

## **Value for Money (VfM) Position Statement for Year-Ended 31<sup>st</sup> March 2018**

The Board is fully committed to delivering VfM for our customers, seeking an appropriate balance between cost, performance and customer satisfaction. 'Governance and Value for Money' is one of bdht's corporate themes within the Corporate Plan. Furthermore, the Board considers VfM to be critical to its three other corporate themes and the strategic objectives that are in turn intrinsic to these themes.

VfM is used as a business improvement driver within bdht, facilitating the alignment of resources to the Board's strategic priorities. Furthermore, the Board has approved a number of bespoke metrics or "measures of success" which are explicitly linked to these strategic objectives

The Board appraises various aspects of VfM performance throughout the year and quarterly performance reports are scrutinised by the Compliance Committee.

The Regulator of Social Housing (RSH) published a new VfM Standard which became operational on 1<sup>st</sup> 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 comparison across the sector. bdht's performance against this 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 bdht's performance against the sector on the basis of the new metrics.

<b>VfM Metric</b>	<b>Description of Metric</b>	<b>bdht 2017-18 Performance</b>	<b>Sector Scorecard 2016-17</b>
Reinvestment %	Looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.	7.47%	N/A
New supply delivered % (Social housing units)	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 period end.	1.91%	1.05%
New supply delivered % (Non-social housing units)		1.05%	N/A
Gearing %	Assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance. It is often a key indicator of a registered provider's appetite for growth.	52.07%	41.60
Earnings before interest, tax, depreciation and amortisation. Major Repairs Included (EBITDA MRI Interest Cover %)	This measure is a key indicator for liquidity and investment capacity. It measures level of surplus generated against interest payments.	289.13%	230.80%

Headline social housing cost per unit (including leaseholder units as previous years)	The unit cost metric assesses the headline social housing cost per unit as defined by the Regulator	£3,013	£3,311
Headline social housing cost per unit (excludes leaseholder units)	The unit cost metric assesses the headline social housing cost per unit as defined by the Regulator	£3,146	N/A
Operating margin % (Social housing lettings only)	The Operating Margin demonstrates the profitability of operating assets before exceptional expenses are taken into account, split into operating margin for social housing lettings only and operating margin overall. Increasing margins are one way to improve the financial efficiency of a business. In assessing this ratio it is important that consideration is given to the provider's purpose and objectives.	30.43%	31.64%
Operating margin % (Overall)		32.62%	30.34%
Return on capital employed (ROCE)	This compares operating surplus, to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources. The ROCE metric would support registered providers with a wide range of capital investment programmes.	6.41%	4.00%

### **Assessment of 2017-18 Performance**

Performance against 2016-17 Sector Scorecard or 2016-17 Global Accounts results, on the basis of the new metrics defined by the regulator, is assessed and plans to address areas of underperformance are discussed in the following areas:

#### **Reinvestment**

The figure of 7.47% for reinvestment in housing properties, which does not include those market rent properties treated as investment properties, is a result of approximately £6.4m invested in the development of 73 new properties and £2.2m expended on the major improvements of existing properties. This, in addition to significant investment since the original stock transfer from Bromsgrove District Council (BDC), is indicative of bdht's commitment to its strategic objective of providing new affordable housing solutions and improving its existing properties

#### **New supply delivered %**

The new social housing units delivered percentage of 1.91% is slightly less than the internal target of 2.2% with 73 of the planned 81 social housing units being completed in 2017-18. However, this represents an extremely favourable result compared to the 2016-17 Sector Scorecard median of 1.1% being top quartile performance. This follows on from bdht's 2.50% overall new supply delivered which placed it in the top quartile in 2016-17

In addition to achieving the strategic objective of providing housing solutions, continued development, enhances income streams and provides a balanced approach to mitigating the impact of 1% rent reductions when combined with a measured programme of cost reductions.

This impressive result has been achieved within the context of understandable pressure to provide housing solutions and a background of some registered providers reducing or, at least in the short-term, curtailing development programmes.

