Value for Money Report 2021/22

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Executive Summary

Arawak Walton Housing Association (AWHA) has used Housemark and the Regulator of Social Housing's (RSH) VFM metrics and 2021 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 2021/22 comparative data is not available.

AWHA's headline cost per unit (cpu) of £3,973 in 2021/22 (£3,375 in 2020/21) which is £307 per property higher than our peer's median of £3,666 in 2020/21. In 2021 we reported that our plans are to invest more in maintaining our properties which will mean that our costs per unit will increase and this is reflected in our figures this year.

By working in inner-city areas with high levels of deprivation, the service we provide to our tenants is our key focus. We offer an intensive service to those who need it which we recognise will incur greater costs. In addition, the majority of our properties are pre-1919 terraced properties and as such our costs will be higher than many associations.

During the year we have reviewed our asset management strategy, focussing on fire safety measures and investment in carbon reductions measures for all of our properties. Our 30 year business plan include estimated costs of around £400k for fire safety measures over the next 3 years and continue to include provisional figures for investment in carbon reduction.

We recognise that we should continue to review the delivery of our maintenance and major repairs functions to ensure we are operating efficiently, and to that end we work with similar groups in the North West through the Community Housing Association's North West Group to compare prices and discuss best practice to get value for money for the Association.

Section 1. Value for Money Strategy

As a specialist Black and minority ethnic (BME) housing provider, Arawak Walton's mission is to champion the provision of quality affordable homes in sustainable multi-cultural communities. We aim to redress the inequity faced by BME communities in accessing good housing, health, education, training and employment. To do this, we work in areas where BME communities predominantly live or aspire to live. We play a direct role in contributing to the success of the local economy by directly employing local staff and utilising the services of local contractors and suppliers. Over £2m of our rental stream is reinvested directly into the local economy. Our contractor development policy and community sponsorship programme demonstrate our commitment to the areas in which we work.

Our VFM targets are informed by the work we identify in order to achieve our mission and objectives, as per below:

Our Vision and Values delivered through our business plan

We are keen financial managers; We need financial strength and effective financial management to underpin and expand our work; we use our resources to add value and release potential.

We are open and accountable; We provide user-friendly information about our performance as a housing association.

Our aims are to:

- **Retain our strong financial position with capacity to grow**
- **Achieve our agreed set of performance measures**
- **Retain G1 / V1**

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 KPIs. Value for Money is at the centre of everything we do in terms of achieving our Business Plan objectives and targets. Specific elements of our approach to value for money are:

Managing our costs and assets

- an annually updated Asset Management Strategy which sets out our plans for sustaining and enhancing the value of our asset base
- a feasibility model that incorporates not only funding but also housing management and long-term maintenance issues to ensure the financial soundness of potential new property acquisitions
- a Treasury Strategy and Annual Treasury Plan which maps out treasury activities for the coming year, balancing value for money and mitigating risks to the Association
- the requirement to tender certain procurements and obtain quotes for others to ensure market prices are paid, whilst maintaining our objective to work with local contractors where possible.
- we review contractor performance regularly, with a formal review undertaken every 3 years. This review includes a review of value for money of services provided.

Reviewing our services

- an annual review of our customer profile in terms of their diversity, housing and geographical location aspirations to ensure it delivers housing opportunities where our customers want to live;
- consideration of the value for money implications of new initiatives at Senior Management Team (SMT) and Board level
- An independent STAR survey is undertaken every 3 years to assess our customers' levels of satisfaction

Reviewing & improving our performance

- Weekly, monthly and quarterly KPIs are reported and reviewed by SMT
- A regular review of contractor's performance by officers and tenants and an annual appraisal.
- attendance at a range of procurement, value for money and function specific best practice events, sharing good practice and contributing to some of our procurement efficiencies
- participation in formal and informal benchmarking activities to identify areas where our performance does not meet that of our peers

Section 2. Value for Money Metrics

The Regulator's VFM standard 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 shows our results and targets for our VFM KPIs and compares these against our peers' data from 2020/21 (2021/22 peer data is not yet available). Whilst we are keen to keep costs as low as possible we feel that investing in our properties is key to providing good quality homes for our tenants and we have built into our future plans further investment into enhanced fire safety measures and carbon reduction works, scheme 21st century improvements. This has meant that our projections for operating margin show a reduced level of around 18-20% over the next 5 years.

During 2021/22 we reviewed our Housemark peer group and this continues to includes – all Traditional Registered Providers with less than 5,000 properties, based in the North (NW, NE, York & Humberside) and Midlands (East Midlands & West Midlands). These results are shown together with the peer results from the RSH's latest global accounts (see RSH's VFM report for 2020/21).

