Metropolitan

Value for money

Annual self-assessment 2016/17

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Our association at a glance

Metropolitan is one of the country's largest providers of affordable housing. We own and manage more than 37,000 homes in London, the East Midlands and the East of England – the vast majority of which are locally affordable – serving nearly 71,000 people.

As a charitable organisation, we exist to help people get greater control over their lives by providing housing, social care and other support. We measure our success by counting the number of 'independence steps' people take as a result of our activities. These include getting a job, paying off debts or getting on the property ladder. Last year we helped create more than 17,000 independence steps, which was a record for our organisation.

We are building more homes than ever, and delivering one of London's largest estate regeneration schemes at Clapham Park in Lambeth, south London. We are on target to deliver around 1,000 homes per year by 2018/19, helping more people to own or afford a home to rent. Our homes are built to last and we aim to keep service charges as low as possible.

As a well-established landlord, we act responsibly and are focused on continuously improving our customer service. This year, we have undertaken large-scale improvements to the properties we manage. We have created an in-house repairs service to provide residents with a consistent standard of service and extended its reach from the East Midlands to London.

We are a growing provider of care and support services that deliver real outcomes. We frequently reduce the burden on government spending by helping people achieve greater choice and control in their lives, or by delaying the loss of independence as people age by providing the right interventions at the right time and in the right place. We have increased our social care provision at a time when it is really needed, working in partnership with the Care Quality Commission, NHS and local authority commissioning bodies.

All of this is delivered in an environment of increasing scrutiny of the public purse, of increasing pressures on our customers' finances and of rising building costs. Delivery of value for money is therefore essential to our long-term future.

What value for money means at Metropolitan

Value for money is fundamental to the way Metropolitan operates – it is woven through the organisation as part of our culture. When we talk about our values, we talk about “delivering social value through commercial strength”. Seeking to have the maximum impact with the resources at our disposal underpins our way of working.

We actively manage our performance to improve value for money. As described in the ‘Our performance’ section, we have been successful in a number of key areas. But value for money must be considered in the context of our purpose of providing housing and services to those in need. Delivering value for money is about striking the right balance between efficient delivery and doing the most we can for our residents and customers.

Increasingly, our approach to delivering value for money – be that through optimising our return on assets or refining our development strategy – involves striking a considered balance between financial and social return. For Metropolitan, delivering value for money is about balancing the interests of all our stakeholders. Our commitment to managing our organisation effectively, including delivering value for money, is one that we take seriously, as demonstrated by our recent viability rating upgrade following an in-depth assessment by our regulator, the Homes and Communities Agency (HCA).

Key highlights for the year

Overall, Metropolitan had a good year with virtually all targets met or exceeded:

- Our customers achieved 17,114 independence steps (auditable outcomes) against a target of 7,500.
- Our operating margin increased to 36%.
- We delivered 832 new units (including homes delivered through joint ventures), up from 371 last year.
- Operational improvements continued, with performance around both re-letting empty properties (voids) and reducing arrears improving again – arrears ended the year at 3.95% of income owed to us, down from 4.66% the year before.
- Our in-house contractor launched and rapidly started offering a superior service – average routine repairs took 16 days, against a target of 28.

We run a safe, compliant organisation, with up-to-date electrical and gas safety certificates and a robust programme of fire risk assessments.

But this success has not led to complacency. We are aware of our failure to significantly improve our performance on customer satisfaction and are focusing on this area, with in-depth research into customer priorities and needs underway, supported by a range of service improvement initiatives, including improvements to how we capture customer feedback. Encouragingly, the 99% customer satisfaction score delivered by Metworks, and its expanded roll-out, leads us to believe we are on the right track.

Throughout the year, value for money was demonstrated across a wide number of areas. Some of the highlights are listed below.

- We launched our in-house contractor, Metworks, in the East Midlands. In addition to delivering a better service to our customers (as measured through satisfaction), immediate operational benefits were delivered. As an example, the number of repairs required following the completion of voids work halved. And average routine repairs were completed in nearly half the target time.
- We were able to increase our major works spend. Historically, errors in our stock records led to a risk of inefficient spend, which was why the major works programme had been reduced. So our ability to increase the activity of the programme is a sign of improved stock records management.
- Procurement delivered a number of annualised savings, including but not limited to:
    - Saving £1.5m on updated IT hosting and support and £177k on Voice over IP services, enabling the use of the internet to make and receive phone calls
    - Reducing our Asset Management team's property redecoration costs by £350k through better procurement
    - Reducing legal fees through a revised framework, delivering £1m in savings
- We lost less revenue due to a strong focus on improving our voids turnaround time, with an improvement of several weeks on the year before. This improvement has come through a focus on both long-term voids as well as the overall voids management process.
- The reduction of arrears due to the successes of our tenancy sustainment initiative. By working with Experian, we have been able to target customers for support, even before arrears arise.
- Our Care and Support business lost none of its contracts and had 20 extended. We see this as evidence that the services delivered are meeting the needs of customers and commissioners, allowing us to develop our services far more efficiently.
- We are currently undertaking a root-and-branch review of how we deliver our services to customers. This covers defining all service levels, both internally and to customers, so that we are focusing on delivering services, as we should, at the cost we expect.
- Across the business, we delivered a huge number of independence steps as the concept was championed by our colleagues. We see this as evidence of our colleagues focusing on delivering outcomes that matter to customers.

