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.

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 the 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	Performance
Delivering a Brilliant Customer Experience		
Overall satisfaction with Customer Experience	91%	92%
Net promoter score	50	52
Percentage of complainants satisfied with the way their complaint was handled	91%	95%
Percentage of tenants satisfied their views are being listened to and acted upon	98%	100%
Supporting Sustainable Tenancies		
Average re-let time (calendar days) standard properties (excluding Major works)	35 days	33 days
Total rent arrears as a percentage of the rent due (excluding voids)	3.2%	3.3%
Turnover of tenancies as a percentage of overall stock	8%	8%
Total number of tenants securing employment	251	201
Percentage of tenancies using digital means of managing their tenancy	40%	37%
Percentage of tenants with improved financial confidence following financial inclusion support	85%	90%
Providing Quality Homes		
Percentage of previously identified poorly performing assets addressed and subsequently let/disposed	60%	61%
Average time taken to complete repairs (calendar days)	15 days	16 days
Percentage of tenant satisfaction with repairs	91%	87%
Percentage of tenants satisfied with their planned works	97%	95%
Average SAP score of all properties	70	70
Percentage of properties with a valid landlord gas safety record	100%	99.9%
Number of properties without a valid asbestos survey	18	13
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%	99.7%
Percentage of properties with a valid water hygiene check	100%	100%
Percentage of properties with a valid lift service	100%	97%
Percentage of properties with a valid solid fuel safety check	100%	100%

In our analysis below we also consider performance against our North East Peer group as defined by the Regulator in their Global Accounts 2021.

Performance Measure	Target	Performance
Enabling Strong Communities		
Ratio of Social Value achieved to community investment, health and wellbeing interventions	£1 : £42	£1 : £180
Sustainable communities score – struggling communities	16	17
Building and Acquiring Homes		
Number of homes developed and acquired (excluding ESPs)	196	206
Percentage of homes secured against business plan targets over a three year period	85%	93%
Enabling Employees to Flourish		
Capacity Score	70%	71%
Employee Satisfaction	70%	79%
Maintaining Strong Finances and Governance		
EBITDA MRI (as a % of turnover)	14%	22%
Average VfM Score	2.1	1.3
Governance rating	G1	G1
Accuracy of Interest Cover forecasts	86%	87%

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

The total number of tenants securing employment failed to meet target but shows an improvement compared to the previous year and is within the highest quartile compared to our benchmarking peer group. A stretching target was set in response to the COVID-19 pandemic to drive employability outcomes as far as possible during the challenging times for tenants. During the period our Livin Futures team worked with 453 tenants, successfully progressing 44% of these into employment. 126 tenants were receiving support at the year end to remove barriers to employment as we continued to assist them with their search for work.

The percentage of tenancies using digital means to manage their tenancy was another area where a challenging target was not met. At year end 88% of new tenants signed up for their tenancy digitally and support and advice requests have been digitised to improve the digital service offer. Planned improvements to our App include the expansion of the trackable repairs service which should drive improvement in this area.

The average time taken to complete repairs did not reach targeted levels. Repairs completion times were impacted by a backlog of repairs caused by COVID-19 lockdown measures. The target was further affected by two major storms which resulted in a higher number of repairs being reported. Additional resources have been secured in 2022/23 through a multi skilled team of seven operatives that will reduce the number of outstanding repair jobs.

The percentage of properties with a valid landlord gas safety record failed to meet the 100% target with six overdue services at year end. All of these properties subsequently had their gas services completed post year end.

Five measures were below target but within tolerance (amber). Total rent arrears were just 0.1% below target mostly due to an increase in the number of Universal Credit claimants and delays in the court processes during the pandemic.

The percentage of tenants satisfied with repairs was 4% below target. This was primarily due to the backlog of older repairs resulting from the COVID-19 lockdowns and a spike in demand relating to storm damage over the winter period, which negatively impacted on service delivery. The main areas of dissatisfaction were communication and time taken to complete repairs. Our Providing Quality Sustainable Homes strategy sets out a range of actions to positively influence customer satisfaction including implementing new service standards for communication during the entire repairs process.

Tenant satisfaction with planned works was also within tolerance. There was an improvement compared to last year, but performance was 2% below target. To improve tenant satisfaction in this area future works will be planned around what tenants value the most. Work also continues to increase the number of survey responses.

The percentage of properties with a valid electric safety check was below target. There were 29 overdue checks at the year end, a result of access issues. Performance has improved significantly on the 144 that were outstanding at the previous year end. We continue to work with customers to resolve the access issues and complete the safety checks.