The rising cost of maintenance costs has been felt during 2021/22 and we expect inflationary costs to increase across most of our expenditure areas in the next few years.

VFM KPIs													
		AWHA					HOUSEMARK PEERS			RSH	Future Targets		
		Actual	Actual	ACTUAL	TARGET	Target Achieved?	Median	Upper Quartile	Lower Quartile	Global Accounts (1)	AWHA	AWHA	AWHA
		2019/20	2020/21	2021/22	2021/22	2021/22	2020/21	2020/21	2020/21	2020/21	2022/23	2023/24	2024/25
1	Operating Margin	24%	25%	20%	18%	Yes	25%	27%	21%	22%	18%	20%	20%
2	Operating Margin (social Housing)	24%	25%	20%	18%	Yes	25%	31%	23%	25%	18%	20%	21%
3	Interest Cover (EBITDA MRI) %	234%	311%	227%	131%	Yes	218%	312%	150%	205%	157%	158%	175%
4*	New Supply Delivered %	0%	0%	0%	0%	N/a	0.70%	1.6%	0.2%	0.8%	0%	0%	0%
5	New Supply Delivered % (non-social)	0%	0%	0%	0%	N/a	0	0	0	0.0%	0%	0%	0%
6	New Supply (incl prop acquisitions)	2.4%	1.2%	0.1%	1%	No	0.7%	1.6%	0.2%	0.8%	1%	0%	0%
7**	Gearing	44%	44%	41%	45%	Yes	35%	27%	42%	34%	43%	42%	41%
8***	Reinvestment % (new & existing)	2%	1.4%	2.2%	2.7%	No	4.6%	6.8%	3.2%	4.6%	2.4%	2.8%	2.7%
9	Return on Capital Employed	3.5%	3.8%	3.5%	2.6%	Yes	3.2%	3.8%	2.7%	2.9%	2.7%	3.3%	3.4%
10	Cost Per Unit	3,444	3,375	3,973	4,114	Yes	3,666	3,207	4,412	4,790	4,230	4,594	4,709
11	Customer Satisfaction	92%	92%	92%	>91%	Yes	88%	91%	83%	N/A	>91%	n/a	n/a
12	Ratio of resp repairs to planned maint.	70%	73%	69%	54%	No	73%	42%	109%	N/A	65%	64%	66%
13	Occupancy GN	99.7%	99.9%	99.9%	99%	Yes	99.2%	99.4%	98.71%	N/A	99.10%	99.10%	99.00%
14	Rent collected GN	100.3%	101.87%	100.1%	99.3%	Yes	100.2%	100.7%	99.4%	N/A	99.5%	98.0%	98.0%

(1) - Taken from RSH's VFM Metrics Report - under 2500 units

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

* The RSH's metric only classes newbuild properties as new supply. For new supply incl prop aqcuistions see No 6, which shows AWHA above peer % for 20/21.
** A considerable amount of AWHA grant (£26m) was gained via stock transfer it is shown differently in the accounts than other RP's grant. If the treatment was consistent our gearing figures would be 24%
*** If we include investment in property acquisitions our 21/22 result is 3% (4% for 2020/21)

Section 3. Analysis of Metrics

The analysis in this section focuses on the seven key metrics together with our own KPI's as chosen by the Board.

1) Operating Margin (overall)

Our 2021/22 operating margin of 20% was higher than our target of 18%.

We want to continue investing in our properties and our investment in our properties is planned to continue with significant investment in fire safety measures which are planned to commence in 2022. This, together with increases in costs as a result of the cost of living crisis, has meant that our projections for our operating margin are around 18% for 2022/23.

Whilst building safety is our upmost priority, the Association continues to plan to invest in carbon reduction measures in order to get all our properties to an EPC minimum level of C. In addition to this we have also planned for modernisation improvements in our communal schemes in order to keep them attractive and somewhere where tenants enjoying living.

Our analysis of our costs per unit is shown below in section 10.

Our key challenges for the future to ensure Value for Money will be:
- minimising cost increases, especially in key areas of expenditure such as maintenance and staff costs, as a result of rising inflation. The Association continues to be part of procurement groups and explores cost savings opportunities.
- Keeping rent levels as low as possible whilst ensuring that the association has sufficient funds to provide a quality service to tenants.
- Implementing a carbon reduction programme that is affordable and is what our tenants want.

2) Operating Margin (Social Housing)

The margin in 2021/22 of 20% is below our housemark peer figure of 25% and also the RSH's global accounts figure of 22% (peer results relate to 2020/21).

