Housing Solutions Value for Money self-assessment

For the year ended 31 March 2017

Our year in summary

- Increased our turnover by 6% from £43 million to £46 million
- Increased EBITDA as a % of turnover from 55.1% to 58.4%
- Operating cost for social lettings reduced 3% from £14.3 million to £13.8 million
- Retained our A+ credit rating and re-financed our loan portfolio
- 89% of customers said that their rent provided VfM
- Reviewed the commercial viability of our DLO and community services departments.
- Invested £22.3 million in new homes
- Reduced the number of repairs by 13% whilst maintaining customer satisfaction
- Generated an additional £146k for customers through benefits advice.

6%

Increased our turnover by 6% from £43 million to £46 million

For every £1 we spend

- 41p New homes
- 29p Interest
- 13p Management and other operating expenses
- 5p Planned maintenance
- 6p Routine maintenance
- 3p Estate Based costs
- 1p on Other expenses
- 1p on IT
- 1p Purchase of other assets

41p

Spent on new homes

Our approach to Value for Money

A clear vision

Housing Solutions works in an area of increasingly low affordability. Local house prices are 12 times the average salary and private renters can expect to spend £959 a month on their rent, representing a substantial 40% of their income. We passionately believe in access to safe, secure affordable housing to support individuals and families to flourish and live to their full potential. That's why everything we do is focused towards delivering more homes and happy customers.

Building more homes

In 2014 we set ourselves a target of delivering 1,600 new homes by 2020 and so far we have over 1,200 of those homes either delivered or in the pipeline.

To continue to support the delivery of new homes we have built our business model on the following principles:

- **Strong financial performance**
- **Happy customers**
- **A smarter working operating model**
- **Additional income generation**

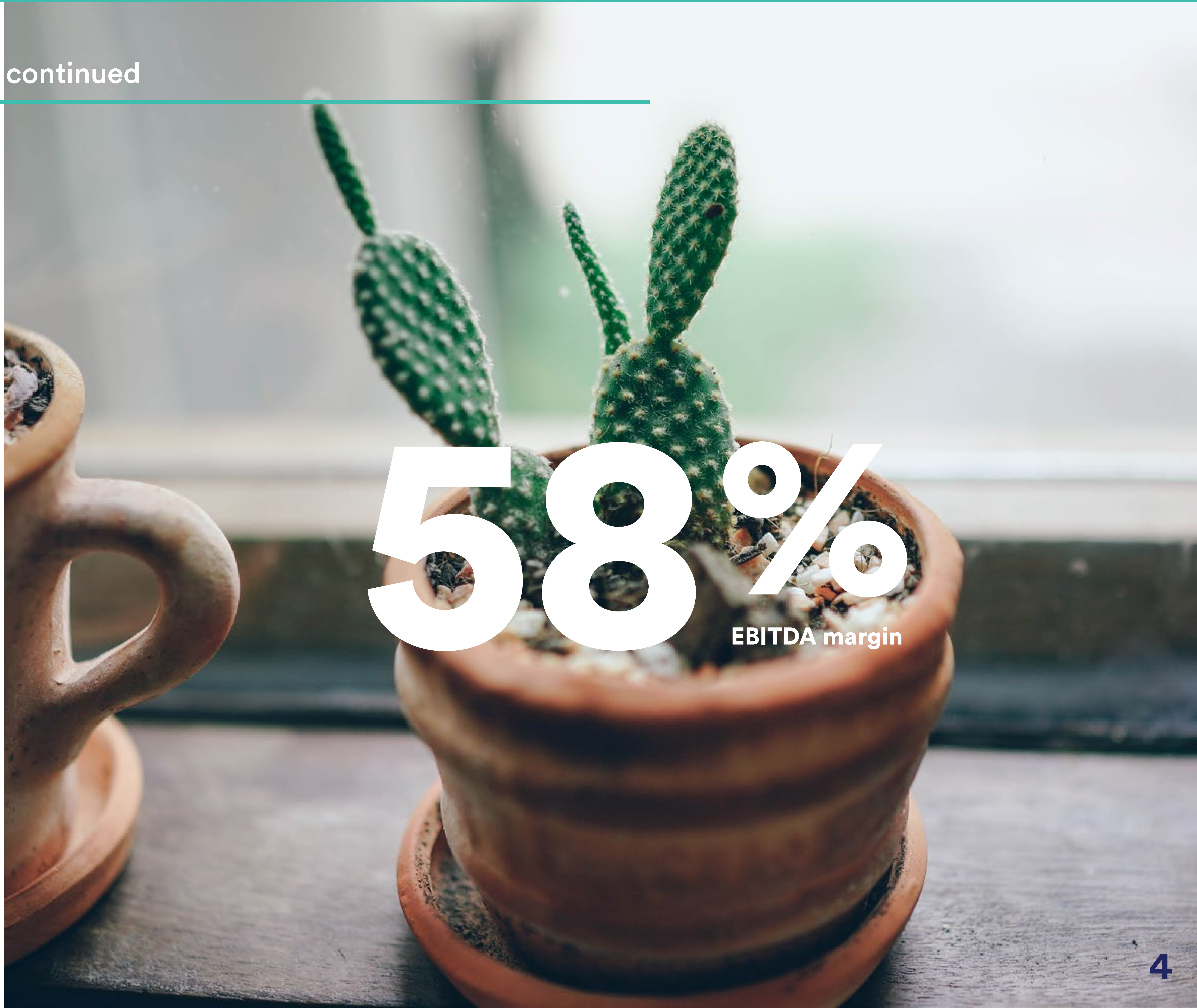
Our approach to Value for Money continued

Strong financial performance

We are proud of our exceptionally strong 58% EBITDA margin. Our lean approach is supported by an efficient team of highly skilled and dedicated staff and low operating costs.

Our performance is viewed favourably by our credit rating agency who gave us an A+ credit rating in March 2017 which will enable us to negotiate some of the most favourable rates available in the market. We reinvest all of our surpluses in delivering new homes and improving those housing existing customers.

In 2016/17 we renegotiated our debt terms with the bank lenders to move to a 'net debt per unit' covenant which provides us with more development headroom and greater Value For Money from our existing debt as it moves us away from the more volatile gearing covenant we previously had.



Our approach to Value for Money continued

Happy customers

Customers tell us they think their 'rent provides value for money' (87% Q1 performance) but that there is work to be done on the 'overall service' that we provide (85% Q3 performance). We believe a strong driver for the quartile three performance is not always 'getting it right first time', so we're working on improving our performance in this area and hope to be at quartile one by 2020, which we expect to be around 90%.

We commission an annual 'Have Your Say' survey alongside a transactional tracker survey throughout the year so that we can identify and address problems quickly. We are also working with our newly formed Service Improvement Team (SIT) comprising both Housing Solutions staff and customers to focus on improving customer satisfaction.

90%

performance rating by 2020

Our approach to Value for Money continued

A smarter working operating model

We continue to review our services to ensure that they are efficient, modern and contribute to our strong surpluses. We undertake 'Smarter Working Review' of high cost and low performing areas and over the past two years this has enabled us to:

- Reduce rent arrears by 36%;
- Reduce the cost of our estate services from £195 per property to £178 per property whilst improving customer satisfaction; and,
- Reduce the number of responsive repairs carried out by 13% whilst maintaining satisfaction levels.

We also make sure that we spend our money prudently and this year we added a further £274k to the £239k saved in 2015/16.

