Value for Money

Approach to Value for Money (VfM)

The Board recognises that it is essential that English Rural is focused on demonstrating VfM through its activities. The housing sector is facing big challenges, both in terms of delivering new supply and maintaining high levels of services to existing residents. English Rural's business model is built on ensuring that services to existing residents are maintained at a high level and fully funded before looking to contribute any internal resources to the provision of new homes. To deliver VfM, English Rural is prepared to be innovative, be more commercial and generate economies of scale through both organic and inorganic growth. These actions will deliver greater financial capacity to invest in the Association's agreed purpose. English Rural's VfM Strategy can be summarised as the ability to effectively mobilise investment and deliver on its agreed purpose, whilst using capacity and resources more efficiently. To understand how well it does this, it is important that there are easy to measure targets and outcomes. These include both financial and non-financial, some which will be generic and comparable across the sector and others which are more specific to English Rural's overall Business Strategy.

VFM Standard

A new Value for Money (VfM) Standard, issued by the Regulator for Social Housing (RSH), came into effect from April 2018. It moved the focus of the RSH's approach away from the primarily narrative VfM Statements to reporting through the statutory annual accounts by Registered Providers (RPs) such as English Rural, on progress in meeting their own targets, including a suite of metrics to be defined, from time to time by the RSH.

The outcomes required by the new Standard are that housing association providers registered with the RSH must:

(a) Clearly articulate their strategic objectives;
(b) Have an approach agreed by the Board to the achievement of VfM in meeting those objectives and the demonstration of the delivery of VfM to stakeholders;
(c) Through the strategic objectives to articulate the Board's strategy for delivering homes that meet a range of needs;
(d) Ensure that optimal benefit is derived from resources and assets to secure economy, efficiency and effectiveness in the delivery of strategic objectives.

The new VfM Standard requires housing providers to determine additional measures and targets which are bespoke to the organisation and which supplement the VfM metrics. This includes measurable targets and plans to address any areas of underperformance. The Group performance figures for 2019/20 against the VfM metrics are shown below. Sector wide figures provided by the RSH are shown for comparison purposes. It should be noted that the benchmark comparisons, even though the most recently published, are a year out of date and so are not directly comparable with English Rural's figures for 2019/20.

The VfM metrics are extremely helpful in ensuring that focus continues on both improving efficiency and economy as well as on investment in both existing and new homes. This is sometimes a difficult balance to maintain, and one which was significantly impacted by the implementation of the four years of 1% rent reductions started in 2016. As with other registered housing providers, this has put pressure on operating margins, return on capital employed and interest cover. English Rural's approach to navigating these financial pressures continues to be to grow, both through building new homes and through opportunities to work with other like-minded partners. The aim being to spread overheads and improve financial capacity to deliver more homes and services in the future.

English Rural's strategic approach to VfM is shown through the Business Strategy 2019/24, the success of which is in part measured by linking improvements to VfM metrics. The Strategy looks to apply resources to achieve agreed purpose, whilst delivering more for the same or less. Importantly achieving this whilst positively enhancing financial, staff and asset performance. The result of this being better productivity and improved VfM.

Value for Money Metrics (Group)

Metric	**English Rural 2019/20**	**English Rural 2018/19**	**English Rural 2017/18**	**Median RP's < 2,500 units**	**Median All RP's > 1,000 units**
1 - Reinvestment %	6.3%	5.5%	2.2%	4.3%	6.2%
2 - New supply delivered %:					
A. New supply delivered (Social Housing Units)	2.2%	0.6%	1.6%	0.6%	1.5%
B. New supply delivered (Non-Social Housing Units)	0%	0%	0%	0%	0%
3 - Gearing %	37.0%	35.3%	33.1%	34.1%	43.4%
4 - EBITDA MRI Interest Cover (inc sales) % **	189%	148%	183%	194%	184%
5 - Headline social housing cost per unit	£2,799	£2,688	£2,326	£4,880	£3,690
6 - Operating Margin %:					
A. Operating Margin (social housing lettings only)	26.4%	27.2%	32.5%	23.3%	29.2%
B. Operating Margin (overall)	26.5%	25.8%	27.9%	20.3%	25.8%
7 - Return on capital employed	2.0%	1.7%	2.2%	3.1%	3.8%

* Source: Regulator of Social Housing – Value for money metrics and reporting 2019 Annex to 2019 Global Accounts
** This interest cover definition differs from that used by our funders (see page 15) as it is at Group level and includes surpluses from the sale of properties. Performance is, therefore, generally higher than for loan covenant purposes.

