

ENGLISH RURAL

ENGLISH RURAL HOUSING ASSOCIATION

VALUE FOR MONEY STATEMENT 2016

Approved by the Board of English Rural September 2016

ENGLISH RURAL HOUSING ASSOCIATION

VALUE FOR MONEY STATEMENT 2016

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1. What do we mean by Value for Money?

English Rural Housing Association is a social business, registered as a Community Benefit Society and an organisation which is committed to using all available resources to help in delivering a simple stated purpose: "to provide affordable housing services with, and for, rural communities."

In delivering these aims, English Rural seeks to obtain the maximum value for money from all aspects of our business activities, to support further investment in high quality services to our residents, and to increase the resources available to provide more affordable homes for local people in rural communities.

Thus for English Rural, Value for Money is not simply a regulatory requirement to demonstrate business effectiveness, it is about being more efficient in doing the things we have to do, in order to create the financial capacity to do more of the things we want to do.

This means that we are continuously looking to improve the ways in which the assets and resources of the organisation are deployed, in order to enhance the quality of our services whilst keeping our costs under control, and thereby increasing funds available for more affordable homes.

English Rural is regulated by the Homes and Communities Agency and currently holds the highest Regulatory Ratings of V1 for Financial Viability and G1 for Governance, confirming that the association meets all of the requirements expected by government for registered housing providers in the Regulatory Framework. In addition, the Public Services (Social Value) Act 2012 provides housing associations with new opportunities to demonstrate the value of their work, through a requirement to ensure that Social Value has been taken into account as part of investment plans. The Act requires consideration of how proposed investment might "improve economic, social and environmental well-being of the relevant area" and requires consultation with local communities. English Rural has been at the forefront of early work to demonstrate Social Return on Investment (SROI) and we believe that this work will play an increasingly important role in helping to define and to demonstrate Value for Money.

This Value for Money statement illustrates the clear links between our objectives as an organisation and outcomes delivered, including

- the development of a Toolkit to examine in detail how our property assets perform
- some findings from our detailed work on SROI
- an analysis of the costs of our activities
- comparative benchmarking costs with other similar organisations
- some examples of improvements in Value For Money already delivered
- some of our plans for future improvements in Value for Money

Finally, we are able to show how we demonstrate Value for Money to our stakeholders in ways that are both transparent and accessible.

2. How do our assets perform, measured against the objectives of the organisation?

As a social business, we believe that there are two measures of performance

- the financial return on our assets
- the social and environmental value of our investment in our business activities

1. Financial Return on Assets

In addition to our housing stock, the assets and resources of the organisation comprise residents, the Board and staff, our financial capabilities, and finally our reputation for the quality of our work with and for rural communities.

Our human resources are a vital contributor to delivery of Value for Money: The Board actively holds the executive to account for performance; our Residents are involved in agreeing priorities, shaping services and scrutinising services; our Staff are aware of their role in extracting maximum value from our asset base of knowledge and expertise.

For the purposes of this section of our Value for Money Statement, however, we shall confine our definition of 'Asset' as referring to our physical housing stock, the management of which plays a vital role in determining our performance, viability and ultimately Value for Money.

English Rural was created as, and remains, a multi-regional specialist rural provider of affordable housing, owning and managing stock across rural England. Our ethos is based on responding to the particular housing needs of rural communities, which are often unable to be met by other providers.

Due to the dispersed nature of our stock, distributed in small numbers across a wide geographic area, often within comparatively remote locations, it is to be expected that there will be significant differences in financial performance between individual properties. The age and condition of our stock, the local housing market, regional and local social issues, and the relative costs of management and maintenance are some of the variety of factors that also play a part in determining how well each of our homes perform, when measured in purely financial terms.

We have developed our own **Active Asset Management Toolkit** which allows analysis of, and comparison between, our individual properties. Utilising our bespoke system of weighted indicators combined with a simple ***Financial Appraisal***, we are able to measure the relative financial performance of individual rented properties; these results are then compared with other similar properties and can be benchmarked against average outcomes for all similar properties across the Association.

Using our methodology a weighted 'Adjusted Asset Management Cost' is calculated for individual properties which, when deducted from Rental Income, provides a Surplus/Deficit figure to which financial 'Tests' are then applied.

The Toolkit thus allows us to assess the comparative *Return on Asset* results for individual rented properties, with financial performance measured via a series of four Tests as follows:

Level 1 : The rental income is sufficient to cover the direct costs of managing and maintaining the property, including the Association's staffing costs for management, maintenance and repairs.

Level 2 : In addition to the above, the rental income will make a proportionate contribution towards all of the operating costs of the association, including the costs of long-term finance.

Level 3 : An indication of the relative investment value of our properties, calculating the Return on Asset by comparing the security value of a property against the Association's average cost of borrowing.

Level 4 : In addition to meeting the costs of ownership, it is expected that a property should make a positive contribution towards the Association's capital investment plans, including the repayment of loans for new homes or major improvement to needs to our properties.

Analysis of the four 'Measures' thus provides a reasonable indication of a property's overall financial performance, as compared with other stock in the ownership of the association.

To date representative samples amounting to around 10% of our rented stock have been the subject of the above in-depth Active Asset Management review system.

All of the properties examined achieved Levels 1 and 2, in that income exceeds the direct costs of owning and managing them.

At Level 3, around 75% of the properties readily achieved the target required and a further 20% were marginal, leaving 5% of properties that were performing below the standard required.

At Level 4, it was found that around 30% of the properties failed to make a proportionate contribution to investment – although this was compensated by 32% of properties performing better than Target.

Further work is ongoing to examine the reasons why a small number of properties appear to be under-performing, including further analysis of neighbouring stock, review of rent levels, consideration of particular management or maintenance issues or ultimately whether consideration should be given to possible disposal.

We believe that our approach provides us with a sound business-case basis from which we are able to examine relative performance and look very carefully at any assets which struggle to deliver an appropriate return, when tested against strategic, financial and social objectives. Building on the samples to date, it is anticipated that further sampling will continue on an annual basis to provide an ongoing analysis of the English Rural stock.

Notwithstanding that the purpose of English Rural involves working within small and often isolated rural communities, it is essential that we keep costs under regular review and consider alternative solutions where necessary. In reviewing ways in which to secure the maximum Value for Money in delivery of our objectives, stock rationalisation will remain one of the options available, and particularly if it were felt that another organisation might be able to deliver better outcomes for residents.

We believe that this unique rural approach to Active Asset Management allows us to understand the return on our assets, and thereby refine our strategy for optimising future returns. This approach and the Toolkit is proving to be of value and interest to our peers, some of whom are adopting it for their own use.

2. Social Return On Investment (SROI)

In addition to performance against financial targets, our assets are also reviewed against the wider strategic objectives of the organisation, and in particular our ongoing commitment to rural communities and the creation of Social Value.

English Rural saw the introduction of the Public Services (Social Value Act 2012) as an excellent opportunity to attempt to quantify some of the social and economic value of our work with rural communities.

Social Return on Investment (SROI) gives a framework for measuring and accounting for change and its much wider span of value. English Rural has carried out a project which has used this wider framework to help understand the impacts of enabling people to live in their own village and to prove the real value, in quantified monetary terms, of providing local homes for local people - and the benefits it can bring to the wider community.

A typical development (at Smarden in Kent) was selected and all key stakeholders (Residents, Parish Council, Local Authority, Shop, School etc) were interviewed and relevant data collated. An Impact Assessment was completed using an approved SROI software programme supported by the Cabinet Office for Social Value.

