Value for Money Report
2018/19

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Executive Summary

Arawak Walton Housing Association (AWHA) has used the Regulator of Social Housing's (RSH) VFM metrics and 2018 Global Accounts figures to help understand and compare its performance across a range of value for money metrics and identify priorities for the future. At the time of writing 2019 comparative data is not available.

The Acuity benchmarking report for Community Housing Associations North West has been used where applicable to provide comparisons.

AWHA's headline cost per unit (cpu) of £3,197 in 2018/19 (£3,159 in 2017/18) which is £253 per property lower than the RSH's median of £3,450 in 2017/18 and the Association expects to manage within this level for 2019/20.

AWHA works in vibrant, diverse inner city areas that experience more anti-social behaviour and problems with substance abuse and mental health. In addition the majority of our properties are pre-1919 terraced properties and as such our costs will be higher than many associations.

We recognise that there is work to be done to explore more efficient delivery of our maintenance and major repairs functions, and to that end we work with similar groups in the north west through the Community Housing Associations North West Group to compare prices and best practice to get value for money for the association.

Our operational performance has improved against our relet time and tenant arrears measures. Relet times have reduced to just over 18 days over the course of the last year, whereas tenants' arrears increased to 3.51% (slightly higher than the peer group median of 3.16%).

During the year staff have experienced increasing challenges with the Universal Credit system including many delays in answering calls and tenants being given incorrect information by the Benefits Agency. During the year additional resource was put into this area with staff time being increased. This resource has been increased again by 2 days per week from April 2019.

Section 1. Value for Money Strategy

The Board has overall responsibility for the Association's value for money strategy and each year sets annual targets in line with the approval of the Business Plan and any KPIs. The Board places operational responsibility for ensuring value for money on individual managers. The Finance Director has reporting responsibility for value for money issues in the Association.

The Association regards continuous improvement as a key element of its Value for Money approach. An annual programme of policy and procedure reviews is designed to address current priorities as well as ensure most areas of the Association's activities are reviewed on a periodic basis. These reviews ensure that the needs of the Association's customers are effectively and efficiently met.

Section 2. Value for Money Metrics

The new RSH VFM standard introduced from April 2018 requires that seven key metrics are measured along with other financial and non-financial KPIs selected by the Association. This allows for a rounded view of the activities of the organisation.
The table below compares the sector benchmarks available for 2017/18, since 2018/19 data is unavailable, together with the actuals for the association for the 2018/19 and 2017/18 financial years taken from the statutory accounts, together with the projections for the three years commencing 2019/20 from the Association's business plan.

Section 3. Analysis of Metrics

The Association's intention is to use the RSH's global accounts alongside Housemark and Acuity benchmarking data and our internal Key Performance Indicators agreed by Board in order to drive change in the future. The use of the cost per unit measures will help identify areas of focus for investigation and subsequent cost review. We are cognisant of the impact of working in mainly high deprivation areas. Where the Association's scorecard metrics are significantly different from the sector median these will also be investigated.

The analysis in this section focuses on the seven key metrics plus an analysis of any wider KPI's as chosen by the Board.

