Value for money (VfM) Appendix 3

The Regulator of Social Housing (RSH) required that as a Registered Provider we include seven key financial metrics in this report. These are set out below. Derby Homes as an ALMO RP will look a little different in terms of results against 'standard' RPs as our business model is fundamentally different as we are mostly a manager (of Council housing) and not a standard RP landlord model. Comparison against last year's benchmarks is now possible and is included in brackets as follows:
Q1= upper quartile, Q4 = bottom quartile
m = median all RPs over 1,000 stock – RSH Global Accounts annex 2019.

Metric 1 – Reinvestment %
Good = higher

	£m
+ Development of new properties	0.242
+ Newly built properties acquired	-
+ Works to existing properties	-
+ Capitalised interest	-
+ Schemes completed	-
Total	**0.242**
Divided by	
+Tangible fixed assets: Housing properties at cost	6,902
+Tangible fixed assets: Housing properties at valuation	-
Total	**6.902**
Result Q4	**3.5%**

This is a measure of capital investment in existing and new homes against the existing asset base value. The median was 6.2% for 2019 and our result is in the lower quartile (below 4.2%) The current priority is for most new homes to be owned by the Council in order to utilise right to buy receipt funds available.

Metric 2a: New Supply (Social Housing Units) %
Good = higher

	Units
+ Total social units developed or acquired in year	2
+ Social leasehold units acquired in year	0
Total	**2**
Divided by	
+ Total social housing units owned	94
+ Social leasehold units owned	0
Total	**94**
Result Q2	**2.1%**

This result puts us above the median of 1.4% but below the top quartile of 2.5% on a very small base.

Value for money (VfM) cont

This year, Derby City Council has continued to have a need to invest its Right to Buy receipts quickly in order to retain them under the restrictive time period on their use. As a result, Derby Homes has not been investing in 'standard' social housing directly but has bought two flats using Homes England funding that are being leased back to the Council at Affordable Rent levels along with one further house – bought without any funding - at Intermediate Rent. All of these properties are being used to deliver the Looked After Children scheme. The two Affordable Rent properties are therefore the only ones added to our stock of social housing this year, falling short of our annual target of 5% as expected this year for the reasons outlined above.

Metric 2b: New Supply (Non - Social Housing Units) %

	Units
+ Total non - social units owned (acquired in year)	1
+ Non – social leasehold units owned (acquired in year)	0
+ New outright sale units developed or acquired	0
Total	**1**
Divided by	
+ Total social housing units owned	94
+ Total non-social rental housing units owned	6
+ Social leasehold units owned	0
+ Non-social leasehold units owned	0
Total	**100**
Result Q1	**1%**

The median result is 0%. The Board approved the principle of Intermediate Rent housing this year where no grant funding is available. The first house of this type has been purchased as mentioned at 2a above.

Metric 3 – Gearing % Good = lower

	£m
+ Short term loans	0.056
+ Long term loans	2.918
- Cash & cash equivalents	(15.906)
+ Amounts owed to group undertakings	3.460
+ Finance lease obligations	-
Total	**(9.472)**
Divided by	
+ Tangible fixed assets: Housing properties at cost	6.902
+ Tangible fixed assets: Housing properties at valuation	-
Total	**6.902**
Result Q1	(137%)

This is a measure that looks odd as we remain cash rich and therefore could invest in new homes should an opportunity arise that helps the Council more than direct investment in Council housing – as happened with the Looked After Children initiative. At present these opportunities are limited but it is expected that there could be some opportunities soon. It does support the Board's strategy and shows that Derby Homes does have – as planned - the financial capacity to deliver more homes. The comparison against a sector median of 43.4% places Derby Homes in Quartile 1.

Value for money (VfM) cont.

Metric 4 – Earnings before interest, tax, depreciation, amortisation, major repairs (EBITDA) Interest Cover % Good = higher

	£m	£m exc LGPS
+ Operating (deficit) / surplus	(1.128)	2.294
-Gain / loss on disposal of fixed assets	-	-
-Amortised grants	0.032	0.032
-Government grants taken to income	-	-
+ Interest receivable	-	-
-Capitalised major repairs expenditure for the period	-	-
+ Total depreciation charge for period	0.352	0.352
Total	**(0.744)**	**2.678**
Divided by		
+ Interest capitalised	-	-
+ Interest payable and financing costs	0.160	0.160
Total	**0.160**	**0.160**
Result Q4/Q1	**(465%)**	**1673%**

This result is another that looks strange as it includes all operating surplus (derived mainly from management and maintenance of Council housing), plus pension adjustments against the interest payable on loans on a small number of homes. Excluding the volatile pension fund adjustments strengthens the ratio and is more representative of the underlying position. Any comparison against the sector median of 184% and therefore our quartile 4 ranking or quartile 1 ranking post LGPS adjustments is potentially misleading.

Metric 5 – headline social housing cost per unit
Good = lower

Management costs
+service charge costs
+planned maintenance costs
+capitalised major repairs expenditure
+development services
+ other social housing activities

+routine maintenance costs
+major repairs expenditure
+other costs of social housing letting
+community /neighbourhood services
+ other charges for support services

= all housing costs

For Derby Homes, this is calculated by deducting the "Activities other than Social Housing" costs of £5.327m and depreciation of £0.352m from total Operating Costs of £47.943m = £42.264m.

Divided by

Total social housing units owned or managed= 13,584

Result = £3,111 (Q1, median £3,690)
It indicates that our overall costs are just under £60 a week although some costs are missing (e.g. some major works on Council housing where costs are directly incurred by the Council and not through Derby Homes).

Value for money (VfM) cont.

Metric 6a – Operating Margin (social housing lettings) %
Good = higher

	£m
+ Operating surplus (social housing lettings)	0.144
Divided by	
+ Turnover from social housing lettings	0.472
Result Q2	30%

Metric 6b: Operating Margin (Overall) %

	£m	**Exc LGPS £m**
+ Operating (deficit) / surplus (overall)	(1.128)	2.294
- Gain / (loss) on disposal of fixed assets (housing)	-	-
Total	(1.128)	2.294
Divided by		
Turnover (overall)	46.815	46.815
Result Q4	(2.4%)	4.9%

Measure A shows that the Board is now making a significant but normal level of operational surplus on its own properties – this is partly due to the nature of low repair costs in the early years but also because this measure excludes the cost of borrowing (£0.160m). If that is included the position is a small loss as expected and planned. Compared to median of 25.8%, the 30% represents quartile 2 performance.

Measure B shows the overall formal operational surplus inclusive of additional pension fund charges for the year – an alternative measure excluding those is also shown and indicates a more reasonable assessment of the current position. The comparator here does not work as Derby Homes is mainly a managing agent for the Council stock and works at a very low margin on that work rather than at a 'standard' 25% or so for 'normal' RP lettings.

Metric 7: Return on Capital Employed (ROCE)

	£m	Exc LGPS £m
Operating (deficit) / surplus (overall)	(1.128)	2.294
Share of operating surplus / (deficit) in joint ventures or associates	-	-
Total	**(1.128)**	**2.294**
Divided by		
Total assets less current liabilities	25.190	25.190
Result	(4.5%)	9.1%
Comparator Quartile (based on median of 3.8%)	4	1

ROCE also makes little sense for our business model where our income stems mainly from management of the Council's properties rather than our own. We therefore inevitably have similar variability in comparators as for metric 4 above.