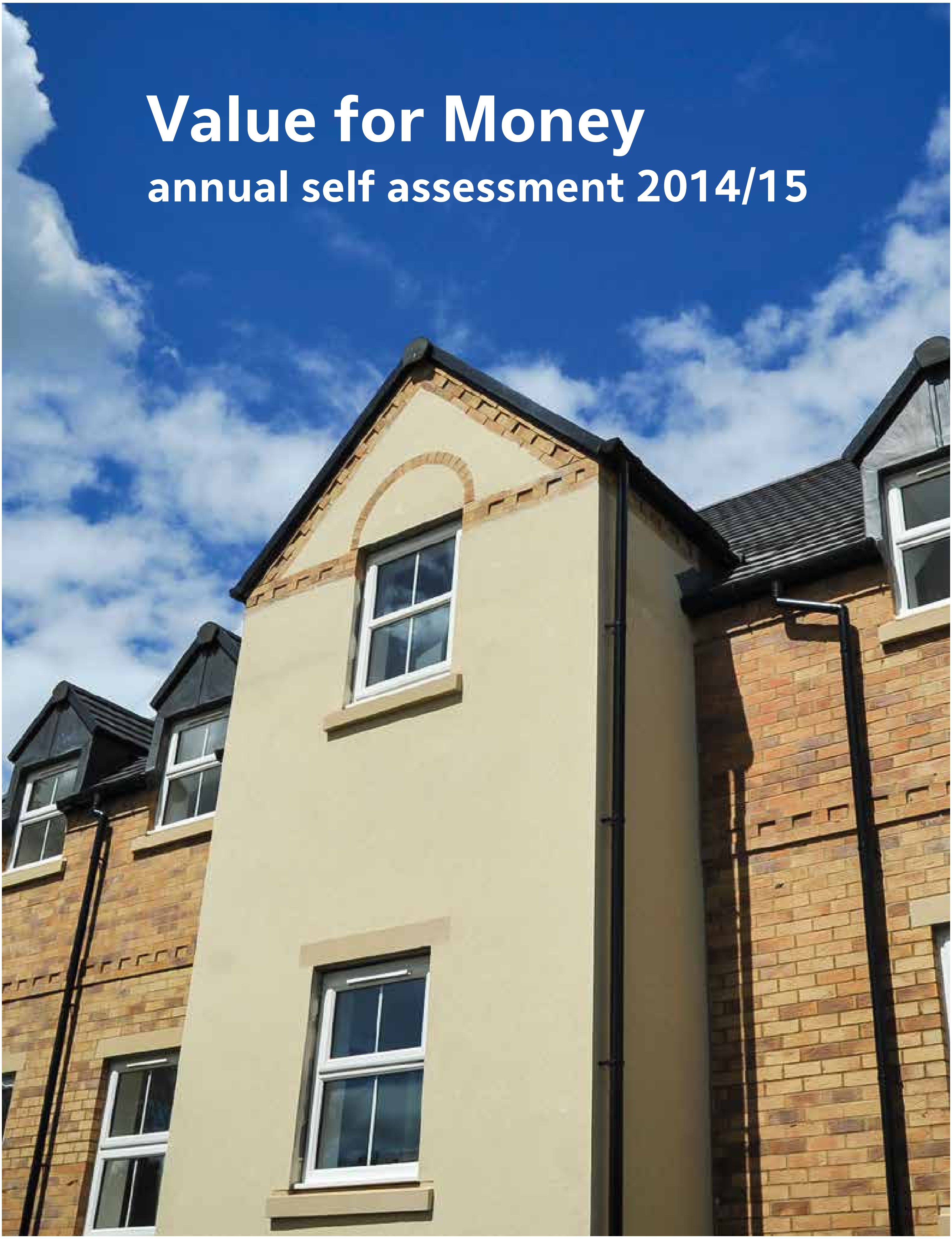
Value for Money

annual self assessment 2014/15



Metropolitan

Contents

1 Introduction

Value for Money is about much more than our finances. To us at Metropolitan it is about delivering the maximum number of great outcomes for our customers and society at the lowest sustainable price, and it's about delivering the greatest number of new homes that our financial capacity allows. Whilst our finances ultimately demonstrate how we have performed, our long term strategy is underpinned by our desire to do things as effectively and efficiently as we can, and to make decisions based on sound analysis and evidence.

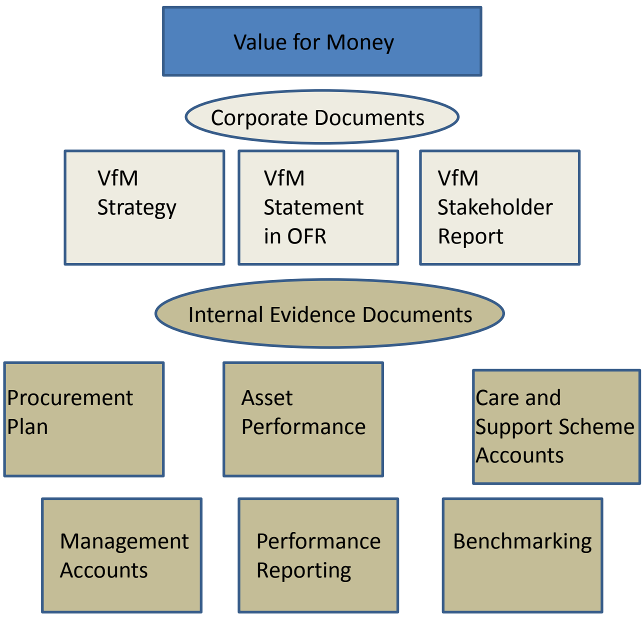
We are committed to ensuring that all of our activities represent value for money to both the organisation and to our current and future customers. In 2013 our regulator, the Homes and Communities Agency introduced a regulatory standard in relation to Value for Money and this is the third year of regulation of this standard. Each year we produce this annual self assessment of our performance in relation to Value for Money.

We publish this on our website along with our Annual Report and Accounts and our Customer Report. These can all be found by following the link: www.metropolitan.org.uk/corporate/annual-reports/

These documents all complement one another. The Annual Report and Accounts focuses on our financial performance, the customer report looks into how we've invested our money; how we've performed in areas like repairs, rent collection and complaints; and our plans for improving services in the future and this report links our value for money performance to our strategy and our plans for the future.

