Value for Money (VfM)

The Board confirmed its Vision and Purpose in 2019/20 and this sets out the broad direction for our Value for Money (VfM) strategy, guiding how we allocate and prioritise expenditure on new and existing activity. By supporting people and places to be the best that they can be, Connect is making it clear that our service will not be based on a 'no frills', lowest cost model even in an age of austerity. However, in these difficult times, this poses a greater challenge to ensure that we make best use of our finite resources to provide the headroom in the Business Plan to invest in activities that meet the objectives identified in our strategy mapping framework:

- we will maximise revenue to invest in communities through innovative growth;
- we will retain and grow our customer base by offering good value to our customers – our homes and services will be affordable and
- we will minimise costs to a level appropriate to the social impact of our work i.e. we will not be the lowest cost in our field.

Connect has not fundamentally changed its social purpose but we have increased our ambitions regarding development and explicitly stated that we want to be part of the solution to the crisis of homelessness (Valued Homes). We have re-affirmed our commitment to offering support services and using our resources for the good of the communities in which we work (Valued People and Valued Neighbourhoods) whilst understanding and reflecting our environmental impact through (Valued Planet). Our business transformation programme is integral to all this and embeds Value for Money.

What VfM means to Connect

'Value for Money' is a term used to assess whether or not an organisation has obtained the maximum benefit from the goods and services it acquires and provides, within the resources available to it. Achieving VfM is often described in terms of the 'three Es' and we extend this (for Connect's approach to VFM) to include 'Equity' as a fourth 'E'. This is to emphasise that decisions will be taken in line with our Values and commitment to communities, meaning that the VALUE element of VfM means a lot to us:

- Equity – ensuring services are delivered fairly to a wide range of customers in line with Connect's Values;
- Economy – careful use of resources to save expense, time or effort;
- Efficiency – delivering the same level of service for less cost, time or effort and
- Effectiveness – delivering a better service or getting a better return for the same amount of expense, time or effort.

A key objective of Connect's Business Plan is to deliver affordable quality in homes and services. Through VfM Connect aims to ensure:

- resources are available to achieve the association's Business Plan objectives and key priorities;
- a balance between cost, quality and performance and
- a high level of customer satisfaction.

It is generally accepted that VfM is about:

- doing the right things (what customers want and what the business needs);
- doing things right (first time);
- at the right price (not necessarily the cheapest) and
- in the right way (the most streamlined way that meets requirements).

The VfM savings we made in 2019/20

Connect's 2019/20 Budget included VfM savings across the business of £284k including scaling back on expenditure levels where feasible or tighter operational targets. Fortunately, in terms of operational performance and VFM, Covid19 occurred towards the end of the financial year and so had limited impact on financial results.

Turnover for 2019/20 performed in line with budget at £17.8m (excluding first tranche sales).

Outturn Rent arrears (before write-offs) for 2019/20 were 2.6% favourable against a target of 4.1%, with total arrears at the yearend of £357k against a budget of £554k. Void rental loss for the year was 0.88% adverse against the annual target of 0.81%. Void loss at year end showed a slight adverse outturn against budget of £10k or 9% (£119k actual against £109k budget).

Our Money Matters (economic inclusion) team have supported an increasing number of tenants moving onto Universal Credit (UC), with personal contact made in every case; and the highest number of cases dealt with in any year so far. 289 tenants transitioned onto UC during the year. The team has achieved an overall business saving of £639,114 (up from £298,408 in 2018-19) by bringing in rental income via Discretionary Housing Payments or Alternative Payment Arrangements, through the prevention of court action/eviction and reductions in rent arrears. In addition, a total annual saving of £722,648 has been generated for tenants (up from £654,768 last year). This represents additional benefits and savings for tenants, which they may not have received without the intervention of the Money Matters team. Using the HACT social impact calculator savings of £3,053,033 have been identified (up from £1,880,556 last year) and for each £1 invested in the service, £17.90 has been generated in social value.