The calculation of a numerical value for SROI requires the qualitative evidence to be assessed in a way that presents a monetary value, known as a financial proxy. After a number of statistical adjustments, the social impact can be calculated by multiplying the financial proxy by the quantity of outcome.

The final analysis of the study undertaken revealed that every £1 invested by English Rural in this rural community generated £6.50 of social value per year over the projected five year period.

English Rural has worked with the Rural Housing Alliance (a group of around 25 Registered Providers), sharing our pioneering work to help develop a tool for the calculation of Social Value of rural affordable housing, which our peers are able to use as part of their own work on Value for Money. This has provided a basis for consistency of approach in an area which, across the sector remains "work in progress".

3. An alternative measure of Social Value

The core business of English Rural is to provide affordable homes for local people in rural areas. It could therefore be argued that an alternative measure of Social Value could also be calculated by taking the difference in rent levels between those charged by English Rural and the local market equivalent:

- In total we own and manage around 750 rented homes, with an average rent of £129 per week.
- We have calculated that the average market rent equivalent for our homes is £185 per week, and that the average Local Housing Allowance is £152 per week.
- For tenancies supported by housing benefit, the difference between average Local Housing Allowance and our average rents represent a saving in public expenditure. As approximately 30% of our rental income is supported by housing benefit, we estimate that last year this represented a saving to the taxpayer of at least £265,000 in housing benefit.
- In addition, it can be argued that we are saving those residents that are paying rent themselves a combined total of over £1.5m per year compared to equivalent market rents.
- Furthermore, English Rural has a financial interest in another 370 homes, which have been developed for Affordable Home Ownership. It is estimated that net savings to these residents, when compared to the market costs of home ownership, would equate to at least £1.0m per year.

Although it is acknowledged that the above simple statistics should be regarded with a degree of caution, it is reasonable to assert that these savings must have a positive financial effect on local businesses and services. These examples help to illustrate that English Rural continues to make a significant contribution to the local rural economy in accordance with our objectives to work with, and for, rural communities.

3. How efficient is English Rural? How do we compare with others?

English Rural's long-term Value for Money objective is an increase in the number of affordable homes which we provide, without a corresponding increase in our running costs or any perceptible reduction in the services offered to our residents. Achieving this aim requires continuous improvements in both economy (ie proportionate reductions in our costs) and efficiency (ie reviews of working practices).

Fundamental to this process is a detailed understanding of how English Rural operates as a social business. An analysis of operating costs provides the essential information in any examination of our cost base, allowing year on year comparisons to measure the effectiveness of changes made, and to compare our performance with that of other organisations.

1. Operating Costs

English Rural's total income from Rents, Service Charges and Shared Ownership proceeds was a little over £5.0m for the year to March 2016, an increase from last year of over £300,000 due in part to an additional 18 new properties having been completed and let during the year.

This income was spent in pursuit of our objectives as follows:

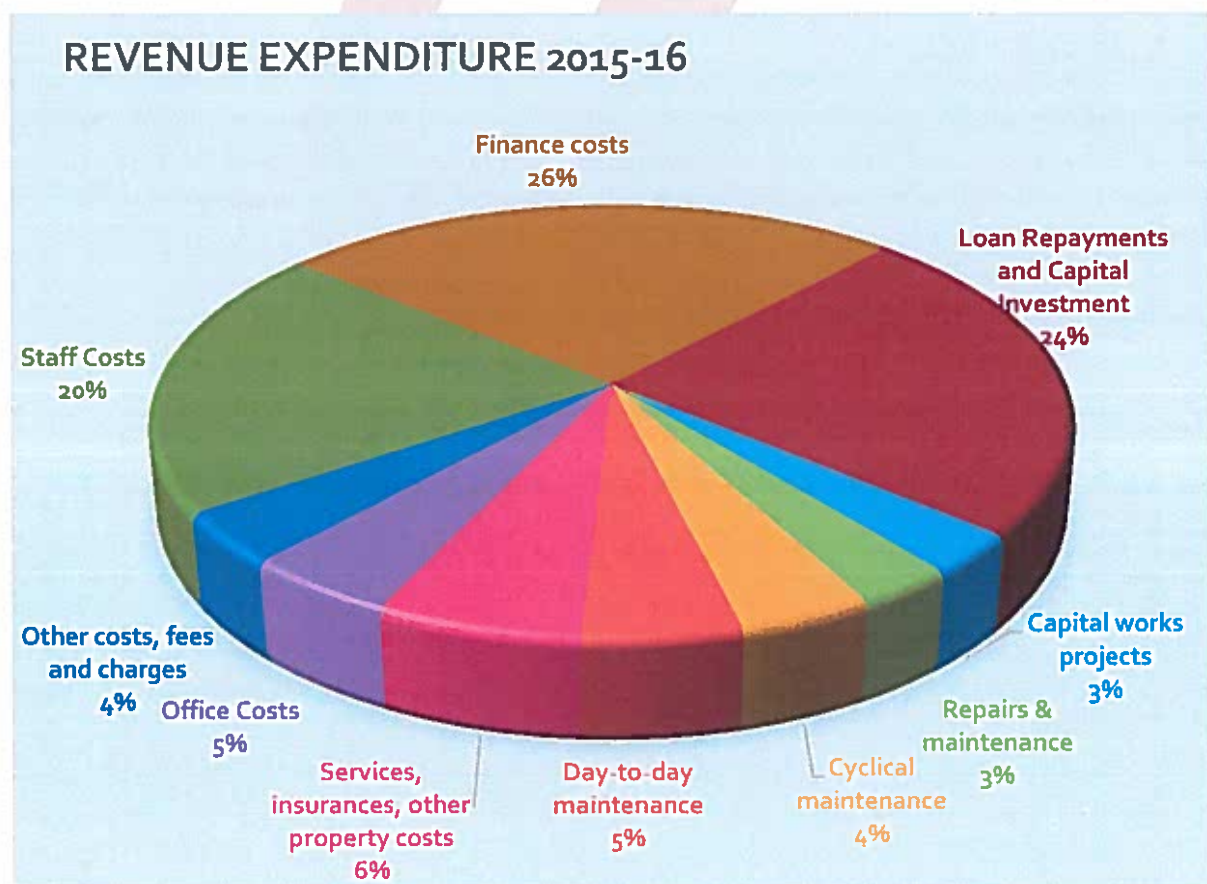
REVENUE EXPENDITURE	2015-16		2014-15	
	£'000	%	£'000	%
Property Costs and Improvements	1,061	21%	1,064	23%
Staff Costs	1,027	20%	976	21%
Office and other costs, fees & charges	427	9%	440	9%
Finance costs	1,306	26%	1,010	22%
Loan Repayments & Capital Investment	1,215	24%	1,141	25%
TOTAL	5,036	100%	4,631	100%

Property Costs include repairs, maintenance and improvements to our properties, together with various associated expenses. These costs accounted for around one-quarter of our total revenue expenditure last year.