How we deliver value for money

Our approach to the delivery of value for money does not involve the production of a standalone strategy which is dusted off annually for discussion. Instead, we have chosen to embed value for money in the way in which we operate. In doing this, we have several major aims:

- To embed value for money in our culture
  - We are unashamedly commercial in our focus because we see that as key to allowing us to deliver social value for our customers. Our three key performance measures are 1) operating margin, which in turn allows us to deliver value through 2) building affordable homes and 3) supporting customers in taking independence steps.
- To ensure our Executive Team is fully held to account for delivery
  - Over recent years, the governance arrangements at Metropolitan have been overhauled and streamlined. Board members take key roles on sub-committees, and clear accountability and reporting are in place, as befits our G1 governance rating from the HCA.
- To ensure that robust fiscal controls are in place
  - A robustly stress-tested business plan is presented to the Board each year for scrutiny, the impact of external factors on major investments is regularly reviewed and a recently streamlined investment approval process has been introduced.
- For the Board to understand the opportunity costs of decisions
  - The treasury function supports the board in understanding our gearing and covenant constraints as well as our projected cash position. Capital investment appraisals consider a number of metrics, alongside a forward view of our pipeline, to ensure that the impact of a decision today is understood fully.
- For staff to fully contribute to the delivery of value for money
  - Many frontline staff can have an important impact in ensuring the right services are delivered to our customers. Our focus on independence steps (including targeting and reporting) is a unifying language to describe delivery across the organisation.
- For key policies to focus on value for money
  - There are clearly a number of corporate strategies that have delivery of value for money at their heart. Key examples are in procurement and treasury management. In both of these cases, clear road maps, targets and milestones are in place for improved delivery of value for money.

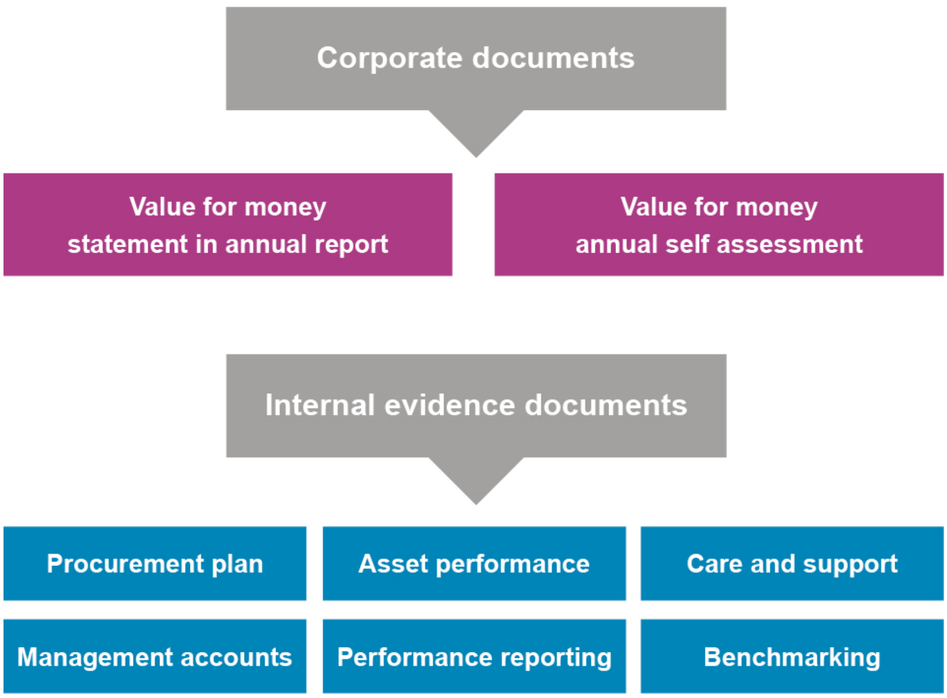
Therefore, our focus on value for money is woven through how we operate, specifically in:

- **Governance:** our Executive Team and Board scrutinise performance, review policies and ensure compliance. The Board is accountable for ensuring our compliance with regulatory standards.

- **Business planning:** the budgets and objectives set by the organisation seek to 'raise the bar' on performance and efficiency.
- **In-depth cost-base analysis:** we have a number of ongoing initiatives, e.g. in asset performance, aimed at identifying opportunities for further operational improvement.
- **Performance tracking:** we scrutinise and report on our ongoing operating performance to identify trends and areas of opportunity for improvement.
- **Developing new operating models:** where operations can be improved, we constantly look at ways of delivering better service more efficiently.
- **Resident involvement:** we use resident forums to capture valuable feedback on where and how to improve – this helps us understand value for money from the perspective of our customers.
- **Our colleagues:** our people are key to delivering the right service to our residents and we have reviewed our reward and recognition policies in order to ensure we drive the right delivery.

These integrated processes and activities ensure that the Board has sight of, and influence over, the wide range of ways in which value for money is delivered by the organisation.

Some of the key documents used in governing value for money are shown below. These corporate documents are reviewed and agreed annually by the Executive Team and the Board. This value for money self-assessment expands on the statement made in the annual report. The internal evidence documents are the working documents used on a regular basis by senior management to ensure that the aims of the organisation are being achieved.



Our value for money strategy is embedded in our corporate objectives, which then cascade down through the organisation, ensuring that team and personal objectives are aligned at all levels. In this way, our focus on value for money is shared across the organisation.

