

**ENGLISH RURAL HOUSING ASSOCIATION LIMITED**



**Value for Money Report  
22/23**

## **Approach to Value for Money (VfM)**

With increasing demands on affordable housing sector resources, be that the impact of high inflation, lack of opportunities to secure new affordable homes or the increasing need to invest in energy improvement and safety measures, being effective and efficient with available resources is of paramount importance. As such, English Rural's approach to delivering Value for Money is based on the following guiding principles:

- Investing in and delivering good services to our existing homes and residents;
- Making homes more energy efficient to reduce running costs for residents;
- Generating more financial capacity through growth, partnerships, generating economies of scale to provide more capacity to invest in existing homes, services and new developments;
- Being a pro-active advocate and influencer on matters that benefit rural communities.

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.

### **Challenges to delivering VfM**

- English Rural only builds and manages homes in smaller rural communities where construction costs are generally more due to higher infrastructure costs such as utilities and drainage. This has been exacerbated by the current inflationary pressures.
- Although English Rural has excellent relationships with the local councils and parishes in areas where it operates, there is often local resistance to homes being built in small rural villages, responding to this and taking our community focused approach requires significant staff time.
- Although relatively small, English Rural operates in many local authority areas across the country, making efficient delivery of services more challenging. That said, average social housing cost per unit is below the average when benchmarked against other housing associations.

### **Opportunities to delivering VfM**

- As a specialist in rural housing, English Rural will often build and manage social housing in locations that other housing associations would dismiss as too difficult or too small. This is a key differentiator for English Rural in delivering value to rural communities. We recognise the significant value that our small developments bring to rural communities.
- As an active advocate for rural communities and affordable rural homes, real benefits can be made to current and future residents by protecting and promoting the investment in rural housing and services. A good example of success was the re-introduction of a rural target by Homes England within the latest Affordable Homes Programme.
- English Rural has been very successful in partnering and sharing expertise with smaller like-minded housing associations, helping them deliver affordable rural homes and services. For English Rural, this helps bring in useful income to help spread overheads and create further capacity to invest in our strategic ambitions.

## **How Do We Perform and What are the Measures to Improve?**

To understand how well English Rural delivers on our VfM objectives, it is important that there are easy to measure targets and outcomes. English Rural uses a range of measure and benchmarks to assess performance and to set future targets against. We expand on these more later in this report.

## VfM Standard

The Regulator for Social Housing (RSH) requires publication in the Financial Statements of performance against nine headline VfM Metrics, which allows comparison across the housing association sector. Targets are set for future years and measures identified to improve performance where needed. In addition, separate bespoke VfM metrics should be used to highlight specific measures that are important to the individual housing association. Full detail of performance against these metrics are shown [here](#) (pdf).

English Rural's Board have identified three of the nine RSH VfM Metrics as being of particular relevance and importance in demonstrating that English Rural is on track to deliver its VfM objectives. Performance and targets against these, along with the three bespoke metrics, is shown in the table below.

