

Langley House Trust and Kainos Community

Group Value for Money Report 2015-2016

1. Introduction and Purpose

- 1.1 Langley House Trust and its subsidiary Kainos Community (the Group) are a national Christian charity. Its mission is to work with individuals who have offended or are at risk of offending and to support them to live crime free lives which contribute to society. The Group does this through a range of activities including:
- The provision of accommodation.
 - The delivery of care and support services.
 - The provision of training and education opportunities.
- 1.2 As a charity and recipient of funding from both local and national government bodies, Langley House Trust and Kainos Community recognise that they are accountable to their supporters, funders and Clients for the money they receive. The Group is committed to making sure it gets the best value for the money it spends by actively taking steps to identify and implement service improvements which reduce costs, remove waste and add value for our stakeholders.
- 1.3 As a Registered Provider, Langley House Trust is subject to the Home and Community Agency's (HCA's) Value for Money Standard (April 2012), requiring the Trust to assess and report on its approach to achieving value for money (VfM).
- 1.4 It should be noted that, due to the dynamic nature of the Group's work and its different income streams, the number of properties, Clients and the levels of income received can vary over any given year. This report aims to give the most realistic and meaningful assessment of the Group's work to deliver Value for Money to all its stakeholders in this reporting period

2. What is Value for Money?

- 2.1 The National Audit Office (NAO) defines VfM as being 'the optimal use of resources to achieve intended outcomes'. For Langley House Trust, this means that we will intentionally make the best use of our financial, staffing and housing resources to deliver the best possible outcomes for our Clients and stakeholders, not just in terms of direct cost savings but also in terms of quality, utilisation, effectiveness, timeliness and convenience.

- 2.2 The HCA Value for Money Standard expects Registered Providers to consider the following three aspects of VfM; (often referred to as the three E's):
- Economy – managing resources well to reduce expenditure.
 - Efficiency – delivering the same services for a reduced cost (whether that is a financial, people or time cost).
 - Effectiveness – adding value in order to deliver more for the same cost.
- 2.3 The HCA also takes a wider view of the ways that VfM can be achieved by asking Registered Providers to demonstrate the social and environmental value they deliver, in addition to the more obvious financial value that one might expect. This is in line with the Public Services (Social Value) Act 2012 which requires Registered Providers to consider the social impact of any procurement activity.

3. Governance and Approach

- 3.1 The Board of Trustees are ultimately responsible for deciding the strategic business priorities of the Group and for assigning resources accordingly. The Board is therefore accountable for ensuring that:
- The Group understands the expectations of its stakeholders in relation to VfM.
 - The Group is compliant with HCA regulatory standards relating to VfM.
 - The Group identifies, implements, monitors and evidences VfM activity and outcomes in line with an agreed VfM Strategy.
- 3.2 Langley House Trust recognises that Value for Money activity is most effective when it is an integral part of usual business practices. The Group will work to develop a culture where continuous improvement is the norm and where staff and volunteers feel empowered to identify and deliver VfM outcomes which can be measured and rewarded.

4. Executive Summary

- 4.1 The Group has been able to demonstrate the delivery of real value for money for its Clients, funders and other stakeholders throughout 2015/16. Although operating costs have risen, as indicated in Figure 1 below, when considered as a percentage of income, costs have actually remained stable despite a period of significant organisational growth. The Group has also made a number of savings which will continue to deliver ongoing benefits, most notably the amalgamation of the Witney, Wakefield and Runcorn offices into Pegram House in Coventry. This reflects The Group's ability to control costs and deliver value for the money it spends, despite operating in an environment of continued uncertainty.

The 2015 Tenant Survey asked Clients if they felt their rent and service charge payments represented good value for money and scores were marginally lower than in 2014. Further work is required to better understand what Clients value in terms of their rent and service charge payments and to take actions to meet their expectations.

