

VALUE FOR MONEY (VFM) REPORT 2019/20

Introduction

The Charity is committed to providing high quality services that represent value for money for its customers and stakeholders. VFM is central to the Charity being able to deliver its mission and goals and is about:

- doing the right things and investing in the right physical and human assets at the right price;
- doing things right through economic, efficient and effective delivery;
- evaluating success and checking that the right outcomes have been delivered.

Effective management of the Charity's resources enables a healthy generation of surpluses that can be reinvested in new services; and existing and new homes. Strong financial performance also enables access to new loans at an affordable interest rate to support future development plans.

Objectives

In line with the Regulator of Social Housing's Code of Practice, issued in April 2018, the Charity has developed a series of VFM objectives. These objectives are designed to deal with the medium to long-term future of the organisation. They complement everyday VFM considerations and small savings the Charity seeks to make. They include measurable targets based on outcomes and are demonstrably linked to the aims and purposes of the organisation.

These VFM objectives are to:

- Enable Trustees, staff and residents to understand our costs, how they relate to performance and how the Charity compares with others.
- Assess the return on assets and ensure effective procurement and delivery of alternative models and solutions for poor performing assets.
- Deliver cost effective services to residents, at the right level of quality and with particular emphasis being placed on offering alternative digital services.
- Explore all avenues of improving VFM including partnership working and alternative methods of service delivery.

VFM Framework and Communication

The Board receives a balanced scorecard performance report together with a Value for Money report as a standing item to each meeting. These reports provide assurance that the Charity's strategic service delivery plan is being delivered. In addition, Trustees demonstrate ownership and oversight of VFM activities in the following ways:

- Adherence to the VFM Standard (2018) and VFM Code of Practice (2018);
- Approval of the Charity's VFM strategy and the VFM report in the annual financial statements
- Approval of all business strategies, plans and actions that underpin the Charity's approach to creating value;
- Consider the VFM implications of key decisions through standardised board reporting templates, where possible considering the costs and benefits of alternative options;

- Agree VFM targets and monitor VFM achievements through regular progress reports to all Board and Audit and Risk Committee meetings;
- Proactively championing a culture of VFM outcomes throughout the Charity;
- Give importance to and assess the social value created through the Charity's activities;
- Approve the reinvestment of VFM gains.

The Charity communicates its VFM achievements to stakeholders in the following ways:

- Through the report of the Trustees in the annual financial statements;
- In its periodic newsletter to residents "People First"
- Through its Annual Report to residents which is also distributed to partners and funders
- Through the management team to staff at operational performance, staff and team meetings

Understanding our costs

The Charity carries out detailed benchmark analysis against a number of similar sized registered providers delivering similar services. This enables us to assess VFM by comparing core services against cost and performance. We use the latest data set from Housemark, which compares us with other similar organisations; the comparisons that are currently available relate to the 2017-2018 financial year. The graph below shows where our services sit in terms of HouseMark's cost, quality and satisfaction dashboard compared against other providers in our benchmark group.



We use the above data to compare ourselves with other registered providers, to identify areas for improvement and to compare performance with previous years to assess our progress. The four measures clustered in the top right quadrant of the graph suggest that although performance is good, it comes at a higher price. Our VFM plans are designed to reduce these costs without having a significant negative impact on performance; this will be done, for example, through the effective use of IT, procurement of services and the possible introduction of new services for customers. The availability of detailed cost, quality and satisfaction data allows us to explore in more detail how the total cost per property is composed, and the impact that the three key cost drivers (pay costs, non-pay costs and overheads) have on service delivery. As the Charity strives to achieve its key goals and objectives, the cost drivers will differ within each of the service delivery areas. High costs and good performing services should therefore not always be perceived as problematic.

Housemark Performance Data

The table below shows the absolute and comparative total cost per property of providing services in comparison to other registered providers in our benchmark group.