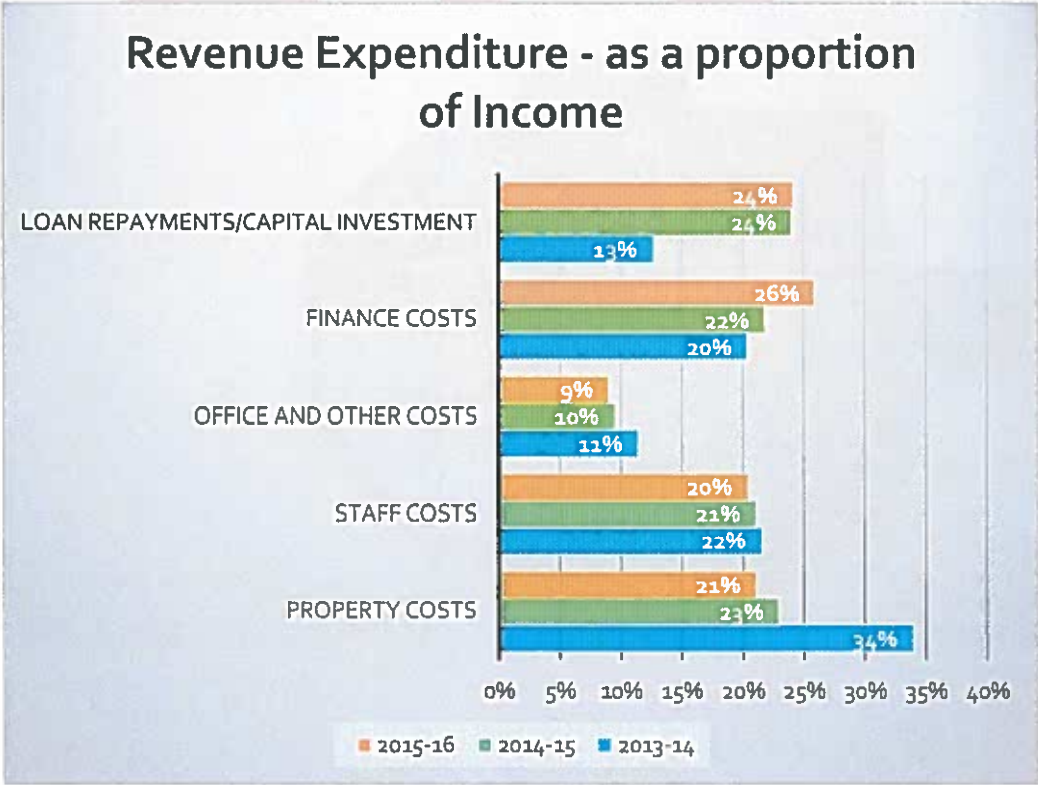
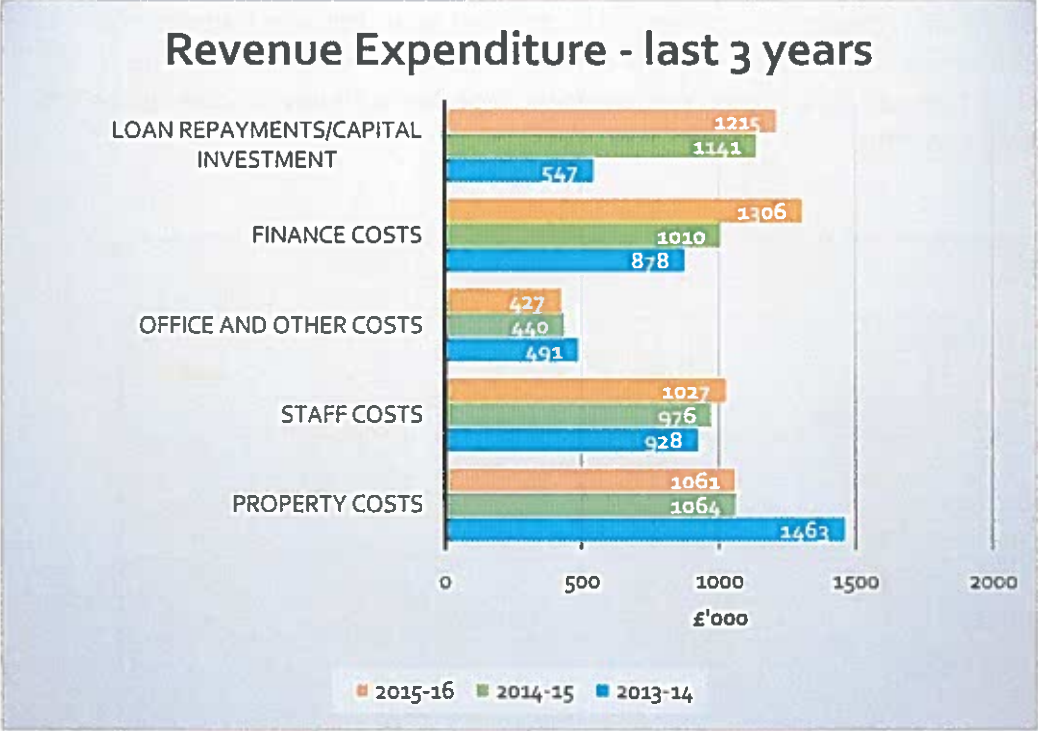
The balance of our Operating Costs comprise costs of our staff and offices, plus various other costs, fees and charges. Together these items amounted to just under one-third of our revenue expenditure for last year.

Finance Costs include Bank Charges and Loan Interest, the ongoing cost of borrowing for the development and improvement of our housing stock, and last year amounted to just over one-fifth of our expenditure.

The remaining balance, comprising one-quarter of our revenue expenditure, was used in Repayment of Loans due. Such repayments will help to facilitate further borrowing in due course which will allow us to continue our long-term investment in developing new affordable homes.

