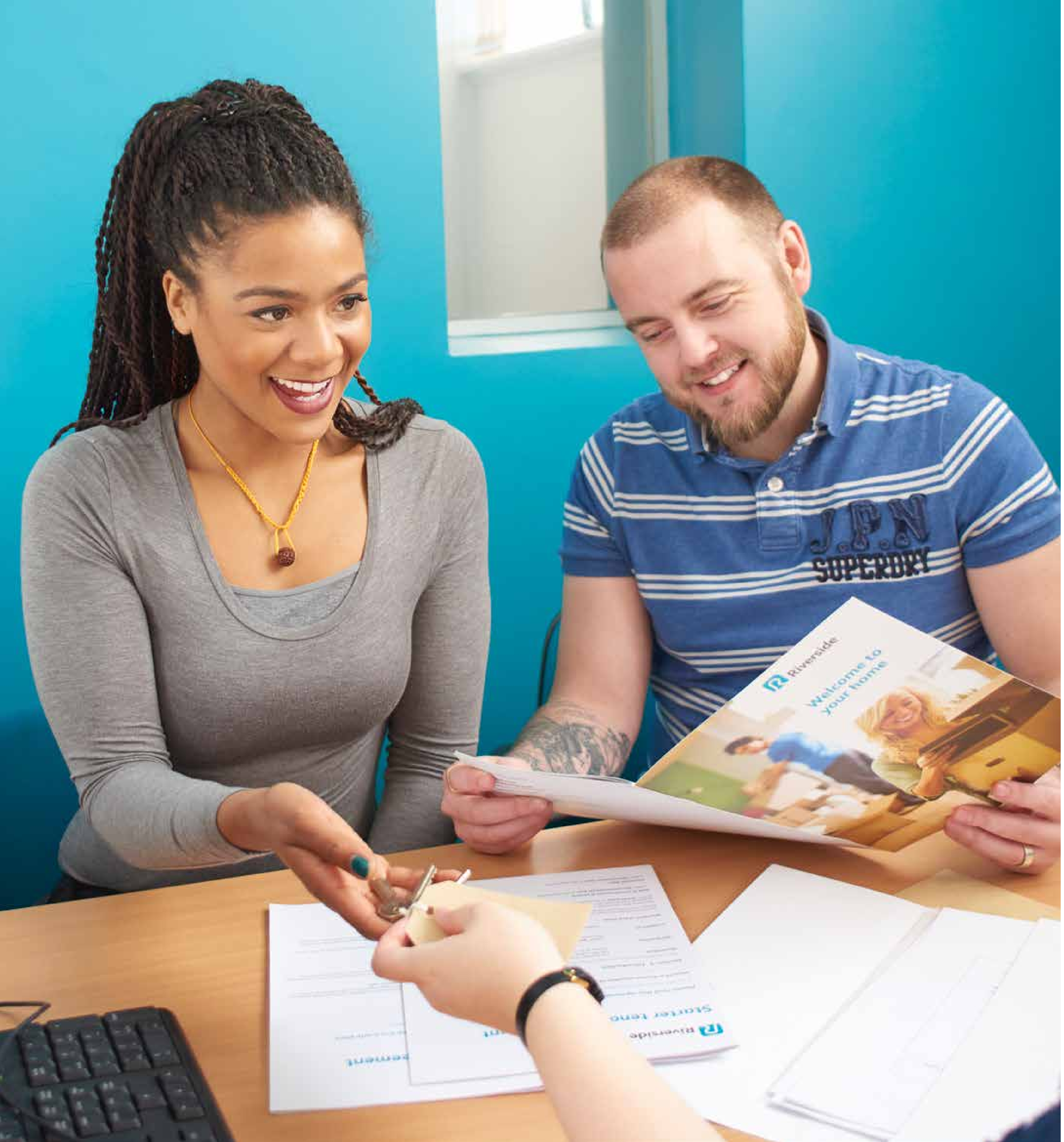
Business effectiveness

Each year Riverside undertakes a self-assessment against the Regulator's value for money standard. This is the fourth year we have published a statement summarising this self-assessment, where we demonstrate how we are managing our resources and assets to further our objectives, and how we are re-investing the efficiency gains we make to benefit customers and our neighbourhoods. We call this review 'Business Effectiveness' to reflect the embedded approach we take to value for money at Riverside.

To demonstrate how we are achieving business effectiveness at Riverside this document is written in six further sections:

- **Context**: Any judgement of value for money needs to be seen in the context in which we are working. This brief section sets out a profile of Riverside, our current objectives and the challenges presented by our ever-changing operating environment.
- **Costs**: Riverside is on a journey to drive out significant costs, in order to create the capacity to do more whilst remaining a viable and sustainable business. This section sets out what we have achieved so far, how we compare to others in the sector and how our business streams compare to each other.
- **Assets**: Our capacity to invest more is not just a product of the way we manage our costs. The value of our homes is by far our biggest asset, and the way in which we deploy them is fundamental to our financial strategy. This section summarises our overall approach to strategic asset management, and sets out the returns we are generating through investing in those assets.
- **Performance**: Any judgement of our business effectiveness needs to be seen in the context of our objectives, and last year we explicitly realigned our self-assessment to follow the structure of our Corporate Plan 2014-17. We have come to regard value for money as the delivery of the objectives set out in the plan in the most cost-effective way possible, which is why the Board monitors performance against the strategic measures derived from the plan every six months. In doing this we present the outcomes and impact of our activities for three key stakeholder groups: customers, taxpayers and funders.
- **Driving future efficiencies**: Whilst primarily this document analyses past performance, our ability to continue to deliver great value in the future depends upon what we are doing today. This section sets out our plans for driving further efficiencies through a major transformation programme which is developing a new target operating model.
- **Realising the gains**: This concluding section pulls together the threads and demonstrates how we are re-investing our value for money gains to further our objectives and create better outcomes for our stakeholders.