Total Cost Per Property	2013-14	2014-15	2015-16	2016-17	2017-18	House Mark Median 2017-18
Responsive Repairs and Void Works	£716	£853	£787	£730	£675	£776
Major and Cyclical Maintenance	£1,436	£1,521	£1,378	£1,521	£1,365	£906
Rent Arrears and Collection	£88	£103	£155	£111	£113	£166
Resident Involvement	£195	£213	£182	£135	£136	£79
Anti-Social Behaviour	£18	£17	£39	£50	£48	£64
Lettings	£96	£98	£142	£82	£81	£55
Tenancy Management	£152	£164	£129	£117	£110	£111
Housing Management (Overall)	£548	£596	£647	£494	£488	£515
Estate Services	£264	£269	£284	£375	£410	£254

Our spend on responsive and void works continues to be better than median in our benchmark group, following the re-procurement of maintenance contracts during 2017-18. However, major and cyclical maintenance costs remain high in comparison to our peers as we continue to replace components in a large proportion of homes which were built during the 1990's. High investment in our existing stock is positively reflected in the results of our recent stock condition survey and the reduction in our future expenditure needs.

The cost to collect rents and arrears has seen little change from the previous year and remains better than the median. This is following the introduction of more robust income collection procedures. Our resident involvement costs remain higher than average but are aligned with our vision as we address health and well-being initiatives for our customers - who are primarily older people.

The cost of managing anti-social behaviour (ASB) had increased over recent years but is now relatively static; it is still below our benchmarking group median. There has been a small fall in both our tenancy and our overall housing management costs. The sector saw its Tenancy Management costs reduce, and ours are now in line with the median, but our Overall Housing Management costs continue to sit under the median. Our main cost driver for estate services is the provision of grounds maintenance to residents. Through our resident consultation process, the service requirements here are of higher specification and standard and represent the wants of our client group and as a result are more costly. We

have continued to address value for money, and through consultation with residents have reduced security and cleaning service requirements. These savings were passed on to residents through lower service charges during the year.

Value for Money Metrics

The Regulator of Social Housing introduced a series of VFM metrics that all registered providers have to report on from 1 April 2018. We have calculated the Charity's metrics for the last 5 years and forecasted metrics for 2019-20. We have included the sector's benchmark results against our Benchmark Group for 2017-18 which were collated and published by HouseMark.

		Reinvestment In Existing Stock and New Build	New Supply Delivered as a Percentage of total stock owned	Adjusted net leverage / Gearing	EBITDA (MRI) - Interest Cover	Headline social housing cost per unit	Operating Margin - Social Housing lettings	Operating Margin - Overall	Return on capital employed
		Efficiency	Effectiveness	Efficiency	Efficiency	Economy	Efficiency	Efficiency	Efficiency
	Forecast 2019-20	4.86%	4.00%	20.00%	315%	£4,850	16.00%	17.00%	1.90%
PFH	2018-19	7.22%	1.61%	15.10%	335%	£4,512	16.58%	18.91%	1.95%
	2017-18	12.55%	3.04%	13.26%	450%	£4,105	20.80%	21.69%	2.21%
	2016-17	10.44%	1.36%	5.69%	522%	£4,366	23.22%	24.12%	2.54%
	2015-16	1.32%	0%	5.88%	1375%	£4,248	20.85%	21.24%	2.71%
	2014-15	4.54%	1.22%	9.61%	1421%	£4,255	16.47%	17.11%	2.10%
BENCHMARK GROUP	Upper Quartile 2017-18	6.62%	3.01%	14.27%	350.4%	£2,901	36.51%	34.10%	4.37%
	Median 2017-18	4.23%	0.60%	34.28%	269%	£3,419	31.06%	28.90%	3.60%
	Lower Quartile 2017-18	2.34%	0%	42.60%	175.20%	£4,075	27.59%	21.70%	2.56%

Breakdown of Headline Social Housing Cost Per Unit

The Headline Social Housing Cost per unit metric comprises a number of specific cost areas which are detailed in the following table. Factors that have contributed to the increase / decrease on last years' results are explained below.

