



AFFINITY SUTTON
VALUE FOR MONEY
STATEMENT 2015/16

VALUE FOR MONEY HIGHLIGHTS

We are proud of our continuing excellent track record of delivering value for money. Outlined below are some of the highlights for 2015/16:

- £11m of estimated efficiency savings delivered this year, whilst continuing to provide excellent services for our residents
- Achieved social housing costs below the median and close to the lower quartile figures recently published by the Homes and Communities Agency (HCA)
- Generated a total of £99m in savings which directly benefited our residents through work schemes, debt advice and energy efficiency improvements to homes
- Our Money Matters service helped save residents an estimated £11m in reduced payments and debt write-offs
- Generated shared savings of £0.7m across our three major works partnering contractors
- Our boiler upgrade programme will generate average savings per household of £90 per year over the 15 year life of the boiler, which represents a £153,000 saving per year
- Bringing our stock condition surveys back in-house has resulted in a more efficient process and savings of £140,000 this year
- Significant efficiency savings of £240,000 have been made by our in-house repairs services through containing the increased cost of annual maintenance
- The disposal of stock that is no longer fit for purpose has generated sales income of £6m and an overall return of £3m
- Affinity Sutton Professional Services optimises the usage of our housebuilding programme VAT arrangements, saving £720,000 this year and £4m since inception
- Total cash savings of £535,000 achieved through the Group's procurement activity.



INTRODUCTION

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As a result, we have consistently performed as one of the most efficient organisations in the sector.
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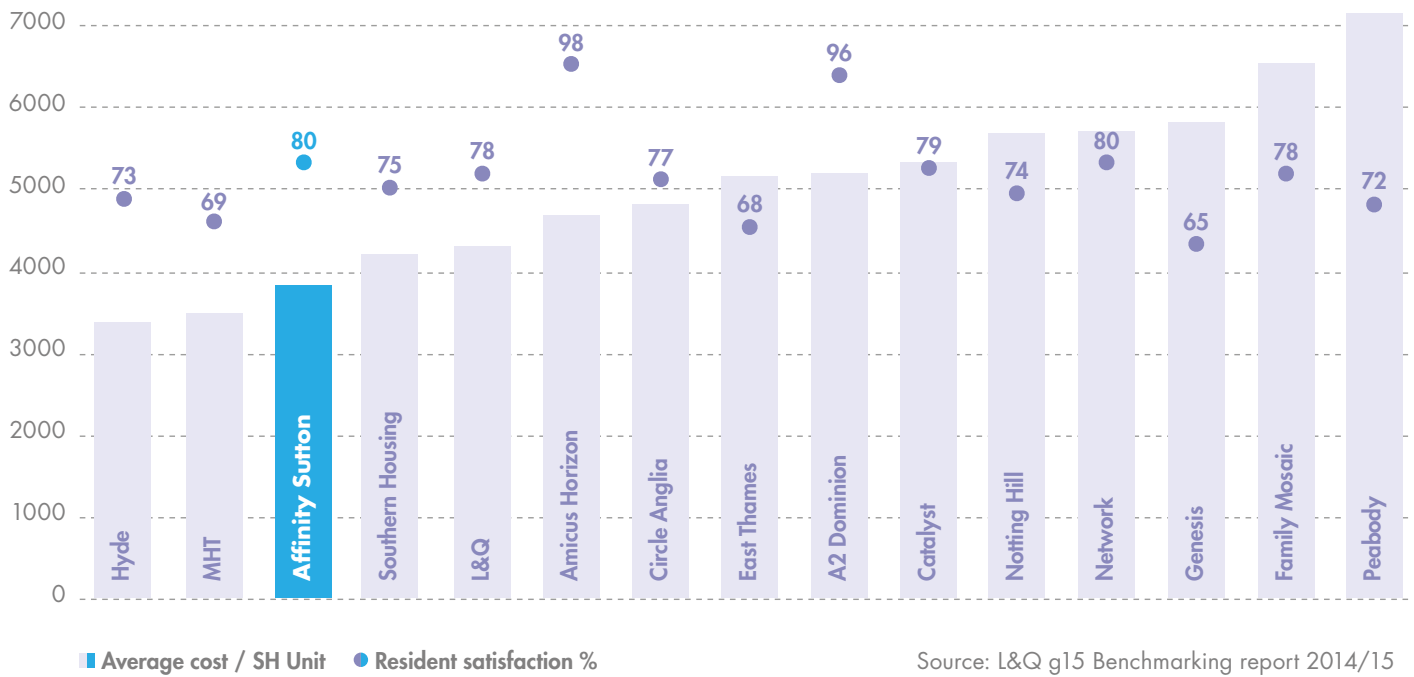
Affinity Sutton has an excellent track record of delivering value for money and it is at the heart of everything we do. This year we have again demonstrated our commitment and resolve to run a highly successful and efficient business.

