Arawak Walton Housing Association

Value for Money Report 2022/23

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Executive Summary

Arawak Walton Housing Association (the Association) has used Housemark and the Regulator of Social Housing's (RSH) VFM metrics and 2022 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 2022/23 comparative data is not available.

The Association's headline cost per unit (cpu) for 2022/23 was £4,179 (£3,973 in 2021/22), which is £240 per property higher than our peer's median of £3,939 in 2021/22. This increase was expected - in 2022 we reported that our plans are to invest more in maintaining our properties which will mean that our cpu 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, a large proportion 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 compartmentation works, fire doors, component replacements. Our 30 year business plan include estimated costs of around £200k for further fire safety measures over the next 2 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 £3m (circa 50%) 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 requirement to ensure the financial soundness of potential new property acquisitions;
- an annual Treasury Strategy 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 tenant satisfaction survey is undertaken regularly to assess our customers' levels of satisfaction.

Reviewing & improving our performance

- Weekly, monthly and quarterly KPIs are reported and reviewed by SMT. Quarterly KPIs are reviewed by Board;
- A regular review of contractors' 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 2021/22 (2022/23 peer data is not yet available). Whilst we are keen to keep costs as low as possible we know that investing in our properties is key to providing good quality homes for our tenants. Our future plans include further investment in enhanced fire safety measures, carbon reduction works and scheme 21st century improvements.

During 2022/23 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 2021/22).

The rising cost of repairs and maintenance costs has been felt during 2022/23 and we expect inflationary increases across most of our expenditure areas in the next few years.

VFM KPIs													
		AWHA					HOUSEMARK PEER			RSH	Future Targets		
	Detail	ACTUAL	ACTUAL	ACTUAL	TARGET	Target Achieved?	Median	Upper Quartile	Lower Quartile	Global Accounts (under 2.5k units)	AWHA	AWHA	AWHA
		20/21	21/22	22/23			21/22				23/24	25/26	2024/25
1	Operating Margin	25%	20%	**21%**	17.5%	Yes	20%	25%	16%	17%	17.3%	18%	18%
2	Operating Margin (social Housing)	25%	20%	**21%**	18%	Yes	24%	26%	18%	20%	18%	19%	19%
3	Interest Cover (EBITDA MRI) %	311%	227%	**183%**	157%	Yes	195.7%	248.0%	152.5%	194%	140%	133%	127%
4*	New Supply Delivered %	0%	0%	**0%**	0%	N/a	1.00%	1.6%	0.3%	0.9%	0%	0%	0%
5	New Supply Delivered % (non-social)	0%	0%	**0%**	0%	N/a	0.0%	0%	0%	0.0%	0%	0%	0%
6	New Supply (incl prop acquisitions)	1.2%	0.1%	**0.6%**	0.9%	No	n/a	n/a	n/a	n/a	0%	0%	0%
7**	Gearing	44%	41%	**42%**	43%	Yes	36.0%	25.3%	45.8%	32%	43%	43%	43%
8	Reinvestment % (new & existing)	1%	2.2%	**2.6%**	2.4%	Yes	4.9%	6.7%	2.7%	4.7%	2.4%	2.7%	2.8%
9	Return on Capital Employed	3.80%	3.53%	**3.30%**	2.7%	Yes	2.8%	3.4%	2.5%	2.4%	2.9%	3.2%	3.3%
10	Cost Per Unit	3,375	3,969	**4,179**	4,255	Yes	3,939	3,290	4,692	4,960	4,471	4,916	5,027
11	Customer Satisfaction	92%	92%	**93%**	>91%	Yes	79%	82%	74%	N/A	>91%	>91%	>91%
12	Ratio of resp repairs to planned maint.	73%	69%	**60%**	64%	Yes	70%	50%	90%	N/A	80%	71%	70%
13	Occupancy GN	99.9%	100.0%	**99.9%**	99.8%	N/A	99.6%	99.7%	99.30%	N/A	>99%	>99%	>99%
14	Rent collected GN	101.9%	100.1%	**100.1%**	98.9%	N/A	100.1%	101.2%	98.8%	N/A	>99%	>99%	>99%

(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 %

** 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%

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 2022/23 operating margin of 21% was higher than our target of 17.5%, which is largely due to our focus on delivering strong performance on housing management activities including income and voids management. With increases in costs across the sector and the wider economy, together with the rent increase cap, our target for 2023/24 is to have an operating margin above 17% and for the following 4 years, above 18%.

