CHS GROUP

housing, care, and community services in Cambridgeshire

The Cambridge Housing Society Limited

VALUE FOR MONEY STATEMENT

for the year ended 31 March 2020

Co-operative and Community Benefit number 10457R

Regulator of Social Housing number L0992

Introduction

The Group operates in a climate of increasing financial and economic uncertainty with a recession expected as a consequence of the pandemic. There are significant constraints on resources with an increasing expectation to do more with less. We are committed to utilising the available resources in the most efficient and effective way. Ensuring residents remain at the heart of what we do, we want to understand and invest in their priorities.

In April 2018, the Regulator of Social Housing issued a revised VfM Standard, a Code of Practice, and a technical note setting out metrics with which to measure economy, efficiency and effectiveness on a comparable basis across the sector. We continue to report against these metrics this year and combine this with some additional analysis and reporting our metrics performance on a benchmark basis against a selected peer group.

In accordance with the regulatory requirements, the Group Board has reviewed our strategic corporate objectives and approved clearly defined and measurable VfM targets to support each of the corporate objectives. These have been set out in our five-year Corporate Plan.

Our approach to achieving VfM in meeting the strategic objectives

The Group Board reviews the strategic corporate objectives and the VfM targets annually. The Executive Management Team meet regularly to oversee the implementation of and review progress against the corporate objectives. The progress is reported quarterly to the Group Board.

VfM is integrated into the organisation's operations in a number of ways:

Governance – Board members' duties include reviewing performance and efficiency and ensuring compliance with the regulator's requirements. Managers and staff are encouraged to question how we work and find ways of providing a better and more efficient service.

Financial – VfM is an integral part of our annual budget, business planning and corporate planning processes that set targets that will produce improvements to the service and better use of the resources.

Business unit review – An update and detailed financial review of each key business area continues to be conducted annually. The aim of the review is to improve the viability of the Group by setting medium term plans for each business unit. Specifically, the review aims to:

- ensure we are better informed about the income or funding streams and the cost structure of each business unit;
- help better understand the gross operating surplus, future viability and return on housing assets for the individual business units;
- set overall Group standard and business unit targets in terms of minimum gross operating margin, contribution and return on assets;
- agree improvement targets and plans in order to address the low performing areas;
- identify and objectively measure the social return from each business unit.

Planning process – Our corporate plan and business plan set out our key aims not only to improve services and increase residents' satisfaction but also to allow us to invest in services and responsible growth. Digital technologies to deliver better value for money in term of cost as well quality. For 2020/21 we are expecting to see the initial benefits from the implementation of our Digital Strategy to deliver better value for money in terms of cost, quality and customer satisfaction.

Resident focus – Improvement in residents' satisfaction with an emphasis on VfM is one of our key corporate objectives. Residents' satisfaction with VfM is measured through several routes including the STAR survey. The survey results for the year showed that overall, 75% of the residents were satisfied that their rent provided value for money (2019: 78%). There was a material fall in the number of housing customers that would recommend CHS which was down to 62.6% (2019: 76%). We believe this reduction reflects the first rent increase for several years and a continuing dissatisfaction with service charges. During 2020/21 we are undertaking a review of the STAR survey and will be working with residents in a range of ways to improve satisfaction.

Our Scrutiny Panel also considers VfM as part of the reviews that they undertake on our services.

Community investment - in helping to deal with some of the impacts of the public sector spending cuts and welfare reforms our Community Investment service provides money and debt advice, benefit advice, career preparation and employment advice.

VfM performance against peers using metrics set out by the Regulator of Social Housing

Group performance measured against the metrics defined in the Value for Money Standard and metrics technical note issued by the Regulator of Social Housing compared against peers is set out below.

Peer group selection

The Group undertakes a range of activities that are so diverse, for an organisation of our size that we are not able to identify directly comparable peers at local or national level. To obtain the nearest peer groups possible, we have identified two different groups.

One peer group consists of 11 other traditional housing associations all based in the east of England. They range from 1,400 to 16,000 units.

The other peer group consists of 11 traditional housing associations with between 2,500 to 5,000 units based anywhere in England (national). They are associations with a relatively large income from other social housing activities and 1st tranche sales, attributes that we feel more closely relate to ours. Four of these national associations are also based in the east of England and are also included in the east of England peer group.

Data for both peer groups has been extracted from the Regulator of Social Housing's global accounts for 2019. The ranking in the peer group tables below is our ranking compared to the other 11 associations in the respective peer group.

