

## **Value for Money (VfM)**

The Board confirmed its Vision and Purpose in 2018/19 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 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 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). We have also reflected our business transformation programme and Value for Money in our focus on Valued Services.

### **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 2018/19**

Connect's 2018/19 Budget included VfM savings across the business of £336k including scaling back on expenditure levels where feasible or tighter operational targets.

Turnover for 2018/19 delivered a £200k favourable outturn - £17.5m actual against a budgeted turnover (excluding first tranche sales) of £17.3m.

Outturn Rent arrears (before write-offs) for 2018/19 were 2.6% favourable against a target of 3.8%, with total arrears at the year-end of £344k against a budget of £499k. Void rental loss for the year was 0.76% favourable against the annual target of 1%. Void loss at year end showed a favourable outturn against budget of £31k or 23.6% (£101k actual against £132k budget).

Continued 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. In 2018/19 arrears of tenants using the service reduced by £28k. Connect benefited from an overall business saving of £298k (up from £245k in the previous year). This figure is representative of the work our Money Matters team has done to either bring in rental income via tenant payment plans, Discretionary Housing payments (DHP's), Department of Work and Pensions managed payments (Alternative Payment Arrangements) or made in savings by the prevention of court action or eviction. A total annual saving of £655k was generated for tenants. This is the amount gained for tenants in additional benefits, trust fund / grant applications, and debt reductions / write offs. Using the Housing Association Charitable Trust (HACT) Social impact calculator savings of £1.9m have been identified, thus for each £1 invested in the service, £11.15 has been generated in social value.

The budgeted profit on sale of all Housing Properties was £198k and the outturn was £310k which is a favourable difference of £112k reflecting the continued business emphasis on asset management including more development activity and turnover of un-economic units.

The budgeted operating expenditure (excluding first tranche sales) for 2018/19 was £13.5m and the outturn was £14.4m - which is an adverse outturn of £900k. Much of this variance relates to Maintenance expenditure overspends (see below for further details). Other variances related to additional Health & Safety compliance work (£129k) and accelerated depreciation of the Leeds office (£63k) following a valuation review.

Interest and Financing costs for 2018/19 were £2.1m against a budget of £2m which is an adverse outturn of £100k, reflecting additional investment in Development activity.

## Our VfM metrics for 2017/18 and 2018/19

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 (2017/18).

### VfM - Investment in Homes

**Table 1**

Metric	Connect Housing - outturn	Connect Housing - outturn	Peer Group	Sector Median (All)	Connect Housing - outturn	Connect Housing - target	Outturn to target variance	Comments
CPU Year	2016/17	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19	
<b>Closing Social Housing units owned and/or in management</b>	3,124	3,191	33,119	2,712,335	3,238	3,233	5	Active asset management activities with 78 new homes added and 23 disposed.
<b>Metric 1: Re-investment % (existing and new properties)</b>	4.27%	7.78%	7.78%	5.82%	7.34%	6.71%	0.6%	Re-investment varies from year to year as it follows the profiles of the development programme and the planned repairs programme.
<b>Metric 2a: New supply delivered - social housing</b>	0.52%	2.57%	1.19%	1.00%	2.41%	2.01%	0.4%	Higher than both Peers and the Sector median, new supply increases annually in line with the Development strategy.
<b>Metric 2b: New supply delivered - non-social housing</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	N/A
<b>Metric 3: Gearing %age</b>	35.5%	35.6%	33.5%	43.7%	35.7%	38.6%	-2.9%	Lower than Peers and Sector median, Gearing rises as external funding increases to maintain sustainable development programme.
<b>Metric 4: EBITDA-MRI %</b>	221.5%	254.0%	296.9%	203.0%	213.0%	309.5%	-96.5%	In line with the Sector median, but lower than Peers, EBITDA %age reduces due to increased debt used to fund the development programme.

The development programme was a significant achievement in 2018/19. Connect took handover of 78 new homes in the year to 31 March 2019, comprising 33 homes funded through the Affordable Homes Programme and a further 45 acquired through Section 106 Agreements. Of these units, 27 were for social rent, 20 for affordable rent and 8 for intermediate market rent, with 23 being for shared ownership. This delivery was a really encouraging start to Connect's new business plan ambition to grow the stock by an average of 2% per annum over the next 10 years.

