Value for Money Position Statement

for Year Ended 31 March 2019

Value for Money is achieved when limited financial resources are spent and invested in ways that produce the greatest long-term beneficial effects. At Two Rivers Housing (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 Group Board is fully committed to the delivery of Value For Money (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 TRH’s four corporate objectives and indeed cuts across all other objectives.

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

Delivery against the 2018/19 VFM Action Plan

To maintain an ongoing focus on VFM the Group Board approved an action plan which focused upon a number of areas:

- Use of benchmarking
- Ownership and embedding VFM
- Procurement
- Resource allocation
- Asset management and return on assets

Assessment of 2018/19 performance

- The review of Centigen activities and the cessation of loss-making activities. Whilst Centigen FM did not deliver a surplus overall, the losses were minimised, and a small surplus is now expected to be delivered in 2019/20.
- Delivery of the highest regulatory judgement (G1/V1) – internal resource was deployed to support the In-Depth Assessment undertaken by the Regulator and a positive outcome was achieved. This review provides an independent external opinion of the strength of the organisation providing reassurance to key stakeholders that TRH is a good organisation.
- A reduction to the average repair cost per property and a focus on operative productivity, which has increased during the latter part of the year. This has mitigated, to a certain extent, the impact of higher demand for responsive and void repairs.
- SAP ratings have been reviewed and the Group Board has approved investment to improve the average rating to SAP Level D in 2019/20 and a detailed options appraisal of the worst performing properties.

- Management costs being largely contained at 2018 levels, despite inflationary increases. After adjusting for inflation, a £140k saving has been delivered against the £83k target.

- Savings delivered through department led and procurement initiatives total £1.068m.

A key requirement of the VFM 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 2018/19 for the suite of metrics defined by the Regulator. Therefore, the table below benchmarks TRH performance against last year and the information extracted from the 2017/18 Global Accounts Annex in an effort to benchmark against the sector on the basis of the new metrics.

	Two Rivers Housing		Average (PlaceShapers)	Whole sector (Median)*
	2019	2018	2018	2018
Reinvestment	13.6%	12.7%	7.3%	6.0%
New supply delivered %				
- Social housing	1.40%	2.57%	1.71%	1.20%
- Non-social housing	-	0.1%	0.06%	-
Gearing	56%	58%	46%	43%
EBITDA MRI / Interest cover %	213%	254%	220%	206%
Headline social housing cost per unit	3,336	3,068	3,770	3,400
Operating margin % - Social Housing	26.1%	28.1%	31.9%	32.1%
Operating margin % - Overall	27.5%	26.5%	28.8%	28.9%
Return on Capital Employed	4.5%	4.6%	4.6%	4.1%

Assessment of 2018/19 Performance

A commentary in relation to each of the metrics in turn, along with a brief description of the metric is contained 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 substantially ahead of both the PlaceShapers and Sector levels. The improved performance relative to 2017/18 is a reflection of the increased investment in maintenance expenditure.

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 reduced as actual units delivered in the year is lower than both the target set and the prior year delivery. The percentage of new social housing being delivered is however ahead of the whole sector average reported in the global accounts.

Whilst the target has not been achieved, we anticipate this indicator improving substantially in 2019/20 as there is a substantial pipeline of development in place with in excess of 200 units expected to be delivered in 2019/20. A variety of drivers affects the delivery – developer and planning delays, legal issues and programme delivery spanning multiple financial years, all of which have all been experienced during the year.

Gearing

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

Two Rivers Housing's gearing ratio is higher than the sector averages for both PlaceShapers and the whole sector and is indicative TRH having geared up to develop more units. It is not uncommon for LSVT providers and those that are developing to be more highly geared. As with all ratios, the position does have to be viewed with caution. If the cost paid for initial housing stock acquisition was particularly low (as was the case with TRH) due to the level of work that was required to be carried out being reflected in the purchase price, then as the association develops and pays full build costs for new stock, the additional loans will start to dwarf the initial costs and the ratio will start to increase. That said TRH is now well into the upper quartile in this ratio, which is an indication of the commitment of the Group Board to continue developing and we are comfortable with the level of gearing. In terms of ability to continue raising finance for future loans, while this ratio is considered, it is likely to be less important than EBITDA MRI, asset cover based on existing use valuation and debt per unit.

