Value for Money Position Statement for Year Ended 31.3.2020

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 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 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 Board's strategic priorities. In addition, the Group Board has approved a number of bespoke metrics which are also linked to our strategic objectives.

Assessment of 2019/20 Performance

To maintain an ongoing focus on VFM, the Board approved an action plan which focused upon reviewing a number of areas and driving efficiencies.

In addition to the activities above a number of initiatives have been undertaken during the year, which have also delivered VFM:

- A review of tenant engagement has been undertaken resulting in the creation of the Challenge and Change group through the amalgamation of two pre-existing tenant groups. This has delivered cost savings, as well as enabling tenant engagement to become more effective.
- Subsidiary Board and committee meetings have been scheduled on days to coincide with Group Board meetings to reduce Board member expenses.
- Centigen TRH maintenance teams are undertaking fire safety works, following the failure of a contractor to deliver a cost effective service.
- In-house development of the Group intranet delivered savings in excess of £40-50k.
- Further development of SharePoint to create our internal EDRM system also negated the need for an external system.
- Bringing the reception service back into TRH has created capacity for customer services tools to be developed. These have been declared exemplar by an external assessor.
- The fixed term contract for the Debt and Welfare Officer has been made permanent. This will help provide continued support to customers. In 2019/20 £1.5m of additional financial support was identified for our customers through this service.
- A data quality project has been delivered internally, not only saving consultancy fees but enabling higher quality management information to be developed.

- A fundamental review of the risk register and framework has been undertaken with the register transferred to a new system to improve the quality of reporting and to provide more effective risk management.
- Investment in software that enables employees to work in an agile manner but is also an integral element of our business continuity plan and has proved vital during the Coronavirus outbreak and has been truly tested as a consequence of the pandemic.
- Savings delivered through department led and procurement initiatives total £0.56m.

We recognise that in some areas we incur higher levels of expenditure – such as housing management, where we invest in resources to provide additional support to our customers in the form of Anti-Social Behaviour officers and the provision of debt and welfare advice. Our cyclical maintenance costs are higher due to our compliance regimes which operate at a higher level than the statutory requirement but enables us to ensure a higher level of landlord compliance, as the safety of our homes and customers is a key strategic priority. We understand that this is integral to enabling us to fulfil our purpose – 'Creating great homes and supporting communities'.

VFM Sector Metrics

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, which permit comparability across the sector.

Sector wide figures are not currently available for 2019/20 for the suite of metrics defined by the Regulator, we have therefore benchmarked TRH performance against information extracted from the 2018/19 Global Accounts Annex.

	Two Rivers Housing		Average (Placeshapers)	Whole sector (Median)*	Sector Top Quartile
	2020	2019	2019	2019	2019
Reinvestment	15.7%	13.2%	7.3%	6.2%	8.7%
New supply delivered % - Social housing	4.5%	1.40%	1.65%	1.50%	2.50%
- Non-social housing	-	-	0.10%	-	0.13%
Gearing	59%	58%	45%	43%	54%
EBITDA MRI / Interest cover %	192%	215%	189%	184%	238%
Headline social housing cost per unit	3,484	3,336	4,005	3,690	4,690
Operating margin % - Social Housing	23.1%	26.1%	29.2%	29.2%	34.6%
Operating margin % - Overall	24.7%	27.5%	26.3%	25.8%	30.8%
Return on Capital Employed	3.8%	4.5%	4.1%	3.8%	4.7%

*Source: 2019 Global Accounts Annex: Value For Money metrics

Below Sector median
Above Sector median

Performance Against Sector Metrics

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 strong 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, achieving top quartile. The improved performance relative to 2018/19 reflects the substantial investment in the delivery of new homes combined with 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 increased substantially with 187 units being delivered relative to the 56 units in the 2019. Whilst this is marginally less than the 200 units anticipated, this is the biggest year in the history of the organisation and a reflection of the strong pipeline of development schemes. The percentage of new social housing being delivered is substantially ahead of the whole sector average placing TRH in the top quartile relative the 2019 sector metric.

