

Value for money

Livin's Value for Money Strategy

The Regulator of Social Housing introduced a revised Value for Money Standard from April 2018, which registered providers are required to report against in their 2017-18 financial statements.

In response to the revised Standard, Livin reconsidered its approach to Value for Money during 2017-18. A revised Value for Money Strategy was approved by the Board in July 2018.

This strategy reaffirms Livin's continued commitment to embedding Value for Money considerations throughout its governance processes, its business planning and performance management frameworks, and through its service delivery culture. It is designed to support Livin's business strategy, Plan A, which highlights "driving innovation, efficiency and productivity" as priorities.

The overall vision of the Value for Money Strategy is:

"to drive the achievement of Livin's strategic and charitable objectives by ensuring that Livin's approach to the management of resources is strategic and comprehensive, and considered and embedded at both strategic and operational levels".

Our approach to Value for Money

The revised Regulatory Standard requires registered providers to review and understand their performance against the Value for Money technical metrics set by the Regulator, as well as their own Value for Money targets.

Livin's Board sets performance and financial targets based on the strategic

objectives contained within its Business Strategy. To ensure that the Board considers the effect of its decisions on the technical metrics established by the Regulator, it is provided with a three year forecast of the technical metrics when setting the annual budget. This forecast also includes Livin's historical performance for each metric and a comparison against the sector as a whole (all registered providers in England with over 1,000 properties) divided into quartiles.

Livin also considers performance against the Sector Scorecard, which includes a broader range of metrics covering operational as well as financial performance.

Value for Money Performance

The tables overleaf compares Livin's performance in 2017/18 against:

- Actual performance in 2016/17 and 2015/16;
- Forecast performance for 2018/19; and
- Comparative performance against the sector as a whole using 2016/17 data.

Performance is assessed against the Regulator of Social Housing's Technical Metrics (TM) and the Sector Scorecard metrics (SS).

Where possible, sector wide performance data is taken from the Global Accounts published by the Regulator of Social Housing, which includes data for all registered providers with more than 1,000 units. At the time of preparing this report, comparative information from registered providers for 2017/18 was not available, so 2016/17 data has been used.

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The Global Accounts do not include comparative data for all Sector Scorecard measures; where Global Accounts information is not available, we have used comparative data provided by Housemark through their Sector Scorecard report (marked * in the tables below). This is based on data provided by 315 registered providers, including providers with fewer than 1,000 units.

The Board aims to achieve a balanced performance across the Regulator of Social Housing's Value for Money technical metrics, aiming for Livin's blended average performance to be above median across the technical metrics as a whole.

Business health

Metric	Type	2019 forecast	2018	2017	2016	2018 performance	Quartiles
Operating margin (Social Housing)	TM	23.3%	29.5%	39.1%	34.2%	Lower median 	Upper 39.9% Median 34.3% Lower 28.0%
Operating margin (overall)	TM	25.5%	31.4%	38.3%	36.7%	Upper median 	Upper 35.9% Median 31.2% Lower 24.6%
EBITDA MRI Interest Cover	TM	189%	236%	257%	274%	Upper median 	Upper 282.3% Median 216.4% Lower 175%

Livin's **operating margin (Social Housing)** has reduced in the year, moving from upper median quartile performance in 2016/17 to lower median quartile performance in 2017/18.

Since social housing lettings constitutes the majority of Livin's income, **overall operating margin** has also reduced during the year, in keeping with the reduction in the operating margin for social housing only. However, we continue to deliver upper median quartile performance in this area.

Major factors influencing the reduction in operating margin include:

- The loss of income arising from the 1% rent reduction introduced by the Welfare Reform and Work Act 2016, in common with all registered providers, reducing operating margin by around 1%;
- An increase in staff costs, and particularly actuarial adjustments affecting pension costs in 2017/18, reducing operating margin by a further 1.2%;
- An increase in expenditure on major repairs, including non-capital works associated with the regeneration at York Hill and improvement works on existing stock, reducing operating margin by a further 1.8%; and
- An increase in depreciation and impairment charges following capital investment in prior years, reducing operating margin by a further 1.8%.

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Livin has not undertaken significant diversification into lower margin, higher risk activities such as personal care or non-social housing development. It is recognised that these types of activities can produce wider benefits for local communities, and therefore Livin does from time to time consider its position on diversification.