EBIDA MRI Interest Cover

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

The performance in this area is slightly ahead of the sector average but not as strong as the PlaceShapers group. The reduction in the year is a reflection of the additional borrowings drawn at the end of 2018 which are planned to be invested in future years. 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.

Two Rivers Housing's cost per unit compares well with both the PlaceShapers and the Sector and whilst there has been an upward movement in costs in the year, this is a consequence of the increased maintenance expenditure being invested to maintain the quality of our homes. We are reviewing the split of responsive, planned and major investment to ensure that our money is invested in the right areas and delivered effectively.

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 overall operating margin is slightly less than the PlaceShapers averages and the Sector averages. TRH's social housing operating margin performs less well within the sector in 2018/19 due to the higher maintenance expenditure incurred. However, it is important to remember that it is likely that the sector averages may have also changed due to continuation of the rent reductions and their inevitable impact.

Return on Capital Employed (ROCE)

This ratio measures how well a provider manages its capital to generate a 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 continues to achieve a good performance in this area and is ahead of the sector average and in line with the average for the PlaceShapers group.

Performance Against TRH Specific Metrics

The Group Board has agreed a number of bespoke metrics which are linked to TRH strategic objectives which are designed to ensure that TRH delivers VFM in a local context. The performance against the 2018/19 targets is set out in the table below:

Corporate Objective	Description	Measure of success	Target 2018/19	Actual as at March 2019
Governance and Viability	To generate additional alternative income strands for the association to be invested in the provision of housing.	EBITDA MRI operating margin	30%	34.7%

Income and Growth	Delivery £100k reduction in Responsive Maintenance Expenditure	Delivery £100k reduction in Responsive Maintenance Expenditure	£100k	Nil*
Customer Satisfaction	Customer satisfaction	STAR survey results	89%	86%
Customer Satisfaction	Completing repairs right first time	Customer feedback	88%	90%
Customer Satisfaction	Health and safety	Percentage of homes meeting decent homes standard. Percentage of homes with a valid gas certificate.	100% 100%	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 other form of accreditation Reduce staff turnover	To be in the top 25 best companies Below 9%	11th in the Top 100 in 2018 4.85% voluntary 12.6% overall
Income and Growth	We will develop and acquire new homes to increase our stock holding	Number of new homes developed/acquired	70	56 (212 pipeline)
Governance and Viability	Group 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	G1V1
Governance and Viability		Percentage of attendance at board meetings	80%	96%
Governance and Viability		Current arrears as a percentage of debit	Less than 1.65%	1.27%
Governance and Viability		Income collection as a percentage of debit raised	99.95%	99.98%

*Due to an increase in responsive repair volumes there was no overall cost saving. However, the average repair costs per job have reduced, which represents a continued focus on improving efficiency and providing value for money.

The Board are pleased with the Group's continued strong performance against targets. It is noted that whilst the customer service score is below the set target, the score remains within a level of tolerance of upper quartile performance in this area. In addition to the above, the Group Board has agreed the following Corporate targets for 2019/20:

1. To continue with an annual reduction in responsive repairs spend of £100k per annum

    - An absolute reduction in the spend year on year has not been delivered due to increased demand on our responsive maintenance service and the nature of the works undertaken being higher in certain areas. A reduction to the average cost per property has been delivered and a greater focus on operative productivity has increased performance during the latter part of the year. This has mitigated, to a certain extent, the impact of higher demand for responsive and void repairs. The structure has been reviewed which will secure efficiencies in the longer term.

2. To continue the journey of bringing the total cost per property in line with the average for the sector as defined by Housemark.

    - TRH performs well against the Social Housing Cost per property and the management cost per property, excluding inflation has reduced.

3. A further review of SAP ratings to be carried out during 2018/19 to see what further actions can be carried out to improve the SAP ratings of properties.

    - SAP ratings have been reviewed and the Group Board has approved investment to improve the average rating to SAP Level D in 2019/20 and a detailed options appraisal of the worst performing properties.

4. A further reduction of management costs of £83k per annum as agreed as part of the 2018/19 budget.

    - Management costs being largely contained at 2018 levels, despite inflationary increases. After adjusting for inflation, a £140k saving has been delivered against the £83k target.

5. Individual departments to continue with VFM initiatives to generate further savings.