We estimate we delivered £11m of efficiency savings this year whilst continuing to provide excellent services for our residents. This compares to £7m in the previous year. As a result, we have consistently performed as one of the most efficient organisations in the sector, as borne out by the recently published Homes and Communities Agency (HCA) analysis of social housing costs. Indeed our financial strength and organisational agility has placed us in an ideal position to not only withstand an uncertain public policy landscape but also to maintain consistent service standards and continuing growth.

Our response to the changing landscape has gone further than just reviewing our Business Plan. Given our commitment to providing a blend of excellent service and value for money we are investing in a major programme of business change that will transform the way we do business and further reduce our operating costs. This report sets out the first steps we have taken to develop this programme over the last financial year.

Also detailed in this report are our ambitious growth plans, primarily through merger. We are confident that developing our organisation will enable us to drive further efficiencies, improve our offer to both residents and the wider community, and significantly increase our capacity to build the homes the country so desperately needs.

This Value for Money Report sets out Affinity Sutton’s ongoing commitment to achieve value for money for our residents, stakeholders and investors. The report highlights a number of measures we have taken to drive further efficiencies, despite ongoing uncertainties in our operating environment, in addition to setting out our ambitious plans to transform the way we go about our business and the significant associated savings that this new approach will bring.



OUR FINANCIAL STRENGTH

This year the Group made a surplus of £145m on a turnover of £386m generating an overall margin of 37.5% which demonstrates another year of strong financial performance.

We are recognised by credit rating agencies as one of the most financially strong organisations in our sector, which is reflected in our best in sector Aa3 rating, and this enables us to raise funding in order to build new homes and also invest in our communities and existing stock.

This year the Group invested £37m, which represents a long-term investment in our existing housing stock with an additional £165m invested in new homes for a range of tenures. We completed in excess of 1,000 new homes during the year and these homes were delivered with limited grant funding.

Our year on year focus continues to be to keep operating costs under control and to forecast no growth in underlying costs. With the business growing by over 1,000 new homes a year that is a challenging assumption which drives a real focus on securing value for money. This year we have seen growth in our controllable unit costs of 2.1% which compares to inflation over the same period of 2.3%, and the recently published HCA data shows our social housing costs to be below the median and close to the lower quartile. For a national provider with homes across the country and stock built in every decade of the last century we believe this demonstrates that we deliver value for money.

As set out in this report, we have made significant improvements in our service offer and the Group generated a total of £99m in savings which directly benefitted our residents through work schemes, debt advice and improvements to the energy efficiency of their homes.

The chart above shows both average cost per unit of our social housing, including capital major works, in addition to resident satisfaction scores compared across the g15 group of large London housing associations. We remain a top quartile performer within this peer group and the chart demonstrates our commitment to providing both value for money and excellent standards of service for residents. Resident satisfaction with Affinity Sutton further increased to 83% in 2015/16.



GROWTH THROUGH MERGER

Our Group is financially strong, a house builder of scale and provides a range of excellent services. We recognise that public policy priorities require the sector to secure a successful future for itself. With this in mind we entered into merger talks with Circle Housing Group, who share similar values with us, and a business case to merge was agreed by both Groups' Boards in December 2015. We are pleased to see others in the sector following our lead on merger as we believe it is the best way for us to deliver our services. The business case to merge the two organisations was made on the basis of the following four key points:

- More and better services for our existing customers
- Stronger financial position
- Create capacity to deliver more new homes to meet housing need
- Resilience and risk management

Together both Groups will be stronger and have committed to:

- Deliver with a programme of 50,000 new homes being built in the ten years from 2020, making the merged group one of the largest house builders in England.
- Build homes across all tenures and at a range of price points with a focus on delivering homes for subsidised rent and low cost home ownership for people in housing need.
- Lead on major neighbourhood transformation projects, generating support from both local and national government.
- Through its charitable foundation, become one of the country's biggest providers of employment services, supporting 4,000 people into work annually.
- Help 200 young people into apprenticeships each year and support 15,000 children to make a better start in life, for example through partnerships with local schools.

