## STRATEGIC REPORT AND REPORT OF THE BOARD

### Value for Money (VfM)

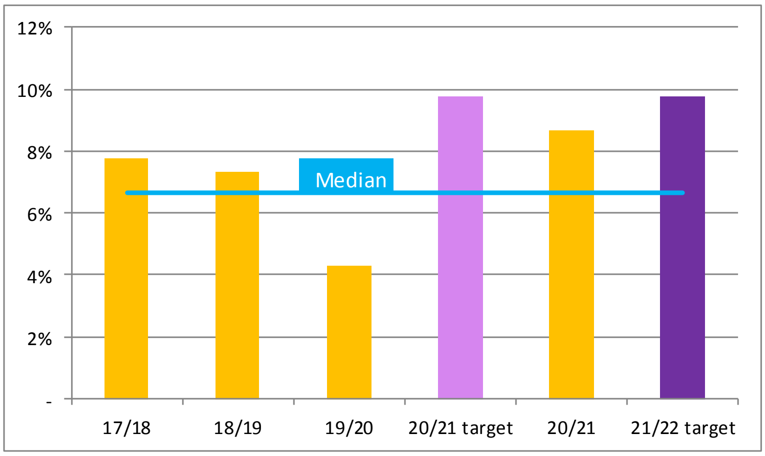
Connect is an ambitious organisation, wanting to deliver high quality services and homes to as many people as possible. We organise ourselves and make choices to deliver as much as we can. The National Housing Federation published a guide ten years ago when "government austerity" was affecting many of Connect's neighbourhoods, and its introduction still captures the essence of Connect's understanding of good VfM:

*"It requires a social heart and a business head – and an acceptance that the two are completely compatible. Nor should 'heart' be construed as fluffy sentimentality. Rather it is the unswerving determination to do social good. Being practical, hard-headed and business-like is the means to achieving and maximising the sector's social ends."*

Our overarching strategic vision and objectives have been set out earlier in this report. VfM underpins everything we do, as the value we deliver to our customers and stakeholders is the essence of people being at their best, having safe homes, living in neighbourly places and protecting the planet. Many of our specific VfM actions fall under the final objective which is to become more efficient, in order to feed our social purpose. We are not seeking to make big surpluses or financial margins but to spend as much as we can afford on our core purposes whilst remaining sustainable.

This last year has been unusual, and this has affected key VfM measures in different ways. In summary, expenditure is down slightly, income is maintained, and so our surplus has risen above our target for the year which has led to some positive VfM metric variances as set out below. Our development programme has slowed down as lockdowns have stretched out the planning process and caused delays on site. Growth is less than planned, although we will catch up in the next year or two.

Reinvestment %




20/21 target 9.8%

Reinvestment has increased to 8.7% (2020: 4.3%) reflecting increasing new home development. It has fallen slightly below target due to the impact of the lockdown slowdown.

21/22 target 9.8%

We will be back on target in the new year as both development and existing home spending recover from lockdown. We will continue to exceed our peer median.

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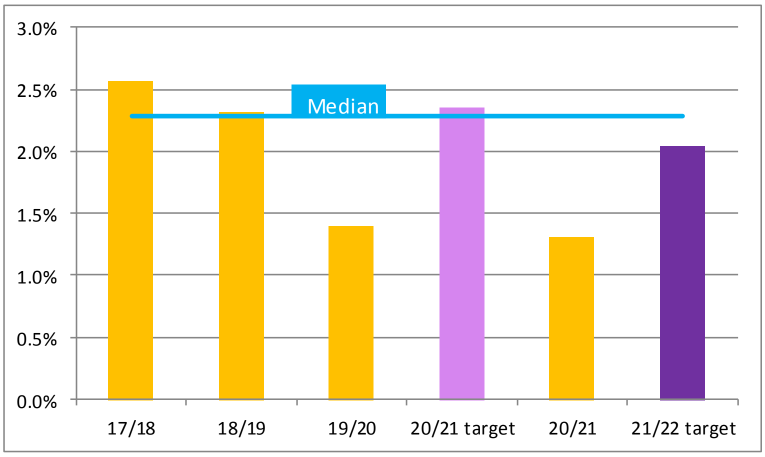
New social housing delivered




