Value for Money

Livin's Value for Money strategy

Livin is committed to embedding Value for Money throughout its governance processes, its business planning and performance management frameworks, and through its service delivery culture. The Value for Money strategy 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 Regulatory Standards require 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.

Targets are set annually by Livin's Board based on the approved budget for the year, ensuring they include the strategic objectives contained within Plan A. 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.

In our analysis below we also consider performance against our North East Peer Group as defined by the Regulator in their Global Accounts 2019.

Measuring Value for Money – Livin's own performance targets

Livin's performance framework is used to measure Value for Money and is monitored and reported to Board on a quarterly basis. Challenging targets are approved each year with key strategic objectives reported on separately so performance against Plan A can be clearly seen. Our performance against key indicators are set out in the table below:

Performance Measure	Target	Performance
Delivering a brilliant customer experience		
Overall satisfaction with customer experience	91%	92%
Net promoter score	50	56
Percentage of complainants satisfied with the way their complaint was handled	80%	97%
Percentage of tenants satisfied their views are being listened to and acted upon	87%	100%
Supporting sustainable tenancies		
Average re-let time (calendar days) standard properties (excluding major works)	30 days	26 days
Turnover of tenancies as a percentage of overall stock	9%	9%
Total number of tenants securing employment	150	198
Providing quality homes		
Average time taken to complete repairs (calendar days)	12 days	11 days
Percentage of tenant satisfaction with repairs	91%	90%
Percentage of tenants satisfied with their planned works	95%	91%
Number of properties achieving SAP band C	5,000	5,056
% properties with a valid landlord gas safety record	100%	99.92%
Enabling strong communities		
Ratio of social value achieved to community investment, health and wellbeing interventions	£1 : £39	£1 : £206
Building and acquiring homes		
Number of homes developed and acquired (excluding ESPs)	112	109
Percentage of homes secured against business plan targets over a three year period	85%	119%
Enabling employees to flourish		
Capacity score (%)	57%	73%
Employee satisfaction (%)	64%	77%
Maintaining strong finances and governance		
EBITDA MRI (as a % of turnover)	22.95%	26.2%
Average VfM Score	2.5	1.6
Governance rating	G1	G1
Total rent arrears as a percentage of the rent due (excluding voids) (BPBS)	3.1%	2.9%
Accuracy of interest cover forecasts	90%	80%

During the period performance was strong with only two high level indicators not meeting target. Interest cover forecast (based on loan covenant definition) which is used to measure the accuracy of forecasting was below target due to the outperformance of the EBITDA MRI Interest cover (forecast 2.49 times against actual of 3.13), a result of prudent forecasting. This was a new measure adopted by Livin and sets a baseline for future forecasting.

In addition, the number of homes with a valid landlord gas safety certificate did not meet the 100% target. At year end seven homes did not have a certificate, all of which were due to access issues. Some customers were shielding as a result of Covid-19 and others were being pursued through the Courts to ensure access could be gained.

Three measures were below target but within tolerance (amber). Percentage of tenants satisfied with repairs was 1.5% below target. This was a result of a higher number of dissatisfied surveys in Quarter 1. Improved communication and follow-on works appointments in subsequent quarters improved satisfaction reflecting the service improvements made.

Tenant satisfaction with planned works was also within tolerance. A reduced number of surveys returned in Quarter 1, due to digitalising the surveys, produced a dis-proportionate fluctuation in performance ratings. Improvements were made during the year increasing the number of returned surveys. This resulted in improved satisfaction levels in the final two quarters of the year.

The number of homes developed and acquired fell three homes short of target due to a delay on site relating to a water mains diversion issue. These three homes completed after the year end.

Value for Money performance – Regulators metrics

In addition to the above performance measures used to track progress against strategic objectives, Livin also uses the Regulator's VfM metrics to measure performance, setting targets based on the Board approved business plan.