The budgeted profit on sale of all Housing Properties was £125k and the outturn was £510k which is a favourable difference of £385k as continued business emphasis has been placed on asset management including more development and turnover of un-economic units.

The budgeted operating expenditure (excluding first tranche sales) for 2019/20 was £14.3m and the outturn was £14.9m - which is £600k over the original agreed budget. Much of this variance relates to Maintenance / Compliance expenditure / investment (see below for further details).

Interest and Financing costs for 2019/20 were £2.15m against a budget of £2.39m which is a favourable outturn of £240k, reflecting lower than anticipated interest rates in conjunction with more favourable rates from our most recent re-financing exercise. By way of example, fixing a floating rate loan at a historically low, long term rate of interest payable is estimated to have saved the Association in the region of £9m over the life of the Business Plan over what had previously been assumed.

Our VfM metrics for 2017/18 through to 2019/20

The tables below shows Connect's VfM metrics (based on the Sector Scorecard), for the last three financial years alongside the latest available comparison data (2018/19). Definitions can be found at the end of this VFM section.

VfM – Investment in Homes

Table 1

Metric	Connect Housing Outturn		Connect Housing Outturn	Peer Group	(All)		Connect Housing Outturn	Connect Housing Target	Outturn to target Variance	Comments
CPU Year	**2017/18**		**2018/19**	**2018/19**	**2018/19**		**2019/20**	**2019/20**	**2019/20**	
Closing Social Housing units owned and/or in management	3,191		3,238	33,278	2,733,286		3,277	3,247	30	Active asset management activities with 46 new homes acquired/developed and 13 disposed
Metric 1: Re-investment %	7.78%		7.34%	7.38%	6.15%		4.29%	6.30%	-2.0%	Re-investment varies from year to year as it follows the budgeted profiles of the development programme and the planned repairs programme.
Metric 2a: New supply delivered - social housing	2.57%		2.32%	1.61%	1.33%		1.40%	2.10%	-0.7%	Higher than the sector median and slightly below the peers with commitment to increase supply in line with our Development Strategy
Metric 2b: New supply delivered - non social housing	0.00%		0.00%	0.00%	0.00%		0.00%	0.00%	0.00%	N/A
Metric 3: Gearing %age	35.6%		36.0%	36.0%	43.9%		36.2%	39.4%	-3.2%	Lower than the Sector Median but slightly higher then Peers, Gearing rises as external funding increases to maintain a sustainable development programme
Metric 4: EBITDA-MRI %	254.0%		213.0%	201.6%	182.6%		205.0%	245.0%	-40.0%	Higher than Peers and Sector Median. EBITDA % reduces due to increased debt used to fund development programme and higher levels of compliance spending

The development programme in 2019/20, although more modest than the previous year, exceeded expectations in delivering an additional 37 new homes (compared to the forecast of 35). 11 of these properties were funded in part through the Affordable Homes programme with the remainder being acquired through section 106 agreements. 11 were for Social Rent, 6 for Affordable Rent and 20 for Shared Ownership. Alongside this work, the Development Team has put a considerable amount of work into pursuing new development opportunities, and now has a prospective pipeline of approaching 300 homes to be delivered over the next 4-5 years. Work has begun, in line with the Association's response to the Climate Emergency and the new Valued Planet theme in the Business Plan, to upgrade the standard development specification towards zero-carbon homes. This will also benefit tenants directly through addressing fuel poverty and providing affordable warmth.

In 2019/20 Connect completed 386 independent stock condition surveys towards our rolling programme of surveying the whole stock (circa 3038) over a 5 year period, representing a further 13% of stock to be surveyed. The data has provided additional validation for the major repairs investment projections included in the business plan. 745 (24.5%) condition surveys are planned for the coming year. In total at the end of 2020 (including the above surveys) we will have accurate, recent (less than 5 years old) surveys for 75% of our stock.

Following on from the Active Asset Management Strategy that was approved in 2019, the Board approved an Ethical Disposals Policy relating to the disposal of older rehab stock that had previously been identified as performing poorly across a range of financial and social indicators. Some 198 properties in total have been categorised as having potential for disposal at the time they next become vacant, with the proceeds (c. £18m at current values) to be reinvested in the delivery of new homes.