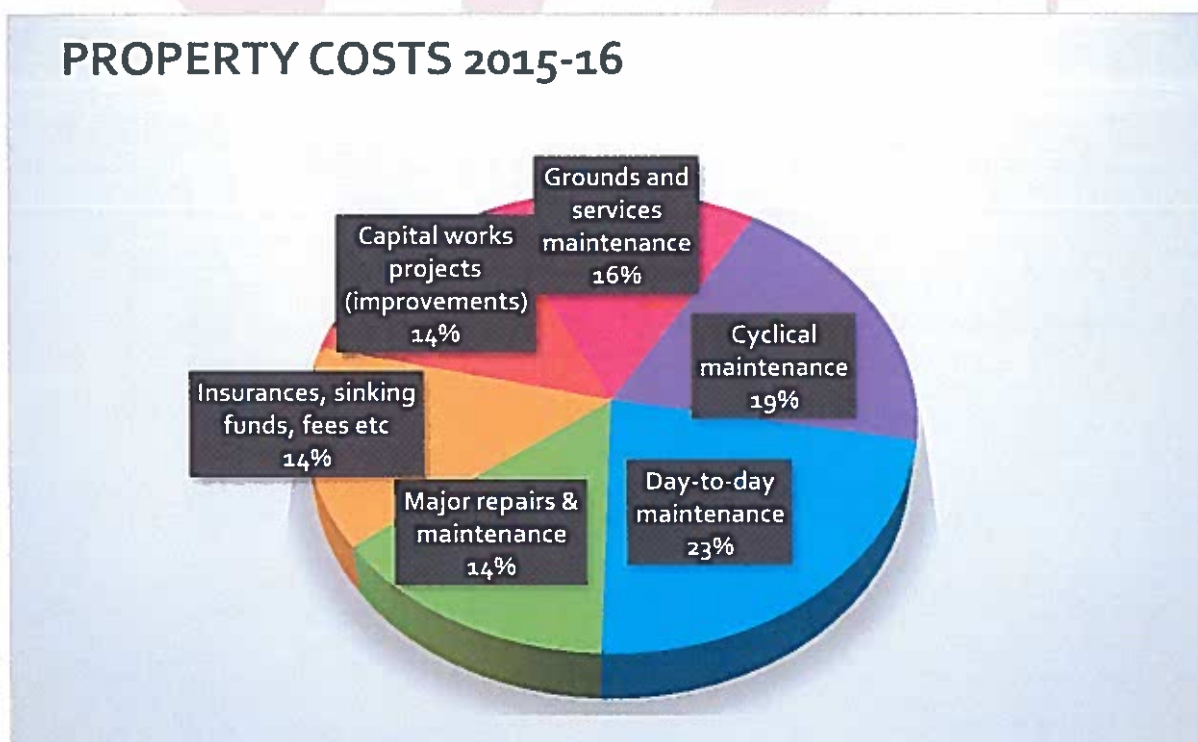


Our revenue expenditure over the last three years shows a continuing increase in capital investment; significant increases in finance costs; proportionate increases in staff costs but offset by falls in office and other operating costs; and property costs stabilising.

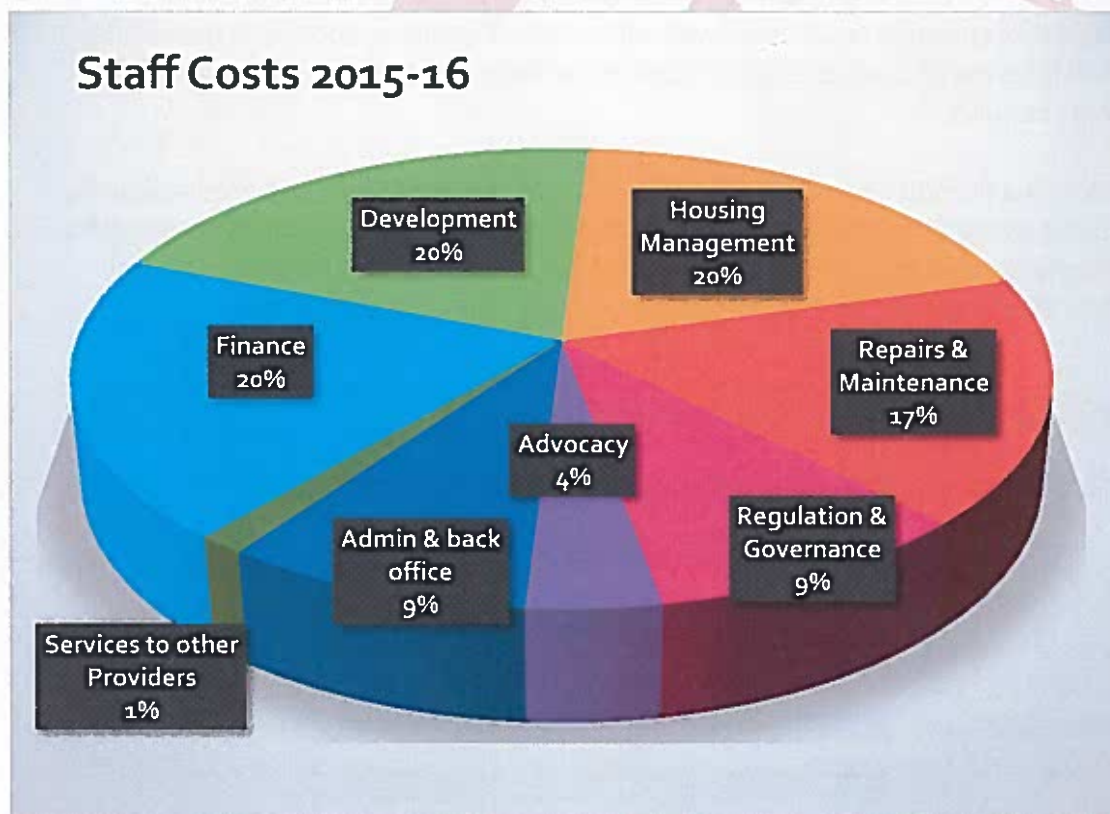


Property Costs for the year 2015-16 totalled £1.060m, an almost identical figure to the previous year. Approximately 14% of Property Costs was spent on larger capital works projects improving older properties, compared to 22% last year; this was balanced by increases in both cyclical maintenance and grounds and services maintenance. The amounts spent on planned repairs and maintenance, together with day-to-day responsive repairs, remained constant.

Property Costs	2015-16		2014-15	
	£'000	%	£'000	%
Capital works projects (improvements)	150	14%	237	22%
Major repairs & maintenance	151	14%	149	14%
Cyclical maintenance	204	19%	151	14%
Day-to-day maintenance	241	23%	238	23%
Grounds and services maintenance	165	16%	129	12%
Insurances, sinking funds, fees etc	149	14%	159	15%
TOTAL (rounded)	1,061	100%	1,064	100%



The distribution of our **Staff Costs** reflect the priorities of our organisation, with 37% of costs attributed to the resident-facing services of Housing Management and Repairs & Maintenance, and a further 20% associated with development of new homes. The vital Finance function accounts for around 20% of staff costs, whilst around 9% is expended in ensuring regulatory compliance and good governance. A relatively small proportion (4%) of staff costs are attributable to our advocacy work in promoting the cause of rural housing nationally, with central government and elsewhere. The provision of services to other registered housing providers comprised around 1% of costs in 2015-16; this is expected to rise significantly in 2016-17, as a result of a considerable increase in such activities.



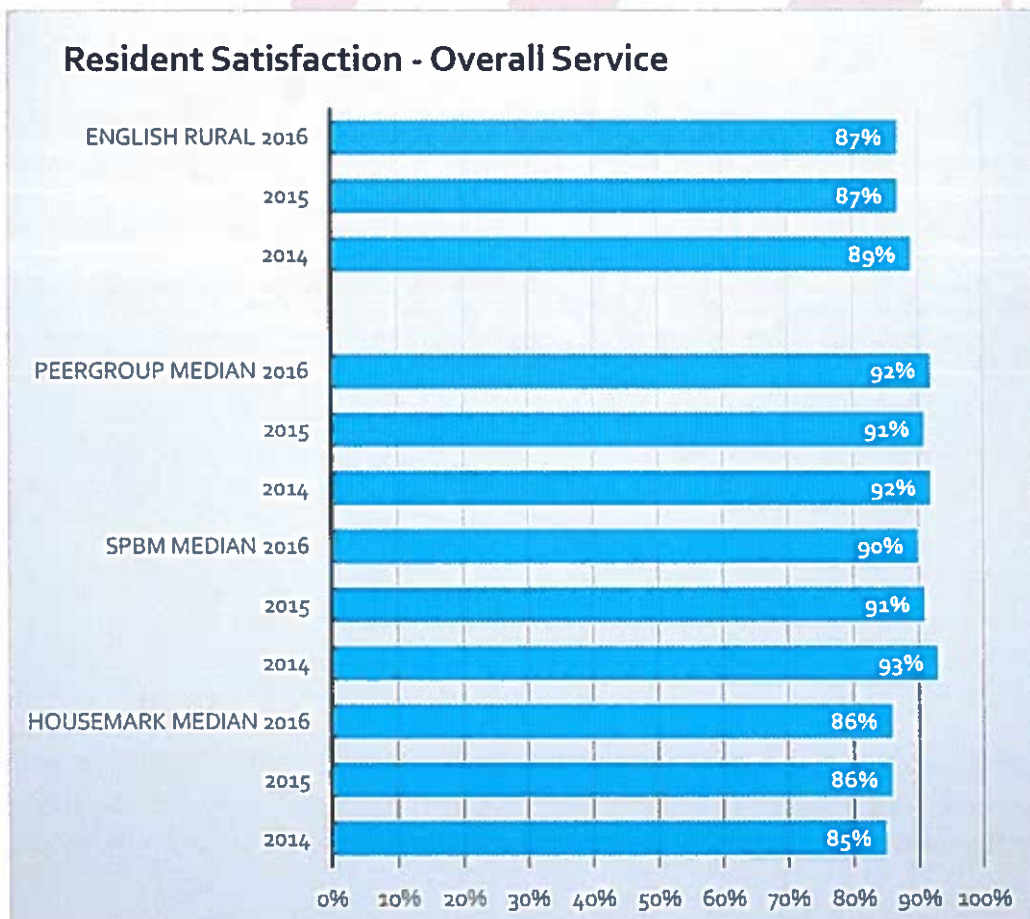
Such detailed analysis of our turnover allows us to review all of the costs involved in running our organisation and helps us to identify those services which could deliver added value, or to consider whether changes might bring about further improvements in our performance.