Re-investment (Efficiency) – 6.3% versus 4.3% benchmark* (Target 6%) Green

This measure will fluctuate year-on-year depending on the profile of spend on both the replacement of existing capital components eg kitchens and bathrooms and the timing of spend on new developments. However, there is an increased trend over the last three years, and this spend profile will continue over the next three to four years, as English Rural delivers its planned 200 new affordable homes, and re-investment will average around **6%** over this period, in line with the median for RPs owning more than 1,000 units.

* benchmark taken as RP's under 2,500 units (median)

New supply delivered (Effectiveness) – 2.2% versus 0.6% benchmark (Target 3.3%) Amber

As with re-investment, the percentage of new supply delivered will fluctuate year-on-year depending on the timing of completions. The forecast average over the next four years is **3.3%** which is significantly ahead of benchmark figures and demonstrate English Rural's commitment to use its financial capacity and deliver new affordable homes. Performance is marked as amber to date because the full impact of the pipeline of schemes is still coming through and actual is still below target. This was anticipated as there is a significant lead-in time between investment decisions and completions.

Plans to meet strategic target:

- During the year an additional member of the Development Team was recruited to provide further project management support in the delivery of new homes.
- The approved Communications Strategy looks to support development growth outlined in the refreshed development strategy presented to the Board.
- An increase in the development programme and pipeline to over 250 units.

Gearing (Efficiency) – 37.0% versus 34.1% benchmark (Target – below 42%) Green

Current gearing of 37.0% is above the median for English Rural's size and is forecast to rise to 42% over the next five years as more debt is taken on to deliver the Business Strategy. Debt per unit increases from £29k to £33k over this period. This is a manageable increase and within the Board's accepted risk tolerance. The increase is also in-line with English Rural's business plan expectations and with the median for Registered Providers owning more than 1,000 units.

EBITDA MRI Interest Cover (Efficiency) – 189% versus 194% benchmark (Target > 240%) Amber

This metric has been directly impacted by the implementation of the four years of 1% rent reductions and also the interest cost of carrying the cash proceeds from the Affordable Homes Fund taken out in 2015. The £11.6m of funds raised have now all been invested into new affordable homes and rental income generated more than covers the interest payable. The 2019/20 position has improved, reflecting the additional sales surpluses generated in the year compared to 2018/19. Underlying social housing interest cover is still squeezed, not only by the recent rent reductions, but also cost and volume pressure on repairs, particularly void and major repairs. Despite this, the expectation is that this measure of interest cover will start to increase and average **240%** over the next four years, ahead of benchmarks.

Plans to meet strategic target:

- Delivery of the planned sales programme of 39 low cost home ownership units and 10 market sales homes up to 2024.
- Review the void specification process (including an internal audit on void management).

Headline social housing cost per unit (Economy) - £2,799 versus £4,880 benchmark Green

English Rural performs well in this area and will continue to do so for the foreseeable future. As English Rural's stock has been built mostly over the last 20 years, to date there has not been the need to spend significant sums on capital replacements. This programme of replacement will increase over the next five years, as more kitchens and bathrooms in particular will need replacing. It will also be impacted by ambitions to respond to the Climate Emergency and improve the environmental credentials of legacy stock. Average unit costs will, therefore, start to increase although are projected to remain well below the benchmark median. The increase will be partially offset by the addition of 200 affordable homes achieved through the Business Strategy. The economies of scale achieved by this growth will have a positive impact on overall costs per unit.

Operating Margin % (Efficiency)
Social housing – 26.4% versus 23.3% benchmark (Target 30%)

Amber

Social housing margins have been squeezed due to the 1% rent reductions affecting the majority of English Rural's stock. Increasing operating margins is a priority for the English Rural Board and an outcome expected through the new Business Strategy. This will be achieved by increasing operating surpluses through growing unit numbers, economies of scale in terms of cost control and looking at partnering opportunities to further spread overheads. Increasing core margins is essential to freeing up financial capacity and improving returns on capital employed. Margins have partly been held back by cost and volume pressure with repairs and voids. This has meant that margins were around 3% lower than expected last year. Margins are projected to increase to 30.0% by 2024.

Plans to meet strategic target:

- Review the void specification process (including an internal audit on void management).
- Delivery of further homes from the development pipeline.
- Identify partnership opportunities to secure additional income or further spread overheads.

Overall – 26.5% versus 20.3% benchmark (Target 30%)

Amber

Overall margins have held up to be close to social housing margins. This is mainly due to the relatively high margin on a plot sale by ER Homes during the year. Normally, overall margins are lower as they include business activities which have lower returns. Income generated form third party services and development activities have much lower margins than social housing. However central overheads, which are mostly fixed, allocated to those activities help reduce the costs associated with social housing lettings and as a result improve those margins. Overall margins are projected to increase to 29.8% by 2024.