VFM METRICS

No	Detail	Actual 12 months to 31/03/2019	Budget 12 months to 31/03/2019	Actual AWHA 2017/18	Actual AWHA 2016/17	PEER Median 2017/18	PEER Upper Quartile 2017/18	PEER Lower Quartile 2017/18		Target as per Business Plan AWHA 2019/20	Target as per Business Plan AWHA 2020/21	Target as per Business Plan AWHA 2021/22
1	Operating Margin	**28%**	26%	30%	37%	28%	33%	20%		21%	24%	25%
2	Operating Margin (social Housing)	**27%**	26%	30%	37%	30%	36%	22%		21%	24%	25%
3	Interest Cover (EBITDA MRI)	**2.94**	2.30	3.07	3.50	2.32	3.23	1.62		1.82	1.85	1.95
4	New Supply Delivered (Social Housing) %	**0%**	0%	0%	0%	1.0%	2.3%	0.1%	*	0%	0%	0%
5	New Supply Delivered (Non-Social Hsg) %	**0%**	0%	0%	0%	0%	0%	0%		0%	0%	0%
6	Gearing	**46%**	47%	48%	50%	35%	23%	49%		46%	50%	50%
7	Customer Satisfaction	**90%**	90%	90%	90%	88%	92%	82%		91%	91%	91%
8	Reinvestment % (new & existing)	**1%**	2%	2%	1%	5.80%	8.52%	3.15%		1%	1%	1%
9	Invest. In Communities £000	**14**	13.42	0	0.01	n/a	n/a	n/a		13	13	13
10	Return on Capital Employed	**4.41%**	3.85%	4.83%	6.5%	3.72%	5.11%	2.79%		2.9%	3.4%	3.6%
11	Cost Per Unit	**3,197**	3,351	3,159	2,805	3,450	2,982	4,430		3,439	3,533	3,603
	Management	**941**	1,023	994	740	1,024	813	1,241		1,059	1,085	1,102
	Service charge	**447**	465	411	397	332	193	559		462	470	478
	Maintenance	**994**	963	944	999	907	775	1,121		1,073	1,107	1,133
	Major Repairs	**738**	852	736	640	720	525	983		796	820	838
	Other	**77**	47	76	29	186	74	412		50	51	51
12	Ratio of responsive repairs to planned maint.	**94%**	77%	86%	113%	61%	45%	90%		82%	83%	83%
13	Occupancy	**99.7%**	n/a	99.7%	100.0%	99.4%	99.7%	98.93%		100%	100%	100%
14	Rent collected	**100.7%**	100.9%	100.7%	100.7%	99.9%	100.4%	99.4%		98.1%	98.0%	97.9%

* During 2018/19 the Association acquired 14 properties and has plans to grow further by 25 properties in 2019/20 and 10 per year thereafter. These acquisitions are not recognised as new supply for RSH metrics purposes.

Equal to / better than peer median
Within 10% of peer median
Below / worse than peer median

Operating Margin (overall)

Our 2018/19 Operating margin at 28% was the same as the sector scorecard median in 2018 but slightly below the 2018 Global accounts figure of 29%. The Association received a rent restructuring grant (RRG) which ended in 2017 which contributed approximately 4% to operating surplus. The operating margin is forecast to reduce in 2019/20 due to the final year of the rent reduction and prudent assumptions have been made on a number of expenditure areas including repairs and maintenance, but thereafter is forecast to increase as rent increases at CPI plus 1%. The latest business plan shows the average operating surplus is just over 30%, slightly above the sector average.

The higher the Association's operating margin, the more cash is available to pay interest costs which allows us to acquire more properties. Currently any additional surpluses above budget are used to fund further property acquisitions.

Operating Margin (Social Housing)

The margin in 2018/2019 of 27% is slightly behind the 33% figure per the RSH's global accounts figure for 2017/18. As mentioned above, the Association received RRG in the prior year which contributed approximately 4% to the operating margin. 2017 was the final year for this grant.

A project was kickstarted during 2019 to carry out inspections on 200 of our properties, with the expectation that this exercise will be repeated for the remaining properties over the next four years. This was done in order to identify any outstanding repairs jobs and to reduce the number of disrepair claims in the period. There were a number of catch up repairs costs in 2019 of £87k, which we forecast could continue for the length of the inspections. This contributed to a decrease in the legal fees spent of £20,000 on the previous year, in addition to the costs of rectifying the outstanding repairs.

Our key challenges for the future to ensure Value for Money will be:

- minimising cost increases, especially in key areas of expenditure such as repairs and staff costs. The aim being to maintain costs at pre rent cut levels where possible. The Association continues to be part of procurement groups and explores cost savings opportunities.

New Supply (Social)

The projections included in the scorecard are the minimum number of new homes which will be acquired by the association. Although the Association is not currently developing new properties, there are opportunities to acquire properties from different sources which can result in some years seeing significant growth. In 2018/19, the Association acquired 14 properties against an initial target of 10, with 16 acquired in 2017/18. The Association has been particularly successful in acquiring properties from partner associations who were looking to divest these from their portfolio. With the successful receipt of grant for 3 social rent properties and a bid submitted for a further 4 properties on this basis, this builds on the affordable rent grant received in 2018 following the successful application to become an Investment Partner with Homes England. This has allowed these properties to remain in the social housing sector with rent charged at social rent levels, which is a priority for our tenants living in areas of high deprivation. In 2018/19 the Board continued the strategy that the priority purpose for utilising spare financial resource was the acquisition of new properties for letting.