Our approach to Value for Money continued

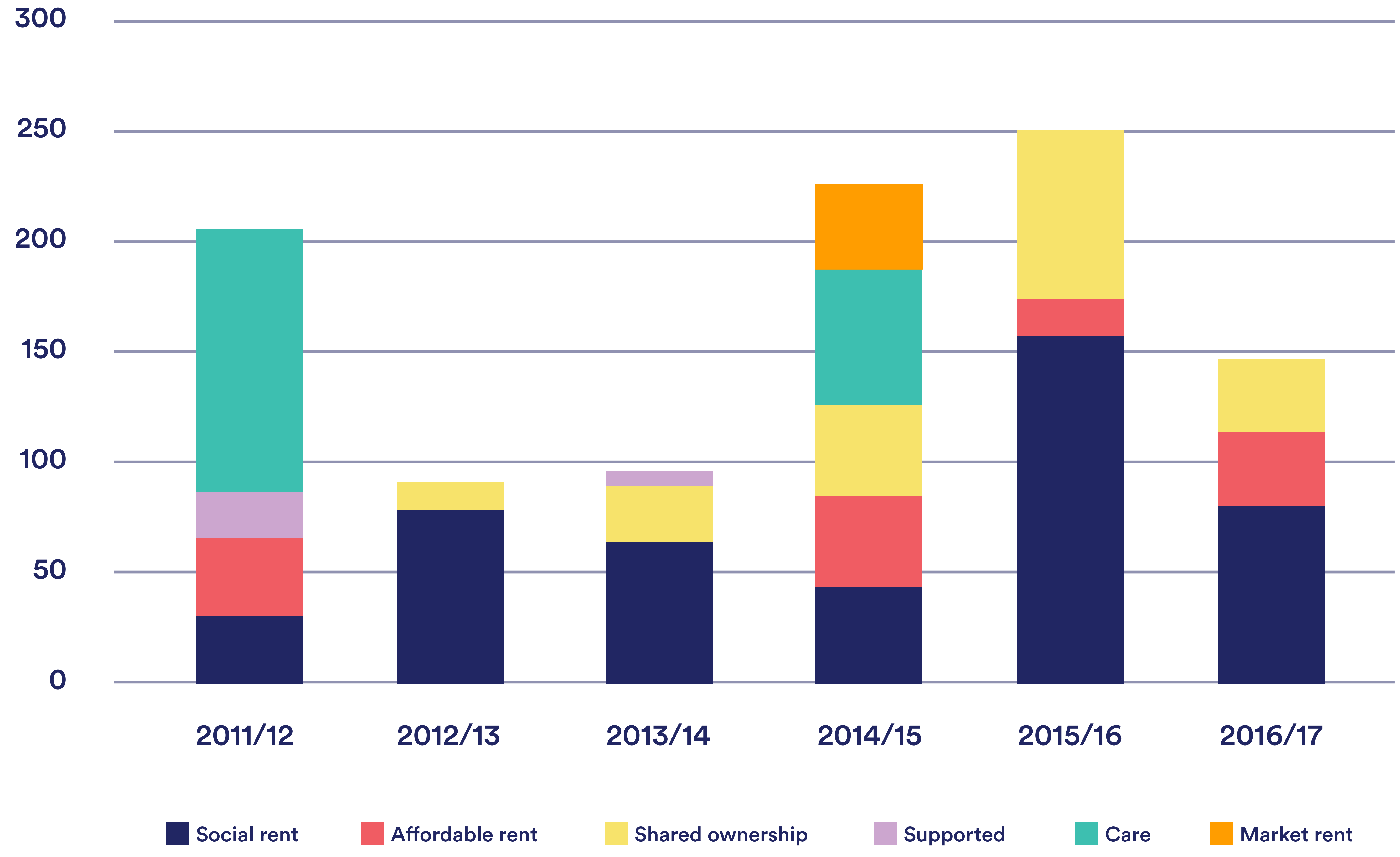
Additional income generation

We achieve a considerable local impact for a medium sized organisation. In addition to the services that we provide to our customers, we are also landlords to private care providers; work with pension funds to deliver market rented housing and provide a responsive maintenance service to three other landlords.

In 2017/18 we will be reviewing our approach to additional income generation and reviewing our 'Non Core Activity Policy'. Within the new policy we adopt a revised appraisal and risk assessment process linking more directly into the business plan and ensuring that we're working to our Return On Investment (ROI) targets.

1. Building more homes

New homes by type



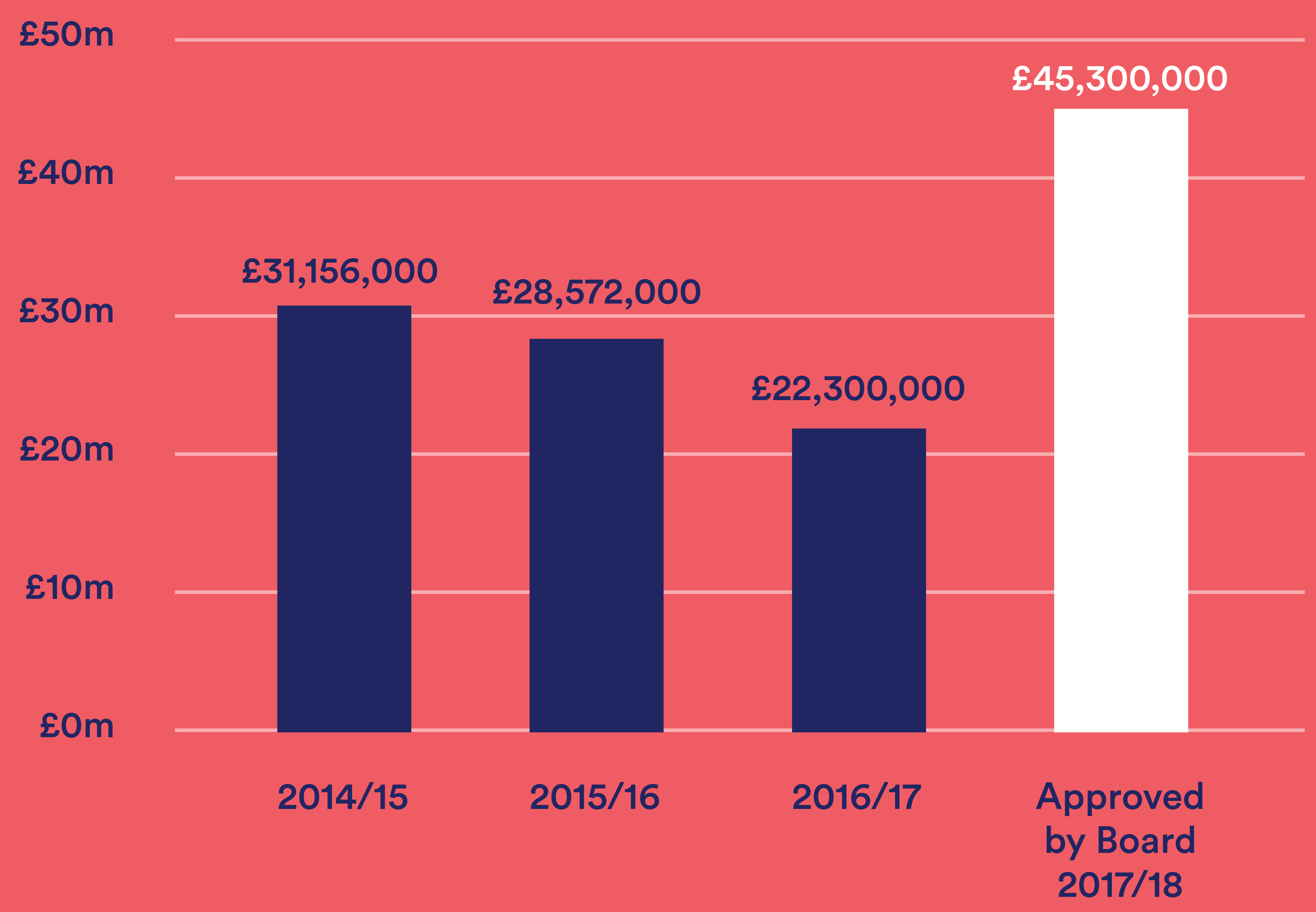
The local region is only building 50% of the required number of homes to new household formation. With average house prices of £550k in 2015 which requires a £125k income[1], 87% of 18-37 year olds in the South East cannot afford to buy a property. The average house price to average income ratio is 12:1 across the Local Authorities areas in which we operate. The delivery of new homes of the right mix is therefore a fundamental focus for Housing Solutions and is at the core of our VfM activities.