Metric	English Rural 19/20	English Rural 20/21	English Rural 21/22	Target 21/22	Target 22/23	5-Year Target	Median RP's < 2,500 units*	Median All RP's > 1,000 units*
<b>Regulatory VFM Metrics:</b>								
<b>Reinvestment %</b>	6.3%	3.0%	5.2%	8.0%	11.9%	8.0%	3.3%	5.8%
<p>Although this measure will tend to fluctuate year-on-year, depending on the profile of spend on both the replacement of existing capital components, for example, kitchens and bathrooms and the timing of spend on new developments, last year saw the first of a sustained period of higher investment for English Rural. Development schemes that had partially stalled during Covid-19 were progressed and this along with an increased investment in component replacements, resulted in an increase from the 3.0% re-investment in 2021/22. With further planned increases in expenditure on both new supply and in existing properties next year, the forecast for 2022/23 is nearer to 12%, with a longer term average target of 8.0%.</p> <p>Plans to meet strategic target:</p> <ul style="list-style-type: none"> <li>• Delivery of over 230 new affordable homes over the next five years;</li> <li>• Deliver agreed Asset Management Strategy.</li> </ul>								
<b>New supply delivered %:</b>	2.2%	1.7%	0.6%	2.0%	1.8%	3.0%	0%	1.3%
<p>As a specialist rural housing association, English Rural takes responsibility for adding new supply of homes in rural communities. This allows residents to remain close to their support networks and places of work. Our investment in new rural homes also secures an essential boost to the local economy helping to reduce rural disadvantage. This disadvantage is highlighted the Pragmatix research report, "<a href="#">Rural Recovery and Revitalisation</a>", commissioned jointly by English Rural. The report illustrated the economic, fiscal and societal value that comes from delivering affordable rural homes. The report can be found on English Rural's website.</p> <p>Plans to meet strategic target:</p> <ul style="list-style-type: none"> <li>• A review of development strategy and approach to accelerate the delivery of new homes;</li> <li>• An increase in the development programme and pipeline to over 250 units;</li> <li>• The application of capacity from across the Group to enhance delivery capacity and leverage of opportunities;</li> <li>• A Communications Strategy that includes supporting and advancing growth ambitions.</li> </ul>								
<b>Operating Margin (social housing lettings)</b>	26.4%	27.7%	22.9%	24.3%	22.1%	>28%	25.1%	26.3%
<p>A key indicator of English Rural's underlying efficiency. An increased margin shows that residents' rent payments are being used efficiently, ensuring more is available to invest in services and improvements to existing homes as well as to support new supply. This being particularly relevant given the likely additional costs arising from the Government's carbon reduction initiatives.</p> <p>Social housing margins have reduced from last year, due mainly to higher repair costs. Maintaining and increasing social housing operating margins will be a challenge in the future given cost pressures, but English Rural's approach to generating capacity to invest in new homes and existing ones will be the same ie growing unit numbers, economies of scale 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. Additional inflation allowances have been built into English Rural's 30-year financial plan resulting in margins projected to increase to 29% over a 5-year period rather than the 32% projected last year.</p> <p>Plans to meet strategic target:</p> <ul style="list-style-type: none"> <li>• Delivery of the planned sales programme of 27 low cost home ownership units and 23 market sales homes up to 2027;</li> <li>• Delivery of over 230 new affordable homes over the next 5 years;</li> <li>• Continue to look for opportunities to grow through partnerships with smaller like-minded rural housing associations.</li> </ul>								

