

Value For Money Statement 2018



Value for Money:

Value for Money (VFM) is a key theme which is at the heart of our corporate objectives.

Our VFM targets are clearly set out in the new Corporate Plan and the associated VFM Strategy, which recognise that further efficiency gains are required to demonstrate improved VFM to our stakeholders.

Over the next five years we aim to reduce our operating costs by **6.1% (£2.3m)** whilst delivering **827** new homes.

This cost reduction will optimise our financial capacity by increasing our operating margin to **32% (2018: 26.1%)** and our borrowing capacity to **£147m (24%)**, optimising the Group's ability to service future debt.

Our new corporate strategy draws on our history and brand around shared ownership, innovating in affordable home ownership and selling our services to other providers, as well as retaining our focus and commitment on social and affordable rented housing.

Over the next five years we will commit **5-10%** of our budgeted surplus after interest and tax (which may equate to around **£2m**) to social value projects in communities, optimising the social impact within the areas that we operate.

During the year, the Board and the Executive Team monitored VFM using a balanced scorecard approach (Equity's balanced scorecard includes the Sector Scorecard indicators, supplemented by a range of Customer and Colleague indicators which support our corporate objectives).

The KPIs included in the scorecard has been amended for 2018/19 in line with the new Corporate Plan.

In addition to monitoring our performance against our internal targets, we also use the Housemark Sector Scorecard Report to compare our performance against other housing organisations nationally who have between **2,500** and **5,000** homes.

We also compare our performance at a regional level through the Greater Manchester Providers performance group, and work collaboratively to enhance outcomes across the region.



The year-end performance against our **2017/18** balanced scorecard targets is provided below.

Financial and VFM Performance:

Financial & VFM		2017/18		
		Actual	Target	Benchmark Quartile
1	Reinvestment (%)*	9.1%	10.8%	N/A
2	New Supply Delivered (%) - Social Housing Units*	2.5%	4.4%	1st
2a	New Supply Delivered (%) - Non-social Housing Units*	0.0%	0.0%	N/A
3	Gearing (%)*	22.8%	26.9%	1st
4	Interest Cover (%)*	211.2%	192.0%	2nd
5	Social Housing Cost per Unit*	£3,385	£2,063	3rd
6	Operating Margin - Social Housing Lettings (%)*	16.7%	21.9%	4th
6a	Operating Margin - Overall (%)*	26.1%	21.9%	3rd
7	Return on Capital Employed (%)*	3.2%	2.5%	3rd
8	Management Costs per Unit (£)	£1,453	£1,183	4th
9	Debt per Unit (£)	£11,384	£12,820	N/A
10	Social Value Investment (£'000)	£157	£128	N/A

* RSH VFM Metric

Further explanation of the **2017/18** Financial & VFM performance is provided below:

- % reinvestment and new supply delivered are below the target due to delays in the new homes development programme - **93** homes, out of a budget of **206**, will now be completed in the early part out 2018/19, which was mainly caused by adverse weather and a number of Section 106 schemes being delivered later than expected;
- As a result of the delays in the new homes development expenditure, we borrowed less resulting in lower gearing and debt per unit;
- Social Housing Costs per Unit and Management Costs per Unit are both above the target due to additional costs during the year supporting the transformation agenda, including executive and colleague recruitment. Our plans to reduce our operating costs and to increase the long-term operating margins are outlined below;
- Operating margins are above the budget due to additional surplus on first tranche property sales during the year.



