The Cambridge Housing Society Limited

VALUE FOR MONEY STATEMENT

for the year ended 31 March 2021

Co-operative and Community Benefit number 10457R

Regulator of Social Housing number L0992

Introduction

The Group's corporate objectives and VfM targets are embedded in the corporate plan and are reviewed 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.

The Group Board recognises that the global pandemic adversely impacted the achievement of some of the 2020/21 VfM targets

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 seek to produce improvements to the service and better use of the resources.

Business unit review – An update and review of the financial forecast for the next five years for each key business unit 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 as part of considering risk v return.

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. Investment in digital technologies and systems are planned to deliver better value for money in term of cost as well quality.

Resident focus – Improvement in residents' satisfaction with an emphasis on VfM is one of our key corporate objectives. However, the pandemic and lockdown had a significant impact on services with no in-person contact for large parts of the year and residents reporting fewer repairs.

Performance against corporate objectives

The following are the key VfM measures from the many measures used to monitor and run the business.

Corporate objective: Deliver sustainable growth in social and affordable housing

		2022	2021		2020
Metric		**Target**	**Actual**	**Target**	**Actual**
Homes in management	No.	3,168	3,053	3,063	3,051
Development - starts on-site:					
Affordable general needs units	No.	75	-	65	67
Shared ownership units	No.	24	-	35	35
Development - handovers:					
Affordable general needs units	No.	47	38	55	112
Shared ownership units	No.	33	11	33	54

Current performance

The development programme has been severely impacted by the pandemic over the last year, with contracted schemes in development having completion handover delays and most pipeline schemes being delayed either in respect of the legal process to become contractually committed, or the actual start of build on site, or in planning.

Focus on 2021/22 and beyond

It is expected that our targets for 2021/22 will be achieved as the majority of the new starts are on identified schemes that we believe will move into contract in the year ahead.

Looking further forward the policy changes by Government in respect of the Affordable Homes Programme 2021-2026 that includes the emphasis shift to First Homes and the introduction of the New Model for Shared Ownership are anticipated to reduce affordable development scheme opportunities going forward as the programme largely consists of s106 schemes. Therefore, our long-term business plan now anticipates the annual volume of new starts to be 80 units a year from 2022/2023.

Corporate objective: Provide excellent services that respond to our customers

		2022	2021		2020
Metric		**Target**	**Actual**	**Target**	**Actual**
Digital strategy					
Housing tenants paying by direct debit	%	60.0	59.5	59.0	59.0
Sustain existing services					
Tenants satisfied with CHS services	%	83.0	75.0	82.0	74.0
Asset management and maintenance					
Kitchen replacements	No.	100	58	109	51
Bathroom replacements	No.	103	55	65	45
Heating system replacements	No.	205	106	126	108
Responsive repairs – stay fixed	%	93.6	99.3	91.8	98.8
Responsive repairs – right first time	%	90.0	97.1	90.0	96.6

Current performance

The delivery of planned component replacements was adversely impacted over the last year by the pandemic. We have worked with customers and contractors to deliver as full a programme as possible whilst respecting the need to follow government guidelines, apply social distancing and balance health and safety with customer satisfaction.

Focus on 2021/22 and beyond

The component replacement programme planned in the year ahead includes an allowance for catching up on works that were not progressed in 2020/21.

Corporate objective: Ensure strong financial viability and excellent governance

In addition to the metrics required by the Regulator, gross operating margins are monitored on a monthly basis for each business unit. The gross operating margin is the margin after deducting direct costs from turnover.

		2022	2021		2020
Metric – gross operating margin		**Target**	**Actual**	**Target**	**Actual**
Social housing lettings	%	59	60	60	59
Other social housing activities	%	21	22	23	21

Current performance

The outcomes in 2020/21 are in part reflecting our continued focus on improving our operating margins so as to solidify our regulatory viability rating of V2 and further reduce viability risks within the business. The performance does reflect a more favourable position because during the pandemic as part of risk management there was a freeze on some discretionary expenditure and we did not undertake some planned projects, and in addition some maintenance work was not possible to complete.