2 Value for Money in Metropolitan

Our model for reviewing and ensuring value for money permeates throughout the organisation is outlined below. The Board and the Executive team review a number of documents on a regular basis to ensure that the standards are being met, and that we are continually looking to improve our performance.



The three corporate documents are reviewed and agreed annually by the Executive team and Board. The strategy represents what the overall direction the organisation is taking in relation to value for money. The annual report contains a Value for Money section that is written to fit with the overall content of the annual report and highlights the strategic direction and major initiative the organisation is undertaking that represent value for money. This document, the VfM stakeholder report, is a more detailed report that takes that strategic direction and adds further details around some additional specific actions we have taken in the year and are planning to take throughout the following year.

The internal evidence documents are produced by individual departments and are reviewed by senior management on a regular basis. This continued review ensures that the strategic aims of the organisation are being delivered on the ground, and in a way that represents value to all our stakeholders

3 Our Business Strategy and the five things we care about

At Metropolitan we have a very clear and well developed strategy. This is depicted in the diagram below and has been agreed by our Board. The Board believe in this strategy wholeheartedly, and are totally committed to it.

The three key measures are well defined and we measure against them every month, publishing to all senior managers and the Board our progress. The Boards desire to see this progress is evident and we see this in the way they regularly ask what they can do to support it's delivery and if they can help to speed up progress. The Group Management Accounts contain the operating margin, as well as the number of homes delivered during each period. The Performance report includes the independence steps.

Our mission:

"To be the leading provider of packages offering homes that are affordable along with access to services that enable customers to maximise their Independence"

Key measures:

Financial strength: operating margin	Development: number of new affordable homes delivered	Independence: number Independence steps taken by customers

Key objectives (three-year horizon):

1. Deliver a large number of homes at a level that is consistent with maintaining delivery through downturns in the housing market - in excess of 1,000 per year
2. Remain top quartile in terms of operating cost per property, enabling future funding and supporting the development programme
3. Deliver a large numbers of Independence outcomes - in excess of 10,000 per year
4. Develop the ability to acquire other companies that would enhance our level of services without compromising our financial policy
5. Increase contribution from the Care and Support business
6. Deliver consistently and continuously high standards of operations and services
7. Build a strong external reputation as a thoughtful, analytical and innovative housing association and become one of the top influencers of the housing and care sector

Underpinning the delivery of our strategy are the five things we care about:

The five things we care about

We have five principles that guide everything we do, the way we do things and the decisions we make.

Ambitious for our customers, our people, our company

We demand better. We create environments where people can think independently and act accordingly, taking ownership and making things happen.

We do what we say, we say it how it is

Simple and straightforward are our watchwords. When we say we're going to do something we do it. We roll our sleeves up and get on with it. We speak the truth as we see it, saying it how it is. People will trust us. Trust breeds trust.

Re-thinking to make a difference

We're restless, we don't stand still. We're passionate about delivering positive change through new and better ways of thinking. We challenge ourselves to think differently and we challenge the status quo. We always want to do better.

We won't walk by

We don't tolerate mediocrity. OK is not good enough. When something's not right we speak up, we don't walk by. The pursuit of excellence inspires and drives us. But where we see good, we notice, appreciate and celebrate it.

Social value through commercial strength

We're unashamedly commercially minded. It's not just alright to be commercial, it's essential. Being commercial helps us build more houses and invest more in helping people live independent lives. With commercial pride comes the courage to make the right decisions.

When we think about anything we do, or any decision that we take we are always conscious that we need to consider if they represent Value for Money to the organisation and its stakeholders. The five things we care about really help us to achieve this. Each one challenges us to do our best in every area of the business.

4 Key strategic initiatives for 2015/16

We are always looking for better and more effective ways to deliver better services. During the last 3 years we have transformed profitability, quality and efficiency of our services. But we recognise there is still much more that can be done. In 2015/16 we have three key strategic initiatives that, as a business, we plan to deliver within the year. These initiatives are outlined below, including any benefits that we expect them to achieve. As you can see, these are not simply about saving money. They are designed to offer better services to our tenants and other users of the services.

Initiatives for 2015/16

Implementation of a new Housing Management System (HMS)

HMS is due to launch in towards the end of 2015/16. The project will deliver a number of significant benefits across the organisation such as improved reporting across the organisation, a more supported platform for mobile working, more stability, and significantly less maintenance requirements.

The directly measurable savings from HMS are:

Year	16/17	17/18	18/19	19/20	20/21
Measurable Savings (cumulative)	£620,175	£770,250	£871,450	£871,450	£871,450

These are broken down into a number of different categories and a plan has been developed to report on these annually from 2016/17 onwards.

Development of an internal repairs service

Over the past few years we have recognised the many challenges of delivering an efficient and effective repairs service over such a wide geographical area. We have made good progress in reducing the overall costs of the service but believe that more can be done, and that we can improve the effectiveness of the service. Plans are now in place to migrate the repairs service for the East Midlands from an external contractor to internal management and delivery. Go live is planned for late 2015.

Initial savings from this will relate to the labour element of the service where we currently pay VAT to our contractors - when performed in house this element of cost will be reduced. Initially savings in 2015/16 are offset by the cost of mobilisation of the service. In addition the initial set up costs for the development of the service and the infrastructure to support this are £1.4m in 2015/16.from April 2016 savings of c, £2.1m per year once fully operational across all our stock.