Having set objectives, our focus on performance management means that we must hold ourselves to account for delivery. Therefore, as part of our regular performance reporting, we track a large number of key measures that provide evidence of delivery of value for money. These include:

Financial measures	Operational measures	Customer measures
• Operating margin • Creditor and debtor performance • Income against budget • Units completed • Units sold • Unsold units	• Arrears performance • Voids performance • Re-let times • IT service desk performance • Responsive repairs performance • Rate of repairs fixed first time	• Customer satisfaction • Customer contact centre call handling statistics • Independence steps

These measures are tracked against targets, enabling us to identify and address any instances in which we are not delivering as we would like to. We manage performance through monthly business review meetings held by the Chief Executive and Executive Director of Finance with the responsible Executive Director. At each Board meeting, the operating and financial performance across the company is reviewed.

The annual budget is approved at the Board each year following an extensive four-month internal review process. The basic parameters for setting the budget are:

- Reducing non-discretionary costs in housing management and overheads
- Increasing the Care and Support business's operating margin
- Ensuring spend on development support is consistent with the pipeline growth and new homes completion targets for the year
- Viewing discretionary spend on business improvement projects as positive in the current economic environment, as long as it is supported by a quantified, deliverable and performance-managed business case
- Making decisions on discretionary spend to deliver social objectives, with outcomes which are measured in independence steps.

Our performance – financial strength and cost management

Metropolitan has continued its trajectory of improving financial performance, with greater turnover, margin and surplus than in 2015/16. This was achieved against a backdrop of rent deflation as well as increased sales activity (which dilutes margin).

In £m	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Turnover	244	273	256	230*	238*	266
Operating surplus	36.7	67.0	82.1	85.0	84.2	96.3
% margin	15.0%	24.5%	32.0%	36.9%	35.3%	36.2%
Surplus	16.4	20.4	40.2	60.4	71.4	79.7

* Restated for FRS102 presentation

The Board has decided the following strategies and objectives will be built into the 2017/18 budget:

Housing

- Communal utilities, in particular electricity: we will use our deeper knowledge of our estate to retender our electrical supplies on a consolidated basis, making a saving of £350k per annum.

Care and Support

- Care and Support core costs will be maintained to absorb inflationary increase, and it is projected that these will increase at a rate lower than inflation, with operational efficiencies absorbing the majority of inflationary increases.
- We will move away from highly intensive higher income services which create minimal outcomes, to lower cost services which impact more people and have a much greater impact on independence. We are strategically looking to get a higher return of independence steps for the investment we make into the business.
- There will be improved monitoring and control of agency spend; a reduction in agency costs is forecast in 2017/18.
- We will continue our significant progress in reducing voids levels in supported housing. There is an overall voids target of 3%.

Development

- The mix of products (rental, shared ownership, market sale) in new developments is being re-assessed, giving us the ability to increase the number of social units while maintaining a positive net present value (NPV).

The table below describes the movement in our operating costs, covering both social and non social housing revenue expenditure.

	14/15 actual £'m	15/16 actual £'m	16/17 budget £'m	16/17 actual £'m	17/18 budget £'m
Operating expenditure					
Salaries (excluding Metworks and additional pension contribution)	51.1	52.5	53.7	53.1	55.9
Additional pension contribution		9.4			
Contingency		0	2	1.5	3.2
Overheads	11.3	13.8	16.3	15.5	17.7
Service costs	24.4	24.6	22.8	25.4	26.2
Housing management costs	5.9	5.7	5.1	6.6	7
Metworks salary cost (maintenance cost)			8.2	7.2	8.4
Routine maintenance	11.2	12	5.5	7.3	6.2
Voids maintenance costs	3.7	3.1	4	4.1	2.9
Planned maintenance	7.6	8.6	7.1	6.1	6.1
Major repairs	2.6	2.1	3.4	1.1	1.3
Bad debts	0.6	0.3	1	1.9	0.9
Depreciation	15.5	15.3	15.9	16.4	18.2
Lease charges	1	1.3	1.2	0.3	0.3
Development costs	-1.9	-3.9	-4.6	-3.7	-4.9
Impairment	1.7	0.1	0	0.6	0
Home ownership product costs	0.8	0.7	0.1	0.1	0
First tranche marketing and selling costs	0.1	0.1	0.3	0.4	0.3
Outright sales operating costs	0.2	0	0	0	0.1
Business services cost recharges	-0.2	-0.2	-0.3	-0.3	0.5
Total operating expenditure	**135.6**	**145.5**	**141.7**	**143.5**	**150.3**
Note: additional pension, included in interest cost in 15/16 budget					
Of which:					
Core expenditure	82.8	86.1	86.9	90.6	93
Recoverable expenditure	24.4	24.6	22.8	25.4	26.2
Planned repairs and other investments	10.2	10.7	12.2	7.2	7.3
Discretionary	1	0.9	1.8	1.8	2.3
One-off and contingency	0	8	2	1.5	3.2
Housing depreciation and impairment	17.2	15.4	15.9	17	18.2
Total	**135.6**	**145.7**	**141.6**	**143.5**	**150.3**

The main reasons for the increase in operating costs from 2016/17 to 2017/18 are:

- Inflationary increases, including pay rises of £2.5m and rising employer pension contributions following auto-enrolment.
- Business case investment in IT and Metworks roll-out costs in London of £2m.
- Increase in depreciation, particularly in accelerated depreciation due to component replacement, of £1.8m

Our performance – operational improvements

This section describes in more detail some of the key initiatives and activities of 2016/17 that improved our delivery of value for money.