A summary of this document can be found in our Financial Statements for 2015/16.



01. Riverside in context

Riverside in context

Riverside is a substantial and diverse organisation, with long-established and deep roots. 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 establish a foothold on the housing ladder. We do this by providing affordable homes, excellent services and opportunities for our 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. Our current plan, 'One Riverside', is now in its third year and through it we have adopted three strategic objectives, and two routes which set out how we will achieve our aims.

Operating environment

The imperative to achieve value for money at Riverside has never been greater. At no point in our history have we strived to do so much more with limited and shrinking revenues.

The country faces a housing crisis, as millions of households struggle to find decent, affordable homes. Housebuilding rates are barely half of what is required. At the same time, many of our existing customers have been dealing with real reductions to their incomes, notwithstanding an improving economy and employment growth. Welfare reform has already had a significant impact, and the further cuts announced in the 2015 budget and spending review bring the prospect of more, as tax credits are curbed and absorbed into Universal Credit, Housing Benefit is pegged to the level available to tenants in the private rented sector, and overall benefits for individual households are capped.

For Riverside and other social landlords, our capacity to respond is being tested, as we face the prospect of a declining income stream with rents reduced by 1% each year for four years. This will result in £100m less income than we had planned for. This has been compounded as the country enters a period of considerable uncertainty following June's referendum vote to leave the EU. 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 uncertainty is bound to impact investor confidence.

However as a charitable housing association, Riverside needs to face these realities, focus on our current and future customers, and find new and creative ways to meet their needs. Retrenching is not an option. This means spending less by being more efficient in our transactions, focusing our services on the things that really matter, unlocking the capacity of our huge asset base through better intelligence and proactive management, and generating profit to re-invest through our commercial arms. In other words, delivering better value for money.

These are already themes built into our Corporate Plan, and this self-assessment sets out the progress we are making in delivering our objectives, as well as some of the extra things we have been able to achieve.

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. Half 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 500 affordable homes each year, and around 200 for outright sale.

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

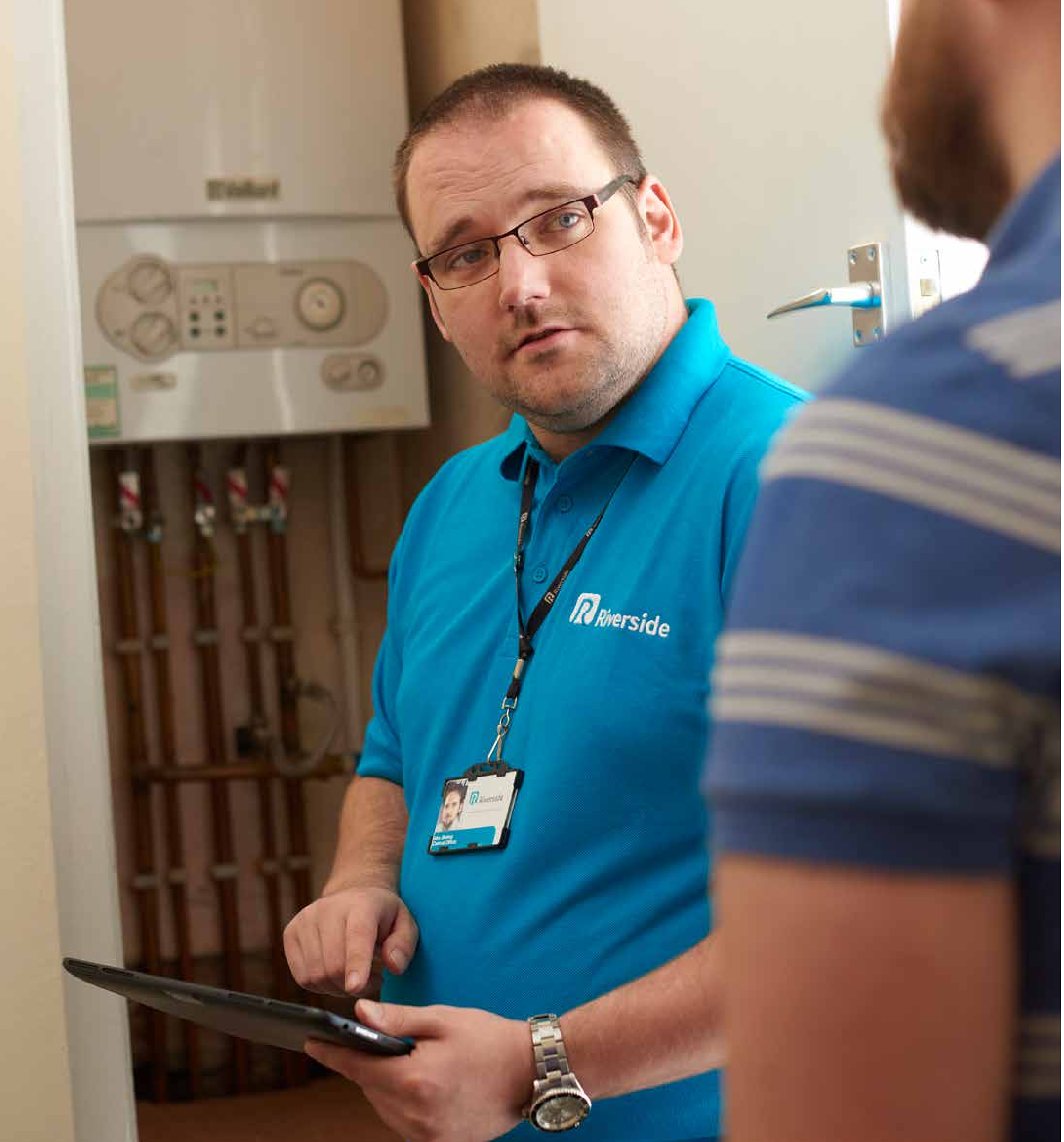
One Riverside: our corporate plan

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

- **Connected customers**: improving our customers' experiences by modernising our services and delivering consistency.
- **Resilient lives**: providing a comprehensive range of services to support those customers who need extra help to thrive in their homes.
- **Better places**: improving neighbourhoods by investing in our existing homes, building and acquiring new ones, and selling stock to focus our geographical footprint.