In addition to Operating Margin, Livin monitors performance against 'Earnings Before Interest, Tax, Depreciation and Amortisation, Major Repairs Included' (EBITDA-MRI) both as an absolute measure and as a percentage of turnover, as set out in the Financial Performance section. EBITDA-MRI is the level of surplus generated, adjusted to remove the effect of non-cash items such as depreciation and amortisation but including capitalised expenditure on major repairs. Although Livin's Operating Margin reduced in 2017/18 by 6.9%, EBITDA MRI actually improved from £12.496m to £12.757m, and EBITDA-MRI as a percentage of Turnover increased by 0.90% to 36.90%.

EBITDA-MRI Interest Cover is the amount of interest paid on loan finance compared to earnings. This measure indicates the affordability of an organisation's current borrowings and its capacity to meet the interest payments on additional future borrowings.

Two factors have contributed to a reduction in performance in EBITDA-MRI Interest Cover in the year from Upper quartile performance to Upper Median quartile performance. Livin's operating margin has reduced, due to the factors set out above; and interest payable for the year has increased, reflecting a higher margin charged on Livin's financing arrangements during the year. As set out in the section "Capital Structure and

Treasury Policy", the Board is currently considering refinancing options which could help to reduce interest charges, and hence improve performance against this metric, in the longer term.

The forecasts for 2019 predict a decrease in performance against these measures, to lower median performance for two measures and lower quartile performance for one measure. This is partly because Livin prepares its budgets and forecasts on a prudent basis, ensuring that it has the resources in place to safeguard its social housing assets. This prudent approach typically reduces forecast operating margin by 2.08% and EBITDA-MRI Interest Cover by 10%.

Livin's EBITDA-MRI Interest Cover performance is currently well above the sector median, but is forecast to reduce as debt rises in future years to fund further development and regeneration projects.

Prior to approving the annual budget and to inform its decision, Board received a forecast of the Value for Money technical metrics together with a detailed explanation of both the year-on-year trends and the variance to the sector median performance.

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Development (Capacity & Supply)

Metric	Type	2019 forecast	2018	2017	2016	2018 performance	Quartiles
Units Developed (Absolute)	SS	102	77	8	29	Lower median 	Upper 205 Median 80 Lower 19
New supply delivered % (Social housing units)	TM	1.4%	0.92%	0.1%	0.6%	Lower median 	Upper 2.2% Median 1.2% Lower 0.45%
New supply delivered % (non-social housing units)	TM	-	-	-	-	Livin does not currently have a programme of non-social housing delivery, and therefore no performance is reported against this metric.	
Gearing	TM	51.4%	47.4%	56.2%	64.8%	Lower median (no sector-wide optimum)	Upper 60.3% Median 48.2% Lower 38.4%

77 new build properties were delivered in 2017/18, a significant improvement on the 8 units delivered in the previous year. Performance in both **New Supply Delivered % (Social Housing Units) (sector wide)** and **Units Developed (Absolute)** improved to lower median against the sector, compared to lower quartile performance in the previous year. Increasing the level of new supply delivered is a key part of Livin's Business Strategy, although development must be in keeping with Livin's financial resources and risk appetite.

This year, new developments included those at Butterby Close and Central Drive, both in Spennymoor; St Andrew's Close in Aycliffe; and at Thirlmere Road, Ferryhill. A number of newly built properties were also acquired through Section 106 agreements, including in Newton Aycliffe and Middlestone Moor. There is high demand for our newly built properties, and Butterby Close was a regional winner in the 2018 LABC Building Excellence

Awards. Livin continues to work in partnership with local property development companies to secure Section 106 properties which meet community needs.

Lower quartile performance in delivery of new supply in 2017/18 is a result of the suspension of Livin's development pipeline in 2015/16, whilst the full impact of the rent reduction was evaluated. This led to a significant delay between the approval of additional funds for new developments and completion of these developments.

Looking to the future, Livin has a longer term ambition to increase the number of properties delivered; the current development programme for 2018/19 is expected to improve performance to the Upper Median quartile.

Livin does not currently have a programme of non-social housing delivery, and therefore no performance is

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reported against the metric **New supply delivered % (non-social housing units)**. However, Livin does have ambitions to extend the range of products that it offers and the Board is considering appropriate methods of delivering this ambition.

