



**Ocean Housing Group
Value for Money Self-Assessment
2015/16**

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1. OVERVIEW OF BUSINESS

Ocean Housing Group Limited is a registered provider and a company limited by guarantee. It was formed in December 2003 to enable the creation of the Ocean Group of companies. As at 31 March 2016, the Group consists of the following companies:

Ocean Housing Group Limited – A non-asset owning registered provider and non-charitable company limited by guarantee, providing quality, efficient and effective corporate and strategic services to the Group's subsidiaries.

Ocean Housing Limited – a Registered Society under The Co-operative and Community Benefit Society Act 2014 and Registered Provider of social housing with the Homes and Communities Agency, providing quality, efficient, effective and caring services to its tenants, together with the maintenance of its houses and estates in order to provide an environment for its residents to enjoy a safe, secure and high quality of life. The company was originally formed in 1998 and commenced operation in February 2000 when it purchased the whole housing stock of 3,502 homes from Restormel Borough Council.

Gilbert & Goode Limited – A company limited by shares, providing good quality and competitive building contracts for a range of customers, including new build affordable homes for Ocean Housing Limited. The company also build new homes for open market sale.

Ocean Services (SW) Limited – On 31 August 2015 the main trade of Ocean Services (SW) Limited was transferred to Ocean Housing Limited, effectively bringing in-house the maintenance work for that company. Ocean Services (SW) Limited ceased to trade on 10 November 2015.

The Group's housing stock is located within the county of Cornwall. At the 31 March 2016, the Group owned 4,296 (2015: 4,204) affordable homes. A further analysis of the Group's assets is as follows:

<u>Ocean Housing Affordable Housing Stock</u>	2016	2015	2014
General needs	2,959	2,992	3,000
Sheltered / supported housing	765	769	774
Affordable rented	160	111	96
Other rented	81	45	12
Sub Total	3,965	3,917	3,882
Shared ownership	331	287	263
Total	4,296	4,204	4,145
Leasehold properties	129	127	127
Garages and car spaces	575	575	577
Shops and offices	6	6	6

Our Vision

The Group's mission statement is;

“To be an innovative provider of quality homes and services with residents and staff at the heart of Ocean, and Ocean at the heart of the community.”

The Group's vision is laid out in its Corporate Strategy, the resources for such being incorporated into a 40 year Business Plan; this is reviewed, updated and approved by the Board on an annual basis. The objectives are then translated into annual company plans, which outline and set targets for operational delivery of Corporate Strategy objectives for the year ahead in the context of continuous improvement and efficiency.

Statement of Compliance

The Board of Management confirms that the Operating and Financial Review (incorporated within this Strategic Report) has been prepared in accordance with the principles as set out in the 2014 SORP for Registered Social Housing Providers and Regulatory Standards issued by the Homes and Communities Agency (HCA) for social housing providers in April 2012.

For the first time registered providers are required this year to certify their compliance with the Governance and Financial Viability Standard by their regulator, the Homes and Communities Agency. Ocean Housing Group and its regulated subsidiary, Ocean Housing Limited confirm that they comply in all respects with the standard. This statement is made following careful consideration and assessment by the Board.

2. VALUE FOR MONEY (VFM)

Our approach

Overview

Providing Value for Money is more than providing quality services at a low cost, although this is of course very important. We are a significant business in Cornwall and we want to maximise the impact of our work and investments so that our customers, the communities we serve, and the environment, benefit from what we do.

The work we undertake is complex, with a range of objectives, so there will always be dilemmas and compromises. Whichever decisions we make there will be opportunity costs, but we have always had clear objectives that are scrutinised and regularly reviewed. This is supported by a comprehensive framework in place to ensure that the boards, staff and residents have the information they need to make informed decisions and gain assurance that we are delivering the best possible outcomes. Customer feedback and challenge play an important and increasing role in the monitoring of our services with the Tenants and Residents Panel, Tenant Monitors and the Scrutiny Panel providing useful insights alongside more traditional feedback in the form of surveys, complaints and compliments.

Headline Social Housing Cost per unit

The HCA published their assessment of the sector's approach to VFM in June 2016, 'Delivering Better Value for Money'. This publication can be found at www.gov.uk/government/publications. Within the report, the HCA have developed a measure called 'Headline Social Housing Cost' per unit. This effectively looks at all costs incurred by housing associations and divides them by the number of units managed in order to form a basis for comparison.

The mean average headline social housing cost per unit across the sector in 2014/15 (the latest period with comparative detail available) was £3,950 per unit. Ocean's cost per unit in the same period was £2,550 per unit, 35% lower than the sector average. Ocean's cost base is lower in all areas analysed separately in the HCA's analysis as set out below.

	Sector mean cost per unit	Sector median cost per unit	Ocean cost per unit
Management & service charge costs	£1,540	£1,360	£1,050
Maintenance costs	£1,010	£980	£830
Major repairs costs	£930	£800	£670
Other social housing costs	£470	£200	-
Headline social housing costs	£3,950	£3,550	£2,550

Ocean has always had a focus on operating efficiently since its inception in 2000. Rent restructuring in 2002 resulted in Cornwall having some of the lowest social housing rents anywhere in the country. The impact on Ocean was significant at the time with £60 million of income being taken out of the business' long term cash flow forecasts. This came just two years after the transfer which was a time when investment in the stock was high to bring it up to Decent Homes standard. Operating costs were stripped back to deliver the improvements within the constraints of the income limitation.

Ocean only has a very small proportion (0.4%) of Supported Housing which is more expensive to manage and so its overall cost based is not impacted by these costs. However, 18% of the stock is designated as Housing for Older Persons which does typically carry above average costs of management.

16 years on from the stock transfer, the costs of stock improvements have reduced greatly. However operating cost efficiency has remained important as Ocean focuses on its key objective of investing in the delivery of new homes and service quality. This focus on efficiency has contributed to the fact that Ocean's costs per unit are well below the sector average.

Regulation

It is a regulatory requirement that we publish this Value for Money self-assessment. The Regulator has a VFM Standard which requires that a robust annual self-assessment to be prepared to allow our stakeholders to clearly see what we are doing and whether we are delivering our objectives in a transparent manner and providing Value for Money.

The regulator expects housing association Boards to have;

- A robust approach to making decisions
- A clear understanding of the return on their assets
- Have strong performance management and scrutiny practices
- Full understanding of the costs of the services they provide

In producing its annual self-assessment statement the Board need to provide assurance that;

- Stakeholders can fully understand how assets are being used to achieve Group objectives

The report, in the section on 'Maximising Returns', demonstrates how existing assets are reviewed and if necessary sold. The section illustrates how much sales, along with Ocean's activity and use of security is maximised to support the building of a number of new homes for local people in need and supporting the local economy.

- Stakeholders can see the absolute costs of services and how they compare with others

The report, in the section on 'Providing Quality Services', gives clear information on cost and performance for Ocean in 2015/16 and specifically compares this to a respected benchmarking service. The report draws out areas for improvement, as well as successes, in a balanced way.

