

## Value for money (VfM)

The Regulator of Social Housing (RSH) has implemented a new set of requirements with regard to VfM reporting, commencing from 1<sup>st</sup> April 2018 and updated in June 2019. This means that as a Registered Provider we are required to 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 2018.

### **Metric 1 – Reinvestment %**

Good = higher

	£m
+ Development of new properties	0.332
+ Newly built properties acquired	0.000
+ Works to existing properties	0.000
+ Capitalised interest	0.000
+ Schemes completed	0.000
<b>Total</b>	<b>0.332</b>
Divided by	
+Tangible fixed assets : Housing properties at cost	6.791
+Tangible fixed assets : Housing properties at valuation	0.000
<b>Total</b>	<b>6.791</b>
<b>Result</b>	<b>4.9%</b>

This is a measure of capital investment in existing and new homes against the existing asset base value. The median of 6% (for 2018) would place Derby Homes in Q3. The current priority is for the majority of 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	7
+ Social leasehold units acquired in year	0
<b>Total</b>	<b>7</b>
Divided by	
+ Total social housing units owned	92
+ Social leasehold units owned	0
<b>Total</b>	<b>92</b>
<b>Result</b>	<b>7.6%</b>

## **Value for money (VfM) cont**

The completion of Wood Road and purchase of one other property along with our small base stock means that we have a very high return this year (2018 : nil) , compared to the median of 1.2%. Notionally this is Q1 performance. At present we are not planning large increases in new homes on our own account, so this measure is likely to fall next year

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

	Units
+ Total non - social units owned (acquired in year)	0
+ Non – social leasehold units owned (acquired in year)	0
+ New outright sale units developed or acquired	0
<b>Total</b>	<b>0</b>
Divided by	
+ Total social housing units owned	92
+ Total non-social rental housing units owned	5
+ Social leasehold units owned	0
+ Non-social leasehold units owned	0
<b>Total</b>	<b>97</b>
<b>Result</b>	<b>0%</b>

The median result is also 0%. To date it has not been a priority of Derby Homes to provide non-social housing.

### **Metric 3 – Gearing % Good = lower**

	£m
+ Short term loans	0.054
+ Long term loans	2.973
- Cash & cash equivalents	(14.480)
+ Amounts owed to group undertakings	0.907
+ Finance lease obligations	0.000
<b>Total</b>	<b>(10.546)</b>
Divided by	
+ Tangible fixed assets : Housing properties at cost	6.791
+ Tangible fixed assets : Housing properties at valuation	0.000
<b>Total</b>	<b>6.791</b>
<b>Result</b>	<b>-155%</b>

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. The comparison against a sector median of 42.9% 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	(0.480)	2.501
-Gain / loss on disposal of fixed assets	(0.000)	(0.000)
-Amortised grants	(0.030)	(0.030)
-Government grants taken to income	(0.000)	(0.000)
+ Interest receivable	0.000	0.000
-Capitalised major repairs expenditure for the period	(0.000)	(0.000)
+ Total depreciation charge for period	0.443	0.443
<b>Total</b>	<b>(0.067)</b>	<b>2.974</b>
Divided by		
+ Interest capitalised	0.000	0.000
+ Interest payable and financing costs	0.162	0.162
<b>Total</b>	<b>0.162</b>	<b>0.162</b>
Result	-41%	1836%

This result is one that looks very 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 206% and quartile 1 ranking is therefore potentially misleading.

## **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

For Derby Homes, this is calculated by deducting the "Activities other than Social Housing" costs of £4.687m, depreciation of £0.443m and interest costs £0.162m from total Operating Costs of £42.8m = £37.508m.

Divided by

Total social housing units owned or managed= 13,673

**Result = £2.74k (Q1, m £3.40k)**

It indicates that our overall costs are just over £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).

## **Value for money (VfM) cont**

### **Metric 6a – Operating Margin (social housing lettings) %**

Good = higher

	£m
+ Operating surplus (social housing lettings)	0.111
Divided by	
+ Turnover from social housing lettings	0.437
Result	25.4%

### **Metric 6b : Operating Margin (Overall) %**

	£m	Exc LGPS £m
+ Operating (deficit) / surplus (overall)	(0.480)	2.501
- Gain / (loss) on disposal of fixed assets (housing)	0.000	0.000
Total	(0.480)	2.501
Divided by		
Turnover (overall)	42.320	42.320
Result	-1.1%	5.9%

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 (£0.162m). If that is included the position is a small loss as expected and planned. Compared to median of 32.1% this represents quartile 4 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**

	£m	Exc LGPS £m
Operating (deficit) / surplus (overall)	(0.480)	2.501
Share of operating surplus / (deficit) in joint ventures or associates	0.000	0.000
<b>Total</b>	<b>(0.480)</b>	<b>2.501</b>
Divided by		
Total assets less current liabilities	23.107	23.107
Result	-2.1%	10.8%
Comparator Quartile (based on median of 4.1%)	4	1

## **Value for money (VfM) cont**

The operational surplus excluding pensions 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 97, making the result look much higher than it would if the Councils HRA housing stock was included. The formal result, on the other hand looks very low as it includes the nominal (non cash) cost of pension cost adjustments of just under £3m included in the operating costs for accounting purposes.