Value for Money (VFM)

The Association annually reviews its Vision and Purpose. The Board comprehensively updated these during 2017/18 as part of the development of a new over-arching strategy as follows:

Our purpose

We are a community anchor, supporting people and places to be the best that they can be.

Our vision

A more equal society where a good home, a good neighbourhood, good health and good prospects are within everyone's reach.

Our strategic objectives and themes

VALUED HOMES

Our offer will be for everyone, including the poorest in society and those with more than housing needs. We will be part of the solution to the crisis of homelessness.

We will build; we will buy; we will grow our offer of truly affordable homes for rent and sale by 2% a year.

The safety and condition of our homes is a priority.

VALUED PEOPLE

Based on a deep understanding of what local people want and need, we will adopt models of support that are affordable and sustainable.

Great people deliver great service, so we will be a happy, vibrant place to work where people can be their best.

We will 'grow our own' by making learning a high priority.

VALUED NEIGHBOURHOODS

As a local landlord and employer, we will take an asset-based approach to people and places, seeking out and working with people who, together, can make a difference.

We will innovate and experiment with ways to maximize our resources to use for the good of our communities.

VALUED SERVICES

Supported by technology and efficient systems, our costs will be appropriate to the social impact of our work.

Our customers will design our services with us - choice, convenience and communication will be core principles to the way we work

We will be a reliable and trustworthy service providers

Our values are our foundation

Create solutions	Love making a real difference	Include the whole community	Respect others

Our new over-arching strategy sets the broad direction for our VFM Strategy, guiding how we allocate and prioritise expenditure on new and existing activity. By stating that we are a community anchor, 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;
- 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). We have also reflected our business transformation programme and Value for Money in our focus on Valued Services.

The changes have been made largely in response to our changing environment, local markets, stakeholder expectations and following challenge from the Board about Connect's place in the world.

By transforming the way we deliver our services and nurturing local relationships, our intention is to retain and build on our agility and capacity to develop social rented homes and much needed support services to the communities that created us, at a reasonable cost.

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;

- 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;
- A good 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 Board and leadership team have placed a lot of focus during 2017/18 on developing a new strategic framework which aligned to the requirements of the new VFM Standard.

The Board approved a new set of strategic objectives and a 3 year outcome-based change plan. This will be a more structured way of tracking VFM within the business. The change plan is managed by the Business Transformation team and reporting systems are being developed to enable much easier regular reports on progress against milestones and outcomes.

Four significant areas of investment: development, asset management, support services and staffing, have received particular attention by the Board during the year, with a focus of making the best use of resources to enable further investment, particularly in developing new homes. The Board recognises that Connect is not a low cost provider and has spent time understanding where this has been driven by the strategic commitment to support services, community and 'housing plus' services and where it would seek further assurance on efficiency, such as maintenance.

<u>The VfM savings we made in 2017/18</u>

Connect's 2017/18 budgets included VfM savings of £319k e.g. where we scaled back budgets or set tighter operational targets:

- Void Losses £97k – better management of tenancies and quicker turnaround of voids.
- Staffing £80k – Reduction in Management Team from 5 to 4 members.
- Major repairs revenue £43k – Reaping the benefits of capital improvements and the planned programme over previous years.

- Insurance £38k – Continued approach to finding the best value within the market coupled with an improvement in the number of claims we make.
- Voids repairs £31k – A more robust approach on housing and void management.
- Bad Debts £30k net – The use of specific software to track payment patterns to enable a more targeted approach.

The actuals for 2017/18 revealed that we budgeted for turnover (excluding first tranche sales) of £17.510m and we achieved £17.519m – which is a difference of £9k.
The budgeted operating expenditure (excluding first tranche sales) for 2017/18 was £14.050m and the outturn was £13.812m - which is a difference of £238k.

The budgeted Interest and Financing costs for 2017/18 was £1.961m and the outturn was £1.800m which is a difference of £161k – through competitive re-financing in recent years and continued lower interest rates.

The budgeted profit on sale of all Housing Properties was £252k and the outturn was £541k which is a difference of £289k as greater business emphasis has been placed on asset management including more development and turnover of un-economic units.
The additional resources of £839k that were generated were used to fund the development programme and reduce the budgeted loan drawdowns.

Outturn Rent arrears (before write-offs) for 2017/18 were 2.8% against a target of 4%, with total arrears at the year end of £357k against a budget of £519k. Investment in our Money Matters (financial inclusion) team meant that every tenant moving onto Universal Credit received a personal contact and was offered, and in many cases assisted, to transition to the new benefit. Void rental loss for the year was 0.92% against the annual target of 1%. Void loss at year end showed a favourable variance against budget of £30k or 19.7% (£120k actual against £150k budget).

