Value for Money

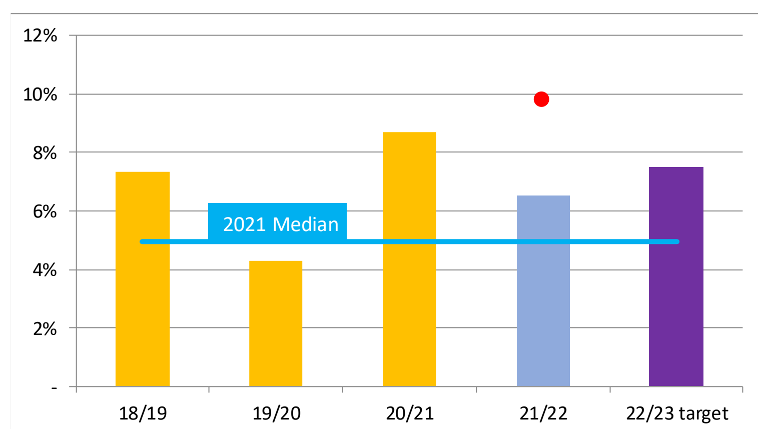
Connect is an ambitious organisation, wanting to deliver high quality services and homes to as many people as possible. We organise ourselves and make choices to deliver as much as we can. The National Housing Federation published a guide ten years ago when "government austerity" was affecting many of 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.

After an unusual year in 2020/21 we have returned to a more normal set of metrics. Performance for the current year is shown with an actual out-turn in pale blue in the graphs below, compared with a target shown by a red dot. The median comparison comes from a set of 12 other housing providers in the region of a similar size where financial results are available (for 2021). The last three graphs use the median of data from a small group of larger northern providers as a comparison.

Reinvestment %

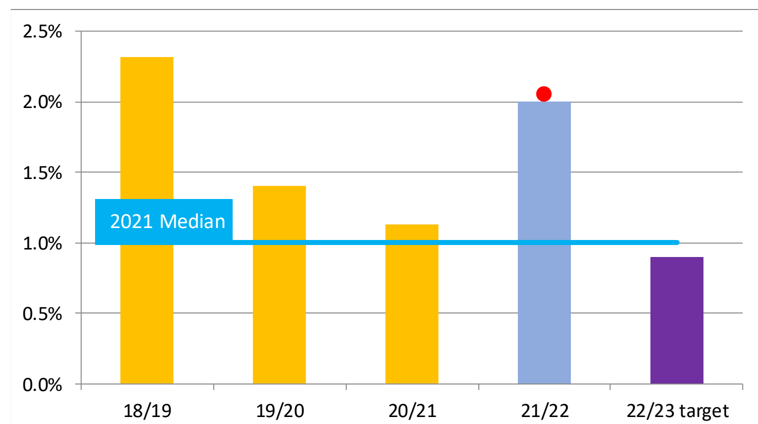


21/22 actual 6.5% vs target 9.8%

Reinvestment has dropped during the year where lockdowns, supply chain issues and planning delays have pushed back expenditure into later years. We continue to outperform our peers.

22/23 target 7.5%

We will see some recovery and catch-up in 22/23, but new homes expenditure will rise still further in 23/24.

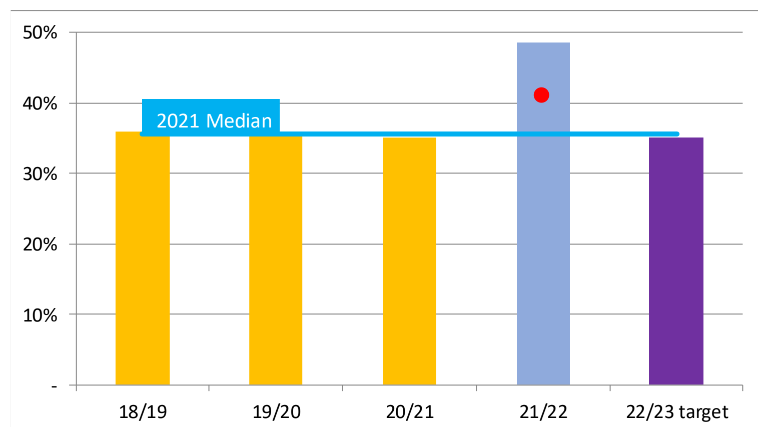


21/22 actual 2% vs target 2.1%

As we have come out of lockdown, we have completed new homes that were underway at the beginning of that period. We have caught up. Our overall trend and intention is around the 1.5% level, above that of our peers.