As mentioned above in 1) our operating margin was higher than our target for the year but has reduced due to a number of increases in property investment.

3) Interest cover

The Association's interest cover ratio of 227% compares favourably to the peer median of 218%. Around 37% of our loans are on variable interest rates and therefore we have seen some savings in interest charges due to the low interest rates during the year. Going forward as we implement our treasury strategy in 2022/23 we will increase the percentage of fixed rate loans to interest cover to provide more certainty on interest payments.

4) & 5) New Supply Delivered – Social and Non-Social

Although the Association is not currently developing new properties, there have been opportunities to acquire properties from different sources which has resulted in some years seeing significant growth. Our growth is reflected in the KPI below.

6) New Supply Delivered – Social and Non-Social – including acquisitions

This KPI is our own measure and includes properties acquired on the open market or from other registered providers, which is excluded from the RSH's VFM metrics.

In 2021/22 due to a strong housing market, we have only been able to acquire one property (13 acquired in 2020/21) which will be available to let in early 2022/23. During the year we have had discussions with Homes England on grant options to acquire on the open market, however increases in house prices over the last few years are limiting this option in the areas that we currently operate. We will work with our Board during 2022/23 to revisit our growth strategy.

Our long-term financial plan includes a rolling 1 year budget of £1m per year for 10 acquisitions and we will review this should further opportunities arise. Our annual target is to grow by at least 10 properties per year.

7) Gearing

The Association has a gearing figure of 41% as per the RSH's metrics calculation. This is above the 2020/21 median figure of 35%. However, it must be noted that with FRS102, any grants received by the Association via acquisition are required to be netted off against fixed asset costs with the result that cost of assets are reduced by £26m. If these grants were added back in, the calculation would show a gearing calculation of 24% which would put the Association in the upper quartile when compared with peers.

As at 31.3.22 we have £3m undrawn with this facility and this is expected to meet our requirements until 2025/26.

8) Reinvestment % (new and existing properties)

During the year we invested £790k on improving our properties in the following ways:

- We spent £275k replacing 56 kitchens;
- We spent £259k replacing roofs
- We spent £112k replacing 38 bathrooms
- We spent £144k on other property improvements such as boilers, windows & doors.

Our original plan for 2021/22 was to also complete an upgrade at one of our schemes, however due to planning restrictions this project has now been moved to 2022/23 and therefore this on why our target of 2.7% has not been met.

Our revised 30 year financial plan incorporates our stock condition data and shows the requirement to increase our investment in this area in the next few years which will increase this percentage, as shown in our future targets. Our forecast over the next 5 years is that our reinvestment % will be an average of 2.6% each year – this is excluding our investment in acquisitions.

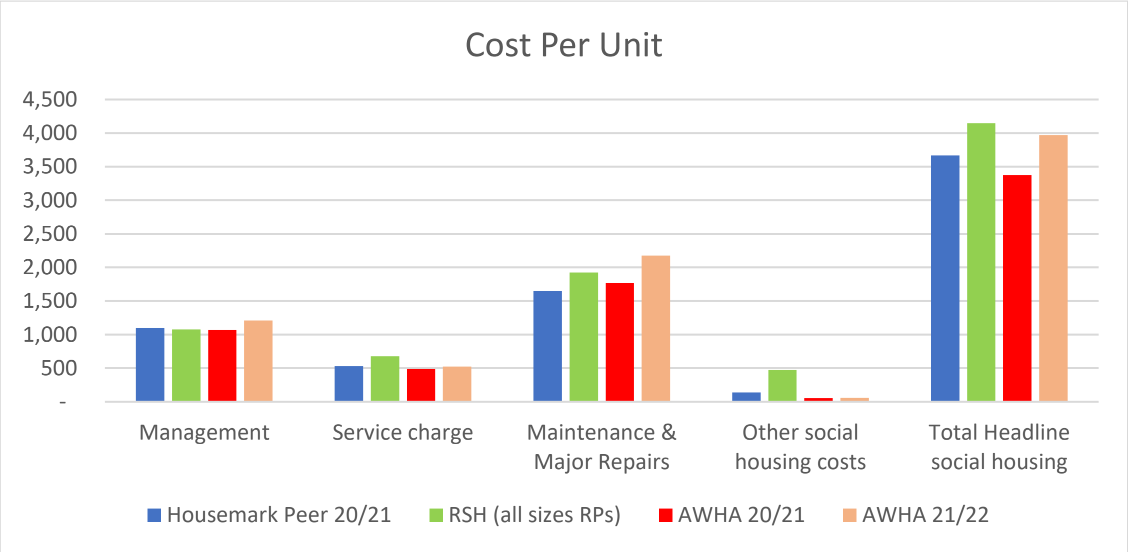
9) Return on Capital Employed (ROCE)

The Association has a Return on Capital Employed of 3.5% as measured by the RSH's metric calculation. This is above the peer median 20/21 figure of 3.2% 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.