		Headline Social Housing Cost per Unit	Management Cost per Unit	Service Charge Cost Per Unit	Maintenance Cost per Unit	Major Repairs Cost per Unit	Other Social Housing Costs per Unit
PFH	2018-19	£4,512	£1,446	£954	£768	£1,300	£44
	2017-18	£4,105	£1,288	£1,029	£855	£871	£62
	2016-17	£4,366	£1,256	£1,055	£966	£990	£99
	2015-16	£4,248	£1,366	£973	£950	£868	£91
	2014-15	£4,255	£1,356	£806	£1,082	£914	£97
SECTOR	Upper Quartile 2017-18	£2,901	£698	£218	£791	£487	£66
	Median 2017-18	£3,419	£885	£420	£900	£675	£126
	Lower Quartile 2017-18	£4,075	£1,162	£599	£1,076	£863	£1,128

Value for Money Metrics - Analysis Commentary for 2018-19:

Reinvestment in Existing Stock and New Build:

The Charity: Having seen a net increase of £10.7m in tangible fixed assets over the past two years, it was inevitable that the organisation would see some slowing in this indicator as the current phase of the new build programme nears completion. To maintain investment, even at the median level seen in the benchmarking group for 2017-18, the Charity would need to continue with an investment programme close to the level it has experienced in the last two years, which would not be feasible whilst sustaining the relatively low levels of debt currently seen.

The last of the new homes at Newbridge Village will be completed during the coming year and the organisation will continue to undertake capital investment in its existing stock during 2019-20. Using the recently undertaken Stock Condition survey to guide this investment, the Charity will ensure that the homes which most need capital work will receive it.

The Benchmark Group: Within the Benchmark Group, reinvestment ranged from 0.02% to 12.72%, with the median level at 4.23%. There was only 1 organisation with a higher reinvestment percentage during 2017-18. The level of reinvestment undertaken in the 2018-19 financial year would have seen this organisation remain the top quartile of its Benchmark Group.

New Supply Delivered as a Percentage of stock owned

The Charity: The delays experienced in completing some of the new units in the Newbridge Village development means that this metric is lower than last year. Snagging issues have meant some units were not certified as completed before the year-end. The effect of this, though, means that these units are pushed into the 2019-20 financial year when we are forecasting an increase in the metric, partly as a result of these delayed units, and partly due to our plans to convert 2 pop-ins to residential units and the planned redevelopment of a site at Southcoates Lane (Eleanor Scott Homes).

The Benchmark Group: The organisation's performance was comfortably in the top quartile for 2017-18, and its 2018-19 continues to stack up well against the benchmark group. A number of providers in the group did not develop any new units through 2017-18, and several others saw development at around the 1% mark. The Regulator, through Homes England wishes to see all registered providers having an active development programme which delivers high quality homes and developments at pace.

Adjusted Net Gearing

The Charity: Our adjusted gearing increased year-on year. This is due to the fact that although total loans reduced slightly during the year, cash and cash equivalents reduced by approximately 33%. This was a result of the ongoing development programme. We are expecting to see an increase in "adjusted" gearing again during 2019-20, although this would still leave us in the top quartile of our benchmark group (based on the most recent figures).

The Benchmark Group: The regulator is seeking to ensure registered providers optimise their borrowing capacity (whilst managing risk) to support growth. The median within our benchmarking group is 34.28%, indicating that approximately a third of the operations are funded by debt.

Interest cover - EBITDA (MRI)

The Charity: Our interest cover is relatively high due to our low level of gearing; this indicator shows how many times we can pay our loan interest obligations (i.e. 3.4 times) out of "earnings". It has dropped year-on-year as the bond finance raised for the development of new build units has increased the amount of interest payable. We are forecasting a small drop again in 2019-20. However, it still remains comfortably above the benchmark median.

The Benchmark Group: This metric is a key indicator for liquidity and investment capacity. It measures the level of surplus generated compared to interest payable. Higher interest cover has some correlation with lower gearing. Within our Benchmark Group, providers who specialise in provision of housing for older people tend to see higher levels of interest cover but overall there are no specific types of registered provider that record either higher or lower interest cover rates.

