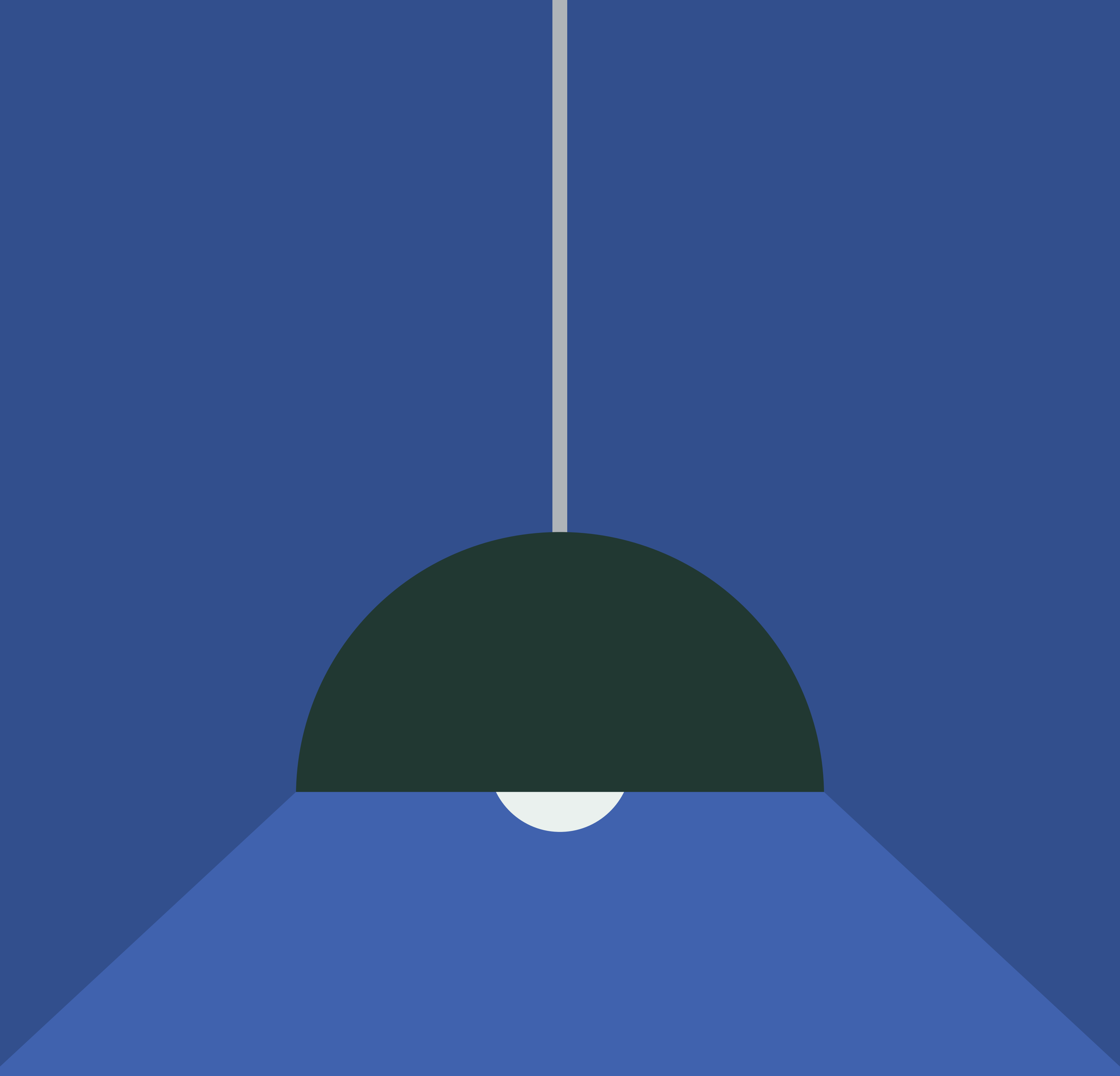

Value for money statement 2019

South Yorkshire Housing Association

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Value for Money Metrics and Analysis

The Regulator of Social Housing sets out its expectations for Registered Providers in its 2018 Value for Money Standard and associated Code of Practice. In relation to these financial statements, the Standard states that it expects us to provide evidence to enable stakeholders to understand:

- Performance against our own value for money targets and any metrics set out by the regulator, and how that performance compares to peers
- Measurable plans to address any areas of underperformance, including clearly stating any areas where improvements would not be appropriate and the rationale for this

Our own approach is to report on the above within the context of the five themes in our Corporate Strategy, which are:

1. Settle at home, live well and realise your potential - help people find and get established in a home that works for them

2. Transform our Business – transform how we think, work and behave in order to meet changing expectations of customers and employees, and to deliver savings

3. Active Asset Management - to get the maximum value from our assets for our customers and our people

4. Grow our Business - grow our business through delivery of new high quality and affordable homes, and new and existing business streams that are financially sustainable

5. Sustain our Business - to thrive in a changing and challenging environment so we can be here for the long term

58% of our turnover comes from the provision of a wide variety of care, supported housing and employment related services under our LiveWell brand. All of these services are commissioned in a competitive market where we have to demonstrate value for money in order to win business. The markets, cost drivers and asset management issues for these services are quite different to those for social rented housing, and this has a material impact on our overall performance. In particular, operating margins are typically much lower in this sector, which has an impact on that metric but also on EBITDA, return on capital employed and (higher) operating costs per unit. Our Board is fully aware of all of this, and continuing to provide these types of services remains a core part of our corporate objectives.