Customer and Colleague Performance:

CUSTOMER & COLLEAGUE	2017/18		
	Actual	Target	Benchmark Quartile
Customer Satisfaction (%)	73.6%	77.7%	4th
% of received complaints progressing beyond Stage 1	6.0%	5.0%	N/A
Current Tenant Arrears	1.1%	0.9%	1st
Rent Collection	99.40%	100.00%	3rd
Voids (%)	1.2%	1.1%	3rd
All Colleague Turnover	24.9%	10.0%	4th
Absence (days)	6.3	6.0	1st
Service Charge cost per Unit (£)	£586	£440	4th

Further explanation of the **2017/18** Customer & Colleague performance is provided below:

- Our Customer Satisfaction performance is based on overall Customer Satisfaction (taken from the Survey of Tenants and Residents (STAR) Survey) – the main reasons for the current performance is satisfaction with repairs, improvements and grounds maintenance contracts which we have addressed through procuring new contracts during the year;
- We are proud of our rent collection and arrears performance, and although we are aware that our low levels of rent arrears make it difficult to collect over **100%** of the rent charged, we continue to set a stretch internal target;
- The void loss was marginally higher than expected in the year, which was mainly due to three sheltered housing schemes which are due to undergo an options appraisal during **2018/19**. We expect our voids performance to improve significantly once the outcome of those appraisals have been implemented;
- A high number of temporary colleagues were in post during the year prior to implementing a new staffing structure. Most of the posts have now been filled, however this resulted in higher colleague turnover than expected; and
- Although our Service Charge costs appear high compared to our peers, this is because a high percentage of our customers are leaseholders (**78%** of our customer base receive service charges). Through effective procurement and customer consultation we will continue to ensure the services that we deliver to our customers deliver improved **Value for Money.**



The Board recognises that our performance needs to improve so we can demonstrate Value for Money to our stakeholders. We have a strong focus on developing new homes (**2.4%** new supply delivered in the year), however our cost base is high compared to our peers resulting in below average operating margins and a low Return on Capital



Return on Assets:

Equity Housing Group's main assets are the homes that we own and manage.

Whilst we have a clear social purpose, it is critical that we understand and improve the optimal use of our asset base. During the year we have started to further improve the intelligence driving the management of our assets by investing in new software to enhance our modelling capabilities.

This intelligence will provide an improved understanding of the financial and social return on our assets. Using high quality asset performance data will enable us to identify properties and schemes which are becoming uneconomic, or are no longer fit for purpose.

This will then trigger our options appraisal process to ensure we continue to understand and improve the VFM of our property assets.

Future Value for Money Targets:

The new Corporate Plan clearly sets out the Group's VFM improvement targets over the next five years, which are shown below.

Financial and VFM Performance:

Financial & VFM	Actual	Target	Target	Target	Target	Target	Sector Comparison		
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Upper Quartile	Median Quartile	Lower Quartile
Reinvestment (%)*	9.1%	11.1%	8.1%	8.7%	9.2%	9.0%	No benchmark	No benchmark	No benchmark
New Supply Delivered (%) - Social Housing Units*	2.5%	4.0%	3.6%	3.3%	2.8%	2.6%	2.3%	1.3%	0.5%
New Supply Delivered (%) - Non-social Housing Units*	0.0%	0.0%	0.4%	0.6%	1.0%	1.1%			
Gearing (%)*	22.8%	31.8%	34.6%	36.8%	36.5%	35.7%	37.7%	46.7%	62.0%
Interest Cover (%)*	211.2%	153.2%	234.5%	261.0%	263.6%	279.1%	298.6%	202.2%	160.9%
Social Housing Cost per Unit*	£3,385	£3,372	£3,151	£2,923	£2,769	£2,590	£2,907	£3,241	£3,915
Operating Margin - Social Housing Lettings (%)*	16.7%	14.8%	14.7%	21.3%	26.8%	33.0%	36.3%	31.4%	25.6%
Operating Margin - Overall (%)*	26.1%	20.0%	22.0%	25.5%	27.8%	32.0%	34.3%	29.7%	24.0%
Return on Capital Employed (%)*	3.2%	2.4%	3.3%	3.7%	4.1%	4.8%	5.6%	4.2%	3.1%
Management Costs per Unit (£)	£1,453	£1,272	£1,201	£1,018	£873	£720	£694	£941	£1,095
Void Loss (%)	1.1%	1.0%	1.5%	1.0%	1.0%	1.0%	0.5%	0.8%	1.3%
Rent Collected (%)	99.0%	99.0%	98.0%	99.0%	99.0%	99.0%	100.4%	99.9%	99.4%
Debt per Unit (£)	£11,384	£15,962	£18,364	£20,498	£21,080	£21,374	Internal Target	Internal Target	Internal Target
Social Value Investment (£'000)	£157	£121	£193	£247	£657	£811	Internal Target	Internal Target	Internal Target