The average Net Present Value (NPV) for dispersed properties is £18k compared to £31k for scheme-based properties. Customer satisfaction with the home is 10 percentage points lower in dispersed stock compared to scheme-based properties. By gradually disposing of our older, expensive to maintain stock and investing proceeds in new build schemes we aim to control maintenance expenditure and progressively improve the long term financial return from our assets whilst also improving customer satisfaction with the homes we provide. In 2019/20, Connect disposed of 8 such properties, generating receipts of £583k.

To complement our approach to disposals, we continue to explore a number of opportunities to acquire new stock, providing that this is financially attractive, complements our existing stock and will allow us to further our objectives. During 2019/20 we undertook due diligence on two potential stock transfer opportunities and, whilst not ultimately not successful, both provided valuable experience of asset management evaluations.

How our costs compare with our peer group, the sector's and budget.

The table below compares our Cost per Unit (CPU) with medians for our peers and the sector as a whole – the only comparison figures currently available relate to 2018/19. Detail of our Peer Group and definitions can be found at the end of this VfM Self-assessment.

Table 2

Metric	Connect Housing Outturn		Connect Housing Outturn	Peer Group	(All)		Connect Housing Outturn	Connect Housing Target	Outturn to target Variance
CPU Year	2017/18		2018/19	2018/19	2018/19		2019/20	2019/20	2019/20
Headline social housing cost per unit £	£ 3,649		£ 3,876	£ 3,731	£ 3,622		£ 3,904	£ 3,679	6%
Median social housing cost per unit (2018/19)	**£ 3,362**		**£ 3,622**	**£ 3,622**	**£ 3,622**		**n/a**	**n/a**	**n/a**
Variance	**£ 287**		**£ 254**	**£ 109**	**n/a**		**n/a**	**n/a**	**n/a**
Variance %age	**8.54%**		**7.01%**	**3.01%**	**n/a**		**n/a**	**n/a**	**n/a**
Management CPU	***£ 866***		***£ 929***	***£ 1,005***	***£ 989***		***£ 901***	***£ 935***	-4%
Service charge CPU	***£ 254***		***£ 272***	***£ 293***	***£ 401***		***£ 257***	***£ 246***	4%
Maintenance CPU	***£ 1,185***		***£ 1,311***	***£ 1,117***	***£ 1,004***		***£ 1,413***	***£ 1,204***	17%
Major repairs CPU	***£ 522***		***£ 597***	***£ 830***	***£ 737***		***£ 573***	***£ 519***	10%
Other social housing CPU	***£ 822***		***£ 766***	***£ 246***	***£ 214***		***£ 761***	***£ 775***	-2%

Although Connect's headline social housing cost per unit (SHCPU) has fallen from a high of £4207 per unit in 2015/16 additional maintenance and compliance pressures in subsequent years has resulted in a steady increase to £3,904 in 2019/20. This outturn remains higher than both the peer group median (£3731) and also the Sector median (£3622), but the gap has narrowed significantly. Connect's commitment to Supported Housing activities reflected in the much higher levels of 'Other Social Housing ' expenditure also needs to be considered. For example, excluding the £350 cost per unit from 'Other Social Housing' expenditure relating to the Engage support contract (for older people with dementia and complex housing related support needs), would reduce Connect's overall 2018/19 SHCPU from £3876 to £3526 which is below the 2018/19 Sector median (£3622) and the peer group median (£3,731).

Connect's 2019/20 SHCPU outturn (£3904) was 6% above budget, and is still expected to remain above the 2019/20 Sector median. Two areas in particular help to explain this outturn position:

(i) Maintenance costs – 2019/20 has been a challenging year in terms of service delivery and cost and budget management resulting in a 5.5% year-on-year spend increase.