We have also set out how we will achieve these objectives by following two key routes:

- **Great team**: ensuring our colleagues and board members are well led, fully engaged, supported and rewarded to deliver our strategy. Involving our customers in scrutinising and influencing what we do.
- **Effective business**: securing the resources to deliver our objectives, managing them effectively in order to generate the capacity to make choices and do more.



02. Our costs

Our costs

Our self-assessment begins with an analysis of our costs, in particular those relating to the provision of services to customers.

Costs per unit in context

The Homes and Communities Agency (HCA) has recently published an analysis of comparative social housing costs per unit (CPU) across the sector, as part of its ongoing focus on efficiency. The data analysed is drawn from audited accounts for 2014/15. Costs vary significantly between associations, and in order to understand what drives this variation the HCA has undertaken a review using regression modelling.

This has identified a number of key contextual factors which influence CPU, the most important of which are the proportion of supported and older person's housing stock managed (normally associated with higher costs) and the regional variation in wage levels.

The analysis indicates that Riverside's headline annual social housing CPU is £4,220, which when benchmarked against the rest of the sector lies between the median and upper quartile – in other words above average.

However taking account of the significant contextual factors identified in the regression analysis, we have been able to derive an indicative 'expected' cost per unit – that is the CPU that would be expected if Riverside's costs reflected those of a typical association, given our mix of housing types and the labour markets within which we operate. This gives an estimated 'expected' CPU of around £4,270 per annum, marginally higher than our actual costs. Therefore contextualised, Riverside's headline social housing CPU is slightly below expectations.

This confirms that one of the main reasons for Riverside's higher than average headline social housing CPU is our stock composition, in particular the prevalence of supported housing and housing for older people. This is demonstrated by very high costs related to service charges, which at Riverside are three times higher per unit for supported housing than those for general needs homes. The multiplier for housing for older people is 1.5. This reflects the cost of facilities management within what are often complex and bespoke buildings, and higher staffing costs related to access, security and intensive housing management.

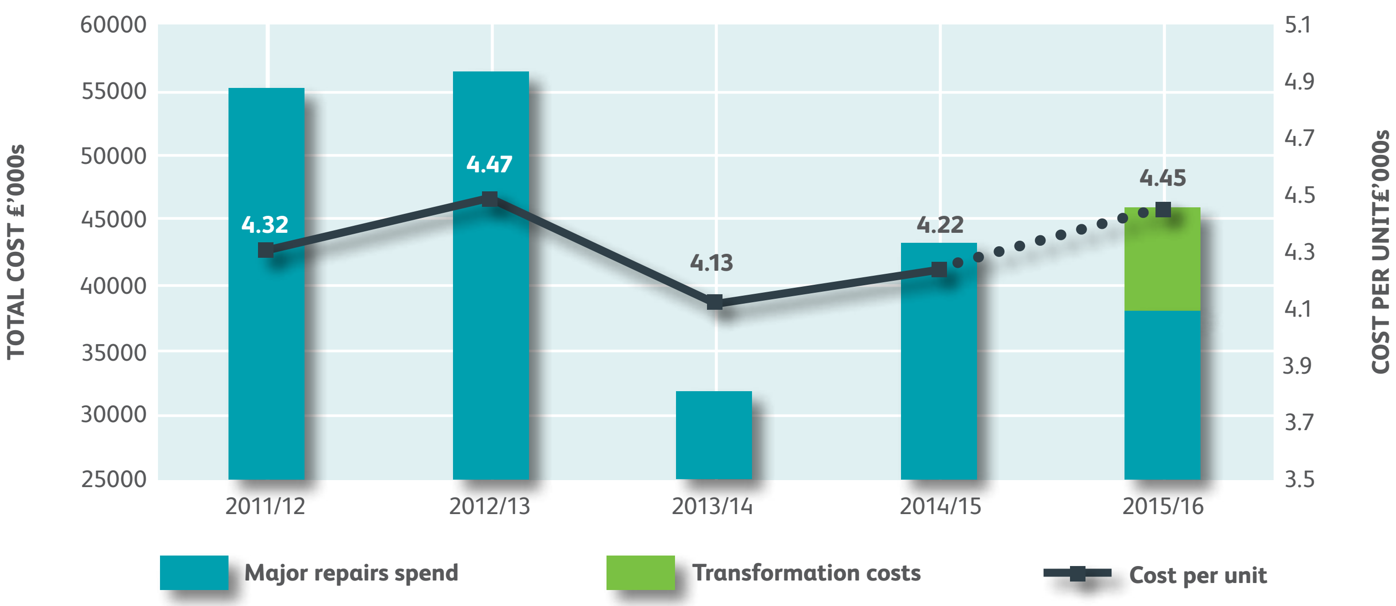
Using the same methodology, we have generated headline CPUs for the four years up to 2014/15 and the graph opposite shows the trend over time. It is clear that major repairs spend has a strong contributory impact on our overall performance across the period. The significant reduction in major repairs in 2013/14 is driven by a number of factors but predominantly by the completion of works on the Bransholme stock transfer in Hull. Thereafter, the annual spend profile of our major repairs programme will be largely driven by our stock condition data.

Projecting forward the HCA CPU approach on our 2015/16 performance, we can see the impact of our transformation spend on CPU as we invest in our new target operating model and transformation journey.

Riverside costs per unit in context

Riverside's headline social housing cost per unit 2014/15	£4,220
Sector median cost per unit	£3,550
Riverside's 'expected' cost per unit (contextualised)	£4,270
Difference	-£50

Riverside costs per unit



Benchmarking unit costs against others

The HCA regression analysis is a useful starting point for putting our overall unit costs in perspective.