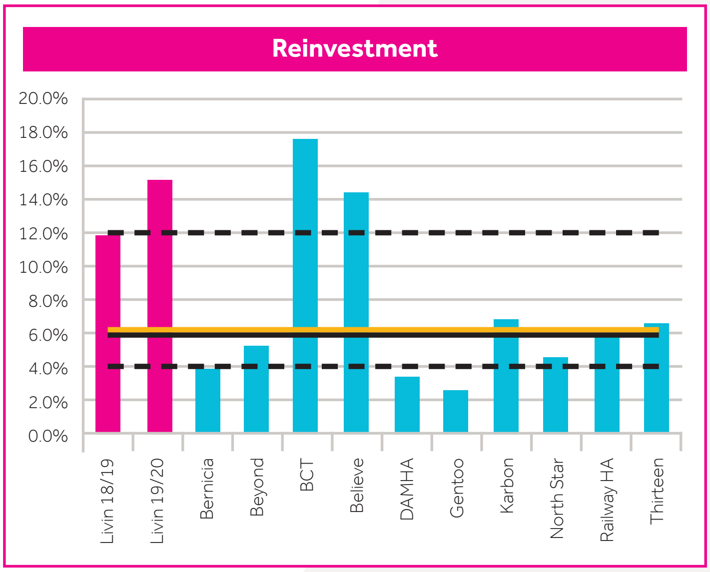
Value for Money metrics		Target	Performance
1	Reinvestment %	18%	15%
2a	New supply delivered % (social housing units)	1.5%	1.47%
2b	New supply delivered % (non- social housing units)	0%	0%
3	Gearing %	67.7%	61.5%
4	EBITDA MRI interest cover %	224.3%	299.7%
5	Headline social housing cost per unit	£3,031	£2,951
6a	Operating margin % (social housing lettings only)	18.6%	20.3%
6b	Operating margin % (overall)	22.7%	22.8%
7	Return on capital employed %	5.5%	5.8%

Reinvestment failed to meet the target due to planning permission and local authority land transfer delays at a regeneration scheme at The Courts, Shildon. Works which had been initially expected to start in 2019/20 will now start in late 2020, delayed further by Covid-19, with the project remaining a key strategic objective for Livin.

New supply delivered performance was amber (under target but within tolerance) due to the water mains diversion issue mentioned above that delayed the completion of three homes.

Value for Money performance – peer group comparison

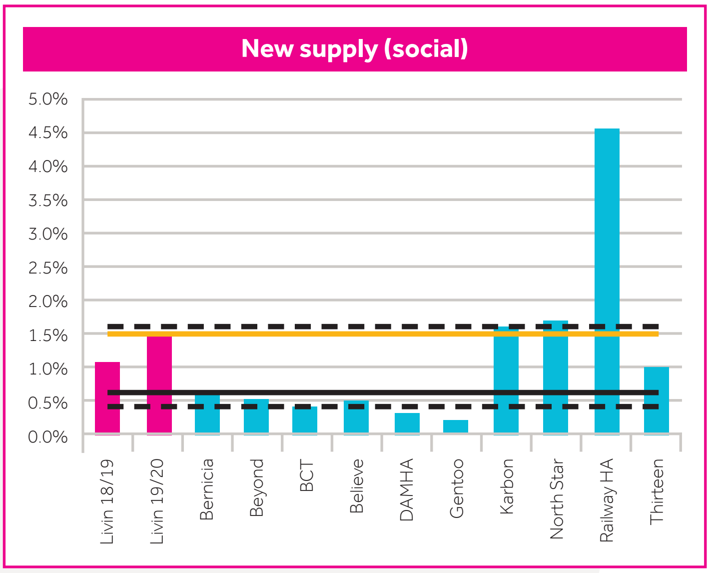
The tables below compare Livin's performance in 2019/20 against the North East Peer Group as defined in the Regulator's Global Accounts 2019 (latest set available at the time of preparing this report). The dashed black lines on each graph show the upper and lower quartiles for the peer group with the solid black line being the peer group median. The solid orange line is the sector median as per the Regulator's Global Accounts 2019.



