Value for money

Our Value for Money Strategy

We are committed to embedding Value for Money throughout our governance processes, business planning and performance management frameworks, and through our service delivery culture. We recognise that value for money plays a vital role in the achievement of our strategic objectives and in supporting our ongoing viability and future growth.

The overall aim of our Value for Money Strategy is:

"to advance the achievement of our strategic and charitable objectives by ensuring that our approach to the management of resources is strategic and comprehensive, and is considered and embedded at both the strategic and operational levels".

Our approach to Value for Money

The Regulatory Standards require registered providers to review and understand their performance against the Value for Money technical metrics set by the Regulator, as well as their own Value for Money targets.

Targets are set annually by our Board based on the approved budget for the year, ensuring they include the strategic objectives contained within Plan A. To ensure that our Board considers the effect of their decisions on the technical metrics established by the Regulator, they are provided with a three year forecast of the technical metrics when setting the annual budget and a thirty year forecast when approving the Business Plan. These forecasts also include our historical performance for each metric and a comparison against the sector as a whole (all registered providers in England with over 1,000 properties) divided into quartiles.

In our analysis below we also consider performance against our North East Peer group as defined by the Regulator in their Global Accounts 2022.

Measuring Value for Money – our own performance targets

Our performance framework is used to measure Value for Money and is monitored and reported to Board on a quarterly basis. Challenging targets are approved each year with key strategic objectives reported on separately so performance against Plan A can be clearly seen. Our performance against key indicators is set out in the table below:

Performance Measure	Target	Result
Transforming Customer Experience and Digital Services		
Percentage of customers satisfied with the overall customer experience	91.00%	92.23%
Percentage of complainants satisfied with the way the complaint was handled	91.00%	95.52%
Percentage of tenants satisfied that their views are being listened to and acted upon	98.00%	99.65%
Net Promoter Score	50	54.42
Planet A		
Total scope 1 and 2 CO_2 emissions	250 Tonnes	177.5 Tonnes
Total CO2 emissions per property	2.70 Tonnes	2.79 Tonnes
Supporting Sustainable Places		
Total number of customers into employment (*see note below re sustainability measures)	300	230
Percentage of sustainable homes	94.98%	95.21%
Total Social Value achieved through social, economic and environmental interventions in communities supported/ delivered by Livin	£10.5m	£12.83m
Improvement score of sustainable communities' indicators - place making communities	18	14

Target	Target	Result
Supporting Sustainable Tenancies		
Total rent arrears as a percentage of the rent due (excluding void props)	3.21%	4.08%
Average re-let time (calendar days) standard properties (excluding major works)	29 days	29 days
Turnover of tenancies as a percentage of overall stock	8.10%	7.58%
Percentage of tenancies using digital means of managing their tenancy	47.00%	47.42%
Percentage of tenants with improved financial confidence following financial inclusion support	88.00%	96.25%
Providing Quality Sustainable Homes		
Percentage of previously identified poorly performing assets addressed and subsequently let/disposed	100.00%	100.00%
Number of properties achieving SAP Band C	6,980	6,633
Average SAP score of all properties	71.00	71.17
Percentage of tenants satisfied with planned works	95.00%	95.96%
Percentage of jobs completed at first visit	94.00%	95.94%
Percentage of tenants satisfied with repairs	90.50%	90.22%
Average time taken to complete repairs (calendar days)	12 days	15.93 days
Building and Acquiring Sustainable Homes		
Number of new units developed and acquired	150	99
Percentage of units secured against Business Plan targets over a three-year period	85.00%	92.59%
New supply delivered (development and acquisitions) - Social housing (VfM Metric 2)	1.84%	1.27%
Total stock number	8,769	8,736
Number of new build homes developed and acquired, cumulative over 3 years	150	99
Average SAP rating of land led homes completed	85	83.38
Average SAP rating of acquisitions completed	83	83.74
Percentage of new homes approved which are suitable for older persons and/or disabled people	20.00%	11.31%
Financial Metrics		
EBITDA MRI as a % of turnover	10.83%	13.3%
Accuracy of Interest Cover forecasts	90.0%	83.6%
Average vfm score	2.0	2.1

During this challenging period our performance highlighted seven high level indicators being outside our tolerance levels.