Using the HACT (formerly the Housing Associations' Charitable Trust) Social Value Calculator, The Group has been able to allocate a monetary value to the social good it delivers which has traditionally been very difficult to quantify. The calculator indicates that The Group's housing and training and employment related activities alone are worth over £7,848,500 to their communities. Further work to identify and calculate the value of support and care services which deliver health related outcomes would significantly raise this figure.

Work has begun to review The Group's cost base and reduce expenditure through process mapping and the implementation of its Procurement Policy. The implementation of the VfM Strategy and development of a VfM Action plan will ensure that VfM activity is intentional and better measured, monitored and evidenced. The action plan also includes the recruitment of a network of VfM Champions and the recognition of VfM achievements through annual VfM awards which will help to promote a culture where staff are empowered to deliver continuous improvement.

5. Performance in 2015-2016

5.1 Procurement:

The recently developed Group Procurement Policy will be officially launched at the 2016 Staff Conferences. The policy will ensure a consistent process for evaluating and purchasing goods, works and services and will therefore help to embed VfM thinking into day to day activities. The policy sets out spending thresholds requiring quotations and competitive tendering and ensures that any expenditure over £100 will be subject to some form of price check.

5.2 Expenditure:

Expenditure in key indicative areas rose in 2015/16 by £66,200 compared to 2014/15 but remained £31,600 lower than comparable expenditure in 2013/14 (see Figure 1 below). Expenditure in these areas represented 3.4% of The Group's income in 2015/16 compared to 3.1% in 2014/15 and 4.4% in 2013/14. This is encouraging as it demonstrates that The Group has managed to control these costs at a time of significant growth that has seen a 23% increase in the number of units being delivered between 2014/15 and 2015/16 and thus has capitalised on the opportunity to achieve economies of scale.

Area of Expenditure	2013/14		2014-15		2015-16	
	Cost (£000s)	% of Income	Cost (£000s)	% of Income	Cost (£000s)	% of Income
Utilities						
Gas	128.7	1.3%	96.9	1.0%	102.9	0.9%
Electricity	114.5	1.2%	85.6	0.8%	125.0	1.0%
		Total: 2.5%		Total: 1.8%		Total: 1.9%

Telecoms (Fixed line and mobiles)	79.7	0.8%	56.1	0.6%	68.4	0.6%
Postage	17.2	0.2%	15.0	0.2%	15.2	0.1%
Broadband	28.1	0.5%	23.4	0.2%	25.3	0.2%
Stationery	52.1	0.3%	45.5	0.4%	51.9	0.5%
Total	420.3	4.4%	322.5	3.1%	388.7	3.4%

Figure 1.

5.3 Other VfM related initiatives:

5.3.1 The closure of the Witney Office and relocation of central services to Coventry in October 2015 has continued to deliver value for money gains. The Central Referral Office (CRO) in Wakefield was also closed and the Referrals Team was relocated to the Coventry Office. The combined rental cost of the Witney and Wakefield Offices was £8472 a quarter (including utilities, Council Tax and VAT) as opposed to a total cost of £9800 per quarter for Coventry. This is an upfront increase of £1328 per quarter, however this increase will reduce to just £91 by the amalgamation of the Runcorn Office into Coventry which cost The Group £1237 per quarter in 2014/15 (see 5.3.2 below). The true value of the Coventry Office is reflected in the growth in the number of staff based there. The Witney, Wakefield and Runcorn offices accommodated 17 permanent Full-Time Equivalent (FTE) employees between them whereas 26 permanent FTEs are based in Coventry. This means that together Witney, Wakefield and Runcorn cost the Group £571 per FTE member of staff per quarter, whereas comparatively, Coventry costs just £377.

