

ENGLISH RURAL HOUSING ASSOCIATION LIMITED



**Value for Money Report
2023**

Approach to Value for Money (VfM)

With increasing demands on affordable housing sector resources, be that the impact of high inflation, challenges in enabling 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, which attracts upfront costs which are at risk of being abortive if a development does not progress.
- Although relatively small, English Rural operates in many local authority areas across the country, making efficient delivery of services in some instances 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 affordable homes 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 and core funding for a national network of Rural Housing Enablers.
- English Rural has been very successful in collaborating and sharing expertise with smaller like-minded partners, 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?

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. Details

of performance against these regulatory metrics are included within our published financial statements, [here](#).

It is recognised that the overall value delivered by individual providers cannot be expressed solely by these metrics and that bespoke VfM metrics will help demonstrate how an organisation is delivering and improving value against its long-term strategic objectives.

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

In addition, there are a wider set of metrics which form a "Business Health Dashboard" showing underlying progress aligned to English Rural's strategic ambitions. These are regularly reviewed by Board and the Senior Management Team to ensure performance is appraised and where necessary improvement actions are taken and trade-offs are understood.

Metric	English Rural 20/21	English Rural 21/22	English Rural 22/23	Target 22/23	Target 23/24	5-Year Target	Median RP's < 2,500 units*	Median All RP's > 1,000 units*
Regulatory VFM Metrics:								
Reinvestment %	3.0%	5.2%	7.3%	11.90%	9.9%	5.0%	4.9%	6.5%
<p>This metric includes both investment in existing stock as well as in new homes. Both of these activities have been widely impacted by the impact that the 2020/21 pandemic has had on the operating environment and related slow down, as well as other economic and supply shocks which have occurred since then. Whilst investment activity is cyclical in its nature, variability in recent years has been even greater than might normally be expected due to these factors. As a result of the embedded volatility over recent years' we will continue to see relatively high fluctuations over the near time cycle, with the latest financial business plan reflecting annual ranges of between 3.5% (25/26) and 12%(24/25). However, the longer term ambition remains to establish a sustainable and affordable growth target whilst maintaining and enhancing the performance of existing stock. These ambitions will be informed by a number of planned pieces of work over the coming year:-</p> <p>Plans to meet strategic target:</p> <ul style="list-style-type: none"> • Updates to asset management and financial plans based on updated stock condition survey data • Review of appraisal metrics for new development to ensure a sustainable level of growth is established 								
New supply delivered %:	1.7%	0.6%	1.2%	1.8%	1.3%	2.2%	0.9%	1.4%
<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. The shift in economic environment, in particular the significant uplift in borrowing costs will inevitably put pressure on our ability to meet historic targets, however, English Rural remains committed to increasing supply where this is practical and viable.</p> <ul style="list-style-type: none"> • A review of development target intended to establish sustainable organic growth levels over the medium term and reduce exposure to high degrees of variability • The application of capacity from across the Group to enhance delivery and leverage of opportunities, including specifically the opportunities arising from TCHS joining ER Group • A communications strategy that includes supporting and advancing growth ambitions. • Continued partnership working with Landowners • A pipeline of opportunities sufficient to achieve sustainable growth with allowance for programme delays for the next five years 								
Operating Margin (social housing lettings)	27.7%	22.9%	21.4%	21.0%	26.5%	>28%	19.9%	23.4%
<p>A key indicator of English Rural's underlying efficiency. An increased margin shows that residents' rent payments are being used efficiently, ensuring services and improvements to existing homes can be maintained as well as to support initial funding costs of new supply. This indicator also captures the potentially high levels of cyclical investment as work delayed during the pandemic is now completed as well as growing levels of expenditure arising from the need to achieve the Government's carbon reduction initiatives.</p> <p>Social housing margins have reduced from last year, due mainly to higher repair costs. The differential inflation between rental incomes and costs will continue to place pressure on margins, however the economic benefits of the expanded ER Group are projected to result in a steady increase in operating margins over the coming years. Given the increased level and cost of borrowing planned and experienced, this metric will be particularly important for the ongoing health of the organisation. In addition to the potential for ongoing inflation the organisation will</p>								

need incorporate updated projections emerging from the 2023 stock condition survey and consider any trade-offs that this may reveal as necessary. Nonetheless, as a result of the economies of scale achieved through the planned GRHA transfer the latest financial business plan continues to project an increase to 29% in 26/27, which is in line with that projected last year.