The non-social housing units figure of 1.05% represents the acquisition of a further 41 market rent properties.

### **Gearing %**

Bdht's ratio of 52.07 is higher than the 2016-17 Sector Scorecard figure of 41.6% and also the 50% gearing figure in that year's Global Accounts. Developing landlords, such as bdht, tend to be more highly geared than those who are not developing. If the gearing ratio is low, this could indicate capacity to leverage existing assets to provide funds for development or new services. Conversely, a high ratio could indicate that a provider is carrying too much debt which could expose its assets to risk. Therefore gearing ratios should be considered in conjunction with a provider's other financial indicators, priorities and future commitments.

As at 31<sup>st</sup> March 2018, bdht had £15m of its £78.3m facility undrawn, with a further £10m facility subsequently secured. It prudently manages its existing facilities and plans future facility requirements in order to satisfy its development commitments.

### **EBITDA MRI Interest Cover %**

While it is important for earnings to cover interest payments, a high interest cover ratio could mean there is additional capacity for investment. As a result, it is not necessarily appropriate to automatically assume a high figure is always 'better'. Bdht's EBITDA MRI interest cover figure of 289.13% exceeds both the 2016-17 the Sector Scorecard median and Global Accounts figures of 230.8% and 170% respectively.

Whilst accepting that it needs to be interpreted in conjunction with other performance indicators, this figure suggest finances are being prudently managed and sufficient capacity is retained to secure loan funding for further development and to cope with uncertainties such as rising interest rates.

### **Headline social housing cost per unit**

As a result of the consultation process regarding the new Standard and Code of Practice, this measure has been redefined and, as part of this change, leasehold units are now specifically excluded from the denominator. In the above table bdht's cost per unit are included on the basis of the previous methodology and also restated to exclude leasehold units to illustrate the impact of the change.

Costs per unit, calculated by both methodologies, have increased by about 3.5% or just over £100 per unit compared to 2016-17.

Void costs were approximately £273,000 greater than in 2016-17 representing £73 of the increase per unit. This is attributable to the volume of voids increasing from 289 to 382, including a number of high cost void repairs, in line with development of new units. Average costs of £2,427 exceeded the target of £2,300 Due to internal capacity issues 35% of void repairs were assigned to external contractors. In response, internal voids repairs has been increased by 2 operatives. It is anticipated this will significantly reduce the number of repairs externalised for completion by contractors, thereby reducing the additional cost impact of using external contractors to complete void repairs. All aspects of performance are monitored on a monthly basis, including the level of internal transfers

FRS102 non-cash pension accounting adjustments account for £90,000, or £24 per unit of the increase with LGPS pension deficit contributions increasing by £40,000 or £7 per unit.

However, bdht's 2017-18 costs per unit, as calculated by both the original and revised methodology, are less than budget cost per unit at £3,013 (budget: £3,330 and £3,146 (budget: £3,473) as overall operating costs were controlled within budget.

Whilst the sector-wide costs per unit for 2017-18 is not available until later in the year, bdht's headline cost per unit, of £2,910 for 2016/17 was significantly less than the median for the overall sector of £3,320 and Sector Scorecard of £3,311. As per previous years, this places bdht just outside the lowest cost quartile for the sector, with lower and upper cost quartiles being £2,850 and £4,120 respectively.

In terms of the component costs, bdht's management costs have previously exceeded the median of the sector, whilst its maintenance, major repairs, service charge and other social housing costs are less than the median figures for the group. However, irrespective of the debate about apportionment of costs across the sector's statutory accounts, the overriding conclusion is that bdht's overall cost per unit has compared favourably to that of the wider sector.

### **Operating margin % (Overall)**

Although bdht's operating margin of 32.62% 2017-18 is less than the margin achieved in 2016-17 of 34.94% it significantly surpasses its target of 29% for 2017 and is attributable to favourable variances on both turnover and operating costs. Sector-wide information for 2017-18 is not available, however, this figure exceeds the 2016-17 sector-wide figure of 30%.

