

VALUE FOR MONEY ANNUAL REPORT 2018

Report of the Finance Director & Company Secretary

1. SUMMARY

- 1.1 The Operational Board monitors Derby Homes' performance as part of its functions. Value for Money is the balance of performance/outcomes with costs, and this report attempts to bring these issues to the Board's attention.
- 1.2 A series of reports are produced each year and the Board is invited to comment on them.
- 1.3 The Regulator of Social Housing (RSH) is now requiring all Registered Providers (RPs) of Social Housing to include Value for Money statements in a particular form to assist with comparability. Unfortunately, Derby Homes, as a slightly 'different from the norm' form of RP, has some rather strange (both positive and negative) figures which make comparisons difficult.
- 1.4 The Value for Money strategy 2016-2019 is attached for reference.
- 1.5 The government publishes data on the global accounts and unit costs of Registered Providers. The data here is for 2017 and allows for a comparison between this and our costs overall.
<https://www.gov.uk/government/publications/2017-global-accounts-of-private-registered-providers>

2. RECOMMENDATION

That the Operational Board considers the attached Value for Money statement and Housemark reports and offers any comments that it feels appropriate.

3. MATTER FOR CONSIDERATION

- 3.1 The Operational Board is charged with monitoring the performance of Derby Homes. As part of that function, it is helpful for the relative Value for Money of those services to be taken into account. This report is an annual update on this issue.
- 3.2 This is the third such report on Value for Money (VfM). Each year, the Derby Homes Board publishes its accounts. The Regulator of Social Housing (RSH) (formerly the Homes and Communities Agency (HCA)) requires Registered Providers (RPs) to include in those accounts a Value for Money statement. The format of this has changed this year to report of seven key measures of performance, and this year's Value for Money statement is attached at Appendix 1.

3.3 In order to understand these seven measures and their level of relevance to Derby Homes, a further brief description of each one is set out below:

3.3.1 **Reinvestment – result 17/18 8.5%**

Likely to be a useful measure but highly volatile due to the joint strategy with the Council – currently relatively high as a result of spending at Wood Road but likely to fall sharply over next couple of years before perhaps increasing sharply if funding becomes available.

3.3.2 **New supply delivered 0%**

As no schemes completed in 2017/18 (Wood Road completes this year) this result is poor but will increase markedly this year to over 7% before probably falling back next year.

3.3.3 **Gearing -63%**

This measure is next to useless in our context. While it is very good (lower is better) it is essentially a measure of liquidity and cannot be used without the context of our arrangements with the Council which provide more than adequate liquidity in our finances. We have no external bank funding and hence no financial covenants to worry about.

3.3.4 **Earnings Before Interest Tax Depreciation and Amortisation (EBITDA)**

This is a commonly compared ratio amongst RPs but again is unsuitable in our context. The headline figure is -625% but if Local Government Pension Scheme (LGPS) issues are excluded the result becomes +1422%. This huge volatility is due to the scale of our non-rental income and makes this measure highly unsuitable for us

3.3.5 **Social housing cost per unit £2,642 (£2,398 excluding pension adjustments)**

This is a more useful comparator with others and is relatively straightforward and fairly useful (costs are just over £50 a week compared to average rents of £77 a week: but costs exclude the cost of the home – so £27 a week available to fund borrowing which is not sufficient to support the borrowing needed). This is therefore a much more useful measure.

3.3.6 **Operating Margin A lettings only (38%) B overall (-3.9% / 4.8%)**

On A lettings 38% - this is relatively high as many of our own (90) properties are relatively new and have lower maintenance costs at present. The scale of our own operations is very small though and therefore not a key measure for us.

On B overall – this is clearly far more relevant but again we have a difficulty with the treatment of pensions contributions compared to accounting requirements. The overall official measure is that we are operating at a loss on this measure but if pension adjustments are removed this becomes a surplus.

3.3.7 **Return on Capital Employed (ROCE) -11.3%/+13.9%**

Again the central issue is the volatility between the pre and post pension fund adjustment positions. The amount of capital employed is also very low by comparison with our income and therefore further volatility is likely.

Conclusions on the new measures:

3.3.8 Whilst it is understandable that the RSH will want to be able to compare RPs relative financial performance, Derby Homes as an ALMO owned by the Council

has a fundamentally different business model and most of these measures are not that helpful to understanding of our value for money for tenants or the Council. The number of new homes completed and the surplus being generated to support those new homes are the key measures that we monitor and try to control along with generating sufficient surplus to keep the Council satisfied that we are helping to prevent homelessness and tenants satisfied that their rent is value for money and that Derby Homes provides a reasonable service overall.

Overall cost levels are worth monitoring too as these need to be controlled to allow sufficient borrowing to support new homes.

Housemark independent benchmarking

- 3.4 A second source of VfM information is our annual Housemark report - a summary presentation of which is attached at Appendix 2.
- 3.4.1 This report is helpful in breaking down information and comparing with a group of similar RPs and ALMOs. The overall results are very positive for Derby Homes as usual. We continue to monitor against a consistent group of similar sized organisations.
- 3.4.2 The report shows a number of positive outcomes including relatively high levels of tenant satisfaction overall, with views being listened to, with value for money of rent and ASB handling. It also shows that our level of staff turnover is about 2/3rds of the average.
- 3.4.3 It further shows that maintenance costs are lower quartile both for day to day and major repairs, while most other areas are around median costs. It is noticeable that the increased investment in income staff shows as above average costs – this strategy should help though to prevent further deterioration in arrears levels in later years as Universal Credit is rolled out.

Registered Providers unit cost analysis

- 3.5 The government published figures for the 2017 year for overall costs per home managed of all major (over 1,000 owned properties) Registered Providers (RPs). A measure that we have used before is the overall cost excluding Major repairs as these are volatile and represent long term investment in components rather than day to day costs. On this basis the figures for RPs are:

RP upper quartile	2016/17	£ 2,440 per home
RP median	2016/17	£ 2,650 per home
RP mean cost	2016/17	£ 2,950 per home
RP lower quartile	2016/17	£ 3,370 per home

To be a fair comparison we need costs of both Derby Homes and the Council through the Housing Revenue Account (HRA) and therefore can compare with the 2018/19 budgeted figures for the HRA.

Derby's HRA costs excluding Major repairs = **£2,563 per home**

This means that our costs for 18/19 are 5% above the upper quartile costs for two years before (roughly the level of inflation). Compared to the median cost plus 5% for inflation our costs are about £220/home (8%) lower than RP national average.

4. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

The low costs of both Derby Homes and the Council mean that the average rent remains low and services can be maintained for tenants.

The areas listed below have no implications directly arising from this report:

Consultation
Legal and Confidentiality
Council
Personnel
Environmental
Equalities Impact Assessment
Health & Safety
Risk
Policy Review

If Board Members or others would like to discuss this report ahead of the meeting please contact:

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Background Information:	Regulatory requirements on VfM statements
Supporting Information:	Appendix 1: Value for Money statement 2017/18
	Appendix 2: Housemark report 2016/17
	Appendix 3: Value for money strategy 2016/19