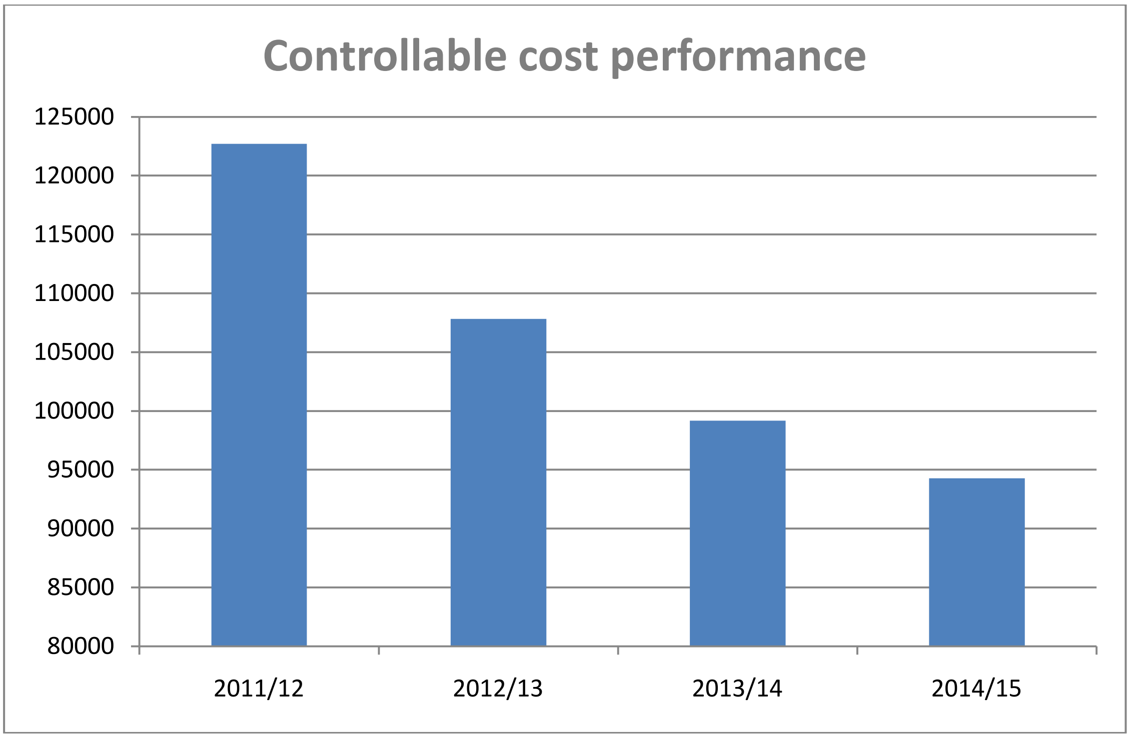
Consolidation of our new approach to Housing with Care and Support services

One of our key objectives for 2015/16 is to consolidate our new approach to Housing with Care and Support Services. Our new approach to this area has seen the transfer of some 6,000 properties for supported housing to the new directorate to create an integrated approach to all Care and Support activity. With a newly structured team we expect to see many benefits for customers. These benefits will come from having the right people with the right skill sets working closely with each other and customers, enabling a more proactive way of working with this group, as well as a more responsive service where needed.

5 Our cost base

Over the past three years we have undergone a significant transformation as a business, and in particular in relation to our finances and the management of our cost base. The table below highlights just how significant the change has been and shows very clearly that value for money has been at the heart of the transformation.

We talk about our controllable cost performance as this measure means a great deal more to us and the management team. It represents the costs that management are able to control rather than certain costs that are a consequence of the way in which we prepare our accounts.



The table above shows the total controllable revenue cost spend for Metropolitan from 2011/12 to 2014/15.

As can be seen the cost base of the organisation changed significantly from 2011/12, with a number of cost saving initiatives, as well as vastly improved budgetary control. When considered with the inflationary pressures over time and the number of units in management remaining at similar levels this achievement is considerable.

The financial ratios that we use to measure our financial performance are now where we would like them to be long term, to support the two key strands of our strategy, improving independence and of building more homes. It is important that we maintain this level of financial strength in order to achieve our goals. Ensuring all that we do represents value for money is therefore critical to this.

Key initiatives that have taken place to bring our cost base to a level that meets our strategic goal of financial strength:

- The rationalisation of office space, with the number of offices used by the Group reduced from 30 to 13, reducing office property costs from £4.1m in 2013 to £2.5m in 2015
- A more structured approach to Responsive and Void repairs with new contracts let and the replacement of an underperforming contractor. This has resulted in costs reducing from £20.2m in 2012 to £14.0m in 2015
- Rationalisation of staffing structures across the business resulting in Staff costs reducing from £49.3m in 2013 to £40.9m in 2015

6 Operational performance

Performance against our targets for 2014/15

New homes

In last years' statement we undertook to deliver a minimum of 500 new affordable homes in 2014/15. We also planned to spend a total of £180m on new homes and land in the year. We actually delivered a total of 456 new homes. Whilst we achieved our targets with the HCA and GLA we did not manage to achieve the stretching target we set for ourselves. Our total capital spend on land and new homes was £110m, which again did not meet our challenging targets for last year. This level of development is in line with our overall strategy to deliver 3300 new homes by 2019. Throughout 2014/5 we have been working towards a £250m bond issue. This has required us to clearly understand our assets and demonstrate a track record which gives investors' confidence in our capabilities. This will provide the finance needed to deliver our 2015-2019 house building plan.

Other initiatives

Last year we included a table showing our key VFM initiatives for the year and their expected impact. Our performance against those initiatives is outlined in the table below.

	2014	2015 Target	2015 Performance
Staff FTE	1453	1420	1262
Staff cost base	£44.2m	£39m	£41.4m
IT costs	£5.3m	£5.0m	£5.2m
Printing and copying	£0.5m	£0.3m	£0.2m
Responsive repairs	£16.7m	£14.6m	£14.0m
Office property costs	£3.4m	£2.5m	£2.5m
Debt interest costs (excluding bond buyback costs)	£52.3m	£49.4m	£49.8m

The overall number of people in the organisation, and the staff cost base associated with them has seen a significant improvement year on year, although we did not meet our target in terms of salary cost.

We did not meet our challenging target for IT costs this year. The effect of contract changes that had been made in previous years has now been fully realised and formed the basis for the target.

The new contracts for printing and copying have realised more savings than anticipated.

Overall the total cost of the responsive repairs service has been lower than anticipated this year. There are a number of factors that have contributed to this; not least the active management of the volume of repairs which resulted in a quantity lower than budgeted. However, the costs per job have been higher as a result of the mobilisation costs of the new contract. This is one of the main reasons for the development of an internal responsive repairs service.

The office property cost target has been met in 2014/15. We are, however, coming under some pressure around accommodation and an office accommodation strategy will be developed in 2015/16 which will look at factors such as location and modern ways of working to establish what an ideal mix of offices would be.