Headline Social Housing Cost per unit

The Charity: Our headline social housing cost per unit remains high in comparison to the rest of the benchmark group - however, this doesn't tell the whole story. The increase of 10% year-on-year was mainly due to a large increase in the cost per unit for major repairs, which increased by approximately £430 per unit during the period. This was as a direct result

of our on-going programme to improve and modernise our stock. We also saw an increase of £240k in management costs due mainly to increases in staffing costs, audit and other professional fees. Conversely, we were able to reduce the service charge and maintenance costs by a total of £176k which saw a reduction of £162 per unit.

The Benchmark Group: There is no standard picture of Headline Social Housing costs. The highest individual spends in the benchmarking group were around £8,500 per unit, whilst the lowest were around £2,200 per unit. However, there is no correlation between this and resident satisfaction. Landlords with comparatively high proportions of housing for older people do tend to see higher costs in this metric.

Operating Margin

The Charity: Operating margin has again reduced year-on-year, which was anticipated given the development of new sites (and the increased costs that were associated with this), the increase in spend on major repairs and a fairly static turnover from rent charges. A reduction in service charge income (following a review of a number of chargeable services) also added to the reduction as did by exceptional costs, such as impairment of a small scheme that we plan to demolish and remodel. As the new sites are finalised and come into our portfolio of stock, we anticipate that our operating margin will increase again.

The Benchmark Group: This metric demonstrates the profitability of an organisation before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of a business. The regulator does state that "...it is important that consideration is given to registered providers' purpose and objectives." when looking at this metric. Some higher operating margins were recorded by associations who had developed their portfolio of stock during the financial year, although as with previous metrics, there is no definitive reason for an association to have a higher or lower operating margin.

Return on Capital Employed (ROCE)

The Charity: ROCE is a measure of how well we are using our assets. Our metric (1.81%) reduced from 2017-18 (2.21%) primarily because our operating surplus reduced, whilst at the same time, the fixed assets increased. This is again due to the delay in completion at Newbridge where units which would have been brought into economic use in 2018-19 are still to be completed. We are forecasting the metric to fall again in 2019-20 but the completion of the new development should see this metric start to return to previous levels in coming years.

The Benchmark Group: The metric in 2017-18 was lower than the benchmark group median (3.60%). As with a number of other metrics, there is a large variation within the benchmarking group, with the best performing association recording a ROCE of nearly 20% and the worst performing at around 0.04%.

Using our assets

As at 31 March 2019, the Charity was responsible for the management of 1,337 properties. All properties are located within the city of Kingston upon Hull and the East Riding of Yorkshire. The Charity ensures that it has a detailed understanding of its assets in order to manage them as effectively as possible. To support this process, we maintain and are continually enhancing:

- An Asset and Liabilities Register - providing clear information on all our assets and obligations; and
- An active Asset Management Strategy that supports strategic decisions about the future of stock, which builds on a robust understanding of the return on asset position and the organisation's plans to move forward.

Key to ensuring that VFM informs the Asset Management Strategy is an effective procurement and contract management approach which is set out in the Charity's Procurement Strategy. The Charity also undertakes regular monitoring to ensure that it is achieving VFM in relation to its assets. This includes:

- Monitoring financial gearing to ensure optimum use of the value in assets;
- Using stock condition surveys and value-based investment models to optimise return on assets and approach to investment;
- Review of efficient use of space and land; and
- Effective monitoring and management of voids.

When programming planned maintenance works, return on investment and VFM form the basis of the delivery models for each programme. Detailed analysis is undertaken where:

- There is a risk of programme overlap;
- Economies of scale can be found;
- Under-performing properties can be removed or placed later in the programme while option appraisals are undertaken; and
- An analysis of repairs data is used to support programming decisions.

We hold stock condition data on all of our property assets and have refreshed our property valuation data to support our longer-term financing requirements. In December 2018, the association commissioned Michael Dysons Associates to undertake a stock condition survey. This information will be used to inform future investment decisions.