The total number of tenants securing employment failed to meet target but remained top quartile when compared to our peer group. Staff turnover was a key issue which was rectified in quarter four, but meant we were unable to reach the high target we set.

Total arrears were a significant challenge during the year due to cost-of-living pressures, with high energy costs and increasing food bills impacting on tenants. However, by using detailed analysis, focusing on treatable arrears, and ongoing effective case management, we have seen performance stabilise.

Financial inclusion offers have focused on targeted interventions to provide personalised support working alongside key partners who deliver specialist debt advice and money management advice services.

The time taken to complete repairs was also below target due to the substantial number of repairs raised as a result of damp and mould inspections. We actively encouraged our customers to report issues and increased the number of proactive inspections of homes. Additional employees were recruited to help to address this issue. Our contractor, Mears plc, also allocated additional resources to help eliminate the backlog of works.

Four measures relating to building and acquiring new homes did not meet target. These were; number of units developed and acquired; new supply delivered (vfm metric); number of new build homes developed and acquired, cumulative over three years; and percentage of new homes approved which are suitable for older persons and/or disabled people.

Our main development contractor went into administration during the year, and we responded quickly to minimise the impact. This resulted in two schemes being delayed by several weeks and pushed the completion of 51 homes into the next financial year.

This shortfall also impacted on the number of new build homes developed and acquired over 3 years, although is not expected to impact future performance as this measure is cumulative with the shortfall expected to be recovered in 2023/24.

The percentage of new homes approved suitable for older and/or disabled people did not meet target as an opportunity arose to purchase general needs homes in a popular location. Future targets have been increased to ensure that the commitment to reach the target of 20% over the three years of Plan A is maintained.

Six measures were below target but within tolerance. Total CO_2 emissions per property were 2.79 tonnes, 0.09 tonnes worse than target, due to poor weather conditions which slightly delayed the completion of planned energy efficiency improvements.

The improvement score of sustainable communities' indicators was 14 against a target of 18. This measure underperformed throughout the year, due to fluctuations within the key indicators of rent arrears, tenancy turnover and re-let times within the place making communities of Western and Jubilee Fields Estate (JFE).

The 'number of properties achieving SAP Band C' measure achieved 6,633 which fell slightly below the year-end target of 6,980 but is within tolerance. This was a result of delays in our main energy efficiency programme which was hampered by poor weather conditions. More tenants than expected also refused energy efficiency improvements to their homes. A new communications strategy for demonstrating the benefits of energy efficiency measures to tenants is now being developed to reduce the number of refusals moving forward.

The 'average SAP rating of land led homes completed' achieved 83.38 and did not meet the target of 85. During the year only 13 land-led homes were completed and all were constructed under the 2012 Building Regulations rather than the current, higher design standards.

The accuracy of interest cover also failed to meet target but was due to a planned increase in expenditure which maximised the number of properties receiving energy efficiency measures to their homes under the Social Housing Decarbonisation Fund.

Average vfm score was 2.1 and failed to meet the target of 2.0, this is covered in more detail in the Value for Money Performance – Regulators Metrics section below.

In addition to the above metrics three sustainability performance measures are reported for loan agreement purposes. The "Total customers supported in employment" (included above) is one of the three sustainability measures. The other two measures are:

Performance Measure	Target	Result
Percentage of existing housing properties at 1 April 2022 with EPC rating C or above	79.0%	70.7%
Completed new build properties with EPC B and above (cumulative from 1 April 2022)	150	99

We have developed a series of additional customer satisfaction measures which will be reported alongside the new tenant satisfaction measures from April 2023. This will enable us to directly compare the perception measures and the transactional measures and will enhance customer insight to inform service improvements as part of our improved approach to customer engagement.

Value for Money Performance – Regulators Metrics

In addition to the performance measures used to track progress against strategic objectives, we also use the Regulator's VfM metrics to measure our performance, setting targets based on the Board approved Business Plan.

