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.

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 2020.

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"

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 are set out in the table below:

Performance Measure	Target	Performance
Delivering a Brilliant Customer Experience		
Overall satisfaction with Customer Experience	91%	92%
Net promoter score	50	55
Percentage of complainants satisfied with the way their complaint was handled	91%	98%
Percentage of tenants satisfied their views are being listened to and acted upon	88%	100%
Supporting Sustainable Tenancies		
Average re-let time (calendar days) standard properties (excluding Major works)	60 days	50 days
Turnover of tenancies as a percentage of overall stock	8%	8%
Total number of tenants securing employment	300	190
Percentage of tenancies using digital means of managing their tenancy	31%	35%
Percentage of tenants with improved financial confidence following financial inclusion support	77%	78%
Providing Quality Homes		
Percentage of previously identified poorly performing assets addressed and subsequently let/disposed	40%	39%
Average time taken to complete repairs (calendar days)	19 days	12 days
Percentage of tenant satisfaction with repairs	91%	89%
Percentage of tenants satisfied with their planned works	96%	94%
Number of properties achieving SAP band C	5,500	5,243
% properties with a valid landlord gas safety record	100%	99.98%
Number of properties without a valid asbestos survey	18	16
Percentage of communal areas and shared spaces with a valid fire risk assessment	100%	100%
Percentage of properties with a valid electrical safety check	100%	98%
Percentage of properties with a valid water hygiene check	100%	100%
Percentage of properties with a valid lift service	100%	98%
Percentage of properties with a valid solid fuel safety check	100%	100%

Performance Measure	Target	Performance
Enabling Strong Communities		
Ratio of Social Value achieved to community investment, health and wellbeing interventions	£1 : £40	£1 : £76.55
Sustainable communities score – struggling communities	15	21
Building and Acquiring Homes		
Number of homes developed and acquired (excluding ESPs)	117	68
Percentage of homes secured against business plan targets over a three year period	85%	101%
Enabling Employees to Flourish		
Capacity Score (%)	70%	72%
Employee Satisfaction (%)	67%	77%
Maintaining Strong Finances and Governance		
EBITDA MRI (as a % of turnover)	22%	36%
Average VfM Score	2.1	1.4
Governance rating	G1	G1
Total rent arrears as a percentage of the rent due (excluding voids)	3.6%	2.9%
Accuracy of Interest Cover forecasts	76%	82%

During the period our performance was strong with only two high level indicators being outside our tolerance levels.

Total number of tenants securing employment failed to meet target for the first time in four years. A stretching target was set to make sure tenants were supported into work to reflect the economic pressure faced by communities and tenants. However, during the pandemic many businesses placed staff on furlough or implemented recruitment freezes resulting in fewer opportunities. For 2021/22 the Kickstart scheme will be delivered supporting over 42 young people into work in areas such as repairs, health, green skills, education and customer service.

In addition, the number of homes developed or acquired did not reach targeted levels. This was a direct result of COVID-19 with several sites experiencing material shortages or delays due to social distancing requirements. It is anticipated that the delayed properties will now complete in 2021/22 putting us back on track with our remaining development programme.

Seven measures were below target but within tolerance (amber). The percentage of previously identified poorly performing assets addressed and subsequently let/disposed just fell short of target. This was due to specific flats and bungalows in Shildon, County Durham which have now been earmarked for significant investment or demolition and therefore were neither let or disposed of at year end.

The percentage of tenants satisfied with repairs was 2% below target. This was a result of fluctuating availability of operatives and an increase in demand for the service during the pandemic. An action plan is in place to improve performance in this area including keeping customers better informed when repairs have longer lead times or are delayed due to material shortages.

Tenant satisfaction with planned works was also within tolerance. This was affected by the difficult operating environment with COVID-19 limitations and restrictions impacting on completing works. Whilst the number of surveys returned was higher than the previous year, they were still relatively low, affecting the overall performance. Improvements will be made in the coming year to boost surveys and reminders issued to customers to complete the surveys.

