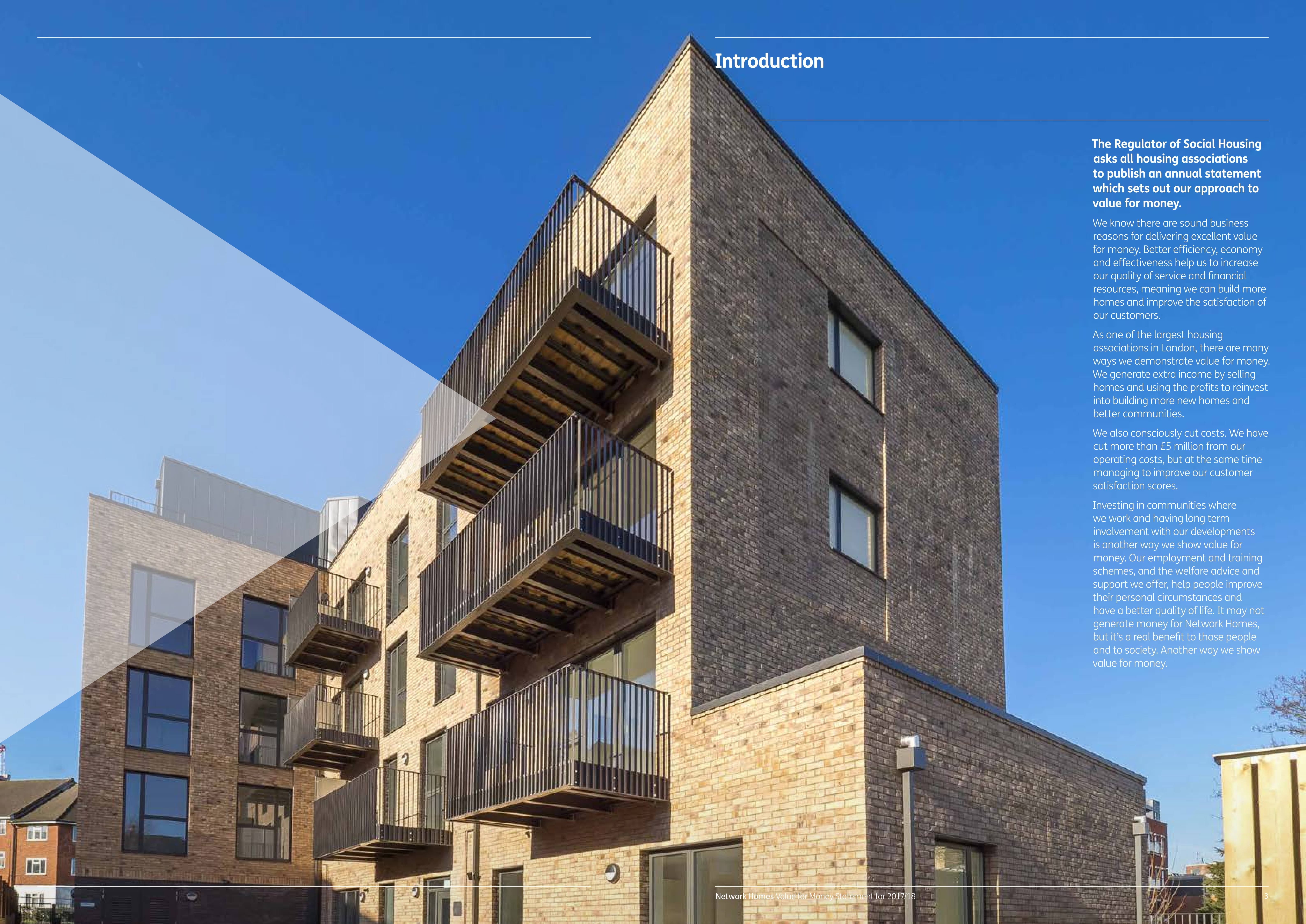
Network Homes

Value for Money Statement

For 2017/2018

Because good homes make everything possible



Introduction

The Regulator of Social Housing asks all housing associations to publish an annual statement which sets out our approach to value for money.

We know there are sound business reasons for delivering excellent value for money. Better efficiency, economy and effectiveness help us to increase our quality of service and financial resources, meaning we can build more homes and improve the satisfaction of our customers.

As one of the largest housing associations in London, there are many ways we demonstrate value for money. We generate extra income by selling homes and using the profits to reinvest into building more new homes and better communities.

We also consciously cut costs. We have cut more than £5 million from our operating costs, but at the same time managing to improve our customer satisfaction scores.

Investing in communities where we work and having long term involvement with our developments is another way we show value for money. Our employment and training schemes, and the welfare advice and support we offer, help people improve their personal circumstances and have a better quality of life. It may not generate money for Network Homes, but it's a real benefit to those people and to society. Another way we show value for money.

Value for Money

The Regulator for Social Housing introduced a new Value for Money (VFM) Standard in April 2018. All regulated housing associations are expected to follow the new rules which include reporting publicly against seven financial metrics. These are:

- reinvestment
- new supply delivered
- gearing
- earnings before interest, tax, depreciation, amortization, major repairs included (EBITDA MRI) interest cover
- headline social housing cost per unit
- operating margin
- return on capital employed (ROCE).

Housing associations can also add their own metrics to demonstrate VFM by showing how they are progressing towards meeting their strategic goals.

