

Value for Money Position Statement for year ended 31.3.2018

Value for money (VFM) is achieved when limited financial resources are spent and invested in ways that produce the greatest long-term beneficial effects. At TRH we believe the organisation exists to provide 'social value' and we are developing a model to demonstrate the social value benefits of the work that we do.

The Board is fully committed to the delivery of VFM for our customers, seeking an appropriate balance between cost, performance and customer satisfaction. Value for money is a very important component of one of Two Rivers Housing's four corporate objectives and, indeed, cuts across all other objectives.

VFM is used as a business improvement driver within TRH, facilitating the alignment of resources to the Board's strategic priorities. In addition, the Board has approved a number of bespoke metrics which are also linked to our strategic objectives.

The Regulator of Social (RSH) published a new VFM standard which became operational on 1 April 2018. One of the key requirements of the new standard is that registered providers are expected to report performance against a suite of seven VFM metrics, as defined by the Regulator, with the express intention of providing measures with wide applicability which permit comparability across the sector. TRH's performance against the suite of metrics is illustrated in the table below.

Sector-wide figures are not currently available for 2017/18 for the suite of metrics defined by the Regulator. Therefore, the table below uses 2016/17 Sector Scorecard results in an effort to benchmark against the sector on the basis of the new metrics.

Value for money metrics

	Two Rivers Housing		PlaceShapers group	Whole sector
	2016/17 Actuals	2017/18 Actuals	2016/17 Actuals	2016/17 Actuals
Reinvestment %	7.07%	12.66%	7.11	6.52%
New supply delivered % (Social housing)	1.39%	2.62%	1.44%	1.73%
New supply delivered % (Non-social housing)	0.15%	0.35%	2.80%	3.02%
Gearing %	58%	58%	52%	50%
EBITDA MRI interest cover %	232%	255%	237%	334%
Headline social housing cost per unit	£3,205	£3,082	£3,620	£4,180
Operating margin % - social housing only	31.72%	28.29%	33.99%	32.95%
Operating margin % - overall	31.42%	28.83%	31.23%	29.87%
Return on capital employed (ROCE)	7.68%	7.63%	5.15%	5.20%

Assessment of 2017/18 performance

A commentary in relation to each of the metrics in turn, along with a brief description of the metric, is set out below.

Reinvestment

This indicator looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.

This figure shows TRH in a good position, investing and adding to the supply of social housing and, as can be seen, is ahead of both the PlaceShapers and Sector levels, particularly in 2017/18.

New supply delivered

This sets out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units owned at the period end.

New supply has picked up particularly in 2017/18 with the percentage of new social housing being ahead of the sector averages for both PlaceShapers and Global accounts.

Gearing

Assesses how much of the assets are made up of debt and is an approximate indication of capacity, in that more highly-g geared associations may have less capacity to develop further.

TRH's gearing ratio is higher than the sector averages for both PlaceShapers and the whole sector, and is indicative of TRH having geared up to develop more units. It is not uncommon for developing associations to be more highly geared.

EBITDA MRI interest cover

This ratio measures the level of surplus created against interest payments.

The performance in this area is broadly similar to, or slightly ahead of, the PlaceShapers group, but not as strong as the sector average. A high interest cover ratio is not automatically a good thing as it may indicate that there is further capacity to borrow further to develop, although it does need to be taken into context with the other financial indicators.

Headline social housing cost per unit

This is an indication of the total costs of providing social housing (as defined by the Regulator) divided by the total number of units.

TRH's cost per unit compares well with both PlaceShapers and the Sector, and it is good to report that there has been a downward movement in costs in 2017/18.

Operating margin

The operating margin demonstrates the profitability of the operating assets before exceptional expenses are taken into account, split into operating margin for social housing lettings only and operating margin overall.

TRH's operating margin is slightly less than the PlaceShapers averages and the Sector averages. However, it is important to remember that it is likely that the sector averages may also have fallen due to continuation of the rent reductions and their inevitable impact.

Return on capital employed (ROCE)

This ratio measures how well a provider uses its capital to generate financial return.

To some extent this ratio is influenced by when the assets of an organisation were acquired in historic cost terms, as this can greatly affect the denominator. TRH has achieved good performance in this area and is ahead of the sector averages.

Performance against TRH specific metrics

The Board has agreed a number of bespoke metrics which are linked to TRH strategic objectives and designed to ensure that TRH delivers VFM in a local context.

Corporate Objective	Description	Measure of success	Target 2018/19	Actual as at March 2018
Customer satisfaction	Customer satisfaction	STAR survey results.	88%	89%
Customer satisfaction	Quality of home	Customer feedback.	91%	91.31%
Customer satisfaction	Health and safety	Percentage of homes meeting Decent Homes standard.	100%	100%
		Percentage of homes with a valid gas certificate.	100%	100%
Creating a strong organisation	By ensuring we have the right people in the right place with the right skills and capacity, we will seek to optimise our people to deliver corporate objectives for the organisation	To remain an excellent employer as categorised by the Sunday Times Top 100 or another accreditation. Reduce staff turnover.	To be in the top 25 best companies Below 9%	11 13.74% voluntary 19.08% overall

Income and growth	To generate additional alternative income strands for the association to be invested in the provision of housing.	EBITDA MRI operating margin.	30%	27%
Income and growth	We will develop and acquire new homes to increase our stock holding	Number of new homes developed.	70	95
Governance and viability	Board possess the required skills. Undertake a board effectiveness review	Actions completed following governance improvement plan.	100%	100%
Governance and viability		RSH evaluation Golden rules complied with.	G1V2 100%	G1V1 100%
Governance and viability		Percentage of attendance at Board meetings.	80%	89%
Governance and viability		Current arrears as a percentage of debit.	Less than 1.65%	1.25%
Governance and viability		Income collection as a percentage of debit raised.	99.95%	100.36%

The Board agreed to set the above metrics as targets for 2018/19 and will continue to monitor them on a quarterly basis.

In addition to the above targets, the Board agreed the following Corporate targets for 2018/19:

- To continue with an annual reduction in responsive repairs spend of £100k per annum to continue the journey of bringing the total cost per property in line with the average for the sector as defined by Housemark. So far, two years or reductions of £100k per annum have been achieved. It is anticipated a further two to three years of reductions will be required.
- A further review of SAP ratings to be carried out during 201/19 to see what further actions can be carried out to improve the SAP ratings of properties.
- A further reduction of management costs of £83k per annum, as agreed as part of the 2018/19 budget.
- Individual departments to continue with VFM initiatives to generate further savings.