Delivering independence steps

- Across the business, colleagues are focused on delivering real customer outcomes, which we measure as independence steps.
- This year we delivered more than double our target steps, as colleagues engaged with our focus on delivering the outcomes that matter to our customers.

Category	Independence step	Target	2016/17 Total
Working and training	Commenced new employment Awarded an accredited qualification Commenced volunteering	500 340 600	580 217 351
Clearing arrears	Cleared Metropolitan arrears	350	601
Home ownership	Completed a home purchase Purchased a larger share of home	95 250	279 212
Preventing isolation	Starting to engage with new social links	4865	2246
Managing with less support	Stepping down to lower-intensity support accommodation Able to care for myself and my family Able to shop and feed myself Completed a support plan goal that increases independence		723 888 1183 6639
Staying independent	Aids fitted to support independent living		2737
	Leaving hospital or care, with support	500	458
	Total independence steps	**7,500**	**17,114**

Improving our infrastructure

- We opened a new south London office, allowing our colleagues to operate more effectively and reducing space pressure in our main London office.
- The replacement of our desktop and handheld infrastructure neared completion, allowing greater functionality and network access to our colleagues, both in and out of our offices.
- We took the decision to in-source both recruitment and payroll, allowing us to offer a far superior service at a lower cost.

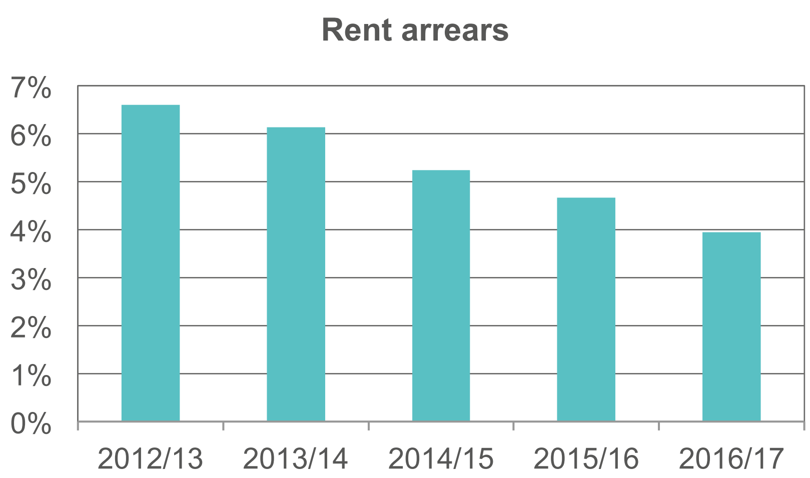
- A focus on development saw the launch of Metrocademy, an approach to career planning and development. We expect this to drive increased loyalty, retention and performance, as our colleagues are supported to develop to their maximum potential.

Managing compliance

- At the end of the financial year, we had 98.9% of our electrical certificates in date, against a target of 100%. Also at year end, we had three gas safety certificates overdue (on more than 23,000 units requiring certificates), against a target of zero overdue.
- At the time of writing, all electrical certificates are in date and active steps are being taken with the access issues relating to the gas safety certificates.
- Metropolitan continues to take the safety of its residents very seriously and these metrics form part of monthly Board reviews. Even before the Grenfell tragedy, an active programme of managing fire risk assessment actions had resolved all high priority issues and nearly three-quarters of all others; an ongoing programme has been working to complete these.

Driving down arrears

- Improvements in arrears collection rates have seen significant reductions in the income owed by customers.
- From a high point of arrears of £11.1m (7.44%), arrears reduced to £8.1m (5.24%) in 2014/15, £7.4m (4.66%) in 2015/16, and £6.1m (3.95%) in 2016/17.
- Last year, leasehold arrears fell from £572,988 (2015/16) to £285,300 (2016/17), a reduction in the year of 50%.
- Our target for arrears in 2017/18 is 3.95% – in other words, we aim to hold arrears steady despite the roll-out of Universal Credit.



Mitigating the impact of Universal Credit

- At year end 2016/17, we had 681 customers claiming Universal Credit, an increase of 465 in the year. Total arrears of Universal Credit claimants at year end were £712k. The average arrears per claimant have remained fairly static at £1,100.
- We estimate we will have 1,700 Universal Credit claimants by year end 2017/18, following the first year of the Universal Credit full service roll-out (based on stock sizes in the areas being rolled out). This means an estimate of £1.87m arrears for customer in receipt of Universal Credit by year end 2017/18. An active programme is underway to support customers in the transition to Universal Credit, in order to mitigate the impact.
- We are using Housing Partners software to undertake pre-tenancy financial risk assessments and identify when to apply for early Alternative Payment Arrangements for Universal Credit. Housing Partners helps us to identify customers in high financial distress, to offer targeted support from our Money Advice team and our employment and training service, Metroployment.
- We are using Call2Collect to increase our telephone contact with customers and to drive early intervention and payments.
- The Customer Incentive Scheme was launched in April 2017 with the intention to change customer behaviour by incentivising tenants to keep a clear rent account, to set up a payment arrangement to pay arrears and to keep to the conditions of their tenancy agreement. Another aim is to encourage Direct Debit take-up.
- The Behavioural Insights Project commenced in March 2017. This project will be running various interventions with the Behavioural Insights team on rent arrears letters. This will change how the Income Team communicates with customers to support positive responses, reduce arrears and prepare customers for Universal Credit.