Overall, the Charity's stock has benefited from sustained investment and this is represented through a number of indicators, such as the level of investment required over the next five years (when compared to other year bands over the next 30 year investment forecast); in addition the number of non-decent homes remains at one - an occupied bedsit awaiting conversion. We have continued to ensure that:

- Resources that have been dedicated to the stock have been applied effectively and in the right areas;
- Energy performance data is recorded and monitored, and that plans are in place to improve performance ratings where possible;
- The properties are maintained in good order having regard to their age, use and construction;
- Where replacements are starting to prove necessary, there is a commitment to invest in these areas during the coming years;
- By undertaking adequate responsive repairs, we consider that the properties have a remaining economic life in excess of 30 years; and
- The stock remains in good condition with relatively high demand and a growing customer base.

Observations noted following analysis of our stock include:

Strengths:

- Mostly modern purpose-built stock;
- Good quality homes;
- Established schemes which are stable and liked by residents;
- Properties are well cared for;
- No properties are failing the Decent Homes standard (with the exception of 1 bedsit awaiting renovation). Michael Dyson Associates quote 5-7% as being the norm with social landlords;
- Low investment required in the stock over the next 15 years
- No Category 1 hazards identified in the stock condition survey;
- Planned Maintenance costs over a 30-year period fall into the range expected by Michael Dyson Associates.

Weaknesses:

- Older purpose-built stock is of an age where replacements are starting to prove necessary and there will be a continuing commitment in this respect in the coming years;
- Lack of diverse customer base and stock - 100% accommodation for older people;
- Some traditional almshouse bungalows provide cramped accommodation; and
- SAP energy rating is slightly below the Housemark average.

The Charity's Asset Management Strategy describes the framework within which decisions are made about investment in housing stock. During the year we reviewed our plans to ensure that we continue to:

- Keep dwellings in best condition, in the most cost-effective way;
- Bring properties up-to-date and in line with current and projected customer expectations and demand;
- Reflect neighbourhood issues; and
- Maintain a balance between responsive, cyclical and capital investment
- Focused works on properties with lowest SAP ratings.

The Charity's return on asset model allows us to grade our properties both financially and socially and use the data to drive investment and disinvestment decisions. The model calculates the return on asset by assessing all stock by scheme, identifying those that are not cost efficient in their current use, and which may require reconfiguration or disposal - enabling the Charity to maximise the return on overall investment of the business. By using a return on asset approach, we identify stock that is sustainable and provides long-term VFM, while reducing risk within our portfolio. The model compares the necessary costs to keep the stock up to standard, against the income from the same properties, over a long-term (30 year) period. This is known as the Net Present Value (NPV). The NPV is then combined with other information on the popularity and performance of schemes to provide an overall assessment of the stock value and return. The results of this process are detailed in our asset management strategy, which is shared with the Trustees, and helps determine the most appropriate strategic decisions: i.e. to maintain, invest and improve, or to replace our properties.

Social Value

Under the Social Value Act 2012, we consider the Social Return on Investment (SRoI) across our activities. An example of is that on every procurement exercise we undertake with Efficiency North, 1% of the fee we pay to them is put into their social value activities. In each region, they engage with 'local groups' to achieve social value objectives. Locally a grant of £5,000 was paid to Hull Homeless Community Project to provide a mobile hub for the homeless and rootless community. The Hull Kingston Rovers Trust received £4,800 to deliver a dance project for clients of Case Services who work with people with learning difficulties. In addition, there is a local apprenticeship requirement within all contracts that Efficiency North let on behalf of partners to employ apprentices (i.e. for every £1m contract, one apprentice is employed). Glendale, our grounds maintenance contractor, currently employs an apprentice working with their West Hull team. United Living, who are developing properties at Newbridge Village also employs five apprentices on site.

VFM plans and improvements made 2018-19

Procurement

During 2018-19 the Charity continued to be actively engaged in procurement activities particularly in relation to property maintenance contracts. Multiple year procurement contracts have been awarded for repairs and maintenance, grounds maintenance, gas servicing, window and door replacements and bathroom and kitchen replacements. All have provided savings by following a category management approach and a number of these are detailed below:

Boiler Supply and Fit:

We made a number of changes to the way in which our suppliers worked, including asking them to use a different magnetic filter to keep pipework clean, change the way in which we box in pipework and supply a better boiler with a longer guarantee (for the same prices as those that we used previously). These changes saved us £1,740 in total, and we expect longer term savings in maintenance cost as a result of the extended guarantee secured with the supplier.