22/23 target 0.9%

However, the wider impact of lockdowns and staff shortages elsewhere has slowed down site acquisitions and planning consent, so that current pipeline schemes won't complete until 23/24 or later. Our target for 22/23 shows a dip against our long-term trend and intention.

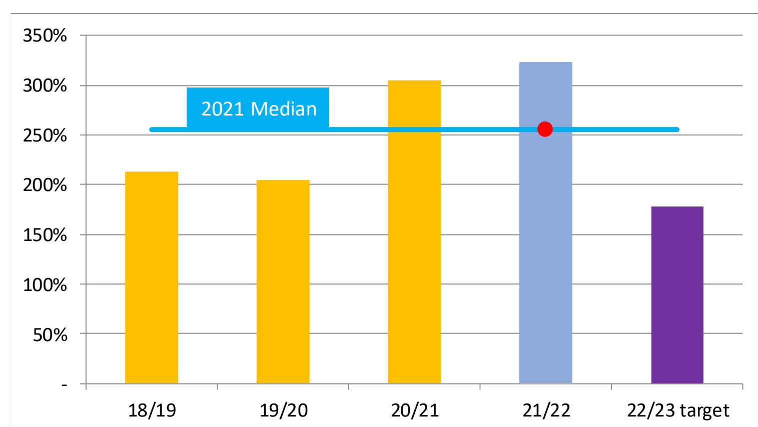


21/22 actual 49% vs target 41%

In March 2022 we completed a new long-term £30m loan facility. £20m of this was drawn immediately which increased our borrowings (and hence our gearing). This cash was initially used as security against the loan, but will be released during 22/23 and used to repay other short-term loan facilities so gearing will fall back.

22/23 target 35%

During 22/23 we will replace £20m of cash security with property security which will release cash to repay other loans. Our gearing level remains consistent with our peers.



21/22 actual 322% vs target 255%

We have spent less on capitalised works to existing homes than planned due to a combination of lockdown and supply chain delays. This reduced expenditure means that our earnings figure used in this ratio is higher, and so we've exceeded our target which is close to the peer median.

22/23 target 178%

As activity picks up after lockdown, our capitalised spending will increase significantly and this ratio falls. We anticipate others' results to worsen also. An EBITDA of 178% still provides plenty of headroom.

CONNECT HOUSING ASSOCIATION LIMITED

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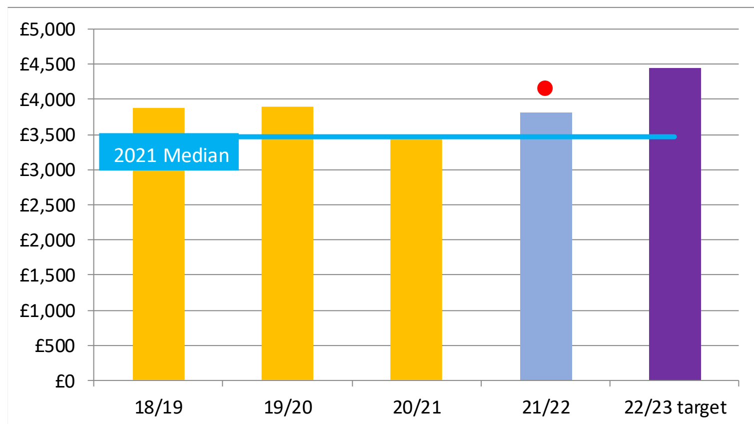
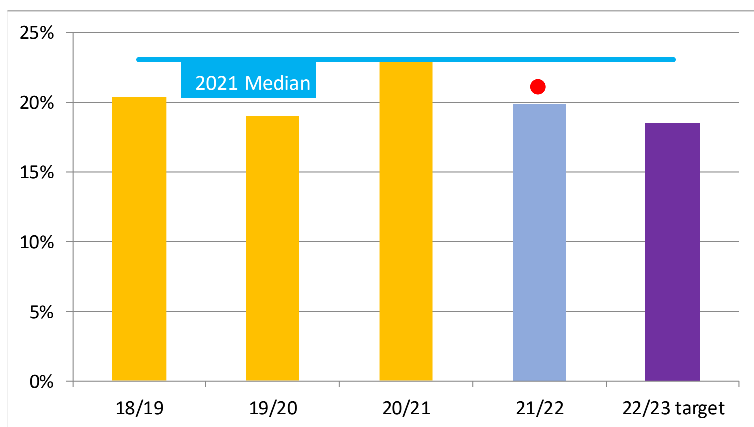


