

## VALUE FOR MONEY (VFM)

### Introduction

We are committed to providing high quality services to our residents which represent value for money for both our 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; and
- evaluating success and checking that the right outcomes have been delivered.

We recognise that value for money does not have to mean cheapest. We are not seeking to minimise cost to maximise profit or improve our metrics. For us, Value for Money means using our resources wisely to do more of things our residents want.

### Understanding our costs

As an organisation, we are committed to carrying out benchmark analysis against a peer group of similar sized registered providers. We use the latest data set from Housemark to do this (currently 2018/19). The graph below shows where our services sit against this peer group. It is encouraging to note that we continue to report good performance compared to our peer group for most of the metrics, although we note that against the peer group, our costs for Neighbourhood Management and Resident Engagement are higher than the norm. This is due to the stated intention of the organisation to provide high quality service to its residents.



### Key

- |                                  |                        |
|----------------------------------|------------------------|
| 1 – Responsive repairs           | 2 – Voids and lettings |
| 3 – Rent arrears and collections | 4 – Tenancy management |
| 5 – Resident engagement          | 6 – Customer services  |
| 7 – Neighbourhood management     |                        |

### Regulator metrics

The table below shows our performance against the metrics set out by the regulator. It also shows the performance against both our peer group and the sector and sets out our forecast performance for the coming year.

	Pickering and Ferens Homes					Peer Group median	Sector media
	2017-18 Actual	2018-19 Actual	2019-20 Budget	2019-20 Actual	2020-21 Forecast	2018-19	2019 Global account
Reinvestment in Existing Stock and New Build	12.55%	7.22%	4.86%	2.31%	9.60%	4.01%	6.20%
New Supply Delivered as a Percentage of total stock owned	3.04%	1.61%	4.00%	3.0%	2.53%	0.51%	1.50%
Non-social units developed as a percentage of total stock	0%	0%	0%	0%	0%	0%	0%
Adjusted net leverage / Gearing	13.26%	15.10%	20.00%	12.07%	21.47%	36.61%	43.40%
EBITDA (MRI) - Interest Cover	450%	335%	315%	600%	356%	196%	184%
Headline social housing cost per unit	£4,105	£4,512	£4,850	£4,108	£4,334	£3,691	£3,690
Operating Margin - Social Housing lettings	20.80%	16.58%	16.00%	24.13%	18.02%	27.28%	29.20%
Operating Margin - Overall	21.69%	18.91%	17.00%	25.39%	18.93%	23.85%	25.80%
Return on capital employed	2.21%	1.95%	1.90%	2.75%	1.81%	2.84%	3.80%

### **Summary narrative**

#### **Reinvestment in Existing stock**

We saw our reinvestment in existing stock metric drop from 7.22% in 2018/19 to 2.31% in the last year. This is lower than both our peer group and to the global accounts benchmarking for the previous year. Against our Housemark peer group, this would see us in the bottom quartile. Our performance on this metric was impacted by the delay in the completion of one site and the commencement of the redevelopment at another. As we move into 2020/21, the delayed work at the second site will get underway, as well as planned developments at 2 further sites in the city.

#### **New supply delivered**

This metric saw an increase over the previous year, rising from 1.61% to 3.18% as we delivered completed units at an ongoing development. This compares favourably to the historic benchmarking against both our peer group and the global accounts. The delays in the completion of the final units on the site meant that, as outlined above, the planned redevelopment of a site was delayed. This development will see additional units on the site. During the coming year, we expect these units to be brought into full use, as well as seeing the completed merger with another local Housing Association which will add several units to our stock

#### **Adjusted net leverage / gearing**

This has remained low, reducing from 15.1% to 12.07% as we continue to service existing debt whilst seeing an increase in reserves due to the surplus generated during the year. The level of gearing compares favourably to both the peer group and the Global Accounts. The expectation was that we would secure additional long term borrowing the year in to fund the new

development, which. However, the delay in the commencement of this project saw gearing remain low. We anticipate that gearing will increase in 2020/21 as the project moves forward and we do secure the loans.

#### EBITDA

An increase in the surplus generated during the year has meant that this metric is significantly higher than forecast, rising from 335% last year to 625% this. Again, this compares very favourably to both benchmarking groups. Delays to new projects has meant that we have carried these surpluses into 2020/21. It is expected that as these projects commence during the coming year, we will see the metric reduce to planned levels.

#### Headline Social Housing cost

We saw a fall in the cost from £4,512 in 2018/19 to £4,108 in the current year. We recognise that this metric is higher than the Global Accounts average, but we are committed to providing a quality service to our residents. Part of this commitment is a long term undertaking in a high-quality repairs and maintenance programme. Although this metric remains high, it has reduced from the previous year as the long-term benefits of this programme are realised. We anticipate this metric being similar in coming years.

#### Operating Margin

The organisation saw higher than anticipated levels of surplus during 2019/20, which has meant that Operating Margins were higher than forecast, and we note that it has moved towards the median, increasing from 2018/19. Although income was slightly higher than budget, the bulk of the surplus was due to lower costs than forecast. A large proportion of these costs will be incurred in the coming year, during which we anticipate the metric returning to planned levels.

