Eden Housing Association Limited

Value for Money Statement for the Year Ended 31 March 2018

Registered Society under the Co-operative and Community Benefit Societies Act 2014 and an Exempt Charity No. 28435R

Value for Money (VFM)

During the financial year our Board adopted a revised Value for Money (VFM) Strategy to take account of the Regulator for Social Housing's (RSH) new VFM Standard introduced from April 2018.

Our Board welcomed the introduction of the key metrics imposed by the Standard, as being a consistent base from which to build an indicative financial view of the organisation and those that we compare ourselves with.
Our VFM Strategy supports our core mission, "*to be a good trusted social landlord and employer with a strong sense of place*" and our VFM vision is "*To maximise the use of our assets and resources to invest in our people and our communities to deliver this*".
In simple terms we aim to make best use of every pound we spend to;

- Deliver more new affordable rented homes
- Invest in our existing housing stock
- Provide better services for our tenants

Our new 3 year Corporate Plan, '*Owning our Future'* has *Providing Value* as one of our four goals and contains the following SMART objectives over the life of the plan;

- Absorb inflationary rises over the life of the plan and reduce our Management Cost per Unit.
- Consistently achieve an Operating Margin for Social housing Lettings of at least 33.3%

We will look to review and stretch our targets further year on year to achieve greater efficiency without materially reducing our effectiveness. These objectives and targets will be based in the reality that we operate primarily in the second largest geographic and most sparsely populated District in England. As a consequence of this and our size we are unlikely to be the lowest on comparisons of management cost per unit, however we will be able to evidence that our headline costs are truly providing value.
Our VFM performance in 2017/18
Below is a record of the key VFM actions we promised to undertake in last year's VFM self-assessment and progress against these.

1 Review and re-set our corporate strategic objectives – ACHIEVED.

- Our new Corporate Plan, 'Owning our Future' was approved by our Board.

2. Adopt the efficiency measures of the Housing Association Sector Scorecard and report against these measures at the end of 2017/18 - ACHIEVED.

- The Sector Scorecard was a voluntary measure which has been overtaken by the new regulatory VFM metrics, which we have adopted and are reporting against.

3. Refresh our VFM approach and strategy to take account of any new VFM standard – ACHIEVED.

- A new VFM Strategy was adopted by the Board in March 2018 taking account of the new Regulatory Standard introduced.

4. Collaborate with other Cumbria Housing Partners (CHP) members around a new business plan to jointly procure non-asset supplies and utilities – ACHIEVED.

- CHP has now set itself up as a procurement hub and the Association as a member is now benefitting from jointly procuring non-asset contracts.

5. Reduce our responsive maintenance spend versus prioritising planned maintenance – ACHIEVED.

- Our responsive repairs spend has reduced compared with the previous year. A key contributory factor is the introduction of a 'Clean, Clear, Safe' new minimum void standard.

6. Review and clarify the EHA standards we intend to meet with the asset investment in our stock – ACHIEVED.

- Our revised Asset Management Strategy was approved by our Board in November 2017 and confirmed that our planned investment would be to meet Decent Homes as a minimum. Investment in the first three years of our investment plan will focus on the most energy inefficient properties within our stock with a view to viably increasing their energy performance and reduce running costs for our tenants.

7. Continue work towards our Board's target of a management cost per unit of £999 by the end of 2018 – ACHIEVED.

8. During the year we reviewed our cost base to ensure we were allocating income and costs correctly and to review our definitions of the various categories of allocation. This work was guided by our Board and involved discussions with our Auditors. As a result, our Management Cost per Unit has reduced year on year and is now at £988. Comparison with prior year, restated per the revised definition in the new VFM standard, evidences we have achieved efficiencies in the year.

9. Invest in job scheduling software for our in-house operatives Eden Works, which will support our objective of increasing productivity – PART ACHIEVED.

- Job scheduling software has been implemented through the year and is working well. It is too early to evidence specific and quantified savings until a longer period of implementation has elapsed.

10. Recycle part of our IT hardware as a way to become more self-sufficient and reduce future costs in our disaster recovery systems – ONGOING.