20/21 target 2.4%

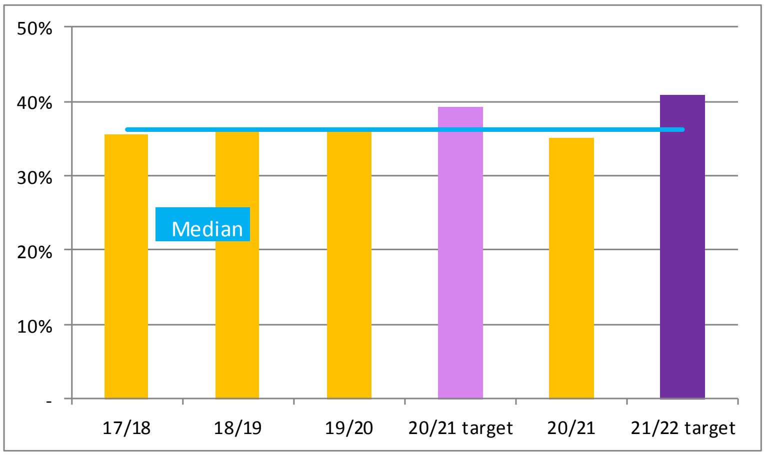
Lockdown delays have slowed new home completions, which has led to poorer reported performance. It is likely that the 2021 peer group median will follow a similar track, and that we will again by around the median level.

21/22 target 2.1%

As activity picks up after lockdown we will return to an anticipated performance level in line with our development strategy and close to the peer median.

Note - no new non-social housing has been planned or delivered, in common with our peer group.

Gearing %



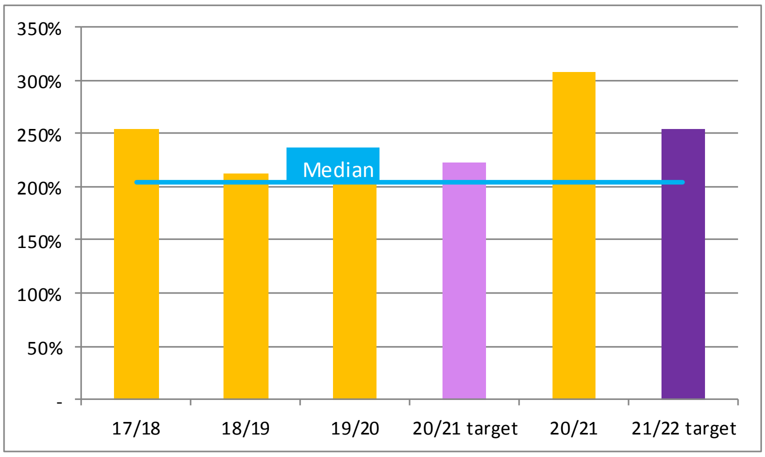

20/21 target 39%

Lockdown delays have led to delays in completing new homes which has led to less borrowing than we had planned to fund those new homes.

21/22 target 41%

As activity picks up after lockdown we are planning to borrow more to fund development at levels slightly higher than our peers.

Interest Cover % (EBITDA MRI)




