

VALUE FOR MONEY STRATEGY AND ANNUAL REPORT

Report of the Finance Director & Company Secretary

1. SUMMARY

The Operational Board monitors Derby Homes' performance as part of its functions. Reports are prepared for this board on performance on a regular basis.

Value for Money considerations have to be balanced between cost and performance. Derby Homes' Value for Money Strategy is updated every three years, and a proposed new strategy is attached for consideration and recommendation to the Board.

2. RECOMMENDATION

That the Operational Board:

- 2.1 recommends the draft Value for Money Strategy 2019-2022 to the Board.
- 2.2 considers the attached Value for Money reports and offers any comments that it feels appropriate.

3. MATTER FOR CONSIDERATION

- 3.1 Since 2016, the Operational Board has received an annual report on Value for Money (VfM). This year is the fourth such report. Every three years, the Derby Homes Board will approve a VfM strategy. The last one was approved in 2016 and is now due for updating. This report requests any comments or suggestions from the Operational Board relating to that new strategy as well as on the annual reports.
- 3.2 Previously, the Homes and Communities Agency (HCA) required Registered Providers (RPs) to include in their annual accounts a Value for Money statement. Since the HCA was split into a Regulator of Social Housing (RSH) and Homes England (HE), the RSH has taken a different approach to VfM concentrating on seven key 'metrics' which indicate overall relative efficiency of a 'standard' Housing Association where rent is collected from tenants and spent on services or on debt. While Derby Homes does these functions, they are largely on behalf of the Council (just under 13,000 homes) rather than in our own name (97 homes). This means that several of the 'metrics' are not directly relevant for Derby Homes' situation.
- 3.3 This does not mean, however, that these metrics are entirely useless in gauging relative performance, and some indeed are just as relevant for us as for others. The RSH wants the approach to be for Boards to set their own targets using their

measures as a basis for selecting suitable targets. While this approach is in its infancy, it is starting to become slightly clearer with the publication by the RSH of the first annual comparison of returns from larger RPs. This is attached at Appendix 1. The draft new VfM strategy – attached at Appendix 2 - attempts to suggest some targets based on the metrics that can then be monitored.

3.4 This report therefore sets out to do the following:

- Report on the Housemark figures for 2017/18 (latest available) and comparisons
- Report on the Capita benchmarking group data for budgets for 2019/20 budgets
- Report on the outturn figures for Derby Homes for 2018/19 compared to the RSH averages for 2017/18 as published earlier this year
- Suggest a new VfM strategy for 2019 to 2022 to Derby Homes' Board including VfM targets for consideration at its next meeting

3.5 **Housemark report for 2017/18**

The annual report from Housemark on our costs is set out in Appendix 3. This is reported to the Board each year usually in January. This year's report compared Derby Homes with 54 other landlords who manage between 10,000 and 15,000 homes. We have used the same group for comparisons for many years to ensure consistency. Some of the key findings in the summary of the report were :

- *Six of the eight satisfaction indicators are in the upper quartile of the peer group*
- *Responsive repairs and void work costs have reduced and are lower than the median of the peer group keeping us in the upper quartile of the peer group*
- *Proportion of rent collected has reduced and is less than the median placing us in quartile four*
- *Housing management costs have decreased and are marginally higher than the median costs of the peer group placing us in quartile three*
- *Major works and cyclical costs are considerably lower than the median, keeping us in the upper quartile.*
- *Overhead costs remain reasonable, at around £40 a year per property below the median – this is equivalent to approx. £0.5m a year in lower costs incurred than compared to the median.*

These are very good results as in previous years. We have reduced overheads consistently over the last decade and have invested positively in the areas where we are indicated as (slightly) higher costs such as housing management and rental collection, so those results were expected.

3.6 **Capita Benchmarking group**

Derby City Council uses financial modelling supplied by Capita to support its Housing Revenue Account Business Plan (HRABP). As a result, Capita are able to run comparisons between providers about their plans for the future and relative levels of spending. In these reports, a series of other measures are used to compare future plans rather than past performance and costs. Our figures are set out in Appendix 4.

Key results include:

Very low spending per property on capital improvements (5th lowest of 30) – this partly reflects relatively higher spending on home improvements previously but also relative efficiency in delivery costs.

Costs of operation lower than most (11th lowest out of 30) – reflecting our continued operation at lower costs – this is a combined measure of Council and Derby Homes planned costs.

High levels of funding / reserves balances (2nd highest of 30) – this reflects a long term planning horizon and build-up of reserves over many years in order to smooth funding requirements to replace works done during the decent homes programme. At the time (2002-2006) no funding was available for long term replacement of kitchens and bathrooms 20/30 years after the initial programme. The current plan built up reserves in order to enable that programme to go ahead. This increased the HRA Business Plan's reserves to allow that strategy to be deliverable.

Most of the results which appear to be 'worse' than average reflect the low levels of rent compared to most others (6th lowest of 30) – operating margins and interest cover are much lower (lowest of the whole group) for instance. This is sustainable as the reserves built up in previous years above have enabled those margins to be much lower than would be necessary if those reserves were not available.

Capital charges are relatively high (4th highest interest rate but low levels of debt equates to higher than average debt charges – second quartile). These reflect the relatively fixed nature of interest rates on borrowings by the HRABP which were taken out in the past and average around 4.6% compared to the average for the group of 3.6%. While this is a significant cost, it is not one that Derby Homes can do much about. Should interest rates increase in the future, it is at least positive that these rates should not increase significantly.

Overall these results show a low rent and low cost delivery model while not compromising on key delivery plans.

3.7 RSH metrics

The Regulator of Social Housing set new mandatory metrics last year and this year's figures are set out in Appendix 5. These also form part of the accounts approved by the Board in July. The Regulator requires the Board to set targets based on at least some of these metrics. This issue is addressed further in the VfM strategy.

3.8 Value for Money Strategy

The VfM Strategy is updated every three years, and the latest draft is attached for consideration by the Operational Board. The strategy will then be considered further by the main Board once this Board has considered it.

Overall the strategy is in line with the operational practice of Derby Homes and the Council and seeks to set out to further improve performance and cost savings where possible over the next three years. The Board is invited to consider the strategy attached at Appendix 2 and make any suggestions or comments on it.

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: Appendix 1 – RSH summary of sector metrics for 2017/18
Supporting Information: Appendix 2 – draft Value for money strategy 2019-2022
Appendix 3 – Housemark report for Derby Homes 2017/18
Appendix 4 – Capita benchmarking group HRABP 2019/20
Appendix 5 – VfM metrics from DH accounts 2018/19

This report has been approved by the following

Managing Director Finance Director Company Solicitor	Maria Murphy David Enticott Taran Lalria	24.07.2019
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