We are confident that the proposed Group will be able to provide excellent services to both residents and non-residents alike and we will be able to find significant efficiencies during and beyond the integration process by, for example, driving the economies that come with scale. Our ambition is to deliver operating costs per home for the combined group which are equivalent to the performance Affinity Sutton achieves now.

THE AFFINITY SUTTON APPROACH

DELIVERING SOCIAL VALUE IN OUR COMMUNITIES

Affinity Sutton was born out of the legacy left by our founder William Sutton. It is from this heritage that our primary 'business for social purpose' ethos was born.

We run our business on commercial lines, with a keen eye on both efficiency and delivering value for money. It is because of this that we are able to channel so much of the money we make into delivering social benefits for the communities in which we operate.

The work we have produced with HACT to develop a set of financial values which can be attributed to particular interventions is increasingly being adopted by other landlords in the sector. Being able to quantify the impact of our investment on peoples' wellbeing has proved invaluable not only in helping us to understand the return on our investment but also as we refine and develop our community investment programmes.

This year we have achieved a social benefit of £70m, this compares well with the previous year, not least as we had a reduced budget for community investment, and indicates improved

performance in this. The community investment team set a 'real terms' saving target of 20% over the last two years. This did not result in a cut to resources or services but was achieved through a range of efficiency saving measures such as delivering training through online material resources.

Affinity Sutton's investment has a significant direct impact on improving the lives of our residents and their communities. Each year the Group funds £4m of community investment projects and this year secured matched funding and additional support of £1.4m to support projects in neighbourhoods where we are the predominant landlord.

An important element of our community investment programme is an employment service called 'Ready2Work'. This year the service helped a record 1,003 people to find work. In addition to this, we also achieved another record by providing 110 apprenticeships, helping those young people to learn vital work skills.

Training opportunities are another platform of the Ready2Work programme. We are pleased to have achieved a further record here, helping 2,741 people to access training opportunities.

In 2015/16 we were successful in bidding for £13.3m of European Social Fund monies to the Greater London Authority (GLA) for 'Love London Working' (LLW). This three year project launches in 2016 and will support 21,000 unemployed and economically inactive Londoners, helping 6,500 into work. Affinity Sutton is leading the project on behalf of 15 other London housing associations, including most of the g15.

The Group established the first national partnership between a housing association and a credit union (Leeds City CU) in 2013. This year we continued to build on the success of this partnership and saw 370 new credit union accounts taken up.

During the year our 'Money Matters' service provided over 8,000 support interventions to help residents manage their money better. This included record numbers supported by our debt advice and affordable loans providers helping our residents save an estimated £11m in reduced payments and debt write-offs.



OUR ASSETS

The Group has in excess of 58,000 properties across England. Some of these homes date back to the turn of the last century while others, for example those from local authority stock transfers were built in the 1950s, 60s and 70s.

It is incumbent on all housing associations to make the best use of their assets and we continue to improve on our approach. We have two main tools by which we inform our future investment and disposal decisions:

Estate Quality Index (eQual) is a qualitative scoring system for our estates based on a range of management and customer indicators, helping us understand how much effort an estate takes to manage and the desirability of the estate to current and prospective tenants. eQual is made up of tenant turnover, current tenant average stay, re-let times, contact volumes, account balances, void loss and repairs volumes. It is a robust and accessible tool which can be used to compare estates and can then be used to measure impact gained due to any interventions from Affinity Sutton.

Estate Financial Model (eFin) is a discounted cashflow model that provides net present values, yields and vacant possession values for our properties, helping us understand how much our properties will make (or cost) us over the coming 30 years

in today's money. Our reinvestment team use the eFin model to identify poorly performing estates based on their financial performance and carry out an options appraisal looking at the fabric of the buildings and wider environmental works involving a number of different departments in the organisation.