20/21 target 223%

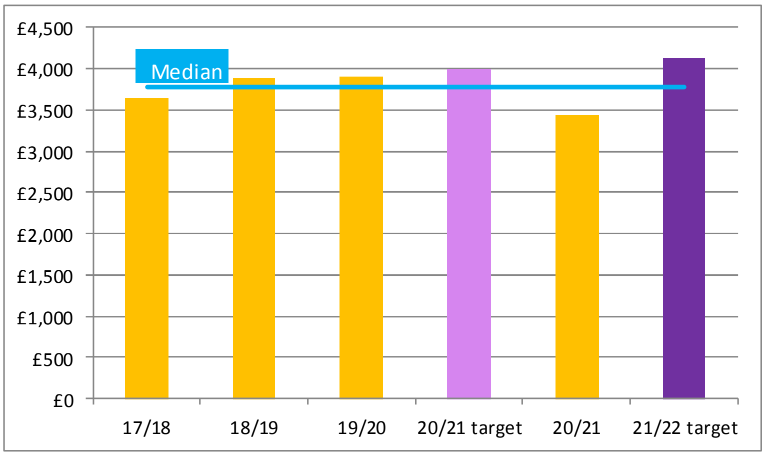
Lockdown delays have increased our surplus and reduced our borrowing at lower interest rates, all of which drive a higher EBITDA MRI interest cover calculation. This is a risk measure, and we have plenty of headroom over minimum levels of 110%

21/22 target 255%

As activity picks up after lockdown we are planning to borrow more to fund development and our surplus, and hence interest cover will fall slightly. This still provides plenty of headroom.

## STRATEGIC REPORT AND REPORT OF THE BOARD

Social housing cost per unit



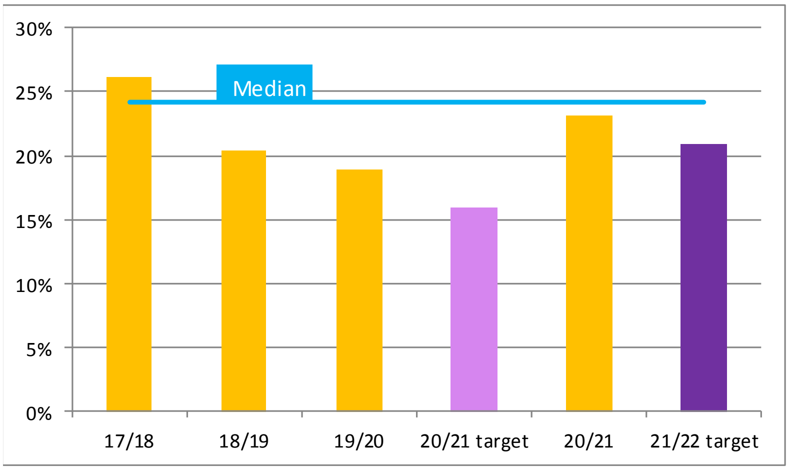

20/21 target £4,010

Lockdown has led to reduced repairs expenditure which has redeuced this measure. Other income and expenditure has been in line with target. It is likely the median will also have fallen.

21/22 target £4,137

As activity picks up after lockdown we will revert to more normal levels of expenditure. We are slightly above our peers as a result of more non-lettings activity (homelessness support services), which has been agreed by the Board as a key service.

Operating margin (social lettings)



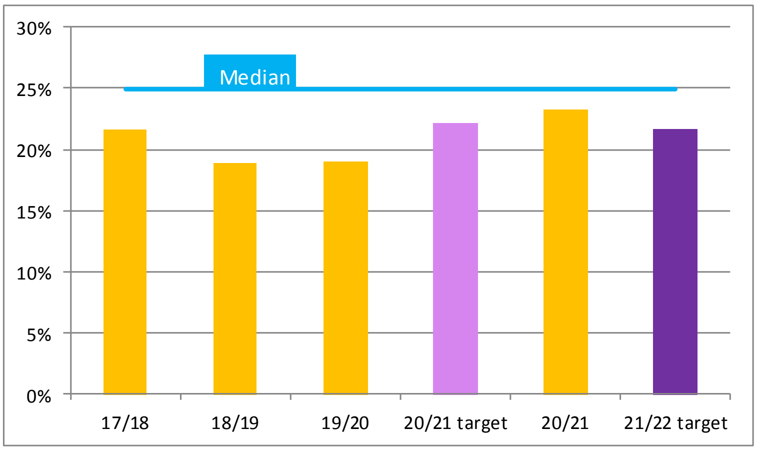

20/21 target 16%

Lockdown has led to reduced repairs expenditure. Other income and expenditure has been in line with target and so margins have improved. It is possible that the peer median has also risen.