A variety of drivers affect delivery – developer and planning delays, legal issues and programme delivery spanning multiple financial years, all of which can have an impact on delivery and so it is not unexpected that there is a relatively small difference to the target.

Gearing

This metric 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 of TRH having geared up to develop more units. It is not uncommon for Large Scale Voluntary Transfer 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.

EBITDA MRI Interest Cover

This ratio measures the level of surplus created against interest payments. Strong interest cover is required to service existing debt and support continued investment. 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.

The performance in this area is below the sector average and not quite as strong as the average for the PlaceShapers group. It is however, in line with the median position for smaller providers (2,500 to 4,999 units). Despite being below the sector, interest cover remains healthy, it has decreased by 23% in the year from 215% in 2019 to 192% in 2020. The main reason for the movement is due to a decrease in margins and a reflection of the additional borrowings drawn at the end of 2018 – a strategic decision taken to fund the substantial development pipeline.

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 and safety of our homes and costs incurred to support internal reviews which will drive efficiencies in the longer term, for example the review of repairs processes and the review of the group corporate structure.

Operating Margin

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

At 24.8%, TRH's overall operating margin is 1.0% less than the Sector average and 1.6% less than the PlaceShaper average. Two Rivers Housing's social housing operating margin performs less well within the sector in 2018/19, despite higher expenditure incurred in supporting our communities through debt and welfare advisory services, managing anti-social behaviour and maintaining the quality and investing in the safety of our homes. We recognise that our rents are circa 10% lower than our peers operating in the Southwest and West Midlands and that this has a substantial impact on our social housing lettings surplus and operating margins overall however, this is key to the provision of 'affordable housing'. 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. Two Rivers Housing is in line with the sector median for 2019 and marginally below the average for the PlaceShapers group. Relative to 2019 the performance has dipped against this metric due to higher maintenance and management costs.

Performance Against TRH Specific Metrics

The Group Board has agreed a number of bespoke metrics which are linked to the TRH strategic objectives which are designed to ensure that TRH delivers VFM in a local context. The performance against the 2019/20 targets and targets identified for 2020/21 are set out in the table below:

Corporate Objective	Description	Measure of success	Target 2019/20	Actual as at March 2020	Target 2020/21
Governance and Viability	To maintain a strong financial performance	EBITDA MRI operating margin	29%	31%	Operating margin 26.8%
Income and Growth	Delivery £100k reduction in Responsive Maintenance Expenditure	Reduction in responsive repair cost per property	£100k	£93k £8 per property	
Customer Satisfaction	Customer satisfaction	STAR survey results	89%	87%	88%
Customer Satisfaction	Completing repairs right first time	Customer feedback	97%	91%	
Customer Satisfaction	Health and safety	Percentage of homes meeting decent homes standard Percentage of homes with a valid gas certificate	100% 100%	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	Excellent Employer Accreditation Below 9%	IIP Gold 4.5% voluntary 16.3% overall	IIP Gold 6% voluntary
Income and Growth	We will develop and acquire new homes to	Number of new homes developed/acquired	Average	2020: 187 115 pa	100 3yr average

Corporate Objective	Description	Measure of success	Target 2019/20	Actual as at March 2020	Target 2020/21
	increase our stock holding		70 per annum 2018-2020	3yr average	
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	G1V2
Governance and Viability		Percentage of attendance at Board meetings	80%	91%	80%
Governance and Viability		Current arrears as a percentage of debit	Less than 1.65%	1.49%	Bad Debt 3.0% of T/O
Governance and Viability		Income collection as a percentage of debit raised	99.95%	99.7%	
Customer Satisfaction	Improve the average rating to SAP Level D	SAP Rating	Average SAP level D	Average SAP level D	100% SAP level D or above