Value for money

Livin's value for money strategy

The Regulator of Social Housing introduced a revised Value for Money Standard from April 2018, which registered providers are required to report against in their financial statements. Livin first reported against this standard in its 2017-18 financial statements; this is the second such report.

Livin's Value for Money Strategy, last revised in July 2018, affirms Livin's continued commitment to embedding Value for Money considerations throughout its governance processes, its business planning and performance management frameworks, and through its service delivery culture. It is designed to support Livin's business strategy, Plan A, which highlights "driving innovation, efficiency and productivity" as priorities.

The overall vision of the Value for Money Strategy is:

> "to drive the achievement of Livin's strategic and charitable objectives by ensuring that Livin's approach to the management of resources is strategic and comprehensive, and considered and embedded at both strategic and operational levels".

Our approach to value for money

The Regulatory Standard requires 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.

Livin's Board sets performance and financial targets based on the strategic objectives contained within its business strategy. To ensure that the Board considers the effect of its decisions on the technical metrics established by the Regulator, it is provided with a three year forecast of the technical metrics when setting the annual budget. This forecast also includes Livin's 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 this analysis we have also considered performance against the Sector Scorecard, which includes a broader range of metrics covering operational as well as financial performance.

Value for money performance

The tables below compares Livin's performance in 2018/19 against:

- Actual performance in 2017/18, 2016/17 and 2015/16;
- Forecast performance for 2019/20; and
- Comparative performance against the sector as a whole using 2017/18 data.

Performance is assessed against the Regulator of Social Housing's Technical Metrics (TM) and the Sector Scorecard metrics (SS).

As set out in the Capital structure and treasury policy section of the financial statements, Livin undertook a refinancing exercise during 2018/19. This will result in long term interest savings. However, loan breakage costs of £29.3m were incurred, which are included within Livin's Interest Payable costs for the year, and affect Livin's performance against some Value for Money metrics. Where appropriate, we have calculated the metrics both including and excluding breakage costs, to demonstrate both actual and underlying performance levels.

Value for Money cont.

Where possible, sector wide performance data is taken from the Global Accounts published by the Regulator of Social Housing, which includes data for all registered providers with more than 1,000 units. At the time of preparing this report, comparative information from registered providers for 2018/19 was not available, so 2017/18 data has been used.

The Global Accounts does not include comparative data for all Sector Scorecard measures; where Global Accounts information is not available, we have used comparative data provided by Housemark through their Sector Scorecard report (marked * in the tables below). This is based on data provided by 329 registered providers, including providers with fewer than 1,000 units.

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

Business Health

Metric	Type	2020 forecast	2019	2018	2017	2016	2019 Performance	Quartiles
Operating margin (Social Housing)	TM	18.8%	25.4%	29.5%	39.1%	34.2%	☹ Lower	Upper 37.4% Median 32.5% Lower 26.0%
Operating Margin (overall)	TM	22.7%	27.6%	31.4%	38.3%	36.7%	☹ Lower median	Upper 35.4% Median 29.7% Lower 23.3%
EBITDA MRI Interest Cover (Including breakage costs)	TM	221.2%	29.5%	236%	257%	274%	☹ Lower	Upper 275.4% Median 203.0% Lower 147.9%
EBITDA MRI Interest Cover (Excluding breakage costs)	TM	221.2%	200.6%	236%	257%	274%	☹ Lower median	Upper 275.4% Median 203.0% Lower 147.9%

Livin's operating margin (Social Housing) has reduced in the year, moving from lower median quartile in 2017/18 to lower quartile performance in 2018/19.

Since social housing lettings constitutes the majority of Livin's income, overall operating margin has also reduced during the year, in keeping with the reduction in the operating margin for social housing only. This has resulted in our performance in this area placing us in the lower median quartile.

Value for money cont.

Major factors influencing the reduction in operating margin include:

- The loss of income arising from the 1% rent reduction introduced by the Welfare Reform and Work Act 2016, in common with all registered providers, reducing operating margin by around 1%;
- An increase in pension costs due to the impact of the McCloud judgement. This actuarial adjustment affected pension costs in 2018/19 and reduced operating margin by a further 2.4%;
- An increase in expenditure on routine and planned maintenance caused a 2.4% reduction in margin, but the new service standards have been set to improve customer satisfaction; and
- An increase in depreciation and impairment charges following capital investment in prior years, reduced operating margin by a further 1.1%.