Whilst building and tenant 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 excellent Value for Money homes and services will be:
- minimising cost increases, especially in key areas of expenditure such as maintenance and staff costs, as a result of rising inflation;
- Ensure all properties are safe and warm and damp, mould and condensation is dealt with appropriately and effectively;
- 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)

Our operating margin (social housing) in 2022/23 was 21%, which is below our housemark peer figure of 24%, but higher than the RSH's global accounts figure of 20% (peer results relate to 2020/21).

As mentioned above in 1) our operating margin was higher than our target for the year due to strong performance on income and voids.

3) Interest cover

The Association's interest cover ratio reduced from 227% in 2021/22 to 183% in 2022/23 and whilst this was better than our target, it is below the peer median of 196%. The reduction is as a result of increased investment in property improvements together with an increase in interest payments. Around 34% of our loans are on variable interest rates and whilst we have benefited in the past from low interest rates, during 2022/23 we have seen interest costs increase as the Bank of England base rates have increased. Our stock condition data shows that increased investment in our properties is required in the future as properties age and this together with a short-term projection of rising interest costs, has meant our future projections show interest rate cover reducing to around 130-140% over the next 10 years.

Whilst it currently might not be the best time to increase our proportion of fixed rate loans we will consider this as part of our treasury management strategy.

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 2022/23 we have been able to acquire 7 properties (0.6%) with a further 7 in the pipeline for early 2023/24. Whilst our target is to continue growing, this is not reflected in the business plan as it will require new funding. In early 2023/24 we undertake a review of the value for money of acquiring during the current climate of high interest rates.

7) Gearing

The Association has a gearing figure of 42% as per the RSH's metrics calculation. This is above the 2021/22 median figure of 36%. 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 31.3.23 we have £1.5m of undrawn monies available from our loan facility with Warrington BC and this is expected to meet our requirements until September 2025.

8) Reinvestment % (new and existing properties)

During the year we are pleased that we exceeded our target of 2.4% and invested 2.6% (£962k) on improving our properties in the following ways:

- We spent £548k replacing windows and doors (incl fire safety upgrades)
- We spent £133k replacing 25 kitchens;

- We spent £88k upgrading a communal scheme;
- We spent £193k on other property improvements such as boilers and bathrooms;

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 2.8% each year – this is excluding our investment in acquisitions.

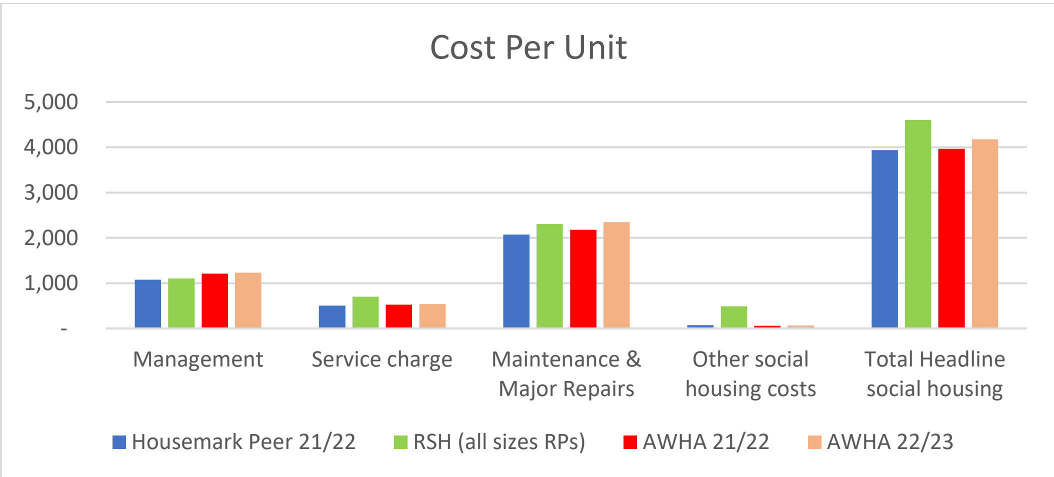
9) Return on Capital Employed (ROCE)