Connect also tendered for and agreed £30m of new loan facilities at very competitive rates during 2018/19 to support our Development aspirations. Our pipeline for new homes currently comprises schemes which could deliver in the region of 190 homes, including a substantial proportion of which would be supported housing, over the next 3 years. However, due to the development cycle and maturity of these opportunities, we are now only forecasting 35 completions in 2019/20.

In 2018/19 Connect has completed a further 406 independent stock condition surveys towards our rolling programme of surveying the whole stock over a 5 year period. The data has provided further validation for the major repairs investment projections included in the business plan.

A comprehensive Asset Management Review of the older "rehab" stock has also been completed and the results presented to the Board to inform future disposals strategy on value for money grounds. The review showed that the stock built before 1930 requires significantly more maintenance expenditure than properties built after this period. Whilst stock of this age represents 14% of the portfolio, it attracts 24% of the maintenance spend. Average repairs costs per dispersed rehab property are £1,100 compared to 50% of this figure for scheme based properties. The average Net Present Value (NPV) for rehab properties is £18,214 compared to £31,096 for scheme based properties. Customer satisfaction with the home is 10 percentage points lower in rehab stock compared to scheme-based properties. Accordingly, 198 properties from the older rehab stock (approximately 1/3rd of the total) have been identified for gradual disposal at next void. At current estimates of Open Market Value, these sales could generate in excess of £18m in cash to support the ongoing development programme, including over £5m in recycled grant. This "Active Asset Management" approach is a key component of Connect's development growth strategy. In 2018/19 Connect disposed of property assets comprising 21 homes and an obsolete supported housing scheme, generating receipts in excess of £1.5m.

## How our costs compare with our peer group, the sector 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 2017/18. 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	Sector median (All)	Connect Housing - outturn	Connect Housing - target	Outturn to target variance
CPU Year	2016/17	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19
Headline social housing cost per unit £	3,754	3,649	2,988	3,362	3,872	3,900	-1%
Median social housing cost per unit £	<b>3,300</b>	<b>3,362</b>	<b>3,362</b>	<b>3,362</b>	n/a	n/a	n/a
Variance £	454	287	-374	n/a	n/a	n/a	n/a
Variance %age	14%	9%	-11%	n/a	n/a	n/a	n/a
Management £ CPU	991	866	866	964	929	1,010	-8%
Service charge £ CPU	220	254	254	377	272	239	14%
Maintenance £ CPU	1,335	1,185	960	945	1,311	1,196	10%
Major repairs £ CPU	598	522	630	720	597	630	-5%
Other social housing £ CPU	610	822	107	219	763	825	-8%

Connect's headline Social Housing Cost Per Unit (SHCPU) has fallen in recent years from a high of £4,207 per unit in 2015/16 to £3,649 per unit in 2017/18. Although higher than both the peer group median (£2,988) and the Sector median (£3,362), this needs to be considered alongside Connect's commitment to Supported Housing activities reflected in the much higher levels of 'Other Social Housing' expenditure. For example, excluding the £354 CPU 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 2017/18 SHCPU from £3,649 to £3,295 which is below the 2017/18 Sector median (£3,362) and much closer to the peer group median (£2,988).

Although pleasing to note that Connect's 2018/19 SHCPU outturn (£3872) was 1% below budget, it is still expected to remain above the 2018/19 Sector median. Two areas in particular help to explain this outturn position:

- (i) Maintenance costs – 2018/19 has been a challenging year in terms of service delivery and cost and budget management resulting in an 11% year-on-year increase and a 10% overspend against budget.

Responsive repairs has seen a significant year-on-year increase in demand and, when coupled with an increase in material costs, has resulted in a full year overspend against budget. New procurement arrangements (offering greater transparency and cost control) and increased internal controls implemented at the half year did however help to reduce the full year impact and will continue to assist in this area going forward.

Void Maintenance activity was insourced later in the year than planned causing higher than budgeted costs in this area, however it is now delivering expected savings helping to offset some of the early year external contractor overspends.

Compliance testing has had stronger emphasis in last financial year with a £360k increase in 18/19 from the previous year and will continue to maintain that momentum in future years.

Connect has been moving much of its maintenance activity to an in-house team and as further efficiencies are made, and the Association grows its stock, the cost per unit are expected to fall back much closer to the sector median.

- (ii) Other Costs – Compared to the Sector more widely and its peers, Connect continues to offer a wide range of support services to those in need where financially viable. An example of this commitment is the Engage contract entered into in 2017/18 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' CPU, and thus the overall SHCPU, by £350 per unit.

