Appendix 1

Value for money (VfM)

The Regulator of Social Housing (RSH) has implemented a new set of requirements with regard to VfM reporting, commencing from 1st April 2018. This means that as a Registered Provider we are required to include seven key financial metrics in this report. These are set out below. At this stage there is no simple way to benchmark these results against others as this is the first year of operation. Derby Homes as an ALMO RP may look a little different in terms of results against 'standard' RPs once such benchmarking is possible in any case.

Metric 1 – Reinvestment %
Good = higher

Development of New Properties	= £0.558m	
Works to existing properties	= £0.0m	
Capitalised Interest	= £0.0m	
Total	= £0.558m	
Divided by		
Tangible Fixed Assets (note 9) (housing at cost period end)	= £6.58m	**Result = 8.5%**

This is a measure of spending on new homes compared to our previous spending – while it is quite high this year (as a result of Wood Road) this reflects our low base of only 90 homes at present.

Metric 2 – new supply delivered %
Good = higher

A Social housing (includes affordable housing)		
New supply	0	
Divided by		
Total at period end	85	**Result = 0%**
B Non social housing		
New supply	0	
Divided by		
Total all stock at period end	90	**Result = 0%**

As Wood Road is not actually complete there have been no actual completions this year, reflecting the strategy of the Council to direct most land for development to the HRA.

Metric 3 – Gearing % Good = lower

Long term loans	£3.027m	
- cash and cash equivalents	-£8.138m	
+amounts owed to group undertakings	£0.970m	
+finance lease obligations	£0.000m	
Total	-£4.141m	
Divided by		
Housing Properties at Cost	£6.58m	**Result = - 63%**

Value for money (VfM) cont

This is a measure that might look odd as we are currently cash rich and therefore have cash to invest in new homes should an opportunity arise that helps the Council more than direct investment in Council housing. At present these opportunities are limited but it is expected that there could be some opportunities in the near future. It does support the Board's strategy and shows that Derby Homes does have – as planned - the financial capacity to deliver more homes.

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

	Headline	excluding LGPS
Operating Surplus overall	-£1.507m	+ £1.851m
- gain on disposal of assets	£0.000m	
- amortised grants	£0.029m	
- grant taken to income	£0.000m	
+ interest receivable /other income	£0.000m	
- capitalised major repairs	£0.000m	
+ total depreciation charge	£0.452m	
Total	-£1.026m	+ £2.332m
Divided by		
Capitalised interest	£0.000m	
+ Interest payable and financing costs	£0.164m	
Total	£0.164m	+ £0.164m
Result	**- 625%**	**+1422%**

This result is one that looks very strange as it includes all operating surplus (derived mainly from management and maintenance of Council housing) and the interest payable relates to loans on a small number of homes making our interest cover look extremely high/good (excluding pension fund adjustments) – however once these are included the official result becomes very poor as a result of a headline loss exacerbated by a very small loan debt. This measure is extremely volatile as a result as demonstrated above.

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

Management costs
+service charge costs
+routine maintenance costs
+planned maintenance costs
+major repairs expenditure
+capitalised major repairs expenditure
+other costs of social housing letting
+development services
+community /neighbourhood services
+ other social housing activities
+ other charges for support services
= all housing costs

Value for money (VfM) cont

For Derby Homes, this is calculated by deducting the "Activities other than Social Housing" costs of £3.306m, depreciation of £0.452m and interest costs £0.164m from total Operating Costs of £40.339m = £36.417m.

Divided by

Total social housing units owned or managed = 13,786 **Result = £2,642**

It indicates that our overall costs are around £50 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).

If the FRS102 adjustments for pensions (£3.358m) are excluded from the operating costs, then the cost per unit would be £2,398.

Metric 6 – operating margin %

Good = higher

A Social housing lettings only

Operating surplus	£0.162m	
- gain on disposal of housing assets	-	
	£0.162m	
Divided by		
Turnover from social housing lettings	£0.431m	**Result = 38%**

B Overall	**Overall**	**Excluding LGPS**
Operating surplus overall	- £1.507m	+ £1.851m
Divided by		
Turnover overall	£38.8m	£38.8m
Result	**= -3.9%**	**+ 4.8%**

Measure A shows that the Board is now making a significant 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 (£0.164m). If that is included the position is effectively break even.

Measure B shows the overall formal deficit as a result of pension fund charges – an alternative measure excluding those and based on contribution levels indicates a more positive and reasonable result.

Metric 7 – Return on capital employed (ROCE)	**Overall**	**Exc.LGPS**
Operating deficit overall	-£1.507m	+ £1.851m
Divided by		
Total assets less current liabilities	£13.278m	£13.278m
Result	**- 11.3%**	**+ 13.9%**

The operational surplus remains healthy (although planned to fall in future years) and as a proportion of the asset base is very high – again this is because the overall surplus relates to all managed properties and the asset base to 90, making the result look different than it would if the Councils HRA housing stock was included.