This operating margin performance is testament to bdht's response to rent reductions and a challenging operating environment. It is specifically reflective of its balanced approach of effective cost control and income growth as a consequence of its continuing commitment to its development programme. Furthermore, this robust performance continues to generate capacity for further investment in development without being solely reliant on loan funding.

### **Operating margin % (Social housing lettings only)**

This measure looks at the operating margin for the part of the business that manages social housing. This margin has reduced compared to bdht's 2016-17 margin of 34% and, whilst there are no sector sector-wide figures available to compare performance for 2017-18, this is less than the 2016-17 Sector Scorecard figure of 31.64%.

### **Return on capital employed (ROCE)**

This measures how well a provider is utilising both its capital and debt to generate a financial return and can be influenced by the nature of the organisation's property portfolio (which includes items such as the balance between market and social rent, age of stock, historic debt, basis of valuation etc.)

Sector-wide comparisons are not yet available for 2017-18 but bdht's return is consistent with its 2016-17 return of 6.2%, which was extremely favourable compared to the median of the Sector Scorecard of 4%, and placed it in the top quartile.

### **Performance against bdht specific metrics**

It is in the context of the requirement to demonstrate how bdht utilises resources and assets optimally to deliver its strategic objectives that the Board has approved a number of bespoke metrics or "measures of success" which are explicitly linked to these strategic objectives

Performance against these metrics is illustrated in the table below and aside from those measured annually are scrutinised on a monthly basis.

<b>Bespoke bdht VfM Metrics</b>				
<b>Corporate Theme</b>	<b>Strategic Objective</b>	<b>Measures of Success</b>	<b>Target</b>	<b>Actual</b>
Governance and Value for Money.	Board possess the required skills. Undertake a Board Effectiveness Review ahead of 2019 recruitment process.	Viability and Governance ratings from regulator	Continued award of G1/V1 rating from regulator.	Achieved as at November 2017.
		90% Attendance at meetings.	90.00%	90.63%
Governance and Value for Money.	The importance of bdht's culture and values in promoting staff engagement with the organisation. High levels of staff engagement have been demonstrated to drive improved levels of business performance and customer satisfaction together with lower levels of staff turnover, sickness and absence.	% of staff members responding to the annual staff culture audit.	=>98%	96.00%
		% of staff members responding positively to the annual staff culture audit i.e. "bdht is a great place to work".	=> 96%	98.00%
Governance and Value for Money.	Delivering value for money. Demonstrate compliance to the regulator's VfM Standard and provide transparency to tenants and other stakeholders.	Current rent arrears as a % of rent debit.	1.93%	1.60%
		Income collection as a % of debit raised.	99.56%	100.48%
		Void rent loss as a % of debit raised.	0.60%	0.64%
		Cost savings annual target.	£300,000	£303,000
Neighbourhoods and Communities	To mitigate the impact of Universal Credit and supporting customers into paid employment.	Rent arrears of those in receipt of Universal Credit.	Monitoring only.	£44,121
		Number of people helped into paid employment.	16	31

Neighbourhoods and Communities	Supporting the elderly and vulnerable.	Number of homelessness preventions.	60	89
		% of customers engaging with the Sheltered Living Service.	73%	76.95%
Service Excellence	Customer satisfaction with overall service provided by bdht.	The % of tenants "very satisfied" with the overall service provided by bdht.	Actual 54% in 2013. Target 65% by 2020.	59%
		Bdht's Net Promoter Score.	+26 in 2013. Target +40 by 2020.	+37
Service Excellence	The health and safety of our tenants	% of homes meeting the Decent Homes Standard.	100%	100%
		% of homes with a valid Gas Safety Certificate.	100%	99.23%

## Governance

Board skills and effectiveness are subjected to review to ensure alignment with the need for overall governance excellence. From 2018-19 the completion of 100% actions against the Governance Improvement Action Plan will be adopted as a measure of success but, in the meantime, effective governance and finance frameworks ensured that, as at November 2017, bdht maintained a G1/V1 regulatory rating with RSH.