Table 3

Metric	Connect Housing - outturn	Connect Housing - outturn	Peer Group	Sector Median (All)	Connect Housing - outturn	Connect Housing - target	Outturn to target variance	Comments
CPU Year	2016/17	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19	
<b>Metric 6a: Operating margin %age from social housing lettings</b>	25.6%	26.1%	26.1%	32.5%	20.4%	21.1%	-0.7%	Fall in margin reflects ongoing impact of the rent reductions and increased operational and compliance expenditure.
<b>Metric 6b: Operating margin %age – overall</b>	22.5%	21.7%	21.8%	29.7%	18.9%	22.5%	-3.6%	As above, plus reduced margins on low cost and shared ownership sales.
<b>Metric 7: Return on capital employed.</b>	3.3%	3.3%	3.3%	4.1%	3.2%	3.1%	0.1%	The return on capital is in line with peers but below the Sector median.

Although in line with peers for 2017/18, Connect’s operating margin from social housing lettings (26.1%) was below the Sector median and slightly below budget in 2018/19 at 20.4%. Excluding the impact of Low cost / Shared Ownership sales, social housing lettings turnover has increased by only 1.3% during 2018/19, with rent from the new housing stock being impacted by the annual 1% rent reduction. Like for like costs have however risen by 9.1% with the increased operational costs noted above including additional maintenance and compliance expenditure and accelerated depreciation.

In terms of the overall operating margin, although the volume of Low cost / shared Ownership sales has increased from £482k to £2.9m, margins on this activity have fallen from 41.1% to 25.6% (reflecting a different mix of property types), further reducing the overall return year-on-year from 21.7% to 18.9%. Excluding this sales activity, Connect’s margin has recorded a slight year-on-year decrease from 21.2% to 20.9% in 2018/19.

The continued investment into both new and existing homes has seen our Return on Capital Employed reduce slightly in 2018/19 when Connect invested £1.6m capital and £1.36m revenue in planned maintenance. Significant year-on-year increases were delivered in electrical safety and fire safety, 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 £8m in improving its stock. The business plan has been updated to reflect the 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	Sector Median (All)	Connect Housing - outturn	Connect Housing - target	Outturn to target variance	Comments
CPU Year	2016/17	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19	
<b>Customers satisfied with overall service</b>	88.1%	87.5%	87.2%	88.0%	87.2%	90.0%	-2.80%	Lower than target but broadly in line with peers and the Sector median.
<b>Current Tenant arrears</b>	2.00%	2.01%	3.40%	3.10%	1.95%	2.81%	-0.86%	Arrears holding steady in challenging environment, outperforming budget and benchmarking.
<b>Former tenant arrears</b>	0.90%	0.70%	0.77%	0.91%	0.60%	0.94%	-0.34%	Excellent trend in ever more challenging environment. Outperforming budget and benchmarking.
<b>Void loss</b>	1.19%	0.91%	0.92%	0.90%	0.76%	1.00%	-0.24%	Excellent trend in ever more challenging environment. Outperforming budget and benchmarking.

Customer satisfaction with the overall service received from Connect has shown a slight decline since 2016/17 and at 87.2% in 2018/19 is 2.8% below target. Performance analysis shows no underlying reasons for areas of dissatisfaction. Connect currently collect limited amounts of data across a number of areas that dilutes the effectiveness of the data and limits the amount of actions we can attribute to each score. It is however very pleasing to note that customer satisfaction with Connect’s Repairs Service and delivering Value for Money has increased year-on-year rising from 84.3% to 85.2% and 85.7% to 88.9% respectively.

In 2019, Connect is introducing a new Customer Relationship Management (CRM) system to better understand and engage with our customers, together with the Net Promoter Score (NPS) as a way to measure Customer Satisfaction and produce actionable results. Our new CRM will enable us to have better relationships with our customers and offer a better service. As well as understanding our customers better and engaging them in a way and frequency that suits their needs, we will also be able to better track individual contacts and tasks, ensuring each one is completed fully. The introduction of the NPS will enable us to capture significantly more data, and highlight individual service failures to ensure we put recovery actions in place and plan for longer term improvements to our offering.