New Supply (Non-Social)

The Association's mission is to provide safe sustainable homes in the areas we operate in. We are keen to avoid charging high rents that would put our tenants into the poverty trap. Having achieved Investment Partner status with Homes England, we are now in a position to attract grant funding, enabling us to ensure rents are affordable for our tenants. The Association is not currently developing new properties as it is unable to generate an internal subsidy in order to fund the purchase of other tenure properties.

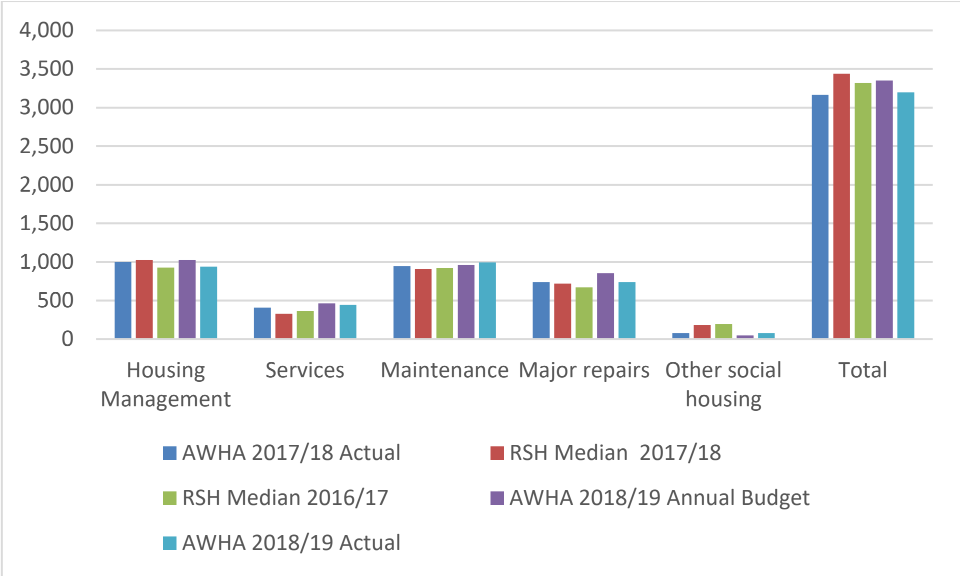
Return on Capital Employed (ROCE)

The Association has a Return on Capital Employed of 4.41% as measured by the sector scorecard. This is above the median 2018 sector scorecard figure of 3.72% and demonstrates a good return on investment for the Association's assets compared to its peers.

Our Manchester homes were largely acquired before those in Trafford and Stockport and therefore have a lower Net Book Value, and whilst the average Manchester rent is lower than in Trafford and Stockport, the low property value results in a higher ROCE. For our submarket rent properties, rents are typically almost 50% higher than general needs rents, but these properties were acquired more recently and therefore have significantly higher net book values, resulting in a modest contribution.

Cost Per Unit (CPU)

The chart below shows our cost per unit (cpu) figures for 2018-19 together with the peer headline CPU for the same year, compared against the figures for 2017-18.



Cost per unit, 2017 to 2019 with RSH Global Median 2018

The Association's headline cost per unit at £3,197 was slightly less than the 2018 median figure of £3,450. Part of this reflected the impact of efficiencies in management costs but the Association has also invested in major component replacements during the year as part of the wider component replacement programme.

Management Costs

The Association's management cpu at £941 per unit in 2019 was lower than the 2018 peer median figure of £1,024.

Our key challenges for the future to ensure Value for Money will be:

- to balance any increases in staff costs with reductions in other items of expenditure. The Board had previously agreed a 4 year pay freeze in line with the rent cut but due to growing inflation had agreed to award 1% pay award in 2017/2018, a further 2% in 2018/2019 and 2% in 2019/20. Due to welfare reform it has also been necessary to increase the hours of staff members working in critical areas in order to maintain the arrears levels. The requirement to tender for services above a certain value will help to ensure that value for money is obtained for these services.