10) Cost Per Unit (CPU)

The chart below shows our cost per unit (cpu) figures for 2021/20 together with our previous year and our peer unit costs for 2020/21.



The Association's headline cost per unit (CPU) for 2020/21 was £3,973 which is below our target but above our Housemark peer figure for 2020/21 median figure of our peers £3,666.

The main reason for our increase in costs was an increase of £274k spend on property improvements

Our annual report from Housemark for 2020/21 shows that our overheads are £772 per property, with our peers at £846. Our annual report can be found here.

During 2021 we implemented a mobile working software solution which so far has improved our ability to work out and about in our neighbourhoods efficiently. We will continue to develop the software to improve processes in our front facing teams, eliminating duplication and keeping our data more secure. Although no costs savings are envisaged at this moment, we will review this throughout the project.

Our costs over the last few years have increased in some areas and we have plans to invest more into our properties so our business plan shows that unit costs will increase over the next few years – further details are shown below:

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Management Costs
Our management cpu for 2021/22 was £1,211 compared to a peer median figure of £1,097. Our costs have increased since 20/21 due to an increase in staff costs and overheads.

We offer a unique approach to customer service that is culturally sensitive and people centred which we believe drives high tenant satisfaction. This is a multi- channel offer, in response to the needs of our tenants, many of whom are not as digital enabled as the wider population.

We work in a bustling, diverse inner city with some of the poorest people in society. 75% of our tenants are from a BME background which brings extra challenges with language and cultural sensitivities.

We are committed to playing a role to champion and promote multi-cultural sustainable neighbourhoods. To do this we participate in events and community group and contribute to local events and have a close and meaningful relationship with several local charities. As well as providing a housing management service to a local refugee accommodation charity.

Our future plans:
In 2021 we began our mobile working project to allow better access to our systems. Our future plans are to develop this further to enable the maintenance teams to access our systems whilst out and about. In 2022 we plan to adopt a new software package to support greater efficiency in Health and Safety monitoring.

A review of community sponsorship activity is planned to facilitate a targeted approach to donations using an Asset Based Community Development model.

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Maintenance & Major Repairs
Our costs for 2021/22 were £2,178 per unit and were higher than the 2020/21 Housemark median of £1,650 and the RSH average of £1,926.

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.

The Association needs to respond to a range of new and emerging legislative requirements falling out of the Building Safety Act 2022. This increased focus on fire safety works will add to expenditure per property.
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.
Appraisals are held regularly with contractors which include an assessment of VFM.

In 21/22 we implemented a handy man service for properties which enabled us to batch repairs and negotiate a better rate from our contractors. This also achieved time and carbon footprint saving.

Our future plans:

- We will continue to tender all maintenance contracts over £15k;
- We will review the cost/benefit of our electrical re-wiring programme;
- We will review our climate change strategy to look at investing carbon reduction measures.
- We will invest in fire safety enhancements for all our communal schemes

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Services
Our service costs per unit of £524 were below the 2020/21 peer median of £530. Over the past year we have seen some increases in communal cleaning and energy prices.

We will continue to review costs and re-tender contracts on an annual programme to ensure we are getting the best value for money services for our tenants.

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Other Costs
Our other costs per unit are significantly below our peers with a cpu of £59 against a peer of £138. Our costs relate to supporting people charges and the management costs for the properties we manage on behalf of The Boaz Trust.

In 2022/23 we plan to work with partner organisations to provide a new 30 bed homeless shelter in the city centre.

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11) Customer satisfaction

One of our strategic aims is to continue to provide high quality and accessible services to customers by ensuring that services meet the needs of people who use them or are affected by them. In 2019/20 an independent survey gave us a 92% satisfaction rating the highest we have ever achieved despite a reduction in income for 4 years. In 2022/23 we will carry out another survey.

We continue to carry out satisfaction surveys on a weekly basis for all day to day repairs and our rates continue to be above 99%.