Debt interest costs (excluding bond buy back) were over our target. The main factor for this has been the restructure of our stand alone derivative portfolio at the end of the financial year 2013/14. This reduced our interest rate risk going forward, but led to a small increase in the cost of debt going forward. Underlying net debt is lower than planned due to active cash management.

Specific targets for 2015/16

We have already mentioned our key strategic projects for this year, but as well as these there are a number of smaller initiatives that are planned which show our continued drive to improve services and increase our efficiency. Detailed below are 4 areas where savings against the previous year are planned due to some specific activities that we expect to perform this year. We recognise the need to continually improve our services and our reporting, and to this end during the budget process for next year staff will be challenged to come up with a more detailed explanation of savings proposed and to measure against these during the year. This will enable us to expand on this section in the future with more detailed examples that show how we continue to embed the concept of value for money into the business.

	2015 Actual £'000	2016 Target £'000
Estate Services	6949	6457
Direct management costs	2573	2237
Replacement costs	548	349
IT software costs	4001	3776

Estate Service

For our Estates Services we have been through a process to retender of the contracts that were in place. Our estate was divided up into lots, based on our geographic mix and contracts awarded based both on price and quality of services.

Direct management costs in housing

There are a number of different projects planned to make our services more efficient and effective, and at the same time reduce costs. The main projects are:

- Parking – a new contract has been tendered. This contract runs at nil direct cost to Metropolitan as it works on the basis that the contractor makes money from any parking tickets issued.
- Keys – tighter management of the costs for keys across all of our stock and the move to different suites.
- Compensation – Improvements in the way in which we handle complaints, to improve the tenant experience will have a knock on effect in terms of the reduction in the amount of compensation paid. This takes the form of a reduction in the number of complaints paid out on and the amount paid, whilst improving our service.
- Legal costs – reduction of legal costs due to less legal cases being presented due to improved management of the housing stock. In addition the use of a case management system has embedded different ways of working for managers, in particular making the management of legal costs transparent to managers at the right level, helping to improve accountability.

Replacement costs

The investments made in previous years to improve the quality of the replacement items we use has had a significant impact on our stock. These investments are now beginning to show a payback in terms of the year on year spend on replacement items.

IT software costs

Particular attention has been paid to the way in which we procure our software licences to ensure that we are only pay for licenses that we use and that these represent value to the business.

In the case of our Oracle E-Business suite we have released the licences on some products that we have not yet implemented and are unlikely to implement in the near future. For our third party agreements we have successfully re-negotiated a number of agreements to achieve an overall lower price. This also includes are use of Microsoft products which are now subscription based as to one off costs.

Utilities

We are currently procuring an energy management company to assist in bill validation and procurement of our gas and electricity. The aim is to achieve better utility tariffs for our customers and increased accuracy in utility bills over the coming years. This will include, an actual meter bill at least once per annum, ensuring that customers are paying for the energy they consume, rather than estimated charges. Whilst these savings are passed on to tenants, there is an efficiency gain for us in doing this, making billing and reporting a far simpler process. These efficiency gains come in the form of capacity within the team which is utilised to improve the overall service we offer.

Over the coming year the billing of water usage to our tenants will be moving back to the utility companies. Again this is an efficiency saving to us rather than direct saving which will help to create capacity in the Service Costs Management team to improve their service.

New homes for 2015/16

In this year we plan to deliver 327 units of social housing and 51 units for outright sale. The total spend on new units including land and stage payments for units delivered in future years is £246m. This level of development and capital expenditure is in line with our strategic aim to deliver 3,000 new homes by 2019.

7 Social activity and Value for Money

As an organisation we believe that the impact we have on communities and individuals forms a core part of our social ethos. Our Neighbourhood Investment team continues to work closely with tenants and other local authorities and groups to deliver various different outcomes to our stakeholders. Where possible the team look to utilise local and government grants, often in fund matching arrangements. In total we spent £1m on Neighbourhood Investment schemes in the year, with an income of £0.5m. We received recognition from the Home Office for our work through our Migrant Women's Project. Our busy YOUthSPACE programme achieved all of its targets for the year.

As well as investing in our Neighbourhoods we also contribute socially in other areas that result in independence steps for our tenants. Of particular note is the number of people we have helped into employment during the year. At 370 this surpassed our targets.

Our target this year is to achieve a total of 6000 independence steps for our customers. Included within this are a specific target for supporting people in to work of 400.

In 2015/16 we plan to spend a similar sum to last year, at just under £1m. Income is currently predicted to be £0.4m from grants and other funding. However, both these figures may change during the year depending on our successes in the funding bids we have planned.

For this coming year we have a number of projects that are planned to support our tenants and communities in many different ways. Of particular note:

Social supermarket on our Clapham Park Estate

A social supermarket is a local community shop that offers branded goods, mainly sourced from the larger supermarkets, to residents of local communities. Generally the supply comes from over ordering within the larger supermarkets, rather than products that are near their sell by dates. Often these have a cafe that is run and staffed by local residents too.

Residents sign up to be able to purchase these goods for an initial six month period, whilst at the same time signing up to personal improvement activities for themselves. These activities range from volunteering in the local community to activities such as help in writing a CV, job search workshops and accredited training.

We have placed a joint funding bid with Lambeth Council to the GLA for £150k of funding to refurbish a unit on the estate that is suitable for use as a Supermarket. In return we Metropolitan and Lambeth Council match this funding in a variety of different ways, such as free rental of the unit and community support to help those signed up to the scheme.

Expansion of the Well London project

We are already at strategic partner to Well London, a project that looks to improve the health of people in local communities, particularly focussing on their diets. Our strategic partnership links our Neighbourhood Investment team, our Care and Support Business and Well London together. The benefits of improved health are many and varied, from less reliance on the NHS to improved work opportunities.

We are looking to expand the project into some of our communities in Derby and Nottingham, whilst continuing to run a programme in London. We are currently negotiating the chance for us to undertake a more management active role in all of these projects.