- Planning for this has been ongoing during the last financial year and we aim to implement this during 2018/19.

11. Review the costs and benefits of our neighbourhood management approach beginning with our pilot in Alston – ONGOING.

- During the year we moved to developing specific actions plans for our Neighbourhoods. It is still too early to evidence quantifiable resultant cost savings and value benefits.

12. Review our Independent Living Services at the end of the first year of extended operation in Carlisle to inform whether this is financially sustainable and / or whether there are growth opportunities – ACHIEVED.

- A review of this service was undertaken during the year and our Board in January 2018 determined to seek to transfer this service as we were unable to identify a financially sustainable model going forward.

Our Cost per Unit (CPU) and comparisons

The table below shows our year on year performance and indicates real gains in efficiency compared to the previous year.

Our comparison Peer Group is made up of neighbouring, local Cumbrian Housing associations Two Castles (rebranded Castles & Coast), Impact and South Lakes Housing and then two others of similar size, one rural and one urban (Axiom and Pierhead).

The end column shows the national median taken from the annual Global Accounts publication issued by the Regulator for Social Housing (formerly HCA).

Cost Category Costs per Unit (CPU)	EHA FY17/18 Per Statutory Accounts	EHA FY16/17 Restated*	2016/17 Peer Group from HCA Global Accounts	2016/17 National Median from HCA Global Accounts
Headline Social Housing CPU	£2,712	£3,199	£3,763	£3,300
Management CPU	£988	£1,254	£1,046	£940
Service Charge CPU	£249	£47	£576	£370
Maintenance CPU	£819	£921	£922	£930
Major Repairs CPU	£375	£548	£922	£680
Other Social Housing CPU	£281	£429	£297	£380
Closing Housing Stock: Social Housing units (owned & managed)	1,994	1,975	–	–

* Restated as per the revised definition in the new VFM standard

Closing housing stock now includes homes we manage as managing Agents for Mitre HA, Allonby Almshouses and Lyvennet Community Land Trust in addition to the new homes we built and acquired during the year.

The significant reduction in our Management and Maintenance Costs Per unit is explained by the following key factors;

- During the last year our new leaner establishment structure moved into steady state and cost savings were realised. The previous year, redundancy cost were incurred as we undertook a comprehensive organisational restructure responding to the Government's Rent Reduction Policy. The new organisational structure has delivered ongoing savings of £223k per year.
- We introduced our new 'Clean, Clear, Safe' standard for all void properties which has resulted in a cost saving on void repairs of £74k in the year.
- Various IT projects have been completed, reducing cost whilst increasing security, robustness and efficiency of our computer systems. For example, we have switched from ISDN to SIP technology, increased bandwidth and brought our disaster recover processes in house to deliver future ongoing savings in excess of £20k per year.
- Additionally we launched a fully automated invoice processing system. Whist this did not directly reduce costs it has streamlined procedures and increased visibility and control over payments processing.

In addition, other notable VFM gains during the year were;

- Developing 8 new bungalows on former empty garage sites in our ownership. This delivered savings on the purchase of expensive land costs and enabled downsizing for older persons to release larger sized accommodation for families in housing need.
- Our continuing membership of Northern Housing Consortium saved us £14.5k over the year on three frameworks linked with our assisted living schemes.
- Our annual investment in hosting Cumbria Law Centre of £45k continues to deliver benefits for both ourselves and our customers. Last year 140 cases were completed generating savings of £780k for our customers, of which £573k came directly to the Association to cover rent costs.

Going forward

Our VFM action plan, part of our new VFM Strategy, sets out our intentions for the year ahead and over the life of our 3 year Corporate Plan.

Strategy

- The new three year Corporate Plan, 'Owning our Future' FY2018-21, is now in place, approved by the Board in May 2018. This outlines the Association's fundamental strategy as to how to deliver VFM and thus is a key step in the action plan.