In terms of **gearing**, it is generally acknowledged that there is no sector-wide optimum performance for gearing, and that the optimum level of gearing for each registered provider is subject to individual circumstances. Gearing is a

measure of loan finance held as a percentage of the total value of housing assets owned by Livin. The current level of gearing is close to the sector median and considered to be appropriate for Livin at this point in time.

Planned future investment in both regeneration and development work is forecast to increase Livin's level of gearing in future years.

Outcomes Delivered

Metric	Type	2019 forecast	2018	2017	2016	2018 performance	Quartiles
Resident Satisfaction (see note below)	SS	87.0% (transactional basis)	92.3% (transactional basis)	96.2% (overall basis)	Not available	*Upper 😊	Upper 91.0% Median 86.6% Lower 82.8%
£s invested in new housing supply (for every £1 generated from operations)	SS	0.70	0.56	0.16	0.16	*Lower median 😞	Upper 1.12 Median 0.69 Lower 0.22
£s invested in communities (for every £1 generated from operations)	SS	0.02	0.01	0.01	0.01	*Median 😊	Upper 0.04 Median 0.01 Lower 0.00
Reinvestment %	TM	12.7%	8.9%	7.9%	7.43%	Upper 😊	Upper 8.7% Median 5.7% Lower 3.6%

Livin measures **Resident Satisfaction** on a transactional basis, requesting customer feedback immediately after meaningful interactions, such as a call to the Customer Service Centre or a tenancy visit. This allows us to understand the impact that our different services are having, and to make adaptations as necessary to meet customer need. Customers and tenants report very high levels of satisfaction with these services.

Whilst this method of monitoring satisfaction is not directly comparable with the "overall satisfaction level" method used by the Sector Scorecard, we consider that this level of performance is likely to equal top quartile performance.

The significant increase in **£s invested in new housing supply** reflects the increase in the number of new developments delivered in the year, as considered in the Development (Capacity and Supply) section above.

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The measure **£s invested in communities** represents expenditure on Livin's employability support programme, Livin Futures; work undertaken with community organisations to build sustainable communities across our core areas; and financial wellbeing support delivered with partner organisations through the Monkey Project and Wise Steps, and current median performance is considered to be appropriate.

Livin's upper quartile performance against the **Reinvestment** metric in 2017/18 reflects ongoing investment in our

existing properties and core communities. During the year, we have undertaken refurbishment work across our property portfolio, including works at Rowan Avenue and Chestnut Close, both in Shildon, and Inglesgarth in Spennymoor. We also completed our major regeneration project at York Hill, which won the Outstanding Regeneration award at the 2018 Northern Housing Awards.

Livin's business strategy, Plan A, includes a continued focus on regeneration within our core communities, and we anticipate strong performance in this area in future.

Effective Asset Management

Metric	Type	2019 forecast	2018	2017	2016	2018 performance	Quartiles
Return on Capital Employed	TM	6.8%	8.3%	10.7%	11.1%	Upper 😊	Upper 5.7% Median 4.4% Lower 3.6%
Occupancy	SS	98.9%	98.9%	99.2%	96.5%	*Lower 😞	Upper 99.8% Median 99.5% Lower 99.0%
Ratio of responsive repairs to planned maintenance	SS	0.85	1.90	1.14	1.17	*Upper (no sector-wide optimum)	Upper 1.00 Median 0.68 Lower 0.44

The **return on capital employed** achieved is driven by operating margin performance, and by the level of financial return made by Livin on its asset base. Livin's asset management strategy focuses on increasing the return on existing assets, achieved through regenerating or divesting of poorly performing properties. Regeneration increases the value of Livin's asset base and can help to reduce void losses and ongoing maintenance charges, but will also increase depreciation charges and reduce the return on assets achieved. Investment in new properties typically generates returns of 4% - 6% per annum

and therefore also reduces the overall return on assets achieved. Given Livin's ongoing focus on regeneration and development work, the overall return on capital employed is expected to reduce over time; however, we anticipate continued top quartile performance.