Home Office Migrant Women Project

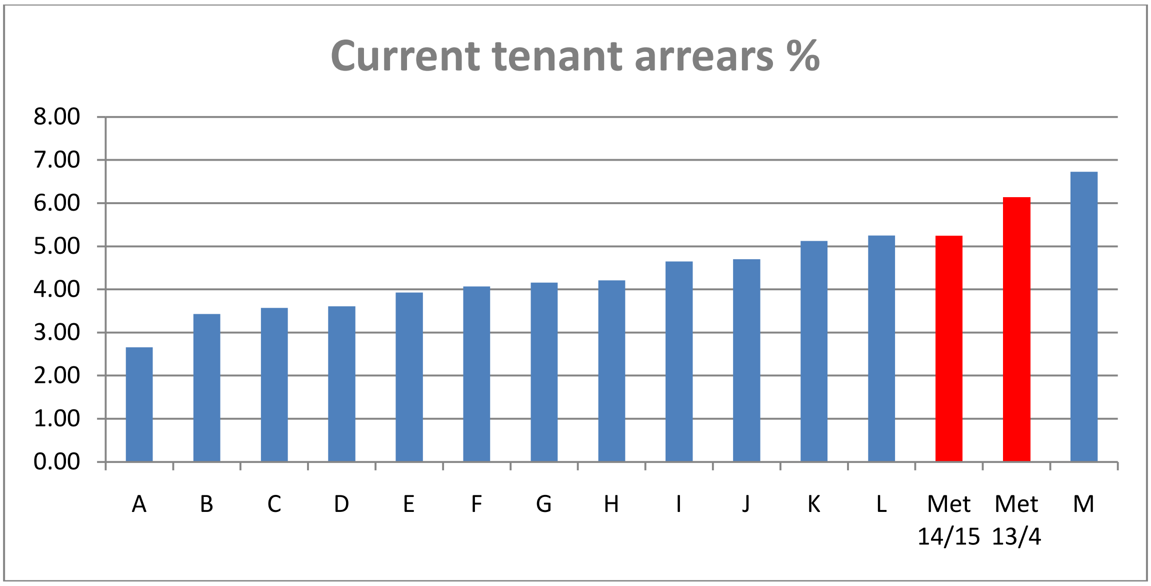
The current round of funding for the Home Office Migrant Women Project has recently finished. As already mentioned we received recognition for our work on this last year and are keen to be involved again in the future. The next round of funding for this is due in January for a two year project, and we will be bidding again to access this.

8 Benchmarking, comparison to our peers

Our membership of the G15 benchmarking group through Housemark provides us with key comparisons to our peer group in London, which in turn enables us to better understand our areas of strength and weakness. The tables below highlight some of the key metrics that are important to our business.

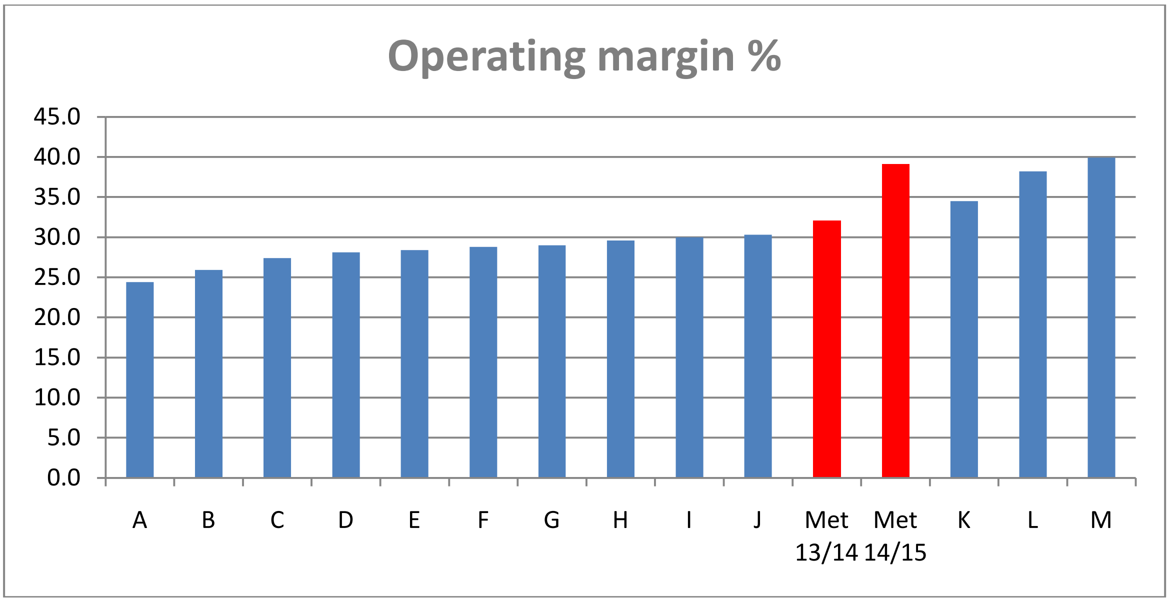
These metrics enable us to focus more clearly across a number of different areas, and to formulate long term continuous improvement plans. We won't, however, become complacent where our performance is good, we will look to improve in all areas. For the first four tables the comparative data is the latest available, for 2013/14 with calculations made on the same basis for 2014/15. The final four tables are built up from many data sources, and so the comparatives for 2014/15 are not yet available.