#### Return on Capital Employed

The higher than anticipated levels of surplus coupled with the delay in the new projects coming forward has meant that this metric is higher than anticipated for 2019/20. The increase from 1.95% to 2.75% has meant that we have moved towards the median of our peer group. As we move into 2020/21 and we begin investment in a further new development, this metric will reduce.

### **VFM plans 2019-20**

At the start of the financial year, we set out the following objectives:

1 - Property Investment policy – With the introduction of the Integrator system, we have been able to remodel our long-term investment plan for our existing stock. We have begun works to demolish and rebuild at one site, adding additional units to footprint and providing modern 2-bedroom accommodation and a better use of the site as a long-term investment. There have been delays in bringing this site to the construction phase and additional costs were incurred. The payback period on the project is calculated at 41 years. We have also reviewed the investment status of our bottom quartile assets. They all retain a positive NPV, but we are currently considering how we future proof the units to keep them sustainable. We have begun discussions with another provider to transfer some of the properties at one site to them.

We had also planned to commence energy saving works at one site. Delays at the planning stage have meant that at 31<sup>st</sup> March 2020 work had not commenced.

We have achieved a large part of what we set out to do during 2019/20 but external delays have meant that we will carry this into the coming year as an objective.

2 - Schedule of rates process – A new schedule of rates was introduced for repairs and maintenance works which has helped us secure savings against previous contracts. For the financial year 19/20, we generated savings of £7,154 using the new schedule of rates.

3 - Staff costs – During 2019/20, the organisation reviewed parts of its structure to ensure that it could continue to provide a high-quality service but identify efficiencies in the structure. A report

was brought to the Board proposing a restructure which was approved. This restructure generates an in-year saving of £20,988, with a further £1,298 saved through a decision to not recruit following a staff resignation.

4 - Evaluation of Office Accommodation – The organisation has identified that the space it occupies at its Head Office is larger than it needs. We established a course of action to allow us to make the most effective use of the asset and began discussions with 3<sup>rd</sup> parties about sub-letting some space. These discussions took longer than anticipated, and this, combined with the emerging Covid-19 situation has meant that we were not able to progress plans as quickly as we would have liked.

This objective has been carried over into 2020/21.

5 - Service Chargeable Areas (Assistive Technology and Security) – Pickering and Ferens Homes has begun to replace outdated and costly systems with less intrusive ways of working. We replaced manned security patrols with CCTV systems at two of our sheltered housing schemes, meaning that we could reduce the service charge being passed back to the residents.

We also reviewed the provision of assistive technology and analysed how we could utilise new technology in this area to the benefit of our residents. We had hoped to tender for the work during Q4 of 2019/20, but the process was delayed, and we will now be going out to tender in Q2 of the coming year. As a result, this objective is carried over into 2020/21

6 – Social Value – We place social value at the heart of what we do. During the year, we have been able to secure an additional £30,500 in grant funding which we have used to fund two projects to improve the wellbeing of our residents. One projects has made technologies like the Amazon Alexa and the Google Dot accessible to our residents while the other is an inter-generational project which looks at sources of food and sees our residents engage with local schoolchildren.

#### **VFM Plans for 2020-21**

1 – Property Investment policy (Corporate plan – Efficiency / Growth) – as highlighted earlier in this report, we began works to improve our bottom quartile properties during 2019-20 and these will continue during the coming year. In year, we recognise that there will be a minimal cash value in terms Value for Money benefit as we look to make energy efficiency improvements to some properties and begin the re-development of others. However, there will be an immediate benefit for our residents who will enjoy savings derived from the works. We also anticipate that we will see a Value for Money in future years through reduced maintenance costs.

We will also look to complete the transfer of some of our properties to another provider. This is expected to generate a Value for Money saving as these currently consume a higher than average cost per unit.

2 – Head Office review (Corporate plan – Efficiency) – the discussions which were begun during 2019/20 are expected to come to fruition during the first half of 2020/21. This will enable us to better utilise the space currently at our disposal and generate additional revenue for the organisation through the leasing of space. The leasing of part of the building will generate a Value for Money saving of £16,500 in 2020/21 and a full year saving of £19,945 in 2021/22.

3 -Responsive call service (Corporate Plan – Excellence) – We will continue the work that we began during 2019/20 to upgrade our existing assistive technology and improve the quality of the offer that we provide to our residents. By overhauling the system and ensuring that we provide a fully digital service, we believe that we will help residents to remain independent and lead fulfilling lives. We also believe that we will see an improvement to our Headline Social Housing cost and Operating Margin metrics.

4 – Tendering opportunities (Corporate Plan – Efficiency) – During the course of the coming financial year, we will be running several tenders that will present opportunities for savings. We will be changing our main banking provider and will also see savings following a change of

internal audit provision. We will be running an insurance tender during the year which will realise savings in 2021/22. It is hoped that this tender will produce a substantial saving which will be passed on to our residents. Further, following the extension of our agreement with one of our main contractors during 2019/20, we expect to see savings against maintenance work during the coming year. We expect to generate a saving of £22,650 in the coming year

We expect other areas of opportunity for Value for Money to present themselves during the year, and are working to embed a culture of awareness about Value for Money within the organisation, encouraging every member of the team to be aware of what it means and how it benefits Pickering and Ferens Homes and its residents.