Our previous strategic aim of delivering 2020 homes by 2020 was set before the Government changes to the social housing rent regime and included a funding gap of 400 homes. Given the current economic and political environment and the changes announced in 2015, we took the opportunity to review our target in 2016/17 and have changed our strategic aim to 1,600 new homes by 2020. We have made strong progress since setting the original target in 2014 and currently have 1,234 homes either delivered or in the pipeline and are very much on track to achieve the 1,600 target.

[1]£125k income based on 80% LTV mortgage at 3.5 x income.
All data from NHF Home Truths 2016/17

Building more homes continued

Investment in new homes



In order to ensure that our funding assumptions reflect financial conditions and to ensure that our prices for new development opportunities are competitive, we keep our financial assumptions for new developments under regular review. In December of 2016 we reviewed our appraisal assumptions in the light of increasing inflation and to reflect our actual experience of stair casing and initial equity share on Shared Ownership properties.

From a slow start in 2016/17 where only 77 new units were secured, we have recently seen an upturn and by April 2017 we had secured a further 225 units over eight schemes.

We set ourselves the ambitious target of delivering 189 new homes but fell slightly short of this with 148 units in the financial year as developers slowed down. The remaining 41 units have since been delivered in early 2017/18.

Building more homes continued

New homes geography

Local authority	Social rent	Affordable rent	Shared ownership
Royal Borough of Windsor and Maidenhead	6	0	10
Wokingham	54	25	20
High Wycombe	0	9	4
Slough	20	0	1
Total	**80**	**34**	**35**

Although we delivered fewer homes than originally planned we have maintained our position within the top quartile for the number of units developed as a percentage of current stock.

Building more homes continued

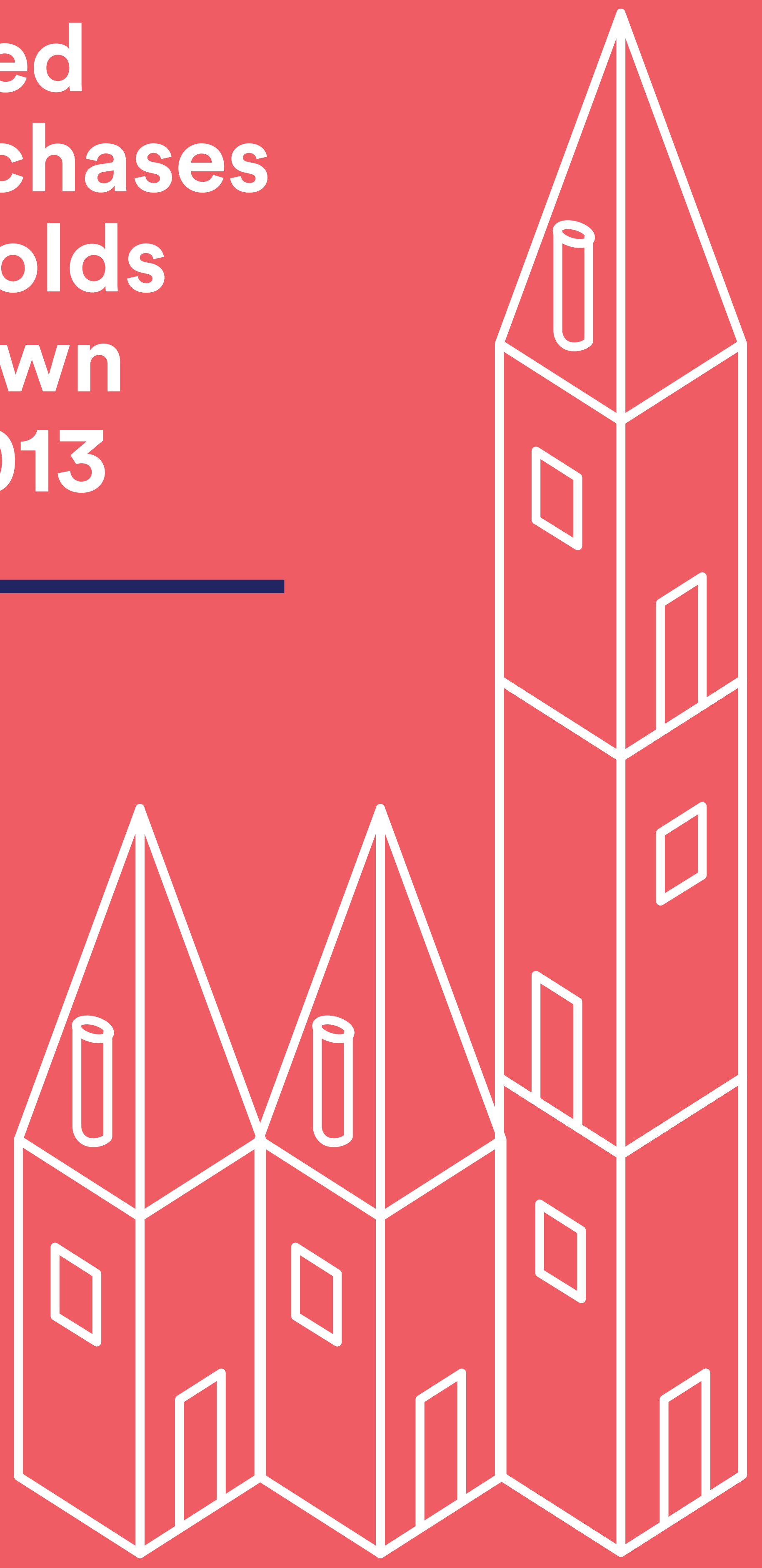
New homes

	Current	Progress	Benchmark	Comparison
No. of FTE staff involved in the delivery of 100 development units	2.9	↓	2.6	
New units delivered in year as a % of current stock	3.7%	↓	2.3%	
Satisfaction with new homes	100%	→	98%	

We continue to administer the 'Do It Yourself' Shared Ownership (DIYSO) scheme in the Royal Borough of Windsor and Maidenhead. Through this scheme we have helped complete purchases for 30 households to own their own home since 2013 and have received £1.836m from the Royal Borough to help support those purchases.

This year the Royal Borough has identified an additional £500k for a DIYSO scheme specifically targeted at key workers in the local area. As with the wider DIYSO scheme, the Local Authority refers local residents to our New Homes Sales Negotiator who works with an independent financial advisor to encourage the residents to maximise their investment.

We have helped complete purchases for 30 households to own their own home since 2013



Development performance

Each year we set ourselves challenging targets. The table below shows how we performed against last year's objectives.

Objective	To deliver 189 new homes.	To achieve approval for 175 new homes.	To continue to deliver on our Happy Customers and New Homes goals to ensure that the handover and defect periods run smoothly.	To investigate new Low Cost Home options.
Outcome	We handed over 148 new homes.	We got approval for 77 new homes.	100% customer satisfaction 12 months after moving in.	Investigations complete.
Comments	Developer progress on social units appeared to slow down as they focused on market sale units. All remaining units were delivered in Q1 2017/18.	Market changes led us to revise our assumptions at the end of Q3 and by the end of Q4 we had a further 225 units being prepared for Board approval.	Training with our contact centre and works planners has helped to deliver strong customer satisfaction.	We have researched a number of new construction types and visited several modular factories. We are still working with the Local Authority to find a suitable site to gain planning permission.

Below are our development priorities for 2017/18

- Increase the supply of new homes through the most efficient use of our own land and modern building methods. We aim to deliver 159 new homes in 2017/18.
- Maintain effective partnership working and increase the supply of new homes through Section 106 agreements.
- Meet the local housing demand for shared ownership and other home ownership options provided that the housing market remains strong.
- Increase staircasing within our existing shared ownership portfolio.