During the year the Leadership Team, the Board and the Connect Residents Federation reviewed tenant engagement activities and involvement and scrutiny structures leading to a new co-produced Tenant Engagement Strategy. Building on what already works well, it aims to broaden engagement mechanisms, increase the diversity of involved tenants and strengthen tenant influence at all levels. The strategy aims to ensure engagement methods are modern, convenient for the customer and good value for money. We will be tracking the impact and cost of all engagement activity and produce an annual impact analysis that will shape future activity. During the year, the Service Improvement Forum continued to feed tenant priorities into the business and change planning process, and holding us to account by our tenants via the Service Improvement Forum. 'Satisfaction with views taken into account' increased to 83% compared to 79% in 2017/18.

Working to a new strategy, focused on mitigating the impact of welfare reforms, and a 'rent on time' campaign more tenants had moved to a zero or credit balance by year end. In terms of arrears written off, £71k was written off against a budget of £105k, an improvement against the previous year (£85k). Our Money Matters (financial inclusion) team targeted support at tenants moving onto Universal Credit (UC), with personal contact made in every case. Average UC arrears were £371, less than the national average of £489 (NHF March 2018 UC survey). Arrears of tenants using the Money Matters Service reduced by £28,461 during the year. Both the Money Matters and Income Services teams work to support tenancy sustainment and minimise evictions, and there were fewer evictions and reduced tenancy turnover compared to the previous year.

Effective management of empty properties has continued to be a priority. Void rent loss was 0.76% against a target of 1%, an improvement compared to 2017/18 when void loss was 0.91%. Whilst performance on the percentage of void properties let in under 5 weeks improved by 2.1% compared to the previous year, performance on re-let time (days) remained static and is a priority area for improvement in 2019/20. We are currently piloting an additional temporary resource in the Lettings Team dedicated to ensuring efficient pre-tenancy termination and tenancy creation processes. The estimated efficiency savings are expected to more than cover the costs of the post. A VfM review of the Lettings Service is planned for 2019/20.

## Our projected VfM metrics

The table below details our outturn Sector Scorecard metrics for 2018/19 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	2018/19	2019/20	2020/21	2021/22	2022/23	
Closing Social Housing units owned and/or in management	3,238	3,256	3,399	3,582	3,605	Increased homes as result of the ongoing development programme.
Metric 1: Re-investment %	7.34%	12.04%	5.71%	6.10%	6.64%	Re-investment varies from year to year in line with the development and repairs programmes.
Metric 2a: New supply delivered - social housing	2.41%	4.21%	5.11%	0.64%	1.34%	New supply rises in line with the development profile.
Metric 2b: New supply delivered - non social housing	0.00%	0.00%	0.00%	0.00%	0.00%	N/A
Metric 3: Gearing %age	35.7%	38.0%	39.0%	40.0%	42.0%	Gearing rises as loans increase in line with the development programme.
Metric 4: EBITDA-MRI %	213.0%	208.0%	181.0%	178.0%	153.0%	The EBITDA %age reduces due to increased debt used to fund the development programme.
Metric 5: Headline social housing cost per unit	£ 3,872	£ 3,600	£ 3,522	£ 3,646	£ 3,893	In real terms "Headline Costs" falls as more homes come into management, in particular for years 19/20 and 20/21
Metric 6a: Operating margin %age from social housing lettings	20.4%	20.2%	22.5%	22.9%	23.3%	Operating margin gradually improving in line with Development activity.
Metric 6b: Operating margin %age – overall	18.9%	22.9%	21.9%	24.1%	25.2%	Operating margin gradually improving in line with Development activity.
Metric 7: Return on capital employed.	3.2%	3.5%	3.2%	3.2%	3.2%	In line with planned asset management activities.

## **Summary**

In summary Connect has outlined:

- how important VfM is in achieving Connect's strategic objectives;
- the VfM savings we made in 2018/19 and what we did with the extra resources;
- how our operating costs (i.e. CPUs) compare with others; and
- 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 has increased from 6 to 13 organisations and is now based on all North East, Yorkshire and Humberside housing associations with between 1,000 and 5,000 units as shown below:

**Table 6**

Registered provider	Housing units owned and/or managed
Arches Housing Limited	1,193
Byker Community Trust Ltd	1,782
Connect Housing Association Ltd	3,191
Dale and Valley Homes Ltd	4,161
Durham Aged Mineworkers Association	1,814
Leeds and Yorkshire Housing Association Ltd	1,465
Leeds Federated Housing Association Ltd	4,072
North Star Housing Group Ltd	3,643
Pickering and Ferens Homes	1,316
Railway Housing Association and Benefit Fund	1,431
South Yorkshire Housing Association Ltd	5,650
The Joseph Rowntree Housing Trust	2,121
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; and*
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.*