Although our total operating costs increased last year, the development of new homes added to our stock, combined with services delivered to other registered housing providers, has meant that our average operating costs per rented unit remains substantially the same as they were last year, which is in line with our aspirations.

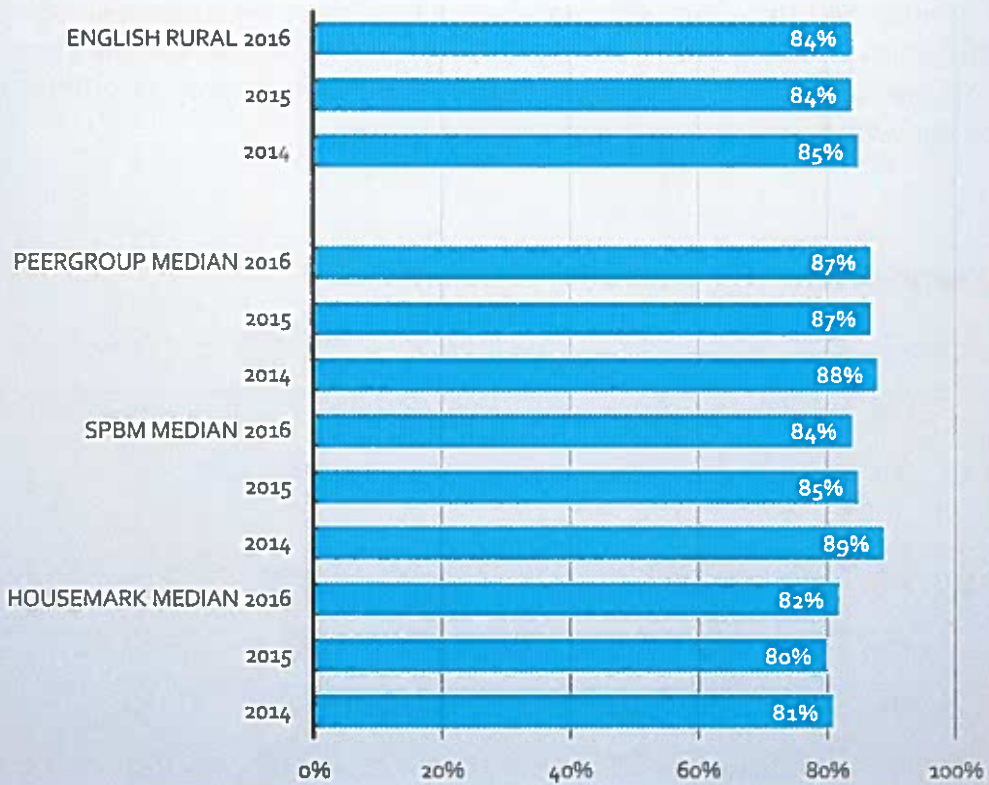
2. Benchmarking

At the same time as examining and reviewing our own costs, it is important to be able to make comparisons with the performance of other similar organisations. Benchmarking of operating costs on a truly comparable basis can be challenging, especially as there are few other multi-regional rural specialist Providers. Differences in ethos, objectives, scale of operation and geographic coverage mean that such cost comparisons should be regarded with a degree of caution, but they are nevertheless recognised as important in conveying an overall sense of relative performance. Benchmarking exercises indicate that our Operating Costs compare reasonably well with similar Providers, and are in the middle range both in terms of costs as a percentage of turnover and in terms of an equivalent weekly cost per unit.

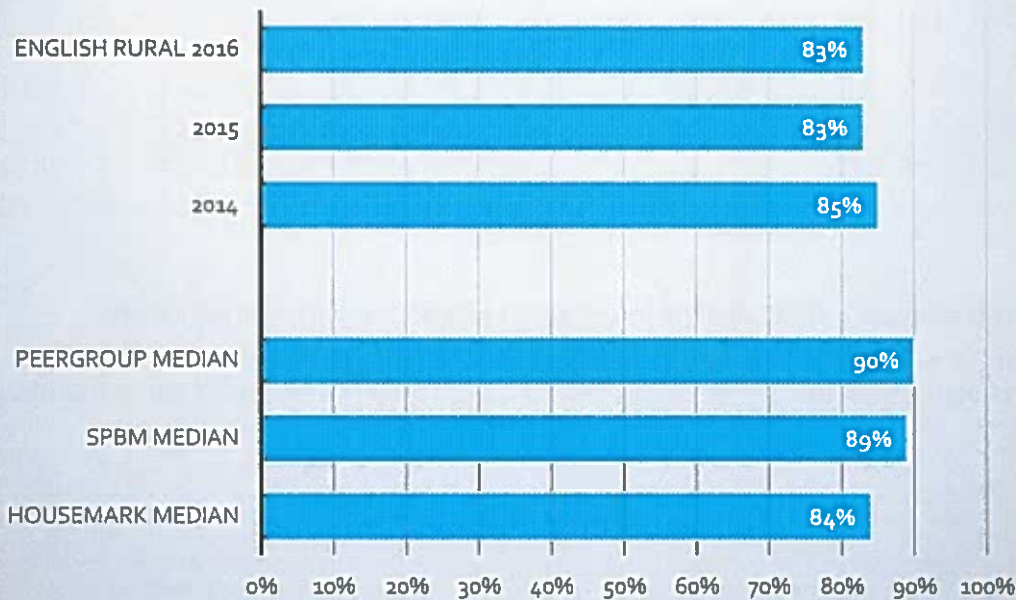
English Rural participates in a regional benchmarking group of small and predominantly rural housing associations, a member of SPBM – the Benchmarking system designed for smaller housing providers. The following tables compare English Rural with our rural Peergroup, SPBM and with national (Housemark) statistics where available.