Peer group: east of England (local)

			2021	2020		2019		
No.	**Metric**		**Target**	**Actual**	**Target**	**Rank**	**Actual**	**Peers**
1	Reinvestment	%	5.3	8.5	6.4	4	9.8	8.8
2A	New supply delivered - social	%	2.9	5.5	5.5	4	3.5	2.7
2B	New supply delivered - non-social	%	0.0	0.4	0.4	4	0.1	0.1
3	Gearing	%	51.3	54.7	56.1	7	55.1	60.4
4	EBITDA major repairs included interest cover	%	134.5	159.9	120.6	11	120.9	155.7
5	Headline social housing cost per unit	£	6,028	5,766	6,448	10	6,403	4,225
6A	Operating margin - social housing	%	35.4	41.5	33.5	7	36.9	37.9
6B	Operating margin - overall	%	25.7	26.6	19.2	10	21.2	32.2
7	Return on capital employed	%	3.5	4.6	3.4	7	3.2	3.7

Peer group: national

			2021	2020		2019		
No.	**Metric**		**Target**	**Actual**	**Target**	**Rank**	**Actual**	**Peers**
1	Reinvestment	%	5.3	8.5	6.4	3	9.8	7.9
2A	New supply delivered - social	%	2.9	5.5	5.5	4	3.5	3.2
2B	New supply delivered - non-social	%	0.0	0.4	0.4	1	0.1	0.0
3	Gearing	%	51.3	54.7	56.1	10	55.1	43.2
4	EBITDA major repairs included interest cover	%	134.5	159.9	120.6	12	120.9	185.6
5	Headline social housing cost per unit	£	6,028	5,766	6,448	10	6,403	4,732
6A	Operating margin - social housing	%	35.4	41.5	33.5	3	36.9	28.1
6B	Operating margin - overall	%	25.7	26.6	19.2	8	21.2	25.0
7	Return on capital employed	%	3.5	4.6	3.4	5	3.2	3.1

2021 targets are based on the re-forecasted 2020/21 budget reflecting the projected impact pandemic post peak.

Analysis of performance

Outcomes delivered (Re-investment and new supply delivered)

The Group's development programme has increased significantly over the last 30 months. We believe we are reinvesting funds at the optimal level in consideration of viability and risk. The ranking against our peers demonstrates our commitment to meet housing need. The reinvestment metric is an indicator of the number of new homes in development.

The new supply delivered for social housing met our target for the year. Our ranking will increase further in the next year as the number of completions will reflect the level of reinvestment over the last 18 months.

Development capacity (gearing)

The gearing measure shows the proportion of borrowing in relation to the size of the asset base. The Group's gearing is higher than the majority of peers, and increasing slightly, reflecting a relatively large development programme phased over a number of years. However, the gearing is still comfortably below the maximum prescribed in the Group's loan covenants allowing for further increased development in the future.

Business health (EBITDA, margins)

The Group performed strongly with regard to social housing lettings margin, ranking 3rd amongst national peers.

However, 54% of the Group's income is not generated from social housing lettings. Non-social housing activities (e.g. residential care homes, extra care services, nurseries, community investment activities) operate at much lower margins. Community investment activities usually run at a loss, and it was a particularly challenging year for nurseries that also operated at a loss. Although the overall operating margin exceeded the target for the year, the Group does not expect its overall operating margin to rank highly amongst peers due to its diverse range of activities. Improvement in operating margin is a key element of the VfM targets embedded in our Corporate Plan.

EBITDA improved significantly due to an increased surplus on social housing activities and a surplus of £1,691k (2019: £566k) from LCHO first tranche sales. Surpluses from property sales is volatile and dependent on the development programme. The target for 2020/21 is lower to reflect this.

Operating efficiencies (Headline social housing cost per unit)

Due to the diverse range of services and activities undertaken by the Group, specifically in relation to our Other Social Housing activities that are often not related to units in management and that have high direct staff costs, we believe the headline social housing cost per unit metric is not an adequate basis for assessing VfM and for benchmarking against peers. Therefore, to enable more comparable benchmarking and provide greater transparency of our VfM effectiveness and efficiencies we have calculated this metric for the Group by business stream. In the following table we have summarised the calculation to show the metric by each business stream as reported in Note 3 to the Financial Statements.