The number of homes achieving SAP band C was 257 below target. Again, the pandemic negatively impacted this measure by delaying planned works programmes. Performance improved toward the year end and works deferred from 2020/21 will be addressed in the 2021/22 programme.

The number of homes with a valid landlord gas safety certificate did not meet the 100% target. At year end two homes did not have a certificate, both of which were due to access issues. These safety checks were completed after the year end.

The percentage of properties with a valid electric safety check was 2% below target. There were 144 overdue checks at the year end as a result of access issues and suspending testing briefly during the year due to COVID-19. Improved communication, combined with increased appointment slots and resources should enable performance to return to pre-pandemic levels in 2021/22.

The number of properties with a valid lift service was also within tolerance. This was a result of access issues with 4 lift services remaining overdue at the end of March 2021, all of which have subsequently been completed.

Value for Money Performance – Regulators Metrics

In addition to the above 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.

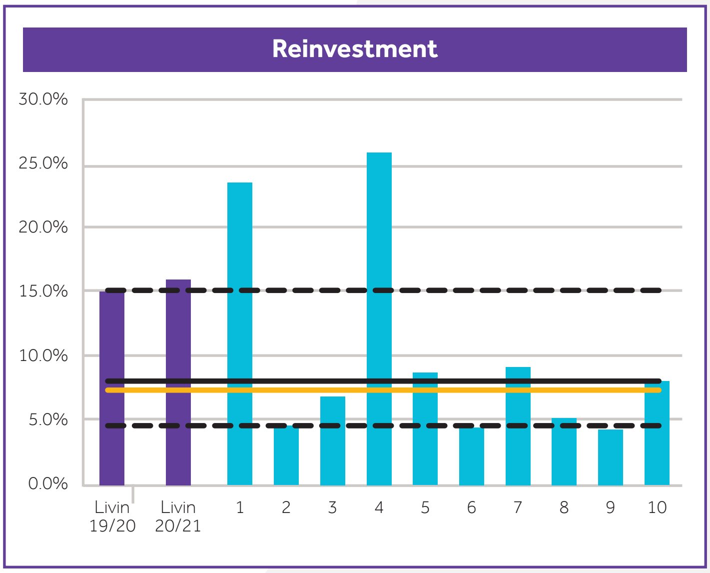
Value for Money metric		Target	Performance
1	Reinvestment %	18%	16%
2a	New Supply Delivered % (Social Housing Units)	1.6%	0.9%
2b	New Supply Delivered % (Non- Social Housing Units)	0%	0%
3	Gearing %	60.7%	58.0%
4	EBITDA MRI Interest Cover %	264.0%	402.9%
5	Headline Social Housing cost per unit	£3,169	£2,681
6a	Operating Margin % (Social Housing Lettings only)	15.6%	25.7%
6b	Operating Margin % (overall)	19.5%	28.9%
7	Return on Capital Employed %	4.3%	6.2%

Our Reinvestment target of 18% consisted of 14.5% (£24.4m) new developments spend and 3.5% (£5.8m) for works to existing properties. We failed to meet the target due to delays in major improvement works, new build construction and our regeneration scheme at The Courts, Shildon. Material shortages and reduced workforce availability due to the pandemic impacted on both Developments and Major improvement works. Developments accounted for 13.5% of the total 16% performance (£2.4m below target) and Major improvement works were 2.5% (£2.2m less than target).

A regeneration scheme at Shildon was delayed as we made the decision to tender the works to demonstrate Value for Money. Performance in 2021/22 is expected to improve as delayed major works and development sites return to normality.