Culture

- We are increasing the visibility and understanding of VFM throughout the organisation. We have published the new strategy on ERNIE (the staff intranet) and are discussing the implications at CHAT (staff briefing sessions). VFM is also a fixed agenda item on every team meeting.
- We have also revised our Personal Development Process (PDP). It is now a requirement that everyone has a VFM item within their objectives. These are being monitored centrally. This has generated some exciting initiatives for targeting cost savings during 2018/19 as follows,
- Finance – Budget Buddies: Partnering with budget holders to provide more detailed support and challenge on expense control to reduce costs
- IT – Housing Management Systems Review: Develop proposal to replace or enhance housing software to reduce costs and improve functionality
- Contracts & Property Management – Review of maintenance contract: Secure reduced cost against our primary services contract
- Customer Services – Right First Time: Review of processes to reduce waste and errors
- Neighbourhoods – Service Charges: To review potential for increasing the recovery rate of all costs incurred for shared areas
- Developments – Review of Garage sites: Review and develop options for better use/return on garages
- Housing Options – Establish Homeless & Support services to deliver customer requirements within funding provided

Continuous Improvement

- The Board have set the target to reduce management cost per unit, absorbing inflation, by end March 2021. The new target has been set after careful consideration of the current financial business plan and has been included in the revised corporate plan approved by the Board.
- We will continue working with Cumbria Housing Partners (CHP) and Castles & Coasts Housing Association (C&C) to jointly procure the new repairs and maintenance primary contract. Together we have a greater buying power and the support of CHP's procurement expertise will further reduce initial project fees. We intend to extend this joint procurement to other areas such as lift servicing and utilities.
- Developing our Procurement Strategy and updating our policies and procedure will tighten up control over spending and produce savings.
- As mentioned previously, Job scheduling software for Eden Works has been implemented, in-house repairs now managed on a paperless system. This has delivered procedural benefits, freeing up the in-house repairs team for other works and increasing accuracy of records. This still needs to be taken a step further, the throughput of the team increased to produce further savings.
- We have implemented the in-house disaster recovery process in a test environment. This will be run parallel to our current system to ensure it is fully functioning with a view to going live in November. This will save around £17k in external fees.
- The 'Clean, Clear, Safe' voids repairs policy is reaping benefits and has reduced actual costs over the last year. Work is ongoing to reduce spend on responsive repairs and move to planned works. Preparatory works have been completed, smarter organisation of workload underway. This will culminate in a revised maintenance policy which is expected to deliver savings.
- Our revised Asset Management Strategy now provides clearer guidance for stock rationalisation, which has proved most useful when assessing disposal of poor performing properties.
- After a full and thorough future viability review, we anticipate the Independent Living service being transferred with the aim of securing services for our vulnerable customers and employment for staff. This will reduce costs, free up central support time and reduce risk.
- The re-visioning of the way we engage and involve our tenants and residents is underway. This is being supported by members from ECHO who have attended a Tenant Participation Advisory Service (TPAS) workshop to influence and support the process.

Performance Metrics

In line with the newly published Regulatory Standard for VFM we have established the following performance metrics. In addition to the mandatory metrics taken from the Standard our Board has agreed a small number of bespoke metrics to form part of its performance oversight. Included below is how we perform on theses metrics, our historic performance data gathered for comparison and trend analysis.

	2017/18 EHA	2016/17 EHA Restated*	2016/17 RSH Median	2016/17 Peer Group Median
RSH Metrics				
Metric 1 - Reinvestment %	5.35%	3.81%	2.49%	4.69%
Metric 2a - New Supply %	1.04%	0.94%	0.10%	0.68%
Metric 2b - New Supply %	nil	nil	nil	nil
Metric 2a - New Supply - units	19	17	6	22
Metric 2b - New Supply - units	nil	nil	nil	nil
Metric 3 - Gearing	61.9%	66.2%	41.6%	38.8%
Metric 4 - EBITDA MRI	190.9%	154.5%	222.9%	256.2%
Metric 5 - CPU	£2,712	£3,199	£3,300	£3,690
Metric 6a - OP Margin (SHL)	38.89%	33.33%	30.4%	34.1%
Metric 6b - OP Margin (Total)	35.79%	30.17%	29.2%	33.2%
Metric 7 - ROCE	6.18%	5.45%	4.1%	4.2%
EHA Metrics				
Metric 8 - Management Cost per Unit	£988	£1,254	-	-
Metric 9 - % of Rent Debit Collected	97.48%	97.47%	-	-
Metric 10 - % of Void Rent Loss	1.27%	1.05%	-	-
Metric 11 - % of tenants would recommend EHA to family and friends	Introduced from April 2018	-	-	-
Metric 12 - Bad Debt Indicator	£220,243	£219,361	-	-

