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# WM HOUSING GROUP LIMITED AND ITS SUBSIDIARIES

# VfM EXTRACT FROM THE FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 MARCH 2019

**Value for Money (VfM)**

**Our approach to Value for Money**

Our approach helps to demonstrate how we maximise the potential of our income and assets whilst maintaining awareness of the financial risks and uncertainties facing our Group. Our approach to optimising VfM means we can maintain our credit rating and increase opportunities to attract funding for new homes and services.

To us, VfM is about being effective in how we plan, manage and operate our business within an ever changing operational and financial environment to ensure we make the best use of our resources to provide quality homes. We aim to optimise the potential of our Group with efficient services, and make the best use of our income whilst managing our costs.

VfM is driven by our Parent Board which continually reviews the efficiency of our work and ensures that we comply with regulatory requirements. Staff are encouraged to innovate to find more efficient ways of providing a better service. To achieve VfM in all we do, we have an integrated approach to:

* **Assets** – we are continually improving our understanding of the performance of our assets to ensure they are well maintained and deliver VfM whilst mitigating risks;
* **Customers** – we involve our customers in our decision making on service improvements to ensure they are continually receiving VfM for their rent and service charges;
* **Decision making** – all decisions that commit to significant growth in expenditure are approved by Board and supported by cost benefit appraisal;
* **Financial** – our budgets and financial plans include efficiency targets and service improvements;
* **Governance** – our Parent Board is responsible for agreeing budgets and establishing financial limits and it reviews the efficiency and effectiveness of our work;
* **Performance** – VfM metrics are embedded within our performance framework, and are reported monthly as an integral part of our management accounts. We continuously monitor and review our measures and benchmark our performance, including VfM, with our peers;
* **Staff** – we invest in our staff through training and on-going development;
* **Scrutiny –** our Local Stakeholder Boards oversee and drive scrutiny across the Group.

Over the last year, as part of our Business Transformation Programme, we have undertaken a series of Lean reviews to deliver a single operating model across the Group for:

* Income collection
* Voids and lettings
* Responsive repairs
* Care and supported housing
* Customer contact

As a direct result of these reviews, we expect to realise recurring cashable benefits in excess of £2.5m p.a. by 2022 (£1.0m in 2019/20, a further £1.1m in 2020/21 and a further £0.4m in 2021/22). These savings will be achieved as a result of actions identified during the first phase of our programme of Lean reviews and from the elimination of excess office capacity across the group.

These savings will be reinvested in our business in support of our social purpose by building new homes, regeneration of our more challenging estates and improving the standard of our homes when they are relet.

**Value for Money (VfM) (Continued)**

**VfM Metrics**

The Regulator of Social Housing (RSH) published its VfM Standard and accompanying Code of Practice on 9 March 2018, which became effective from 1 April 2018. The new Standard aims to encourage providers to achieve their objectives by making the best use of every pound and every property to deliver more new homes, make improvements to the existing housing stock, and provide better services to tenants without placing additional burden on the taxpayer. The RSH has set in place 7 VfM metrics that all providers are required to report against.

Targets in relation to the VfM metrics are set annually based on the approved budget for the year, ensuring that they reflect the strategic decisions taken by the Board. The metrics and targets are fully integrated into the Group’s performance framework alongside our other measures that monitor value for money and are reported to our Executive and Senior Leadership Teams monthly as part of our management accounts and to our Parent Board and Audit & Risk Committee quarterly.

It is important to understand the context behind each metric’s output. Where metrics are related a positive result could either be a high or low number. For example, a lower-geared provider with limited/no new social housing supply could be challenged to stretch its gearing further to deliver more new homes. A lower-geared provider which does deliver new social housing could indicate a very efficient provider using its cash generation to build new homes with limited borrowing.

To understand how our metrics are performing, we not only compare our results year-on-year and against target, but also against our peers. We work closely with a group of Registered Providers whose businesses are situated along the M6 corridor in the Midlands, and have compared our results with their published metrics for 2017/18. We consider that these RPs demonstrate both an appropriate geographical and operational correlation on which to base our peer comparisons.

