Network Homes

Value for Money Statement

2019/20

Because good homes make everything possible

Introduction

All housing associations are required by the Regulator of Social Housing to publish a statement annually, which sets out how the organisation approached value for money.

It is imperative that we deliver excellent value for money. This will help us to achieve better efficiency, economy and effectiveness, which all in turn help us to increase our quality of service and our financial resources. This will ultimately support us to build more homes and improve the satisfaction of our customers.

As one of London's largest housing associations, there are many ways we demonstrate value for money. We generate extra income by selling homes and use the profits to reinvest into building more affordable homes and investing in communities. We also keep costs down, so as to give the best value for our residents.

Our community investment is as important as tangible cost savings. We have long term involvement with many locations and want to deliver a real benefit to those people who live there. Our employment and training schemes, and the welfare advice and support we offer, help people to improve their personal circumstances and have a better quality of life.

Value for Money

As a regulated housing association we are required to adhere to the Value for Money Standard produced by the Regulator of Social Housing. This Standard requires housing associations to report against seven key financial metrics. Associations can supplement these with further internally developed metrics which demonstrate value for money by showing how the organisation is progressing towards meeting its strategic objectives.

There is deliberate overlap between the seven VFM Standard financial metrics and the Sector Scorecard benchmarking, which has been formally adopted by housing associations in England, including Network Homes Ltd. The final benchmarking results will not be available until Autumn 2020 but our performance is set out below.

We set four strategic objectives and accompanying ambitions, in our Five Year Strategy approved by the Executive Board in May 2018. In January 2020 we added a new strategic objective, Strengthening our residents' trust in us, to drive an organisational focus on resident engagement, openness and transparency. Residents have told us that trust is strongest when we do what we said we were going to do so this will apply a continued focus on service improvement.

The impact of this measure will not be felt immediately but there are concerted efforts ongoing to roll it out including requiring all employees at Network Homes to be set annual targets related to this strategic objective to ensure it has practical application and real impact.

Maximising growth within our resources
Ambition: 5,000 new homes in 5 years

Delivering first class customer service
Ambition: 90% overall customer satisfaction

Increasing financial strength
Ambition: 35% operating margin on core social housing business

Building a great organisation
Ambition: A Sunday Times Best 100 Company to Work For

Strengthening our residents' trust in us
Ambition: 10% annual improvement.

The Board also approved a 'roadmap' of targets, which we use to monitor progress towards the five-year ambitions on a year by year basis. We have included our third year results with any pre-existing target for 2019-20 shown, where applicable. Further metrics will be added in as data becomes available.

VFM standard

The Group's current position on the seven VFM Standard financial metrics and the internally driven metrics linked to our strategic objectives is as follows:

Measure	2020	2019
Ambition: 35% minimum net surplus on social housing		
Reinvestment %	4.8	11.1
New supply delivered: absolute (social and non-social)	302	776
Gearing %	46.2	43.8
EBITDA MRI Interest (exc. sales) %	107.2	285.1
Headline social housing cost per unit (£)	5,700	5,149
Operating margin (social housing lettings only) %	22.2	28.6
Operating margin (overall) %	24.0	34.9
Return on capital employed (ROCE) %	2.5	4.8

Measure	2020	Target	2019
Ambition: 5,000 homes in 5 years			
Homes completed and handed over	302	390	776
Homes started	601	1,000	59
% homes started for social rent; LAR; LLR; s.106 LA rent	51	>25	42
% secured pipeline affordable tenures	76	60	91
Secured pipeline	2,873	1,800	1,728
Customer satisfaction with new homes %	82	85	73

Measure	2020	Target	2019
Ambition: 90% overall satisfaction			
% satisfied with Network Homes services	85.0	90.0	88.3
% satisfied with repairs service	80.5	85.0	82.8
Rent collected % (general needs and HfOP)	100.3	100	98.5
Occupancy % (general needs and HfOP)	98.6	99.0	97.8
Ambition: A Sunday Times Best 100 Company*			
Sickness absence (average days)	5.1	4.5	5.1
Staff turnover (voluntary)	12.6	12.0	13.5

* Following the Times Top 100 Best Companies survey the previous year (when Network Homes was ranked 39th best not-for-profit organisation) a new survey has been planned to take place in 2020/21, with an ambition to achieve the highest 3 star rating.