The number of properties with a valid lift service was also within tolerance. This was also a result of access issues, with 5 lift services remaining overdue at the end of March 2022, all of which have subsequently been completed.

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.

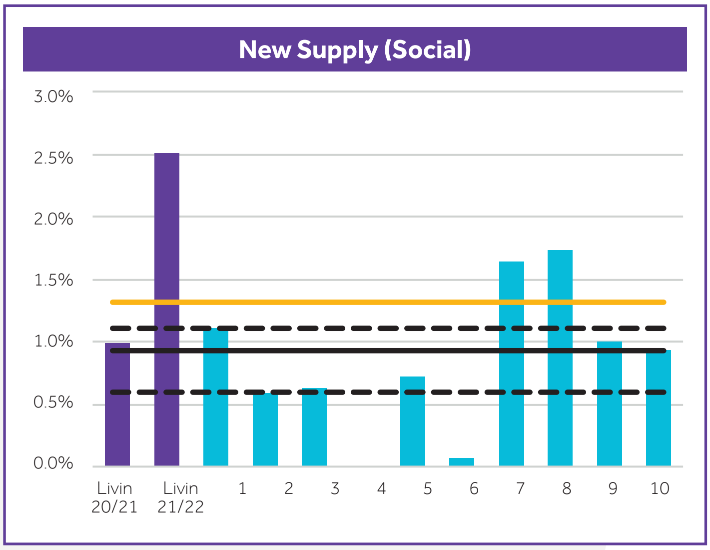
Value for Money metric		Target	Performance
1	Reinvestment %	17%	15%
2a	New Supply Delivered % (Social Housing Units)	2.4%	2.5%
2b	New Supply Delivered % (Non- Social Housing Units)	0%	0%
3	Gearing %	59.2%	55.0%
4	EBITDA MRI Interest Cover %	195.8%	262.2%
5	Headline Social Housing cost per unit	£3,570	£3,251
6a	Operating Margin % (Social Housing Lettings only)	20.0%	21.0%
6b	Operating Margin % (overall)	23.4%	24.6%
7	Return on Capital Employed %	4.8%	5.4%

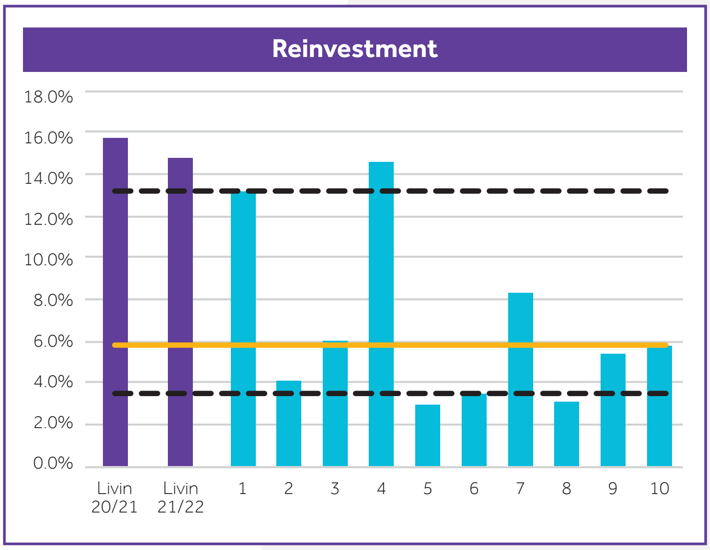
Our Reinvestment target of 17% consisted of 12% (£22.2m) new developments spend and 5% (£9.5m) for works to existing properties. We failed to meet the target due to delays in major improvement works, new build construction and our regeneration scheme at The Courts, Shildon. The pandemic continued to impact on both Developments and Major improvement works with developments accounting for 13.7% of the total 15% performance (£1.9m below target) and Major improvement works 1.3% (£2.9m below target).

Following a decision in 2020/21 to tender the regeneration scheme at Shildon, there were further delays as periods of high inflation affected subcontractors' ability to provide definitive prices. This has now been resolved and the scheme is now progressing well and will assist in improving performance in 2022/23.

Value for Money Performance – Peer Group Comparison

The tables below compare our performance in 2021/22 against the 10 other members of the North East Peer Group as defined in the Regulator's Global Accounts 2021 (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 2021.





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 219 additions to our housing stock. Our plans are ambitious with a target of reaching 9,000 homes by March 2025.

Our plans include completing the regeneration scheme at The Courts, Shildon, and delivering increased volumes of major works, including decarbonisation works, to improve energy efficiency and assist with reducing customer's heating costs.