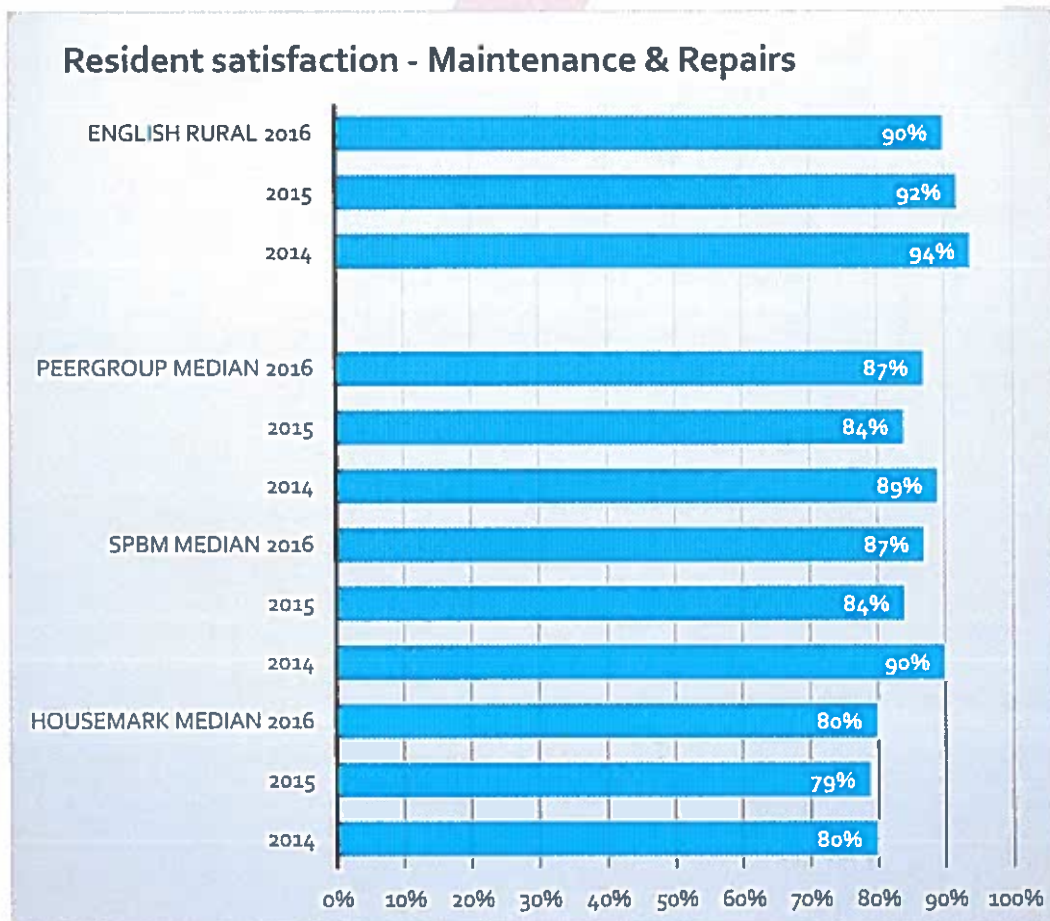
Resident satisfaction - Value for Money



Resident satisfaction - Quality of Home

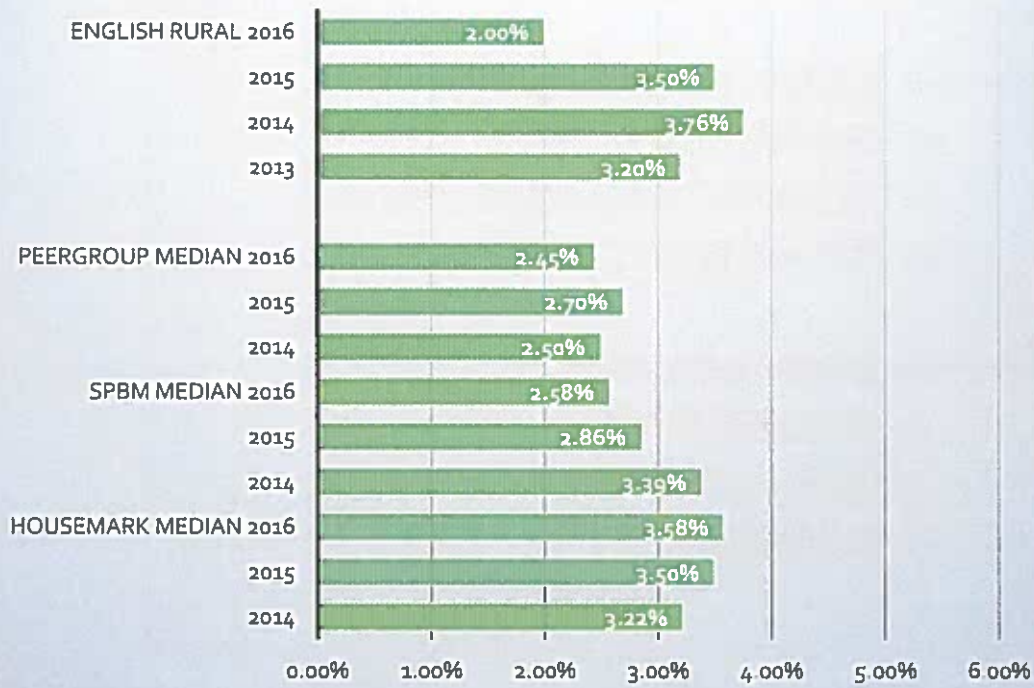


The preceding tables illustrate a stable level of resident satisfaction across the whole of the housing sector over the past two years. Although English Rural has a satisfaction rating from its residents which exceeds national average (Housemark) figures, we compare less well against some members of our Peergroup and against other smaller providers (SPBM); we will continue our work to improve on this wherever possible.



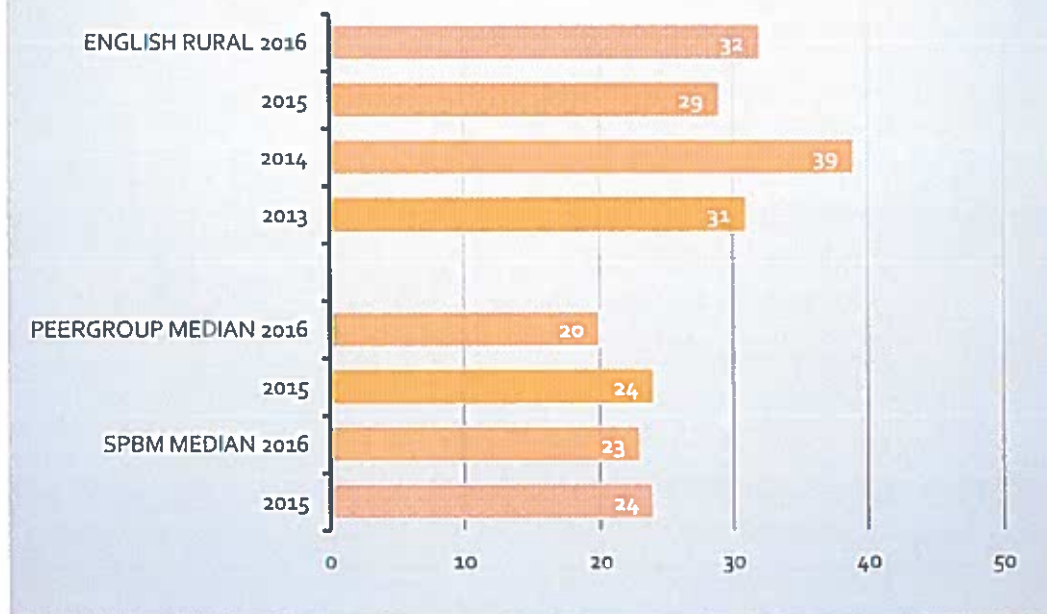
Although this table shows a small decline in resident satisfaction with our repairs and maintenance service, English Rural remains among the best performing associations this respect, in accordance with our ambitions to deliver a high quality service for our residents.