Tackling tenancy fraud

- Using Housing Partners, we have been able to target tenants living in our properties whose details do not match with ours. This project is in the early stages (it started in November 2016); however, in the last financial year 10 properties where tenancy fraud was found were returned to house those in need. The target for 2017/18 is to recover 25 properties, meaning that over two years, 35 units will be returned to their proper use.

Tenancy sustainment

- 2,037 referrals were received by the Money Advice team and 1,855 customers were seen by advisers. Additional income secured for customers reached £230k and rent arrears reduced by £443k.
- This year’s target is to increase the number of customers seen to 2,100 and to focus on contacting customers in financial distress (as identified by Housing Partners) in Universal Credit roll-out areas. Contact with customers will be completed at least six months prior to roll-out commencing.

- Community drop-in sessions are being facilitated by the Money Advice team, to promote the service and to reach customers before they fall into arrears.
- The METTS team (our tenancy sustainment team) received 435 referrals last year. Additional income of £169k was secured for customers, with rent arrears also reduced by £43k.

Providing affordable warmth

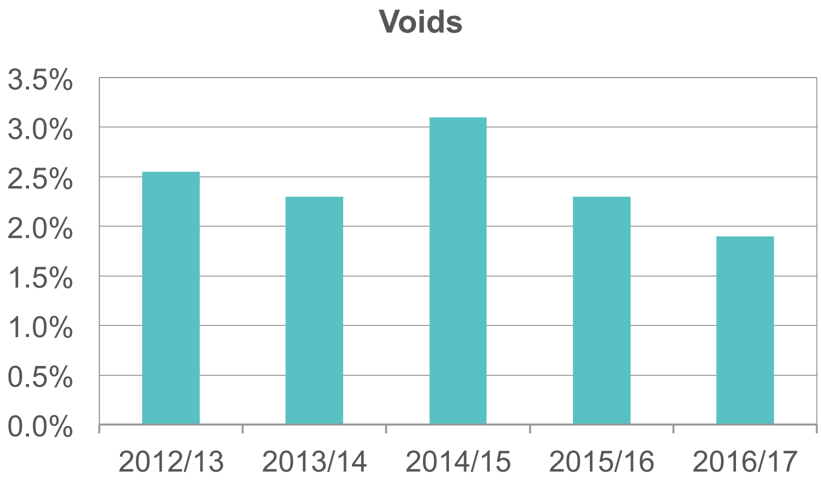
- For some customers, outmoded heating solutions represent a large drain on their finances. Our work to improve customers' ability to heat their homes is a clear example of value for money being delivered with the customer front and centre.
- We have continued our work to replace electric storage heaters and extended the installation of gas central heating using funding through National Grid Affordable Warmth Solutions. We estimate that this approach saved us in excess of £320k.

Delivering procurement savings

- Procurement remains key to Metropolitan in driving the value for money agenda. Value-generating activities within the Procurement team for the financial year have been across all categories of expenditure including, but not limited to:
    - IT/telecoms – updated hosting and support arrangements saved circa £1.5m and Voice Over IP services saved £177k
    - Asset Management – savings relating to redecorations reduced costs by £350k
    - Corporate Services – reductions in legal fees delivered £1m.
- Looking to the future, the Procurement team is introducing a category management structure and approach to delivering both bottom line savings and social value through independence steps. The team will be incorporating supplier relationship management techniques to improve customer satisfaction through enhanced supplier/contractor performance. The Procurement team is working closely with all internal and external stakeholders, including customers, to ensure a collaborative approach is taken before procurement decisions are made.

Focusing on voids

- Our voids performance fell for a second straight year and to its lowest point in the past five years. The higher level of voids in 2014/15 was driven by poor contractor performance and our response was to establish our own in-house contractor, Metworks.
- This was achieved through a focus on both improving the re-let of long-term voids as well as improving the voids repair process.



Roll-out of our in-house contractor, Metworks

The first 15 months of operation have been a positive, rewarding and exciting time for Metworks. The team managed to mobilise across all of our stock in the East Midlands, plan a roll-out in London and take on reactive maintenance and voids work. In doing all of this, the Metworks team have quickly built a strong framework within which to operate a successful repairs and maintenance service for Metropolitan, embedding culture, driving performance and striving to deliver what is right for the customer.

	Target	Run rate
Repairs right first time	85%	87%
Productivity (jobs per person)	3.8	3.85
Void turnaround (working days)	10 days	8 days
Cost per void	£1.4k	£1.5k

The launch of Metworks has bought further benefits to both Metropolitan and our customers:

- Customer satisfaction: 99% in the East Midlands (the first region to go live)
- Complaints 50% lower than when we used external contractors
- Zero unplanned operative turnover in the East Midlands
- Repairs following voids halved
- Average routine repairs 16 days against target of 28
- 1,805 training hours delivered
- Positive culture embedded

Developing the Housing with Care and Support business

The Housing with Care and Support directorate has shown significant performance improvement over the last few years, having moved from a loss-making business in 2012/13 to making surpluses, despite an increasingly challenging environment. Recent performance is shown in the table below, with significant areas of efficiency documented in the following paragraphs.

