YORKSHIRE HOUSING

VALUE FOR MONEY REPORT

For the year ended 31 March 2019

CO-OPERATIVE AND COMMUNITY BENEFIT SOCIETIES ACT 2014 (REGISTERED NUMBER 30443R)

STRATEGIC REPORT: VALUE FOR MONEY

Value for money

The group consciously looks to go beyond compliance with the VfM Standard (March 2018). YH has a clear vision supported by strategic priorities and we recognise our duty to deliver them in the most cost effective way.

Our strategic priorities are underpinned by the aim of delivering value for stakeholders, whether they be our customers, the government, local authorities or any others.

Each of our strategic priorities are considered in turn from a VfM perspective below. This builds on from the strategy and objectives section above.

The VfM targets are based on our predictions of what is most likely to happen in the external operating environment. These will need to change should there be a significant external event such as a no-deal Brexit.

Growth:

Metric set by the regulator?	VFM metric	YH2020 Target	YH2019 Actual	YH2018 Actual	Benchmark 2018 Median[1]
Yes	New supply of social housing delivered	3.0%	1.6%	1.6%	1.10%
Yes	New supply of non-social housing delivered	0.33%	0.17%	0.04%	0.00%
Yes	Gearing	48%	47%	45%	45%
Yes	Reinvestment in new and existing homes	11.1%	6.7%	4.8%	6.20%

We continue to develop more homes than our peers, and plan to double our output in the coming year. The board recognise that building more homes for rent is a powerful driver of value for money. Increased numbers allow fixed costs to be spread over a larger cost base as long as each additional scheme makes a surplus.

With this in mind, strict development appraisal parameters and hurdles ensure that new homes add a positive value to the group's finances. These hurdles and assumptions have been reviewed by the board in 2019 to make sure they are reflective of our current operating environment and ambition.

The tenure mix of our schemes is also balanced to meet our strategic objectives in the most effective way but also to ensure we generate returns in order to reinvest in existing and further new homes. Our development programme is designed to maximise returns from any open market sales in order to fund the range of social and affordable tenures that is at the core of our offering, all whilst creating thriving sustainable communities.

Of the anticipated 3,120 units in our new homes strategy, we have completed 1,080 units with a further 917 under construction as at 31 March 2019. All of the non-social completions this year (27 units) were at Lairds Way, Penistone and all profits are being reinvested in further growth. The new supply of social units of 256 is modest compared to our target but with 651 social homes on site this will increase significantly next year, and it represents the current phase of the development cycle.

With this growth and the expansion of other tenures including open market sale comes additional risk. The board manages this through its risk appetite, setting of the New Homes strategy, oversight of investment appraisals and performance monitoring.

Long term financial forecasting has been used to clarify that there is financial capacity. Stress testing is also a key tool used by the board to manage our development risk and ensuring there are appropriate mitigations available should the external environment change.

[1] The median benchmark comparison is from 55 larger housing associations operating in the north, midlands, east and south west regions.

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Independence:

Metric set by the regulator?	VFM metric	YH2020 Target	YH2019 Actual	YH2018 Actual	Benchmark 2018 Median
No	Rent collected as a percentage of rent due	98.8%	99.6%	100.2%	99.9%
No	Occupancy	99.0%	99.3%	99.6%	99.4%

We continue to strive to help our customers live independently, whether that is through financial independence or through helping people stay in their own home with an adaptation or other support service.