New supply delivered (social housing)

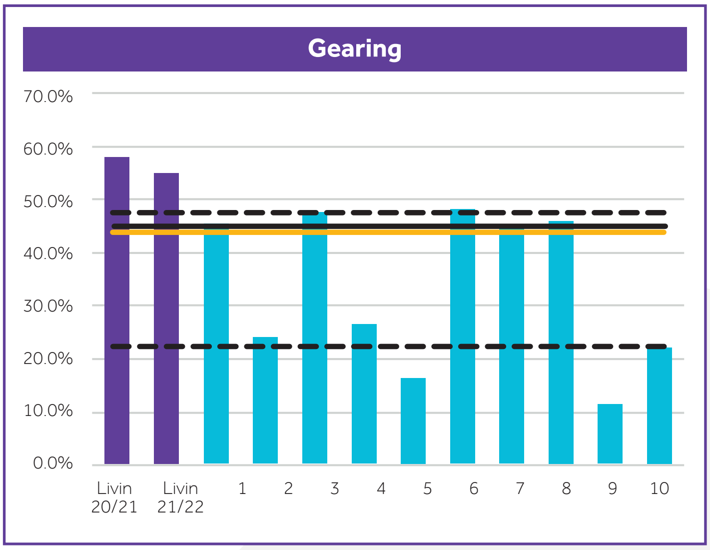
New supply delivered (Social Housing) was an area where our performance improved significantly, placing us in the top quartile when compared to our peer group and the sector as a whole. Removal of pandemic restrictions enabled us to deliver 219 units compared to 80 in the previous year. We continue to build or acquire 2 or 3 bedroom properties for affordable rent. However, we now also look to provide 2 bedroom bungalows and some 4 bedroom properties in areas of high demand.

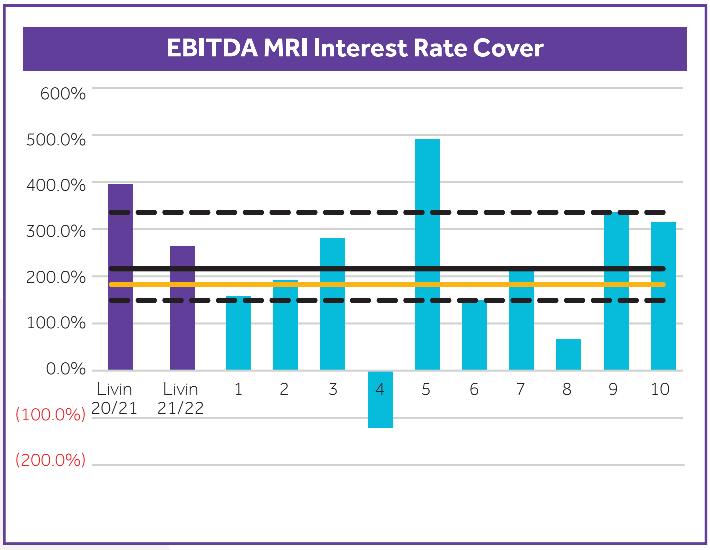
In November 2021 we won two awards; the CIH Northern Housing Awards for the best housing development for Travellers Green, Newton Aycliffe and LABC Northern Region Award for Best Small New Housing Development for Villa Street, Spennymoor.

Our ambitious development programme aims to deliver over 990 new homes in the next 8 years with 526 of these delivered within the next 3 years. We have already secured 93% 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.



