Value for Money (VFM)

Introduction

Our VFM Strategy supports our core mission, “to be a good trusted social landlord and employer with a strong sense of place” and we aim to optimise the use of our assets and resources to invest in our people and our communities to deliver this.

The Board has an approved approach to VFM, as detailed in its Value for Money Strategy, reflecting the requirements of the Value for Money Standard issued by the Regulator of Social Housing.

The VFM Strategy covers everything we do both at an operational and strategic level, focusing on outcomes against our strategic objectives.

VFM is about being effective in how we plan, manage and operate our business. It means making the best use of the resources available to us to provide quality homes in our communities backed by high quality services and support.

In simple terms we aim to make the best use of every pound we spend to;

- Provide better services for our tenants
- Invest in our existing housing stock
- Invest in our staff and key relationships
- Contribute to the delivery of much needed new affordable rented homes

Considering our current position, the VFM objectives are as follow:

- Efficiency gains through increased compliance/resource capacity
- Growth of developments/acquisitions pipeline
- Improved performance in repairs service for customers
- Reduced turnover of tenancies
- Ensure value of assets and data management system are well understood and that decisions for investment takes account of both
- Development of partnership and collaborations
- Further embed VFM within the culture and be an outstanding organisation
- Secure long-term refinancing
- Benchmark effectively with top of class Associations

Performance Metrics

Our Board monitors performance against the key metrics directed by the Regulatory Standard on a quarterly basis and recognises these as a consistent base from which to build an indicative financial view of the organisation and those that we compare ourselves against.

In addition to the mandatory metrics taken from the VFM Standard our Board also monitors a small number of bespoke metrics to form part of its performance oversight. The following table demonstrates how we have performed on these metrics during 2022/23 compared with targets and prior year results and against our peers within the sector.

	2023/24 EHA Target	2022/23 EHA Actual	2022/23 EHA Target	2021/22 EHA Actual	2020/21 EHA Actual	2019/20 EHA Actual	2021/22 RSH Median
RSH Metrics							
Metric 1 - Reinvestment %	3.66%	**2.60%**	2.68%	2.07%	1.79%	5.1%	7.7%
* Metric 1b – Major Repairs %	2.35%	**2.23%**	1.72%	1.91%	1.43%	1.9%	n/a
Metric 2a - New Supply SH %	0.12%	**0.12%**	0.22%	0.00%	0.44%	0.8%	1.7%
Metric 2a - New Supply SH-units	4	**2**	4	0	8	14	n/a
Metric 3 - Gearing	40.3%	**44.95%**	43.7%	47.18%	51.8%	55.1%	49.1%
Metric 4 - EBITDA MRI	160%	**128.54%**	162%	160.51%	196.7%	129%	141%
Metric 5 - Headline Social Housing Cost Per Unit	£4,225	**£3,822**	£3,515	£3,461	£2,861	£3,493	£3,813
Metric 6a - OP Margin (SHL)	28.4%	**32.98%**	30.9%	35.04%	42.0%	30.2%	24.3%
Metric 6b - OP Margin (Total)	28.6%	**30.23%**	31.1%	33.89%	40.2%	29.8%	22.6%
Metric 7 - ROCE	3.9%	**4.09%**	4.1%	4.4%	5.4%	4.3%	3.5%
EHA Metrics							
Metric 8 - Management Cost per Unit	£1,469	**£1,311**	£1,406	£1,219	£1,114	£1,134	n/a
** Metric 9 – Arrears as % of Rent Debit	1.4%	**1.27%**	1.4%	1.12%	1.12%	93.9%	n/a
Metric 10a- % of Void Rent Loss	1.21%	**0.89%**	1.72%	1.04%	1.12%	0.97%	n/a
Metric 10b – Out of Management Voids	2	**2**	2	2	3	3	n/a
Metric 11 - % of tenants would recommend EHA to family and friends	90%	**92%**	90%	90%	98%	95%	n/a
Metric 12 - Bad Debt Indicator	£230,000	**£215,647**	£230,000	£165,170	£177,148	£189,436	n/a

Our metrics like many similar organisations, reflect a snapshot of where we are in our own journey whilst the backward look trend is helpful to provide context.

Further explanation of performance against our VFM metrics follows;

Metrics 1a – Reinvestment and 1b Major Repairs %:
Reinvestment metric considers investment in properties (existing stock as well as new supply) as a % of total properties. *(This helps to demonstrate that EHA are is putting its finances to good use by maintaining and improving stock as well as adding to the asset base)*

The result shows an improvement on last year but slightly lower than target. Capital investment in existing stock was below budget at the end of the year, although delivery was easier following the end of the pandemic and the target for the next year is higher, with investment on net zero carbon works.

There was little expenditure on new developments.