It is critically important that we manage our assets carefully in order that we derive the most value from them. Our total maintenance spend is £109m a 4% increase this year from £105m, which reflects day to day maintenance spend, investment in replacement components such as kitchens, bathroom, boilers and windows but additionally a major programme of electrical works. Planned investment works are carried out by our three major works partnering contractors which delivered shared savings of £0.7m in the year.

Our major repairs investment and maintenance spend in the HCA analysis falls between the median and upper quartile, from our own analysis we believe this is in part due to the spread of our homes from Newcastle to Plymouth and the age of our estates, the oldest of which was built in 1906. We have an options appraisal tool which means that every property which becomes available to let is considered for disposal, investment or immediate relet. We base our decisions on the economic impact over 30 years and the demand for housing in the area.

This year we continued to invest in and develop our energy efficiency programme for the benefit of our residents and the environment. In Bromley, for example, we delivered a major programme of solid wall insulation with 80 homes benefitting from this and tailored energy efficiency advice. We were able to access Green Deal funding through Lewisham Council saving £6,000 per property and have achieved savings on residents' energy bills of around £320 per annum. This project enabled us to meet important environmental standards while providing residents with more comfortable homes that are cheaper to run and fit for the future.

We have also made significant strides this year in realising savings for residents though upgrading their boilers to more energy-efficient models. We fitted 1,700 new boilers in 2015/16. We expect the average savings per household to be £90 a year over the 15 year life of the boiler. This represents a £153,000 per year saving for residents in addition to the environmental benefit that will be delivered by upgrading from D-rated boilers to an average A-rated combi model.

In addition to planned boiler replacement works we upgraded 82 properties from electric to gas heating during the year, which has saved residents an estimated £225 a year on their fuel bills.



As a responsible landlord we are committed to maintaining and improving the condition of our stock. Previously stock condition surveys were outsourced to external consultants with Affinity Sutton staff validating and formatting the resulting data. As a result we recognised that the process was not providing best value. Given this, we have now taken the stock condition surveys in-house, supported by the development of a new iPad app. This has resulted in a more efficient process and a saving of £140,000 this year.

During the year we have made significant efficiency savings in our in-house repairs service(s). Among these, we have achieved savings of £240,000 by containing the increased cost of annual maintenance. Despite identifying and achieving savings, we remain one of the highest performing organisations in the sector for customer satisfaction. In 2015/16 customer satisfaction ratings for repairs were 89.6%. We are committed to providing excellent customer care and efficient responsive repairs and will continue to regularly track customer satisfaction.

Each year we dispose of housing stock which is no longer suitable for the provision of social rented accommodation. In 2015/16 year we generated sales income of £6m from these disposals and an overall return of £3m.

NEW HOMES

Affinity Sutton has a long history as a developer of homes at a significant scale. Over the last year we have built 1,041 new homes across a range of tenures.

Central to our development programme is ensuring we are able to focus on those who are failed by the market. Those homes were developed with just 6% of public subsidy, an average of £6,000 per home, the lowest level of government grant we have had in our modern history. Supporting a programme of this scale has meant we have undertaken commercial activities to generate returns to fill the gap left by shrinking public funds.

This year's financial surplus is significant but it is again smaller than the £148m long-term investment in social housing we made over the last twelve months. Net of grant, we invested £111m into the construction of new social housing properties. Our entire annual surplus was applied to our core social housing activity through a programme of planned improvements, as well as the development of new social housing.

In 2010 the Group established Affinity Sutton Professional Services. This is a build and design company to deliver one stop professional services to Development and which optimises the usage of our VAT group arrangements. This year the use of this company saved the Group £720,000 with total savings since its inception running at over £4m.

PROCUREMENT

The Group maintains a savings register which is verified and lists all savings achieved through procurement. We strive to consistently realise savings in procurement on a year on year basis delivering value through both tender processes and contract management.

Total cash savings which have impacted in 2015/16 achieved through the Group's procurement activity stands at £535,000. Total savings achieved in 2015/16 which offer significant levels of savings in future year's stand at £1.5m. Procurement aims to ensure value for money is achieved at the awarding of contracts and extends to strategic delivery. We expect to deliver additional value from the tender process as well as ongoing contract management.

TRANSPARENCY AND SCRUTINY

Our Group is committed to transparency. We publish detailed information about our spending, both on our website and in our financial statements.