Occupancy levels at 31 March 2018 show lower quartile performance and a worsening position compared to 31 March 2017. This metric provides a snapshot of performance at the year end and is not representative of the performance improvements made to our void levels during 2017/18; as can be seen from

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Note 3 to the financial statements, average void loss was reduced slightly in 2017/18. Increasing occupancy levels, both by reducing void turnaround time and by supporting existing tenants to sustain their tenancies, remains a key objective for Livin.

The ratio of responsive repairs to planned maintenance has increased significantly in the year and remains significantly higher than sector averages. Livin's properties are in a good state of repair following extensive post-transfer refurbishment works.

Correspondingly, a relatively low level of planned maintenance work is currently being undertaken, and responsive repair expenditure appears high by comparison. Livin's Maintenance cost per unit of major repairs (as set out in the commentary on the Headline Social Housing Cost per Unit metric, below) is in the lower median quartile, providing assurance that, despite the high ratio, overall value for money is being achieved through the repairs and maintenance service.

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Operating efficiencies

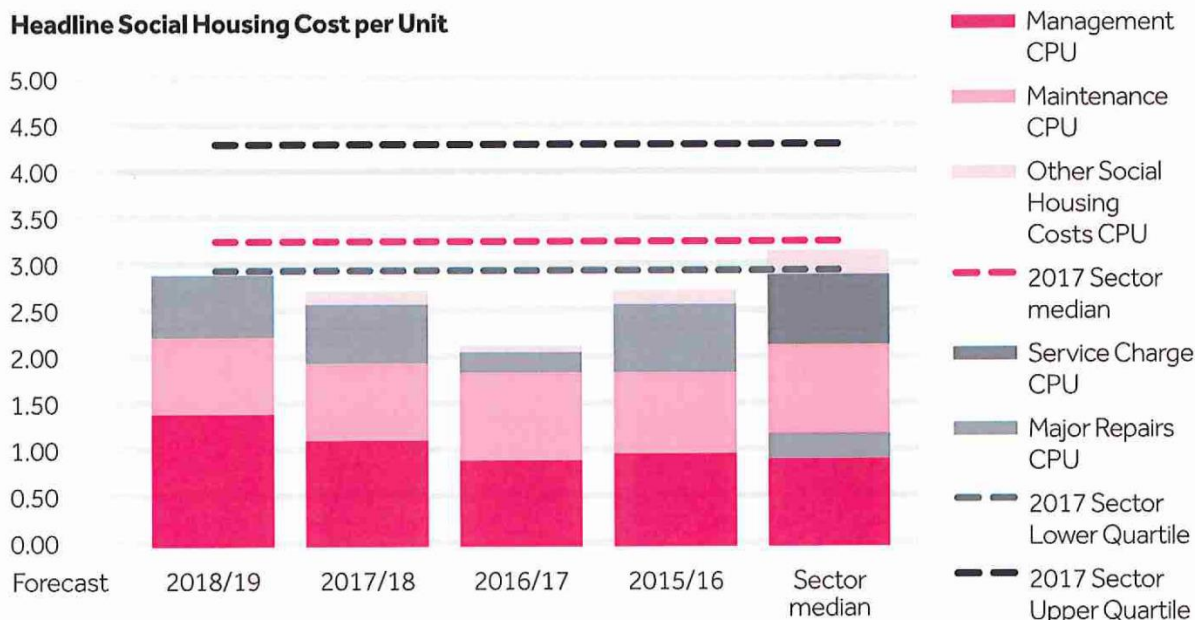
Metric	Type	2019 forecast	2018	2017	2016	2018 performance	Quartiles
Headline social housing cost per unit	TM	£2,911	£2,660	£2,080	£2,680	Lower 😊	Upper £4,330 Median £3,300 Lower £2,930
Management cost per unit		£1,310	£1,050	£920	£980	Upper median 😞	Upper £1,150 Median £940 Lower £740
Maintenance cost per unit		£920	£880	£910	£910	Lower median 😊	Upper £1,110 Median £930 Lower £780
Service charge cost per unit		£10	£10	£10	-	Lower 😊	Upper £600 Median £370 Lower £240
Major Repairs cost per unit		£670	£620	£180	£640	Lower median 😊	Upper £960 Median £680 Lower £490
Other Social Housing Cost per unit		-	£100	£60	£150	Lower 😊	Upper £510 Median £240 Lower £100
Rent collected from current and former tenants as a percentage of the rent due (excluding arrears brought forward)	SS	99.45%	99.14%	99.69%	99.68%	*Lower 😞	Upper 100.21% Median 99.72% Lower 99.23%