Services

The Association's service costs cpu of £447 were higher than the 2018 peer median of £332 in 2018/19 due to contractors increasing costs for service provision. We continue to review costs and re-tender contracts on an annual programme and will speak to our peers to ascertain why our costs per unit appear high compared to the median.

Maintenance

The Association mainly works in deprived inner-city areas and consequently has a significant percentage of pre-1999 stock which incur higher levels of maintenance. The Association's maintenance costs at £994 per unit were higher than the 2018 sector scorecard median of £907. Our mission to accommodate diversity means that additional costs are incurred such as the provision of wet rooms in some properties plus burglar alarms in each property. These initiatives contribute around £30k to the cost base of the Association each year.

The Association maintains its position of selecting local contractors as part of its social purpose in terms of reinvesting in the local economy and value for money is always obtained for every contract. The Association is part of procurement groups and Community Housing NW Association group and regularly compare prices to ensure we are getting the best prices in the market.

The Association also carried out 200 inspections of its properties during the course of the year which identified a number of catch up repairs. We have identified the need to encourage our tenants who move from the private sector to report any outstanding repairs. A further provision of £79k has been included in the business plan for the next 5 years to cover any future eventualities although this is being monitored closely.

Our key challenges for the future to ensure Value for Money will be:

- to deliver the responsive repairs service at the sector median. The Association will work towards increasing the level of planned works in the year as this could lead to greater efficiencies and cost savings in day to day repairs. However, we are cognisant of the diverse needs of our tenants and the potential impact on their cultural and religious needs in terms of some of our responsive works.

Major Repairs

The major repairs cpu of £738 in 2018/19 was slightly above the 2018 peer median figure of £720. Given the age profile of the Association, major repairs expenditure can be cyclical as it was in the case of previous years: e.g. expenditure was abnormally low in 2016/17. In 2018/19 a number of components were replaced in line with the planned maintenance programme resulting in a spend of £484k during the year, down from £583k in 2017/2018. The Association has demonstrated efficiency savings as a result of the tender process with savings of £83k from the highest tender to the lowest.

The Association is targeting its older terraced properties where the Damp Proof Course may have failed to reduce potential disrepair claims. Through a well organised programme of work one property was utilised as a decant for 6 different families providing significant savings on hotel and removal costs.

The Association has liaised closely with other smaller local housing associations in the North West over the course of the last few years to identify good procurement practice for major repairs and this has had a significant impact on the cost of some component replacements, including savings on the cost of a boiler installation falling by 15% between 2013 and 2017.

Ratio of Responsive Repairs to Planned Maintenance

This measure looks at the ratio of expenditure on responsive repairs as a percentage of total planned maintenance expenditure (incl major repairs and capital major repairs expenditure). We appear to be higher than our peers and we believe this is due to a number of factors: the additional responsive works that we undertake to meet the diverse needs of our customers together with the age profile of our properties means our responsive repairs are higher than others and our component replacement requirements are driven by our stock condition data and therefore difficult to compare to others due to the cyclical nature.

Our 30 year financial plan shows that planned maintenance requirements increase toward the second half of the plan reducing our ratio significantly with an average ratio of 51%.

Interest cover

The Association's interest cover ratio of 2.94 compares favourably to the 2018 scorecard median of 2.32. Going forward the ratios are expected to fall slightly due to the loss of the RRG and of the projected increased spend on component replacements, although still well within the minimum ratios required by our funders. The capital investment programme was recently smoothed over a number of years in the business plan to reduce the effects of one-off spikes in future years.

Gearing

Arawak Walton has a gearing figure of 46% as per the scorecard metrics. This is above the 2018 median figure of 35%.

Historically, the majority of the Association's gearing calculations were on a traditional 'Net Worth' calculation basis (not the methodology used in the scorecard calculations) so were not directly comparable. However, over recent years, funders have moved to a basis more in line with the scorecard and the association has taken this opportunity during the year to align the RBS gearing covenants to be in line with other funders. This ensures that any changes in pension reserves due to the change in reporting any SHPS pension deficits do not affect our gearing covenant.