We are also able to undertake more detailed comparisons of cost components over time through our membership of the HouseMark benchmarking service. Through this we compare our costs and performance against a peer group of 31 other traditional housing associations owning more than 10,000 homes.

Key highlights for 2014/15 are shown below.

The basis of calculation is very different to the HCA analysis and comparison of unit costs using our HouseMark scorecard shows a picture of reducing costs at Riverside, although this is not always reflected in our benchmarked quartile position because of changes in the cost position of our peers.

Our housing management unit costs have declined slightly since 2013/14, although remain relatively high compared to our peers, reflecting significantly higher spending on resident involvement and lettings. This is related to higher stock turnover rates which are 3% above our peers. Our total repairs/voids costs have reduced by c2.5% since 2013/14 and are very close to the median. Our cyclical maintenance costs have also declined and are lower than our peers.

Investment in major works has increased sharply in 2014/15 on the prior year and our CPU is significantly higher than our peer group, although we consider this to be a positive indicator of our investment. These costs are less predictable and not always comparable to peers, as they reflect the nature and condition of owned stock, and component replacement lifecycles. Our repairs and maintenance management costs (as opposed to cost of works) are significantly lower than the median for our peer group for all repair categories with the exception of voids, reflecting a concerted drive to reduce asset management overheads following a major review.

Riverside's overall overheads as a percentage of turnover has remained static at 11.8% and this is 0.8% higher than the median compared to peers. Whilst IT costs are comparable, office premises, central overhead and finance costs are all slightly higher. This reflects the geographical spread of Riverside, our breadth of business streams and our focus on the highest standards in governance and viability.

Key highlights for 2014/15[1]	2014/15	2013/14	Change	Peer comparison
Housing management CPP*	£532	£535	-£3	Above average
Responsive repairs and void works CPP*	£887	£909	-£22	Below average
Major works and cyclical maintenance CPP*	£1,240	£1,081	£159	Lowest 25%
Overheads as a % adjusted turnover	11.8%	11.8%	0.0%	Above average

*CPP is cost per property

[1] Note: HouseMark comparisons are a year out of sync with the rest of the data presented in this report as they are only available up to 2014/15. This is the same year used for the HCA regression analysis.

Performance across our business streams

As a diverse organisation, any understanding of value for money needs to look at financial performance across our major business streams: general needs housing, care and support, subsidised home ownership and commercial activities.

The graph below shows changes in the operating margins of our four main business streams and the overall Group over the past five years. The calculation of individual business stream margins excludes apportionment of interest and Group overheads, so that they reflect financial performance as controlled by each business area.

Operating margins across all Riverside's business streams have increased over the past five years, benefiting from a clear and consistent focus on driving improvement in profitability in order to reduce the Group's overall reliance on debt funding.

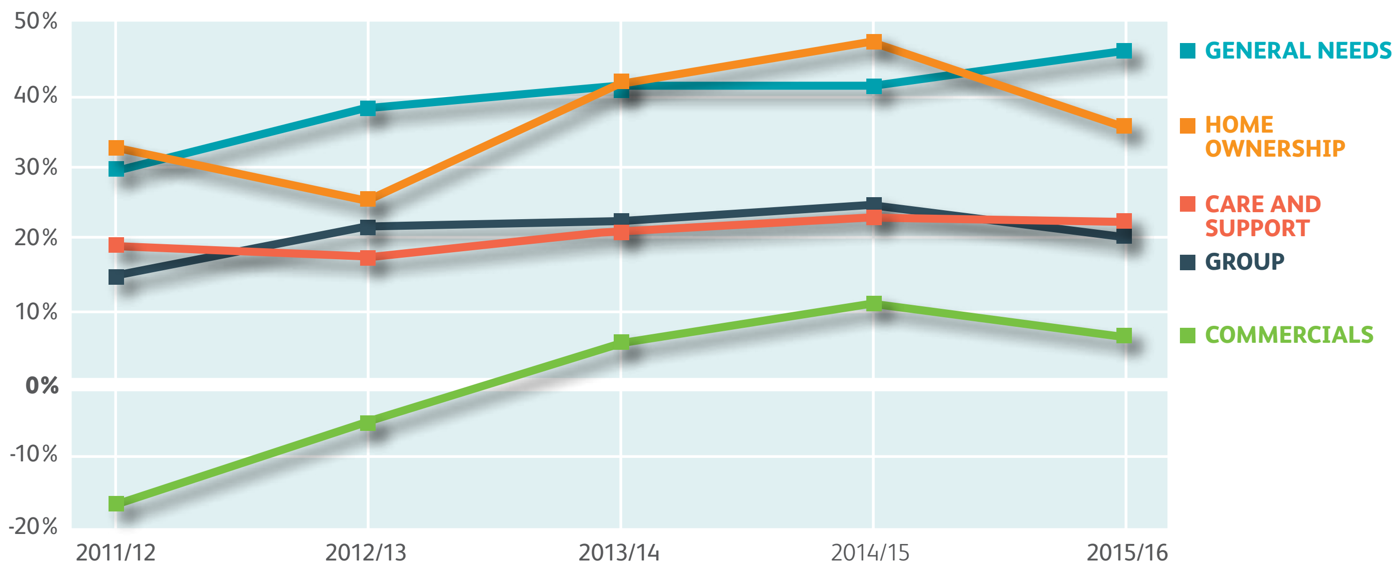
As with most groups which are composed of different businesses with diverse customer bases and unique operating models, there are differences in the profitability of individual business streams.

Our general needs and home ownership business streams have the strongest operating margins in the Group and both show an improving upward trend between 2011/12 and 2015/16. Our core general needs business has seen the positive impact on profitability and improved income from reduced re-let times and void volumes. As explained further in the cash leakage section, our re-let metrics are approaching upper quartile in the sector. Although this strong operational performance has come at the cost of increased spend on turning round voids, overall business profitability has undoubtedly benefited as a result. Operating margin in the general needs business has been in excess of 40% for the last three years.