Table 1 below shows these metrics for the Group for both the 2017/18 and 2018/19 financial years and the Group’s targets for 2019/20 based on the 2019 Board approved Financial Plan update and includes commentary regarding our performance relative to our selected peer group. For the purposes of the graphical peer comparison, the numerical references relate to: -

1. Accord Housing Association Limited
2. Bromford Housing Group Limited
3. Fortis Living Group
4. Midland Heart Limited
5. Orbit Group Limited
6. Walsall Housing Group Limited
7. Housing & Care 21

The historical composition of our group means that at group level we must account for non-cash adjustments on consolidation to reflect the fair value of assets at the time the owner joined the group. These adjustments affect the calculation of the VfM Metrics, and therefore hinder direct comparison with providers who do not have a group structure or fair value adjustments to account for.

Similarly, when the 2017/18 metrics were calculated, providers who were members of the SHPS pension scheme were still accounting for the scheme as if it were a defined benefit scheme (see note 8). This accounting treatment will be revised when the financial statements for the year ended 31 March 2019 are prepared, and the VfM metrics for 2018/19 should therefore become more comparable in this respect.

**Value for Money (VfM) (Continued)**

**VfM Metrics (Continued)**

**Table 1 – Group Metrics**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Metric** | **VfM cost chain** | **Metric description** | **Positive indicator (aim to maximise/minimise)** | **2016/17** | **2017/18** | **2017/18**  **(under- lying)1** | **2018/19**  **Target** | **2018/19**  **Actual** | **2019/20**  **Target** |
| 1 | Efficiency | Reinvestment | Either | 4.06% | 3.22% | 3.22% | 6.87% | 5.11% | 8.94% |
| 2a | Effectiveness | New supply (social) | Maximise | 1.31% | 0.54% | 0.54% | 1.06% | 1.22% | 1.44% |
| 2b | Effectiveness | New supply (non-social) | Either | 0.04% | 0.09% | 0.09% | 0.20% | 0.20% | 0.15% |
| 3 | Efficiency | Gearing | Either | 41.23% | 46.07% | 46.07% | 46.49% | 44.33% | 46.67% |
| 4 | Efficiency | EBITDA (MRI) Interest Cover | Maximise | 146.33% | 50.95% | 178.87% | 183.35% | 184.19% | 184.62% |
| 5 | Economy | Social Housing Cost per unit | Minimise | £3,553 | £3,244 | £3,244 | £3,249 | £3,327 | £3,406 |
| 6a | Efficiency | Operating margin (social housing) | Maximise | 29.89% | 26.71% | 26.71% | 29.09% | 26.89% | 23.76% |
| 6b | Efficiency | Operating margin (overall) | Maximise | 29.91% | 26.88% | 26.88% | 27.91% | 28.60% | 24.70% |
| 7 | Efficiency | Return on capital employed | Maximise | 3.61% | 3.45% | 3.45% | 3.50% | 3.76% | 3.44% |

1 Excluding debt refinancing breakage costs to measure the underlying performance

Key commentary in respect of movements in these metrics between 2017/18 and 2018/19 and in respect of the 2019/20 targets are shown in Table 2 below.

**Value for Money (VfM) (Continued)**

**Table 2 - VfM Metric Comparisons**

|  |  |
| --- | --- |
|  | The increasing size of our development programme has improved our Reinvestment metric for 2018/19 compared to 2017/18, with development spend of £40.3m in 2018/19 compared to £22.7m in 2017/18, although our spend in 2018/19 was less than our target of £64.4m due to slippage in the spend profile of our affordable development programme. However, we still have a much smaller development programme than some of our peer comparator organisations, and this is evident from our positioning on the graph.  Over the next few years, our development programme will continue to increase, building 2,200 new rented homes over the next 4 years, but our metric is still likely to be at the lower end of the scale compared to our peers as we seek to balance investment in new homes with additional expenditure to improve the quality of homes and services that we offer to our existing customers. |
|  | Our New Supply Delivered (Social housing units) metric for 2018/19 is higher than both 2017/18 and the target for 2018/19, due to the completion of affordable units that slipped from 2017/18 to 2018/19 and the increase in our development programme. 340 units were completed in 2018/19, compared to a target of 296 units for the year and completion of 151 units in 2017/18.  As explained above for Metric 1, over the next few years, our development programme will continue to increase, but our metric is still likely to be at the lower end of the scale compared to our peers as we seek to balance investment in new homes with additional expenditure to improve the quality of homes and services that we offer to our existing customers. |