2. Strong financial performance

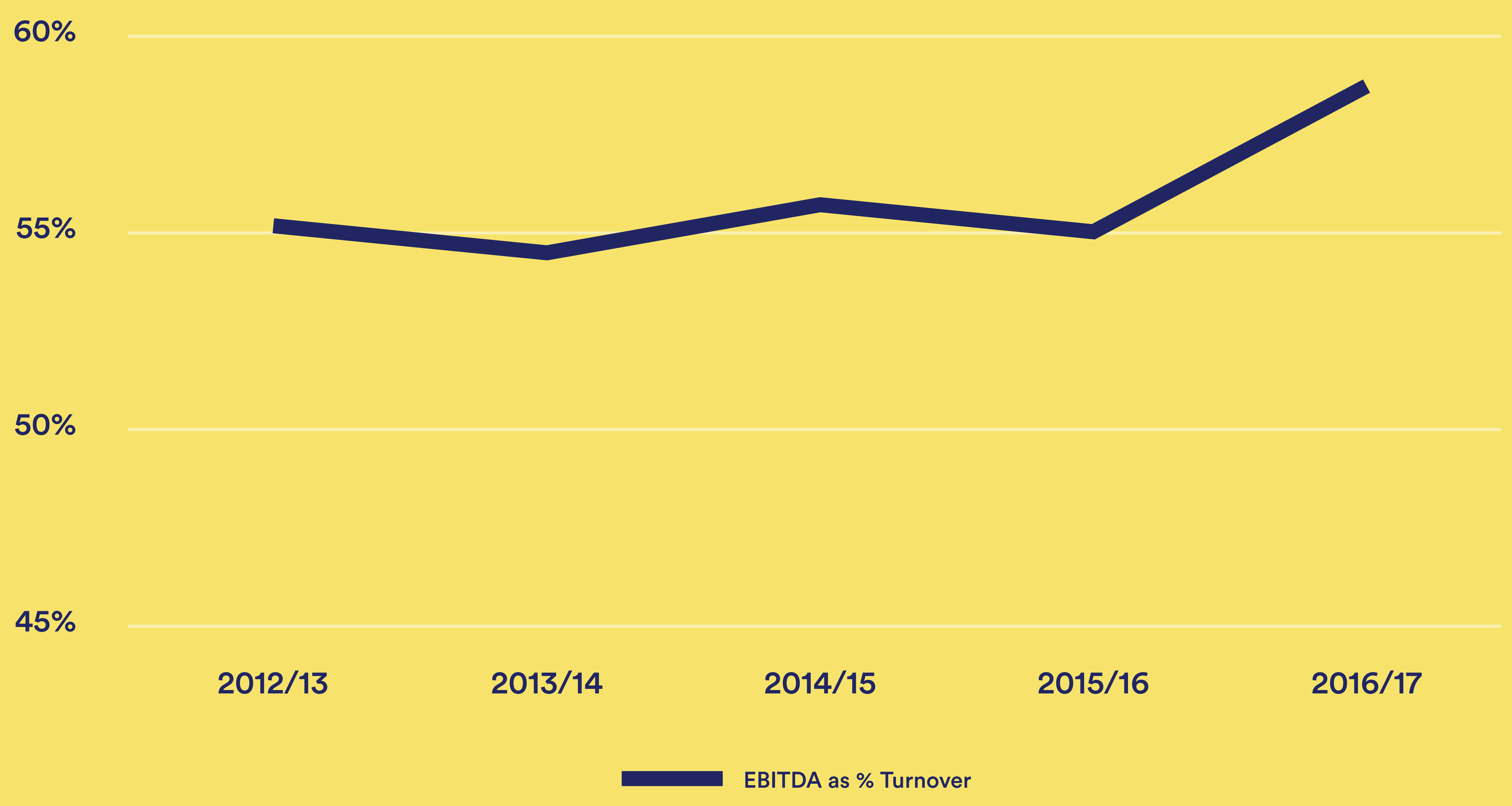
Financial highlights

	2012/13	2013/14	2014/15	2015/16	2016/17
Turnover	£31.2m	£34.4m	£36.7m	£43.3m	£45.9m
EBITDA	£17.3	£18.7m	£20.4m	£23.9m	£26.8m
Operating surplus	£13.2	£14.4m	£15.7m	£19.3m	£21.7m
EBITDA as % turnover	55.4%	54.4%	55.6%	55.1%	58.4%
Total stock	4,913	4,937	5,148	5,314	5,415

The 1% per annum reduction in rents announced by the Government in 2015 has reduced the value of our stock by £42.6 million as well as reducing our revenue. However, due to our lean operating model, the development programme we have delivered so far as well as some efficiency savings we have been able to mitigate the effects of this and continue to show bottom line growth. By restructuring our existing debt facilities with our major bank lenders, we have been able to maintain our development headroom and have also mitigated the risk of future reductions in stock valuation from government measures by moving to a Net Debt per Unit covenant instead of a gearing covenant linked to balance sheet valuation.