The headline social housing cost per unit VfM Metric by business stream for 2020 are:

	Units in management at 31 March 2020 Units	Total costs £'000	Cost per unit £
Social housing lettings			
General needs and affordable rent	2,031	5,242	2,581
Supported and sheltered housing	256	1,971	7,699
Extra care lettings	121	1,587	13,116
Shared ownership lettings	388	546	1,407
Other social housing activities			
Extra Care spot hours and community services	n/a	812	n/a
Residential care	143	5,186	36,266
Community investment activities	n/a	805	n/a
Other activities:			
Development	n/a	150	n/a
Other activities (Community Support, Rough Sleepers)	59	987	16,729
Headline social housing cost per unit	**2,998**	**17,286**	**5,766**

The above table shows the elements required to be included in the metric calculation for the headline social cost per unit. There are a number of care or support activities with high employment costs that are not directly related to units in management which increases the metric significantly.

Residential care is an expensive business to operate due to the level of staffing required. Extra care, community support and rough sleepers support are also expensive relative to the provision of general needs housing. These business streams therefore also have a significant adverse effect on the headline social housing cost per unit metric.

This analysis demonstrates that when looking solely at the Group activities classified as Social Housing Letting the 2020 headline social housing cost per unit is £2.58k, which is a better comparison against the overall global accounts median of £3.70k and just above the lower quartile of £3.18k.

Effective asset management (return on capital employed)

The return has increased because of a higher operating margin.

VfM performance against internal targets

In addition to the regulator's metrics, the Group has developed a suite of internal metrics and targets to measure performance. The key metrics are below:

		Target 2021	Actual 2020	Target 2020
Deliver sustainable growth in social and affordable housing:				
Development: handovers – affordable general needs	units	55	112	100
Development: handovers – affordable shared ownership	units	33	62	65
Provide excellent services:				
Tenants satisfied with CHS services	%	82.0	77.6	81.0
Reduce % of all voluntary leavers who leave within 6 months	%	30.0	30.0	31.0
Responsive repairs – stay fixed %	%	93.6	98.8	90.0
Responsive repairs – right first time %	%	78.0	96.6	75.0
Ensure financial viability and excellent governance:				
Average responsive repair cost per property (exc voids)	£	496	466	486
Average void repair cost per relet	£	1,440	1,320	1,600
Average relet days – general needs	days	16.0	18.9	17.0
Average relet days – sheltered	days	26.0	50.4	28.0
Average relet days – extra care	days	26.0	14.9	28.0
Average sales time for shared ownership units	days	86	115	88
Average sales time open market units	days	86	141	88
Open market sales – handovers	units	-	11	32
Average first let time for new affordable development handovers	days	13.0	14.6	14.0

Strategy to address areas of under performance

Our 5-year Corporate Plan was reviewed and updated during the year. This included integrating value for money targets within our corporate objectives. New targets were set to drive continuous improvement in all areas and to reflect the balance required between the Group's commitment to delivering social value, whilst ensuring both social and commercial activities are viable and sustainable.

The key aspects of our strategy to improve value for money are:

- in accordance with our Growth Policy to obtain improved economies of scale through the development of new affordable rent general needs and low cost home ownership properties that will increase our homes in management by c.20% (c.580 units) by March 2025 and be reflected in the average management cost per property increasing at a rate below inflation;
- setting minimum gross operating margin targets to be achieved for each of our diversified activities whilst continuing to deliver social value;
- undertaking a robust rolling programme of procurement tenders to ensure optimal price, quality and customer satisfaction are delivered;
- actual performance will be managed and monitored to deliver effective and efficient services.

In the short-term, we expect our ranking to remain lower than peers for the EBITDA, gearing, headline social housing cost per unit and operating margin – overall VfM metrics, but to improve over the next five years. This is due to the combination of:

- our comparatively lower number of general needs homes owned compared to our peers, which reduces the economies of scale achievable;
- as demonstrated earlier in this report, the Group's very diversified range of activities, that we undertake to deliver social value, where operating margins are lower than social housing;

- our on-going development programme will increase the number of general need homes in management in future years that will provide improved economies of scale.

The Group Board recognises that achievement of some VfM targets was considerably adversely impacted by the unexpected global pandemic towards the end of the year. Nonetheless the Executive Management Team have been asked to refocus efforts on achievement of the targets within the 5-year Corporate Plan. Further work is to be undertaken to review cost drivers and identify efficiency savings.

Social Value

As a social purpose organisation, we want to be as responsive as possible to the local communities in which we work while considering the risks that may be involved in delivering a range of services. To help us better understand the social value or impact of our services use three primary tools to measure different aspects of social value.