Value for Money metric		Target	Performance
1	Reinvestment %	19.1%	14.5%
2a	New Supply Delivered % (Social Housing Units)	1.8%	1.3%
2b	New Supply Delivered % (Non- Social Housing Units)	0%	0%
3	Gearing %	57.0%	53.8%
4	EBITDA MRI Interest Cover %	152.9%	88.8%
5	Headline Social Housing cost per unit	£3,870	£4,158
6a	Operating Margin % (Social Housing Lettings only)	17.9%	18.4%
6b	Operating Margin % (overall)	21.3%	22.2%
7	Return on Capital Employed %	3.9%	4.6%

Our Reinvestment target of 19% consisted of 14% (£30.4m) new development expenditure and 5% (£10.5m) for works to existing properties. Delays in the completion of new build homes resulted in £13.4m less than budget being spent on new developments. This did however have a favourable impact on cash flows. We increased our expenditure on major improvement works as we carried out more energy efficiency measures, with grant funding, but this additional £2.1m of expenditure did not prevent us from failing to meet the target.

New supply delivered failed to meet target due to delays on land-led development sites and developers slowing down their build programme, due to reduced demand caused by rising interest rates and mortgage availability for their market sales customers.

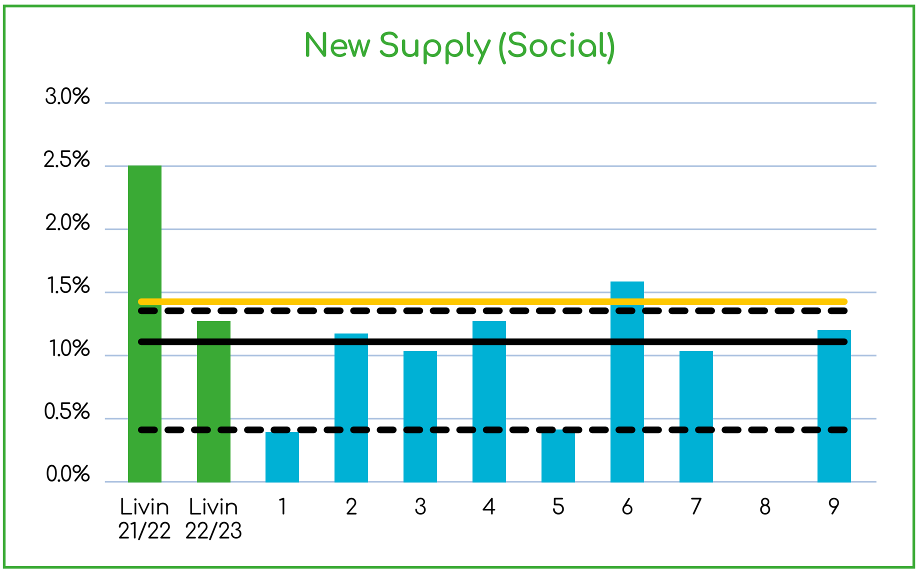
EBITDA MRI Interest cover failed to meet the target for two primary reasons. Additional major repairs expenditure was incurred during the year on energy efficiency works. This was a deliberate decision made during the year to utilise social housing decarbonisation fund grant to help customers as heating costs continued to rise, and to assist in meeting our SAP banding target. However, the grant received for this work is specifically excluded from this VfM metric.

The second reason was the impact high inflation had on our cost base with increased costs for repairs.

These two factors also impacted on the Headline Social Housing Cost per unit measure preventing that metric from meeting its target.

Value for Money Performance – Peer Group Comparison

The tables below compare our performance in 2022/23 against the 9 other members of the North East Peer Group as defined in the Regulator's Global Accounts 2022 (latest set available at the time of preparing this report). The dashed black lines on each graph show the upper and lower quartiles for the Peer Group with the solid black line being the Peer Group median. The solid orange line is the sector median as per the Regulator's Global Accounts 2022.