- Stakeholders can see VFM gains achieved and get comfort that more will be realised in the future

The report clearly illustrates Ocean's commitment to achieve VFM gains in the section on 'Continuous Improvement'. In this section of the report the reader can see the major VFM gains in the year and crucially, gets assurance that strategic plans are in place to continue the delivery of efficiency gains into 2016/17 and beyond.

The Board of Ocean believes that its commitment to VFM is strong, embedded in its culture and robust. It is committed to providing quality services to its residents, is transparent and encourages and listens to challenge. It believes the Regulatory Standard is met and that this is adequately demonstrated within this self-assessment and through the Ocean website.

For more information, please visit our website at www.oceanhousing.com.

Value for Money Strategy

Ocean's VFM strategy is incorporated within the Group's Corporate Strategy, thereby embedding the VFM culture at the heart of our objectives. The influential Scrutiny Panel hold the responsibility of VFM challenge from a tenant perspective and the Group Audit, Risk and Assurance Committee play a crucial role in managing the Strategy and monitoring progress against objectives. Such a structure ensures that VFM and Ocean's customers are at the heart of the Corporate Strategy.

The current VFM Strategy, which is reviewed by the Board each July, includes a range of projects to be completed each year in addition to determining the VFM culture framework. Such projects seek to establish continuous improvement in services. This is further embedded through strong staff awareness of VFM via staff briefings, inclusion of a compulsory VFM section within the standard board report format and full inclusion of staff in the project reviews. Over the course of 2015/16, VFM has been at the core of a number of Board discussions. The Board have formulated a strategic VFM plan known as the Financial Improvement Plan which will see the social housing operations improve operating margin by £4.0 million by 2018 when compared to the 2013/14 business plan. As shown earlier, Ocean already ranks very well in the sector when comparing the HCA's 'headline social housing cost per unit' with total cost per unit well below the sector average, however the Board have embraced the continuous improvement mentality and are looking to streamline operations further.

In 2015, Group Board established an Economic Forecasting Panel that meets every other month. The Panel is made up of a selection of board members and it monitors the economic environment in which we operate and matches economic indicators to the Group's performance. The information gathered and discussions held at these panel meetings is used to enhance forward strategic planning across all group companies, share knowledge and information across different boards and committees to improve decision making, reduce risk and support the protection of Ocean's social housing assets

Ocean has an annually reviewed Corporate Strategy that drives the business, setting out a vision and a range of objectives to deliver this. The Strategy is underpinned with what Ocean refers to as its Five Golden Threads. These threads are the basis of Ocean's delivery plans, which all staff work towards. Annually, each company in the Group agrees a Company Plan which sets out how it will deliver the Corporate vision, and each task needs to evidence how it will meet the Golden Threads. In turn, these Company Plans feed down to annual individual team and staff targets. The Five Golden Threads are stated throughout each section of this VFM self-assessment, to ensure that at all times focus remains on these strategic aims. The annual budget and business planning exercise is undertaken in line with this corporate planning and allows resources to be deployed by Board so as to effectively meet these objectives and within the capacity available.

In having such strong objectives, the Group can ensure that, at all times, decisions are made in a manner that supports the Corporate Strategy. All Board reports have a structured format that ensures members consider all key matters in a robust and informed manner, consistently being aware of the corporate objectives when making decisions. The overarching objective that is the umbrella to the Five Golden Threads is that Ocean will **have tenants at the heart of everything we do**. At all times Ocean will work to deliver quality services to tenants in a VFM manner and ensure that non-social housing activity contributes at all times positively to tenant services and not put any social assets at risk.

In assessing whether we provide VFM, we look at how effectively we have delivered in the following four themes as contained in the Regulator's guidance. These themes are listed below and we address them by linking them to our Five Golden Threads:

- Providing quality services at the right price
- Maximising returns
- Supporting communities and protecting the environment
- Continuous Improvement

Benchmarking

Where benchmarking has been included within this self-assessment, this has been against a group of 25 Large Scale Voluntary Transfer Housing Associations based in the South of England. The list of associations included within this comparator group is attached as Annex 1 to this Value for Money section. We have used a slightly different comparator group in this year's benchmarking section. We have expanded the group to include more associations in order to give us better comparison to draw upon. This change does not materially alter our benchmarked performance against others. We will look to keep this data set consistent year on year for the future reports.

Providing quality services at the right price

This theme looks at our approach to monitoring performance and how we've performed in the year. It directly links to one of our corporate objectives:

- Provide good quality services, right first time

Group Restructure in 2015

As reported last year, Ocean's Group Board made the decision in 2015 to restructure the Group in order to bring maintenance operations in-house to Ocean Housing Limited. The restructure was completed on 31 August 2015. Ocean Housing has benefited from the restructure as it now has greater direct control over its maintenance operations. Following the completion of the restructure, a detailed review of all repairs and maintenance activity is now underway which will be complete by the end of the 2016 calendar year. This review will ensure that the right services are being provided in the right areas and that the quality delivered to tenants improves further from its already high standard. As well as improving control and quality, a further benefit of the restructure is the reduction in the cost base. Costs were reduced by £313,000 in 2015/16 directly as a result of the restructure. The full year benefit in 2016/17 is expected to be £650,000.

Budgeting

Each year operational budgets are drawn up within the constraints of the long term business plan. By setting budgets within the business plan parameters, we can be sure we are planning consistently to protect the financial viability of the Group. During 2015/16, the budgets for 2016/17 were approved by Board. Each budget line was critically evaluated to ensure Value for Money was embedded in the underlying plans of the business. No budget lines were automatically rolled on to the following year. The Group went through a bottom up budgeting process to scrutinise all expenditure. The result was that non-contractual budget lines were reduced by 20% year on year. Only where budget lines included contractual obligations, were they uplifted. The uplift in wages and salaries, the most significant element of our management cost base, across the Group in 2015/16 was restricted to 1.75%. The pay award to staff in 2016/17 reduced to 1.3%.

Base budgets are critically challenged by the senior management team, the Executive Group, before going to Board for approval. Base budgets include the resources required to deliver a consistent service level, year on year. Where resource is proposed for new or enhanced service provision, specific Executive Group and Board approval is required in order that the Value for Money of the new or enhanced service is separately evaluated. All Board reports are written in a standard format that requires the author to specifically refer to VFM implications of the recommendations in addition to the need to document the risk and financial implications of the proposals.

How we monitor performance in Ocean Housing

Quarterly reports to Board and Executive Group outline our performance across the following areas:

- Human Resources
- Finance
- Neighbourhood and Community
- Development
- Tenant Involvement and Empowerment
- Home
- Tenancy

A comprehensive commentary is provided explaining performance trends and deviations from targets. A quarterly performance report is also published on our website and presented for scrutiny and comment to our Tenants and Residents Panel.

Each year a meeting is held where Board members and involved residents come together to challenge the service standards offered by Ocean and our performance in the year. These meetings feed into our planning process and have helped to enhance our performance culture and establish effective working relationship between Board members and resident panellists. They also increase our overall accountability and add transparency to the planning process.