21/22 target 21%

As activity picks up after lockdown we will revert to more normal levels of expenditure. We currently have lower margins than our peers, but our technology investment and growth produce an improving position over time, and so anticipate reducing this gap.

Operating margin (overall)




20/21 target 22%

Margins have been positively affected by Covid as above. We underperform our peers because of higher levels of non-lettings activity (eg homelessness contracts) although shared ownership sales improve our score.

21/22 target 22%

As activity picks up after lockdown we will revert to more normal levels of expenditure, and a margin in line with our previous trend.

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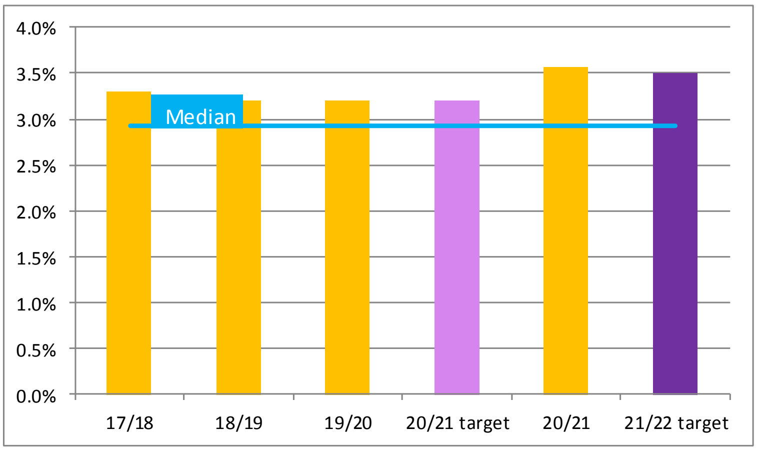
Return on Capital Employed



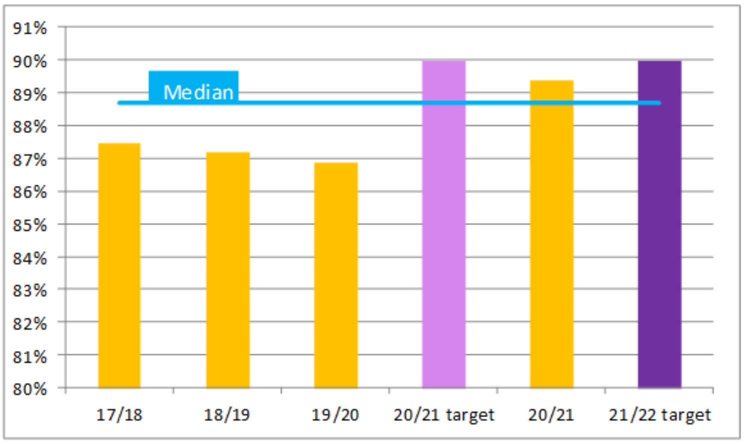

20/21 target 3.2%

The surplus has been positively affected by Covid as above and so we have exceeded our target. We are performing slightly better than our peers partly because we have some business streams (eg shared ownership sales) which generate a surplus without requiring any capital.

21/22 target 3.5%

We have higher levels of shared ownership surpluses than usual in 21/22 which drives a better ROCE.