### % of staff members responding to the annual staff culture audit

Motivated and engaged staff are pivotal to excellent service delivery. Participation in the 'Great Places to Work' process, and the feedback from it has helped bdht to refine its understanding of the drivers of staff satisfaction. Achieving 1<sup>st</sup> and 2<sup>nd</sup> place in this process in 2016-17 and 2017-18 respectively is indicative of the success of our investment in employee specific and company-wide training.

This positive relationship with staff has been reflected in their level of engagement in the "Shaping Our Future" process aimed at reshaping processes, customer service and increasing efficiency.

### Rent arrears and income collection performance

The excellent current rent arrears and income collected as a percentage of the rent debit of 1.60% and 100.48% not only surpass the annual target but, if previous years' peer performance is replicated, this would represent top quartile performance.

This performance is in part due to the previous decision to establish a dedicated Financial Inclusion Team (FIT), with the express intention of mitigating the adverse impact, on bdht's tenants and its rental streams, of welfare reform.

During 2017 a rent arrears review was conducted to ensure we are fully utilising the new Housing Management System (HMS), adhering to arrears processes and adopting best possible where practicable. A review of the rent collection and arrears service was undertaken to ensure it is appropriate for the challenges posed by welfare reform and Universal Credit. A monthly detailed arrears service report is provided to the Executive Management Team (EMT) to ensure there is a high-level oversight of performance.

### **Void rent loss (VRL) as a % of debit raised**

VRL performance of 0.64% is in excess of the 2017-18 target of 0.60%. This is reflective of a consistently high turnover of properties during the first eight months of 2017-18. The VRL percentage fell in the following months as turnover slowed and re-let times reduced. To put this VRL of 0.64% into perspective this would place bdht in the top quartile in the 2016-17 benchmarking process.

### **Cost savings**

The Board approved a strategic response to dealing with the impact of the 1% rent reductions announcement. This included a measured Cost Reduction Programme which does not adversely impact on direct tenant services. The cost reduction target for 2017-18 of was achieved by implementing a range of measures including staff restructures, contract savings, spend to save initiatives, further internalisation of services and other efficiency measures. The most significant savings have been in payroll costs £80,000, the ground maintenance costs £70,000, painting programme £65,000 and responsive repairs £30,000.

Further savings targets of £175,000, £150,000 and £100,000 have been set for 2018-19, 2019-20 and 2020-21 respectively.

### **Mitigating the impact of Universal Credit and supporting customers into paid employment**

Over a number of years we have adopted a comprehensive strategy designed to mitigate the impact of welfare reforms on both bdht's income streams and its tenants. This assumes greater importance later in 2018 when bdht will be impacted by the full roll-out of Universal Credit (UC).

A number of measures have been adopted in preparation for this full roll-out, including the review of rent arrears and income collection, with the rent arrears of those in receipt of UC being £44,121 at the year end.

A restructure of teams, with no associated additional cost, has resulted in an increase in the number of rent officers and the formation of the new Driving Futures team.

Their focus is on engaging with and supporting tenants affected by welfare reform, those referred by the job centre and NEETS. This entails increasing levels of personal contact and supporting tenants to manage their finances and secure employment.

We are a key member of the Fusion Partnership which has secured funding specifically allocated to supporting individuals into paid employment and training. The aim is to have a sustainable approach to protecting customers and bdht from the impact of welfare reforms

The grants provided have enabled bdht to host two job coaches. In 2017-18, the first full year 31 people have been helped into paid employment compared to a target of 16.

### **Supporting the elderly and vulnerable**

Bdht manages a homeless prevention service on behalf of Bromsgrove District Council. During 2017-18, 89 households (target 60) were prevented from becoming homeless as a result of the various accommodation and advice services bdht provides; thus reducing the financial and

social costs associated with homelessness. The 76.95% of customers engaging with the Sheltered Living Service also exceeded the target of 73%.

### **% of tenants very satisfied with the overall service provided by bdht**

bdht has set itself a challenging target of 65% being “very satisfied” with the overall service provided and Net Promoter Score (NPS) of +40 by 2020. The 2017 Star Survey results indicate that progress is being made on building on existing impressive levels of satisfaction. Whilst overall satisfaction fell to 90% from 92% in 2013, those being “very satisfied” increased from 54% to 59% and the NPS increased from +26 to +37.