Reinvestment

Livin's performance was top quartile in comparison to both our regional peer group and the sector as a whole. During the year, we significantly increased spend on new development and existing assets from £15.2m in 2018/19 to £21.5m in 2019/20. The majority of this increase relating to new social housing properties, with 125 additions to our housing stock made during the year.

Our future plans include an ambitious development programme and a regeneration scheme at The Courts, Shildon, which is now expected to start in late 2020 following delays due to Covid-19, local authority land transfer delays and planning related issues.



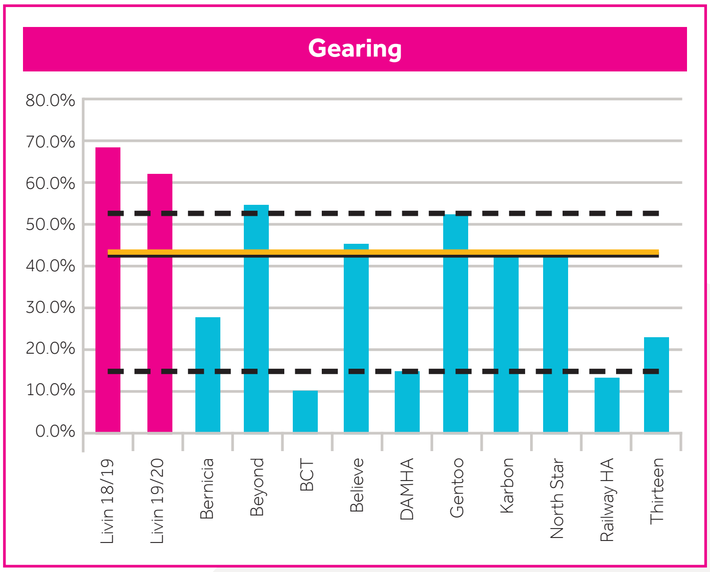
New supply delivered (social housing)

New supply delivered (social housing) was another area of improved performance placing Livin firmly in the upper median quartile when compared to our peer group and in line with median performance of the sector as a whole. We continued to build a number of bungalows in Dean Bank, Ferryhill and Newton Aycliffe, areas of high demand for this property type which are not often built by traditional developers. Our additions during the year also included 16 low cost home ownership properties with 11 shared ownership and five rent to buy properties being built.

In July 2019 Livin won the LABC regional Building Excellence Awards for the second consecutive year. The award was for our development at The Woodlands, Spennymoor.

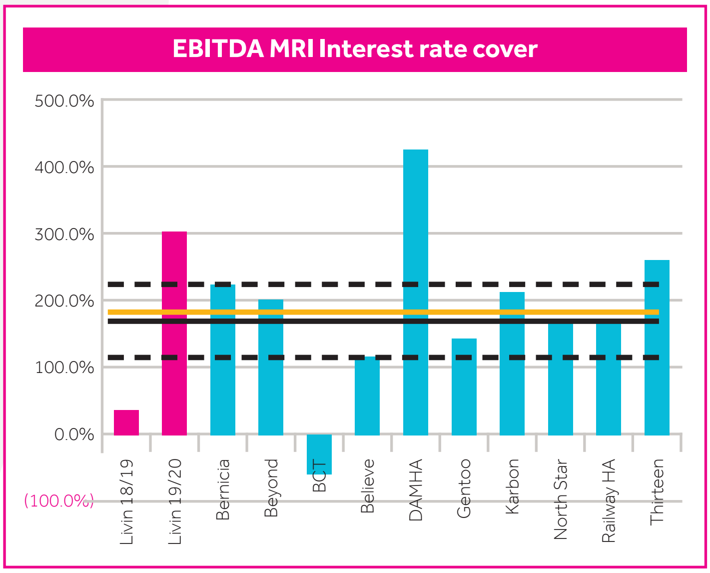
We look to build on our past success with an ambitious development programme which will deliver over 1,200 homes in the next 10 years.