Focus on 2021/22 and beyond

To deliver the corporate plan targets we have agreed a range of actions that are expected to continue to contribute to modest overall improvement in our gross operating margins.

Benchmarking and peer group review

The metrics below are defined by the Regulator of Social Housing as set out in the Value for Money Standard (2018) accompanied by the Code of Practice (2018).

Peer group selection

On an annual basis, we undertake a formal review of our VfM metrics against a range of peers.

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 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 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 LCHO first 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 2020. 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)

			2022	2021		2020		
No.	**Metric**		**Target**	**Actual**	**Target**	**Actual**	**Peers**	**Rank**
1	Operating margin - social housing	%	30.8	43.8	35.4	41.5	35.2	3
2	Operating margin - overall	%	29.3	30.0	25.7	26.6	27.7	8
3	Reinvestment	%	5.0	4.3	5.3	8.5	9.0	5
4	Return on capital employed	%	4.4	4.2	3.5	4.6	3.7	2
5	Gearing	%	49.6	53.1	51.3	54.7	61.1	5
6	EBITDA MRI interest cover	%	148.2	119.21	134.5	159.9	164.1	8
7	Headline social housing cost per unit	£	6,000	5,794	6,028	5,766	4,366	10
8	New supply delivered - social	%	2.9	1.6	2.9	5.5	3.5	3
9	New supply delivered - non-social	%	0.0	0.0	0.0	0.4	0.8	5

Peer group: national

			2022	2021		2020		
No.	**Metric**		**Target**	**Actual**	**Target**	**Actual**	**Peers**	**Rank**
1	Operating margin - social housing	%	30.8	43.8	35.4	41.5	18.8	1
2	Operating margin - overall	%	29.3	30.0	25.7	26.6	13.8	2
3	Reinvestment	%	5.0	4.3	5.3	8.5	5.8	2
4	Return on capital employed	%	4.4	4.2	3.5	4.6	2.3	1
5	Gearing	%	49.6	53.1	51.3	54.7	37.8	11
6	EBITDA MRI interest cover	%	148.2	119.2	134.5	159.9	161.9	6
7	Headline social housing cost per unit	£	6,000	5,794	6,028	5,766	6,215	9
8	New supply delivered - social	%	2.9	1.6	2.9	5.5	2.7	3
9	New supply delivered - non-social	%	0.0	0.0	0.0	0.4	0.0	1

2022 targets are based on the re-forecasted 2021/22 budget reflecting the projected impact of the pandemic.

Current performance

Business health (metrics 1 and 2)

The operating margin demonstrates the profitability of operating assets before exceptional items are taken into account.

Operating margins improved over the previous year and exceeded targets, though as mentioned earlier this is in part due to expenditure being delayed during the pandemic. The Group compares favourably with national peers who are all around the same size as the Group. The local peer group contains a number of larger associations who will be able to achieve economies of scale not available to the Group.

Asset management (metrics 3 and 4)

Reinvestment (metric 3) is the investment in properties (existing stock and new supply) as a percentage of the total properties held. Return on capital employed (metric 4) compares the operating surplus to total assets less current liabilities.

Investment in new stock was lower than anticipated due to delays caused by the pandemic. Capital Investment in existing stock with regard to replacing components increased by £313k over the previous year.

Funding (metrics 5 and 6)

Gearing (metric 5) measures how much of the adjusted assets are made up of debt and the degree of dependence on debt finance. EBITDA MRI (Earnings Before Interest, Tax, Amortisation, Major Repairs Included – metric 6) measures the level of surplus generated compared to interest payable avoiding any distortions stemming from the depreciation charge.

The net effect of the funding activity during the year shows a slight reduction in the Group's gearing, due to the early repayment of several loans, which together with the breakage of an RPI linked loan, meant the Group incurred prepaid interest and fees of £2.4m and this is included in the EBITDA MRI causing it to fall to 119.2%. EBITDA MRI excluding the loan breakage interest costs would be 162.3%.

Social housing lettings (metric 7)

Headline social housing cost per unit measures total property costs (including capital expenditure) per property owned or managed.