Responsive repairs continue to be a top priority for our customers, and this service receives significant investment as a result. During the year we introduced a new service-specific IT system to aid the administration and tracking of repair works, and whilst we continue to transition to the new software across all maintenance services, it is already showing its value in this respect. A procurement exercise on our van fleet is planned to further reduce our current cost base.

Connect continues to move maintenance activity to an in-house team when cost effective to do so and as further efficiencies are made, and the association grows it stock, the cost per unit are expected to fall back much closer to the sector median.

Voids Maintenance had its first full year of in-sourced operation and was reviewed and adapted mid-year with costs coming down in the later part of the year.

Compliance testing remains a high priority for Connect with an additional £132k above budget being invested in electrical testing and upgrade work helping us to accelerate the pace of our programme to achieve 5 year cyclical testing in this area. Compliance spend is forecast to maintain this momentum into future years.

A one off in year cost of £150k has also been charged in the year for dilapidations on a lease property that is to be handed back after coming to the end of its lease.

The Major Repairs programme was delivered in good time and within 6% of the budget costs, with additional roofing and window replacement work delivering additional value for money in the Association's housing stock.

(ii) Other Costs – Compared to the Sector more widely and its peers, Connect continues to offer a wider range of support services to those in need where financially viable. A good example of this commitment is the Engage contract that has been in place for three years to deliver support services (for older people with dementia and enduring mental health conditions) in partnership with other providers. Although financially viable, and in line with Connect's strategic priorities, such activities do increase the level of Connect's base line costs. Excluding the costs of Engage would reduce Connect's 'Other Social Housing' costs per unit, and thus the overall SHCPU, by £350 per unit.

VFM – Efficiency

Table 3

Metric	Connect Housing Outturn		Connect Housing Outturn	Peer Group	(All)		Connect Housing outturn	Connect Housing Target	Outturn to target Variance	Comments
CPU Year	2017/18		2018/19	2018/19	2018/19		2019/20	2019/20	2019/20	
Metric 6a: Operating margin %age from social housing lettings	26.1%		20.4%	20.8%	29.7%		18.9%	21.5%	-2.6%	Year-on-year slight fall in margin reflects the final year of 1% rent reductions plus increased operational and compliance expenditure
Metric 6b: Operating margin %age – overall	21.7%		18.9%	19.3%	27.2%		19.1%	20.2%	-1.1%	Increased margin due to better sales mix on low cost and shared ownership sales.
Metric 7: Return on capital employed.	3.3%		3.2%	3.0%	3.8%		3.2%	2.9%	0.3%	The return on capital is above peers and Budget but below the Sector Median

Connect's operating margin from social housing lettings (18.9%) was slightly below budget (21.5%) and below the Sector median (29.7%) but more in line with peers (20.8%) and has reduced less than both of these sector measures during 2019/20. Excluding the impact of Low cost /Shared Ownership sales , social housing letting turnover has increased by only 1.3% during 19/20 with the final year of 1% rent reductions impacting on the increase in new housing stock rentals. Like for like costs have however risen by 3.2% with compliance spending remaining a key area of focus and expenditure.

In terms of the overall operating margin, the volume of Low cost / Shared Ownership sales has decreased from £2.9m to £1.8m but sales margins have increased from 25.6% to 44.3% reflecting both a different mix of property type and greater percentage share sold. Overall Margin has therefore increased year on year from 18.9% to 19.1%, but below our peers (19.3%).

The continued investment into both new and existing homes has seen our Return on Capital Employed remain constant at 3.2% in 2019/20 with Connect investing £1.6m capital in Major

Repairs and £1.38m revenue in Planned maintenance. Increased activity in electrical safety and fire safety was also undertaken, following, respectively, our move to a 5-year testing cycle, and comprehensive fire safety review undertaken independently by Savills. Over the next 5 years, Connect is projecting capital investment of £8.2m in improving its stock. During the year we have updated our definition of major investment activity to bring it into line with others in the sector, and this means we are now reporting 30 year investment projections of £26k per property on average. However, in the short term, major repairs investment has been paused during the Covid-19 crisis both to support financial stability and because of the additional costs and inefficiencies that would be experienced trying to deliver scheme-wide improvement projects where significant numbers of tenants would be refusing works. The business plan has been updated to reflect the ongoing requirement for higher levels of annual spend on compliance areas than has historically been the case.