Bespoke VFM Metrics							Benchmark (where available)
<b>% of homes above EPC C</b>	66%	68%	70%	73%	78%	90%	69% ***
<p>There is an expectation on English Rural to secure a C or above rating on all homes by 2030, unless specific exemptions apply. The refreshed Business Strategy sets a target of moving from the current level of 70% to 90% during the five-year strategy period. A specific challenge is the rural nature of homes, which are often off the mains gas network and reliant on older electrical forms of heating. This is known to impact low-income households, who struggle with increasingly high electricity costs. The inability to heat homes can also increase the probability of condensation and poor living conditions, which typically leads to higher maintenance costs. English Rural has already successfully delivered two retro-fit programmes where air-source heat pumps have been installed in-place of electrical storage and convector heaters.</p> <p>Plans to meet strategic target:</p> <ul style="list-style-type: none"> <li>• Ambitions embedded within Asset Management Strategy;</li> <li>• Increased financial provision embedded within financial business plan;</li> <li>• Ongoing retrofit programme being delivered to meet target, informed by stock condition survey;</li> <li>• A further appraisal and modelling on this matter to feature in stock condition survey planned for 2023.</li> </ul>							
<b>% Spend of advocacy</b>	3.8%	3.5%	3.1%	>3%	>3%	>3%	N/A
<p>The Business Strategy continues the ambition to play a leading and influential role in the sector. English Rural has a brand and profile beyond what would typically be expected for an organisation of its type and size. Continued investment in the effective use of this position will help to sustain a positive operating environment in which agreed purpose is understood and supported. There is no easy benchmark to compare this measure against given its bespoke nature. The percentage is lower than last year's 3.5%, reflecting proportionately higher overall operating cost base.</p> <p>Plans to meet strategic target:</p> <ul style="list-style-type: none"> <li>• Refreshed Communications Strategy in 2021/22, which is focusing on mobilising resources effectively to optimise outcomes;</li> <li>• Sponsorship of critical research projects and collaborations intended to have high impact;</li> <li>• Role of Chief Executive across rural and housing sectors.</li> </ul>							
<b>Number of complaints</b>	6	22	12	<13	<12	<10	N/A
<p>Listening to residents has shown the need to adapt the way that services are delivered. The restructure of the services team completed in 2020 has proved successful and provides a single point of contact for residents. Enhancing resident voice as a leading early adopter of Together with Tenants work, which has now been developed via our Customer Charter has helped to improve the quantity and quality of resident engagement and involvement activity. The review of the complaints handling process and enhanced role for the Audit &amp; Risk Committee has made sure that lessons can be learnt, and value is secured when complaints happen. It is encouraging that the number of complaints has fallen from 22 in 2020/21 to 12 in 2021/22.</p> <p>Plans to meet strategic target:</p> <ul style="list-style-type: none"> <li>• Continue to work with residents to deliver on the Customer Charter aim, capitalising on our new framework of engagement to enhance and embed resident voice at the centre of our operations;</li> <li>• Support the role of the newly nominated resident who has joined the Board as part of planned succession;</li> <li>• Continued development of services team to optimise performance and quality.</li> </ul>							

\* Source: Regulator of Social Housing – Value for money metrics report 2021 - Global Accounts 2021

\*\* Acuity – South West Benchmarking Group Median 2022.

## Business Health Dashboard used to drive performance

The Board has in place a Business Health Dashboard to regularly review a variety of key indicators to drive improvements in business performance. These are directly aligned to English Rural's seven Strategic Ambitions. Improving these indicators will help drive better performance against the VfM metrics identified above. Performance for the year 2021/22 is shown below. A more detailed commentary on performance is included in the Board Report to the Financial Statements [here](#) (pdf).

Performance Indicator	Actual	Target	2021/22 Rating	2020/21 Rating	Direction
<b>Strategic ambition one - Work with residents and deliver services in an accountable way</b>					
% Satisfied with Service	77	>85			=
Number of complaints	12	<13			↑
Ratio of responsive and planned maintenance investment	0.33	<0.4			↑
<b>Strategic ambition two - Grow by building new homes in partnership with rural communities</b>					
Homes started within year	24	>40			↑
Homes completed in year	10	>16			↑
Homes in development programme	134	>100			↑
<b>Strategic ambition three - Play a leading and influential role nationally within the rural housing sector</b>					
% spend on advocacy	3.1%	>3			↓
<b>Strategic ambition four - Invest in and deliver good governance</b>					
% Board attendance	88	>90			↓
% Committee attendance	92	>85			=
% Training attendance	98	>90			↑
<b>Strategic ambition five - Invest in securing and keeping the best talent</b>					
% Staff who would recommend English Rural as a good place to work	95	>90			=
% Annual appraisals overdue	6	<10			↓
<b>Strategic ambition six - Actively seek partnership opportunities with other smaller rural housing associations.</b>					
Active partnerships	5	>5			=
£000 Partnership income*	£49,400	>58			↑
<b>Strategic ambition seven - Use assets effectively and support sound financial health.</b>					
% Fixed to variable rate debt	82	>60			↓
% EBITDA (MRI) exc sales and interest cover	177%	>110			↓
Liquidity	21 months	>18 months			↓

## **Benchmarking**

For VfM benchmarking purposes, English Rural uses the sector medians provided as part of the annual Global Accounts review by the RSH. In addition, English Rural also subscribes to Acuity Services, a regional benchmarking service for similar housing associations, which allows comparison across the range of VfM metrics as well as more customer focused indicators. This drives some useful comparisons but can also be problematic given that English Rural is one of the biggest in the group and is also an active developer. As such, English Rural feels the sector median for registered providers above 1,000 homes is a better benchmark and is, therefore, included for reporting purposes.