£m	15/16 actual	16/17 actual	17/18 budget
Rent and service charges	32.4	32.7	31.9
Voids	(2.0)	(1.9)	(1.2)
Care and support income	18.7	19.6	21.6
Other income	4.2	3.5	4.0
Total revenue	**53.4**	**54.0**	**56.3**
Operating costs	(36.8)	(33.6)	(36.1)
Gross profit	**16.6**	**20.4**	**20.2**
Contribution before overhead	31.1%	37.7%	35.8%
Net surplus	**11.9**	**17.9**	**16.0**
Margin	22.3%	33.2%	28.4%

NB: 15/16 and 16/17 restated in a consistent manner to 17/18

Reducing agency spend in Care and Support

- Use of agency staff is not only more expensive but also a control issue in our services. We believe that using our own staff helps us deliver a better, safer service – especially to our vulnerable customers. Over the last year we have reduced agency usage significantly, from around £200k per month to an average of around £50k per month, and this is budgeted to decrease further. We have achieved this by restructuring some of our operations and significantly focusing on this area to reduce cost and increase efficiency.

Reviewing and action on underperforming Care and Support schemes

- We are continually reviewing the performance of our schemes and any that are performing under our minimum target rate of 15% are put on an intensive care list – for review, remodelling or disposal as appropriate. One of the larger loss-making contracts, Cambridge learning disability services, comprising eight schemes, was transferred to a specialised provider in November 2016 and other poorly performing schemes have been remodelled as appropriate.

Developing the Care and Support business

- Having been through a challenging few years we are continuing with our growth strategy, with the aim of growing the Care and Support business, through organic growth and acquisition, building on relationships we have with commissioners and looking at opportunities as they arise. We have also significantly reduced the amount of business lost to churn, with no significant contracts ending unplanned in the last year. Our current focus is on growing positive lines of business in older persons and mental health services, with the aim to maintain and strengthen our surplus in what remains an extremely challenging commissioning environment.

Clarification and action on costs and expenditure, in particular service charges

- We report at a detailed scheme level and this enables identification of cost issues and enables action to be more efficient in our operations. We have recently undertaken a detailed review of service charges to ensure they are being accurately costed and recovered effectively. Improved income processes have allowed better recovery of debts before amounts get unmanageable. Reduction in office space and better use of vacant space and spare rooms has reduced expenditure in this area. Reporting now under product streams has allowed the business reporting to be more aligned to its operations.

Action taken to absorb rental reduction on supported housing

- We have looked carefully at our costs within supported housing to mitigate as much as possible the reduction in rents in this area. This has included a reduction in our voids, better pricing in some of our service charge contracts and more efficient ways of working within the organisation. We have converted where possible some of our 'managed by other agent' (MBOA) contracts back to being directly managed, to allow better management and control. Condition and safety of our properties is paramount and we have absorbed the cost of a team in the coming year to improve the maintenance standards of our properties.

Tightening control of our development programme

- In 2016/17, we beat our target for new homes by delivering 726 (against a target of 725). When joint ventures are included, this figure rises to 832. We have 692 homes in the pipeline for 2017/18 and 884 for the year after.
- We delivered a Transfer of Engagements on our flagship Clapham Park Homes business, simplifying governance.
- We have worked hard to ensure all of our legacy land bank is either now in development or has been sold.

Our performance – how we compare with the sector

Our sector has traditionally used a number of approaches to benchmarking performance and we welcome the move towards a more standardised sector scorecard. The table below shows our performance relative to our peers. It is worth noting our margin outperformance versus the g15, despite the size of our Care and Support business.

Measure/indicator	MHT Group 2017	MHT Group 2016	g15 2016 average – revised basis
Business health			
Operating margin			
Overall	36%	35%	32%
Social housing lettings	40%	43%	36%
EBITDA MRI (as % of interest)	148%	135%	190%
Development			
Units developed	832	371	781
Units developed as % of units owned	2.6%	1.2%	2%
Gearing (total debt/housing properties)	37%	41%	45%
Outcomes delivered			
Customer satisfaction	57%	56%	76%
£s invested in new housing supply for every £ generated from operations	£4.03	£1.32	£1.20
Effective asset management			
Return on capital employed	3.7%	3.6%	4.5%
Occupancy	99.88%	99.61%	n/a
Ratio of responsive repairs to planned maintenance spend	0.39	0.57	0.64
Operating efficiencies			
Number of units used	31,226*	31,376	
Headline social housing cost per unit	£4,509	£4,033	£4,690
- Management cost	£1,201	£1,151	£1,278
- Service charge	£866	£854	£613
- Maintenance cost	£864	£859	£1,084
- Major repairs	£1,042	£727	£855
- Other social housing cost	£537	£442	£860
Rent collected	100.4%	100.8%	98.0%
Overheads as % of adjusted turnover	12.2%	10.4%	11.7%

**See comment on social leasehold units on page 21*

Our overall operating margin, as well as our social lettings margin, remains ahead of the g15 peer group average. In 2016/17, our increased development programme pulled us ahead of the g15 average, in both volume delivered and when looking at our investment in new housing supply compared with cash generated from operations.

Most of our variances to the sector reflect our business mix, in that we have different volumes of outright sales and Care and Support contract operations compared with the g15 average. These dilute operating margins and increase service costs per unit; however, we remain a consistent and strong performer in our core social housing lettings business.

The largest area of concern remains our customer satisfaction scores. While we would welcome a more consistent approach to measuring satisfaction across the sector, we do not shy away from the difficult truth that we have much work to do to improve how we are delivering for our customers. Some of the key initiatives we are undertaking to drive improved performance for customers are outlined in the section 'Where we see opportunities for improvement' on page 26.