Livin has not undertaken significant diversification into lower margin, higher risk activities such as personal care or non-social housing development. It is recognised that these types of activities can produce wider benefits for local communities, and therefore Livin does from time to time consider its position on diversification.

In addition to Operating Margin, Livin monitors performance against 'Earnings Before Interest, Tax, Depreciation and Amortisation, Major Repairs Included' (EBITDA-MRI) both as an absolute measure and as a percentage of turnover, as set out in the Financial Performance section. EBITDA-MRI is the level of surplus generated, adjusted to remove the effect of non-cash items such as depreciation and amortisation but including capitalised expenditure on major repairs. The impact of the above factors was to reduce EBITDA MRI by £1.723m to £10.136m, and EBITDA-MRI as a percentage of Turnover by 5.0% to 29.3%.

EBITDA-MRI Interest Cover is the amount of interest paid on loan finance compared to earnings. This measure indicates the affordability of an organisation's current borrowings and its capacity to meet the interest payments on additional future borrowings.

The main factor in the reduction in performance was the £29.3m breakage costs paid upon refinancing. Refinancing has removed restrictive covenants that were in place and will lead to significant future interest savings that will improve this metric and deliver value for money.

If this one-off cost is removed from the calculation underlying performance is 200.6%, which is just below the sector median of 203%.

The forecasts for 2019 predict a decrease in performance against both Operating Margin measures (social housing and overall margin) to lower quartile performance. This is partly because Livin prepares its budgets and forecasts on a prudent basis, ensuring that it has the resources in place to safeguard its social housing assets. This prudent approach typically reduces forecast operating margin by 2.9% and EBITDA-MRI Interest Cover by 28%.

Livin's EBITDA-MRI Interest Cover performance is forecast to improve despite increasing debt, to fund further development and regeneration projects, due to the significant reduction in interest rates secured by refinancing.

Prior to approving the annual budget, Board received a forecast of the Value for Money technical metrics together with a detailed explanation of both the year-on-year trends and the variance to the sector median performance.

Value for money cont.

Development (capacity and supply)

Metric	Type	2020 forecast	2019	2018	2017	2016	2019 Performance	Quartiles
New supply delivered % (Social housing units)	TM	1.55%	1.03%	0.92%	0.1%	0.6%	☺ Upper median	Upper 2.3% Median 1.0% Lower 0.27%
New supply delivered % (non-social housing units)	TM	-	-	-	-	-	Livin does not currently have a programme of non-social housing delivery, and therefore no performance is reported against this metric.	
Gearing	TM	67.7%	67.6%	47.4%	56.2%	64.8%	☺ Upper	Upper 57.1% Median 43.7% Lower 32.6%

This year, we continued our programme of new developments, including a number of bungalows in Chilton, Sedgefield and Spennymoor. Bungalows are in high demand in our region, but are rarely built by traditional developers. We also developed our first shared ownership properties, and acquired a number of properties through section 106 arrangements in Thornaby, Spennymoor and School Aycliffe.

Shortly after the year end, Livin won the 'Best social or affordable new housing development 2019 at the LABC regional Building Excellence Awards for the second consecutive year. The award was for our development at The Woodlands, Spennymoor.

During 2018/19, we delivered 87 homes (66 newly developed homes and 21 homes purchased on the open market) against a target of 116. This shortfall was due to delays on two of our largest development sites, primarily due to infrastructure issues, together with constraints in the level of financial commitments we were able to make as a result of our financing arrangements.

Performance in New Supply Delivered % (Social Housing Units) improved to upper median quartile level. The recent re-financing exercise will allow us to increase the level of new supply that we can deliver in future years, maintaining upper median quartile performance.

In keeping with more than 75% of registered providers, Livin does not currently have a programme of non-social housing delivery, and therefore no performance is reported against the metric New supply delivered % (non-social housing units).