Last year, we signed up to the Sector Scorecard which allows housing associations to compare performance and check they are providing VFM. These benchmark results deliberately overlap with the seven VFM metrics. As it's the first year of reporting under the new VFM Standard the Regulator has acknowledged that full comparables with other organisations will not be available for this year's reports.

In May 2018 the Network Homes Board approved a new Five Year Strategy, with the following four strategic objectives and accompanying ambitions:

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

The Board also approved a 'roadmap' of targets, which will allow them to monitor progress towards the five year ambitions on a year by year basis. We've included our first year results in this report with any previous targets for 2017/18 shown, where applicable. A few metrics will be measured for the first time only from next year, when system changes allow this. Where no target previously existed, this is shown as not applicable for this year.

VFM Standard

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

Measure	2018	2017 Restated
Ambition: 35% minimum net surplus on social housing business		
Reinvestment %	5.1	6.6
New Supply Delivered % (social housing)	1.2	2.1
New Supply Delivered % (non-social housing)	0.3	0.3
Gearing %*	42.1	40.7
EBITDA MRI Interest (exc. sales)	186.3	210.5
Headline social housing cost per unit (£)	5,973	6,249
Operating Margin (social housing lettings only) %	26.1	25.9
Operating Margin (overall) %	28.4	31.5
Return on capital employed (ROCE)	3.8	4.6

**Note: Gearing definition is different for VFM Standard compared to Network Homes' lending covenant reporting.*

Measure	2018	Target
Ambition: 5,000 homes in 5 years		
Homes completed and handed over	284	356
Homes started	773	344
% homes started for social rent; LAR; LLR; s.106 LA rent	38%	>25%
% secured pipeline affordable tenures	79%	>60%
Secured pipeline	2,995	>2,000
Customer satisfaction with new homes	74%	85%
Ambition: 90% overall customer satisfaction		
% satisfied with Network Homes services	87.3%	86.0%
% satisfied with repairs service	81.7%	85.0%
Failure demand – repeat case call within 14 days**		
% of customers using portal for self-service*	2,887	2,100
% of customer transactions with no back office intervention**		
Rent collected % (gen needs and HfOP)	100.8%	>100%
Occupancy % (all rented)	98.3%	>99%
Ambition: A Sunday Times Best 100 Company		
Development – stakeholder net promoter %	82%	N/A
Services – stakeholder net promoter %	73%	N/A
Sickness absence (average days)	6 days	6 days
Staff turnover	19.2%	15.0%
Staff – net promoter ('proud to work for Network Homes')	78.5%	N/A
Re-accreditation Sunday Times / IiP Gold**	N/A	N/A

** Current measure is people registered, will move to % transactions in April 2019*

*** These metrics will be measured from April 2019*

Sector Scorecard

Network Homes' current position on the Sector Scorecard measures is as follows:

Measure	2018	2017	G15 Median 2017
Operating margin (overall)	28.4%	31.5%	32.3%
Operating margin (social housing lettings)	26.1%	25.9%	34.5%
EBITDA MRI (as % interest)	186.3%	210.5%	203.0%
New supply delivered % – Social housing units	1.2%	2.1%	1.5%
New supply delivered % – non-social housing units	0.3%	0.3%	
Gearing*	42.1%	40.7%	47.3%
Reinvestment %	5.1%	6.6%	
Investment in communities £000	492	714	
Return on capital employed (ROCE)	3.8%	4.6%	3.8%
Occupancy (general needs only)	99.2%	98.8%	99.7%
Ratio of responsive repairs to planned maintenance	0.70	0.64	0.46
Headline social housing cost per unit £	5,973	6,249	4,477
Management cost per unit £	1,962	1,969	1,190
Maintenance cost per unit £	898	898	1,115
Major Repairs cost per unit £	1,286	1,406	775
Service charge cost per unit £	698	808	668
Other social housing costs per unit £	1,129	1,169	531
Rent collected as % of rent due (GN)	101.0%	100.9%	99.6%
Overhead costs as a percentage of turnover	11.5%	11.0%	11.9%

Note: Gearing definition is different for VFM Standard compared to Network Homes' lending covenant reporting.

On many important metrics, we're performing well. We take our social purpose seriously and we're pleased to report the percentage of homes in our pipeline for affordable tenures and for 'genuinely affordable rents' is well above our internal minimum targets. We missed our overall new homes completion targets due to one delayed scheme, but our new starts were well above target.

Overall customer satisfaction is over 87%, an increase on last year and up 14% since 2013. This year satisfaction with the repairs service has flat-lined and is below target. We've put new procedures in place to improve co-ordination of repairs and there's now a single line of accountability and ownership from reporting to completion. We believe these measures will help improve repairs satisfaction during 2018-19. On new homes satisfaction we're making substantial improvements to our Aftercare services. This measure currently relies on limited survey evidence and we want to use a better measurement next year.

We're reducing our operating costs, but our costs per unit are still too high, with obvious impacts on our margins. This year we've put additional resources into responding to the results of the Grenfell Tower tragedy. This includes: managing increases in responsive works and bringing some works forward; and we're continuing to invest substantially in our IT business transformation programmes.

A full review and restructure of our customer services directorate was completed early 2018. This will have a huge, positive effect in lowering our costs from 2018-19. We've also started to reduce the size of our Senior Management Team. This and other smaller restructures have had a short-term impact on staff turnover, but it remains in line with the peer group average for previous years. Our sickness absence levels are low compared to peer groups on previous trends. Overhead costs as a percentage of turnover are below the peer group average.

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