Metric 2 – New Supply of Social Housing (SH):
The Association delivered two new units this financial year. This was in line with target and is due to where we are in the development cycle.

Metric 3 – Gearing:
Gearing measures, the proportion of borrowing in relation to the size of the asset base. *(It is similar to mortgage lenders loan to value ratio)*

Cash holdings are significantly above predicted levels due to delays in spend and capital expenditure. Debt was in line with anticipated levels. Overall net debt (loans less cash) was lower than budgeted, reducing/improving the level of gearing to 41.35% compared with the targeted level of 43.7%.

Metric 4 – Earnings Before Interest, Tax and Depreciation Amortization – Major Repairs Included
This measures financial performance before factoring financing cost, depreciation or accounting policies on major repairs. *(It approximates cash generated to cover interest payments and is a key indicator for liquidity and investment capacity).*

Some increases in revenue costs has resulted in slightly lower net earnings and hence the EBITDA MRI Interest Cover ratio is slightly below target.

Metric 5 – Headline Social Housing Cost Per Unit:
This uses costs within the accounts and divides the total costs by the number of properties to provide a cost per unit.

With slightly higher costs than budget, the cost per unit figure is higher than target and increased when compared to the previous year due to more activity in 2022/23 with increased costs on repairs and service costs.

Metric 6a – Operating Margin (Social Housing Lettings only) and 6b Operating Margin (Total)
Operating Margin measures the profitability of operating assets before any interest and exceptional expenses are considered. *(It is a key indicator for the efficiency of an organisation)*

The Operating Margin (Social Housing Lettings Only) was slightly higher than target.

The Operating Margin (all operations) for the period was slightly below target.

Both measures were very close to target, with minor changes and both below last year due to additional costs.

This calculation of margin here includes all operating incomes and costs, including all non-social housing activity, gains and losses on property sales.

Metric 7 – Return on Capital Employed:
Return on Capital Employed compares the operating surplus to total assets less current liabilities. *(It is a common measure in the commercial sector to assess the efficient investment of capital resources)*

The ROCE for the year was very close to the target level of 4.1%. This is very consistent with last year.

Metric 8 - Management Cost per Unit:
At £1,311, management costs were below the targeted level. A general reduction in most areas of management expenses.

Metric 9 – Arrears as % of Rent Debit:

Despite the challenges on household income and the cost of living crisis, tenants have continued to prioritise rent payments although there is an increasing upward trend in the arrears and this is being monitored by management. We provide support to our tenants by referrals to our hosted partner Cumbria Law Centre, which provides a financial health check, budgeting, debt advice and other tailored support to ensure our tenants are maximising any entitlements.

Metric 10a - % of Void Rent Loss and 10b Out of Management Voids:
Void rent loss over the year was well within our target. We have very few properties out of management. Two properties are being held from letting as they require major structural work.

Metric 11 - % of tenants would recommend EHA to family and friends:
Our regular monthly surveys continue to indicate general high approval for the association and its service provision.

Metric 12 - Bad Debt Indicator:
Our bad debts have again been managed within our target. Our track record indicates we deploy effective prevention systems. We are not complacent and the year just gone has undoubtedly placed pressure on household incomes and we will monitor and manage income collection and debts diligently going forward.

Benchmarking
The Regulator for Social Housing published its annual Global Accounts 2022 in March 2023. These accounts are a rich data source for benchmarking purposes, though of course they need to be approached with caution, the accounts reported on one year only, with results potentially affected by many unknown factors. We have used the Global Accounts data to provide context for our work, to aid us to look in closer detail at our performance against the upper / lower quartile and against some local and out of county rural operators.

The following table highlights the results for the Association compared with data published in the Regulator for Social Housing published 2022 Global Accounts;

Registered Provider & (no. of units)	Financial Year End	Re-Invest. %	New Supply (Social) %	Gearing %	EBITDA MRI Interest Rate Cover %	Headline Social Housing Cost per unit, £k	Op Margin (SHL) %	Op Margin (Overall) %	ROCE %
Broadacres HA Ltd (6,415)	31/03/2022	7.2	1.2	43.9	123	4.62	18.1	13.5	1.7
Castles & Coasts HA Ltd (6,711)	31/03/2022	5.0	0.7	26.2	199	3.72	23.8	25.3	3.4
Eden HA Ltd (1,823)	**31/03/2023**	**2.60**	**0.12**	**44.95**	**128**	**3.82**	**32.9**	**30.2**	**4.09**
North Devon Homes (3,308)	31/03/2022	1.8	0.3	57.6	121	3.51	22.0	22.4	2.9
South Lakes Housing (3,153)	31/03/2022	9.5	2.0	28.9	185	4.64	15.4	17.5	2.5
Providers with less than 2,500 units (44)	31/03/2022	5.8	1.3	43.9	183.0	3.73	26.3	23.9	3.3

Lower Quartile	**Global Accounts 2022**	**5.8**	**0.9**	**40.4**	**110**	**3.61**	**20.5**	**18.8**	**3.1**
Median		**7.7**	**1.7**	**49.1**	**141**	**3.81**	**24.3**	**22.6**	**3.5**
Upper Quartile		**10.6**	**2.3**	**58.9**	**182**	**4.13**	**28.5**	**25.9**	**4.3**

Direct comparisons are difficult and should be treated with caution.