Value for Money Performance – Peer Group Comparison

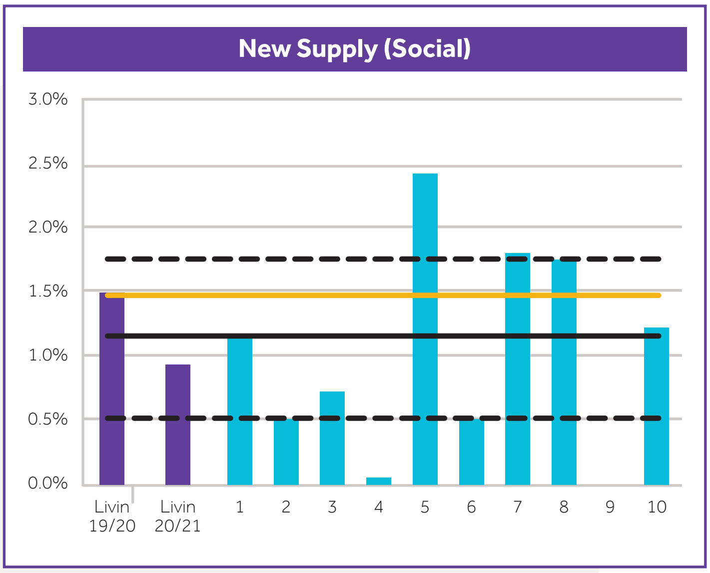
The tables below compare our performance in 2020/21 against the 10 other members of the North East Peer Group as defined in the Regulator's Global Accounts 2020 (latest set available at the time of preparing this report). The dashed black lines on each graph show the upper and lower quartiles for the 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 2020.



Reinvestment

Our performance was top quartile in comparison to both our regional peer group and the sector as a whole. During the year, we significantly increased spend on new development and existing assets from £21.5m in 2019/20 to £25.6m in 2020/21. The majority of this increase relating to new social housing properties, with 80 additions to our housing stock made during the year. We expect the number of additions to increase next year as sites that were delayed due to COVID-19 complete in 2021/22.

Our plans still include an ambitious development programme and a regeneration scheme at The Courts, Shildon, which is now expected to start in late 2021 following delays.



New supply delivered (social housing)

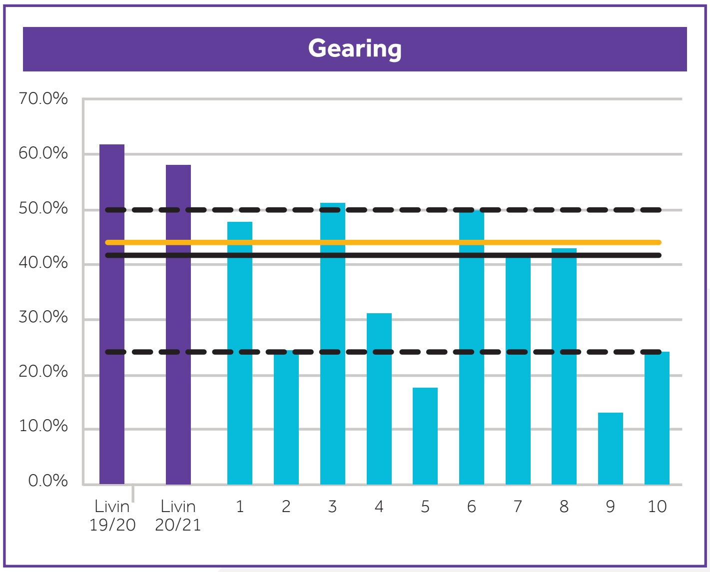
New supply delivered (Social Housing) was an area where performance fell, placing us in the third quartile when compared to our peer group and the sector as a whole. Our development sites were affected by the pandemic with restrictions to working methods, caused by social distancing, and material shortages resulting in several delays. We focus on building or acquiring 2 or 3 bedroom properties for affordable rent in areas of high demand, the schemes which were delayed will now be completed in 2021/22 leading to a significant increase in performance.