Plans to meet strategic target:

- Ongoing delivery of efficient integration of NfVHA, GRHA and TCCHS operating and management processes into ER Group
- Continue to look for opportunities to grow through partnerships with smaller like-minded rural housing associations, including cost sharing and procurement
- A review of English Rural's procurement policy and strategy to ensure all leveraging opportunities from expansion are exploited

Bespoke VFM Metrics	English Rural 20/21	English Rural 21/22	English Rural 22/23	Target 22/23	Target 23/24	5-Year Target	Benchmark (where available)
% of homes at EPC C or above	68%	70%	69%*	78%	73%*	90%	69% ***

There is an expectation on English Rural to secure a C or above rating on all homes by 2030, unless specific exemptions apply. The current Business Strategy set a target of moving from the current level of 70% to 90% during the five-year strategy period ending in 2026. 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. This indicator has been particularly impacted by the merger of TCCHS into the Group, whose older homes have been seen as a drag on gains elsewhere which in-part is the reason for the limited year-on-year movement.

Plans to meet strategic target:

- Ambitions embedded within Asset Management Strategy, which will be further updated on this matter to feature in stock condition survey planned for 2023.
- Increased financial provision embedded within financial business plan, including properties transferred in from GRHA
- Ongoing retrofit programme being delivered to meet target

Programme of disposing of TCCHS older listed homes no longer suitable for affordable housing

*future target phasing adjusted to reflect progress to date and the inclusion of NfVH,GRHA and TCCHS properties. This will be further assessed as an outcome of the stock condition survey 2023

% Spend of advocacy	3.5%	3.1%	3.0%	>3%	>3%	>2%	N/A
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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 and has the potential to release external capacity which will far outstrip the potential English rural can achieve alone. The collaborative research with Kent and Southampton Universities for example helped to spotlight the 'hidden' issue of rural homelessness which will, it is hoped, inform future funding policies. Another example that shows the value of this work is the funding announcement for a national network of Rural Housing Enablers, which has the potential to lower at risk enabling costs currently underwritten within the development pipeline and secure new opportunities for growth across key growth areas. There is no easy benchmark to compare this measure against given its bespoke nature. The percentage is marginally lower than last year's 3.1%, and will fluctuate based on an increasing overall operating cost base, however, we continue to see increase sector mentions and visibility for English Rural, which we believe will ultimately improve the level of focus on Rural Housing.

Plans to meet strategic target:

- Continued sponsorship of critical research projects and collaborations intended to have high impact;
- Role of Chief Executive across rural and housing sectors.

Number of complaints	22	12	12	<12	<14	<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 agreed in 2022 and the boost to staffing capacity is already improving the effective delivery of services and improvements 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 & Risk Committee has made sure that lessons can be learnt, and value is secured when complaints happen. The number of formal complaints has been maintained at 12 2021/22, as it was in to 2022/23. However, given the level of change and challenge across the organisation within the year including TCCHS joining the Group in addition to the increasingly proactive promotion of the complaints process this is considered encouraging.</p> <p>Plans to meet strategic target:</p> <ul style="list-style-type: none"> • 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; • Specific focus on transferred GRHA tenancies to ensure an excellent first experience • Review of how resident voice is captured at all levels across the organisation 							

* Source: Regulator of Social Housing – Value for money metrics report 2022 - Global Accounts 2022

** 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 2022/23 is shown below. A more detailed commentary on performance is included in the Board Report to the Financial Statements here XXXXX.

Performance Indicator	Actual	Target	2022/23 Rating	2021/22 Rating	Direction
Strategic ambition one - Work with residents and deliver services in an accountable way					
% Satisfied with Service	89	>85	Green	Red	↑
Number of complaints	12	<13	Green	Green	=
Ratio of responsive and planned maintenance investment	0.27	<0.4	Green	Green	↓
Strategic ambition two - Grow by building new homes in partnership with rural communities					
Homes started within year	63	>40	Green	Red	↑
Homes completed in year	20	>16	Green	Red	↑
Homes in development programme	160	>100	Green	Green	↑
Strategic ambition three - Play a leading and influential role nationally within the rural housing sector					
% spend on advocacy	3.0%	>3	Green	Green	↓
Strategic ambition four - Invest in and deliver good governance					
% Board attendance	80	>90	Red	Yellow	↓
% Committee attendance	82	>85	Yellow	Green	↓
% Training attendance	64	>80	Red	Green	↓
Strategic ambition five - Invest in securing and keeping the best talent					
% Staff who would recommend English Rural as a good place to work	95	>90	Green	Green	=
% Annual appraisals overdue	6	<10	Green	Green	↓
Strategic ambition six - Actively seek partnership opportunities with other smaller rural housing associations.					
Active partnerships	3	>5	Yellow	Green	↓
£000 Partnership income*	£18,000	>15	Green	Yellow	↓
Strategic ambition seven - Use assets effectively and support sound financial health.					
% Fixed to variable rate debt	74	>60	Green	Green	↓
% EBITDA (MRI) exc sales and interest cover	145%	>110	Green	Green	↓
Liquidity	> 36 months	>18 months	Green	Green	↑