Strong financial performance continued

EBITDA as % turnover



Our turnover increased by

6%

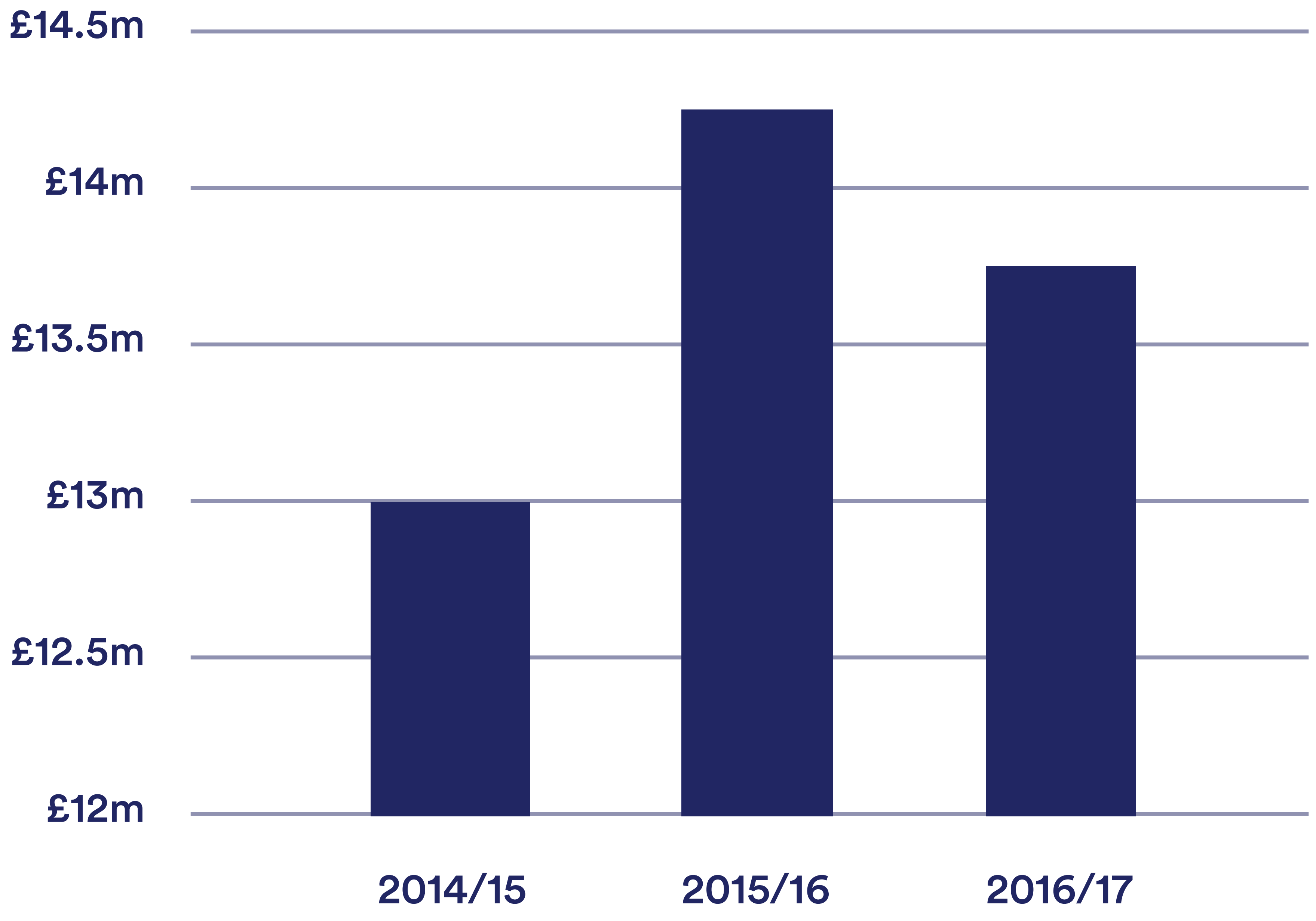
from £43m to £46m

Our ambitious development goals and minimal funding through grant mean that we are almost entirely reliant on external funding and our operating surplus to invest in new homes. In order to support this we need to generate strong surpluses. In 2016/17 there was a 12% increase in EBITDA which was achieved through a combination of controlling costs and delivering a higher level of Shared Ownership unit sales. Our turnover increased 7% from £43 million in 2015/16 to £46 million in 2016/17 whilst EBITDA increased from 55.1% in 2015/16 to 58.4% in 2016/17. This margin keeps us consistently at the top of our peer group, as well as near the top of the table of all housing associations nationwide, and ensures that we can invest in growth and servicing the debt that supports new home delivery.

Strong financial performance continued

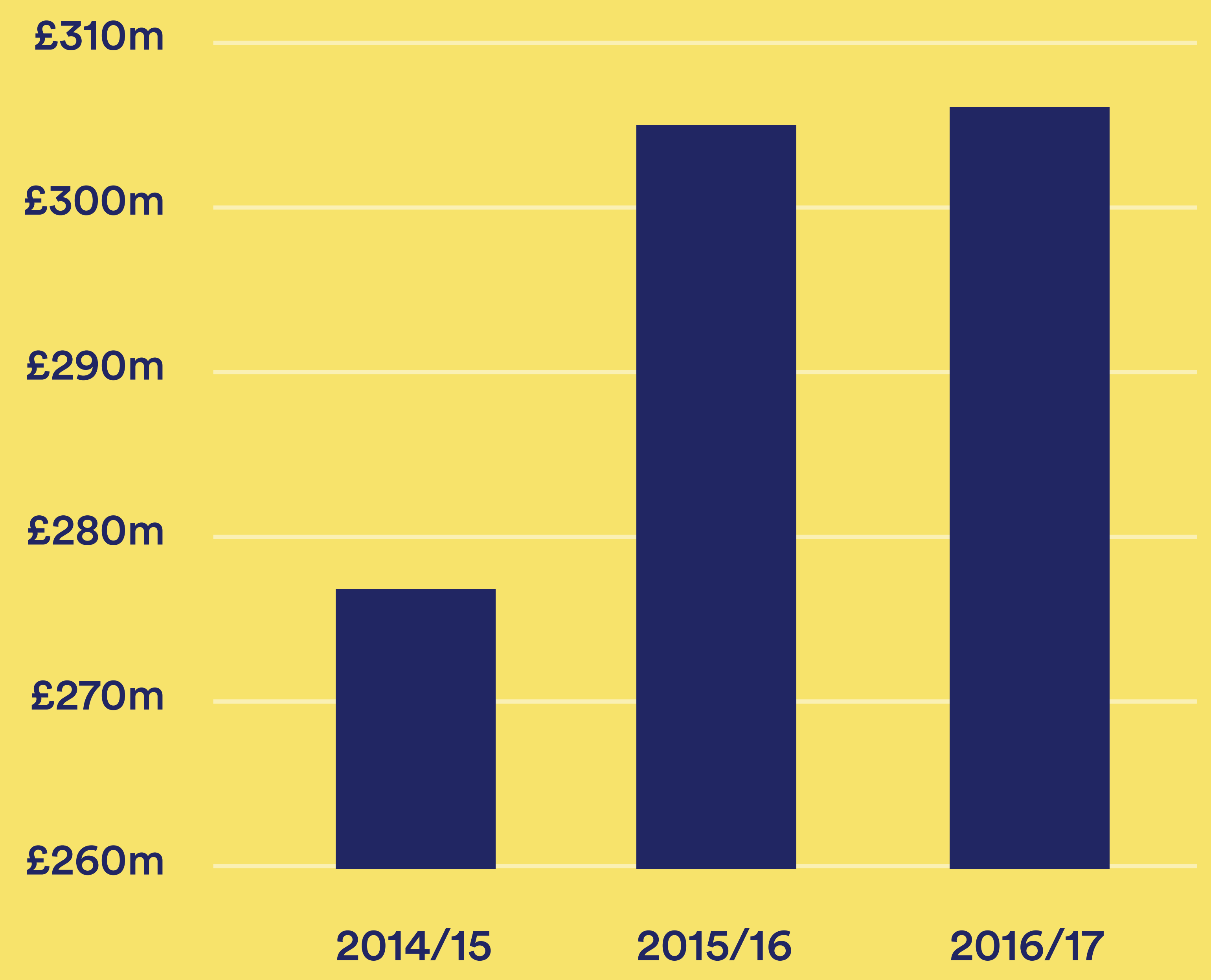
Operating costs on Social Housing Lettings decreased 3% from 2015/16 to 2016/17 owing to strong budget management.

Operating costs on social housing lettings (excl. depreciation)



Strong financial performance continued

Debt



Debt and funding

During the year we maintained our healthy A+ credit rating with Standard and Poor's.

We did not increase our debt level in the year and continue to maintain a healthy cash balance of circa £60m for future development investment.

Stock optimisation

In 2016/17 we continued to review properties with a low or negative Net Present Value where the cost and opportunity cost of holding those investments were outweighed by the potential value we could release through a sale and reinvestment in new stock. This year we sold 2 properties for £1.1m which had a combination of high market values and below average Net Present Values (NPV) and/or energy efficiency. The surplus made from the sale of the properties will be reinvested into delivering more homes.

We have continued to develop our in house NPV model which has been validated by Savills and shows an average NPV value of £52,556. The model has identified 61 care or supported units which make a negative contribution to our portfolio. We have also identified a further 127 units which have a low NPV of less than £20,000. These units are made up of small care homes, supported living, caravan sites, flats which have high communal capital works due within 30 years and a block of flats which offers licenced shared accommodation.

A+

Strong financial performance continued

Investment vs. rent

To support our social nature we have also developed a ‘sustainability index’ within our NPV model which considers a number of housing, health, employment, crime and living environment measures calculated by the Office for National Statistics (ONS).

Our use of the ONS Indices of Multiple Deprivation data set combined with our internal satisfaction data allows us to understand the wider socio-economic culture and impact of our work in a particular area.

Strong financial performance continued

Each year we set ourselves challenging targets. The table below shows how we performed against last year's objectives.

