CITIZEN HOUSING GROUP LIMITED
VFM METRICS EXPLAINED

CITIZEN

VfM Metrics

In April 2018 the Regulator of Social Housing (RSH) introduced a new Value for Money (VfM) Standard and accompanying Code of Practice, setting out what social housing providers should be doing to ensure that they achieve value for money, and how they should report this. The Standard requires social housing providers to clearly set out their strategic objectives, which must be aligned to the overall purpose of the organisation. This ensures that, as an organisation, we have a clear purpose, and that all of the things that we are trying to do are consistent with that purpose and will help us to achieve it.

The Standard also introduced a set of defined calculations (which are referred to in the financial statements as VfM metrics), which we are required to calculate and publish annually. We do this by including them in our financial statements and by publishing them on our website. The definitions of the calculations are very precise, and link to the Financial Viability Assessment that all social housing providers (called 'Providers' in this explanation) are required to complete annually and submit to the Regulator of Social Housing. This ensures that all social housing providers calculate their VfM Metrics in the same way, so that they can be compared with each other.

Each year in our financial statements, we compare our VfM Metric calculations with a number of other social housing providers, and include some commentary to help to explain why our results (which might appear to be either good or bad) are different. Very often, the differences are due to the objectives that we have set (for example, the number of new homes we develop each year), or things that are related to our history and the way that the group has formed over the years.

At the start of each year, here at Citizen we set 'targets' for the VfM Metrics, based on the budget that has been set for the year ahead. So that we can monitor our progress throughout the year, each month we produce management accounts to inform the Board, Executive Leadership Team and Senior leadership Team of our financial performance for both the year to date and our updated forecasts for the year as a whole. We recalculate the VfM Metrics each month, based on the updated forecast for the year, so that we can track our performance each month against the VfM targets for the year.

Many of the VfM Metrics are interlinked, and so interpreting them is not always an easy task. To help with this, Citizen have produced the following simplified descriptions of each calculation, to help explain what each one means and how they relate to each other.

VfM Metrics Explained

Metric	Metric description	Commentary
1	Reinvestment	This calculation compares the amount spent in the year on both building new homes for rent and shared ownership and on improving existing homes for rent, plus any interest incurred on loan funding whilst the homes were being built or improved, with the total cost (or valuation) of housing properties that the Provider owns as stated on the balance sheet (Statement of Financial Position). This means that two social housing providers who both spent the same on building new homes and improving existing homes could calculate very different results for this Metric, depending on the cost or valuation of the housing properties that they own. A smaller Provider (with a lower cost of housing properties) would calculate a much higher Metric than a much larger Provider (with a proportionately higher cost of housing properties), which is why it is so important to select the group of Providers to compare with that are similar to you or operate in the same area. Comparison is all about understanding how we all differ, not about selecting a comparison group that will make us look better than others.
2a	New supply (social)	This calculation compares the number of new social rented and leasehold homes that have been built during the year with the total number of social rented and leasehold homes owned by the Provider at the end of the year. In much the same way as the Reinvestment metric calculation described above, for two social housing providers who both built the same number of new social rented and leasehold homes during the year, a smaller Provider (owning fewer social rented and leasehold properties) would calculate a much higher Metric than a much larger Provider (owning more social rented and leasehold properties).
2b	New supply (non-social)	This calculation compares the number of new rented and leasehold homes that are not let on social housing rents (for example, market rent properties) that have been built during the year and homes that are built for outright sale with the total number of both social and non-social rented and leasehold homes owned by the Provider at the end of the year. It aims to give an indication of the extent to which a Provider has ‘diversified’ (or moved away from its social housing aims) in terms of the number of new homes that it builds. A low percentage would indicate that a Provider is primarily focussed on its social housing business, whereas a higher percentage would indicate that a Provider has expanded into different markets, and this may be an indication that the risks that they are exposed to are higher.