2017/18 was also the first year of operation for a new city-wide visiting support service, Engage Leeds. This brought in an additional £1.132m in grant income. A positive first year budget outturn was achieved, with the service making a direct contribution of £318k of against a budgeted direct contribution of £19k. Positive outcomes are being achieved, and the service adds value with the expertise that is now in the organisation (e.g. dementia specialism, hoarding expertise) and potential for further collaboration with the other partners in the consortium and potential for future contracts.

Overall the 2017/18 budget was out performed by £839k and those extra resources were used to fund Connect's development programme as the loans drawn down were £1m less than budgeted.

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

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 2016/17.

RPs selected --->	Connect Housing Association Limited	Connect Housing Association Limited	Peer Group	(All)	Connect Housing Association Limited	Comments
CPU Year	2016	2017	2017	2017	2018	
Headline social housing cost per unit - inc. owned and managed but exc. Leasehold and fully staircased shared ownership homes	£ 4,207	£ 3,754	£ 3,935	£ 3,300	£ 3,649	Headline Cost per unit has fallen but it still above the median figure for 2016/17.
Median social housing cost per unit (2016/17)	£ 3,570	£ 3,300	£ 3,300	£ 3,300	£ 3,300	
Variance	£ 637	£ 454	£ 635	£ -	£ 349	
Variance %age	17.83%	13.76%	19.23%	0.00%	10.59%	
Management CPU	*£ 1,241*	*£ 991*	*£ 1,208*	*£ 940*	*£ 866*	*Management CPU is falling.*
Service charge CPU	*£ 233*	*£ 220*	*£ 243*	*£ 370*	*£ 233*	*Service charge CPU is falling.*
Maintenance CPU	*£ 1,341*	*£ 1,335*	*£ 883*	*£ 930*	*£ 1,185*	*Maintenance costs are falling but they are still above the median for the sector.*
Major repairs CPU	*£ 779*	*£ 598*	*£ 620*	*£ 680*	*£ 521*	*Major repairs are falling and for 2017.18 they are below the 2016.17 median.*
Other social housing CPU	*£ 612*	*£ 610*	*£ 980*	*£ 240*	*£ 843*	*Other costs are lower than our peer group but still above the 2016.17 median.*

Our peer group includes –

Registered provider	Homes in management
Arches Housing Limited	1,156
Manningham Housing Association Limited	1,430
Unity Housing Association Limited	1,242
Leeds Federated Housing Association Limited	3,663
Leeds and Yorkshire Housing Association Ltd	1,446
The Joseph Rowntree Housing Trust	2,360

Connect's headline social housing cost per unit (SHCPU) has fallen in recent years and is now estimated to be approximately 10% over the Sector median but 5% below the 2016/17 peer group median. Excluding the £354 cost per unit of the Engage support contract which commenced in 2017/18 (as noted above), would put Connect's overall Social Housing CPU in line with 2017 Sector median. Outlined below are the actions we are taking to reduce our operating costs:

(i) Maintenance costs – Connect has been moving much of its maintenance activity to an in-house team 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.

During 2017/18 Connect also commissioned an enhanced benchmarking review on Maintenance carried out by Housemark. It concluded that Connect's higher maintenance costs were in part driven by a focus on quality rather than cost cutting. It also confirmed a number of areas where further focus could yield improved efficiencies e.g. more challenging performance targets and improved first visit completions. Actions are currently being progressed on a number of these areas including improved materials supplier arrangements and an improved work-flow driven hand-held technology solution for repairs orders. Void property maintenance has also been brought in-house and is projected to deliver £140k p.a. revenue savings against historic budgets, with fewer recalls and providing an improved customer experience for incoming tenants.

Responsive repairs was also the subject of a tenant-led Scrutiny review in 2017/18 (with support from TPAS) and it concluded that whilst overall the process of bringing repairs in-house has been successful, meeting the objectives as originally set, there were also a number of areas where VFM could be improved and an action plan has been agreed for this;

(ii) Other Costs – Connect places great stock by offering a wide range of support services to those in need where financially viable. As noted above, in 2017/18 Connect commenced the 1st year of a 5-year contract 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 Social Housing CPU, by £354 per unit.

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.*

Our VfM metrics for 2016/17 and 2017/18

The Regulator of Social Housing (RSH) introduced a new VfM standard in 2018 and a key aspect of it is that Registered Providers (RP) must publish their VfM metrics. The table below shows Connect's VfM metrics for the last two financial years and comparison data.