New supply delivered (non-social housing) is an area where only three of the peer group delivered properties. Livin's Plan A focuses on the supply of new social housing properties only and therefore, like most of the sector, performs low on this metric. However, it is considered that focusing on social housing delivers the best value for money for Livin and our communities.



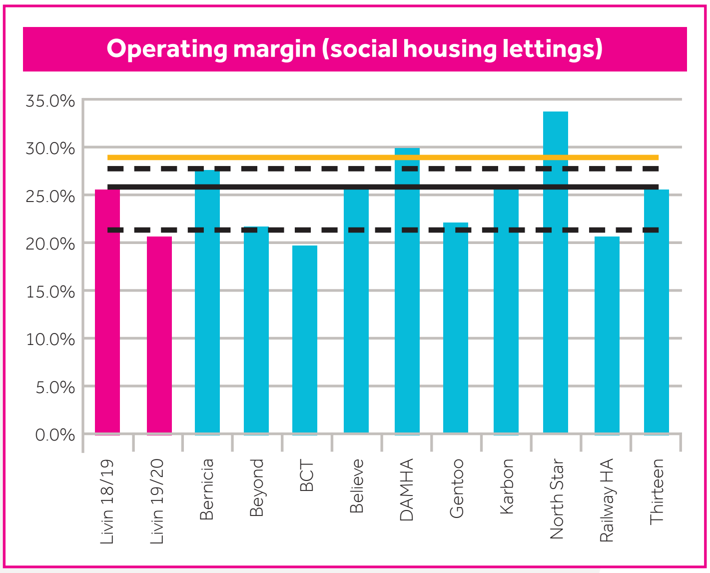
Gearing

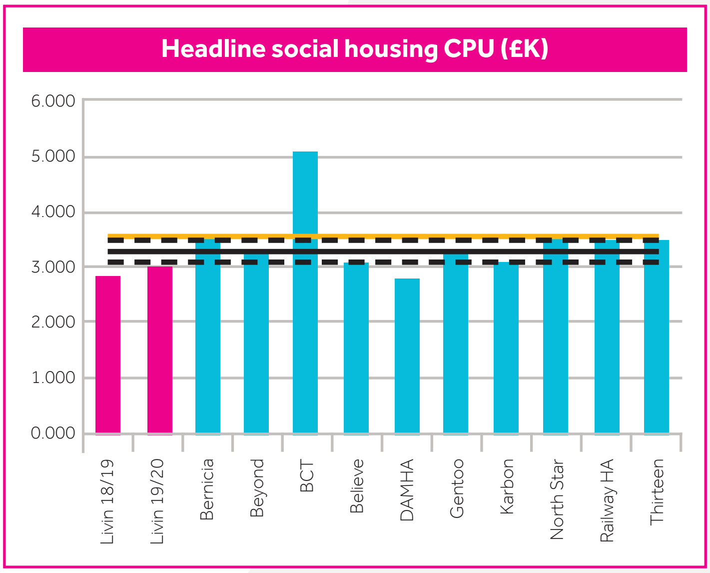
Gearing was top quartile when comparing to both our peer group and the sector as a whole. Gearing increased following refinancing in March 2019 unlocking debt capacity. A major focus of Plan A is to build and acquire homes, and Livin now has the financial capacity to do this on a larger scale. Our ambitious development plans for the next 10 years, funded by borrowings, should maintain our performance in this area. Gearing is not a limiting factor to our development capacity and would not restrict our future development plans.



EBITDA MRI Interest rate cover

EBITDA MRI Interest cover, when compared to our peer group and the sector as a whole, has seen performance improve from bottom quartile to top quartile. The refinancing of legacy loans in March 2019 resulted in new debt being secured at much lower interest rates. Interest costs have fallen from £5.05m (excluding breakage costs) to £3.1m despite an increase in borrowings of over 40%. This additional financial capacity clearly demonstrating that Value for Money was delivered through refinancing.