Arrears performance



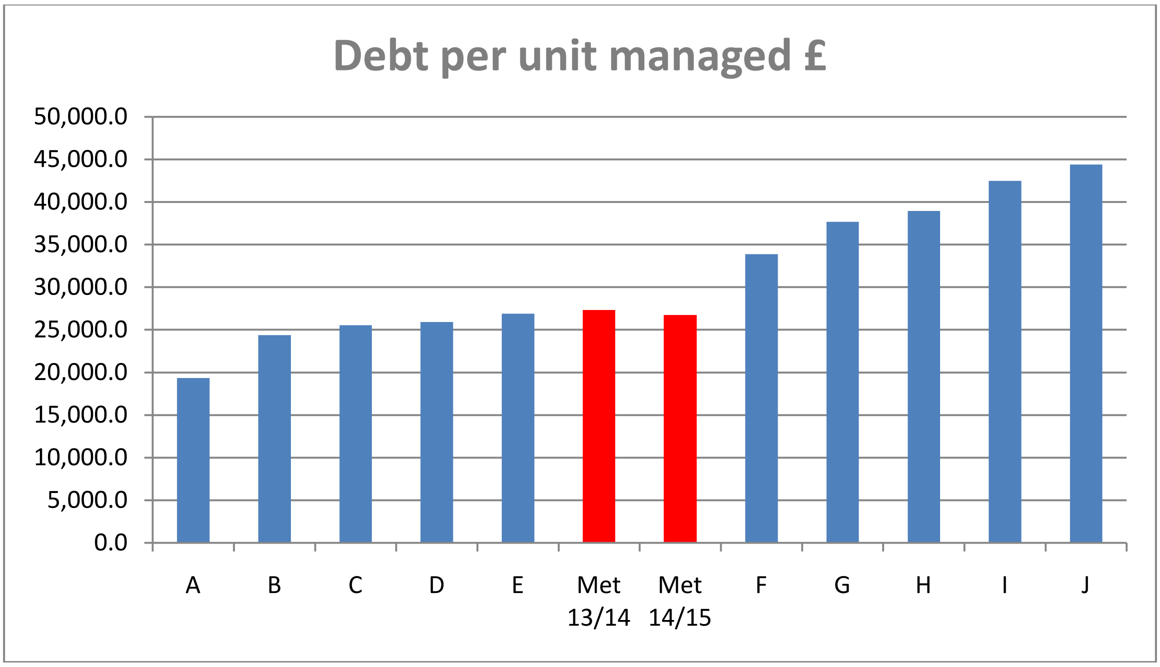
Arrears performance is an area where current levels of performance are not what we would like. Although this area has improved year on year we are still in the lower quartile compared to our peers. Given the changes to Welfare Benefits we recognise the need to manage this area very closely indeed. We will continue to focus on this measure with a target to reduce this to 4.57% in 2015/16.

Operating margin



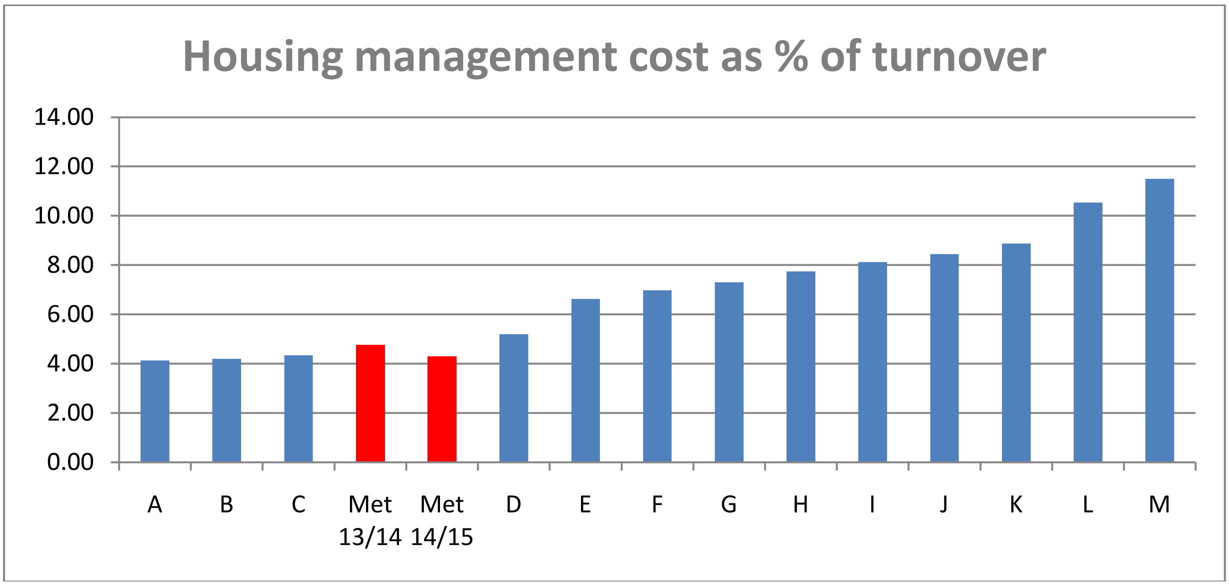
Following our programme of turnaround Metropolitan's operating margin is now in the upper quartile within the G15. The performance for this year at 39% is an improvement on this position is now at a level that we consider appropriate for our business. Our target is to maintain similar levels of performance whilst enhancing services and developing more homes.

Debt per unit managed



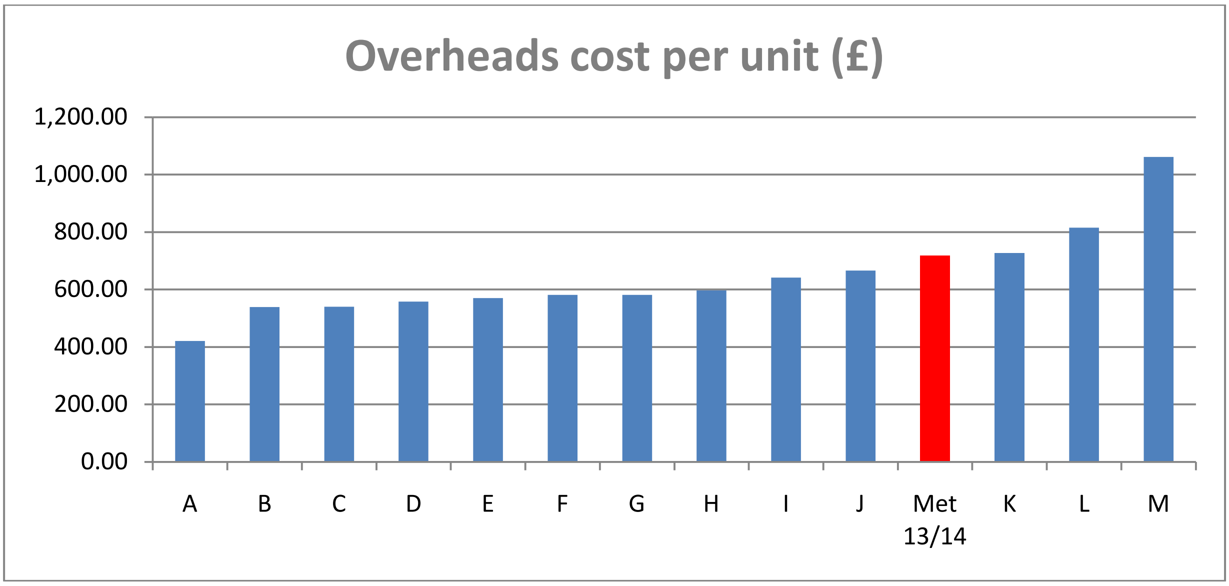
The measure of debt per unit managed is a critical component for understanding our capacity. We are at the mid-point within our peer group. The way in which we raise finance in the future will have a significant impact on this measure. This key measure is on that we monitor and forecast on a regular basis.