Although there are some year-on-year fluctuations in our home ownership margin, which reflect inherent volatility in the profile of the sales programme, underlying core business profitability has remained very strong – above 35% – in the last three years.

The margin for our care and support business is at a significantly lower level, with an average annual gap of nearly 20% compared to the general needs margin. This trend supports the findings highlighted in the HCA's regression analysis, demonstrating the high costs associated with the provision of intensive services in this business stream. Moreover, given the small scale of provision for individual schemes and services, there are fewer opportunities to drive economies. However, we have been able to drive some improved value for money, particularly in our management costs, and the operating margin has increased from around 19% to 23% over the five year period. Within the care and support business we break margins down to individual scheme level, and this forms an important evidence base for decisions about bidding for new work and contract renewal.

Operating margin by business stream



Our commercial companies operate very different business models – in-house contract maintenance, housebuilding and large scale regeneration and PFI – with different margins[2]. It is of limited value to compare the profitability of our commercial operations with that of our core social businesses due to the fundamental differences in business models. Our social businesses require a higher level of operating profitability in order to adequately cover the interest charges on the debt associated with their larger asset bases and also to fund an ongoing level of re-investment. These businesses would also incur a greater proportion of central overhead costs which would include charges for some of the more social investment and community engagement activity which is charged centrally. The data demonstrates the positive upward journey our commercial entities have been on, following difficult years in the immediate aftermath of the financial crash. The small decline in 2015/16 is largely an impact of the complex accounting rules for the extra care Hull PFI scheme which is currently in the construction phase. The Return on Assets analysis (later in the report) demonstrates that our commercial businesses do outperform the other group businesses because of their comparatively low asset base.

Cash leakage

This analysis has focused on unit costs, however it is worth briefly considering our efficiency in preventing 'cash leakage' through effective income collection and maximisation. Ultimately this comes down to our performance with regards voids and rent arrears, traditionally weaker areas across the Group – in 2014/15 our performance was lower quartile for current arrears and between median and lower quartile for re-let times compared to our HouseMark peer group.

The table below shows that we have achieved a marked improvement in our cash leakage measures over the past year (2015/16), following a major performance drive across the Group. With the continuation of Welfare Reform, this continues to be a key area of performance review for our Boards, and we will retain this focus as our new approach to front-line services is implemented through the target operating model.

Performance is now close to the median for current arrears (although we can only compare with HouseMark benchmarks for 2014/15) and between median and upper quartile for re-let times, which are at their lowest since we started recording this measure. The percentage of void stock at year end has also fallen by a fifth, but is still well above peer group average, reflecting the regeneration challenges in many of the neighbourhoods in which we work, where low demand remains a real issue.

The combined bottom line impact of this improved performance in cash terms has been a reduction in our void and bad debt rent loss of 1% or around £2.5m.

Cash leakage	2015/16	2014/15	Improvement	HouseMark median*
Current arrears	3.73%	4.52%	0.79%	3.70%
Relet (days)	25.30	29.80	4.50	28.58
Stock void	1.98%	2.48%	0.50%	1.33%

*Median for peer group for 2014/15

[2] Note: Graphed Operating Margin for Commercials includes Evolve Facility Services, Prospect (GB) Ltd and Hull PFI through Riverside Estuary Ltd but excludes our profit share from our JV – Compendium

03. Our assets

Our assets

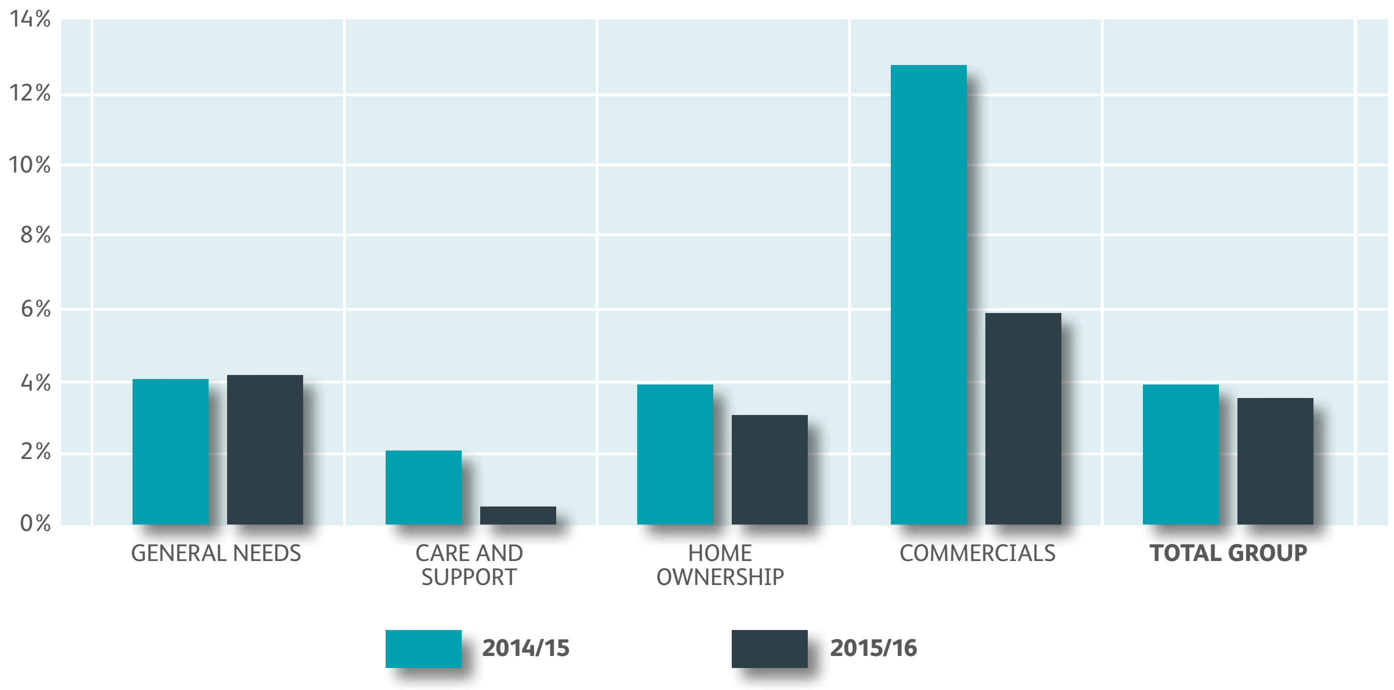
Our ability to run an effective business depends upon driving up the value of our assets through careful strategic planning which informs our stock investment and disposal activities.