Return on capital employed (Efficiency) – 2.0% versus 3.1% benchmark (Target 2.5%)

Amber

The one area where there appears to be a relative underperformance is in relation to return on capital employed (ROCE). The Association's business plan forecasts show that ROCE will average 2.5% over the next five years but remains below the current benchmark average.

Having sought to understand the reasons for this, the high proportion of shared ownership properties owned has been identified as one of the main reasons. The historic model of shared ownership sold by English Rural was designed to be an affordable product in high-value rural areas. Because of this, the model charges very low rents on the retained shares, and consequently, secures lower returns for the Association. The impact of this reduces the overall return by circa 0.5%. In response to this, English Rural is in the process of introducing a new model and policies which look to increase the return on existing and new shared ownership properties.

Another factor contributing towards the low performance is the fact that the majority of English Rural's homes were built on Rural Exception Sites, with build costs significantly higher than average due to the need to put in place services and infrastructure, without a corresponding increase in rent that can be charged. Only a small proportion of homes were secured through Section 106 agreements on market-led sites, where generally costs are lower due to any subsidy being included in the purchase costs. English Rural will continue to prioritise its delivery of Rural Exception Sites as these are important for achieving agreed purpose and business objectives. As a consequence, ROCE will likely remain below the median for the sector as a whole.

Plans to meet strategic target:

- Introduce new shared ownership lease model for new schemes and on re-sale.

Other strategic Value for Money measures

English Rural is committed to being transparent about the approach to securing Value for Money (VfM). Alongside publishing our individual VfM Statement and sector standard metrics annually, tailored VfM metrics have been developed around agreed business strategy and purpose. The actions to support delivery of VfM continues to make English Rural a more efficient and effective organisation, delivering additional outputs using the same or less resource. Importantly achieving this without compromising quality of services or our offer.

An update on the bespoke VfM metrics established in 2018/19 is supplied below:

Value to be delivered	Target	Starting position	Gains
Energy efficiency Reducing energy costs and tackling fuel poverty in rural areas to address the financial disadvantages already facing low income rural households.	That 90% of rented homes will have an EPC band rating of C or above by 2024 and all housing association stock will achieve at least EPC rating of C by 2030 Ensure all new homes developed through the Business Strategy achieve an EPC rating of at least B.	75% currently meet EPC rating of C or better.	• 78% now achieve EPC rating of C or better. • 75% of second retrofit project replacing older style storage heaters with air source heat pumps completed • New property standard established as part of refreshed development strategy based on fabric-first principles. Baseline for property performance established as an EPC rating of B.
Rural advocacy To generate direct benefits for rural communities and	To increase the supply of affordable rural homes through policy influence;	No rural housing target from Homes England and investment in affordable rural	• Figures discussed with Homes England shows Affordable Homes Programme (AHP) investment in affordable

Value to be delivered	Target	Starting position	Gains
increase the supply of affordable rural homes through influencing rural policies at regional and national level.	To work with smaller organisations through a paid for service to release otherwise dormant investment capacity into new affordable homes;	homes (settlements of less than 3,000) delivers around 10% of AHP. Actively working with three smaller providers to deliver more affordable rural homes, with a programme of 14 new homes.	rural homes increased delivery to around 13% of the programme for 2019/20 (10% 2018/19). • Current development partnerships with other HAs have 14 new affordable rural homes under construction and 17 as emerging in the development programme. • Partnership approach developed by English Rural promoted as model to Rural Housing Alliance & NHF Smaller HA Group. • Communications Strategy agreed to support business ambitions. Notable gains on social media with impressions increasing 190% during the year with social media channels generating just over half a million impressions. Social media followers also increase by 285%, with 28% of all followers ‘classified’ as politicians.
Resident involvement Developing services to meet changing demands securing efficiencies through technology, whilst more vulnerable households.	To keep overall satisfaction levels within the upper quartile for the sector; To launch an online resident portal; Pro-actively engage with staff to improve performance and skill base; To be more open and transparent and accountable	Continued good levels of overall satisfaction with services provided. No online self-service offer for residents. Updated stock condition data, but not articulated yet through a refreshed Asset Management Strategy. A sound approach to resident scrutiny, but one that could	• Adopter of the NHF Together with Tenants initiative. • Impact assessment of resident engagement completed, and new virtual channels successfully activated. • Resident satisfaction with repairs recorded annually as 96% (2018/19 93%); • Self-service portal successfully launched in December 2019 with around 24% residents signed-up by year end (target 50% within first 12 months):

Value to be delivered	Target	Starting position	Gains
	in our service offering.	be developed in partnership with residents to be more open and accountable.	• Visits to the website increased by 16% during the year. • New staff management approach initiated by year end that will identify and support staff training and skills. 80% of staff felt proud to work for English Rural and 95% would recommend to others as a place to work.