Target setting is completed annually by the Board prior to the budgeting process, taking account of performance monitoring and benchmarking information and feedback from our involved residents. Targets set are realistic but challenging. We take every opportunity to drive down costs, whilst maintaining the service standards we have agreed with residents. We always look to set targets that stimulate continuous improvement across the whole Group.

Our service performance to residents in 2015/16

Set out below is an extract of 14 key performance measures showing trends and comparisons to benchmark information where it is available.

Performance indicator	Actual	Actual	Target	Actual	Benchmark Quartiles 14/15			Target
	2013/14	2014/15	2015/16	2015/16	Upper	Medium	Lower	2016/17
Current tenant arrears	1.75%	1.88%	1.90%	2.05%	2.01%	2.57%	3.24%	3.00%
Rent written off	0.54%	1.02%	0.60%	0.72%	0.15%	0.31%	0.80%	1.25%
Average re-let times	23 days	19 days	19 days	25 days	19 days	22 days	28 days	19 days
Rent loss through voids	0.93%	0.56%	0.65%	0.78%	0.56%	0.75%	1.28%	0.65%
Repairs completed on time	98.4%	98.5%	99.0%	93.9%	N/A	N/A	N/A	98.5%
Satisfaction with repairs	97.4%	98.4%	98.7%	94.3%	96.5%	93.5%	91.2%	96.5%
Decent Homes failures	0%	0%	0%	0%	0%	0%	0.1%	0%
Average SAP of dwellings	63	69	69	69	N/A	N/A	N/A	69
Time to sell Homebuy	31 wks	30 wks	26 wks	16 wks	N/A	N/A	N/A	26 wks
New homes delivered	41	72	111	116	N/A	N/A	N/A	84
Management and services cost per unit	£1,071	£1,060	£1,152	£1,096	£930	£1,310	£1,880	£1,157
Maintenance cost per unit	£910	£980	£794	£670	£810	£980	£1,180	£624
Major repairs cost per unit	£551	£660	£581	£471	£530	£810	£1,130	£474
Other social housing costs	£0	£0	£0	£0	£80	£200	£410	£0

Two measures (overall tenant satisfaction of 88% and tenant satisfaction with participation in decision making of 72%) are no longer set out above as these results are based on a tenant survey from 2012/13. Further survey activity is being carried out in 2016/17 in order to update these indicators.

What this tells us and how we'll improve

Current tenant arrears has risen marginally over the last two years. We believe this reflects increased financial pressures faced by our tenants. Our performance is towards the higher end of our comparator group and we will continue to focus on keeping arrears as low as possible. We are investing in technology and tracking low level arrears cases more effectively with greater use of automated systems to alert us when new arrears cases arise.

Although rent written off has reduced from last year, this still remains an area where we need to improve. We have continued to manage a number of legacy high arrears cases and this is driving up bad debt write offs. We are focusing on ongoing management of lower level arrears cases in order to prevent further high level cases building up.

Void turnaround times were impacted heavily by an unprecedented level of tenancy turnover and higher numbers of lower demand properties in the first half-year of 2015/16, leading to a higher void days average. Tenancy terminations returned to a normal level in the second half-year and a reduction in void days followed. The rate of tenancy terminations entering 2016/17 was in line with previous years. This measure is expected to improve in 2016/17. Rent loss through voids increased as a result of the void turnaround times and we are focused on reducing this throughout 2016/17.

The performance of our maintenance function has been impacted by the organisational changes enacted in the year. Satisfaction with repairs and repairs completed on time both showed reduced levels of performance. As set out earlier, a detailed review of all repairs and maintenance activity is now underway which will ensure that the right services are being provided in the right areas and that the quality delivered to tenants improves.

The Reduced Data Standard Assessment Procedure (RDSAP) is the methodology used by the Government to assess and compare the energy and environmental performance of dwellings. The assessment criteria have changed a number of times and we are currently unable to compare all properties under one methodology. We continue to survey properties using RDSAP (2009). Following our surveys and improvements works, 50% of our surveyed properties are now at band C or better.

Banding	Rented unit count (2015/16)	Rented unit count (2014/15)
A	-	-
B	282	260
C	1,682	1,616
D	1,319	1,283
E	674	757
F	-	3
G	-	-
Total	3,957	3,919

Ocean aims to achieve a minimum RDSAP (2009) score of 65 for all stock, in order to tackle fuel poverty amongst our customers. We will continue to re-survey and target investment to the poorest performing properties. Ocean will continue to seek grant support for energy efficiency works, whether from European funding, government funding or contributions from the power generating industry via the energy companies' obligations. Where tenants have previously declined energy improvement measures, these will be undertaken when the property becomes void. Where it is not best value or not possible to further improve the energy performance of a property, Ocean will consider its future use and may decide to dispose of the property in line with the disposals policy.

The average time taken to sell Homebuy dwellings has improved considerably. Continued effort is made to reduce shared ownership sales times. Where possible properties are marketed six months ahead of completion and off plan sales are incentivised. The product offering has been reviewed and properties are now being offered with fitted carpets to help marketability.

116 new homes were brought into management in 2015/16. All external delivery targets have been met. We will continue to build new homes in line with the timetable for the HCA Affordable Homes Programme and our development programme with Cornwall Council.

Value for Money Scorecard

The latest available benchmarking information in respect of the performance of comparator organisations relates to 2014/15. Within our commentary we have highlighted areas where improvement was required and the progress we made to achieve this in 2015/16.

The tables below outline our performance using a scorecard methodology provided by HouseMark, a national benchmarking consultancy for social housing providers in England. Alongside our 2014/15 and 2015/16 performance is the median result for the organisations we compare ourselves with. It is important that, as far as possible, those organisations we compare ourselves with have similar characteristics to our own.

Key	
	Ocean's performance result is significantly better than the median for the peer group (top 20%)
	Ocean's performance result is better than the median for the peer group
	Ocean's performance result is similar to the median of the peer group
	The median for the peer group is better than Ocean's result
	The median for the peer group is significantly better than Ocean's result (bottom 20%)

Grey Arrows. Trend and performance arrows for five of the cost measures in the scorecard are grey. This is because these four measures do not have valuative polarity (i.e. high or low is neither good nor bad).

Process	Value	Previous	Trend	Median	KPI
Rent collected from current and former tenants as % of rent due (excluding arrears brought forward)	98.8%	99.9%		99.5%	
Average re-let time	19.62	22.84		26.0	
Repairs completed at the first visit %	95.8%	95.5%		91.2%	

Rent collection is a key focus for Ocean and it is disappointing to see the adverse trend and comparable in this area. In 2015/16 we have conducted a lean review of the processes involved in rent collection. We have automated our notification process for low level arrears and are focusing our resources on early intervention to stop more serious arrears cases building up. Ocean now encourages all tenants to build up a 'buffer' on their rent account of four weeks. We continue to promote the use of 'any-day' direct debits and standing orders by tenants to provide more certainty of rent payments. We would hope to see improvements in this area when the 2015/16 benchmark figures.