In the table below, we set out information using RSH metrics and our own internal metrics. We use our own actual figures from 2017, 2018 and 2019, and compare to the sector median from the National Housing Federation's Sector Scorecard Analysis 2018 (the latest data available) where relevant.

Table A. Value for Money Sector Metrics for SYHA 2017-2019

Strategy	Sector Scorecard Measure	2017	2018	2019	Sector Scorecard Analysis 2018 - Median
RSH Value for Money Sector Metrics:					
Settle	Reinvestment %	n/a	3.20%	**3.69%**	5.80%
Transform	Headline social housing cost per unit	£5,688	£5,283	**£5,753**	£3,450
Active Asset Management	Return on capital employed	2.60%	2.65%	**2.31%**	3.72%
Grow	New supply - social housing %	1.50%	1.10%	**0.90%**	1.00%
Grow	New supply - non-social housing %	0.00%	0.00%	**2.00%**	0.00%
Grow	Gearing %	40.0%	39.0%	**41.4%**	34.14%
Sustain	Operating margin - overall %	16.3%	16.6%	**12.7%**	27.89%
Sustain	Operating margin - social housing lettings %	21.4%	21.2%	**17.9%**	30.43%
Sustain	EBITDA MRI %	186%	186%	**124%**	213.61%
SYHA additional VFM Metrics:					
Settle	Customer Satisfaction GN & OP %	88%	88%	**88%**	87.5%
Transform	Headline social housing cost - General Needs	£2,755	£2,744	**£2,947**	£3,450
Transform	Management cost per unit - General Needs	£807	£826	**£943**	£1,024
Transform	Service charge cost per unit - General Needs	£119	£115	**£134**	£332
Transform	Maintenance cost per unit - General Needs	£1,093	£1,144	**£1,141**	£907
Transform	Major repairs cost per unit - General Needs	£636	£600	**£640**	£720
Transform	Other social housing costs per unit - General Needs	£100	£58	**£90**	£186
Transform	Overhead Cost as % Turnover	n/a	10.26%	**10.53%**	12.03%
Active Asset Management	Return on capital employed - General Needs	4.0%	5.4%	**5.7%**	12.0%
Sustain	Operating margin - General Needs %	n/a	32.30%	**28.88%**	30.43%

Settle

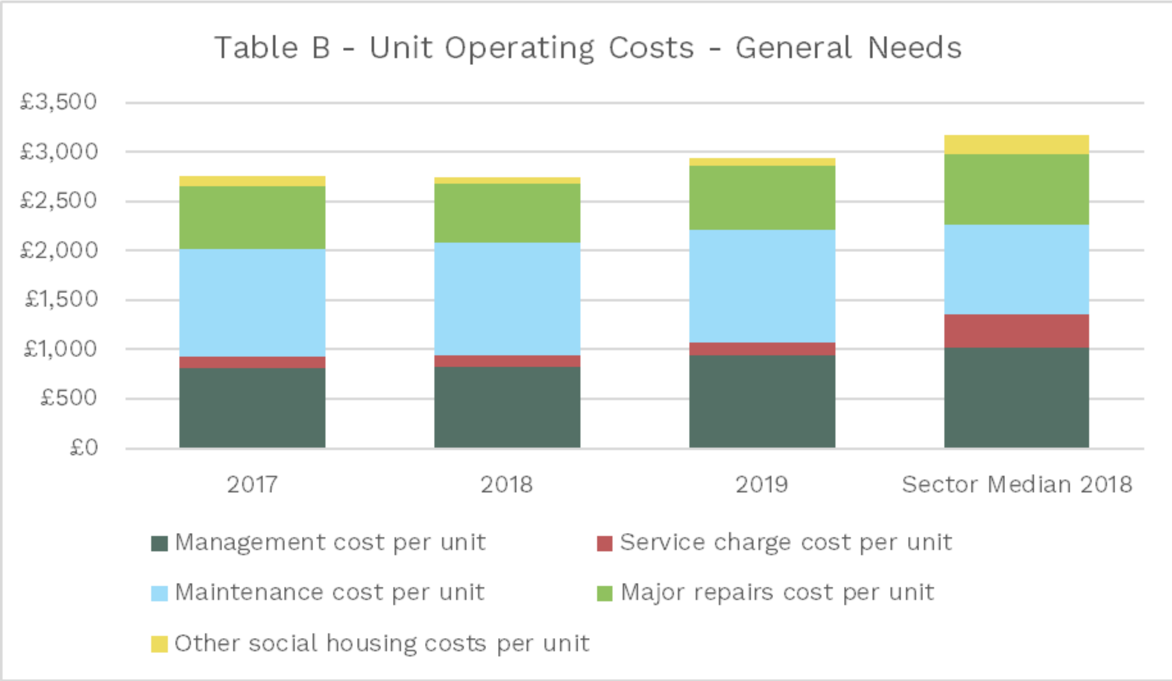
At SYHA we want to help people find and get established in a home that works for them. In order to do this, we continue to invest in our properties (both new supply and existing stock) and we have increased our **re-investment as a percentage of total cost of properties owned** from 3.2% to 3.69% since 2018. This increase is due almost entirely to additional spending on fire safety improvements in our properties, which we know is something experienced by many providers. The development element of this cost remained fairly static year-on-year.