Bringing the Referrals Team to the Coventry Office realised immediate practical efficiencies by having staff and paperwork in one place. Additionally, the facilities provided by the Coventry Office have reduced the cost of hiring external meeting venues and enabled senior leaders to amalgamate the monthly operational management meetings into two shorter consecutive days. A number of staff attending these meetings are from central services, such as Finance, Property and HR and are based at the Coventry Office so therefore incur no additional travel costs. It has also become apparent that staff travelling to the Coventry office take the opportunity to meet with colleagues from central teams whilst on site, cutting the need for supplementary meetings at a later date. This has not only contributed to an estimated saving of £17,000 in the cost of travel, overnight accommodation and

subsistence but has also benefited attendees who spend less time away from both the office and home.

5.3.2 The Group has made savings of approximately £4,948 per annum due to the closure of the Runcorn Office. The integration of Kainos central functions with Langley House Trust central teams will generate an ongoing saving of £23,287 per annum in reduced salary and NI costs.

5.3.3 Ongoing work to standardise the refurbishment of new properties and to monitor and control repairs and maintenance costs has reduced The Group's total operating cost per unit by 2% in 2015/16 compared with 2014/15.

5.4 Financial Performance:

5.4.1 The Group's income increased by 11.2% in 2015/16, rising from £10,248k in 2014/15 to just under £11,400k. Operating costs have also increased from 95.5% of income to 97.8%, however this represents continued investment in and development of services during a period of significant public funding cuts. The continued uncertainty within the supported housing sector is an important factor when considering The Group's Return on Assets (ROA). Langley's ROA in 2015/16 was 3.5%, compared with 8.5% in 2014/15. This compares to a Return on Assets figure for the sector of 5.3% for 2015, calculated from the HCA's global accounts. However this comparison is more favourable than it appears at first glance when put into the context that these accounts reflect providers with a majority of general needs stock and not just supported housing. Figure 2 below provides an updated overview of the relevant financial KPIs:

Indicator	Langley House Trust		
	2013-14	2014-15	2015-16
Net surplus %	1.5%	6.5%	2.2%
Operating Surplus	4.6%	4.5%	2.6%
Operating cost as a percent of total income	95.4%	95.5%	97.8%
Labour cost as a percent of total income	52.0%	54.5%	55.5%
Voids in year	8.7%	7.5%	15.3%
Bad debt for the year	4.6%	8.0%	7.5%
Current tenant arrears at year end	6.0%	7.6%	7.4%
Stock failing to meet Decent Home Standard	0.0%	0.0%	0.0%

Figure 2

5.4.2 The Group's operating cost as a percentage of its total income increased in 2015/16 to 97.8%, compared to 95.5% in 2014/15, however this represents a 23% increase in the number of units provided by Langley House Trust, from 407 in 2014/15 to 499 in 2015/16. It is the policy of Langley House Trust to write off all set up costs at the date that a unit becomes available for occupancy and this totalled £207,000 in 2015/16.

5.4.3 Labour costs (as a percentage of income) also rose in 2015/16, however labour costs per unit were reduced by 3% compared to 2014/15.

5.5 Tenant Satisfaction

5.5.1 Langley House Trust's 2015 survey asked for Client's views on whether rent and service charges represented good value for money (see Figure 3). 71% of respondents felt that they were getting value for money for their housing benefit rent payments and again, 71% felt that they were getting value for money for their service charge payments. Despite a continuous upward trend from 2012 to 2014 for both categories, the 2015 results represent a 4% fall for rent and a 5% fall for service charge. It should be noted that the Offender Management Bench Marking Group, which was used to bench mark performance in previous years, has now been discontinued and therefore comparable data was not available for 2015/16.

It is unclear why there has been a decline in Clients' perceptions of the value offered by the rents and personal service charges they pay and a better understanding of the dynamics at play will only be gained from direct engagement with Clients to identify what, in their view, represents good value and where changes can be made to address their concerns.