Value	Value	Previous	Trend	Median	KPI
Satisfaction with the quality of new home %	83.0%	94.0%		95.0%	
Satisfaction with the service provided %	87.0%	87.0%		86.1%	
Satisfaction with repairs and maintenance %	89.0%	89.0%		80.7%	
Satisfaction with neighbourhood %	87.0%	87.0%		85.9%	
Satisfaction that rent provides VFM %	88.0%	88.0%		82.0%	

This value table looks at outcomes of the work we do. Satisfaction levels with new housing have fallen. All cases where new residents have not expressed satisfaction are investigated. Tenant satisfaction with new housing was disappointing for the year, primarily as a result of bad performance by external contractors on two sites in remedying defects and delivering completed units on time. The Development team have now appointed additional staff resources who are specifically tasked to chase up any similar problems on new sites where we use external developers and it is expected that this will result in increased satisfaction in the future.

People	Value	Previous	Trend	Median	KPI
Staff turnover in the year %	27.5%	21.5%		13.9%	
Sickness absence average days/shifts lost per employee	11.9	13.2		9.3	

The increase in staff turnover is heavily influenced by a number of fixed term positions coming to an end in the reporting period. Ocean aims to recruit and retain the best people for the organisation and has reviewed the use of fixed term roles in this light. Ocean has received positive feedback from the process of retaining its Investors in People accreditation and will continue to build on this success which in turn should mean an improvement to this lagging indicator. Since the publication of this analysis, Ocean has brought its occupation health service in-house. We undertake a number of pro-active health and wellbeing initiatives and would like to see this investment return a continuing improvement in the level of sickness absence across the business.

Business and Financial

Value	Value	Previous	Trend	Median	KPI
Total Cost Per Property (CPP) of housing management	£478	£480		£444	
Total CPP of responsive repairs and void works	£729	£713		£806	
Total CPP of major works and cyclical maintenance	£1,245	£1,205		£1,521	
Total overhead costs as % adjusted turnover	9.0%	9.1%		11.0%	
Current tenants arrears as % rent due (excluding voids)	1.90%	1.79%		2.89%	
Rent loss due to voids as % rent due	0.56%	0.93%		1.01%	
Gross arrears written off as % rent due	1.02%	0.54%		0.44%	
Growth in turnover	-0.5%	6.3%		4.6%	
Operating margin (Ocean Housing Limited)	35.4%	31.9%		27.7%	

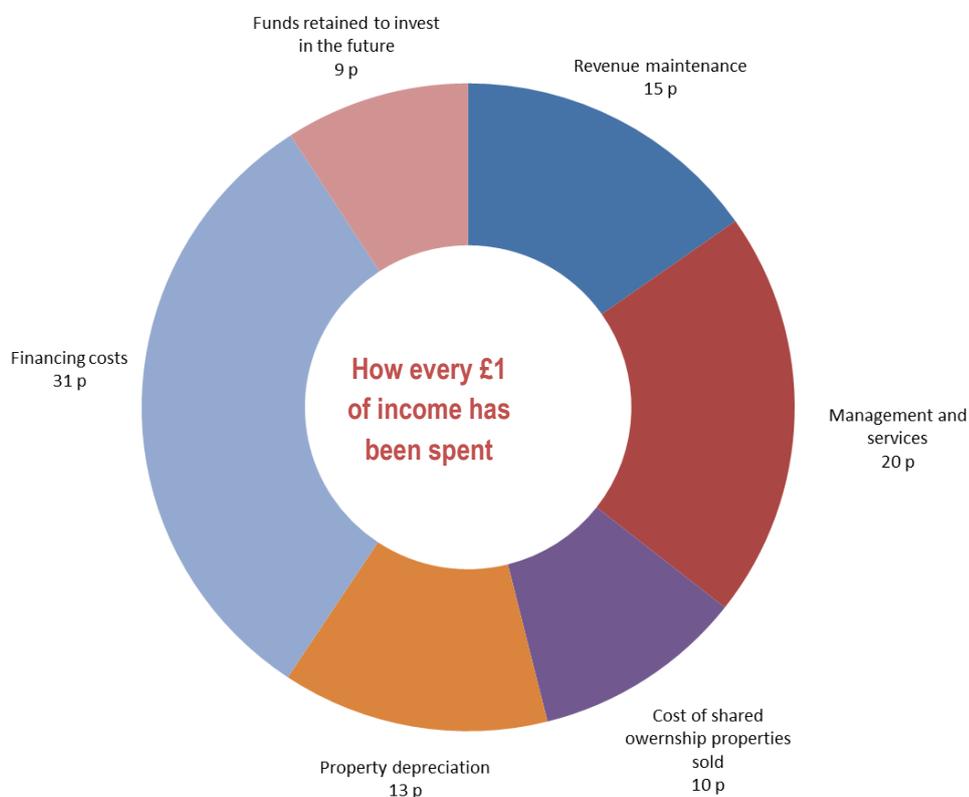
Ocean has been proactive in targeting high arrears cases where the arrears are long-standing and show no realistic prospect of being reduced or cleared. This had led to a rise in the rate of tenants evicted during the period. We have also reviewed our caseload of former tenant arrears and more realistically identified those cases which would prove unable or uneconomical to pursue. As a result, our write-off levels has stayed high compared to others.

Turnover growth in the reported year was negative as a result of the number of first tranche shared ownership sales falling and Ocean moving away from the Supporting People contract with Cornwall Council. Underlying rental income increased and we anticipate turnover to return to growth for the coming periods.

Transparency

We want to allow residents to have a clear understanding of what we do for them and what they pay for it. We want to encourage challenge and facilitate residents to exercise more choice in shaping the services they receive on the neighbourhoods in which they live. We continue to invest time in consulting with residents and, in particular, how their services are delivered, how service charges are calculated and how they can influence what we do. The Tenant Scrutiny Panel has authority to challenge management and residents get the chance to challenge board members at an annual

performance review meeting. This is all helping to strengthen accountability of Boards and senior management, further focussing attention on the need to deliver quality services at the best price. The presentation of data is therefore crucial and that is why it is good to publish financial information in a clear way.



£'000	2015/16	2014/15	2013/14
Revenue maintenance	3,674	3,828	4,217
Management and services	4,349	5,134	5,264
Cost of shared ownership properties	2,520	1,092	1,707
Aborted development expenses	59	207	65
Property depreciation	3,235	3,010	2,812
Financing costs	7,703	7,159	6,857

Financial Review

Operating from a position of financial stability is critically important for all organisations. Ocean has a strong balance sheet, secure funding sources and a robust, cash-generative, operating business model. During the year, the financial position strengthened. Group turnover increased by 7% to £32.7 million. Income from social housing lettings has increased by 4% and the sale of first tranche shared ownership properties has more than doubled to £3.4 million in the year (2015: £1.4 million). Operating costs in the year amounted to £23.4 million, which is £1.4 million higher than the year before. The increase is mainly due to the increase in the cost of the increasing external sales. Profit margins on commercial activity have increased year on year.

Performance on financial performance indicators is reviewed by the Group Board at each meeting. The indicators for the year are shown below, together with how we compare to the national averages and how we have moved over time (Note that the years 2012/13 and 2013/14 are stated in Old UK GAAP). A definition of the terminology for the performance indicators can be found at Annex 2 at the end of this VFM section.