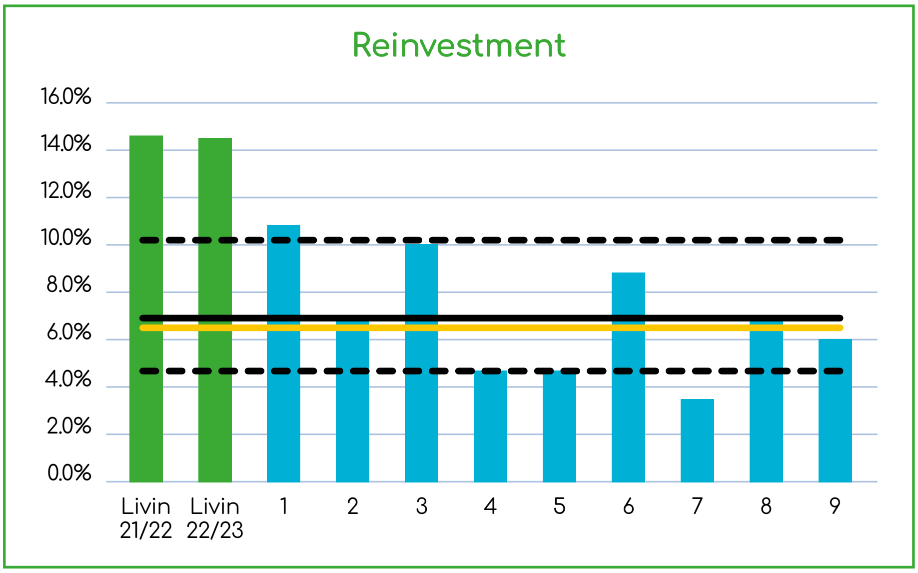
New supply delivered (Social Housing) – is an area where our performance reduced placing us in the upper median quartile when compared to our peer group and lower median compared to the sector as a whole. This is a reflection of our area of activity with top quartile performance in the North East being below the median for the sector as a whole but was also a result of minor delays to development schemes which resulted in the completion of 51 homes being pushed back beyond yearend. We continue to build or acquire 2 to 4 bedroom properties for affordable rent while looking to increase the number of homes suitable for elderly or disabled persons.

Whilst our performance was below target for the year we aim to catch this up in 2023/24 with a target of 239 completions. Our ambitious development programme aims to deliver 894 new homes over the next 7 years with 427 of these being delivered within the next 2 years. At the end of the financial year, we had already secured 93% of our next three year's development target.

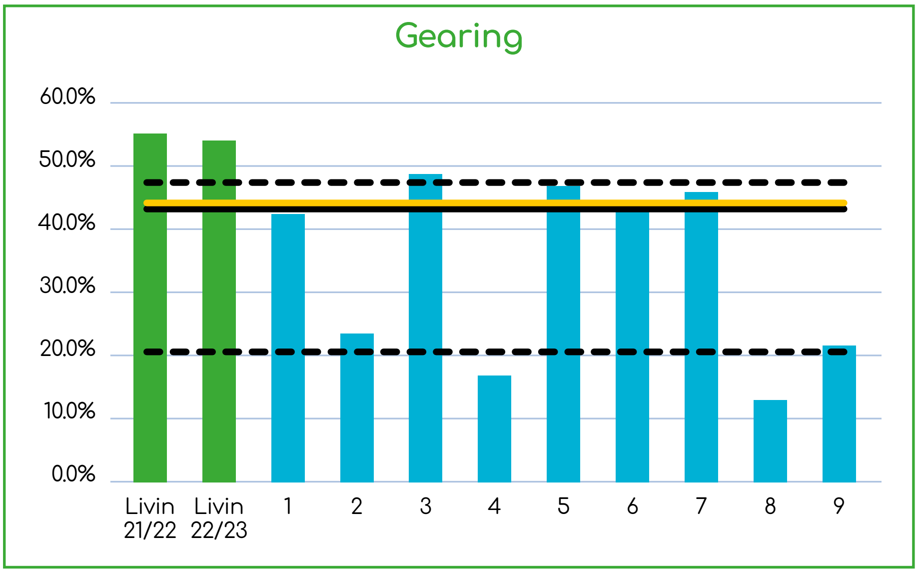
New supply delivered (Non-Social Housing) - Is an area in which only 4 of the peer group delivered properties. Our strategy focuses on delivering new much needed Affordable Housing or Low Cost Home Ownership properties therefore we do not expect this metric to increase in future years.