In 2015/16 we invested around £79m in repairs and maintenance to our existing stock (capital and revenue), having made genuine efficiency savings of £2.76m over the year through reducing both the cost of works and overheads. We also generated over £13m surplus through land and property sales, nearly £8.5m more than in the previous year.

The ongoing viability and sustainability of Riverside depends on getting these key investment decisions right, so that over time we can see an increase in the overall net present value of our stock (see Better Places in Section 4). To underpin this 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. This approach includes:

- Improving our stock condition data, by achieving a step change in our stock condition survey coverage, with 47% of our stock surveyed in the last four years. A significant proportion of surveys are now undertaken in-house, and we have equipped our teams to undertake this work on a continuous basis as property MOTs are undertaken.
- Enhancing our analysis of stock condition data by upgrading our stock database (ProMaster) and closing legacy systems, importing data into a single integrated platform.
- Modelling the performance of each home, through a discounted cash flow methodology. With this information we are able to grade our stock, and target option appraisal work to determine where to invest and where to find other uses through disposal.
- Planning at a neighbourhood level using our Neighbourhood Investment Strategy toolkit. Each year we measure the performance of 190+ neighbourhoods against 25 variables, split into five domains such as housing market, income and employment and health. We then create a composite index, the Riverside Sustainability Index, to show the relative performance of our neighbourhoods. This approach is now in its ninth year, and we are able to chart how neighbourhoods have improved or declined over almost a decade.

Return on assets by business stream



Return on Assets

At Group-level, our overall return on assets for 2015/16 was 3.5%. This is a slight decline on the 3.7% return we reported in 2014/15 (restated to take account of FRS102), although this is a direct result of exceptional adjustments to our year end accounts. These adjustments reflect the cost of restructuring our pension provisions, the costs associated with implementing our new target operating model and an accounting charge arising from the increase in deficit contributions that members of the Social Housing Pension Scheme (SHPS) are required to pay from 2016/17 onwards.

Disaggregating this by business stream shows some key differences, illustrated in the chart above.

- General needs, care and support and the home ownership business streams have all experienced a small increase in assets employed as the Group continues to build affordable homes. Offsetting this growth is depreciation and disposals, as the Group actively manages its asset base.
- The return on assets for general needs business stream stayed level on the year at 4.1%. The growth in underlying surplus was large enough to absorb its share of the exceptional adjustments noted above.
- The underlying operating surplus in the care and support business stream increased on the prior year. However, the relatively smaller size of this business stream and the higher unit cost base mean that once central costs – including exceptional adjustments – were allocated, there was a resultant reduction in the return on assets to 0.5% from 2.1% in the prior year. A similar trend is evident for the home ownership business stream, as the return on assets is lower than the prior year after exceptional costs are absorbed.
- The fourth business stream comprises the Group's subsidiary companies, Prospect, Evolve and Riverside Estuary, which since 2014/15 has operated the Group's Hull Extra Care PFI. The return on assets of the subsidiaries has traditionally been higher than the return on the social housing business streams as they tie up less capital. As indicated in section 2 above, there are complex accounting rules for PFIs. During the construction phase, the accounting treatment has a significant adverse effect on the overall performance of the commercials with returns on assets reducing from 12.8% to 5.9%. As construction on the Hull PFI continues into 2016/17, a further reduction in return on assets from the subsidiaries is expected. Assets employed will peak in 2016/17 before the scheme moves into the operational phase and generates profits.

Data currently available limits the validity of sector comparison for 2015/16, particularly in light of the implementation of FRS 102. However, Global Accounts for 2014/15 gives an overall sector return on assets on a UK GAAP basis of 4.6%. On the same basis, Riverside's return was 5.6%.

04. Performance

Performance

Our Corporate Plan sets our three strategic objectives, and two routes by which we will achieve them (see page 5). The Board monitors the delivery of the plan against 27 strategic measures.

At the end of the second year of the plan (2015/16):

— Nearly half are on or ahead of the stretch targets we set for year two of the plan and nine are already ahead of the original three year target set. Progress has been particularly strong under the "resilient lives" objective and "effective business" theme. Targets for 2016/17 will now be adjusted to ensure we stretch ourselves in our final year of delivery.

— A further five measures whilst not at target, have shown an improvement over the course of the year.

— One measure is awaiting publication of CORE data (which is later than usual this year), whilst the remaining eight are below target and have shown a decline in performance over the year, usually marginal. These will be the focus for concerted effort over the remaining year of the plan.

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.

The baseline is the actual performance for the previous financial year (2014/15).

Connected customers

	Base	Target	Result
Customers			
Net promoter score	14	16	**23.1**
% of customers satisfied with repairs and maintenance	73%	76%	**75%**
% of key transactions accessed by customers online through self-service approach	n/a	16.5%	**18.0%**
% repairs completed without customers having to chase up the repair	96.0%	97.5%	**97.4%**
Taxpayers			
% of working age tenants in full time employment [3]	29.0%	30.0%	**19.8%**
% of new lettings to working age tenants in full time employment	34.0%	36.0%	**awaiting CORE**

[3]Note: The % of working age tenants in full time employment appears to have dropped significantly since September 2015. However, this may be a product of the way we are collecting this data, which is now through a continuous telephone survey, rather then through an annual postal survey. We will investigate this issue over the coming months and investigate whether the result can be weighted to provide a more comparable position.