Kitchen Supply and Fit:

We tested the market going into 2018-19 to see whether it was possible to find another supplier who could provide the quality of work we needed at a cheaper rate. It wasn't possible, and by remaining with the current supplier, we saved £422 per kitchen

Bathroom Supply and Fit

In 2016-17, we entered into an agreement with our current bathroom fitters which saw prices fixed through to the end of the 2018-19 financial year, saving us over 5.9% in inflationary cost increases.

Remote working for frontline staff:

Our key objective with regard to remote working is to achieve time and cost savings through better use of our IT systems, particularly in relation to improved remote access for staff,

contractors and customers. Key areas for remote working include housing and property services and residents. To date we have achieved our plan to upgrade to Castleton Housing 2018, which went live in September 2018. This will enable mobile working solutions and improved connectivity. Our IT strategy was revised and agreed by Board in November 2018 and sets out our plans to enhance our remote working capabilities. During 2018-19 we commenced work on this and expect to deliver remote working practises and identify long-term potential cost savings during 2019-20.

Review the use of pop in centres / conversion to lettable dwellings:

Our key objective was to obtain a better return on investment, generate additional rental income and achieve long term savings by removing expenditure associated with the running of pop-in centres. This VFM plan required an element of capital investment to convert appropriate pop-ins into habitable dwellings. In the long-term the investment will provide a positive return on capital. Following an extensive review, during the year we identified and commenced works to 2 No. pop-in's which are being converted into two 2-bedroomed dwellings.

We expect a payback period of between 6 and 7 years based on anticipated capital costs of £135k, rental income of £10k pa and removal of running costs of £12k pa. It is anticipated that both of these units will be completed in the first quarter of 2019-20.

Source revenue grant funding:

Our key objective is to attract revenue grant funding to increase budgeted spend. – For example, staff training, health and well-being initiatives for our residents and the investment in disabled facilities adaptations to our properties.

Key areas that attract grant funding are:

- **Disabled Facilities Grants (DFG)** – We received approximately £70k in adaptation grants during 2018-19. The local council has awarded over £435k towards our property adaptations over the last 5 years. Moving forward, we will still spend money on DFG works if the resident has less than £10k in the bank and less than £100 (+CPI) of disposable income per week. Due to local authority policy changes, we expect the level of grant to reduce over the coming years.
- **Other Grants** – We apply for other suitable grants as they become available. A number of staff undertook bid writing training as part of an increased focus on this area. Amongst recent awards was a grant from “National Lottery Awards for All” which was used to fund an IT project to demonstrate how IT can reduce loneliness and isolation in the ageing population.

VFM plans for 2019-20

The executive team has recently considered the VFM initiatives for 2019-20. A number of areas have been identified for review. The key areas of focus that have been identified are as follows:

- **Property Investment policy** – The Integrator asset management system is now implemented. It has been used to remodel the long-term investment plan for existing stock. None of our properties have a negative NPV. However, some are in the bottom quartile and need further

evaluation for long term investment. The organisation may look to regenerate the properties, decommission or sell them on.

- Schedule of rates process – There has been a new schedule of rates contract introduced for repairs and maintenance work and this will help us secure savings against previous contracts. Contracts are being managed for best value with savings being secured. For example, the recent switch from Liberty Gas to Sure Maintenance will see a saving of around £5,000 on gas maintenance and statutory checks.
- Evaluation of office accommodation – The office space at Silvester House is greater than the need of the organisation, and over the course of the 2019/20 we will establish a course of action which will allow us to maximise the return from the asset, be that to sub-let part or all of the space or sell the premises and relocate the central functions of the organisation.
- Service Chargeable areas: responsive calls systems and security: - The organisation is seeking to make savings through better utilisation of new technology regarding resident welfare in the schemes. This will allow us to replace outdated and potentially costly systems with more cost-effective and less intrusive ways of working. With regards to security, we have already replaced security with CCTV cameras at a number of schemes and are looking to replicate this elsewhere in the network. This will enable us to reduce the service charge that is passed back to the residents, in turn helping to improve the VFM Metrics we are measured against.