- Social Value – a tool developed by the Housing Associations Charitable Trust (HACT). This approach monetises outcomes that are related to increases in people's wellbeing as a result of using our services. The advantage of using this methodology is that it is nationally recognised as a credible way of measuring social impact. CHS uses HACT's Social Value Wellbeing Valuation Approach for some of our services.
- Economic value – the Local Multiplier Effect tool developed by the New Economics Foundation which estimates the local economic benefits of housing association spending.
- Cost Benefit Analysis - developed by HM Treasury and New Economy Manchester to assess the value for money impact of public service programmes. CHS has used this tool to assess some of its preventative work and to demonstrate its value to wider stakeholders.

In addition, CHS has used research by the Hyde Group and Bates Wells Braithwaite (The Value of a Social Tenancy, (August 2018)) to assess the social value of its tenancies. In its work Hyde split the value created into three categories:

- Social value per tenancy
- Economic impact arising from construction per tenancy
- Economic impact arising from maintenance activity per tenancy

Added together these provide a figure for the total social value per tenancy. The total value calculation makes allowance for 'deadweight' and things that would have happed anyway without a social tenancy to arrive at the final figure of £19,906 per tenancy. Using this methodology and leaving aside the customers of the registered care homes, it can be estimated that the total value of (2,395) social housing tenancies for CHS, is £47.7m.

CHS has brought together its work on Social Value to inform strategic decisions about the balance of diversified activity and core activity and how we might best contribute to tackling local social issues. We have developed a 'Business on a Page' methodology which assesses projects and services in a holistic way by taking account of their gross operating margins, risk, Social Value, and strategic relevance.

In the year, applying the HACT approach we delivered the following Social Value in these service areas:

Service Area	**Overall Social Impact**
Money and employment advice, community development	£1,011,469
Housing Related Support Services*	£1,950,089
Cambridgeshire Local Assistance Scheme	£1,102,645

*The overall Social Impact understates the Social Value we deliver supporting Looked After Children. We are exploring ways of better understanding how to capture this as our sense is that the HACT model does not fully appreciate the difference the services make.

In addition, we delivered:

- £609k extra in tenants' pockets through provision of money advice e.g. welfare benefits, tax credits or grants; and £3.1m to the wider community by working in partnership with local Citizens Advice Bureaux as part of CLAS
- 72 vulnerably housed customers achieved an employment related outcome;

- 57 new people moved on-line, enabling them to use the internet;
- Customers earned almost 1000 hours of Time Credits. These credits may be redeemed at various local leisure services and there is demonstrable evidence that Time Credits are linked to improvements in quality of life (University of Cambridge 2017).

In our Older People's Services:

- Around 70% of our residents in our Residential Care homes are private payers and the remaining 30% local authority funded. The cost of delivering good quality services is reflected in the fees for the private payers being higher than those paid by the local authority. In 2018-19 CHS imposed a minimum fee for Social Services residents of £650 per week. This is to improve the financial viability of the business and reduce the cross subsidy from private funders, estimated to be over £600k p.a. However, there is no differential in the quality of service or outcomes for residents;
- Our Residential Care Homes offer respite stays which allow family carers to take breaks, and extends the time families can continue supporting those living with dementia at home;
- CHS provides an aids and adaptations service for tenants, research has shown that appropriate adaptation/equipment can delay admission to residential care by around 4 years;
- Our Extra Care scheme 5* kitchens provide meals to local volunteer-run lunch clubs, and to residents in our sheltered schemes, these events reduce social isolation amongst the elderly;
- Our schemes act as a community hub for NHS services such as 'flu' jab and memory clinics, chiropody and wellness therapies;
- Our residential care homes, extra care and sheltered schemes are Wi-Fi enabled to facilitate digital inclusion and includes the use of assistive technology where appropriate;
- We are upgrading domestic boilers and storage heaters to more energy efficient models; this will help to reduce customers' energy bills and lessen the impact on the environment;
- CHS has surveyed the needs of all its General Needs tenants over 75 and has provided information both face to face and in our Corporate Newsletter to help them access aids/adaptations, community alarms, and financial help both from CHS and their local services.

Over the year ahead we intend to develop our understanding of our Social Impact further by applying appropriate Social Value methodologies produce a statement which capture our contribution across the following themes:

- Developing partnerships
- Environmental sustainability
- Health and well-being
- Assisting and supporting people
- Jobs, training and skills