<u>Performance Indicator</u>	Bench- mark	2015/16 Target	2015/16 Actual	2014/15 Actual	2013/14 Actual	2012/13 Actual
Asset cover (%)	N/A	137%	140%	140%	143%	147%
Gearing (%)	52%	87%	88%	88%	84%	84%
Consolidated operating margin (%)	27%	25%	28%	28%	28%	30%
Interest cover (%)	145%	123%	130%	121%	143%	149%
Average cost of borrowing (%)	4.6%	5.50%	6.05%	6.09%	5.04%	5.09%
Debt per unit (£'000)	£17.2	£33.0	£31.5	£29.3	£28.7	£26.3
Pre-tax profit from commercial subsidiaries (£'000)	N/A	£700	£1,851	£1,398	£734	£1,295

Performance of Gilbert and Goode Limited in 2015/16 was excellent, substantially exceeding targeted operating profits. Such results support our tenants in Ocean Housing through the quality of the services provided to them by the company and the payment of £340,000 of gift aid through profit generated from external contracts in 2015/16. This gift aid will go directly to supporting Ocean's new build programme.

In respect of Ocean Housing Limited, all loan covenant requirements were met and the loan agreement requirements wholly and completely honoured. The average cost of borrowing is influenced by the substantial level of fixed long term debt within Ocean Housing Limited, which gives certainty of planning, but precludes the opportunity to capitalise fully on existing low levels of interest rates. Although distorted through a higher than planned level of fixed debt, we recognise that our cost of borrowing is higher than the sector average and we are targeting to reduce this cost over time.

The debt per unit is higher than the average at Ocean. This has always been the case and represents the significant investment that was required in the stock when Ocean originally purchased the homes from Restormel Borough Council, together with a development programme over the years that has seen us deliver more new homes than other housing associations of similar size. This illustrates Ocean's commitment to maximise the use of its assets, particularly the security value that they provide, in order to maximise delivery of new homes for local people and supporting the local economy.

The interest and asset cover tests shown in above table are calculated on the basis of the Ocean Housing Limited loan agreement with Santander, which has our tightest loan covenants. The interest cover test comfortably meets lender's covenants even though those terms are stronger than the more common measures of calculation.

Our operating margin is an area where we are targeting improvement and the fulfilment of the VFM objectives embedded in the Corporate Strategy, as set out in the Continuous Improvement section later, will see our margin increase to strengthen Ocean's viability and resilience to the increasingly challenging environment in which the sector operates.

Maximising Returns

It is in the interest of everyone for Ocean to maximize the positive impact of its assets and resources. This theme looks at how we have diversified and continue to grow. It links to two of our corporate objectives:

- Provide innovative, energy efficient, good quality homes
- Provide good quality services, right first time

Diversification

Diversification, and the structure of the Group, allows freedom for its building contractor to generate profit and through financial success. The Group structure provides freedoms yet at the same time protects the social housing assets (our tenant's homes) from commercial risk. The Group structure is kept under regular review. The protection of our social housing assets is paramount to us and we always have that as our priority.

Understanding our Assets

Ocean reviews the financial performance of all its properties using an analysis tool called the Stock Financial Appraisal Model. The tool allows the asset base to be analysed at different levels of detail, ranging from individual property by property, right up to neighbourhood level. The tool can also be used to review the financial performance of the asset base in different categories, for example, by different types of property, number of bedrooms, SAP ratings, construction type etc.

The key metrics analysed are: Net Present Value (NPV) and rental yields. The output of the Stock Financial Appraisal Model is used to inform decision making specifically in respect of asset disposals or regeneration projects. Indeed, it is the cornerstone of our Asset Management practices as we seek to maximise value from our homes.

Using the output of the model, 2% of our individual properties show a negative NPV, which means they do not add value to the Group. The reasons behind specific negative NPVs are low rent levels and relatively high maintenance and management costs. At a neighbourhood level, all our schemes deliver positive NPVs, therefore issues with specific properties are investigated to understand why NPVs differ from the wider scheme perspective. Properties identified as not providing sound value to Ocean have been subject to review. A number of assets have been sold and an underperforming, older persons' scheme has been redeveloped.

The average unit NPV is £37,500. 5% of our properties have a Net Present Value of less than £10,000. 10% have an NPV between £10,000 and £20,000. 62% have a NPV between £20,000 - £50,000 and 23% have NPVs higher than £50,000.

Properties which are highlighted as providing low returns are reviewed in conjunction with their potential disposal value and where it is deemed appropriate, put forward for sale on the open market when they become vacant. The Asset Disposal Policy has been adopted to ensure that poor performing assets are identified and disposed of, if this provides optimum value to Ocean. During the 2015/16 year, eight properties were disposed of. Ocean Housing is targeting to deliver value through asset disposals of £500,000 per annum from April 2015 to March 2020. The table below sets out the value generated (in NPV terms) from asset sales over the last three financial years.

	2012/13	2013/14	2014/15	2015/16
Value delivered through asset disposals	£126,000	£208,000	£443,000	£762,000

Value gains realised by asset disposals have directly contributed to new build development programmes. Over £1.0 million generated over the last two years has contributed to Ocean's new build development within the HCA's Affordable Homes Programme. Other gains, both already realised and those targeted for the future, will contribute towards further house building outside of the HCA programmes.

Valuation of assets

The latest full valuation of Ocean's housing properties was professionally undertaken on 31 March 2015 by Savills (L&P) Ltd and return a value of £199,453,000 for loan security purposes.

Developing New Homes

Cornwall has a combination of high house prices and low earnings. There is a shortage of housing and a limited supply of sites for new housing. Only two-thirds of the homes the area needs each year are being built. Building homes supports economic growth and creates jobs in the local economy. Ocean is committed to helping meet these needs.

In 2015/16, Ocean invested £14 million building affordable homes, an increase in the investment of more than 20%. 116 homes were brought into management in the year, up from 72 in 2014/15. This is a major spend for the Group, so significant focus is given on how the programme is delivered to optimise quality, sustainability and Value for Money. The majority of the programme is delivered by the Group's in-house construction company, Gilbert and Goode Limited, which is a strong Board policy objective to protect quality, ensure use of local labour and control delivery and costs.

The total average cost of each unit brought into management was £147,000 in 2015/16, up from £113,000 in 2014/15. The cost per unit varies depending on the type and location of properties as well as whether the properties were built in-house or purchased from private developers under their obligation to provide affordable housing to meet planning requirements (known as Section 106 units). The increase in cost per unit is due to a range of reasons. The proportion of 'own build' units increased with only 12% of new builds being brought in under Section 106 agreements compared to 43% last year. In 2015/16, 10% of the new units related to the demolition and redevelopment of an old block of flats, thus incurring higher costs than a typical new build scheme. Also, 5% of the new units in 2015/16 were purchased on the open market and converted to affordable rented units. These factors contributed to the increase in bringing new homes into management. Delivering new homes internally, whilst more expensive, allows greater control over quality with a goal of lower long term maintenance costs. Our customer satisfaction feedback indicates that the number of customers satisfied with their property is greater for homes built by Gilbert and Goode.