Our **customer satisfaction** is around the sector average, at 88%.

Transform

Our overall **social housing cost per unit** (which is £5,753 compared to a sector median of £3,450) is influenced heavily by our LiveWell services, which typically have much higher operating costs. Costs also vary significantly from one scheme to another within LiveWell, and the mix of services within LiveWell can change from year-to-year. The effect of this has been for our overall cost per unit to vary from year-to-year, Because of this LiveWell effect, we separate out our general needs social rented housing figures from LiveWell when looking to analyse our performance and compare to our peers.

Looking just at our general needs cost per unit, this was £2,947 in 2018-19, compared to the £3,450 sector median. In the table above we break this down into various elements of cost (this is also shown in the chart below). Following several years in which we have been able to reduce operating cost per unit, this increased in 2018-19. This was due to three main factors: increased spending on technology, salary increases, and increased spend on fire safety works. We would expect sector comparatives for 2019 to have increased. One area where our costs vary from the sector median is on maintenance / major repairs. Taken together our costs is £1,781 compared to a sector median of £1,627 (again, we would expect the sector figure to have increased for 2019). However, the proportion of our spend on day-to-day maintenance compared to major repairs is quite a bit higher than the sector position. We have undertaken work to understand why this is the case, but do not believe it represents something which we are somehow getting wrong and that our approach in relation to our stock is sound.



We use **overhead cost as a % of turnover** as a measure when analysing our performance and setting budgets and future plans. This has increased slightly year-on-year. Our expenditure on IT in actual terms has increased materially, but our turnover has also risen, which means that the % increase masks that somewhat. Our % remains below the sector median.

Active Asset Management

At 2.31% in 2019, our **return on capital employed** (ROCE) is below the sector median and has fallen by 0.34% from 2018. Our own performance has fallen largely because our surplus reduced in 2018-19 due to rent cuts, increases in costs (described above), and reducing margins in our LIveWell business. Looking at the sector comparative, our ROCE for LiveWell (the largest part of our business) is 1.8%, which brings down the average considerably. In general needs, our ROCE is 5.7%.

We undertake a great deal of work to analyse returns across all our assets and use this to drive our decision making.

This sector measure includes the impact of property sales within returns, and we use an internal metric which excludes this.

Grow

Our growth strategy has seen SYHA add 0.9% of **social housing new supply** (49 new homes). In addition to this we have added 2% in non-social units (111 homes) through a leasing deal.

Our **gearing measure**, at 41.4% is higher than the sector median of 34.14%. This reflects the extent to which we have invested in providing new homes over many years.

Sustain

Our overall **operating margin** in 2018-19 was 12.7%, a reduction from 16.6% in the previous year. Rent decreases, falling returns in LiveWell, and increased operating costs (referred to above) have all contributed to this.

Comparing to the sector scores, our performance on this metric is again heavily influenced by lower margins in LiveWell. This also affects the score when looking at the score on social housing lettings, which includes our property based LiveWell services. Our margin on general needs housing was 28.9%, a reduction from 32.3% in 2017-18, and compares to a sector median of 30.4%.

Again, we would expect that sector median to have fallen for 2018-19. These factors are also reflected in our **EBITDA** figures. Our EBITDA return for 2018-19 was also adversely impacted by an increase in interest payable, largely due to arranging fixed term debt at a higher rate then the floating rate debt it replaced.

Future

As explained above, in 2018-19 and 2019-20 we have invested, or will invest, heavily in new technology. We expect this to lead to a reduction in operating costs in future years. Setting aside factors which may or will have the effect of increasing overall future operating costs (e.g. annual salary increases or repairs cost inflation) we have the following savings targets in our business plan:

£'000	2021	2022	2023	2024	Total
Digital services	56	111	203	203	**573**
IT revenue costs	130	424	419	218	**1,191**
Other	162	187	212	237	**237**
Total	**348**	**722**	**834**	**658**	**2,562**