* RSH VFM Metric

Customer and Colleague Performance:

Customer & Colleague	Actual	Target	Target	Target	Target	Target	Sector Comparison		
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Upper Quartile	Median Quartile	Lower Quartile
Customer satisfaction with Equity's services (%)	73.6%	78%	80%	82%	84%	85%	91%	87%	84%
Tenancy turnover (%)	12.0%	10.5%	9.5%	9.0%	8.5%	8.0%	6.04%	7.72%	9.41%
Employee Turnover (%)	25%	20%	19%	18%	17%	15%	12.4%	16.7%	21.5%
Customer initiated transactions - self-serve (%)	Not measured	0%	20%	50%	60%	70%	Internal Target	Internal Target	Internal Target
Vacancies filled by internal promotion (%)	Not measured	20%	25%	30%	40%	50%	Internal Target	Internal Target	Internal Target
Best Companies engagement score	671	685	697	705	715	725	Best Companies	Best Companies	Best Companies
Units managed per FTE	31	31	32	35	36	37	Internal Target	Internal Target	Internal Target

Over the next five years, the successful delivery of our Corporate Plan and the achievement of our associated targets will result in the following:

- Maintaining top quartile performance for new supply delivered;
- Increasing our gearing to **38.7%** as we utilise our financial capacity to invest in **827** new homes;
- During 2017 we commenced the procurement of a new housing management system, which will enable us to significantly improve a number of key processes, both internally and for our customers – it is anticipated that the new system will be implemented by the Summer of 2019;
- During 2018/19, a fundamental review of our cost base will be undertaken which, along with the new ICT system, will:
 - reduce our costs per unit by **14% (£2.3m** in real terms);
 - improve our Management Costs per Unit from bottom quartile to second quartile; and
 - improve our overall operating margin to **32% (2018: 26.1%)**. These improvements will generate additional finance capacity for reinvestment into new and existing assets, and increased social impact;
- Return on Capital Employed increasing to **4.8%**, as we generate increased profits to service the additional investment in new homes; and
- Maintain void loss and rent loss at **2%** overall, which is excellent performance given Equity's low levels of arrears, and will have a positive impact on the 30-year business plan.



In addition to the above, to further improve Equity's key non-financial KPIs the following initiatives are being undertaken as part of the new Corporate Plan:

- Customer satisfaction – through optimising the use of new technology and innovation, our aim is to enable customers to self-serve and to access our services conveniently and at the first point of contact, which will reduce customer effort and improve the ease of doing business with us. To start this journey, following a reorganisation in 2017/18, our customers now have a dedicated Customer Relationship Manager who acts as a single point of contact to provide a generic, joined-up service;
- To understand how we compare to other housing organisations and other sectors, during 2018/19 we will become members of the United Kingdom Customer Satisfaction Index (UKCSI). The results of our UKCSI performance will be reported from March 2019; and
- Colleague retention – our new People Strategy is based around principles of colleague engagement and retention, with a commitment to commercial and sustainable remuneration and a new approach to succession planning and internal recruitment. Equity has an engaged workforce and is currently ranked as **60** in The Times Top 100 (Best Companies) list.

Taking into account the actions and initiatives set out above, the Board believes that the Group complies with the requirements of the Value for Money standard.

The Corporate Plan targets and the Value for Money Strategy demonstrate the Board's strategic approach to Value for Money, and we feel that the current and future plans will continue to optimise the economic and social value that Equity delivers to its customers and other stakeholders.