— We continue to make steady progress in meeting this Corporate Plan objective, with our first truly digital services launched partway through the year, with tenants able to access their rent account and pay their rent online. Over 2,000 customers have signed up and nearly 20% of transactions for these services have come through this route, meaning we are well on the way to achieving our three year target of a third of transactions accessed on-line (where a digital service is offered).

— Satisfaction with our repairs and maintenance services has increased slightly to 75%, slightly short of target, but we expect to see the benefit of our shift to a proactive 'MOT' driven service across the whole Group and the extension of the reach of our in-house contractor Evolve reflected in satisfaction figures by the end of the plan period. Fewer than 3% of our repairs now require the customer to have to 'chase' completion, slightly below target.

— Overall our service modernisation journey continues, reflected in a sharp rise on our net promoter score to 23.1, well ahead of target. Plans for a new operating model based upon agile, targeted front-line delivery supported by efficient shared services, have now been approved and these will be implemented over the next two years.

Resilient Lives

	Base	Target	Result
Customers			
Number of customers assisted into paid employment	412	600	**602**
Annualised cashable gain (£m's) arising from money or affordable warmth advice	4.1	3.7	**6.1**
Taxpayers			
% tenants receiving support who are maintaining a clear rent account or reducing arrears	73%	60%	**71%**
% active leads for health and care contracts via tender or renegotiation	23%	25%	**26%**
% Care and Support turnover commissioned to deliver healthcare outcomes	7%	25%	**36%**
% Care and Support services funded by self payers	9%	10%	**10%**

— At a time of increasing hardship for our customers, we are delivering outcomes to support incomes and earning capacity that are well ahead of target. We have helped over 600 tenants into work, and have increased annual cashable gains to household incomes by £2m to over £6m. There is a clear business imperative to doing this, with over seven in ten tenants helped in this way retaining clear rent accounts or reducing their arrears.

— Our other main aim is to re-orientate our Care and Support Services towards health and social care outcomes, providing good value preventative services as part of a more sustainable business model for Riverside Care and Support. We are ahead of target, with over one third of new services over the year (by value) commissioned to deliver health and social care outcomes. This growth should be sustainable given that a quarter of active leads are for similar contracting opportunities.

Better places

	Base	Target	Result
Customers			
% tenants satisfied with quality of home	81%	83%	**86%**
% homes with SAP rating less than 60	14.5%	13.0%	**12.7%**
Taxpayers			
Number of affordable new homes committed	448	1,000	**1,126**
Number of Local Authorities where we own fewer than 50 homes	76	67	**77**
Funders			
Average NPV per property (HFAT) (£k)	33.4	34.0	**33.7**

— We have now committed more than two thirds of our three year development programme and identified firm opportunities for almost all of the remaining balance. We started over 1,100 new homes in 2015/16 (across all tenures), a record output for Riverside at a time of national housing crisis.

— Our stock of energy inefficient homes (SAP <60) has continued to fall, with investment in affordable warmth measures to over 1,000 homes completed. This represents a small part of our £37m annual decent homes programme, which continues to drive significant increases in tenant satisfaction.

— Our targeted approach to active asset management continues as we seek to renew our stock in neighbourhoods where we can make a real difference. Whilst we have disposed of over 800 homes, converting these into complete local authority exits has proved more difficult, with the number of authorities where we own fewer than 50 homes remaining virtually static.

— The average NPV per home continues to move in a positive direction, with modest growth in 2015/16 contributing to a 5% increase over the first two years of our current corporate planning period. This is our litmus test, demonstrating that our development, investment and disposal activities taken as a whole, are driving up the value of our stock portfolio.

Great team

	Base	Target	Result
Customers, taxpayers and funders			
% employees: confident in leadership skills of senior management	71%	75%	**70%**
% employees: agreeing my manager helps me fulfil my potential	72%	75%	**70%**
% managers and directors completing relevant training	62%	95%	**86%**
% of business units with up to date people plan	87%	100%	**87%**

— The proportion of employees with confidence in the skills and support of the senior team and their own line managers has remained fairly static, despite an ongoing focus on developing leadership skills across Riverside – reflected by a sharp increase in training completion rates albeit short of target. After such a significant improvement last year, this may reflect the impact of the major organisational changes which have commenced. All managers have personal leadership development objectives in their appraisals.

— The recent achievement of Investors in People 'Gold' and improvement in our Best Companies Index score (including a place in the Sunday Times 'not for profit' Best Companies to Work For list) provides external validation that our overall approach to developing a "great team" at Riverside is bearing fruit.

Effective business

	Base	Target	Result
Customers			
Investment in new and improved homes and extra services (£m's)	123.5	113.3	**128.3**
Taxpayers			
% Return on assets	3.7%	4.0%	**3.5%**
Net savings arising from the Think Forward programme (£m) (where "-" indicates a saving)	0.6	-0.1	**1.4**
Procurement savings (non repair) (£m)	1.9	1.0	**1.9**
Annual profit from commercials (£m)	6.1	5.6	**5.3**
Funders			
% Operating margin	25.3%	23.9%	**22.0%**

— This year we have been able to re-invest £128m in new homes and extra services, an increase of £15m more than target and an improvement on last year. Driving the value for money agenda, we have also generated higher than target procurement savings, by consolidating and re-negotiating existing contracts. Our commercial subsidiaries and joint ventures have also performed well, although not to target, in what has been a challenging commercial property market. The metrics show our strong performance in these critical areas.

— There are also areas in which we can still continue to improve. The savings from our Think Forward programme are below target due to costs associated with developing the new operating model which required additional investment of £1.5m this year, impacting net savings. Our return on asset performance is lower than target and base this year as surplus has been reduced as a result of incurring pension de-participation costs, a provision for the cost of implementing the operating model and a charge relating to increased SHPS deficit contributions. It is expected the return on assets will remain below target as further implementation costs are incurred to realise future efficiencies. Return on assets has been restated to adjust for the impact of FRS 102.