Metric	Metric description	Commentary
3	Gearing	When we measure 'Gearing', this is a way of comparing the amount of loans or 'mortgages' that a Provider has, less any cash that they have in the bank, with the total cost or valuation of housing properties that they own as stated on the balance sheet (Statement of Financial Position). This is one of the Metrics where it is important to understand the context behind the calculation, and high or low results could be either positive or negative results, depending on the situation of the Provider. For example, a lower-geared Provider building very few (or even no) new social housing properties could be challenged to borrow more money and stretch its gearing further to build more new homes. A lower-geared provider which does build new social housing properties could indicate a very efficient provider using the cash that it generates to build new homes without needing to borrow significant amount of money to do so.
4	EBITDA (MRI) Interest Cover	The acronym EBITDA (MRI) stands for 'Earnings Before Interest, Taxation, Depreciation and Amortisation, Major Repairs Included'. To calculate this metric, we take the surplus that the Provider generates for the year, and then adjust it by taking off any grant receipts that have been included in that surplus (whether as income, or because they have been amortised/depreciated over the life of the asset that they relate to), as well as any surpluses that have been made on the sale of housing properties and fixed assets, and any major repairs to the Provider's properties that have been treated as capital spend rather than revenue spend. We then add back any interest that we have received and any housing property or fixed asset depreciation that has been charged in arriving at the surplus. The adjusted surplus is then compared to the interest that the Provider has paid in the year (whether or not it has been capitalised as part of the cost of building new homes). The metric is designed to demonstrate how many times the interest that is paid is covered by the surplus that is made, and can show how sensitive the Provider's finances are to things like changes in interest rates for those loans that they hold that are subject to variable interest rates.

Metric	Metric description	Commentary
5	Social Housing Cost per unit	This calculation shows the costs of managing and maintaining a Provider's social housing rented and shared ownership homes divided by the number of homes that they own and/or manage at the end of the year. It can be affected by the amount that they spend maintaining and improving their social housing properties during the year, and how much they spend on things such as the cost of providing services (i.e. service charge costs) and the cost of providing support services in some of their specialised schemes. In the same way as the Gearing calculation, a high social housing cost per unit could be either a good thing or a bad thing, depending on the circumstances. For example, if a Provider was spending a lot of money improving their existing homes, this would increase the social housing cost per unit, but could be a very positive thing for existing residents. However, if they were simply inefficient in the way that they operated, leading to relatively high management costs, this could be a negative indicator.
6a	Operating margin (social housing)	This margin compares the surplus that a Provider makes on their social housing lettings activities with the turnover (i.e. rent and service charges) that we receive in respect of those activities. The margin will be impacted by the amount that they spend managing and providing services to their homes, and by the revenue cost of repairs (but not the capital cost of improvements). It can also be affected by the level of bad debts that they incur during a year, the amount charged for depreciation of their social housing properties and fixed assets in the year and any impairment of housing properties that is recognised in the year.
6b	Operating margin (overall)	The Operating Margin Overall includes the Operating Margin on Social Housing Lettings explained above, as well as any Other Social Housing Activities that the Provider undertakes (such as the sale of the initial tranche of Shared Ownership properties and the amount of community services that are provided) and any Non-Social Activities that the Provider undertakes (such as the sale of homes specifically built to sell on the open market and generate a profit, nursing homes, student accommodation, etc). If the Other Social Housing Activities and Non-Social Activities generate margins that are higher than the margin on Social Housing Lettings, the Operating Margin Overall will be higher than the Operating Margin on Social Housing Lettings. However, if the Other Social Housing Activities and Non-Social Activities generate margins that are lower than the margin on Social Housing Lettings, even if they still generate a surplus, the Operating Margin Overall will be lower than the Operating Margin on Social Housing Lettings.

Metric	Metric description	Commentary
7	Return on capital employed	This calculation shows the overall surplus that the Provider makes on their activities, plus their share of any surplus made on Joint Venture activities as a proportion of the capital employed to operate their business (i.e. total assets less current liabilities). The level of the surplus achieved and the strength of the balance sheet of the Provider will impact on this Metric. If two providers of a similar size were to achieve the same surplus, the Return on Capital Employed will depend on the strength of the balance sheet. The Provider with a lower level of total assets less current liabilities would demonstrate a higher Return on Capital Employed than the Provider with a higher level of total assets less current liabilities.