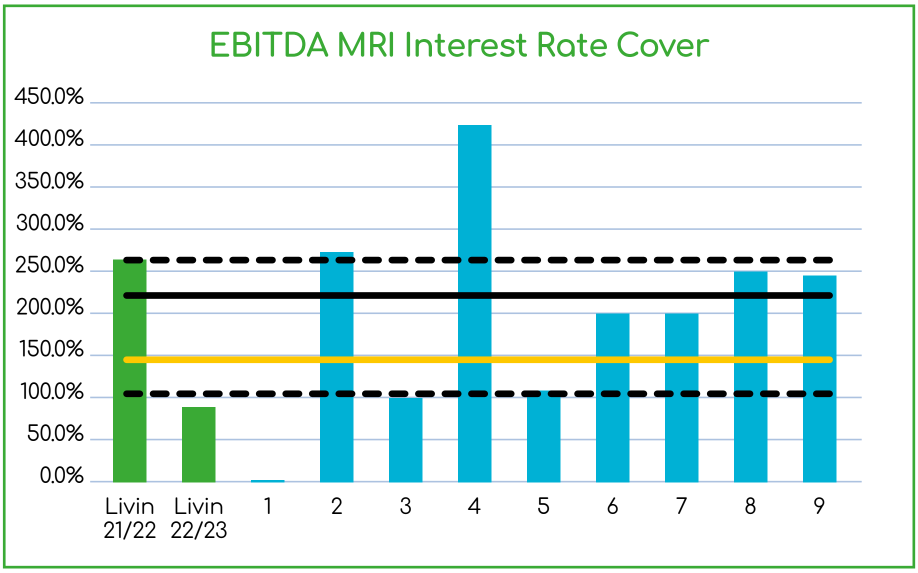
Reinvestment - Our performance was top quartile in comparison to both our regional peer group and the sector as a whole. During the year we invested in new social housing properties, with 111 additions to our housing stock. Our plans are ambitious with a target of reaching 9,000 homes by March 2025.

Our plans include delivering increased volumes of major works, including decarbonisation works, to improve energy efficiency and assist with reducing customer's heating costs.



Gearing – was top quartile when comparing to both our peer group and the sector as a whole. During the year we secured an additional £50m of revolving credit facilities, over a 10 year term. Our previously agreed deferred debt facility of £30m has the final £6m to be drawn in September 2023. This liquidity, will enable us to continue with our Plan A strategic objectives. Gearing is not a major limiting factor to our development capacity and does not restrict our future development plans.