In terms of gearing, it is generally acknowledged that there is no sector-wide optimum performance for gearing, and that the optimum level of gearing for each registered provider is subject to individual circumstances. Livin's gearing has historically been constrained by its financing arrangements; the re-financing exercise has increased Livin's ability to increase future gearing levels, and planned future investment in both regeneration and development work is forecast to increase Livin's level of gearing in future years.

Value for money cont.

Outcomes delivered

Metric	Type	2020 forecast	2019	2018	2017	2016	2019 Performance	Quartiles
Resident Satisfaction (see note below)	SS	91%	91% (transactional basis)	92.3% (transactional basis)	96.2% (overall basis)	Not available	☺ Upper median	Upper 91.6% Median 87.5% Lower 82.4%
Investment in community activities per property	SS	£34	£45	£50	£20	£19	☹ Below average	£69 Average investment (providers with between 5,000 and 10,000 units)
Reinvestment %	TM	18.0%	11.8%	8.9%	7.9%	7.43%	☺ Upper	Upper 8.7% Median 5.8% Lower 3.0%

Livin measures Resident Satisfaction on a transactional basis, requesting customer feedback immediately after meaningful interactions, such as a call to the Customer Service Centre or a tenancy visit. This allows us to understand the impact that our different services are having, and to make adaptations as necessary to meet customer need. Customers and tenants report very high levels of satisfaction with these services. Whilst this method of monitoring satisfaction is not directly comparable with the "overall satisfaction level" method used by the Sector Scorecard, we consider it is similar enough to allow a reasonable comparison to be drawn.

The measure Investment in community activities per property replaces the Sector Scorecard measure £s invested in communities that was reported last year. This represents expenditure on Livin's employability support programme, Livin Futures; work undertaken with community organisations to build sustainable communities across our core areas; and financial wellbeing support delivered with partner organisations through the Monkey Project and Wise Steps.

Livin's upper quartile performance against the Reinvestment metric in 2018/19 reflects ongoing investment in our existing properties and core communities. During the year, we have undertaken refurbishment work across the property portfolio. The works primarily related to component replacements to maintain 100% decent homes standard. In addition to this, energy efficiency measures were carried out to poorly performing assets. We look to build on the past success of our award winning York Hill regeneration scheme (completed in 2017/18) with a new regeneration project at The Courts, Shildon due to start in late 2019.

Livin's business strategy, Plan A, includes a continued focus on regeneration within our core communities, and we anticipate strong performance in this area in the future.

Value for money cont.

Effective asset management

Metric	Type	2020 forecast	2019	2018	2017	2016	2019 Performance	Quartiles
Return on Capital Employed	TM	5.5%	7.6%	8.3%	10.7%	11.1%	☺ Upper	Upper 5.7% Median 4.2% Lower 3.2%
Occupancy	SS	99.1%	99.1%	98.9%	99.2%	96.5%	☹ Lower median	Upper 99.7% Median 99.4% Lower 98.9%
Ratio of responsive repairs to planned maintenance	SS	1.23	1.31	1.90	1.14	1.17	☺ Upper	Upper 0.90 Median 0.61 Lower 0.45

The return on capital employed achieved is driven by operating margin performance, and by the level of financial return made by Livin on its asset base. Livin's asset management strategy focuses on increasing the return on existing assets, achieved through regenerating or divesting of poorly performing properties. Regeneration increases the value of Livin's asset base and can help to reduce void losses and ongoing maintenance charges, but will also increase depreciation charges and reduce the return on assets achieved. Investment in new properties typically generates returns of 4% - 6% per annum and therefore also reduces the overall return on assets achieved. Given Livin's ongoing focus on regeneration and development work, the overall return on capital employed is expected to reduce over time; however, we anticipate upper median quartile performance.

Occupancy levels at 31 March 2019 show lower median quartile performance but an improvement on last year's position. This metric is representative of the performance improvements made to our void levels during 2018/19; as can be seen from Note 3 to the financial statements where average void loss has reduced again in 2018/19. Increasing occupancy levels, by improving the quality of lettable properties ensures that our key strategic objectives of improving existing homes and delivering an excellent customer experience are met. Reducing void turnaround time and supporting existing tenants to sustain their tenancies remain key objectives for Livin.

The ratio of responsive repairs to planned maintenance has decreased significantly in the year but remains higher than sector averages. Livin's properties are in a good state of repair following extensive post-transfer refurbishment works.