VFM – Effectiveness

Table 4

VFM Measure	Connect Housing Outturn		Connect Housing Outturn	Peer Group	(All)		Connect Housing Outturn	Connect Housing Target	Outturn to target Variance	Comments
CPU Year	2017/18		2018/19	2018/19	2018/19		2019/20	2019/20	2019/20	
Customers satisfied with overall service	87.5%		87.2%	87.2%	86.0%		86.9%	90.0%	-3.1%	Lower than target but broadly in line with peers and the Sector median
Current Tenant arrears	2.01%		1.95%	2.98%	2.86%		2.06%	3.30%	-1.24%	Arrears remaining steady in challenging environment. Outperforming budget and benchmarking
Former Tenant arrears	0.70%		0.60%	0.50%	1.21%		0.59%	0.80%	-0.21%	Outperforming both Budget and Sector Median, but above Peers.
Void Loss	0.9%		0.76%	0.95%	0.94%		0.88%	0.81%	0.07%	Outperforming Peers and Sector Median but marginally over Budget in ever more challenging environment.

Customer satisfaction with the overall service received from Connect has remained consistent at 86.9% in the period ending March 2020, a marginal decrease from 87.2% when compared to the previous year. It remains 3% below target. Performance analysis shows no underlying reasons for areas of dissatisfaction. Satisfaction with the quality of the neighbourhood increased slightly. Other areas remained steady (including satisfaction with Value for Money at 88%), with the exception of 'Views taken into account' which saw a more significant fall from 83% to 80.4%. We are conscious that the range and quality of the data we collect can be improved, along with our systems for analysing and learning from it, and this is a priority for the coming year as part of our Business Transformation programme.

During the year we have broadened engagement with customers; whilst continuing to support and work with the Connect Resident's Federation, our critical friend. The Service Improvement Forum (SIF), that scrutinises performance and holds us to account, was expanded with new members and a wider remit. During the year the SIF continued to feed tenant priorities into the business and change planning process. Engagement in re-branding consultations during the year resulted in 116 customers indicating an appetite for further involvement.

Across 2019/20 we have been measuring the NetPromoter Score (NPS) for Connect and our year end performance was +59 (NPS range is -100 to +100). This is an excellent result. NPS measures the percentage of Promoters of an organisation (Advocates who will readily recommend) against the volume of Detractors (Those who actively dislike the organisation). Connect had 71.2% Promoters and 12.8% Detractors.

In July 2020 Connect will be trialling a new digital survey tool. This allows for an increase the channels we can access to obtain feedback, and it is envisaged this will significantly increase the volume of feedback received as well. Results are presented in real time, and an actionable format and we believe this will transform how we receive and respond to customer feedback. In addition, the new Customer Relationship Management system that was due to be launched in the previous period is now scheduled to be deployed in the summer of 2020. Once again, this will have a significant impact on the way we manage customer contact and will allow us to focus on offering higher levels of service. Customer Service training is due to be delivered as part of the roll out of the new system.

The Association is also progressing with a major IT project (Project Vault) to replace all of its main business systems. Three products were pushed live in Maintain (Repairs) and Agile (Mobile) during 2019/20. In April 2020, the finance module was deployed on which many of the other Castleton Products have a dependency and the Association is currently dual running this module with its existing Finance system. On successful sign-off of this module, the Association's plan is to deploy 80% of the Castleton Products by the end of the 2020/21 period. Benefit Realisation will begin in earnest in 2021/22 and this will be monitored by the Project Vault Board, which in turn reports to the Board of Management.

Our projected VfM metrics

The table below details our outturn Sector Scorecard metrics for 2019/20 and projections for the next four years.