Performance against 2015/16 objectives

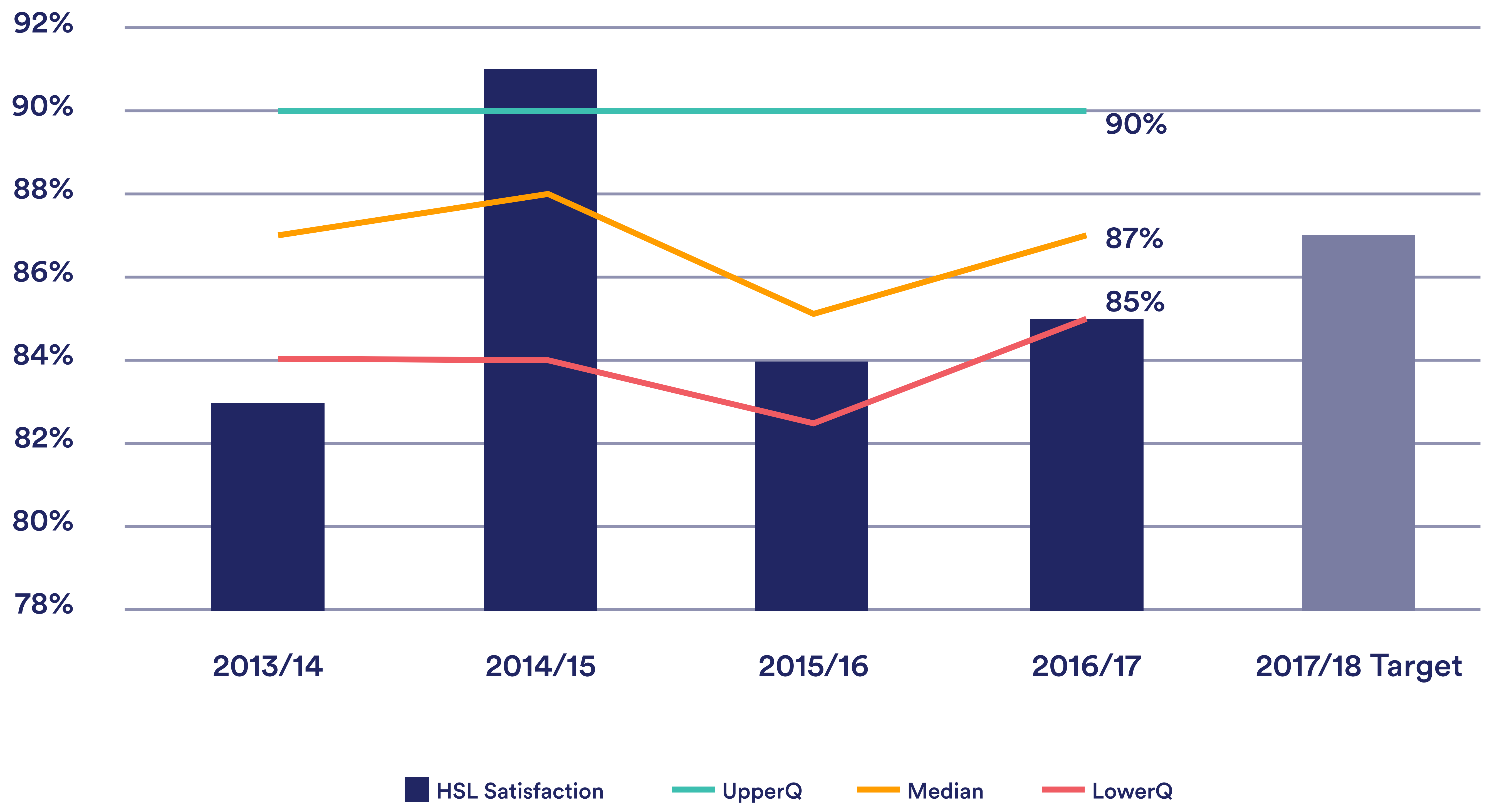
Objective	Outcome	Comments
Reduce operating costs excluding depreciation by 6%.	Our operating costs on social housing lettings activity was reduced by 3%.	We achieved the reduction operating costs through a combination of increased units and strong budgetary management.
Review our funding strategy.	We maintained our A+ credit rating and changed the basis of our financing from gearing covenant to a 'net debt per unit' covenant.	Going forward this will help us with pricing on our debt and has provided some more headroom and reduced gearing risk.
Continue to attract direct investment in new homes and act as managing agent.	We have been awarded a contract to manage and maintain all affordable housing sites built by RBWM in the next 5/10 years. Our maintenance contract with One Housing has been extended until March 2018. We agreed a new contract with 'Launchpad' to provide an out of hours maintenance and duty supervisor service.	In 2017/18 we are reviewing our 'Non core activity' policy and will refocus our approach to generating additional income.
Disposal of units with high open market value and poor NPV performance.	We disposed of two properties, which generated an additional £1.1 million for reinvestment in new homes.	We will continue to dispose of further properties which are poorly performing. We will be building a new options appraisal of low NPV sites in 2017/18 to continue to generate funds for new homes with more efficient maintenance and energy performance.

Below are our financial performance priorities for 2017/18

- Agree long term pension deficit management strategy
- Review properties with a low NPV and release for sale and reinvestment in new lower maintenance cost homes
- Ensure that commercial activities support our corporate aims.

3. Happy customers

Overall satisfaction



Each September we commission a 'Have Your Say' Survey with an external supplier. The survey asks five standardised HouseMark STAR Benchmarking questions along with supplementary questions based on our objectives. We also carry out transactional 'tracker surveys' throughout the year to allow us to quickly identify any problems and take remedial action.

Last year we reported a drop in satisfaction relative to the 91% we achieved in 2014/15. However, in context, 2014/15 appears to be an outlier and satisfaction appears consistently between 82-85% with an improving trend. We are aiming to increase customer satisfaction to 87% in 2017/18 with a long term goal of achieving top quartile performance. This year we will focus on the development of our digital service offer which we are confident will increase customer satisfaction with more consistent and automated processes. In February 2017 we launched our new website, which has new functionality to allow customers to manage their tenancy online.

In order to continue to improve the services that we offer, we measure and review our services against external benchmarking information.

Happy customers continued

Below is a breakdown by department on the areas where we're performing well (Quartiles 1 and 2) and the areas which will be a focus for improvement in the coming year[2] (Quartiles 3 and 4).

Customer service

Performing well		Room for improvements	
72% of customers are satisfied that their views are taken into account	Q2	85% overall customer satisfaction	Q3
87% of customers think that their rent provides value for money	Q1	89% of calls answered	Q4
67% of customers were satisfied with the way their complaint was handled, up from 64% in 2015/16	Q2	Average 71 seconds to answer inbound calls	Q4
73% of customers were satisfied with the outcome of their complaint	Q1		

Responsive, voids, planned and cyclical maintenance

Performing well		Room for improvements	
86% of customers are satisfied with the quality of their home	Q2	78% of customers are satisfied with the repairs and maintenance service they received	Q3
100% gas safety compliance	Q1	21.96 days average re-let time	Q4
Average of 7.38 days to complete repairs, down from 8.15 days in 2015/16	Q2	1.41% rent loss due to voids	Q4
98.79% of appointments made are kept	Q2	£300 spent per property on cyclical maintenance	Q3

Housing services

Performing well		Room for improvements	
2.19% of current tenant arrears	Q2	1.88% former tenant arrears	Q4
£146k of additional income generated for residents through our Financial Inclusion Service	N/A	0.35% of evictions due to rent arrears as a % of all tenancies	Q4
473 tenancy audit visits	N/A	88.16% satisfaction with neighbourhood	Q3
		66% satisfaction with ASB complaint outcome	Q4
		82% satisfaction with ASB complaint handling	Q3

[2]HouseMark performance data in this section is taken from 2016/17 benchmark data, LSVT Southern, 2500-7500 units

Happy customers continued

Each year we set ourselves challenging targets. The table below shows how we performed against last year's objectives.

Objective	Roll out our new 'POD working' approach, which puts staff into multi disciplinary teams to look after geographical areas of stock rather than working in traditional functional teams.	To begin the initial phases of a new CRM system project, which will be delivered in 2017/18.	Projects in the Asset Management department to improve efficiency.	To deliver a new website with more online functionality to allow customers to manage their account online and find the answers they need quickly.
Outcome	PODs have not been rolled out.	A new CRM project has not been delivered.	13% reduction in repairs.	Project complete.
Comments	We reviewed our approach to POD working and decided that staff were more effective working in functional teams. We are refurbishing our offices in 2017/18 and the new plans have been designed with team working and communication in mind.	The CRM project was put on hold while we reviewed our options. In 2017/18 we will make a decision on our approach to CRM and in the meantime we are making improvements to our existing system.	We reduced the number of repairs by 13% from 19,727 to 17,170 whilst maintaining customer satisfaction levels with repairs.	We delivered our new website in February 2017, which included an online portal to allow customers to make payments and log their repairs online. In 2017/18 we plan to incorporate out sales website into the new website, which will save us £6k p.a in addition to offering our customers a better service and enable them to be digital from day one.