The association is geared higher compared to most of this comparison group, however, our gearing is coming down, in line with our strategic objective. Our headline cost per unit, operating margin and return on investment are all better than the median. Taken in the round these value for money metrics indicate a reasonable performance for the year despite the continuing impact of the pandemic for most of the year.

Global Accounts 'Best in Class' –
Our Board wished to see greater dialogue and exchange of learning take place with our identified 'best in class' associations. However, given the critical need to respond to the pandemic, we were unable to progress this as we would have liked to. Lots of effective engagement, sharing and learning did take place with various organisations in our pandemic response which is threaded through our outturn results for the year.

We will look to secure efficient and effective learning from our identified 'best in class' organisations in the year ahead.

Value for money gains over the last year

An important fundamental element of our VFM strategy has been developing a culture of controlling costs within our business whilst achieving effective outcomes.

Below are examples of the value for money gains achieved over the last 12 months. Project 'gains' are based around the '3Es' (economy, efficiency and effectiveness). This identifies both the financial savings, as well as the value and benefit we achieve through system enhancements, resource savings and service improvements.

Project	**Outcome - Economy, Efficiency, Effectiveness**
<u>Server Replacement</u> Server and storage replacement costs too high from usual suppliers. Negotiated tender with multiple suppliers to get the best value for money. Quote for SAN 10 disk and silver processor servers £86,254	1. Economy - Lower cost. SAN 12 disk and gold processors £16,672. Solution with 8TB more storage, faster gold processors and a saving of £16,672 3. Effectiveness - Faster hardware and increased storage capacity at a lower cost.
<u>Security Solution</u> EHA have been looking for an additional security solution to improve our protection and mitigate the current security risks on the corporate risk register. Quotes 2 years ago for Dark trace solution were negotiated to a low of £17,400 per year. Too expensive and not auto remediated without additional cost. Sophos MTR solution procured where network is monitored externally 24/7 by security experts and issues remediated by them remotely.	1. Economy - Significant cost saving of £14,610 per year/ £43,830 over 3 years. (Dark Trace lowest quote - £17,400 per year no remediation Sophos MTR £900 per year additional cost for users and servers Sophos MTR firewall connector £1,890 per year Annual cost £2,790) 2. Efficiency - Uses existing Sophos products to support the solution. Also Improved service with pro-active remediation and reporting by specialists. 3. Effectiveness - 24/7 security response by experts. Like EHA having its own cyber security team for a fraction of the price.
<u>CCTV Solution</u> Cloud CCTV Solutions for EHA owned blocks with high ASB issues. Quote gathered for Verkada cloud CCTV and trialled. Alternative solution sourced and tested by IT called videoloft combined with sourcing own Trade priced cameras. Significant cost saving whilst allowing same functionality.	1. Economy - Saving of £8,703 over original trialled solution Verkada. Verkada inc VAT - £10,557 Cost per camera £1,005 License per year £168 Videoloft inc VAT - £1854 Cost per camera HikVision £134 License per year £72 9 cameras over 2 sites total saving £8,703

	2. Efficiency - Remote monitoring and control with minimal on-site infrastructure. 3. Effectiveness - Reduction in issues and number of site visits required by Neighbourhood Officers.
<u>WIFI Hardware Replacements</u> Source cloud WiFi hardware replacements for schemes through Charity Digital. This allows us to access technology gifted by tech companies by paying an admin fee towards the cost. We currently use Cisco Meraki solutions for providing WiFi at our schemes. This hardware is approaching EOL so 11 new APs have been sourced. Offer included hardware and 5 years cloud license.	1. Economy - Saving of £5,869.12 over standard trade cost. Meraki MR36 Hardware with 5 Year license Charity Exchange - £205 Each plus vat £246 x 11 £2,952 Standard Trade - £668.27 Each plus VAT £801.92 x 11 £8,821.12 11 purchased. Total saving £5,869.12 2. Efficiency - Allows IT to continue providing WiFi access to schemes with easy remote management. 3. Effectiveness - Additional hardware for Heysham to offer better coverage in communal areas.
<u>Reception Payment Machine</u> Remove the Barclaycard payment device from reception at Blain House. Following a review over a 2-year period and the change in processing following agile working and appointments only at Blain House, it was agreed that the payment device was no longer required. For the few customers who want to pay at Blain House, there were other options available, such as Callpay.	1. Economy - Removes cost of having device of £68 per month 2. Efficiency - Removes requirement for monthly reconciliation - PCI DSS report requirements - POP and invoice processing
<u>Electronic Communication</u> The compliance team were going to send out letters to 1558 tenants. This has now been reduced to 754 as we are going to use mailchimp to send to those tenants we have an email address for. (804 emails held)	1. Economy - Saving more than 50% of printing costs 2. Efficiency - Mailchimp is quicker and can allow you to see if the message was opened