Management costs/turnover



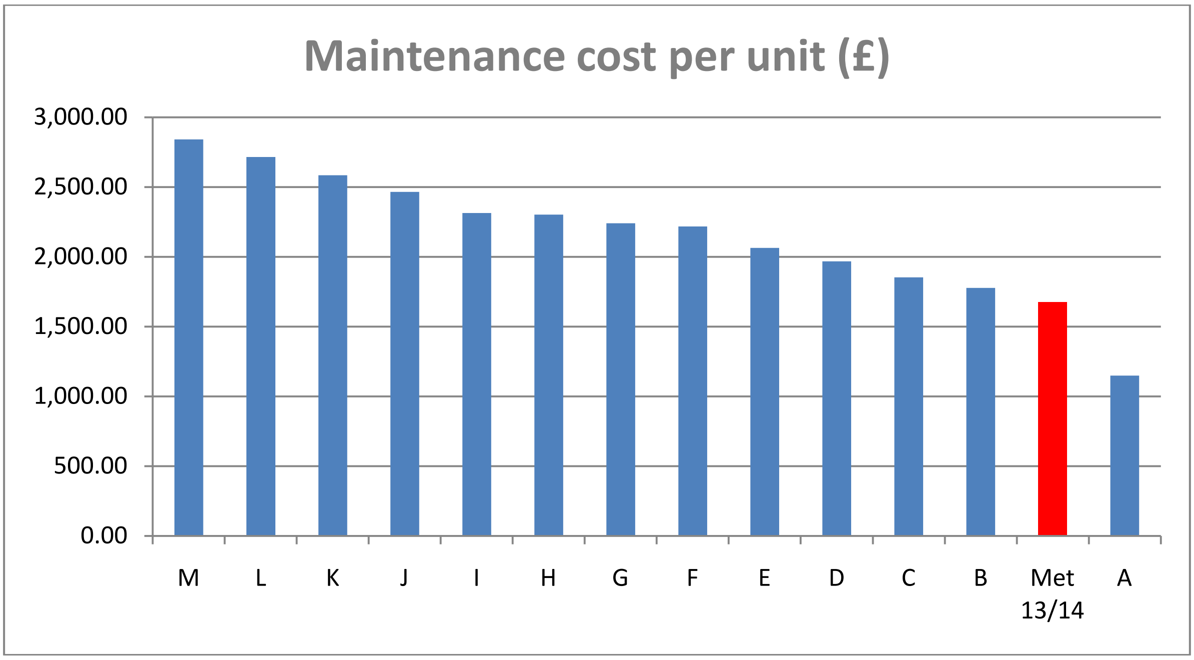
Whilst we are currently in the top quartile for housing management costs as a percentage of turnover we are constantly monitoring this position against our service delivery and the quality of service outcomes. Improvements have been made again in 2014/15 and our target is to keep this level of performance into 2015/16 whilst looking to improve services.

Overhead costs per unit



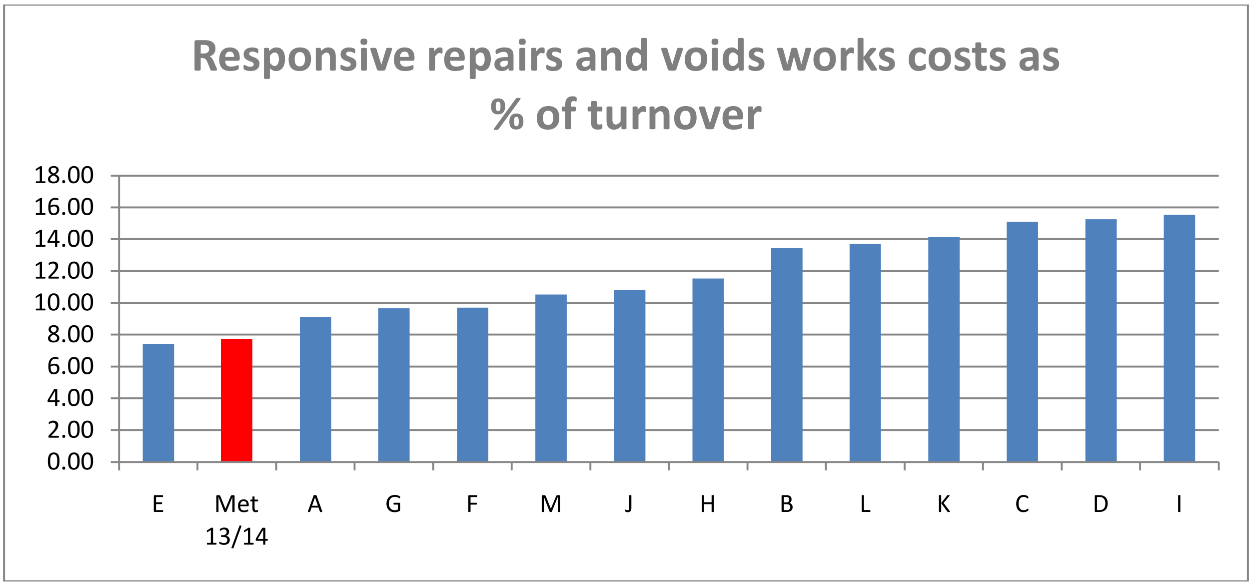
Our current level of overhead costs per unit is trending at the lower quartile for 2013/14. We have made a concerted effort, as part of our turnaround, to manage the Overhead costs base to bring it down to a position that is more in line with our strategy of top quartile performance. Clearly there is more work required in this area if we are to meet that target. The specific targets within IT as mentioned earlier will help move this forward.