Debt and Treasury

The Group finances its operations primarily through a long-term loan facility of £130 million with Abbey National Treasury Services (Santander) and £20 million bonds issued under a Note Purchase Agreement with M&G Investments.

<u>Santander Loan Facility</u>	2016	2015	2014
Fixed rate loans	£90,000,000	£100,000,000	£100,000,000
Variable rate loans	£15,000,000	£3,000,000	£11,500,000
Total loans	£105,000,000	£103,000,000	£111,500,000
Underlying average total interest cost	6.32%	6.10%	5.04%
Total facility	£130,000,000	£130,000,000	£130,000,000

<u>M&G Investments</u>	2016	2015	2014
Fixed rate notes	£20,000,000	£20,000,000	N/A
Underlying average total interest cost	4.66%	4.66%	N/A
Total financing agreed	£50,000,000	£50,000,000	N/A

At the year-end, undrawn committed facilities amounted to £25 million (2015: £27 million) and the average maturity of net debt was over five years. At the year-end, 12.0% (2015: 2.4%) of the Group's portfolio remained on variable rates.

Supporting Communities and Protecting the Environment

Providing local people with much needed affordable homes delivers a great deal of social value. However, our work goes further than this; we deliver a range of further social and environmental initiatives linking to three of our corporate objectives:

- Have residents at the heart of everything we do
- Be an employer of choice, creating local job and training opportunities, recruiting and retaining the best people
- Provide innovative, energy efficient, good quality homes

Our corporate strategy sets out our core social purpose:

“To invest in homes, jobs, training and growth to improve Cornwall’s economic future.”

Developing much needed affordable homes, and managing our existing stock, are the foundations of our work, but our core purpose is about more than bricks and mortar. During the year, we have continued to focus on how we can maximise the positive impact of the work Ocean does and have added value through a wide range of resident and community empowerment activities.

Ensuring local procurement

With a significant turnover we are keen to ensure that we maximise the impact of our work on the local economy. Wherever possible we use local suppliers and over 80% of our total expenditure is to locally based businesses and therefore retained in the Cornish economy.

Our Employees

We are one of the largest employers locally and we aim to reduce benefit dependency and put money into the local economy by ensuring our employees are paid a fair and competitive wage. Our lowest paid full time staff receive 6% more than the ‘living wage’, whilst our staff costs remain competitive when assessed against our peers.

Supporting our customers

Ocean has invested in additional staff to support residents struggling with debt and changes to welfare benefits. Prevention is more effective than cure, and our services are increasingly geared towards proactive engagement and early intervention. With limited support, particularly face-to-face, available locally, we are confident that our active approach adds significant value, preventing evictions and reducing debt related stress amongst our residents.

In 2015/16 we have continued to engage with households impacted by changes to Housing Benefit, supporting them in a range of ways; from completing financial health checks, to providing benefit advice and signposting wider support. We have actively supported residents needing to move which, along with alleviating the financial stress of households, is also maximising the use of our housing stock.

In total we have worked with over 450 households and directly supported over 80 downsizing moves, removing households from the impact of the spare room subsidy. The team has supported c.750 applications for discretionary housing payments with successful claims reaching over £200,000.

Whilst we have taken a pro-active approach to addressing the impact of the welfare reforms thus far, we recognise that Ocean may face additional costs in the future. These costs are provided for in the long term business plan and have been subject to stress testing.

In order to minimise the impact on both our business and our customers, we are developing our processes and procedures to address a range of issues arising from further planned reform to welfare and benefits, including direct payment to tenants through Universal Credit. We have developed a comprehensive action plan to ensure our readiness and have already begun to develop our services. For example; previously, Ocean's offer was for direct debit payments to be taken from customer bank accounts on the 1st of each month. In 2013/14, a second day of the 15th of each month was added and in 2014/15, Ocean implemented the offer of "any day" direct debit payment options making it easier for tenants to organise their financial affairs.

The number of active direct debit instructions increased in 2015/16 by 5% and we now have over 1,250 live direct debit mandates which represents a 30% increase over the last three years. A further 600 customers pay by standing order meaning that, in total, over 40% of our customers pay by regular bank transfer. Ocean will continue to encourage the use of direct debits and standing orders as methods of payment, where appropriate. Increasing the uptake of these payment types enables more efficiency in the rent collecting function.

Ocean has refined its "Direct Payment" pilot exercise working with tenants in one of our larger schemes to help us test our processes and services in readiness for the roll out of Universal Credit. This is helped us shape our service offering for those who will move to Universal Credit.

We provide a wide range of additional services to our residents, some examples of which are detailed below. For more information please visit our website:

- We treat all reports of Anti-Social Behaviour (ASB) seriously and work in partnership with tenants and any partner agency to ensure a co-ordinated approach. In the year we dealt with 295 incidents of ASB, with 89% of tenants satisfied with the handling of their complaint. Satisfaction levels have fallen from 93% a year ago however the time taken to resolve cases has improved. We are seeing and recording a lot more lower level ASB cases and believe that these types of cases are more challenging for us to resolve to the satisfaction of all parties. Continued effort is made to manage our estates to provide good quality neighbourhoods.
- Ocean Extra provides a self-paying service for older vulnerable people, including a life line alarm system and regular visits. The team also arranges a number of activities for older people in and around our category 2 older person schemes.
- We actively monitor vulnerable residents for their wellbeing and to ensure they can sustain their tenancies, with referrals being made as necessary to statutory support agencies.

Alongside their role supporting the Tenants and Residents, Scrutiny, Editorial and Value for Money Panels, our Tenant Involvement and Social Inclusion Team delivers a range of initiatives to support our local communities and customers. Two examples are provided below, with further details regularly updated on our website:

- Junior wardens. Ocean Housing runs the popular Junior Wardens programme for 8-12 year olds. The programme takes place over the six week summer holiday period. As part of the scheme, the young people learn about: their community and community values; what to do in an emergency; how to recognise and report problems to the right people; the importance of recycling; looking after their environment; boosting community spirit. From beach safety and body boarding, to fire fighting simulation, our programme focuses on community values, making friends and having fun.
- We have established an Ambassadors Club as a reward for older tenants who have contributed significantly to the work of Ocean. The Club meets quarterly and members receive progress reports from all involvement panels and updates on housing management. They also attend a range of openings and events, representing the Ocean Group. The Ambassadors Club have had the opportunity to provide feedback on new build design and layout which was taken back to the development team to feed into future schemes.

Employment related support

We continue to support apprenticeships across our business. Working with Cornwall College, we employ around 10-13 apprentices at any one point in time working across the Ocean Group in a range of fields including: carpentry, plumbing and heating, masonry, electro-technical services and business administration. Ocean is committed to providing training opportunities and, as part of our rolling programme, we have recently appointed six new apprentices in September 2016 replacing those who have come to the end of their formal training.