Customer Satisfaction



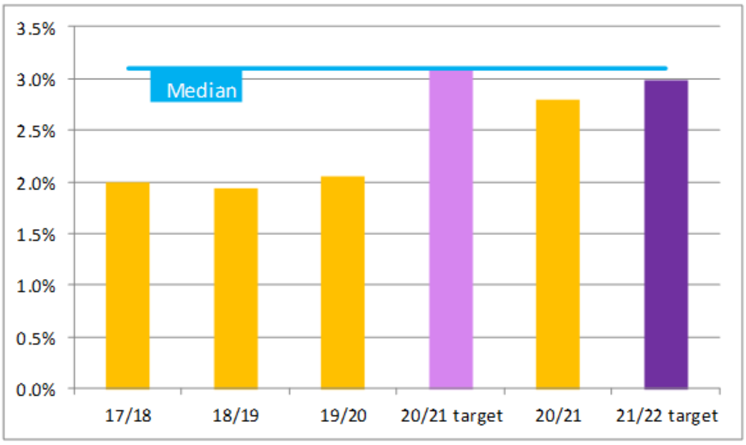

20/21 target 90%

During lockdown the collection of satisfaction figures was suspended and only restarted in November 20 based on a transactional rather than perception basis which usually generates higher figures and so should be seen with caution. We have started focusing on a Net Promoter Score for the future.

21/22 target 90%

Performance is still affected by Covid but technology changes are designed to improve customer experience and hence satisfaction during the year.

Current Tenant Arrears




20/21 target 3.1%

A higher target was set to allow for the impact of Universal Credit migration. This change has happened, but performance has been better than planned. It is particularly pleasing that this is against the Covid backdrop where many of our tenants have been under financial pressure. Peers for this measure are large landlords in the Region.

21/22 target 3.0%

This remains an ambitious target as further Universal Credit migration is happening alongside a withdrawal of the Covid benefit uplift and furlough schemes.

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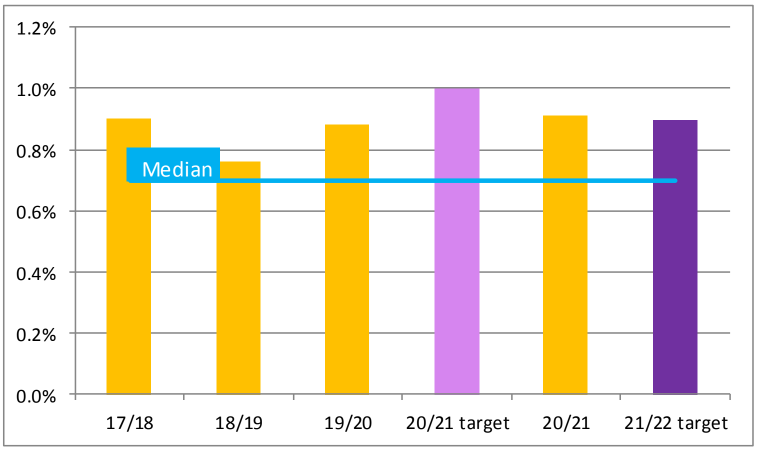
Void Loss




20/21 target 1.0%

Performance has been good during the year, helped by lower turnover in response to Covid. Lettings activity has been affected so when homes become empty it takes longer to relet them. We have more supported housing than our peers which carries higher turnover and hence higher void loss so overall void loss is above median.

21/22 target 0.9%

This remains an ambitious target as lockdown continues to hamper relet activity while we think turnover will rise.

The medians in the charts are from a group of 12 similar local associations for the latest published data from 19/20. Against this group we are in the 2nd quartile for around half and 3rd quartile for the rest. This rough measure suggests that we are reporting average financial performance for 19/20 which reflects our focus on the Value part of the equation rather than just the Money part. A new VfM strategy is planned for 21/22 which will drive improvements in this area.

As we look forward, we can see margins continue to improve slightly, with costs being in line with inflation. This doesn't mean that we are not improving VfM, rather that we are spending any savings on delivering better quality homes and services to our customers.

Some specific VfM activities during the year include:

- Growth in overall homes managed which spreads our overheads more thinly. This includes a stock transfer from Places for People which we can manage more cost effectively than they can.
- Our Active Asset Management Strategy identifies older rehab stock that performs 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 (£18m at current values) to be reinvested in the delivery of new homes. Few sales have been actioned during lockdown as tenants have not moved on.
- We have made significant investments in technology during the year, both to support a more agile workforce (and accelerated by the Covid lockdown) and also to improve our core housing systems to enhance customer experience and improve internal efficiency. This work is due for completion in the next financial year and then we can deliver further VfM improvements.