Maintenance cost per unit



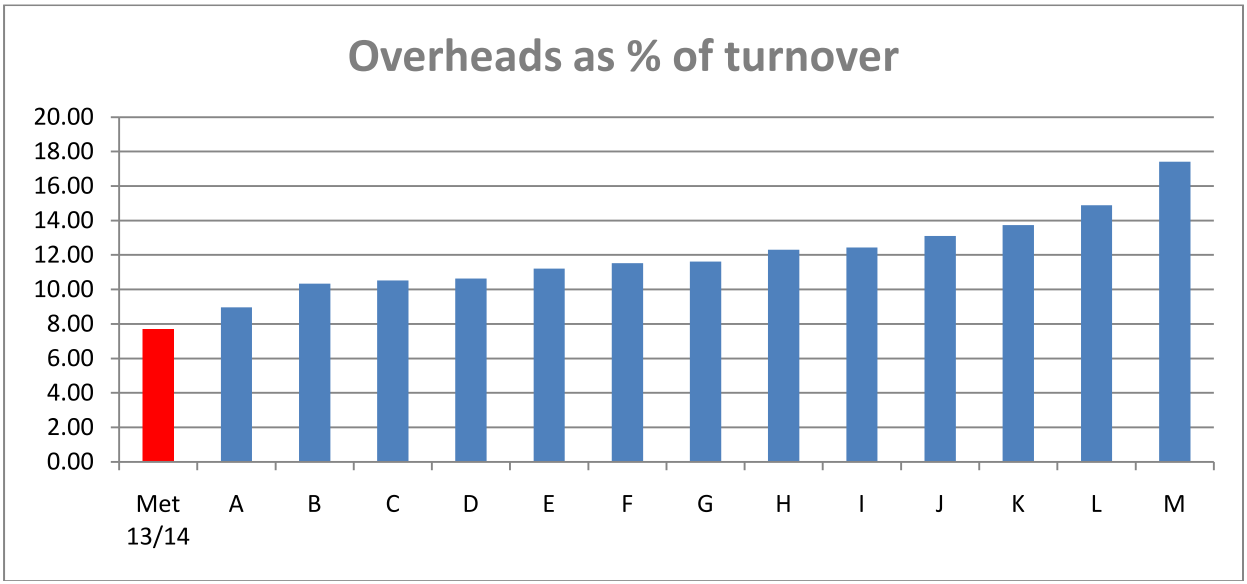
Maintenance costs per unit are currently in the upper quartile, although the management of contracts has proven to be a real challenge in this financial year. As has already been mentioned, our long term plans are to bring our maintenance services in house for the majority of our stock, with the intention of providing a more cost effective service that is also more responsive to our customers' needs.

Responsive repairs and voids works as a % of turnover



Again this is another key measure where are current performance is upper quartile. Our overall cost to deliver responsive and void repairs has been closely managed over the past three years to bring it to a far more sustainable level to achieve our goal of financial strength. Going forward this area is of strategic importance to us and the work will move, over time, to an in house service as opposed to an outsourced contract.

Overheads as a % of turnover



Overhead costs have been a key factor in our financial turnaround over the past three years. Detailed management of this area, along with a continued focus on value for money has seen our performance as a % of turnover move to a top quartile position. We will continue to focus on this area to ensure it remains in control and our performance improves, with specific projects such as IT being an integral part of this.

9 The performance of our assets

We have made improvements year on year with regard to the returns on our asset base, as shown below.

Return on assets	Operating surplus	Capital deployed (excluding grant)	2015 return	2014 return	2013 Return
Rented housing	£64.4m	£795.0m	8.1%	6.2%	4.6%
Shared ownership (excluding sales and staircasing)	£11.9m	£173.7m	6.8%	5.0%	4.9%

This year we have started to develop a model that will allow us to overlay the future investment requirements of our stock against the returns currently generated. The model is currently being tested and will allow us to proactively manage our stock against our future strategy. It will allow us to view our stock by region and local area, by type and tenure. This information will enable us to make informed strategic decisions in terms of future investment. This includes elements such as the stock itself, any future development programmes and any impact decisions may have on the independence of our residents. This will help to create value through economies of scale in specific geographies.

10 Conclusion

During the last two years we have been on a journey to turnaround the finances of Metropolitan. We have transformed the business from one that was financially underperforming to an upper quartile organisation in many areas, and this can be clearly seen in our cost base performance. However, we are not happy to simply rest on our laurels. We recognise that we still have a lot to do in some areas to improve our performance for customers as well as financially. In areas where we are already performing well we still have the desire to find better, more effective and efficient ways of doing things. We really do recognise the need to make the most of all of our assets for the long term benefit of our current and future tenants.

As can be seen the three key strategic measures, Financial Strength, Developing new homes and Independence are at the heart of our decision making both financially and operationally. Our desire to do things more effectively and more efficiently for the benefit of our customers can be seen in every section of this report, from our strategic plans for next year through to the operational efficiencies we are planning to make in our management of utilities.

We are an organisation with a social heart, striving to improve our customers' independence, and this can clearly be seen by our performance in terms of social activity. Our plans for this year are carefully chosen to ensure they offer both value and more opportunity, and this can be seen in the way we seek matched funding for projects and the innovative way we can match this not simply with cash, but by mechanisms such as the rent free unit for the Social Supermarket at Clapham.

We have a clear desire to become financially strong, and our use of benchmarking highlights this. This enables us to see where we are performing well against our peers, and more importantly where we are not performing so well. This gives us the opportunity to focus on these areas and seek more ways to drive value from our performance.

The understanding of the performance of our assets is not currently where we would like it to be. Whilst we can see at a high level that the return on assets has improved year on year, we know that more detailed information is required to assist our decision making around our development programmes, disposal programmes and how best we can manage to achieve economies of scale. In recognising this we develop a model that allows us to overlay the future investments requirements of our stock with the returns currently generated.

This value for money stakeholder document has highlighted our approach, our key performance areas and how value for money is integrated to the overall strategy.

Metropolitan

The Grange, 100 High Street, Southgate, London N14 6PW
Tel: 020 3535 3535
www.metropolitan.org.uk
@metropolitanorg