Following an assessment of the role played by our Tenancy Employment Co-ordinator, we felt that the outcomes being achieved did not benefit a sufficient number of tenants when compared to the resources invested. As a result we have redirected the focus of our resources and committed more to supporting tenants through changes in welfare benefits. We believe this will support more of our tenants with the limited resources available.

Charities

During the year we supported a number of local charities donating £3,215 (2015: £6,070).

How we measure our impact

All of our community engagement and social inclusion activities are assessed by the Tenant Involvement and Social Inclusion Team to determine whether objectives were met and to assess their impact against costs. These assessments are reviewed annually by our internal auditors and enable us to determine which projects were worthwhile and which were less so. The long term impact of projects is often difficult to fully realise and assess, but this process ensures there is an on-going consideration about the effectiveness of our investments. In a number of areas we are developing our approach to impact assessments, surveying customers before and after their involvement, to enable consistent and comparable measurement.

It is well documented that housing conditions, quality and tenure impact significantly on the quality of life of residents and their wellbeing. The development of new homes and the maintenance, management and improvement of our existing homes, and our wider support of resident and communities creates significant social value. We do not attempt to put a monetary figure on this.

Protecting the Environment and fighting fuel poverty

The Ocean Housing Group has successfully completed re-certification for ISO 14001 for our Environmental Management system. The organisation continues to monitor and manage its impact on the environment with the aim of minimising this impact. Our CO2 emissions, and other greenhouse gases, continue to be reported annually in the GHG (Green House Gas) Report and the Group has seen a 14% reduction in CO2 emissions year-on-year.

We continue to support residents who are suffering from fuel poverty, by offering guidance on the effective use of their heating system and comparison of energy provider tariffs. In the year we visited over 50 households that had been signposted as requiring support by our Welfare Advice Team, or who responded to our promotion of the service.

Continuous Improvement

All companies within the Group strive for continuous improvement in the services and Value for Money we provide. This theme links to three of our corporate objectives:

- Be an employer of choice, creating local job and training opportunities, recruiting and retaining the best people
- Provide innovative, energy efficient, good quality homes
- Continue to strengthen our governance

Value for Money achievements in 2015/16:

We are always striving for Value for Money, and every decision our Board makes has to be tested against whether it is Value for Money.

We also select specific areas of the business each year to receive a critical look at how things are done. Can we do more? Can we do it better? Is it what our customers want? Each year specific projects are set to focus on and monitored by Board. These are agreed as part of setting the Corporate Strategy. Some of the most prominent are listed below:

- We are always aware that overheads are a burden on services and need to be as low as possible. We have been efficient in this area (consistently in the best quartile in Housemark benchmarking on Overhead cost per unit and as a percentage of turnover), but still look to do better. The growth of Gilbert and Goode has enabled the social housing activities in Ocean Housing to benefit from lower overhead charges. Overheads attributed to social housing activity have reduced by £87,000 in 2015/16 compared to the previous year.
- We spend over £6 million per year on maintaining and improving our houses, and as such, we always work hard on keeping down the costs of materials. In 2015/16, our membership of the Advantage South West procurement consortium saved us £250,000.
- In-house delivery of the maintenance programme ensures that tight control on costs can be achieved, as well as maximising savings on VAT. The use of this VAT efficient in-house model means the equivalent of a 5% VAT rate on the whole programme, a value estimated at £300,000.
- We have focused on procurement activity in 2015/16 and have established a new post of Group Procurement Manager. This new post has helped us get better Value for Money in contracts let in the year. A number of contract negotiations have taken place in the year which has led to a combined annual financial benefit of £164,000.
- As set out earlier, the Group restructure in 2015 resulted in costs being reduced by £313,000 in 2015/16. The full year benefit in 2016/17 is expected to be £650,000.
- A number of management cost reduction initiatives have been delivered in the year resulting in a saving of £62,000. These include staff efficiencies and reviewing the timing and method of tenant communications.
- There were a number of other VFM successes in the year. With an embedded culture of VFM in the Group, and requirement that all Board decisions are supported by standard reports specifically requiring identification the VFM benefit of all recommendations, we can be confident that Board is fully aware of its actions and consequences in respect of this area.

The table below summarises the Efficiency savings delivered in 2015/16. These are presented as prominent examples. There have been a number of other less material VFM achievements in the year in addition to those items individually highlighted below.

Efficiency item	Saving amount
Procurement – Insurance	£36,000
Procurement – Legal Services	£60,000
Procurement – Waste Management	£33,000
Procurement – Asbestos surveys	£35,000
Management costs	£62,000
Overheads – costs reductions	£87,000
Group restructure	£313,000
VAT savings arising from group structure	£300,000
Grand total	£926,000

The savings generated in 2015/16 directly contributed to Ocean minimising its operating costs, maintaining and enhancing services offered to customers and, importantly, minimising its long term loan borrowings. Recurring savings will also support Ocean's aspirations of delivering more affordable housing in future years.

Value for Money - future aspirations

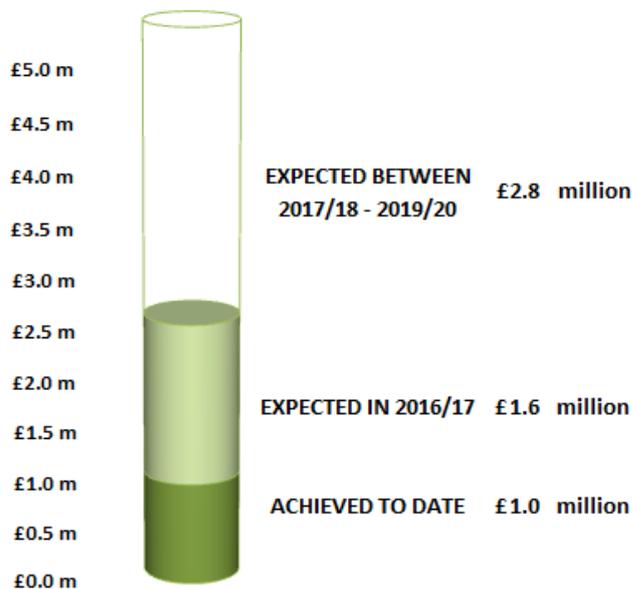
Underpinning the business plan is the Group's strategic plan to improve efficiency and create value. This plan is the hub of Ocean's VFM strategic vision to 2020 and sets challenging but essential targets to be met in terms of delivering efficiency in management and maintenance costs. Also, the creation of value through the disposal of existing assets, and the creation of profit from external activity in contracts and open market house sales. This plan is set to ensure existing service quality is protected, new homes continue to be built to the highest standards, and our role in supporting the local economy and its communities remains strong and influential.