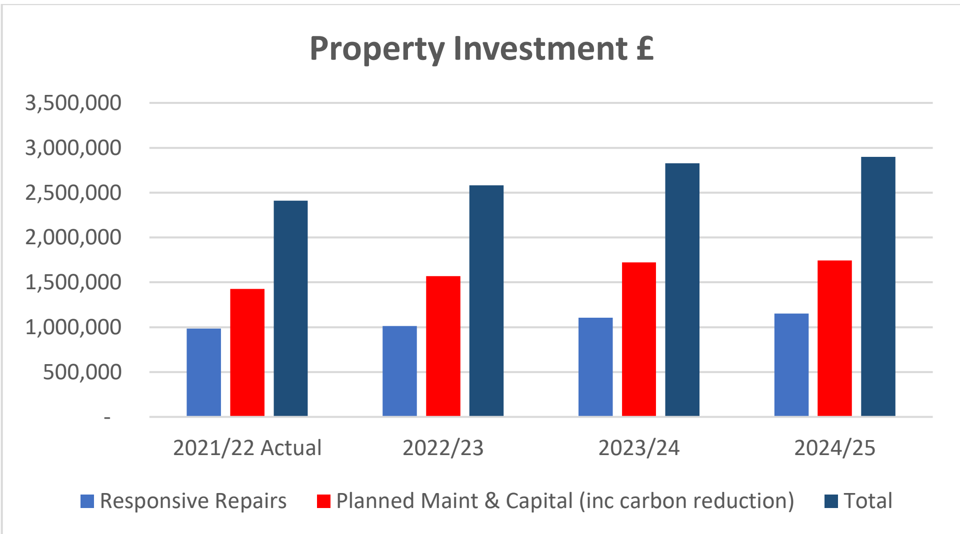
We are assisted in our review work by our Tenants Quality Panel, who during the year have assisted us in carrying out a comprehensive review of our Tenant involvement Strategy which links strongly to tenant satisfaction measures requirements being introduced by the Regulator for Social Housing. The Strategy has now been approved by Board and offers reassurance that policies relating to tenant services have an extra layer of scrutiny. The Panel also reviewed the Tenant Responsibility policy which helps the organisation protect against paying for repairs where tenant have caused damage they are responsible for rectifying.

12) 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). During 2021/22 we incurred increases in void relet repairs and electrical works, together with some reduced expenditure on some capital projects has meant that our ratio has increased more than expected and we have not met our target.

Our decision to utilise mutual exchanges and transfers in order to address tenancy or ASB issues has meant that the relet repair costs have increased, as more repairs are being picked up during the process. We plan to carry on with our approach as we have already seen the positive impact it has had on tenants so far.

Over the next few years our plans are to increase our planned programmes whilst maintaining similar levels of responsive repairs which will reduce our percentage of responsive to planned. The graph below shows our investment levels for 2021/22 and the next three years.



13) Occupancy

Our occupancy levels continue to be high at 99.9% for 2021/22. 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.

14) Rent Collected

The amount of rent collected in the year has exceeded 100% for the sixth year in a row, resulting in rent due being collected plus an element of arrears which has exceeded our target. During 2021/22 we have seen our current arrears levels reduce from 2.5% at the start of the year to 2.3%. 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 which has been particularly key during the pandemic. Our approach to growth – by acquiring properties, the majority of which are at social rent has hopefully helped tenants by keeping rents affordable.

Our budget and business plan assumptions are set prudently and already assume an increase in arrears, however we will keep a watchful eye on this area.

Section 4. Social Value

The Association as part of its business planning is committed to playing a wider role in the community than just housing people.

Some examples of social added value are shown below:

- The association brings its expertise and resource to support neighbourhood organisations working locally to build a more collaborative, solution focused approach to things that matter to tenants, for example parking, substance misuse and its connection to Anti-Social Behaviour, highways and safe play areas for families.

- Community sponsorship - during the course of the year we have worked closely with over 20 local support groups who in turn support our tenants. The association has made donations to these small community groups building on what exists in communities and helping them to leverage valuable additional resource.

- Access to space & activities- Our sheltered housing schemes have opened their doors to local residents and the wider community by including them in a programme of enrichment activity throughout the year. This has included Jubilee street party celebrations, music workshops with local primary school children. We have also opened up the buildings as community meeting spaces allowing for intergenerational activity to take place and providing a valuable community hub.

Section 5. 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 6. Conclusion

The Association has performed well against the VFM targets set for the year. Rent collection continues to exceed 100% and we have exceeded our operating margin target.

We have continued to use Housemark's 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.

Our focus on investing in properties, including enhanced fire safety works and carbon reduction measures will mean that our costs will increase and this is reflected in our future VFM targets. However a key part of our mission and vision is to provide quality homes and an excellent service.

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