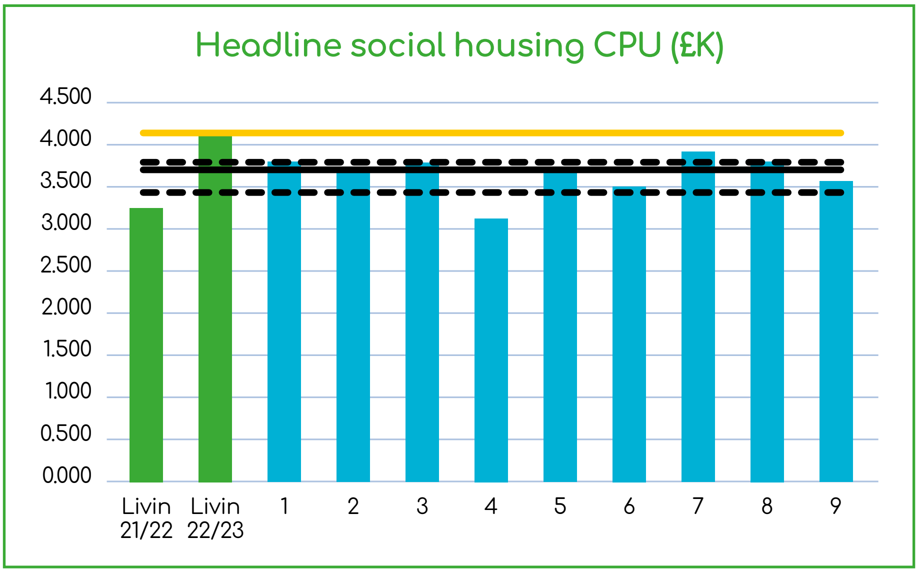




EBITDA MRI Interest cover - has fallen to lower quartile when compared to our peer group and the sector as a whole. Major repairs expenditure (MRI) increased during the year as we undertook more energy efficiency works to help customers with their rising heating costs and utilised the Social Housing Decarbonisation Fund grant we received. This grant totalled £1.18m and partially offset the capital expenditure incurred on the energy efficiency works but is specifically excluded from the calculation of this VfM metric. The exclusion of the Social Housing Decarbonisation Fund grant from this VfM metric caused it to reduce by an additional 31%.

We use an alternative EBITDA MRI interest cover metric as a golden rule to monitor financial performance. This alterative metric is based upon historic loan agreement definitions and allows for the inclusion of Social Housing Decarbonisation Fund grant and the deduction of non-cash pension charges. Based upon this metric performance for the financial year was 138% compared to a target set by the Board of 140%.

We expect this metric to remain lower in the short-term as we have secured additional Social Housing Decarbonisation Fund grant to support further energy efficiency measures being installed in our homes and as we see the impact of higher interest costs and increased debt to support our development programme.

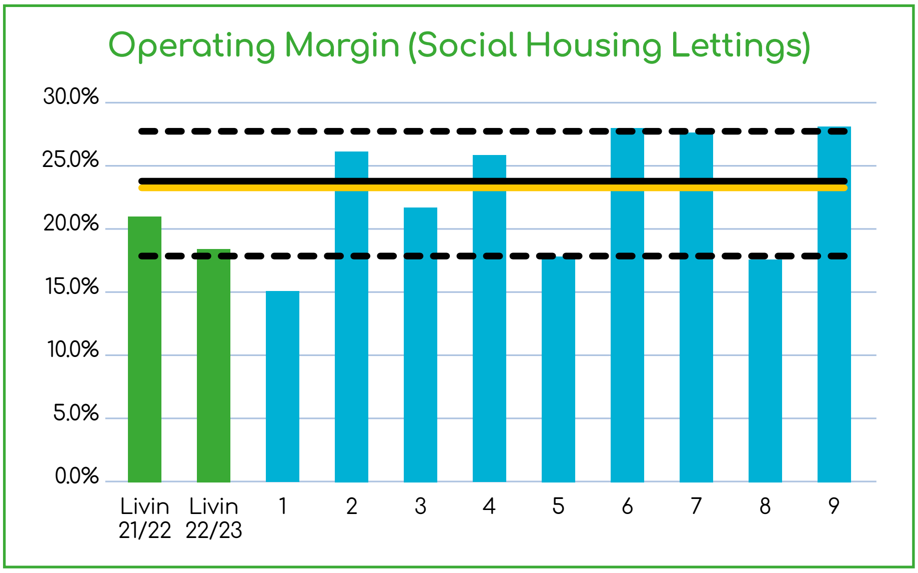


Headline Social Housing Cost per Unit – performance was lower quartile compared to our regional peer group and lower median compared to the sector as a whole. As shown in the table below, this is a result of a combination of factors: Management costs have increased slightly by £23 per property; Repairs costs have increased by £134 per property as a result of inflationary cost pressures; and Major works costs have increased by £711 per property as a result of £3.23m of expenditure on The Courts regeneration scheme and £2.76m of expenditure on energy efficiency measures to existing homes.

Understanding our Social Housing Cost per Unit

Our social housing cost per unit is reported as part of our regulatory value for money metrics. This can be further analysed as shown below.