As forecast in our 2016/17 Value for Money statement, Livin's **headline social housing** cost per unit remains low compared to sector averages. The forecast increase in cost per unit was realised during the year; this primarily arises from an increase in management costs reflecting anticipated increases in staff and pension costs. For 2018/19, a further increase in cost per unit is

anticipated, although it is still expected that lower quartile performance will be maintained. Again, the anticipated increase in costs for 2018/19 is primarily within management costs per unit, partly due to inflationary pressures and partly due to contingencies included in order to ensure that the budget is prepared on a prudent basis.

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Headline Social Housing Cost per Unit



Factors contributing to the low overall headline social housing cost per unit, and Livin's continuing lower quartile performance, include:

- An agreed long term contract in place with our repairs and maintenance contractor, delivered to tenants through the Livin Works programme;
- Effective procurement process, which allow procurement costs to be reviewed and challenged on a regular basis;
- Properties which are clustered geographically, reducing the travelling time for housing management and repairs staff; and
- Efficient staffing levels, which allow an appropriate level of service to be delivered.

We forecast continued strong (lower quartile) performance in this area for the foreseeable future.

Performance against **Rent collected from current and former tenants as a percentage of the rent due** has fallen to the lower quartile during the year. The main factor in this is the timing of housing benefit due; the additional amounts outstanding at 31 March 2018, which were received in week 1 of 2018/19, have decreased the rent collection percentage by 0.6% in 2017/18.

Absolute rent arrears have also increased during 2017/18. In common with many other housing providers, increasing numbers of Livin tenants are now in receipt of Universal Credit instead of Housing Benefit, and consequently, we have seen a small increase in rent arrears amongst this tenant group during 2017/18. We anticipate a greater increase in future years; however, to date, we have been able to support tenants in receipt of Universal Credit to maintain a lower level of arrears than the sector average. Providing appropriate rent arrears and financial wellbeing support for all tenants remains a priority.

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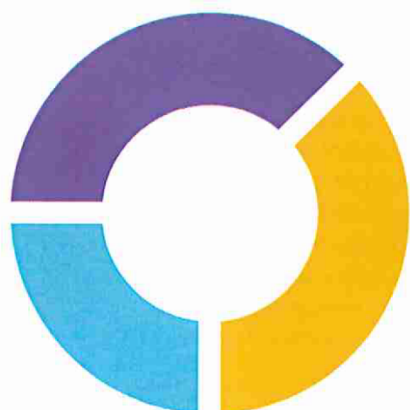
Overall Performance

Using a score of 1 for best quartile performance and 4 for worst quartile performance, Livin's performance over time is as follows.

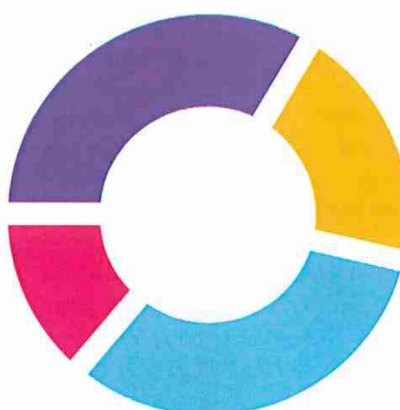
Metric	2018/19 Forecast	2017/18	2016/17	2015/16
Operating Margin (Overall)	4	2	1	2
EBITDA MRI Interest Cover (%)	3	2	2	2
New supply delivered – social housing (%)	2	3	4	3
Gearing (%)	2	3	2	3
Reinvestment %	1	1	2	2
Return on Capital Employed	1	1	1	1
Headline Social Housing Cost per Unit (£)	1	1	1	1
Average for all metrics	2	1.9	1.9	2

An organisation which demonstrates median performance in all measures would show an average performance of 2.5. Livin's overall performance in all years under review is better than this average.

RSH Technical Metrics: 2017/18 quartile performance



Sector Scorecard Metrics: 2017/18 quartile performance



- Top quartile
- Second quartile
- Third quartile
- Fourth quartile