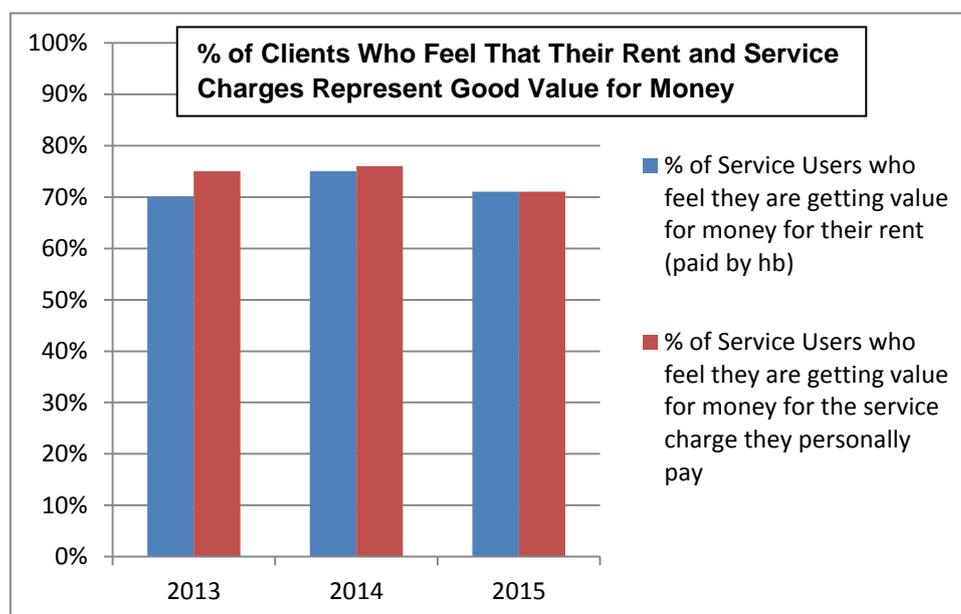


Figure 3

5.6 **Social and Environmental Value**

- 5.6.1 The HCA's Value for Money regulatory standard recognises that the benefits delivered by Registered Providers cannot always be easily quantified in financial terms. Registered Providers are required to consider the social value of the services they provide.

The work of Langley House Trust and its subsidiary, Kainos Community, has an obvious intrinsic social value due to the nature of the client group it serves. In 2015/16, the Langley House Trust provided over 407 bed spaces to men and women who had offended or were at risk of offending, working with a total of 855 vulnerable people throughout the year and Kainos Community delivered the Challenge to Change programme to over 125 men in three prisons. Research indicates that 84% of Kainos graduates do not reoffend one year after release.

The fact that the Group's work delivers real social value is indisputable, however it is very difficult to quantify and therefore evidence and bench mark this value. HACT (formerly The Housing Associations' Charitable Trust), working in partnership with Daniel Fujiwara and Simetrica, has analysed a range of activities carried out by statutory and third sector organisations which result in socially beneficial outcomes. HACT have developed a Social Value Bank which enables organisations to attribute a monetary value to the social impact of their services.

In 2015/16, Langley House Trust recorded 434 new lettings, each of which had a social value of £16,448 according to the HACT Social Value Calculator, totaling £7,138,432 for the year. The calculator also suggests that working with 746 residential clients over the year delivers a benefit of £192 per Client which equates to an annual social return of £143,232. Langley House Trust supported an average of 56 Clients a month to attend voluntary or community based work and an average of 84 Clients a month to access training or employment opportunities. According to the HACT research, this delivered a social value equivalent to £560,364. The Pathways to Employment pilot scheme, which provides on the job employment training within the construction industry, has delivered an estimated £6,456.

Based on the research by Simetrica and HACT, these activities alone are worth over £7,848,500 to the communities in which we work. However, further analysis of the health, financial and social outcomes that Clients would result in this figure being significantly higher.

- 5.6.2 The Public Services (Social Value) Act 2012 also places an onus on Registered Providers to consider the social impact of procurement activity. The Group's new Procurement Policy reflects this requirement and includes an assessment of the social & environmental impact of procurement practice as criteria in the decision making process.