**Value for Money (VfM) (Continued)**

**Table 2 - VfM Metric Comparisons (Continued)**

|  |  |
| --- | --- |
|  | Our metric for New Supply Delivered (Non social housing units) for 2018/19 is higher than 2017/18 and meets the target that we set for 2018/19, reflecting both the increasing size of our build for sale programme and the delivery of units in 2018/19 via our joint venture with Wates.  Despite the expansion of our build for sale programme, our budgeted/target metric for 2019/20 is slightly lower than both the target and actual results for 2018/19, as the figures for 2018/19 included the WM Housing Group share of units being produced by the JV.  Compared to the overall scale of our business our build for sale development programme remains relatively small compared to others in our peer group who have a higher risk appetite and more aggressive build for sale programme. We are comfortable that our aspirations in this area are compatible with our strategic objectives and risk appetite. |
|  | Our Gearing metric has fallen in 2018/19 compared to 2017/18 due to an increase in the level of cash balances held at the end of the year, and reflects both the scale of our development programme and the historical nature of our business, which has combined lower geared traditional housing associations with higher geared LSVT’s. At 31 March 2018, we had £25m of general needs rented and low cost home ownership properties under construction, which have been brought into management during the year and have started to bring cash back into the business by means of rental receipts and the sale of shared ownership initial tranches. Our budgeted/target metric for 2019/20 is higher than both the target and actual results for 2018/19 as the Group’s cash balances will be reduced during the year to support our increased investment in building new homes.  The impact of historical business combinations makes this a more challenging metric to compare, and needs to be assessed in conjunction with the scale of New Supply Delivered. |

**Value for Money (VfM) (Continued)**

**Table 2 - VfM Metric Comparisons (Continued)**

|  |  |
| --- | --- |
|  | Our EBITDA MRI Interest Cover metric for 2018/19 is higher than both 2017/18 and our target for 2018/19, and is broadly comparable with that of the majority of our peer group results for 2017/18. Surpluses achieved on shared ownership initial tranche sales are higher than budgeted and the target did not include an accounting adjustment of £2.5m being the fair value of gifted assets on our regeneration schemes or surpluses on the sale of housing properties that were achieved in the year.  Our budgeted/target metric for 2019/20 is slightly higher than the target for 2018/19, but lower than the actual results for the year, reflecting Board decisions to include budgets totalling £4m for transformation, branding and amalgamation and a contingency to cushion against the possible impacts of the roll-out of Universal Credit and Brexit, which are partially offset by the delivery of transformation savings. |
|  | Our Headline Social Housing Cost per Unit for 2018/19 is higher than both 2017/18 and our target for 2018/19 and remains broadly comparable with that of our peer group results for 2017/18. The increase is primarily due to pension service costs in excess of employer contributions for the defined benefits pension schemes and the impact of slippage of new development units in to the next financial year.  Our budgeted/target metric for 2019/20 is higher than both the target and actual results for 2018/19, reflecting Board decisions to include budgets totalling £4m for transformation, branding and amalgamation and a contingency to cushion against the possible impacts of the roll-out of Universal Credit and Brexit, which have been partly offset by the increase in the number of units owned and managed. |

**Value for Money (VfM) (Continued)**

**Table 2 - VfM Metric Comparisons (Continued)**

|  |  |
| --- | --- |
|  | Our Operating Margin on Social Housing Lettings for 2018/19 is higher than 2017/18 but lower than the target for 2018/19 due to reductions in rental income compared to budget as a result of development handover delays, the impact of void rent loss and a £2.1m impairment charge in 2018/19 that was not included in the budget or the target margin for the year.  Our margin remains lower than that of most of our peer group. This is due to a combination of our average rents being lower than many of our peer comparators, the impact of non-cash fair value adjustments required on consolidation and the Board’s decision to focus on our social purpose and make a difference to our customers and communities rather than on increasing margins.  Our budgeted/target Operating Margin metrics for both Social Housing Lettings and Overall for 2019/20 are lower than both the target and the actual results for 2018/19, reflecting Board decisions to include budgets totalling £4m for transformation, branding and amalgamation and a contingency to cushion against the possible impacts of the roll-out of Universal Credit and Brexit. |
|  | Our Operating Margin Overall for 2018/19 is higher than both 2017/18 and the target for 2018/19, with the negative impacts of the Social Housing Lettings Operating Margin being offset by effect of surpluses achieved on shared ownership initial tranche sales and the fair value of gifted assets that were not included in the 2018/19 target.  This margin includes the impact of Other Social Housing and Non-Social Housing activities, which include the positive impact of shared ownership initial tranche sales, the fair value of gifted assets on our regeneration schemes and surplus achieved on our build for sale properties, and compares more favourably to that of our peer group than our Operating Margin (Social Housing Lettings). |