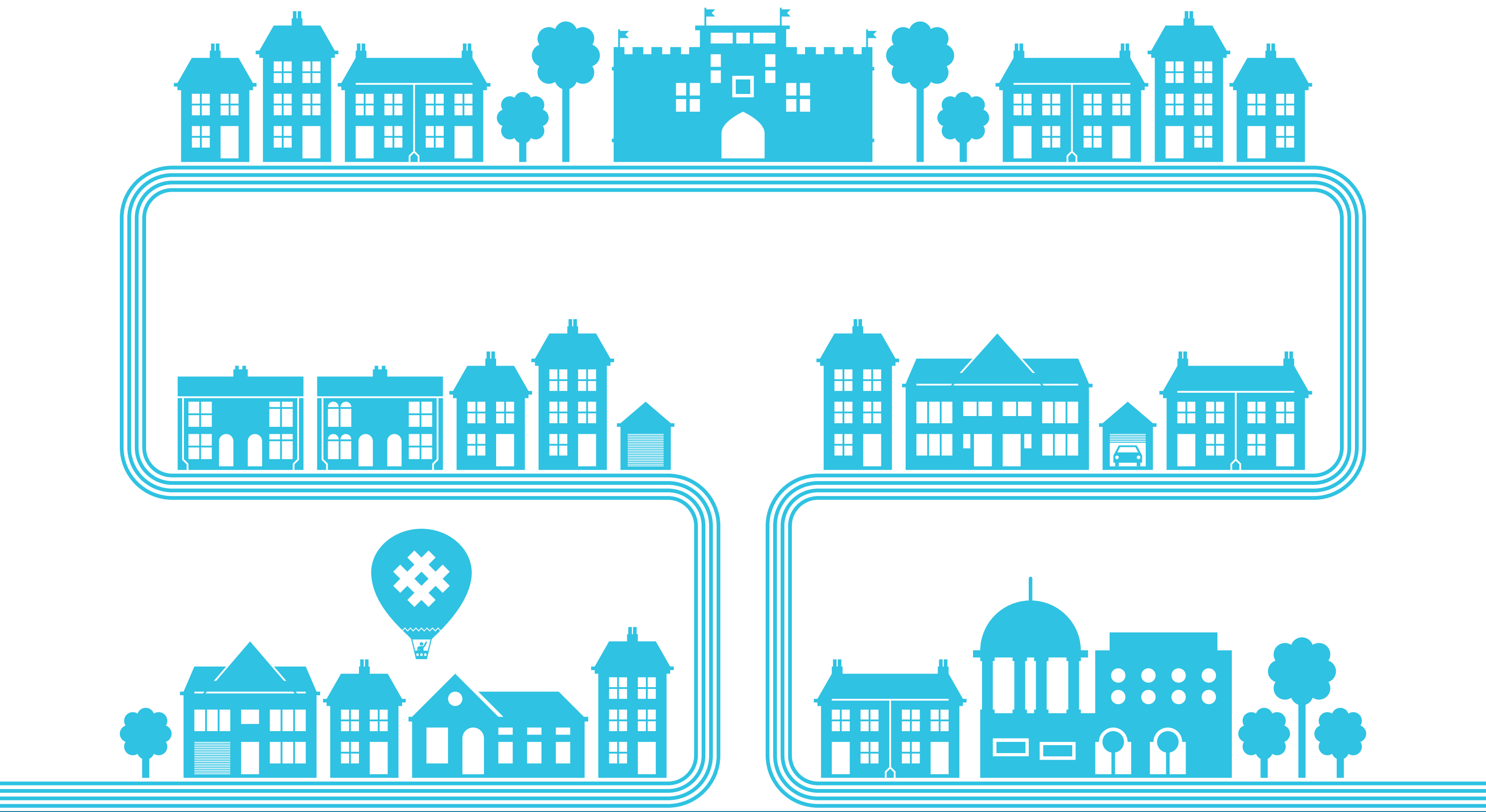
We have successfully supported over 900 customers into work, training or volunteering over the past two years. We believe this, along with our benefit and money advice service, has helped people achieve financial independence. We have also worked hard at collecting rent from all of our tenants, and now have the lowest level of arrears ever.

We offer minor adaptations to our tenants' homes to help them stay in their homes longer than if they didn't receive this support. We also offer adaptations to tenants and non-tenants through our home improvement agency (HIA) working in partnership with a number of local authorities across our region.

Our HIA works to very small margins and we continue to work with local authorities on how we can deliver this service in the most cost effective way.

In the past year we have assisted in excess of 17,000 people to remain in their own homes, safe and secure.

Universal credit continues to be rolled out, and whilst our performance has been good so far, some of our customers are finding it increasingly hard to manage. Accordingly we have anticipated an impact in 2020 with rent collection and occupancy both falling. We expect our peers' performance to worsen also, and so we still be around the median level.



STRATEGIC REPORT: VALUE FOR MONEY

Profit:

Metric set by the regulator?	VFM metric	YH2020 Target	YH2019 Actual	YH2018 Actual	Benchmark 2018 Median
Yes	Operating margin (overall)	29.3%	29.1%	30.6%	28.6%
Yes	Operating margin (social housing)	29.7%	29.3%	31.9%	33.4%
Yes	Headline social Housing cost per unit	3,601	3,342	3,478	3,265
Yes	ROCE[2]	3.8%	3.6%	3.4%	4.5%
Yes	EBITDA MRI[3] interest cover	187%	178%	156%	184%

We generated an operating surplus of £35.0m (£33.0m in 2017/18), all of which we need to invest in existing homes and building new ones. We forecast continued operating surpluses over the next three years, increasing to £38m by 2021/22 which reflects our growth.

Our operating margin has fallen since last year to 29.1% (2018: 30.6%). The reduction is due to a combination of the 1% rent cut imposed by the government and increased management costs whilst we are investing in our change programme. This is likely to continue for several years but will deliver long term cost savings contributing to a rise in margin towards 35%.