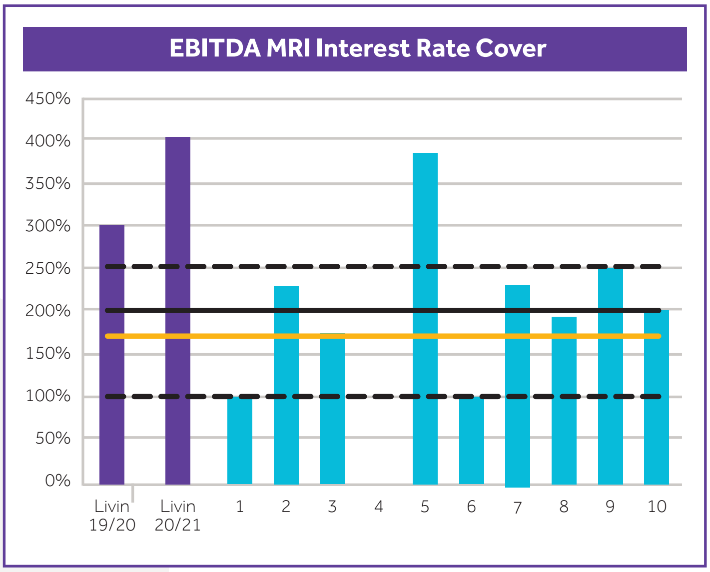
In August 2020 we were shortlisted for the LABC regional Best New Housing Development and Best Social or Affordable New Housing Development Awards for our developments at Cargill Close, Newton Aycliffe and Hackworth Close, Dean Bank.

We look to build on our past success with an ambitious development programme which will deliver over 1,080 homes in the next 9 years. We are making good progress in establishing strategic development partners and have already secured 101% of our next three year's development target.

New supply delivered (Non-social housing)

New supply delivered (Non-Social Housing) is an area in which only 3 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.





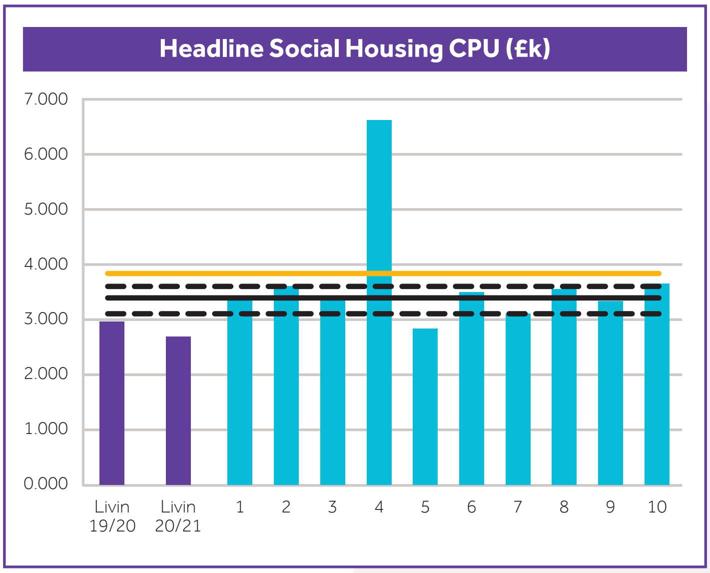
Gearing

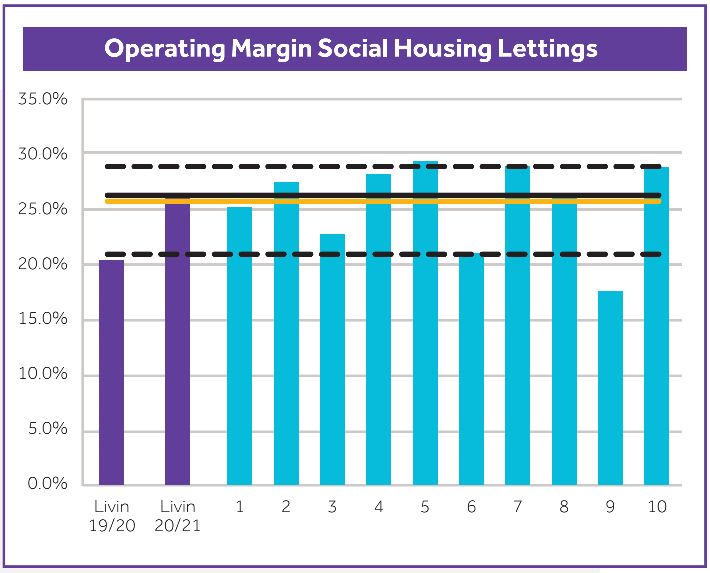
Gearing was top quartile when comparing to both our peer group and the sector as a whole. Additional debt facilities of £30m were agreed during the year on a deferred draw down structure with £5m of these being drawn in March 2021. These additional debt facilities strengthen our liquidity and allow us to continue with our strategic objective of Building and Acquiring Homes. Our ambitious development plans for the next 9 years, funded by borrowings, should maintain our performance in this area. Gearing is not a major limiting factor to our development capacity and does not restrict our future development plans.