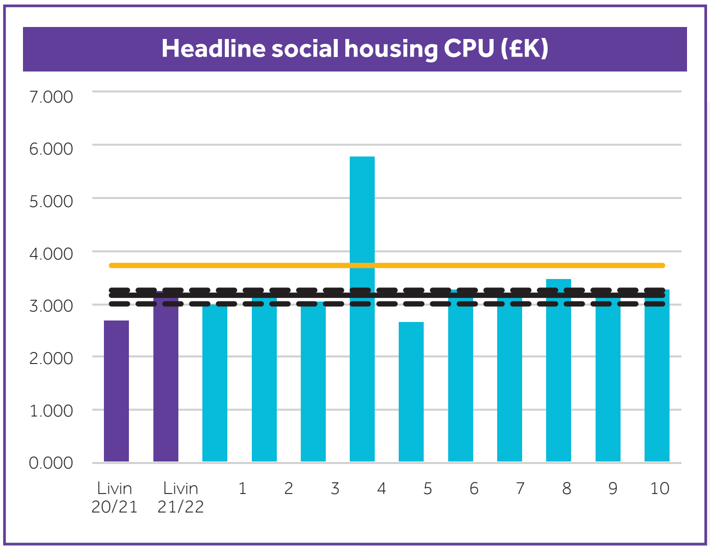


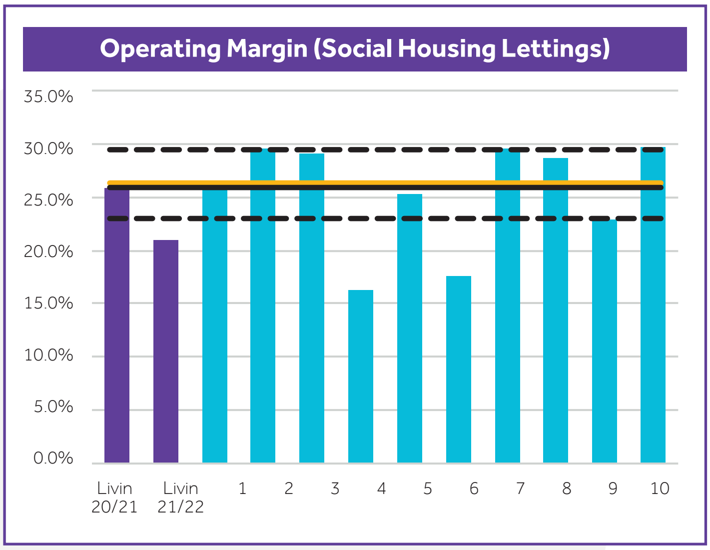
Gearing

Gearing was top quartile when comparing to both our peer group and the sector as a whole. Our previously agreed deferred debt facility of £30m (£16m drawn at year end) and the extension of our revolving credit facility by a further 2 years (£0m drawn at year end) provide additional liquidity. We are currently in the process of securing more debt which will enabling 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

EBITDA MRI Interest cover, is top quartile when compared to the sector as a whole. However, performance has fallen to upper median quartile when compared to our peer group. This is a result of a rise in responsive, planned and major repairs expenditure as we increase investment in our existing homes.





Headline Social Housing Cost Per Unit

Headline Social Housing Cost per Unit sees our performance reduce to lower median compared to our regional peer group and upper median compared to the sector as a whole. This the result of the increased responsive, planned and major repairs expenditure stated above which, in total, were £4.6m higher than the previous 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.

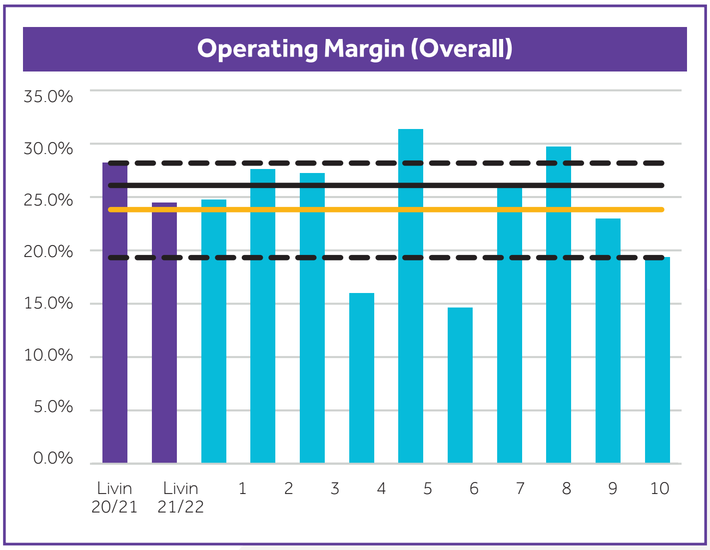
	2021/22	2020/21	Change
Management costs	£1,219	£1,194	£25
Repairs	£1,082	£994	£88
Major works	£857	£442	£415
Service charges	£10	£9	£1
Other	£83	£42	£41
Total	**£3,251**	**£2,681**	**£570**