* Restated as per the revised definition in the new VFM standard

These metrics demonstrate the continual improvement being delivered. Generally we contrast well within the sector and against our peers but, as we are drawing closer to our maximum borrowing capacity, we are more highly geared than the average association in our sector. This also increases our interest costs which utilise a higher percentage of surpluses generated, hence the lower interest cover (EBITDA MRI).

Metric 1 – Reinvestment %

The Association continues to invest in existing stock and new developments. The organisation is currently discussing future funding options to maintain this level of investment.

Metric 2 – New Supply

The Association completed 19 new homes in the year, continuing to deliver against its strategy to build new homes.

Metric 3 – Gearing

The Association is highly geared, the level of debt held financing a substantial portion of properties owned. We are approaching peak debt, the maximum borrowing allowed by our main current funder, Barclays. Discussions are underway ensuring future funding is not unduly restricted.

Metric 4 – Earnings Before Interest, Tax and Depreciation Amortization – Major Repairs Included (EBITDA MRI):

The Association is highly geared incurring significant interest costs. Our earnings before interest and tax compare well with others, demonstrated by our operating margin but, due to our high level of debt, our interest costs are high and thus the ratio of debt to earnings is reduced.

This ratio will remain below the industry standard over coming years as we move through peak debt but will improve in the medium and longer term as we begin to reduce our net debt.

Metric 5 – Cost Per Unit

This represents the total cost per unit of delivering social housing activities which has reduced year on year due to the cost savings measures introduced, in particular the organisational restructure.

Metric 6 – Operating Margin:

Despite the rent reduction the Association has continued to achieve a good operating margin, reducing annual operating costs. Cost savings have been achieved through the organisational restructure and other initiatives such as our new approach to void property management. The organisation continues to focus on opportunities that will deliver further improvements to the bottom line.

Metric 7 – Return on Capital Employed:

The Association continues to deliver a higher than average return on its assets. There are drawbacks to being a smaller organisation operating in a highly rural environment, but there are also advantages. We know our customers and our housing stock and have strong local knowledge which helps to keep the level of bad debt and voids properties below the industry standard.

Knowing our business well means we understand and are able to react quickly to emerging issue and take advantage opportunities that arise.

Metric 8 - Management Cost per Unit

This represents the management cost per unit only of delivering social housing activities, mainly salary related costs and general running costs. Year on year reductions have been achieved, mainly due to the implementation of the organisational restructure.

Metric 9 – % of Rent Debit Collected

The Association continues to have a very good record of debt recovery, despite current economic uncertainty. Income collection and arrears recovery work continues to be a primary focus for the customer service and neighbourhood teams.

Metric 10 - % of Void Rent Loss

Although our void loss is much lower than the industry average, we are aware that given the current economic climate and the age of our sheltered housing stock, this could become an area of concern if not managed proactively.

Metric 11 - % of tenants would recommend EHA to family and friends

We have previously reported on tenant satisfaction annually based on a general satisfaction questions with surveys generally returned anonymously. We have now moved to surveying customers on a rolling basis which we hope will provide more detailed and ‘real time’ feedback that can be acted upon more constructively.

Metric 12 - Bad Debt Indicator

The Association continues to have a very good record of debt recovery, but is mindful that Universal Credit will be fully rolled out across the whole of Cumbria by the end of the next financial year. Our bad debt indicator, derived from the total level of outstanding debt, has remained constant and is significantly below the industry average. We have targeted another year of good performance here with no significant increase in arrears which potentially is quite stretching.

We have set targets for all performance metrics and will be monitoring to ensure these are delivered.

We will continue to compare ourselves against others in the sector, analysing data from the Regulator’s Annual Global accounts publication.

In addition to continuing to make local comparisons, it is our intention to try something different this year, by approaching and seeking to learn from the ‘best in class’ on specific key indicators.