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 2023/24

- Delivering on transfer of engagement and improvements to group structure;
- Consolidating the recommendations from new stock condition survey into operating and investment plans
- Enhancements to staff training and professional development programmes
- Better understanding residents, their needs and how these can be served through agreed Business Strategy, including appraising how resident voice can be secured more impactfully
- A strategic review of how we appraise the development new homes and achieve a sustainable growth programme consistent with risk environment and financial capacity;
- Review of Treasury Policies to ensure long term value and alignment with corporate structures.

Delivering on transfer of engagement and improvements to group structure

On 1 April 2023, the Gloucestershire Rural Housing Association (GRHA) transferred all assets and liabilities into English Rural. The legal transfer is in many ways just the beginning as to realise value for existing and new residents we will fully capitalise on potential gains that benefit the cost base and service to residents. We will also be reviewing stock condition for all entities and continue to pursue proactive disposal and replacement of non-viable (TCHS) properties. English Rural remains open to future transfers and mergers and will continue to consider these on a case by case basis as opportunities arise; always with a view to protecting the interests of residents, agreed purpose and ensuring enhances VfM aims.

Preparing for new stock condition survey to inform future investment plans

Critical to planning for VfM will be ensuring that the necessary investment in existing homes is well planned. This will also support the move to EPC C ratings and eventually to net-zero. The stock condition survey has been specifically informed to consider and develop a detailed strategy to transition towards net zero. Once the data is updated, English Rural will continue to consider how timing and solutions impact costs to residents as well as emerging funding subsidies to ensure best overall value is achieved.

Enhancements to staff training and professional development programmes

English rural believe that excellent service is provided by well-motivated and well-trained staff. This year, we are reviewing our online training platforms and portals as well as providing further development opportunities for professional training for colleagues. This will continue to underpin our strategic ambition to "invest in and securing and keeping the best talent".

Better understanding residents, their needs and how these can be served through agreed Business Strategy, including appraising how resident voice can be secured more impactfully

The Board is aware of the range of financial and societal pressures on residents, including the impact that the ongoing cost of living crisis presents. The Board has extended its support to residents who are struggling financially, allowing access to a Financial Support Scheme provided by the internal allocation by English Rural from its non-social housing income generation. The Board is also committed to appraising how it's charitable mission beyond a landlord can be achieved within current constraints. Plans are also being developed to advance the approach to engaging and involving residents effectively, so that they are better served and their views and voice is better reflected at all levels of the organisation.

A strategic review of how we develop new homes and achieve a sustainable growth programme consistent with risk environment and financial capacity

Building homes in rural communities is not easy. There are often extended timescales as a result of a desire to fully engage communities and local councils as well as local opposition and cost can be high due to that lengthy timescale and lack of infrastructure. This challenge was already exacerbated by recent increases in build contract tender prices. English Rural has committed considerable 'internal subsidy' during periods of relatively low funding costs accepting tradeoffs in doing so against the societal and economic value secured through new homes. However, as a direct consequence of the shift in economic variables there is now a need to revisit the development appraisal and development processes to ensure that best value can be secured into the future to deliver a development programme sustainable in the changed financial environment.

Review of Treasury Policies to ensure long term value and alignment with corporate structures

To date English Rural has been the developing entity for affordable housing within the Group. With the expanded opportunities of the wider Group (incorporating GRHA and TCCHS) the balance of borrowing, security and cash generation is shifting and we will consider the corporate structure most appropriate to optimise liquidity and reduce interest costs where possible. In light of the challenging interest rate environment, we will also review the long term borrowing strategy and options which may be available to refinance funds to be drawn from the revolving cash facility over the next three years.

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 reviews annually as part of the appraisal against the Code of Governance what, if any, steps might help to improve efficiencies of the corporate structure. They also remain open as to seeking opportunities for other rural, like-minded, providers to join with English Rural when there is a clear business case for both parties. This continues to be the case and ongoing review is reflected in a number of the actions listed above.

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.