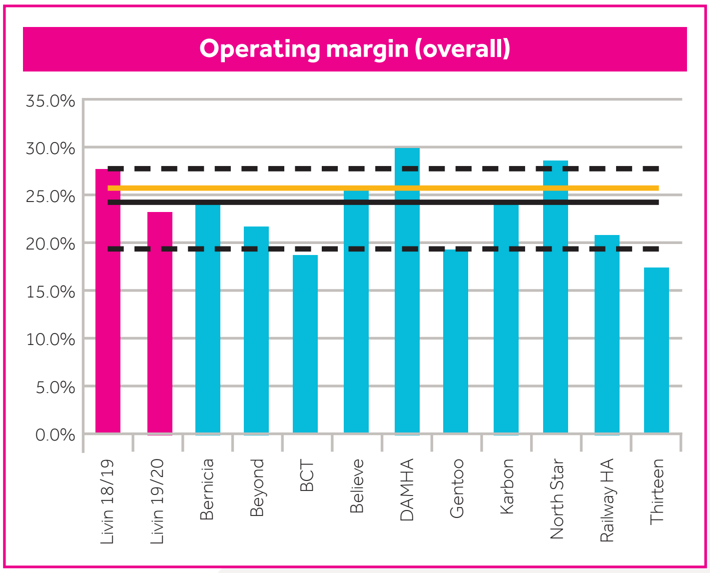


Headline social housing CPU (£)

Headline social housing Cost per Unit remains top quartile compared to both our regional peer group and the sector as a whole. Several costs such as staff costs and overheads have seen inflationary pressures, however, the most significant increase in social housing costs has been in repairs and maintenance. This was a direct result of additional repairs to void properties, to enhance demand, combined with increased costs incurred to reduce repair response times. These actions were taken following a fall in customer satisfaction to ensure that our service was aligned to our strategic objective of providing quality homes.

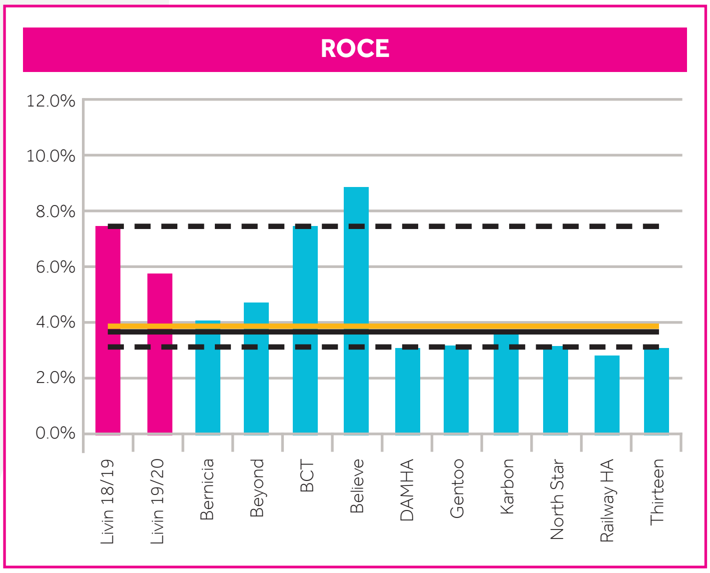
Operating margin social housing lettings

Operating margin social housing lettings is an area where Livin's performance, at 20.3%, is lower quartile compared to both our regional peer group and the sector as a whole. Increased repairs costs combined with increasing depreciation charges (a result of continued component replacement works and new housing additions) has caused a fall in performance compared to the previous year and to other local providers. Livin operates in an area where the average weekly rent charge is relatively low compared to the majority of our peer group. Despite our top quartile Cost per Unit performance, the combination of lower than average rents and an increasing depreciation charge means our social housing lettings margin is relatively low. This is expected to continue in the short term as stated in operating margin (overall) opposite.