05. The future: driving further efficiencies

The future: driving further efficiencies

Whilst this evidence shows that Riverside has been making progress in containing and reducing costs and delivering better outcomes for stakeholders, we have now embarked on a radical transformation journey which will drive far more significant cost reductions over the next four years.

This is based on six target areas for savings which we call the six 'P's: People, Properties, Premises, Pensions, Procurement, and Personal Responsibility. We have expanded our housing services modernisation programme (Think Forward), and the centre piece is now a more comprehensive and ambitious approach which is rolling out a new target operating model across the whole organisation, founded on significant headcount reductions and further asset management savings.

We have developed the new model through a systematic review of every function within Riverside. This started by sharpening our future offer to customers, identifying fringe services which are no longer a priority. A process to re-define each service area is now underway, with the aim of driving quality and consistency of customer services, and reducing duplication by ensuring services are aligned to support our three business streams – social housing, home ownership and care and support, supported by our commercial activities. Services will be delivered across an extensive geographical footprint with shared services centred on four regional hubs serving all the business streams.

Work began in summer 2015, and the Board approved a business case in February 2016. The implementation of this bold new model with its associated organisational design and change will take four years. The first wave of change has commenced and will dominate the current year. In the process we will come full circle and integrate the work undertaken as part of Think Forward to ensure that Riverside delivers better, more targeted and efficient services for customers, increasingly based on digital transactions.

The transformation programme itself requires significant upfront 'investment to save' in better systems, skilled people and reconfigured premises, and the Board has approved investment of £25m over five years. However we are still projecting to generate net savings across all our activities of £4m in 2016/17, to mitigate lost rental income of £9.6m. This is part of a strategy to deliver £32m of annual recurring savings by 2020/21, with savings 'front loaded' in order to establish momentum. We will do this by:

- Completing a major organisation design and restructure exercise across the whole Group to deliver the new operating model. This will result in a slimmer organisation with 250-300 fewer staff and net recurring annual people savings of £13m by 2020/21. Over 60% of all people based savings will be generated in the first two years, with projected savings (gross) of £4.7m delivered in 2016/17.
- Extending the work of our highly successful central procurement team to a broader range of services, so that they deliver £5.3m cumulative savings (cash and cost avoidance) over the three year corporate plan period to March 2017, exceeding the original target by over 125%.
- Securing c£14m net asset management savings over the next three years (from 2016/17).
- Completing our review of pensions. Riverside has closed and exited a number of historic defined benefit pension schemes and discussions are ongoing with the remaining Local Government Pension Schemes on the arrangements for exit.

Asset management savings

Asset management is one of the biggest areas of spend across the Group, and so the efficient planning and delivery of our services and programmes is critical to reducing costs. That is why 'Think Homes' is a distinct part of our transformation process, with a direct line of accountability to the Board. This programme has already delivered nearly £2.8m of savings in 2015/16.

Further savings of c£6m per annum have been built into financial plans from 2016/17 onwards. These savings are predicated on achieving 7.5% reduction in our responsive and void repairs costs, and 7.5% saving to our programmed repairs costs. To generate these savings a £4m investment in additional staffing to drive through the changes will be required.

Following careful cost analysis with Evolve (our in-house contractor) these savings will be achieved through a combination of approaches including:

- Maximising the use of Evolve to deliver responsive, void, cyclical and programmed works across the Group. 2015/16 saw the successful expansion of Evolve in the North East and Hull, and this will continue as its areas of operations expand into Cumbria and our South and Central region. In addition to achieving economies of scale, maximising the use of Evolve also delivers significant VAT savings – £3.2m in 2015/16.
- Further roll-out of our proactive approach to responsive repairs through our property MOTs. This is being applied to homes managed by Riverside Care and Support from 2016/17.
- 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.
- Smoothing Programmed Repairs planning to maximise efficient delivery and drive further savings through our supply chain relationship with suppliers such as Wolseley.
- Reducing on-costs through undertaking the bulk of stock condition surveys (including Energy Performance Surveys) and quality assurance inspections in-house.

06. Conclusion: realising the gains

Conclusion: realising the gains

Reflecting on our performance overall, we are in a strong position to demonstrate continuing gains in value for money for all of our stakeholders: customers, the taxpayer and funders.

As expected, both our operating surplus and margins have declined compared to 2014/15[4]. But appearances can be deceptive, and this has been part of a financial strategy to strengthen the business by investing early in one-off items associated with our transformation programme and pension liabilities. We have been able to do this because of our underlying financial strength, and without these adjustments both measures would be ahead of budget, partly driven by a combination of the genuine cost efficiencies and reduced cash leakage demonstrated in this document. Our full financial performance is set out in our Financial Statements for the year ending March 2016.

In simple terms, this ongoing financial strength has enabled us to increase investment in new homes, major repairs and extra services for tenants – we have now invested 78% of our reserves in these activities, an increase over the 74% reported last year. Over the last year, we have started building over 1,000 homes, and are planning for a higher level of development in our next business planning cycle. We have also chosen to protect key discretionary services such as employment and money advice, both of which are outperforming their targets. This is despite beginning to pare back operational costs as we roll out a new target operating model. Our focus is on driving out duplication and inefficiency, rather than cutting the services our customers have told us are important. Our vision of 'transforming lives, revitalising neighbourhoods' has not been compromised by the challenging times in which we find ourselves.

However given the significant financial challenges of the next four years, our approach remains a long-term one. At a time when we are building more, strong operating surpluses ultimately temper our borrowing and constrain the growth in our gearing, ensuring that Riverside can face the future on a sustainable footing.

[4] Note: 2014/15 figures in the financial statements have been restated to reflect the impact of accounting changes (FRS102)

Get in touch or find out more

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