6. Review of Recommendations from the 2014-15 Report

- 6.1 VfM Report 14/15 included key goals set out in Langley House Trust's Value For Money Strategy 2015-16. Figure 4 below provides an update on progress towards these goals:

Goal for 2015/16		Action Taken
1	Establishing an effective procurement process that reduces the cost to the Group measured through financial and operational performance indicators whilst at the same time continuing to meet the needs of our Clients.	The Group's Procurement Policy was developed in November 2015 and sets out a consistent approach to the purchasing of goods and services. The policy includes a Tendering Framework which defines financial thresholds for procurement activity and ensures The Group is compliant with the European Procurement Directive. The policy will be officially launched at the Staff Conferences in May and June.
2	Managing and controlling central costs.	Work has begun to scope out and plan a comprehensive review of The Group's processes, information systems and current reporting regime.
3	Understanding our cost base and the value to our Stakeholders in targeting resources appropriately. Including the consideration of trade-offs and opportunity costs of decisions	The work undertaken as detailed in points 1 and 2 above provides a basis for this analysis. Further work has been completed to develop The Group's financial models for its service delivery which will allow a more detailed analysis going forward and support the work to implement effective measures as set out in point 4.
4	Delivering consistent social, financial and quality outcomes directly attributable to the efficient and effectiveness of the resources applied	The VfM Action Plan, which supports the implementation of The Group's VfM Strategy, includes the development of measures to monitor, manage and evidence VfM activity and achievements.
5	Investing in the right assets at the right price	The Procurement Policy ensures that adequate safeguards are in place at specified financial thresholds and that the cost and value of potential purchases is properly assessed and evidenced (see point 1 above).

6	Continued management and monitoring of key risks identified on the Group's risk map.	The Group's Risk Map is reviewed at each Executive Team meeting and is monitored by Board via the Audit and Risk Committee.
---	--	---

Figure 4

7. Goals, Measures and Performance for 2016/17

- 7.1. The Group will put the refurbishment of the House of St Martin out to tender, in line with the new Procurement Policy.
- 7.2. The Group will review its telecoms provision, including its mobile and fixed line and telephone services and put them out to tender as current contracts are due to end at the end of May 2016.
- 7.3. The Group will review its current IT support contract which is in its final year and will look to tender this service in line with the new Procurement Policy.
- 7.4. The group will review its current cleaning and laundry provision, including deep clean services, as these are currently procured locally and efficiency and financial savings may be available through rationalisation into a central contract.
- 7.5. The Group will review its training provision for staff, including its contracts with suppliers, the booking process for delegates, the location of courses and venues used and the associated travel and subsistence costs, in order to identify and implement savings.
- 7.6. The Group will implement its 2016/17 Value for Money Action Plan which sets out the following goals:
 - Identify and prioritise business improvement activity which will deliver VfM gains.
 - Develop VfM related targets and KPIs which will ensure VfM activity is monitored and accountable.
 - Ensure that VfM activity is embedded into the The Group's governance structure and is a fixed item on the Board's agenda.
 - Promote a culture where continuous improvement is expected and staff are empowered to achieve VfM gains.
- 7.7. The Group will identify and implement a new financial system, which along with further development of its HR system which will deliver ongoing efficiency and cost savings post adoption.

8. Conclusion

- 8.1 Throughout 2015/16, The Group has continued to deliver Value for Money to its stakeholders whilst also achieving significant growth and this is in spite of continued uncertainty and financial pressure in its external operating environment. Using the HACT Social Value Calculator has enabled The Group to translate some aspects of its work into a monetary value and evidence the intrinsic social benefits of its services which has often been difficult to articulate in the past. The Group has achieved some notable cost savings centrally through effective procurement and the amalgamation of offices and the Kainos HR and Finance functions. This provides The Group with the momentum to deliver its VfM Strategy through the VfM Action Plan which will enable performance in this area to be driven and not just reported and will ensure that a culture of continuous improvement and innovation is fostered and rewarded across the organisation going forward.