In order to enhance satisfaction further a review of what drives satisfaction has been undertaken. Responsive repairs is a critical driver of satisfaction, therefore, the single key focus of the Community Repairs Team will be maximising the number of repairs delivered “Right First Visit”. There will be emphasis in other areas such as how ASB is dealt with and the Home Ownership Team maintain regular liaison with both developers and occupiers during the defects period.

### **% of homes meeting the Decent Homes Standard (DHS)**

The 100% of homes complying with the DHS, reflects the substantial investment in properties since the stock transfer from BDC

To underpin the approach of maintaining the quality of our homes to above the DHS, we have a 30-year funded investment programme informed by stock condition reporting from QL (the integrated housing system).

### **% of homes with a valid Gas Safety Certificate**

As at 31<sup>st</sup> March 2018, an issue was identified in respect of the gas servicing position for 27 properties which had exceeded the gas servicing anniversary due date; hence 99.23% of homes having a valid certificate. Due to the immediate action taken all of these general needs properties had valid certificate in place within two weeks.

An internal review established the issue was due to human error and the regulator was informed of the issue and an action plan designed to mitigate against potential recurrence. An internal audit was undertaken to gain assurance that the actions arising from this review are working correctly and to identify any further enhancements. The regulator is to take no further action.

### **Benchmarking using HouseMark**

The use of benchmarking is an integral part of the bdht’s VFM approach and HouseMark is the vehicle for comparing the cost and quality of the services provided by bdht with the peer group (LSVTs within Central England with 3,000 to 10,000 units).

The last annual benchmarking exercise, in 2016-17, with summarised results provided below, revealed that a number of our cost and quality indicators are better than the average of our peers and bdht actively uses this tool to support business improvements and service reviews. Aside from encouraging performance already highlighted in respect of areas, such as current rent arrears, income collected and void rent loss as a percentage of debit raised,



other main areas are as follows:

	<b>Benchmark</b>	<b>2016/17</b>	<b>2015/16</b>	<b>2014/15</b>
Overheads/Turnover	11.00%	12.80%	12.70%	13.00%
Major & Cyclical Works	£1,548	£977	£1,333	£1,193
Responsive Repairs & Voids	£816	£918	£965	£969
Housing Management	£393	£393	£396	£375
<b>Total</b>	<b>£2,757</b>	<b>£2,288</b>	<b>£2,694</b>	<b>£2,537</b>

An extensive review has previously been undertaken by a Tenant Panel Enquiry Group (TPEG) with the specific remit of identifying measures to deliver fewer responsive repairs at lower cost whilst building on existing impressive levels of tenant satisfaction with the service of 88%.

Whilst back-office teams are considered to be lean, overhead costs will be controlled through a vacancy management strategy, the “Shaping Our Future” strategy and service reviews.

### **Plans for 2018-19**

The Board recognises the challenges it faces in delivering cost reductions in 2018 -19 combined with providing excellent services to tenants and delivering a good supply of new affordable homes. For 2018/19, and beyond, bdht will focus on VFM deliverables in the following key areas:

- Cost savings targets of £175,000, £150,000 and £100,000 for 2018-19, 2019-20 and 2020-21 respectively;
- Maximising the number of repairs delivered “Right First Visit”;
- Reduce volume of day-to-day repairs through improved processes as recommended by the Tenant Panel;
- Capture further business efficiencies from the QL Housing Management System
- Continued delivery of the ‘Shaping Our Future’ programme in support of achieving the cost reductions target set by Board;
- Continue to assist tenants into paid employment and support the elderly and vulnerable in line with bespoke metrics;
- Focus on transforming the Customer Relationship towards digital delivery with targets of reducing telephone calls by 50%, 50% of rent enquiries to be made online and 25% of repairs reported online;
- Invest £3m and £10m in the Home Improvements and Affordable Homes Programmes respectively.