Ocean's VFM approach is embedded into its Corporate Strategy to enshrine the culture throughout the Group at all times. The cornerstone of the VFM policy is the plan to generate value and deliver operational savings. The Financial Improvement Plan will see:

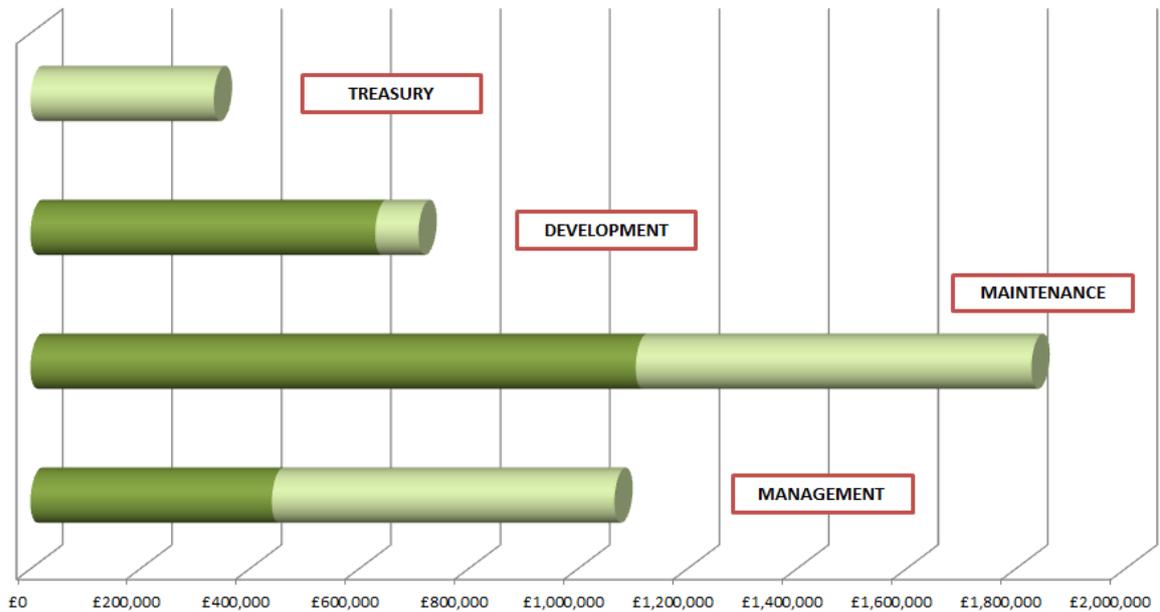
- £5.4 million of value being generated by 2020 through asset disposals, external contracts and open market sales.
- £4.0 million of annual operational cost savings being delivered through efficiencies in management, maintenance, development and treasury by March 2018.

Ocean is well on course to deliver these savings. The progress is shown below and achievements against this plan will be monitored by Board and reported to stakeholders regularly.

Ocean's Value Generation Target: £5.4 million by 2020



Ocean's Operational Savings Target: £4.0 million per year by 2018

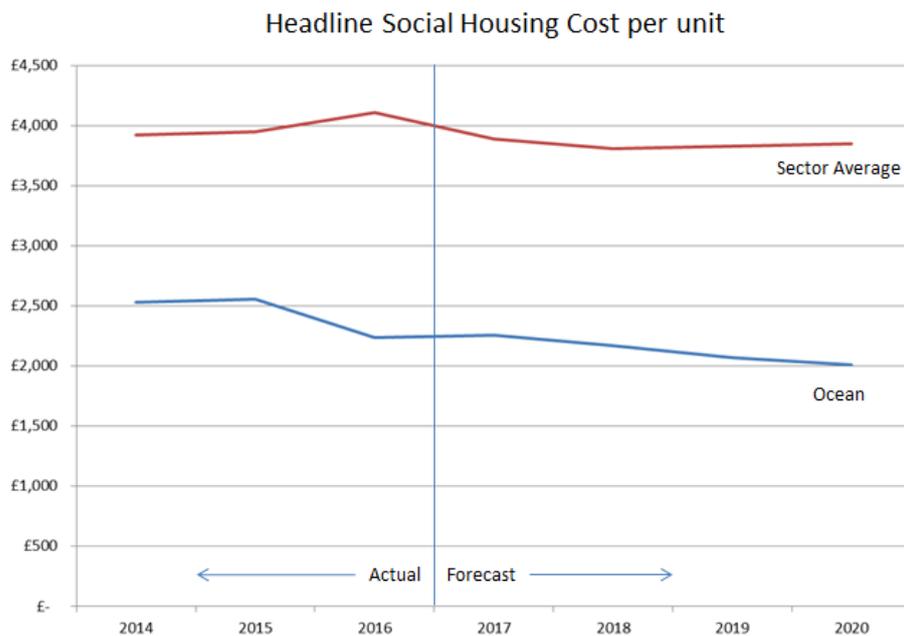


£2.2 million (55% of target) achieved and embedded in operational budgets for 2016/17

£1.8 million (45% of target) identified through further saving initiatives to be delivered in future budgets

Impact on Headline Social Housing Cost per unit

The future VFM aspirations have been adopted into the financial business plan. The impact this has on the 'Headline Social Housing Cost' per unit as defined by the HCA is set out below compared to the sector average. Ocean has comparatively low costs and this is set to continue as the Financial Improvement Plan is achieved.



Conclusion

Ocean is committed to delivering Value for Money to its customers. It recognises the need to provide quality services to its residents, and appreciates this has to be done in a transparent, efficient and economic manner. Ocean's Board believes it has met the requirements of the regulatory standard, not least as its passion to do the best it can for its residents is the driving force behind the Group's Strategy and Five Golden Threads; the first of which being;

'Have residents at the heart of everything we do'.

Assessment of Value for Money and financial performance - Annex 1

Benchmarking Group: Large Scale Voluntary Transfer Housing Associations, South of England – 2014/15

Name	Stock Size	Region
Accent South	3,547	South West
Alliance Homes	6,044	South West
Bracknell Forest Homes	5,893	South East
Coastline Housing	3,836	South West
Cottsway Housing Association	4,156	South East
Golding Homes	6,405	South East
Housing Solutions	3,836	South East
Magna Housing Association	6,021	South West
Magna West Somerset Housing Association	2,151	South West
MHS Homes	7,373	South East
North Devon Homes	3,165	South West
Phoenix Community Housing	5,389	London
Poplar HARCA	6,113	London
Raven Housing Trust	5,081	South East
Red Kite	5,944	South East
Richmond Housing Partnership	6,750	London
Saxon Weald	5,412	South East
Selwood	5,745	South West
Sentinel Housing Association	7,879	South East
Soha	5,400	South East
Teign Housing	3,530	South West
Town and Country Housing Group	7,879	South East
Two Rivers Housing	3,782	South West
Vale of Aylesbury Housing Trust	7,275	South East
West Kent Housing Association	6,300	South East

Assessment of Value for Money and financial performance - Annex 2

Definition of terminology use in financial performance indicator section

Asset Cover

This is the ratio of our assets values (value of our houses) compared to the amount of money we have borrowed which is secured against those assets.

Gearing

This is the value of our long term borrowing compared to the total value of the business.

Operating margin

This is the level of surplus generated by the business divided by the total income.

Interest cover

This ratio tells you whether the business can meet its interest costs. It is roughly calculated by dividing the operating surplus by the interest costs.

Average cost of borrowing

This is the average rate interest cost paid by the business.

Debt per unit

This is the amount of borrowings divided by the number of houses owned.