	2022/23	2021/22	Change
Management costs	£1,242	£1,219	£23
Repairs	£1,216	£1,082	£134
Major works	£1,568	£857	£711
Service charges	£21	£10	£11
Other	£111	£83	£28
Total	**£4,158**	**£3,251**	**£907**

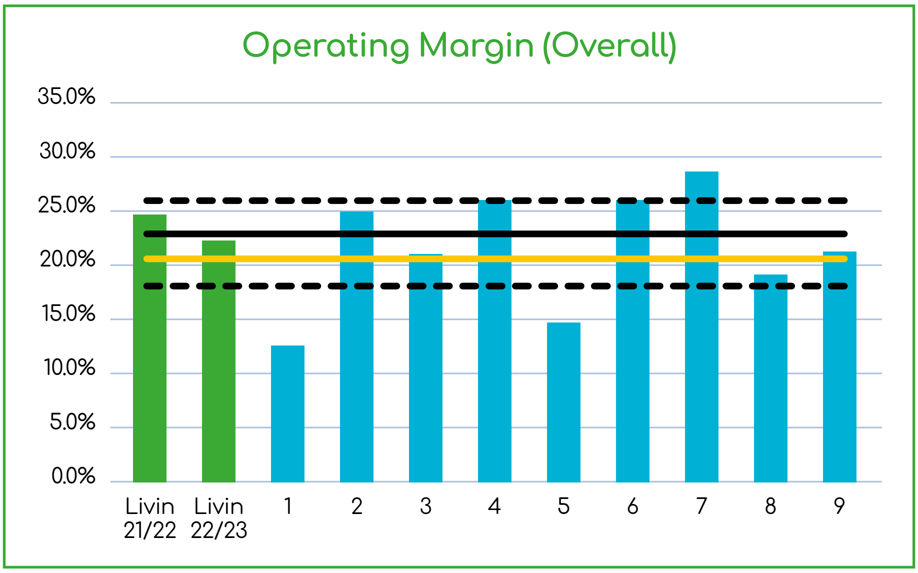


Operating Margin Social Housing Lettings - performance declined from 21.0% to 18.4%. This metric saw a reduction in performance across the sector as a whole, resulting in our performance moving from lower quartile to lower median quartile when compared to both peer groups. The completion of new developments and increased major expenditure on existing homes increased our depreciation charge for the year. This, combined with repair costs which rose by a higher rate than our rental income resulted in a lower margin.

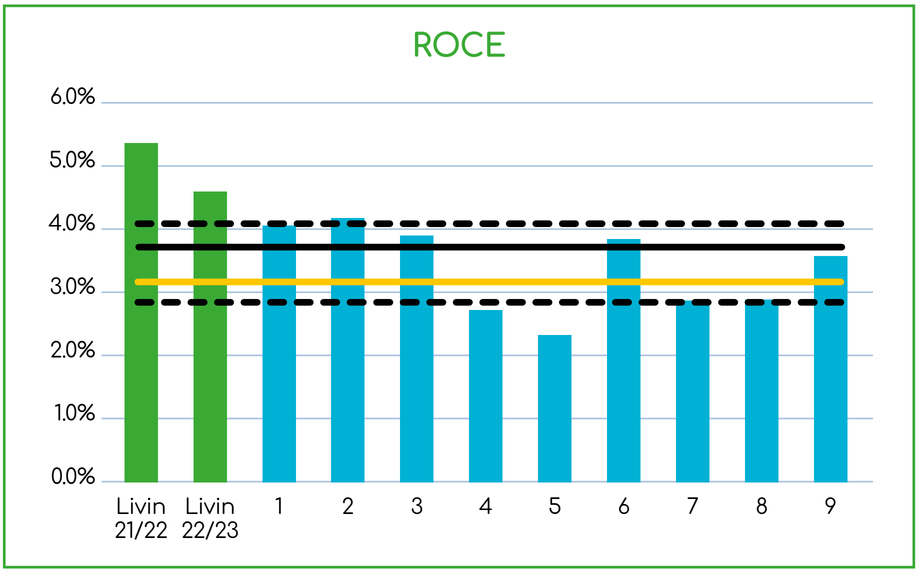
We continue to operate in areas where our average weekly rent charge is relatively low compared to the majority of our peer group. These lower than average rental charges mean our social housing lettings margin is relatively low.

This metric is, however, forecast to improve over the next three years as increased costs and housing depreciation are more than offset by the increased rental income received from new affordable rent properties and the inflationary increases applied to existing social housing rents.