However, it might be noted that on first time adoption of FRS102 in March 2016, any grants received by the Association via acquisition were required to be netted off against fixed asset costs with the result that cost of assets reduced by £26m. If these grants were added back in, the calculation would show a gearing calculation of 26% which would put the Association nearer to the upper quartile figure of 23%. Note that where the 'net worth' basis is used for calculating the gearing covenant, the Association's loan facilities allow for the adding back of this grant figure in terms of covenants and access to further funding facilities.

Discussions are continuing with regard to refinancing historical loan facilities with a long term Bond. This facility permits a number of covenant options which would allow greater future growth for the association. Longer term funding also provides certainty and protects against future interest rate rises.

£ Invested for every £ generated

The Association acquired 14 properties in 2018/19, against a target of 10 and has meant that over the last three years the Association has grown by 57 properties against a target of 30.

For 2019/20 we already have plans to acquire 25 properties from Jigsaw Housing and acquire a further 2 properties under Manchester City Council's Homelessness Initiative. The Association will continue to look for further opportunities to introduce new properties subject to our internal investment criteria and funding constraints. The recent successful grant application from Homes England will potentially allow the Association to acquire more properties.

Customer satisfaction

The Association has continued to receive good feedback in the year regarding our services, with a 98% satisfaction rate for repairs against a target of 96%. We will continue to invite feedback from our customers about our services in order to improve the customers' experience and will be conducting an independent STAR survey in 2019/20 looking at all areas of the Association's work.

Occupancy

Occupancy levels are high at 99.7%. This is as a result of the relatively low turnover of our customer base plus also quick turnarounds from our contractors to complete the works on a property when it becomes vacant. The Association currently has a waiting list for properties which is shows a very high demand for all types of properties in our areas.

Rent Collected

The amount of rent collected in the year has exceeded 100% for the third year in a row, resulting in rent due being collected plus an element of arrears. This has led to a fall in current rent arrears of 2.1% in 3 years from 5.3% in 2016 to 3.2% in 2019. This is due to the continued proactive work by the Association's housing staff who assist our residents with any money concerns and work with them to ensure that they are receiving their full entitlement to any necessary benefits due. 2019 has seen the continuation of the rollout of Universal Credit with 144 tenants in receipt of the benefit at the end of March 2019 (64 in March 2018). Officers are closely monitoring the effect of this with only a slight increase in arrears of £12k across all our UC claimants.

Other Matters

The association has continued to provide support to community groups in the local area working with disadvantaged people, contributing £13,959 in 2018/19.

During the course of the year we have continued to work closely with the Boaz Trust, a local charity with a national profile which provides support to refugees and asylum seekers, to provide tenancy management and repairs services at marginal cost to the Trust. AWHA manages 75 properties on behalf of Boaz.

Our component replacement programme and especially the replacement of boilers have positive benefits for our tenants. Their improved energy efficiency reduces household heating bills and fuel poverty.

Section 4. How will we use Value for Money gains?

Value for money gains which generate a cash saving will be used to reduce the cost of borrowing to contribute to the purchase of additional homes. This will include homes acquired from partner associations plus properties acquired through the Manchester City Council Homelessness initiative.

Section 5. Conclusion

The Association delivered significant value for money during the course of the year. Relet times reduced to 18 days overall and rent collection continues to exceed 100%. We have also increased the number of homes in ownership during the year by over 1%, by acquiring an additional 14 homes for letting to applicants on our waiting list, obtaining grant funding for 7 of these properties.

We have delivered on most of the actions we set out in previous Value for Money self assessments.

We have continued to use the sector scorecard analysis together with the RSH's Global Accounts to measure performance against peers in order to further understand the costs of the Association and drive through efficiencies.

Arawak Walton Housing Association complies with the requirements of the new Value for Money standard.

Statement of Compliance

The board confirms that this Strategic Report has been prepared in accordance with the principles set out in Para 4.7 of the 2014 SORP for Registered Social Housing Providers.

The Board has undertaken a review of the requirements of the Governance and Financial Viability Standard (April 2015) published by the Homes and Communities Agency, together with the Association's performance against these requirements. Based on this review, the Board certifies its compliance with the requirements of this Standard.

The Board adopted the National Housing Federation Code of Governance (2015) in December 2015. The Board complies with the requirements of the code.

By Order of the Board:

Signed: **Date: 17th July 2019**