**Value for Money (VfM) (Continued)**

**Table 2 - VfM Metric Comparisons (Continued)**

|  |  |
| --- | --- |
|  | Our Return on Capital Employed for 2018/19 is higher than both 2017/18 and the target for 2018/19, due primarily to the effect of shared ownership initial tranche sales, the fair value of gifted assets on our regeneration schemes and the profit distribution of £0.5m from our development joint venture partnership with Wates.  Our budgeted/target metric for 2019/20 is lower than both the target and forecast for 2018/19, reflecting Board decisions to include budgets totalling £4m for transformation, branding and amalgamation and a contingency to cushion against the possible impacts of the roll-out of Universal Credit and Brexit, which are partially offset by final profit distribution from our joint venture with Wates.  Our Return on Capital Employed remains lower than the majority of our peer group, primarily due to the high level of investment that we have made since 2012 to improve the quality of our existing homes and to regenerate some of our more challenging estates and communities, which has increased the cost of total assets less current liabilities on which this metric is calculated. |

**Value for Money (VfM) (Continued)**

**Plans for Improvement**

| **Plans for 2018/19** | **Outcomes Achieved in 2018/19** | **Plans for 2019/20** |
| --- | --- | --- |
| Manage our Business Transformation Programme via our Service Improvement Programme Board to ensure the most efficient use of our resources to deliver effective project outcomes. | Our Service Improvement Programme Board (SIPB) has operated throughout 2018/19, and is chaired by the Group Chief Executive (who is also a member of the Group Board).  Our programme and project management has significantly improved during the year, with robust business cases being prepared for approval and transparent allocation of resources. | We will continue to closely manage our Business Transformation Programme and major projects via SIPB throughout the year.  This will be supplemented by the roll-out of Information Centres to manage performance across the group. |
| Restructure the Senior Housing Operations team to reflect the implementation of a single operating model across the group. | This was achieved in September 2018, with legal entity Managing Directors being replaced with group-wide Directors of service. | The restructuring of operational teams will continue throughout 2019/20 as we continue to roll out a single operating model across the group. |
| Lean reviews to deliver a single operating model across the Group completed for:   * Income collection * Voids and lettings * Responsive repairs * Care and supported housing * Customer contact | The initial programme of lean reviews have been completed, and recurring cashable benefits of £2.5m have so far been identified. | Action plans have been developed for each lean review, and implementation of these plans will continue throughout 2019/20. Further Lean reviews are programmed for 2019/20, initially for Asset management and neighbourhood services with a roll out across all services over the remainder of 2019/20 and 2020/21.  Weekly updates are provided to members of the SIPB, and progress is formally monitored at SIPB meetings. |

**Value for Money (VfM) (Continued)**

**Plans for Improvement (Continued)**

|  |  |  |
| --- | --- | --- |
| **Plans for 2018/19** | **Outcomes Achieved in 2018/19** | **Plans for 2019/20** |
| Implement the Service Charge Module of our housing management system in order to help us to understand and manage both income and costs associated with every rented home in our portfolio | The Service Charge Module was implemented in November 2018, as planned.  The next phase of the project will be to utilise the data so that we fully understand the cost of the services that we provide and the level of recovery associated with those costs. | Work will continue throughout 2019/20 to refine the cost data held in the system, set and monitor service charge budgets using the system. |
| Continue to support customers with opportunities to move into work. | Each year we provide students and unemployed customers with the opportunity to become part of our team to gain valuable work experience.  We also provide an internship scheme and apprenticeships. |  |