Below are our development priorities for 2017/18

- Implement our new Service Improvement Plan with the aim of improving customer satisfaction to 87% in 2016/17. As part of the plan we will focus on:
  - Getting the basics right
  - A digital first approach
  - Complaints
  - Great first impressions
- Maintain our customer satisfaction levels.
- Make improvements to existing CRM system.
- Continue to look for more efficient ways of working.

4. Smarter working operating model

Good governance

In order to comply with the Regulatory Standards, Housing Solutions has a strong governance culture to protect both assets and customers.

To maintain high standards:

- Our Senior Management Team review our performance against the Consumer Regulatory Standards quarterly and report their findings and actions to the Executive Team.
- A comprehensive and detailed Health and Safety report is presented to our Executive Team monthly.
- We retained our G1/V1 status in November 2016.
- We provided training on the HCA Regulatory Standards and Registered Provider governance requirements to all key employees.
- We have undertaken a comprehensive review of all governance and risk management processes in 2016/17 to strengthen our approach.
- We carried out a skills matrix review of our Board and individual skills assessments of all Board members to ensure that they are able to support the continued success of the organisation.
- We reviewed our Value for Money, Asset Management and Development strategies to ensure that they are dynamic, efficient and provide a clear direction for the next three years.

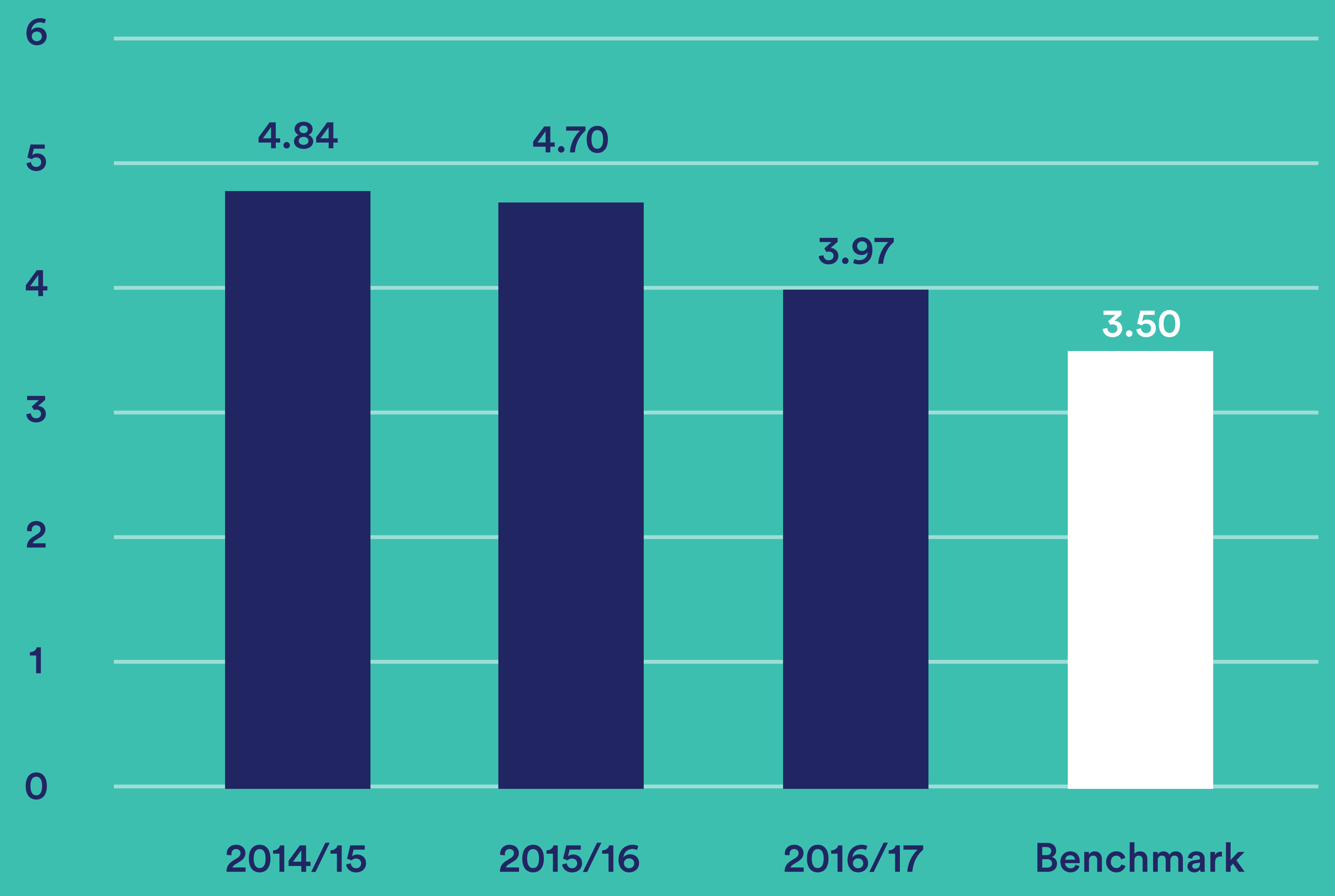
Smarter working operating model continued

Smarter working operating model

- In 2016 we carried out independent reviews of our Direct Labour Organisation (DLO) and our Care and Support services in order to gain a 3rd party view on the financial viability of the business areas and identify any weaknesses.
- The Care and Support review identified some areas of the service, which provided some of our strongest margins and yields but also identified areas which require close strategic management. In 2017/18 we will improve our business planning in the Care and Support function to ensure that the activities in that area continue to support our corporate aims.
- The DLO review highlighted a number of areas of inefficiency as well as making some recommendations around simplifying a complex financial reporting system. We have since developed a DLO Business Plan to address the areas highlighted in the review and are making good progress.

Smarter working operating model continued

Average jobs per property (excl. Care/MR)



Efficiency savings

We built on our procurement savings of £239k delivered in 2015/16 with a further £274k savings in 2016/7.

In 2015/16 we reported improvements to our arrears processing and we developed this further in 2016/17 by introducing an automated workflow, which will reduce the amount of time our Tenancy Officers spend on their weekly arrears list by 50%. Our current arrears continue to be below the median of our cohort group.

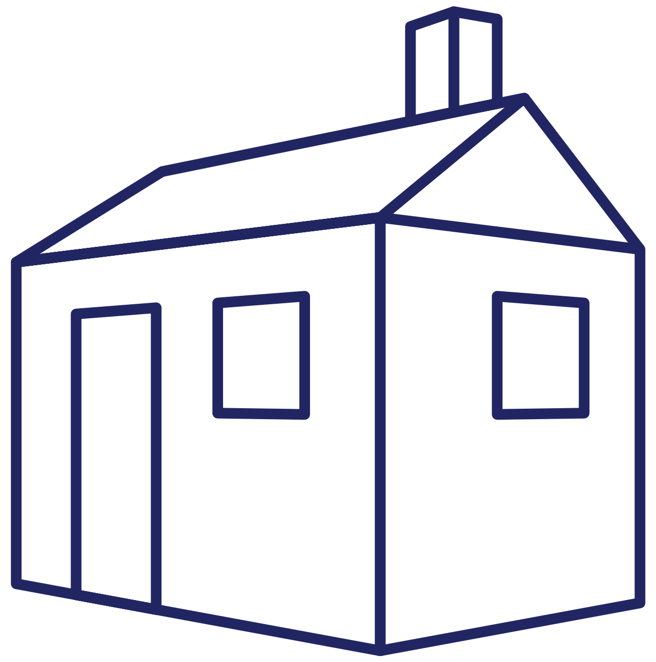
Last year, we set ourselves the target of reducing our average number of jobs per property from 4.7 in 2015/16 to 4. We achieved 3.97 by the end of 2016/17 and reduced the number of repairs carried out by 13% from 19,727 to 17,170 by focusing on our repair responsibilities and rechargeable repairs. At an average cost per job of £140 this represents a £358k saving. However, we struggled to reduce our overheads as the number of jobs reduced and so the majority of the savings were absorbed within the business. Our DLO business plan focuses on realising these savings in 2016/17. Despite the reduction in the number of jobs undertaken, our customer satisfaction remained level at 79% whilst transactional satisfaction with the most recent job completed increased from 88% in 2015/16 to 90% in 2016/17.