Operating margin overall

Our performance was lower median quartile compared to both the North East Peer Group and the sector as a whole. Our performance overall was 22.8% assisted by our strong margins on commercial lets and other turnover. Our future performance is expected to fall over the next three years to between 17.5% to 19.1%. This is partly due to our prudent business plan assumptions. After this period operating margin is expected to improve as the impact of letting new development properties improves our margin.



Return on capital employed (ROCE) %

Our performance has fallen reflecting the reduction in our overall operating margin. However, we remain above median compared to our peer group and in the top quartile when compared to the Global Accounts 2019. ROCE is expected to fall in future years, a result of increasing our capital employed through investment in new and existing homes.

Overall performance

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.

Livin's methodology for this is to apply a score of 1 for best quartile performance and 4 for worst quartile performance. Using this methodology, historical, current and future performance is shown in the table below (when compared to the sector as a whole based upon the 2019 Global Accounts) along with Livin's actual and forecast performance:

Metric	2018/19		2019/20		2020/21 forecast		2021/22 forecast		2022/23 forecast	
	Performance	Quartile	Performance	Quartile	Performance	Quartile	Performance	Quartile	Performance	Quartile
Operating Margin (overall)	27.6%	3	22.8%	3	17.5%	4	19.1%	4	19.0%	4
EBITDA MRI Interest Cover (%)	29.5%	4	299.7%	1	182%	3	172%	3	172%	3
New supply delivered – social housing (%)	1.03%	3	1.47%	3	1.7%	2	1.5%	2	1.7%	2
Gearing (%)	67.6%	1	61.5%	1	63.6%	1	62.9%	1	62.3%	1
Reinvestment %	11.8%	1	15%	1	16.3%	1	11.9%	1	14.2%	1
Return on capital employed	7.6%	1	5.8%	1	3.9%	2	4.2%	2	4.0%	2
Headline social housing cost per unit (£)	£2,848	1	£2,951	1	£3,334	2	£3,481	2	£3,593	2
Average for all metrics		2.0		1.6		2.1		2.1		2.1

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.

Using this methodology for measuring performance against the North East Peer Group, Livin's performance was in the top quartile.

Measurable plans to address underperformance

Livin's Board has considered those areas where performance against the Value for Money technical metrics, defined by the regulator of social housing, are below median when compared with the sector as a whole. In 2019/20 there are two metrics where performance is below the sector median; these are operating margin (overall) and new supply delivered – social housing.

Operating margin (overall) is forecast to remain in the lower quartile, as a result of improving the quality of our repairs service, particularly in relation to void property repairs and reducing the time customers wait for non-urgent repairs to be completed. We are also looking at establishing other services that will sustain the tenancies of vulnerable tenants. We believe that this will provide Value for Money as they complement our key strategic objectives of delivering a brilliant customer experience, providing quality homes and supporting sustainable tenancies which in turn leads to the long-term sustainability of tenancies and future success.

Plans are in place to improve performance against the metric new supply delivered – social housing to upper median quartile in 2020/21. Our latest business plan has a strong focus on building and acquiring homes with 142 homes to be delivered next year, an increase of 17 compared to 2019/20, and plans to increase development further to 150 homes per annum.

We are making good progress in establishing strategic development partners and have already secured 74% of our next three years development programme's target.

Conclusions

Value for Money is embedded in Livin's culture and governance structure; Livin appreciates that delivering effective and efficient services benefits itself, its customers and their communities.

Performance in 2019/20 shows a continued commitment to Value for Money. In comparison to our peer group and the sector as a whole we are able to demonstrate strong performance against the technical metrics defined by the regulator and have assessed our long-term business plans and forecasts in the light of these metrics.

We have identified a small number of areas where there is underperformance in comparison to other providers, defined as performance which is below median against the sector as a whole, and have detailed the measurable plans which are in place to address these areas where appropriate.

The Board is satisfied that Livin's financial plans provide a balanced performance across its adopted Value for Money metrics and is currently achieving above median performance across the technical metrics as a whole.