21/22 actual £3809 vs target £4137

We have spent less on capitalised works to existing homes than planned due to a combination of lockdown and supply chain delays, so our unit cost is under our target for this year, as it was for 20/21.

22/23 target £4453

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 (eg homelessness support services), which has been agreed by the Board as a key service.

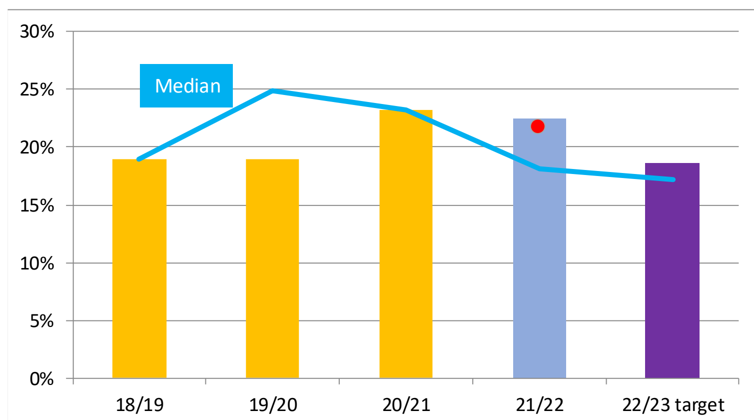


21/22 actual 20% vs target 21%

Our costs for the year were slightly higher than planned, and so our lettings margin has fallen. Higher levels of low margin supported housing activity continue to keep margins below our peers.

22/23 target 18%

IT investment continues to be high which further depresses the margin, alongside some catch-up from the impact of lockdowns. As we realise transformation benefits, the margin should rise. We anticipate others' margins to be also falling and we will meet somewhere in the middle in subsequent years.



21/22 actual 23% vs target 22%

This year our shared ownership activity was particularly high, and at a strong margin which offset the impact of poorer lettings performance (see previous metric). The chart includes a forecast median for our peers for 2022 and 2023 based on a recent survey.

22/23 target 19%

We are not anticipating many high margin shared ownership sales for 2022 or in future years, and so our margin will settle back into a more normal trajectory, and at a similar level to our peers.

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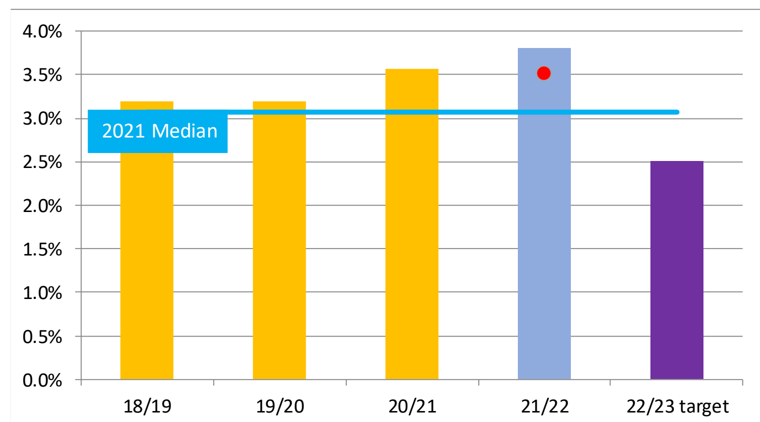
Return on Capital Employed