Operating Margin Overall - performance remained at lower median quartile compared to the North East peer group, but upper median quartile compared to the sector as a whole. Our performance overall was 22.2% assisted by strong margins on commercial lets and other turnover. Our performance is expected to fall in the next year to 21.4% before recovering to 23.2%. This is partly due to our prudent Business Plan assumptions and increased depreciation charges before the positive impact of rental income from completed developments takes effect.



Return on Capital Employed (ROCE) % - performance remains in the top quartile when compared to the sector as a whole and has returned to top quartile when compared to our North East peer group. ROCE is expected to fall next year, as further capital is employed to deliver our ambitious development programme and as we invest in energy efficiency measures to deliver our strategic objective of 97% of properties achieving EPC band C or above by 2025.



Overall Performance

The Board aims to achieve a balanced performance across the Regulator of Social Housing's Value for Money technical metrics, aiming for our blended average performance to be above median across the technical metrics as a whole.

Our methodology for this is to apply a score of 1 for best quartile performance and 4 for worst quartile performance. Using this methodology, historical, current and future performance is shown in the table below (when compared to the sector as a whole based upon the 2022 Global Accounts):

Metric	2021/22		2022/23		2023/24 forecast		2024/25 forecast		2025/26 forecast	
	Performance	Quartile	Performance	Quartile	Performance	Quartile	Performance	Quartile	Performance	Quartile
Reinvestment %	14.7%	1	14.5%	1	19.7%	1	13.4%	1	8.2%	2
New supply delivered – social housing (%)	2.5%	1	1.3%	3	2.76%	1	2.1%	2	1.0%	3
Gearing (%)	55.0%	1	53.8%	1	57.0%	1	57.5%	1	56.9%	1
EBITDA MRI Interest Cover (%)	262.2%	1	88.8%	4	106%	4	132%	3	141%	3
Headline Social Housing Cost per Unit (£)	£3,251	2	£4,158	3	£4,053	2	£4,046	2	£3,861	2
Operating Margin (Overall)	24.6%	2	22.2%	2	21.4%	2	23.2%	2	22.7%	2
Return on Capital Employed	5.4%	1	4.6%	1	4.1%	1	4.4%	1	4.3%	1
Average for all metrics		1.3		2.1		1.7		1.6		2.0

An organisation which demonstrated median performance in all measures would show an average performance of 2.5. Our overall performance in all years under review is better than this average.

Using this methodology for measuring performance against the North East Peer Group, our performance was also in the top quartile.

Measurable plans to address underperformance

The Board has considered those areas where performance against the Value for Money technical metrics, defined by the Regulator of Social Housing, are below median when compared with the sector as a whole.

In 2023/24 there is one metric where performance is expected to be below the sector median; this is EBITDA MRI Interest Cover.

EBITDA MRI Interest Cover % is forecast to remain below the median.

Board has established its own golden rule for EBITDA MRI interest cover which is calculated differently to the Regulator's VfM Metric. This allows Social Housing Decarbonisation Fund grant to be included, and non-cash pension charges to be excluded from its calculation. The Board has set a minimum performance level against this golden rule and ensures that all financial plans can achieve this minimum level of performance.

Having considered the calculation of both interest cover metrics, the Board has concluded that their own golden rule provides a superior indicator for them to use in balancing the delivery of their social objectives while ensuring financial viability is maintained.

The new loan agreements secured during the year have also created significant, additional financial headroom between the Board's own interest cover metric and the tightest loan covenant which provides further comfort to them when choosing to adopt their own metric.

Conclusions

Value for Money is embedded in our culture and governance structure; we appreciate that delivering effective and efficient services benefits our customers and their communities.

Performance in 2022/23 shows a continued commitment to Value for Money. In comparison to our peer group and the sector as a whole we are able to demonstrate strong performance against the Technical Metrics defined by the Regulator and have assessed our long-term Business Plans and forecasts in light of these metrics.

We have identified an area where there is under performance in comparison to other providers, defined as performance which is below median against the sector as a whole, and have explained the reasoning behind this.

The Board is satisfied that our financial plans to deliver our business strategy, Plan A, provide a balanced performance across the value for money metrics and that current performance is achieving above median across the technical metrics as a whole.