(Peer group member no. 4 above is shown as 0% but reported negative interest cover due to refinancing costs)

EBITDA MRI Interest cover

EBITDA MRI Interest cover, when compared to our peer group and the sector as a whole, has seen us maintain our top quartile performance. The refinancing of legacy loans in March 2019 resulted in new debt being secured at much lower interest rates. The reduction in MRI works and increased surplus in 2020/21, a result of the pandemic, also assisted with improving our performance in this area.





Headline Social Housing Cost Per Unit

Headline Social Housing Cost per Unit remains top quartile compared to both our regional peer group and the sector as a whole. The pandemic saw a reduction in costs as nationwide lockdowns and homeworking reduced overheads. Repair costs also reduced due to a smaller number of properties becoming void during the year.

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.

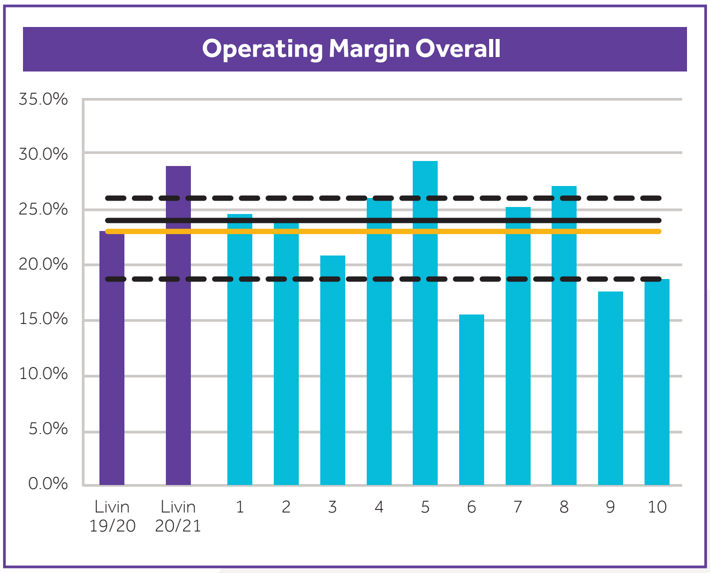
	2020/21	2019/20	Change
Management costs	£1,194	£1,173	£21
Repairs	£994	£1,107	(£113)
Major works	£442	£593	(£151)
Service charges	£9	£10	(£1)
Other	£42	£68	(£26)
Total	**£2,681**	**£2,951**	**(£270)**

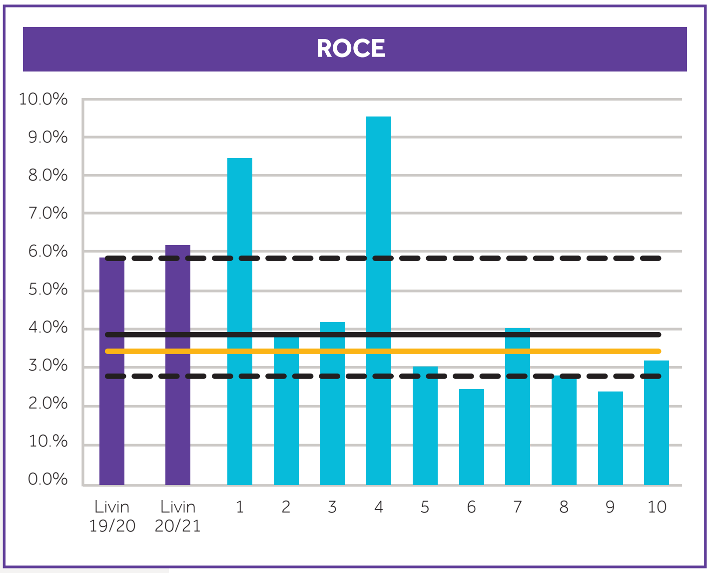
Our overall cost per unit has reduced by £270 a result of reduced major works and repairs costs during the pandemic. We anticipate that these costs will increase in future years as social distancing measures are relaxed and normal services resumed.