Table 5

Metric	Connect Housing Association Ltd	Connect Housing Association Ltd	Connect Housing Association Ltd	Connect Housing Association Ltd	Connect Housing Association Ltd	Comments
CPU Year	2019/20	2020/21	2021/22	2022/23	2023/24	
Closing Social Housing units owned and/or in management	3,277	3,214	3,313	3,323	3,343	Increased homes reflecting current (near term) development pipeline.
Metric 1: Re-investment %	4.29%	9.76%	4.21%	3.03%	3.09%	Re-investment varies from year to year in line with the development and repairs programmes.
Metric 2a: New supply delivered - social housing	1.40%	2.36%	2.99%	0.30%	0.60%	New supply numbers reflect current near term development and asset management activity as at March 2020.
Metric 2b: New supply delivered - non social housing	0.00%	0.00%	0.00%	0.00%	0.00%	N/A
Metric 3: Gearing %age	36.2%	39.4%	38.9%	39.0%	39.0%	Increased Gearing reflects current development and asset management activity.
Metric 4: EBITDA-MRI %	205.0%	223.0%	211.0%	205.0%	186.0%	The EBITDA %age reduces in line with the development and asset management programmes, but remains well above lender covenant requirements.
Metric 5: Headline social housing cost per unit	£3,904	£4,010	£4,179	£4,273	£4,430	In real terms (i.e. excluding inflation) "Headline Costs" falls as more homes come into management.
Metric 6a: Operating margin %age from social housing lettings	18.9%	15.93%	17.07%	17.98%	18.16%	Operating margin decrease through continued compliance spending and will then improve in line with Development activity.
Metric 6b: Operating margin %age – overall	19.1%	22.13%	21.53%	22.21%	20.4%	Operating margin gradually improving in line with Development activity.
Metric 7: Return on capital employed.	3.21%	3.21%	3.25%	2.89%	2.82%	In line with planned asset management activities.

Summary

This section of the financial statements outlines:

- How important VfM is in achieving Connect's strategic objectives;
- The VfM savings we made in 2019/20 and what we did with the extra resources;
- How our operating costs (i.e. CPUs) compare with others;
- Our performance in relation to the VfM metrics and what we expect the projected figures to be.

Because of the data and comments shown in the tables above the Board is confident that the requirements of the VfM standard have been complied with.

Benchmarking and definitions

In consultation with HouseMark (a leading housing sector benchmarking organisation) our peer group was previously increased from 6 to 13 organisations and is now based on all North East, Yorkshire and Humberside housing associations with between 1000 and 5000 units as shown below:

Table 6

Registered provider	Housing units owned and/or managed
Arches Housing Limited	1,200
Byker Community Trust Ltd	1,783
Connect Housing Association Ltd	3,238
Dale and Valley homes Ltd	4,182
Durham Aged Mineworkers Association	1,775
Leeds and Yorkshire Housing Association Ltd	1,571
Leeds Federated Housing Association Ltd	4,206
North Star Housing Group Ltd	3,686
Pickering and Ferens Homes	1,337
Railway Housing Association and Benefit Fund	1,504
South Yorkshire Housing Association Ltd	5,379
The Joseph Rowntree Housing Trust	2,117
Unity Housing Association Ltd	1,280

Key to VfM metrics

1. *Reinvestment % - this metric calculates the investment in properties we have made (existing and new) as a percentage of the total value of all our properties;*
2. *New supply* % - *the number of housing units developed or acquired as percentage of the total stock;*
3. *Gearing % - how much of the adjusted assets are made up of debt – shows the degree of dependence on debt finance;*
4. *EBITDA-MRI % - Earnings before Interest, Tax, Depreciation and Amortisation (including Major Repairs). Measures the surplus generated compared to the interest payable;*
5. *Headline social housing cost per unit – measures total social housing costs divided by the number of units owned or managed;*
6. *Operating margin % - a measure of profitability or financial efficiency of a business. Specialist providers tend to have lower margins than average;*
7. *Return on capital employed % - compares operating surplus to total assets (less current liabilities) and used in the commercial sector as a measure of assessing efficient investment of capital resources.*