Sector Scorecard

The Group's current position on the Sector Scorecard measures is as follows:

Measure	2020	2019	G15 Median 2019
Operating margin (overall) %	24.0	34.9	26.0
Operating margin (social housing lettings) %	22.2	28.6	33.0
EBITDA MRI interest cover %	107.2	285.1	143.0
New supply delivered % - social housing units	1.5	3.9	1.5
New supply delivered % - non-social housing units	0.0	0.1	0.6
Gearing %	46.2	43.8	45.0
Reinvestment %	4.8	11.1	6.0
Investment in communities £	314,087	309,000	2,600,000
Return on capital employed (ROCE) %	2.5	4.8	2.9
Occupancy (general needs) %	98.6	99.0	99.0
Ratio of responsive repairs to planned maintenance	0.50	1.25	0.64
Headline social housing cost per unit £	5,700	5,149	4,839
Management cost per unit £	1,815	1,678	1,332
Maintenance cost per unit £	699	965	1,166
Major repairs cost per unit £	1,402	774	1,077
Service charge cost per unit £	887	719	767
Other social housing costs per unit £	897	1,103	450
Rent collected as % of rent due (general needs)	100.8	99.1	99.9
Overhead costs as a percentage of turnover	7.8	7.5	9.7
Customer satisfaction %	85.0	88.3	77.5

Impact on Value for Money

The building safety crisis has dominated our business this year but on many important metrics, Network Homes is performing well. We remain focused on our social purpose as an organisation and are pleased to report that the percentage of homes in our pipeline for affordable tenures and for 'genuinely affordable rents' is well above our internal minimum targets. Despite the decrease in operating margin due to continued investment in building safety and technology, significant operational improvements have been made resulting in a sustainable reduction in our standard operating costs.

The new strategic objective on strengthening residents' trust in us has been part of a concerted effort to refresh our resident engagement activity in 2019-20. This helped in the production of a revised Customer Charter launched this year to re-affirm our responsibilities as a landlord and clarify residents' obligations. Part of this involved clearer explanation of repairs which were tenants' responsibility, as a result the number of responsive repairs reduced significantly (even before the lockdown), resulting in a 27.6% reduction in maintenance cost per unit.

As anticipated, the change had some initial negative impact on residents' satisfaction. However, the monthly trend has switched back to positive in the last few months of the financial year, with the monthly satisfaction result for March exceeding 85% annual average. We will continue improving residents' satisfaction through the work on the new strategic objective on strengthening residents' trust in us.

The £8.5m increase in operating costs is largely accounted for by investment in building safety and technology. Our residents' safety and wellbeing remain our top priority. We are committed to proactively adopting Hackitt Review recommendations and have created a cross-organisational taskforce to manage progress.

Investment in technology has proven to be especially timely, enabling a seamless transition to home working during the lockdown caused by the pandemic. The deployment of new systems and laptops has enabled minimal disruption to the services during the lockdown, with 99% of employees working from home. The small number of colleagues unable to carry out their duties from home were redeployed into resident-focused activities. This allowed us to avoid having to use the government's furlough scheme, ensuring that any available support is prioritised for the communities we serve, placing our residents' needs' above pure financial considerations.

The operating margin on social lettings has been affected partly by the decrease in turnover from 2018-19, which included a combination of one-off grant and compensation payments the previous year.

Our rent and service charge collection rates have exceeded 100% this year, putting us in a strong position considering the potential longer-term impact the COVID-19 lockdown might have on the economy and our residents.

Increase in overall cost per unit was driven largely by the greater volume of major repairs carried out during the year, coupled with higher service charges, covering some of the measures put in to ensure ongoing building safety while remedial works are carried out.

As part of our ongoing efforts we have calculated our underlying headline indicators in the absence of the following activities:

Private Sector Leasing: The Network Homes board approved the disposal of the PSL portfolio in 2018. We have since negotiated with a number of potential recipients of this portfolio and have signed transfer agreements for the portfolio, with the final units now due to transfer in August 2020.

Building Safety Expenditure: As a result of our commitment to resident safety we have embarked on an organisation-wide process to investigate, make safe and remediate those of our buildings which do not currently comply with the government's revised advice note. This has resulted in the organisation incurring substantial additional costs. These cost pressures are likely to remain for the foreseeable future.

Business transformation depreciation: We embarked on our business transformation initiative in 2017, with a view to making the organisation fit for the future, update our IT infrastructure and ensuring that the organisation's systems are resilient. This has required substantial expenditure in the 2018-19 and 2019-20 financial periods which in turn have produced an increased depreciation burden on our 2019-20 financial results.

Without the above items, our underlying headline VFM performance would be as follows:

- Social Housing Cost Per Unit - £4,794
- Operating Margin (Social only) – 26.2%
- Operating Margin (overall) – 27.2%.

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