Headline social housing costs

The headline social housing cost is based on key social housing costs, including capitalised major repairs, and excluding depreciation and non social housing costs. It is used by the HCA to calculate sector-wide cost per unit figures, as set out in the second table that follows. Unit numbers used are as submitted via the annual FVA return. It should be noted that this figure is not comparable to the overall revenue operating cost set out on page 10, which includes all revenue expenditure and no capital costs.

Looking at our total headline social housing letting costs, we have had a modest increase into 16/17.

	13/14		14/15		15/16		16/17		17/18 forecast	
	Total cost (£m)	Cost per unit (£)	Total cost (£m)	Cost per unit (£)	Total cost (£m)	Cost per unit (£)	Total cost (£m)	Cost per unit (£)	Total cost (£m)	Cost per unit (£)
Number of units		**35,604**		**35,844**		**31,376**		**31,226**		**32,075**
Core expenditure	67.8	1,904	60.5	1,688	58.35	1,860	56.83	1,820	63.28	1,973
of which reactive maintenance and management	*64.6*	*1,815*	*57.9*	*1,616*	*26.63*	*849*	*26.98*	*864*	*25.56*	*797*
Recoverable expenditure	20.8	585	23.4	652	27.49	876	27.04	866	23.66	738
Repairs and other investments	22.7	637	19.5	544	31.87	1,016	42.93	1,375	42.02	1,310
Discretionary	16.4	460	14.7	410	11.99	382	12.51	401	16.09	502
One-off	0	0	0	0	8.93	285	1.50	48	2.00	62
Total	**127.7**	**3,586**	**118.1**	**3,294**	**138.6**	**4,418**	**140.8**	**4,509**	**147.1**	**4,585**
15/16 and 16/17 units restated to include social leaseholders						**34,895**		**34,674**		**35,689**
Restated cost per unit						**3,973**		**4,061**		**4,120**

A note on unit numbers: the HCA has recently released its requirements for the 2017 FVA return. Unit numbers are now to include social leasehold, which will increase our unit numbers and therefore decrease the cost per unit. The definition of social leasehold units is somewhat unclear and is still under review internally. We have therefore shown the cost per unit both on its current basis and on the expected restated basis in the table above.

In February 2017, the HCA published 'Global Accounts' information based on all FVAs submitted by RPs with more than 1,000 units, as at 31 March 2016. This included cost per unit data, which we have used to benchmark our performance (at group level) against the sector, as set out below.

	Cost per unit (CPU)					
2015/16 Based on 31,376 units	Headline social housing cost	Management cost	Service charge cost	Maintenance cost	Major repairs CPU	Other social housing costs CPU
First quartile	3.19	0.78	0.24	0.82	0.57	0.12
Median	3.55	1.02	0.37	0.98	0.81	0.26
Third quartile	4.40	1.24	0.58	1.18	1.10	0.51
Median	3.55	1.02	0.37	0.98	0.81	0.26
Average	4.28	1.10	0.62	1.01	0.90	0.65
Max	25.19	7.55	15.51	2.07	3.74	14.41
Min	2.02	0.14	0.00	0.23	0.00	-0.25
Metropolitan (Group)	**4.42**	**1.48**	**0.88**	**0.88**	**0.73**	**0.45**
Metropolitan expenditure	**138,634**	**46,480**	**27,494**	**27,631**	**22,804**	**14,225**
Less exceptional pension expenditure	(9,433)	(9,433)				
Adjusted expenditure	129,201	37,047				
CPU excluding exceptional expenditure	**4.12**	**1.18**				

Metropolitan is in the highest quartile overall; however, this includes a one-off cost related to a triennial pension contribution, which was included in management costs. Once this is adjusted for, we are in the third quartile. Our service costs and other social housing costs are relatively high, which is mainly a function of our high levels of care and support activity. Metropolitan's maintenance costs have generally been lower than average within the sector; however, we are now increasing investment in this area.

Managing our return on assets

A top-level view of our return on assets performance comes from comparing our letting properties (general needs, supported housing etc.) with our low-cost home ownership (LCHO) properties. As the table below shows, the scale of our development programme, combined with the effect of rent reductions and an increase in our major repairs programme, has led to a dilution of our lettings returns. However, LCHO returns, which are not impacted by rent deflation, have shown a marked improvement, indicating an improving operation.

	2017			2016*			2015
	Lettings	LCHO	Total	Lettings	LCHO	Total	Total
Surplus	£59.1m	£20.4m	£79.5m	£65.2m	£18.9m	£84.2m	£76.4m
Net book value**	£2.3bn	£0.3bn	£2.6bn	£2.2bn	£0.3bn	£2.5bn	£2.5bn
Return on assets	2.5%	7.6%	3.0%	2.9%	6.4%	3.3%	3.0%

* The figures for 2016 have been restated for an additional £3.549m of amortised grant income

** Based on closing net assets – deemed cost

Therefore, the relative proportion of different product types (rental, shared ownership, etc.) has an impact on our overall return on assets. By renting out our properties at a greater discount to the market, we are delivering more social value to those residents. However, the balance is rather more complex and our approach to optimising return on assets is laid out below.

Return on assets framework

We are required to manage our asset base effectively. As a social landlord we believe that our approach to optimising return on assets needs to be more sophisticated than a straight comparison of financial return.

In last year's value for money report, we described a new framework which was being implemented in the business for understanding return on assets across our general needs housing portfolio.

Rather than concentrating on an absolute measure, our framework compares return on assets to the social value generated by those assets. This social value is driven by the discount to market rent given.