£239k

of procurement savings delivered in 2015/16

£274k

of procurement savings delivered in 2016/17



Smarter working operating model continued

Staff satisfaction

We carry out quarterly 'pulse' surveys to ensure that staff continue to be happy and motivated in order to achieve our strategic goals. We have made some substantial improvements to staff satisfaction over the past 12 months, particularly when it comes to working well together.

We review the pulse survey comments along with the satisfaction levels and have developed an action plan with both short and long term objectives to improve overall staff satisfaction. The actions are developed and delivered by our Senior Management Team and overseen by both our Executive Team and our staff 'voice' group.

	Q4 2015/16	Q4 2016/17
Work well together	43%	73%
Happy to work for Housing Solutions	81%	80%
Proud to work for Housing Solutions	81%	89%
Recognised for the work done	58%	65%

We also compare our data to HouseMark peers and while there is some room for improvement in our staff turnover levels we are pleased to report a significant improvement in staff sickness levels.

	Q4 2015/16	Q4 2016/17	
	Performance	Performance	Quartile
Staff turnover	13.73%	24.48%	Q4
Average No. days lost to sickness	9.21	6.65	Q2

Smarter working operating model continued

Sector scorecard

We have agreed to take part in the Sector Scorecard pilot and have submitted our data to HouseMark for 2015/16. Although the comparative data is not due until later in the year, we are keen to understand our position in comparison to our peers. The table on this page sets out our current performance levels under each of the new Sector Scorecard headings.

	Housing Solutions sector scorecard 2016/17	Housing Solutions sector scorecard 2015/16
Operating margin	47.18%	44.57%
Increase/decrease in operating margin	2.61%	0.88%
EBITDA MRI	1.87	1.62
Units developed	148	243
Unit developed as a % of owned stock	2.72%	4.55%
% customers satisfied their rent provides VfM	89%	85%
£s Invested for every £ generated from operations in new housing supply	0.85	1.26
Return on capital employed	4.18%	3.79%
Occupancy	99.66%	99.88%
Ratio of responsive repairs to planned maintenance spend	64%	56%
Cost per unit	£2,912	£2,945
Rent collected	97.89%	98.14%
Overheads as a percentage of adjusted turnover	9.5%	7.7%

5. Additional income generation

In 2012 we developed our first Commercial Services Strategy, which over the past five years has made a small but significant revenue contribution to our overall turnover.

In 2016/17 we generated an income of £1.23 million through providing a responsive maintenance service to One Housing Group, Launchpad and Fremantle Trust. We have also been awarded a contract with the Royal Borough of Windsor and Maidenhead to provide a management and maintenance service for all social housing they build in the next 10 years.

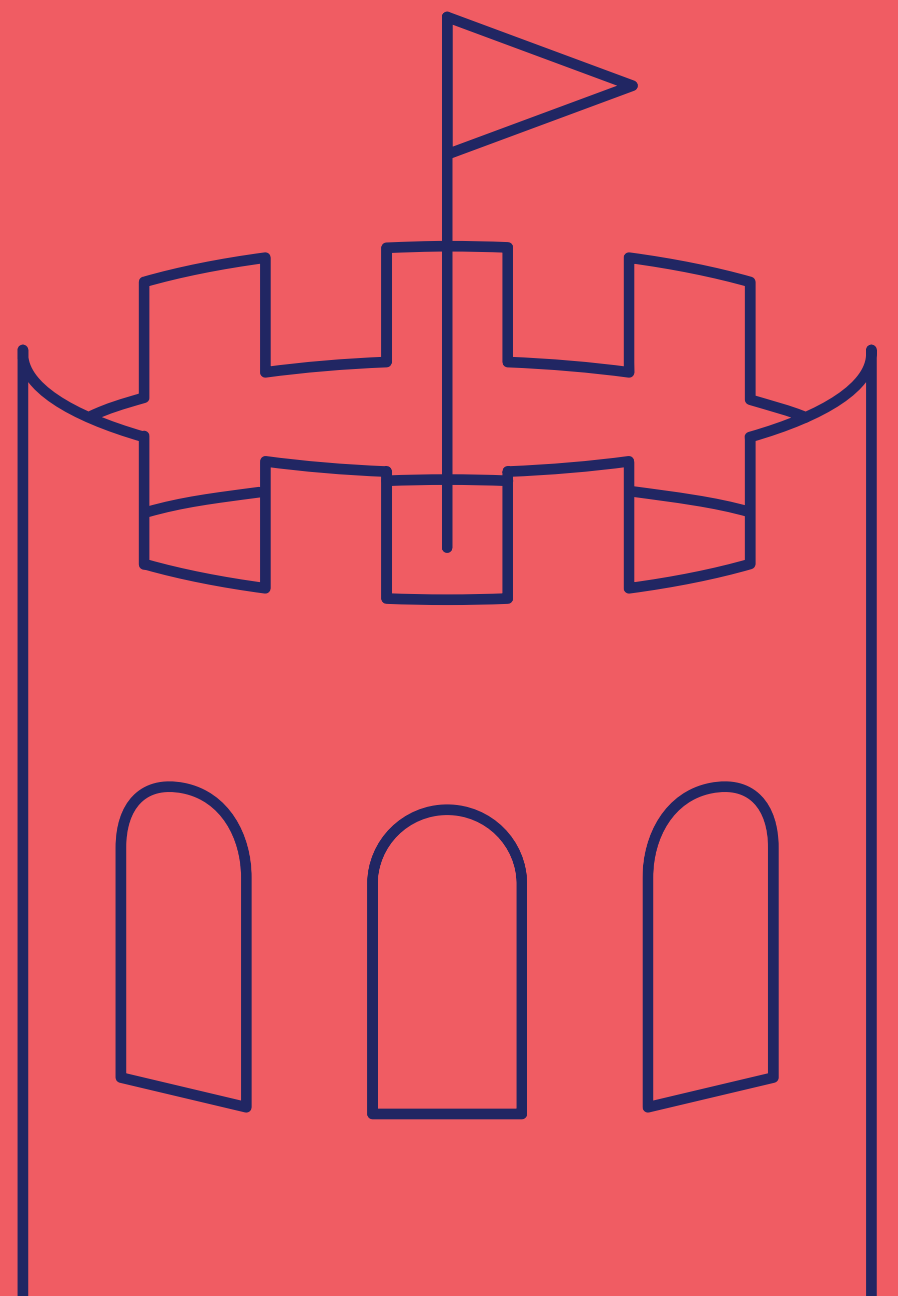
In our 2015/16 self-assessment we announced a joint venture with the Royal County of Berkshire Pension Fund. It was our first scheme directly funded by an institutional investor and we are acting as a manager as well as joint investor. In the first full year of operation the scheme has met all targets and generated £500k rental income and 90% customer satisfaction. The profit from the scheme is to be split 70/30 between Berkshire Pension Fund and Housing Solutions respectively, generating £155k income for us in the first year of operation.

In 2016/17 we reviewed our corporate objectives to ensure that they remain in line with our corporate goals. Below are some of the priorities for the coming year to improve our performance:

- Ensure an efficient Asset Management Operating model with improved data integrity, improved sustainability, improved service delivery and DLO cost efficiency.
- Ensure an efficient customer service delivery model with efficient management of bad debts, reduction in void loss, improved business planning and care and support.
- Deliver a further £290k procurement savings.
- Maintain high staff satisfaction levels.

In 2017/18 we intend to review our existing strategy to create a new 'Non Core Business Policy', which will ensure that our activities continue to be aligned with the business objectives. Within the Policy we will consider:

- Our capacity for identifying new commercial activity.
- How we will ensure that new activity is in line with our business plan and does not 'over diversify' our core activities.
- A comprehensive approach to venture appraisals to ensure that the Board is informed in the decision making process.
- A comprehensive risk assessment for commercial activity.
- A minimum Return on Investment (ROI) target.



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