The Association has a Return on Capital Employed of 3.3% as measured by the RSH's metric calculation. This is above the peer median 21/22 figure of 2.8% 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 2022/23 together with the previous year and our peer unit costs for 2021/22.



The Association's headline cpu for 2022/23 was £4,179 which is below our target but above our Housemark peer figure of £3,939.

The main reason for the increase in costs was additional investment of around £200k spend on property improvements.

During 2022/23 we

- continued to develop our mobile working software 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;
- Competitively tendered and entered into a new Gas serving contract for 3 years giving certainty of costs;
- Increased our repairs contractor portfolio, to ensure we meet the repair needs of our tenants. This has enabled us to control the costs on larger repairs by requesting estimates from multiple contractors;

- Provided in-house staff training on repairs diagnosis to ensure that we optimise the completion of first-time fixes;
- Through continuous improvement we have redesigned services to meet the needs of our customers. Examples include:
- Focusing staffing resources on our busiest days for telephony call handling
- Training staff to offer generic service to customers so we can cover holidays and absences effectively with minimal impact to service delivery.
- Commenced work on automating our low level arrears recovery.
- Renewed the British Gas void contract with the best rates possible for our void properties / long term empty properties minimising utility costs, speeding up our void process, and offering utility connections to new tenants.
- Outsourced asbestos reinspections at a negotiated price which allows us to focus on other priority areas of compliance and asset activity.
- Introduced T100, an IT module that holds compliance, asset and health and safety data offering a more efficient recording, servicing, and reporting mechanism to manage our work.

Our costs over the last few years have increased in some areas and we have plans to invest more into our properties. Our future plans around Value for Money are:

<table>
<tr>
<td>Management Costs

Our future plans:-
- Continue to develop our mobile working software so that all teams have system access whilst out and about in our neighbourhoods;
- Review our rent collection and arrears processes to ensure we are working efficiently and effectively;
- Continue to develop our Health and Safety system to ensure we are proactive and remain compliant
- Aim to evaluate our training and recruitment processes in 2023 to ensure they are fit for purpose;
- Review our Health and Wellbeing policy.
- A review of community sponsorship activity is planned to facilitate a targeted approach to donations using an Asset Based Community Development model supporting communities with health & wellbeing, food, furniture and finances.</td>
<td>Maintenance & Major Repairs

Our future plans:
- We will continue to tender all maintenance contracts over £15k;
- We will review our climate change strategy to look at investing carbon reduction measures.
- We will continue to invest in fire safety enhancements for all our communal schemes
- Review our decoration vouchers schemes for new tenants;
- We will review the cost/benefit of our electrical re-wiring programme and other compliance works which have been outsourced.
- Continue to work on initiatives to tackle Damp Mould and Condensation at source such as prioritising planned improvement works which improve the thermal efficiency of properties and associated initiatives eg dehumidifiers, tumble dryers with an aim of saving on mould wash works etc longer term.</td>
</tr>
<tr>
<td>Services
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.

During 2022/23 we benefited from fixed prices for electricity and gas. Our electricity contract is due to be reviewed in June 2023 and we will use our utility consultant to seek the best prices.</td>
<td>Other Costs
Our costs in this category relate to supporting people charges and the management costs for the properties we manage on behalf of The Boaz Trust. We will continue to review our costs in this area.</td>
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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 2022/23 an independent survey gave us an 85% satisfaction rating

We continue to carry out satisfaction surveys on a weekly basis for all day to day repairs and our satisfaction rate for repairs is 98.84%, demonstrating the responsive high quality service delivered to our tenants. This is possible due to the partnership working with a number of small contractor providers who understand our ethos.