Generally, we would expect that higher return on assets is delivered in areas with a lower rental discount, and vice versa.

We stated last year that work on developing the framework was ongoing as we sought to make further refinements, and that it was our intention for it to form a core part of development appraisals, asset management strategy and our overall portfolio strategy. Progress within each of these areas is summarised below.

Further development of the framework

A great deal of work has been completed on validating data and ensuring consistency. This has been achieved using the Neighbourhub tool, implemented during the year, which has allowed us to analyse property surpluses in more detail at a neighbourhood level.

This, in turn, has enabled us to incorporate expected returns into development, asset management and portfolio strategy.

Development appraisals

The approval process for every new development now requires an analysis of the forecast return on assets versus the customer discount offered (in the case of subsidised rent). Developments can be assessed as delivering an appropriate level of return – or not.

While traditional financial appraisal techniques focus on the financial viability of projects as a whole, this step specifically ensures that those elements which utilise subsidy (whether internally or externally generated) strike an appropriate balance between financial sustainability and value for our customers.

Asset management strategy

Having established those neighbourhoods delivering below the expected level of return on assets, further analysis has enabled us to investigate underlying key performance measures in these areas to help us identify necessary actions to improve returns.

The four neighbourhoods identified with the highest degree of underperformance comprise more than 3,000 properties, and have shortfalls between 0.33% and 0.70% below what would be achieved if return on assets met the expected level.

Performance in the largest of these (comprising more than half the properties) is being addressed through major regeneration in Clapham Park.

Areas of focus identified in other neighbourhoods include: property turnover, days taken to re-let, arrears, repairs per property, cost per repair and void loss.

Further work is now underway with relevant teams to address these particular concerns to improve performance in these neighbourhoods, with these and other key indicators subject to ongoing monitoring.

This is being supported through the further roll-out of Neighbourhub, a tool that allows drivers of performance to be interrogated at a unit level. This means that root causes of performance can be addressed.

Portfolio strategy

The return on assets framework impacts on our portfolio strategy in two ways. First, following the detailed analysis described above, neighbourhoods may be highlighted where underperformance is harder to improve through operational measures: for example, if the structure/age of a property or its geographical location presents particular challenges. In these cases, areas of stock may be considered for regeneration or disposal (via a sale or stock swap) in cases where another provider may be better placed to manage the properties.

Second, on a more proactive basis, work is underway to determine how portfolio management decisions might improve the overall development capability and operational efficiency of Metropolitan. A number of factors form part of this consideration. In key strategic locations, we are working to identify individual properties which could generate capital in excess of that required to develop equivalent homes in the local area, thereby enabling efficient use of funds and maximising development capacity. In lower priority locations, we are using the return on assets framework to help establish priority neighbourhoods for potential sale or stock swap to enable us to improve operational efficiency across the portfolio in the longer term.

Where we see opportunities for improvement

We never want to be complacent and recognise that not everything has gone as we wished. Therefore, we focus on ensuring we learn from our disappointments, which this year include:

- No breakthrough on customer satisfaction
- A supplier failing to deliver a promised customer relationship management (CRM) solution which would allow:
    - A single view of customers to be available so we can serve them better – because we understand their range of needs, not just a single issue at a time
    - The transaction history of customers to be visible so that faster, better service can be provided – because they do not need to start at the beginning each time they contact us, e.g. on repairs

These disappointments are the areas of key focus for the organisation. In particular, our further roll-out of Metworks, which delivers so much high customer satisfaction, is seen as part of a solution to improving customer satisfaction. But we also recognise the need for us to listen better to our customers, not just when things go wrong but on a more fundamental level. We need to develop a deep understanding of customer wants, needs and attitudes and shape our service delivery accordingly.

Our business plan contains a number of themes aimed, ultimately, at improving our performance and enhancing the value for money that we deliver. Below are a number of examples.

Metworks expansion

- Metworks is taking on an increasingly prominent role, both geographically and in the services that it delivers. This has the benefit of improving our cost control, while at the same time delivering a better service to customers.

Procurement overhaul

- The Procurement team is moving to a category management structure, with a clear focus on delivering both bottom line savings and social value through independence steps. Improved supplier relationship management techniques are being introduced, with the aim of improving both customer satisfaction and value for money.

More productive working

- We are rolling out further mobile working technology, along with upgrades to our IT. This will improve our colleagues’ ability to work effectively and efficiently, reducing the time taken by frontline staff on administrative tasks.

Improving customer satisfaction

- Research into customer attitudes and needs has been launched and will continue into next year. This is aimed at supporting the design of even more effective services and interventions. This will enhance value for money through supporting the delivery of better targeted, more timely, outcome-focused support that our customers need.
- An ongoing review of customer satisfaction measures is focusing on ensuring we are better capturing customer feedback. This is designed to improve our Service Improvement team's ability to understand, and fix, the root causes of problems for our customers. Additionally, an ongoing analytical programme is investigating different levels of satisfaction in different groups of customers, which will link to the customer research mentioned above. This insight will inform work on the redesign of our services so that our focus is on improving what matters to those different groups of customers.
- These examples are supplemented by a raft of initiatives delivered through our Service Improvement function that seeks to deliver a better service to our customers at a lower cost.

Our drive to improve the efficiency of our operations is ongoing and our commitment to delivering better services to our customers is at the heart of what we are about. This is what delivering value for money means at Metropolitan.