Remote Servicing for Legionella Moving the legionella annual servicing of the housing schemes to remote testing as opposed to the existing service of manual testing.	1. Economy - saving of £823.29. The quote obtained for the manual visits was £5750.00. The cost of the remote testing was £4926.71 a saving of £823.29 annual cost. 2. Efficiency - reduction in carbon footprint. Improved service by production of continual figures instead of one-off readings 3. Effectiveness - The saving has enabled us to carry out additional bacterial testing which is 'Good Practice' as a one-off test of any potential bacteria present in the systems (which has not been included in the annual service). This can then improve on Health & Safety measures and ensure compliance of legionella management.
New Contractor Ground Maintenance for MITRE Properties - anticipated contract improvements should result in improved service for Mitre tenants, as well as a more effective and efficient process for EHA staff; with less time required for dealing with processes /enquiries / complaints	1. Economy - The change of contractor to start in April 2023 will make a saving of £13,936.24 for the same service delivered by the existing contractor. This has then reduced some of the tenant's service costs. 2. Efficiency - anticipated improved processes for EHA staff as a result of an improved service delivery (Contract progress to be monitored April - October 23) 3. Effectiveness: The contractor is a small business local to Wigton area therefore supporting small businesses in the area but also we would expect an improvement to 'Standards' of works.
Digital Lettings Platform (CBL) Making full use of the new Choice Based Lettings Digital Platform introduced in April 2022. If we increase the digital interaction with our customers we reduce administrative burden and cost. Digital communication must be the first option unless this is not acceptable for the customer; this will reduce the need to print letters, application forms and supporting documentation. In addition, there will be a reduced requirement for envelopes and postage.	1. Economy - savings in cost of paper, printing, envelopes, application forms and postage and resources approx. £2000 per annum 2. Efficiency - much less resource intensive no requirement for administration of all above as items are system generated. We currently manage approx. 1000 applications all requiring an annual review in addition to regular correspondence whilst the application is being registered. 3. Effectiveness - Reduction in cost/resources and a much swifter response for the customer as its digital therefore instant.
Tenants Handbook To move away from paper copies of the tenant's handbook and make it digital.	1. Economy - save on printing costs (£800) for 500 copies 2. Efficiency - no resources required to liaise with printers, document will be much easier to maintain and keep up to date with any changes. 3. Effectiveness - Digital Tenants Handbook will enable amendments to be made to specific sections without the need for the whole document to be re-printed. In addition, as the impact of making changes (following any legislative or procedural changes) will be minimal and the document will be much more up to date for customers.

Scheme Furniture Mill Gardens Extra Care scheme and Heysham Gardens to arrange a furniture swop for a refresh on the furniture in scheme. The lounges will get a new look without the need to purchase more furniture	1. Economy - saving on cost of new furniture and a potential cost benefit to customers 3. Effectiveness - increase customer satisfaction. Supporting green agenda by re-using furniture which is in a good condition

VFM Future Plans

Our future areas of VFM focus for 2023/24 linked to the strategy include:

- Deliver an improved asset management system to drive improvements in future investment in existing stock whilst also considering the carbon neutral requirements.
- Improve the right first time performance across the repairs service and on all customer contact across the business.
- Implementation of modules within the housing management system to improve process and customer journey.
- Introduce rolling service reviews to look at process and services to identify VFM efficiencies and effectiveness.
- Increased lengths of tenancy leading to reduced property churn and reduced costs.
- Treasury strategy/long-term loan facility review to strengthen financial viability.

Our VFM metrics looking forward are as follows:

	2023/24	2024/25	2025/26	2026/27	2027/28
Reinvestment %	3.66%	4.16%	5.77%	2.37%	2.39%
New Supply SH %	0.23%	0.58%	0.81%	0.00%	0.00%
Gearing	40%	40%	39%	37%	35%
EBITDA MRI	160%	145%	162%	182%	198%
Headline SH CPU	£4,225	£4,467	£4,445	£4,512	£4,611
OP Margin (SHL)	28.4%	27.1%	26.2%	26.3%	25.6%
OP Margin (Total)	29%	27.9%	27.0%	27.1%	26.50%
ROCE	3.98%	3.86%	3.81%	4.00%	4.00%