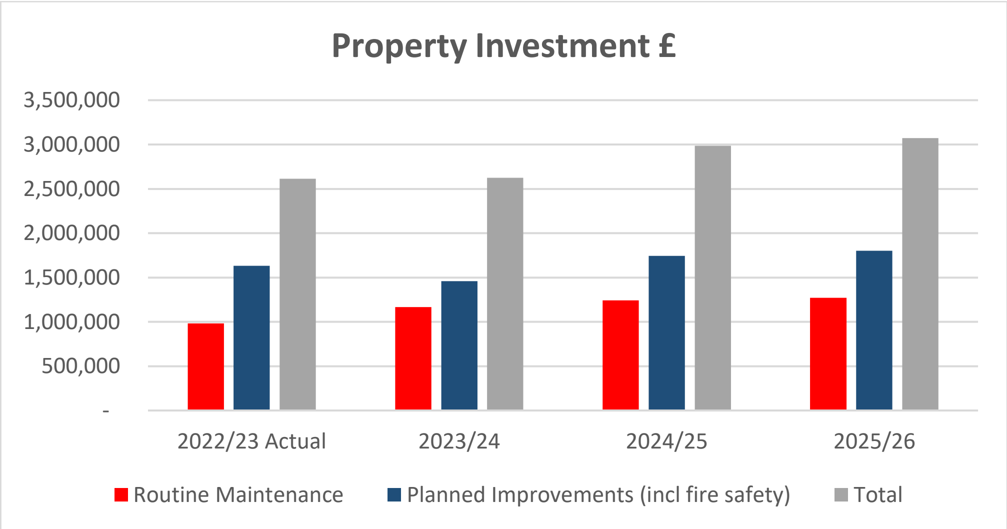
We are assisted in our review work by our Tenants Quality Panel, who during the year have assisted us in carrying out a comprehensive review of our Tenant involvement Strategy which links strongly to tenant satisfaction measures requirements being introduced by the Regulator for Social Housing. The Strategy approved by Board offers reassurance that policies relating to tenant services have an extra layer of scrutiny. The Panel reviewed the Tenant Responsibility policy which helps the organisation protect against paying for repairs where tenant have caused damage they are responsible for rectifying, and more recently reviewed our approach to damp and mould cases ensuring tenants report so we can repair and promote warm and safe homes.

Historically the Association has carried out the STAR survey (tenant satisfaction survey) and maintained high levels of satisfaction. During 2023, tenants will be surveyed on the new Tenants Satisfaction Measures (TSMs), the results of which will provide feedback to help us continuously improve our service provision. The TSMs consider housing management and property services, as well as the wider neighbourhood giving a more rounded view of tenant's perceptions.

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 expenditure).

Over the next few years our plans are to increase our planned programmes whilst maintaining similar levels of responsive repairs. Inflationary pressures are also expected to continue into 2023/24. The graph below shows our investment levels for 2022/23 and the following three years.



13) Occupancy

Our occupancy levels continue to be high at 99.9% for 2022/23. This is as a result of the efforts made to minimise vacancy rates by staff and contractors who work collaboratively to minimise void periods and rent loss. Void properties are re-let to a high standard providing quality homes to tenants and encouraging them to sustain their tenancies. This is reflected in our turnover rates which are lower than the sector average. 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% and our current tenant arrears have remained around 2.3% during the year. This is due to the excellent level of 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 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 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 religious festival celebrations, parties, music events and entertainment. Our schemes also act 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 reinvest back into our properties, reduce the cost of borrowing and will contribute to the purchase of additional homes.

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 future focus is to continue investing in properties, including fire safety works and carbon reduction measures, which 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 Value for Money standard.