Average arrears (as percentage of rent due)



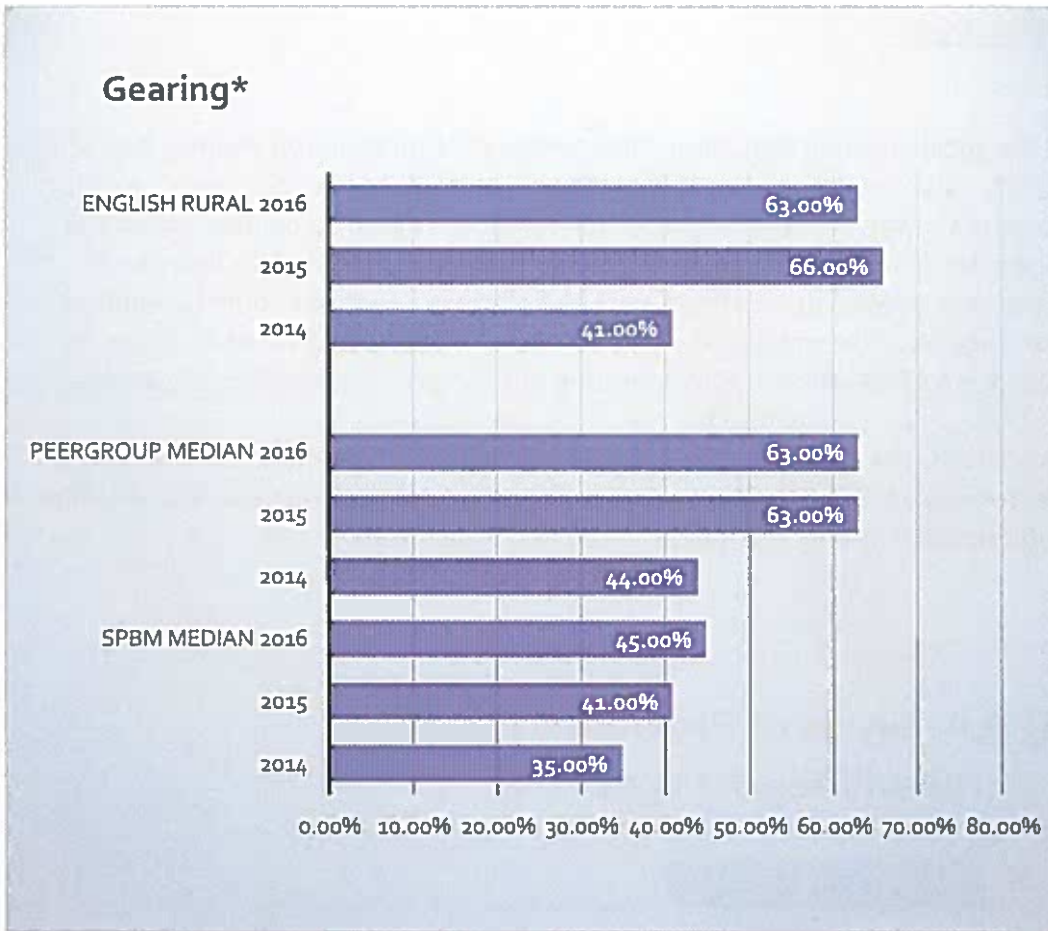
Our arrears figures for 2016 show a dramatic improvement from the three previous years, against a national trend which is generally rising. This improvement is the result of the revision of our arrears management strategy in response to the challenges of Welfare Reform.

Voids - average relet times (calendar days)



The time taken to relet a property once it becomes vacant is an important measure of efficiency. English Rural has relatively few relets within any year, and so any problem with an individual property is likely to impact on average relet times. This year's increase in the average for English Rural includes two properties where the opportunity was taken to undertake some major refurbishment work.

All English Rural properties are subject to occupancy restrictions which require potential residents to meet defined local qualifying criteria. The allocations process, which includes consultation with community representatives, has been further complicated by the introduction of certain Choice Based Lettings criteria applied by some local authorities, with a consequent effect on relet times in some areas.



(* measured as ratio of loans/reserves + grant received)

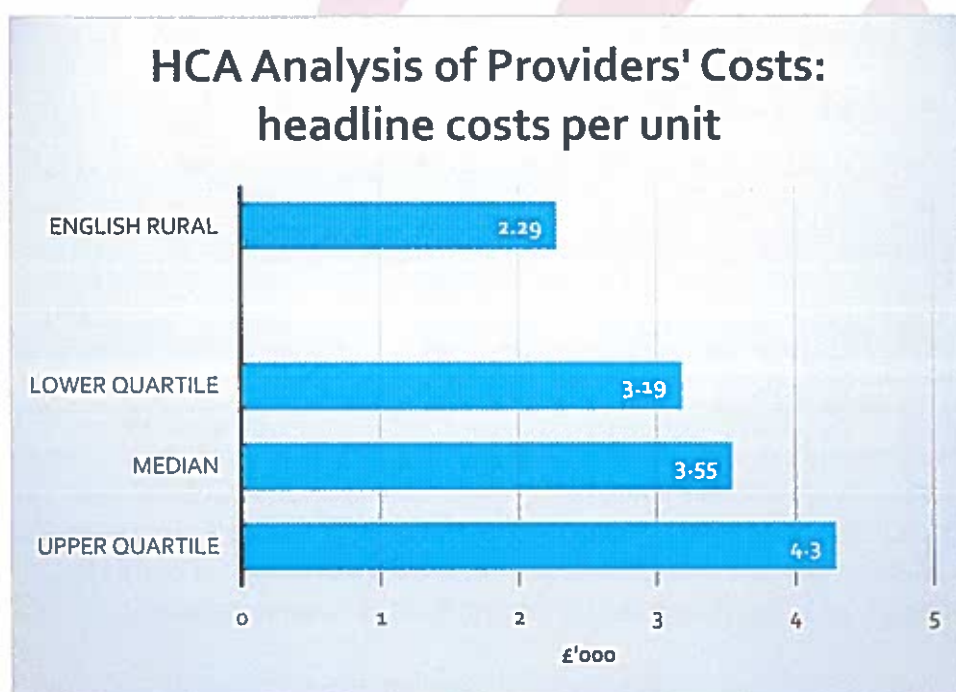
Gearing is an important measure of our overall financial position and our ability to continue to secure the funding for future development of new homes. Although our Gearing had remained relatively stable for some years, it increased last year, in line with forecasts and in common with many of our peers. The results for 2016 for English Rural and for our peers show some stabilisation of the position and in fact English Rural's Gearing fell slightly.

Gearing is expected to rise in future years as the effects of substantial cuts in government grants lead to an increase in our borrowings, in order to continue to fund new homes. Some new developments are already being delivered without any public subsidy.