Correspondingly, a relatively low level of planned maintenance work is currently being undertaken. An increase in repair costs is expected as we seek to rebalance the low cost service with higher quality standards to improve customer satisfaction and avoid reputational damage. Livin's maintenance cost per unit (as set out in the commentary on the Headline Social Housing Cost per Unit metric, below) is in the lower median quartile, providing assurance that, despite the high ratio, overall value for money is being achieved through the repairs and maintenance service.

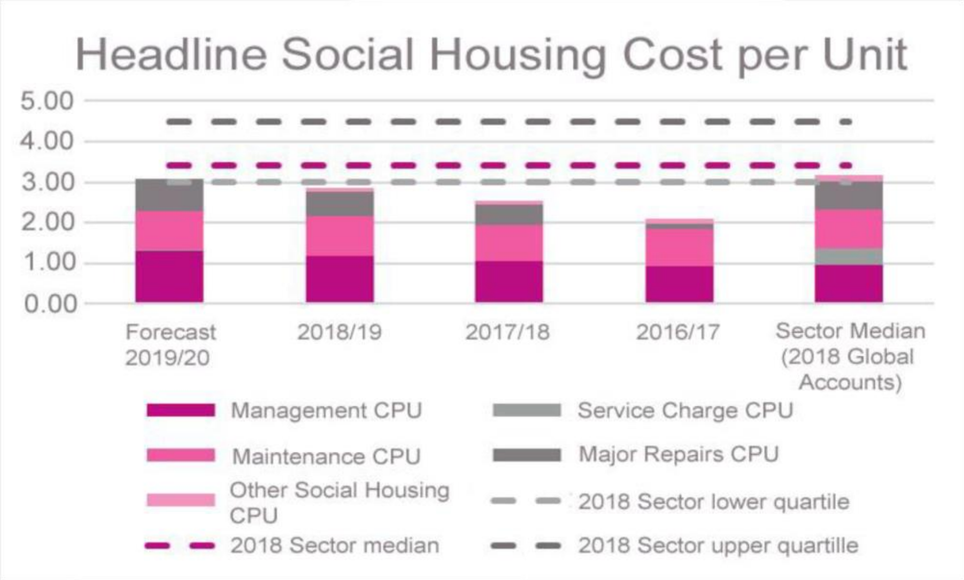
Value for money cont.

Operating efficiencies

Metric	Type	2020 forecast	2019	2018	2017	2016	2019 Performance	Quartiles
Headline social housing cost per unit	TM	£3,089	£2,848	£2,660	£2,080	£2,680	Upper	Upper £2,948 Median £3,362 Lower £ 4,323
Management cost per unit	TM	£1,304	£1,175	£1,050	£920	£980	Lower median	Upper £813 Median £1,024 Lower £1,241
Maintenance cost per unit	TM	£944	£978	£880	£910	£910	Lower median	Upper £775 Median £907 Lower £1,121
Service charge cost per unit	TM	£8	£9	£10	£10	-	Upper	Upper £193 Median £332 Lower £559
Major Repairs cost per unit	TM	£769	£587	£620	£180	£640	Upper median	Upper £525 Median £720 Lower £983
Other Social Housing Cost per unit	TM	£64	£99	£100	£60	£150	Upper median	Upper £74 Median £186 Lower £412
Rent collected from current and former tenants as a percentage of the rent due (excluding arrears brought forward)	SS	98.9%	99.5%	99.14%	99.69%	99.68%	Lower median	Upper 100.5% Median 99.7% Lower 99.2%

Livin's headline social housing cost per unit remains low compared to sector averages. The forecast increase in cost per unit was realised during the year; this primarily arises from an increase in management costs affected by an adjustment to pension costs following the Actuaries report. For 2019/20, a further increase in cost per unit is anticipated, although it is still expected that a better than median performance will be maintained. Again, the anticipated increase in costs for 2019/20 is primarily within management costs per unit, partly due to inflationary pressures and partly due to prudent setting of our annual budget.

Value for money cont.