Despite this drop in margin the headline social housing cost per unit has reduced. This is partly due to the increase in units but the main driver is that 2019 saw a lower than average capitalised investment cost as some works were delayed to 2020. This has more than offset the increase in management costs. We are anticipating seeing an increase in 2020 which reflects a return to more normal levels of investment in our existing homes and costs associated with delivery of the TY programme.

The cost per unit is something that is closely monitored by management and longer term sustainable cost reductions are a focus of the TY programme as long as they are not at the expense of customer experience. The board and senior management are very clear that this is about value and not just about cutting costs. This is why the customer experience comes first.

It also means we are investing where we need to in order to respond to a changing operating environment, whether that be on fire safety, cybersecurity or finance and risk. The cost savings from the TY programme, along with the growth from developing new units, are the key ways in which we plan to improve our performance against our targets and our peer group.

As mentioned in the strategy and objectives section, we are looking at ways to fund growth in the best way. Our treasury advisors are helping us assess the options and a key driver is keeping the cost of borrowing down. This has to be balanced with flexibility and risk to ensure our ambitious growth plans don't expose the rest of our operations to an unacceptable level of risk.

EBITDA MRI interest cover is a risk measure – are we generating enough cash to cover our borrowing costs, and we have seen an increase in 2019 reflecting a rise in operating surplus without increasing borrowing. We anticipate a similar picture for 2020, in line with our peer group, but it does depend on future sources of funding through our treasury strategy.

There is still uncertainty around the effects of leaving the EU upon interest rates, inflation, employment and the wider economy. The board acknowledges that this poses a major risk and may adversely affect the ability to cut costs and delivery growth.

[2] Return on capital employed

[3] Earnings before interest, tax, depreciation and amortisation, capitalised major repairs included

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Transformation:

Metric set by the regulator?	VFM metric	YH2020 Target	YH2019 Actual	YH2018 Actual	Benchmark 2018 Median
No	Customer satisfaction	90%	89%	87%	88%
No	Employee engagement	85%	79%	76%	N/a

Through the TY programme Yorkshire Housing is changing how we serve customers, how we are structured and this is all enabled by changing how we use technology. Our goals are to improve customer experience, reduce costs and keep YH as a great place to work. The board has approved the detailed business case for the programme based on the benefits it will offer including a return on the original investment.

This upgrade to our technology is a conscious decision to ensure our colleagues have the tools with which to perform their roles more efficiently. Removing system frustration will help ultimately make our business cheaper to operate. A good example of this is through our direct labour organisation (DLO), HomeWorks. The DLO already allows us to more closely manage repairs and maintenance costs. The new ways of working and systems will allow us to better diagnose problems and manage appointments, meaning we can improve efficiency whilst maintaining quality.

The design, development and implementation of the plan, organisational restructure and associated software requires significant cost. The next year of the programme will be the most significant in terms of expenditure. We are restructuring teams this financial year as well as building the software solution upon which our customer facing processes will be based.

We envisage spending £10.3m on our TY programme in 2019/20. This will lead to a marginally higher forecast for our social cost per unit although much of the cost is anticipated to be capitalised towards the development of the software and amortised over the next five years.

Despite the high cost, significant benefits have been identified. The board is satisfied that the financial benefits from the programme outweigh the cost. The programme will also deliver a number of non-financial benefits as already outlined. A proportion of these cost savings have been made already with the bulk of the remainder anticipated from the year ending 31 March 2021 once the programme has completed.

Customer satisfaction levels are only marginally behind our target at present but that is despite challenges faced by our staff in delivering those services. The outputs from the programme will make it easier for our staff to deliver services well first time and is designed to improve the customer satisfaction further. In making things easier to do and once the uncertainty surrounding organisational structure changes subsides we also believe we will be able to achieve the target for employee engagement.

COMPANY INFORMATION

Registrations:
Co-operative and Community Benefit Society registered number: 30443R
Homes England registered provider number: L4521

Secretary:
Guy Millichamp

Registered office:
Dysons Chambers, 12-14 Briggate, Leeds, England, LS1 6ER

Independent auditors:
Grant Thornton UK LLP
No 1 Whitehall Riverside, Leeds, LS1 4BN

Board:
Will Lifford – Chair
Sue Hall – Vice Chair
Linda Christon
Richard Flanagan
Alison Hadden
Keith Holloway
Naz Parkar
David Perry
Philip Severs

Executive directors:
Nick Atkin – Chief executive (appointed 1 April 2019)
Mervyn Jones – Chief executive (resigned 31 December 2018)
David Bolton – Director of property services
Andy Gamble – Director of development
Guy Millichamp – Director of finance
Michelle Gregg – Director of business transformation
Cath Owston – Director of customer services
Gillian Taylor – Director of business transformation (resigned 31 August 2018)

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WE MANAGE OVER 18,000 HOMES, WITH PLANS TO BUILD 3,000 MORE BY 2021.

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