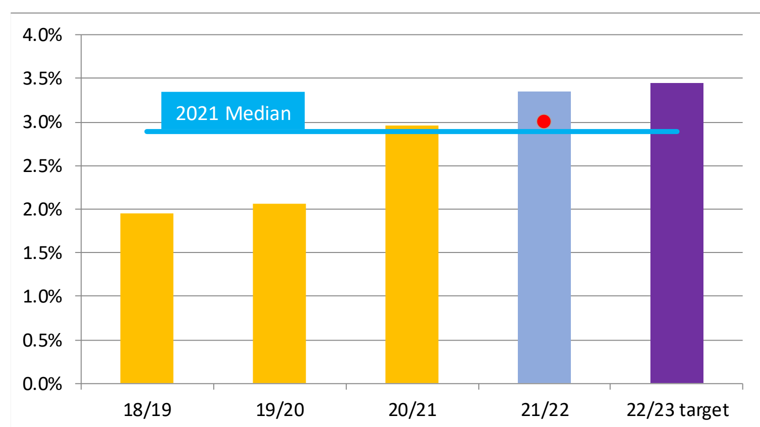
21/22 actual 3.8% vs target 3.5%

The high level of shared ownership surpluses has increased reported performance for both of the last 2 years, as anticipated.

22/23 target 2.5%

As shared ownership activity reduces, this ratio falls back to a more normal underlying level. This will gradually rise in later years reflecting the benefit of transformation efficiencies towards the peer median.

Current Tenant Arrears



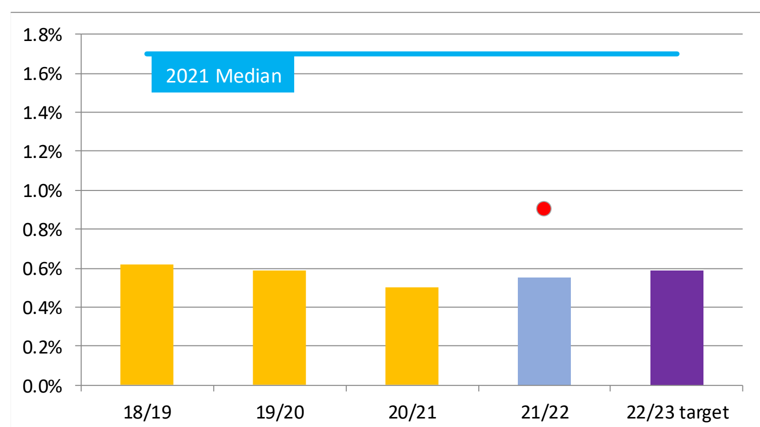
21/22 actual 3.4% vs target 3%

Arrears continue to rise on the back of universal credit migration. This has been compounded this year by technology issues which have slowed down our normal arrears management processes. We missed our target, and also exceed our peers' median.

22/23 target 3.4%

We anticipate some improvements in our historic arrears as our technology recovers. But this will be offset by continued universal credit migration and the impact of the cost of living crisis on our communities.

Former Tenant Arrears

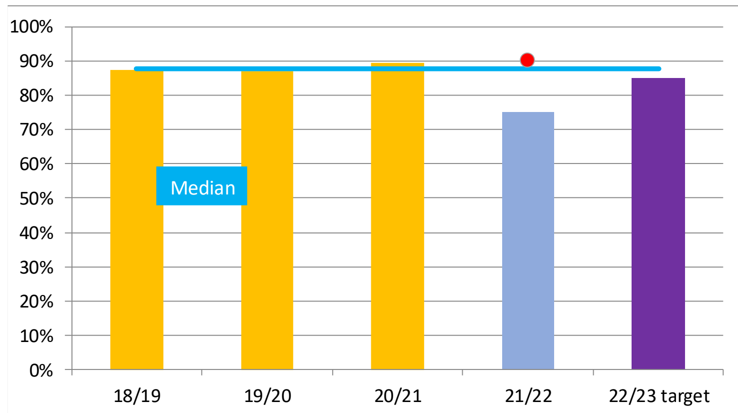


21/22 actual 0.6% vs target 0.9%

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.