## **Key Focus Activities 2022/23**

- Delivering on transfer of engagement and improvements to group structure;
- Preparing for new stock condition survey to inform investment plans;
- Carrying out a staff capacity review;
- The impact of rising inflation on residents;
- A strategic review of how we develop new homes;
- Putting in place additional funding and security;
- Implementing a new IT Strategy.

### **Delivering on transfer of engagement and improvements to group structure**

A significant transfer of engagement of a smaller rural housing provider will complete by the end of the financial year. This will add approximately 12% to English Rural's overall homes owned and will add to overall financial capacity, improve operating margins and allow for more overheads to be shared. This is a key VfM driver, ensuring that English Rural has more financial strength to deliver investment in new and existing homes.

In addition, there will be some streamlining of the group structure with an existing subsidiary also transferring into English Rural. This will reduce the time spent on regulation, governance and finance.

### **Preparing for new stock condition survey to inform future investment plans**

Of utmost importance is ensuring that the necessary investment in existing homes is well planned, allows for the move to EPC C ratings and eventually to net-zero. Accurate data on existing homes will be prepared during the year to enable an independent surveyor to carry out a stock condition survey during 2023.

### **Carrying out a staff capacity review**

As plans to grow inorganically have picked up pace the Board is aware of the pressure this has put on resources, particularly staffing. To ensure that English Rural has the right staff resources in place to continue to deliver strategic ambitions, a capacity review will be undertaken during 2022/23, in time to inform the budget setting process for 2023/24.

### **The impact of rising inflation on residents**

The Board is aware of the financial pressures on residents following the impact of Covid-19 and now, increasingly, as a result of rapid rises in the cost of living. When looking at what rent increase to pass on next April, the Board will look closely at how it balances the need for English Rural to protect services and investment against the impact of any increase on residents. The Board has actively provided support to residents who are struggling financially, allowing access to a Hardship Fund provided by the internal allocation by English Rural from its non-social housing income generation. The Board will no doubt consider the benefit and value on this approach again in the future.

## **A strategic review of how we develop new homes**

Building homes in rural communities is not easy. Cost can be high due to lack of infrastructure, extended timescales as a result of a desire to fully engage communities and local councils as well as local opposition. This challenge has been exacerbated by recent significant increases in build contract tender prices. To try and navigate these challenges a strategic review of how English Rural targets its resources to build new homes is planned, including a review of geography and tenure.

## **Putting in place additional funding and security**

To help deliver the planned 5-year development programme, £32m of new funding needs to be put in place and security charged. This will be carried out through a competitive process to ensure that the initial and future funding costs are kept to a minimum.

## **Implementing a new IT Strategy**

During 2021/22, a new IT Strategy and Roadmap was introduced to improve both the IT support for staff, but also to implement changes to the way staff work collaboratively, accessing shared information held in the Cloud and improving IT security more generally. A new IT Support provider has been chosen and, during 2022/23, they will support English Rural through the initial move from the existing provider and then to implement the actions from the Roadmap.

## **Corporate Structure Review**

The Board has adopted the Mergers, Group Structures and Partnerships: a voluntary code for housing associations. As such, it regularly reviews whether residents and other partners would be better served if an alternative corporate structure was in place. This can include keeping the structure as is, simplifying the existing structure and also considering the option of amalgamating with another registered provider. The Board carried out a review in 2021/22 and put in place steps to streamline the current corporate structure and to continue to seek opportunities for other rural, like-minded, providers to joining with English Rural when there is a clear business case for both parties.

The Board continues to believe that existing and new residents are best served by English Rural, given its deep understanding of and influence over rural housing opportunities and services.