Metric	Connect Housing Association Limited	Connect Housing Association Limited	Peer Group	(All)	Connect Housing Association Limited	Comments
CPU Year	2016	2017	2017	2017	2018	
Homes in management	2,870	2,887	11,297	2,761,387	3,191	Increased homes as result of the ongoing development programme.
Metric 1: Re-investment %	3.83%	4.27%	7.09%	5.67%	7.78%	Re-investment follows the profiles of the development programme and the planned repairs programme.
Metric 2a: New supply delivered - social housing	1.25%	0.52%	2.46%	1.48%	2.57%	New supply increases as it follows the development profile.
Closing social housing units managed	2,870	2,887	11,297	2,761,387	3,191	
Metric 2b: New supply delivered - non social housing	Information not available in the 2015/16 dataset	0.00%	0.00%	0.14%	0.00%	N/A
Closing non-social housing units managed	-	6	309	228,607	6	
Metric 3: Gearing %age	34.8%	35.5%	32.4%	44.9%	35.6%	Gearing rises due to the development programme.
Metric 3 - Alternative: Gearing %age	55.4%	58.0%	41.5%	51.3%	58.1%	Gearing rises due to the development programme.
Metric 4: EBITDA-MRI %	147.4%	221.5%	235.3%	169.6%	254.0%	The EBITDA %age has improved and is similar to the 2016/17 peer group figures.
Alternative Metric 4: EBIDA-MRI %	147.4%	221.5%	287.2%	194.4%	254.0%	The EBITDA %age has improved and is similar to the 2016/17 peer group figures.
Metric 5: Headline social housing cost per unit	£ 4,207	£ 3,754	£ 3,935	£ 3,300	£ 3,649	Headline Cost per unit has fallen but it still above the median figure for 2016/17.
Metric 6a: Operating margin %age from social housing lettings	21.3%	25.6%	29.3%	34.1%	26.2%	The net operating margin has improved but it is still below our peer group and the median for the sector.
Metric 6b: Operating margin %age - overall	19.3%	22.5%	26.0%	29.6%	21.7%	The net operating margin has improved but it is still below our peer group and the median for the sector.
Metric 7: Return on capital employed.	3.1%	3.3%	3.3%	4.3%	3.3%	The return on capital employed continues to be just above 3% which is in line with our peer group but below the average for the sector.

Our projected VfM metrics

The table below details our outturn metrics for 2017/18 and our projected figures for the next four years.

Metric	Connect Housing Association Limited	Connect Housing Association Limited	Connect Housing Association Limited	Connect Housing Association Limited	Connect Housing Association Limited	Comments
CPU Year	2018	2019	2020	2021	2022	
Homes in management	3,191	3,181	3,263	3,314	3,375	Increased homes as result of the ongoing development programme.
Metric 1: Re-investment %	7.78%	7.33%	4.04%	5.56%	6.76%	Re-investment varies from year to year as it follows the profiles of the development programme and the planned repairs programme.
Metric 2a: New supply delivered - social housing	2.57%	2.04%	2.51%	1.54%	1.81%	New supply increases annually as it follows the development profile.
Social housing units developed	82	65	82	51	61	
Closing social housing units managed	3,191	3,181	3,263	3,314	3,375	
Metric 2b: New supply delivered - non social housing	0.00%	0.00%	0.00%	0.00%	0.00%	N/A
Closing non-social housing units managed	6	6	6	6	6	
Metric 3: Gearing %age	35.6%	36.0%	36.0%	36.0%	37.5%	Gearing rises due to the development programme.
Metric 3 - Alternative: Gearing %age	58.1%	58.7%	60.1%	62.0%	66.1%	Gearing rises due to the development programme.
Metric 4: EBITDA-MRI %	254.0%	222.2%	219.6%	191.8%	179.7%	The EBITDA %age reduces due to increased debt used to fund the development programme.
Alternative Metric 4: EBIDA-MRI %	254.0%	222.2%	219.6%	191.8%	179.7%	The EBITDA %age reduces due to increased debt used to fund the development programme.
Metric 5: Headline social housing cost per unit	£ 3,649	£ 3,576	£ 3,602	£ 3,678	£ 3,671	"Headline Costs" are expected to fall in future as more homes come into management.
Metric 6a: Operating margin %age from social housing lettings	26.2%	24.7%	21.8%	22.0%	22.6%	Due to ongoing impact of the rent reduction the net operating margin falls and then gradually recovers.
Metric 6b: Operating margin %age - overall	21.7%	17.1%	19.8%	17.9%	18.0%	Due to ongoing impact of the rent reduction the net operating margin falls and then gradually recovers.
Metric 7: Return on capital employed.	3.3%	2.5%	3.2%	2.8%	2.8%	The return on capital initially falls and then rises.

Summary

In summary then this section of the financial statements has outlined:

- How important VfM is in achieving Connect's strategic objectives.
- The VfM savings we made in 2017/18 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.