22/23 target 0.6%

This remains an ambitious target as the cost of living crisis and potentially higher tenancy turnover will add to the volume and value of former tenant arrears.

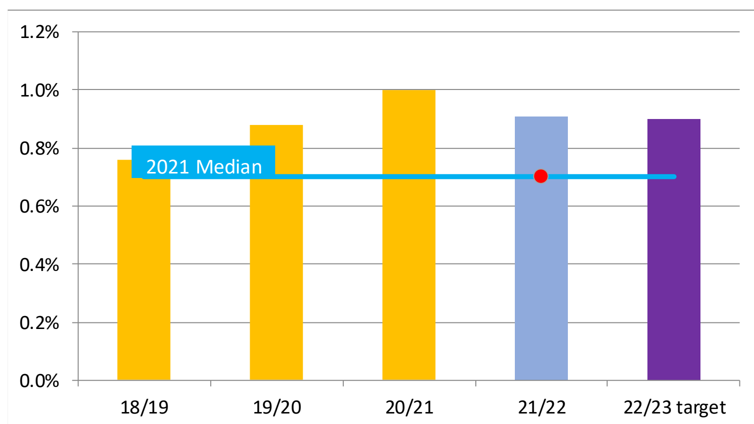


21/22 actual 75% vs target 90%

The survey methodology has changed during the year and we have moved to predominantly an on-line basis supplemented by some phone calls where customers haven't responded. This produces a lower score also been affected by maintenance delays and less contact caused by Covid.

22/23 target 85%

Performance should improve now we've come out of the Covid period. And further technology changes are designed to improve customer experience and hence satisfaction during the year.



21/22 actual 0.9% vs target 0.7%

Turnover has been lower in response to Covid. But lettings activity has been affected, particularly in supported housing, so when homes became empty it took longer to relet them.

22/23 target 0.9%

This remains an ambitious target as the cost of living crisis begins to bite and force turnover upwards. We have more supported housing than our peers which carries higher turnover and hence higher void loss so overall void loss is above the peer group median.

Against our peer group we are in the 1st or 2nd quartile for most of the nine financial metrics, and below average for just overall operating margin in 2021. This is an improvement from 2019/20 when we were around half and half between 2nd and 3rd quartile. This rough measure suggests that we have improved on what was average performance for 2019/20. The fluctuation in results over the last year or two for the sector generally is expected to continue and so our targets are set anticipating that we will remain in the pack of our peers from a performance perspective.

As we look forward, we can see margins fall slightly, as current income struggles to match rising inflation. This doesn't mean that we are not improving VfM, rather that we are spending any savings on delivering better quality but still affordable 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.
- Our Active Asset Management Strategy identifies older rehab stock that performs poorly across a range of financial and social indicators. Some 195 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. Few sales have been actioned during lockdown as tenants have not moved on.

- We have made significant investments in technology during the year, to support a more agile workforce (and accelerated by the Covid lockdown), to improve our core housing systems to enhance customer experience and improve internal efficiency, and to enhance our cyber security. Further technology projects are due for completion in the next financial year which will unlock additional VfM improvements.
- We have successfully delivered and grown our activity in preventing homelessness in Leeds and Kirklees through partnerships with other providers. Contracts have been extended or expanded, based on successful outcomes.

The Chief Executive's salary equates to £29.16 per home owned or managed (2021: £29.35). The fall represents a rise in pay in line with inflation but spread over a larger number of homes in 2022. In 2021 this was less than the average for other Housing Associations of a similar size, which is projected at £36.26 using publicly available data.

Payments to other Executive Directors are reported in note 10 of the financial statements.

Total management costs equate to £945 per home (2021: £849). This is below the median for 2021 of £1,215 for our peer group based on published data.