Our website contains details of payments to our top suppliers, the pay and reward offered to our staff and board, key statistics and performance information, action taken to combat tenancy fraud, delivery performance on our affordable homes programme, our current regulatory rating, our code of conduct and the results of resident scrutiny.

Our residents remain at the heart of everything we do. Our Regional Scrutiny Boards (RSBs), for example, are engaged in examining our performance in core areas of the business and making service improvement recommendations to the Board.

TRANSFORMING THE WAY WE DO BUSINESS

The Group recognises that simply driving cost savings will ultimately result in diminishing returns and also runs the risk of reducing our traditionally excellent levels of service.

In order to mitigate this we are embarking on a major programme of transformational activity that goes beyond traditional continuous change processes and which will deliver ongoing benefits to residents and a significant return on investment.

This group-wide change programme, 'Future Foundations' will result in a transformation of service provision, working practices and customer experience. In 2015 we entered into a partnership with Hitachi (following an OJEU process) to deliver an Enterprise Resource Planning (ERP) IT system and to work with us on a comprehensive review and revision of all business processes.

We are now developing all-new business processes as a result of this exercise. These changes will ensure that the business is equipped for future growth in line with the Group's ambitious growth strategy as well as providing an outstanding level of service to our customers, staff and business partners.

The Future Foundations Programme will deliver in three key areas:

- Customer — improving the way we communicate with our residents
- Ways of Working — improving the way we do business; and
- Technology — implementing the new ERP system

This programme is ambitious and timely. It will provide a set of strategies on which the business can build future systems and processes, enabling us to meet our goals. The work will comprise a series of co-ordinated projects which will be delivered over the course of the next three to four years and is expected to deliver a return on investment of £12m.

VALUE FOR MONEY



SUMMARY OF 2016 VALUE FOR MONEY

£11,106,126

Efficiencies 2015/16

£98,754,237

Resident benefits

EXAMPLES OF 2016 VALUE FOR MONEY

Departments/ teams	What action was taken	Amount	Efficiency/ resident benefit
Energy and sustainability	Electricity savings generated via employee engagement by raising awareness of the importance of resource efficiency.	£284,000	Efficiency
ASR	Change in procurement framework agreements, leading to economies of scale savings on repairs material supply.	£50,000	Efficiency
CBS	Centralisation of repairs complaints management function has led to the reduction in head count by identifying and eliminating duplicate resource. Other qualitative efficiencies include faster complaint resolution and reduced complaints throughput.	£50,000	Efficiency
Community investment	Social Impact measurement tool developed with HACT – this helps quantify the cost/benefit ratio which this year improved to a ratio of 18:1, i.e. £18 social pounds generated for every actual pound spent.	£70,000,000	Resident benefit
Community investment	Referral to free debt advice to residents leading to a reduced debt write off, as well as debt recovery costs. This is across digital inclusion interventions and debt advice services.	£5,347,589	Resident benefit
Regenerations and communities	Savings in benefit payments by supporting the unemployed back into work.	£6,994,681	Resident benefit
Regenerations and communities	Digital Inclusion – Get Connected programme to promote internet use and generate residents savings from being online.	£1,230,600	Resident benefit
Major works	Contractor cost efficiency savings as part of our partnering contracts. Cost mechanism incentivises our contractors to work efficiently and deliver work for less cost than set targets for a share of these savings.	£704,000	Efficiency
Asset sustainability	The energy efficiency programme includes one-to-one visits with residents to deliver energy efficiency lifestyle advice. Leading to: <ul style="list-style-type: none"> • Average SAP improvement of 11 points (EPC band D to C) • Reduced damp and condensation problems. 	£493,053	Efficiency and Resident benefit
Customer services	Additional benefits secured by the Welfare Benefits team for our residents and arrears reduction.	£946,032	Efficiency and Resident benefit
Marketing and communication	Reduced printing costs by moving to a more digital focused approach	£70,000	Efficiency
IMS	Reduction in Microsoft licencing cost by changing to a subscription software licencing model.	£137,562	Efficiency
Procurement	Retendering of office services – cleaning contract	£50,400	Efficiency

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CO-OPERATIVE AND COMMUNITY BENEFIT
SOCIETIES ACT 2014 NO. 28038R
WITH CHARITABLE STATUS
HOMES & COMMUNITIES AGENCY NO. LH4087