3. Regulatory Data

In June 2016, the social housing Regulator, the Homes and Communities Agency published "Delivering better value for money: Understanding the differences in units costs", a report based on an analysis of the management and maintenance costs of providers across the social housing sector. This study identified significant cost variations in headline social housing costs, and estimated that perhaps only half of these variations could be readily explained. The Regulator has concluded that this level of unexplained variation must, at least in part, be due to differences in the operating efficiency of different organisations.

Based on this analysis, the Regulator has produced data for each provider, benchmarked against the sector as a whole. The figures for English Rural demonstrate that our Headline Social Housing Costs are among the lowest in the sector, as shown below:



The HCA study also includes further analysis of management and maintenance costs. In this regard, the results show that English Rural's unit costs are among the lowest in the sector. Within that headline, our management costs per unit appear relatively high as shown below:

HCA Analysis of Providers' Costs



Following some further analysis of the data it is evident that there are some anomalies in comparisons between segments of our operating costs with other providers, which are largely due to our practice of apportioning Overheads almost entirely to Housing Management. We are pleased that our overall 'Headline Social Housing Cost per unit' is among the lowest in the sector; going forward, the apportionment of costs will be reviewed with the aim of facilitating appropriate comparison with HCA published data.

The Board of English Rural wishes to ensure that the Association remains focused on its primary purpose, and accept that this focus may have some cost implications. As a specialist provider of homes exclusively for people with a proven local connection and with typically six or eight homes in any given location, our management costs per unit might be expected to be somewhat higher than others in the sector. In addition, our Board are committed to the principle that English Rural should remain a leading advocate of rural affordable housing and acknowledge that there may be costs attributable to this important work. These conscious business decisions reinforce the Association's commitment to the provision of affordable housing for local people in small rural communities

4. Summary

We have discussed how, in order to deliver our long term objectives, it is essential that costs and working practices are kept under constant review in order to ensure that we are continuing to secure the best possible Value for Money, and to make improvements as necessary.

An analysis of our revenue expenditure, including detailed examination of Property Costs and Staff Costs, helps us to identify potential areas for improvement. Year-on-year comparisons are also essential in quantifying whether improvements have been effective. Benchmarking our performance against that of other similar organisations is also a vital component of our Value for Money strategy, although all organisations are different and a degree of caution is required.

The results published above suggest that English Rural continues to perform well when compared with other Providers, in terms of the key areas of resident satisfaction, operating costs and financial outturns.

4. What Value for Money improvements have we delivered? What further improvements are planned?

English Rural has a programme in place looking at all potential options for improving Value for Money. Reviews of procedures and processes of all parts of the organisation have been ongoing throughout the year and will continue, with the aim of securing improved performance and value, when measured against our purpose and objectives.

Earlier this year, the Board agreed that the scale and pace of recent changes to the operating environment for housing associations generally and for English Rural in particular meant that the Association should undertake an in-depth review of its Business Strategy.

A significant example of the recent changes was the rent reductions imposed by the July 2015 Budget which reduced our rental income (as compared with the original Business Plan assumption) by some £1.5 million by 2020 and by some £12.6 million over the first ten years of the plan. A revised Business Plan Model was stress tested and submitted to the Regulator and to funders, demonstrating the ongoing strength of the organisation.

Over the last ten years the number of properties owned and managed by the Association has doubled, but funding facilities have more than quadrupled, reflecting the drastic reduction in grant support over this period.

A central part of the Business Plan Review, which will be completed during 2016, will include addressing the requirement of the Regulatory Standard that in seeking to maximise Value for Money, Boards should “consider alternative service delivery models”.

Treasury Management

The availability of appropriate funding through effective Treasury Management is fundamental to our objective of investment in new affordable homes. Value for Money improvements in Treasury Management have continued from last year and make a significant contribution towards our ability to sustain the development programme, despite reductions in government grant.

In March 2015 English Rural raised £11.6m of new funding through the Affordable Housing Finance (AHF) programme at an equivalent fixed rate of interest of 2.92%. This represented an implied interest rate saving of just over 3% compared to business plan assumptions. In monetary terms this equates to almost £9m of interest savings over the 27 years of the loan. Locking these savings into the business plan has released greater capacity to build more homes in the future than would otherwise have been the case. Given current historically low interest rates, further longer-term fixed rate funding is being considered to lock in additional savings.

Working with and for other Registered Providers

As the only housing association working exclusively in small rural communities and with a wide geographical coverage, English Rural has developed a strong “brand”, built up through extensive and proactive networking and advocacy. This has led to the Association being regarded as a leader in the specialist area of rural housing and in particular among smaller associations with similar aims and objectives.

Earlier this year, the Association commenced the provision of a full housing management service to New Forest Villages Housing Association, providing housing management and maintenance services for 50 additional properties all within existing resources.

The Association has also entered into agreements to act as development agents for two smaller associations in Hampshire, again within existing resources.

Our bespoke Asset Management Toolkit developed in 2015 is now attracting interest from peer housing associations to use for their own VfM strategies.

The Aster Cost-Sharing Vehicle of which English Rural is a founder member has continued to provide Value for Money for Internal Audit and support through the procurement of a new IT service provider.

The Association is also a founder member of a new specialist consortium, Hampshire Village Homes, formed with four other associations to develop affordable rural homes in that county. Shared expertise and a co-operative approach among the consortium members will ensure that this new venture can also be delivered within existing resources.

The above initiatives and others in the pipeline are expected to deliver further efficiencies as well as generate additional income for the Association, all delivered within existing resources.

Arrears

As demonstrated earlier in this Report, figures for arrears demonstrate a significant improvement in performance, achieved through such measures as increased support and advice and more efficient collection methods.

Property Improvements

Although headline Property Costs have not increased overall from 2015, existing properties have continued to receive significant investment with over 100 homes benefitting from major improvements including high-performing window and door upgrades, new kitchens and heating systems.

Development

In order to ensure that much-needed development for rent in rural areas can continue to be viable (in the absence of grant), many new schemes will include an element of homes for sale on the open market, the profits from which will subsidise the rented homes. This delivery route, envisaged and encouraged by the National Planning Policy Framework, is being supported by our local authority partners who increasingly recognise that rural exception site development has to include an element of market sales to make affordable housing viable.



ENGLISH RURAL

5. How do we demonstrate our Value for Money to our stakeholders?

“Value for Money” is ultimately a qualitative judgement which needs to be based on good evidence, although the phrase is likely to have different interpretations for each of our various stakeholders:

- Our Residents
- Our Board and staff
- The Regulator
- National and local partners

This Value for Money Statement will be accessible in full on the English Rural website at www.englishrural.org.uk and will be referenced within our Annual Report. Hard copies will be produced for the Regulator and for our national and local partners, as well as to any of our Residents upon request. Further references will also appear periodically in our Residents newsletter.

Internally, Value for Money appears as a regular and separate Agenda item for meetings of the Board, relevant Committees, our Residents Panel, the Management Team and Departmental Teams. Governance arrangements will be reviewed to ensure that governance structure and processes continue to add value and accord with any changes in the regulatory framework.

An awareness of the wider Social Value of English Rural will continue to be promoted through our advocacy work with the Rural Housing Alliance and others.

Public awareness of the value of English Rural, and of affordable rural housing generally, was reinforced earlier this year when our Royal Patron, HRH Princess Anne the Princess Royal, hosted a national rural housing conference which secured extensive nationwide media coverage.

For further information contact : English Rural Housing Association
Hall House, 9 Graphite Square
Vauxhall Walk, London SE11 5EE

Tel 020 7820 7930
Email info@englishrural.org.uk