An increase in employment costs added to our management costs but were largely offset by operating efficiencies and lockdown, which reduced other overhead costs. The end result being an increase in management costs per unit of £21.

Operating Margin Social Housing Lettings

Operating Margin Social Housing Lettings is an area where our performance improved significantly, increasing from 20.3% to 25.7%. This now places us just below the sector and peer group median where previously we had been lower quartile compared to both groups. An increase in our Social Housing Turnover, a result of annual rent increases, new social housing properties and the demolition of poor performing stock, combined with reduced routine maintenance costs are the main reasons behind this improvement. We continue to operate in areas where our average weekly rent charge is relatively low compared to the majority of our peer group. Despite our top quartile Cost per Unit performance, lower than average rent charges continue to mean our social housing lettings margin is relatively low. This is expected to continue in the short term as depreciation charges increase.





Operating Margin Overall

Operating Margin Overall - our performance was upper quartile compared to both the North East peer group and the sector as a whole. Our performance overall was 28.9% assisted by our strong margins on Commercial lets and Other turnover. Our future performance is expected to fall over the next three years to between 20.5% to 24.4%. This is partly due to our prudent business plan assumptions and increased depreciation charges, which are expected to increase as more housing units are completed.

Return on Capital Employed (ROCE) %

Return on Capital Employed (ROCE) % - our performance has improved reflecting the increase in our overall operating margin. We are top quartile compared to both our peer group and the Sector as a whole. ROCE is expected to fall in future years, as further capital is employed through further investment in new and existing homes.

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 2020 Global Accounts) along with our actual and forecast performance:

Metric	2019/20		2020/21		2021/22 forecast		2022/23 forecast		2023/24 forecast	
	Performance	Quartile	Performance	Quartile	Performance	Quartile	Performance	Quartile	Performance	Quartile
Reinvestment %	15%	1	15.7%	1	15.7%	1	9.8%	2	15.2%	1
New supply delivered – social housing (%)	1.47%	3	0.94%	3	2.2%	2	1.7%	2	1.6%	2
Gearing (%)	61.5%	1	58.0%	1	59.3%	1	57.4%	1	56.9%	1
EBITDA MRI Interest Cover (%)	299.7%	4	402.9%	1	171%	2	164%	3	171%	2
Headline Social Housing Cost per Unit (£)	£2,951	1	£2,681	1	£3,354	2	£3,508	2	£3,620	2
Operating Margin (Overall)	22.8%	3	28.9%	1	20.5%	3	21.9%	3	24.4%	2
Return on Capital Employed	5.8%	1	6.2%	1	4.2%	2	4.4%	1	4.7%	1
Average for all metrics		2.0		1.3		1.9		2.0		1.6

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.

Future assessments will include any new value for money measures introduced as a result of The Charter for Social Housing Residents Social Housing White Paper.

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 2021/22 there is one metric where performance is expected to be below the sector median; this is Operating margin (overall).

Operating margin (overall) is forecast to remain in the lower median quartile, a result of improving the quality of our repairs service, particularly in relation to void property repairs and reducing the time customers wait for non-urgent repairs to be completed. 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 they complement our key strategic objectives of Delivering a Brilliant Customer Experience, Providing Quality Homes and Supporting Sustainable Tenancies which in turn leads to the long-term sustainability of tenancies and future success.

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 2020/21 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 the light of these metrics.

We have identified a small number of areas where there is underperformance in comparison to other providers, 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 where appropriate.

The Board is satisfied that our 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.