Factors contributing to the low overall headline social housing cost per unit, and Livin's continuing performance, include:

- An agreed long term contract in place with our repairs and maintenance contractor, delivered to tenants through the Livin Works programme;
- Effective procurement process, which allow procurement costs to be reviewed and challenged on a regular basis;
- Properties which are clustered geographically, reducing the travelling time for housing management and repairs staff; and
- Efficient staffing levels, which allow an appropriate level of service to be delivered.

We forecast continued strong (upper median quartile) performance in this area for the foreseeable future.

Performance against Rent collected from current and former tenants as a percentage of the rent due has improved to the lower median quartile.

This performance is an improvement on 2017/18 despite the increasing numbers of Livin tenants now in receipt of Universal Credit instead of Housing Benefit. We have seen an increase in rent arrears amongst this tenant group during 2018/19 which has been offset by a reduction in former tenant arrears. We anticipate a greater increase in future years; however, to date, we have been able to support tenants in receipt of Universal Credit to maintain a lower level of arrears than the sector average. Providing appropriate rent arrears and financial wellbeing support for all tenants continues to remain a priority.

Value for money cont.

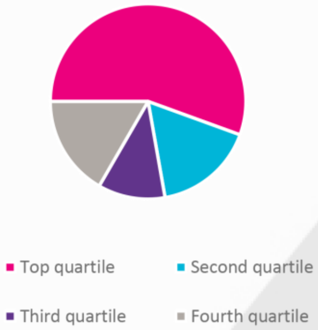
Overall Performance

Using a score of 1 for best quartile performance and 4 for worst quartile performance, Livin's performance over time is as follows.

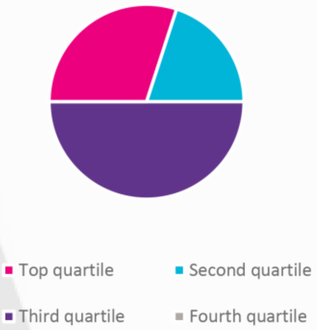
Metric	2020/21 Forecast	2019/20 Forecast	2018/19	2017/18	2016/17	2015/16
Operating Margin (Overall)	4	4	3	2	1	2
EBITDA MRI Interest Cover (%)	3	2	4	2	2	2
New supply delivered – social housing (%)	2	2	2	3	4	3
Gearing (%)	1	1	1	3	2	3
Reinvestment %	1	1	1	1	2	2
Return on Capital Employed	2	2	1	1	1	1
Headline Social Housing Cost per Unit (£)	2	2	1	1	1	1
Average for all metrics	2.1	2.0	1.9	1.9	1.9	2.0

An organisation which demonstrates median performance in all measures would show an average performance of 2.5. Livin's overall performance in all years under review is better than this average.

RSH technical metrics: 2018/19 quartile performance



Sector scorecard metrics: 2018/19 quartile performance



Assumes Investment in Communities is third quartile

Value for money cont.

Measurable plans to address underperformance

Livin's 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 2018/19 there are two metrics where performance is below the sector median; these are Operating margin (overall) and EBITDA MRI Interest cover.

Operating margin (overall) is forecast to remain in the lower quartile, as a result of improving the quality of our repairs service, particularly in relation to void property repairs. We are also looking at establishing other services that will sustain the tenancies of vulnerable tenants. We believe that this will provide value for money as we match our customer aspirations, support our tenants and provide quality homes.

Our EBITDA MRI Interest cover performance is expected to improve to upper median quartile. Despite additional borrowings that will be required to fund new supply, the cost of these funds is expected to be significantly lower than the rate we were paying on the loans arranged at transfer. These reduced interest costs will increase performance in this area.

Conclusions

Value for Money is embedded in Livin's culture and governance structure; Livin appreciates that delivering effective and efficient services benefits itself, its customers, and their communities.

Performance in 2018/19 shows a continued commitment to Value for Money. We are able to demonstrate strong performance in comparison with the sector as a whole against the technical metrics defined by the Regulator, and have assessed our long term business plans and forecasts in the light of these metrics.

We have identified a small number of areas where there is underperformance in comparison to our peers, defined as performance which is below median against the sector as a whole, and have detailed the measurable plans which are in place to address these areas.

The Board is satisfied that Livin's financial plans provide a balanced performance across its adopted value for money metrics and is currently achieving above median performance across the technical metrics as a whole.