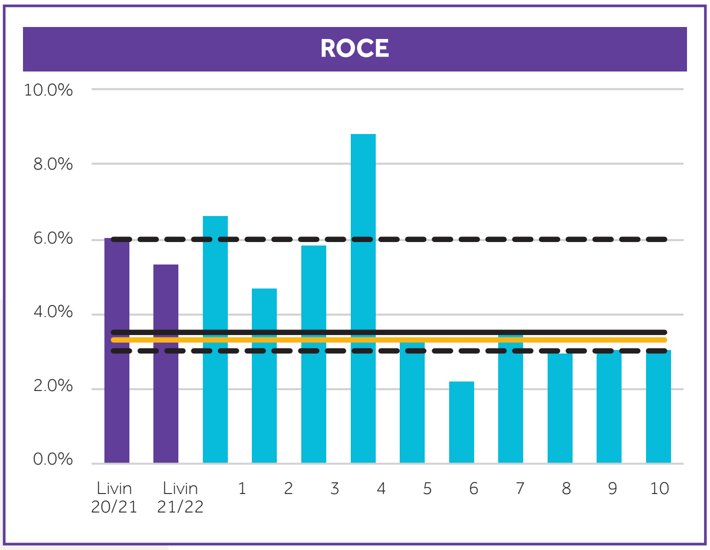
Our overall cost per unit has increased by £570 as a result of increased major works and repairs costs following the resumption of normal services after the pandemic. We anticipate that these costs will increase in future years as we deliver more major works.

An increase in employment costs added to our management costs and this is expected to continue into 2022/23 as we experience a prolonged period of high inflation.

Operating Margin Social Housing Lettings

Operating Margin Social Housing Lettings is an area where our performance declined from 25.7% to 21.0%. This now places us in the lower quartile compared to both peer groups. The annual rent increase applied in 2021/22 at 1.5% did not offset our increase in repairs costs or inflationary pressures on employee costs and other overheads. The completion of new developments and increased major works also increased our depreciation charge which contributed to 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 rent charges 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 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 24.6% assisted by our strong margins on Commercial lets and Other turnover. Our performance is expected to fall in the next year to 21.3% before recovering to 24.6%. 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) %

Return on Capital Employed (ROCE) % - whilst our performance remains in the top quartile when compared to the sector as a whole, it has fallen to upper median quartile when compared to our North East peer group. ROCE is expected to fall in future years, as further capital is employed through our ambitious development programme and our plans to invest in major repairs and energy efficiency works continue.

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 2021 Global Accounts):

Metric	2020/21		2021/22		2022/23 forecast		2023/24 forecast		2024/25 forecast	
	Performance	Quartile	Performance	Quartile	Performance	Quartile	Performance	Quartile	Performance	Quartile
Reinvestment %	15.7%	1	14.7%	1	18.9%	1	14.3%	1	15.0%	1
New supply delivered – social housing (%)	0.9%	3	2.5%	1	1.8%	2	2.1%	1	2.1%	1
Gearing (%)	58.0%	1	55.0%	1	56.3%	1	56.2%	1	56.2%	1
EBITDA MRI Interest Cover (%)	402.9%	1	262.2%	1	153%	3	154%	3	154%	3
Headline Social Housing Cost per Unit (£)	£2,681	1	£3,251	2	£3,793	3	£4,106	3	£4,238	3
Operating Margin (Overall)	28.9%	1	24.6%	2	21.3%	3	24.5%	2	24.6%	2
Return on Capital Employed	6.2%	1	5.4%	1	4.2%	1	4.6%	1	4.5%	1
Average for all metrics		1.3		1.3		2.0		1.71		1.71

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 2022/23 there are three metrics where performance is expected to be below the sector median; these are EBITDA MRI Interest Cover, Headline Social Housing Cost per Unit and Operating Margin (Overall).

EBITDA MRI Interest Cover % is forecast to fall to lower median quartile. This is a deliberate action as we plan to complete decarbonisation works and increase our major repairs spend. Our Planet A strategy is our roadmap to a greener future and ensures we act now to create environmentally sustainable futures. We are investing an additional £4.3m over the next three years on solutions to ensure our existing homes are fit for the future. This includes retrofit programmes that will increase energy efficiency and reduce the cost of our customers heating their homes.

Headline Social Housing Cost per Unit is expected to move down to lower median quartile. The main reason behind this is increased major repairs works anticipated in 2022/23. As well as the decarbonisation expenditure mentioned above, additional major repairs costs will be incurred as part of an ongoing regeneration project at The Courts, Shildon. This programme was previously delayed with the majority of expenditure now anticipated in 2022/23.

Operating margin (overall) performance is forecast to fall one quartile to lower median quartile. This is the result of prudent budgeting, including increased pension costs following the actuaries' triennial review, and an increase in depreciation charges. Our ambition to build 526 new homes in the next three years will provide extra rental income to help improve the operating margin in future years whilst assisting

with delivering many of our key objectives contained within Plan A.

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 2021/22 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 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 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.