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 2021 are:

	Units in management at 31 March 2021 Units	Total costs 2021 £'000	Cost per unit 2021 £	Cost per unit 2020 £
Social housing lettings				
General needs and affordable rent	2,068	5,626	2,721	2,581
Supported and sheltered housing	263	2,035	7,738	7,699
Extra care lettings	121	1,490	12,314	13,116
Shared ownership lettings	388	625	1,611	1,407
Other social housing activities				
Extra Care spot hours and community services	n/a	858	n/a	n/a
Residential care	94	4,489	34,798	36,266
Community investment activities	n/a	1,097	n/a	n/a
Other activities:				
Development	n/a	93	n/a	n/a
Community Support and Rough Sleepers	59	899	15,237	16,729
Headline social housing cost per unit	**2,993**	**17,212**	**5,751**	**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 and Supported Housing 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 General Needs and Affordable Rent with Social Housing Lettings, the 2021 headline social housing cost per unit is £2,721 which is a better comparison against the overall global accounts median of £3,830 and below the lower quartile of £3,340.

Development (metrics 8 and 9)

The new supply metrics set out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units owned at the year-end.

The development on new housing stock was delayed by the pandemic reflecting the lower than anticipated new supply of new social housing stock.

The Group stopped sourcing new sites to develop properties for market sale in 2019-20, and there has been no non-social housing development in 2020/21.

Focus on 2021/22 and beyond

VfM targets are embedded in our corporate plan having been ere set to drive continuous improvement across 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.350 units by March 2025 and be reflected in the average management cost per property increasing at a rate below inflation;
- setting challenging but achievable minimum gross operating margin targets to be achieved for each of our diversified activities whilst continuing to deliver social value;
- reshaping services to reduce risk where margin improvements are very difficult because of the service's reliance on public funding;
- undertaking a robust rolling programme of procurement tenders to ensure optimal price, quality and customer satisfaction are delivered;
- managing and monitoring actual performance 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.

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 we 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 initially developed by the New Economics Foundation which estimates the local economic benefits of housing association spending.
- Cost Benefit Analysis – initially developed by HM Treasury and New Economy Manchester to assess the value for money impact of public service programmes. CHS has used a variation of this tool to assess some of its preventative work and to demonstrate its value to wider stakeholders e.g. to support the work of the County Council in assessing the value of (and continued funding for) the Cambridgeshire Local Assistance Scheme (CLAS).

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 2021, this analysis was used to inform the draft supporting housing strategy in preparation for the County Council housing related supported recommissioning.

Community Investment and Community Support Services

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

Service Area	Overall Social Impact 2021	Overall Social Impact 2020
Money and employment advice, community development	£452,135	£1,011,469
Housing Related Support Services*	£1,360,917	£1,950,089
Cambridgeshire Local Assistance Scheme	£1,014,019	£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:

- £559k 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
- 49 vulnerably housed customers achieved an employment related outcome;
- 108 new people moved on-line, enabling them to use the internet.

General needs and affordable housing

To demonstrate economic value, 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. This builds on the work of the Local Multiplier Effect tool and is applied specifically to housing associations. 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.

In our Older People's Services

- Around 48% (2020: 46%) of our residents in our Residential Care homes are private payers and the remaining 52% (2020: 54%) 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. For local authority funded places there is an individual negotiation of fees based on the needs of the individual 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 our tenants, research has shown that appropriate adaptation/equipment can delay admission to residential care by around 4 years;
- Our Extra Care scheme 5 star kitchens provide meals to local volunteer-run lunch clubs, and to residents in our sheltered schemes, these events reduce social isolation amongst the elderly. These services have been halted for large parts of 2020/21 due to the pandemic;
- 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 and extra care are Wi-Fi enabled to facilitate digital inclusion and includes the use of assistive technology where appropriate;

Looking ahead

Over the year ahead we intend to develop our understanding of our Social Impact further by applying appropriate Social Value methodologies to 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

The Board has adopted a sustainability statement and work is underway to deliver a sustainability policy and strategy before the end of 2021. In our asset management plans, 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. This will all be framed under an environmental, social and governance (ESG) heading to ensure that the links between social value, environmental sustainability and financial performance are clearly linked.