Value for Money Statement -
Self Assessment 2019/20

INCLUSIONHOUSING

Value for Money - Self Assessment 2019/20

1. INTRODUCTION

In April 2018, the Regulator of Social Housing (RSH) introduced a new Value for Money (VfM) Standard[1] and accompanying Code of Practice. The Standard introduced a requirement for providers to publish performance against their own VfM targets, and a series of common metrics with which to measure economy, efficiency and effectiveness set by the Regulator. The Regulator defined these metrics in the publication VfM metrics – technical note feedback and responses. These seven metrics are considered the most appropriate set of measures to capture performance across the sector in a fair and comparable way.

The standard sets the expectation that VfM should be a key strategic objective for providers, and as before, the regulator will continue to seek assurance through In-Depth Assessments that this is the case.

One of the Regulator's key objectives in defining a set of standard metrics was to support transparency and allow providers to analyse their performance alongside that of their peers on a comparable basis. To support this objective, the Regulator has published the metrics for all providers with more than 1,000 properties alongside the 2019 Global Accounts data set. In order to drive better reporting performance, the Regulator hopes that the key themes and issues commentary will help Boards with future reporting.

Registered providers must ensure that they have sought to optimise the financial return from their assets and activities as far as that is consistent with achievement of the organisation's wider organisational purpose and strategic objectives.

2. VALUE FOR MONEY STANDARD

2.1 Required Outcomes

Registered providers must:

- Clearly articulate strategic objectives
- Agree an approach by the Board to achieving VfM in meeting these objectives and demonstrate delivery of VfM to stakeholders
- Through strategic objectives, articulate strategy for delivering homes that meet a range of needs
- Ensure optimal benefit is derived from resources and assets and optimise economy, efficiency and effectiveness in the delivery of strategic objectives.

2.2 Specific Expectations

Registered providers must demonstrate:

- A robust approach to achieving VfM – this must include a robust approach to decision making and a rigorous appraisal of potential options for improving performance
- Regular and appropriate consideration by the board of potential VfM gains – this must include full consideration of costs and benefits of alternative commercial, organisational and delivery structures
- Consideration of VfM across their whole business and where they invest in non-social housing activity, they should consider whether this generates returns commensurate to the risk involved and justification where this is not the case
- The organisation has appropriate targets in place for measuring performance in achieving VfM in delivering our strategic objectives, and that we regularly monitor and report our performance against these targets.

Registered providers must annually publish evidence in the statutory accounts to enable stakeholders to understand the provider's:

a) performance against our VfM targets and any metrics set out by the regulator, and how that performance compares to peers

b) measurable plans to address any areas of under performance, including clearly stating any areas where improvements would not be appropriate and the rationale for this.

2.3 Required Matrix

The RSH cannot change the required metrics, where it works for the majority of the sector. However, where a provider has reported data is affected by a factor particular to that organisation we are able to clarify this in the commentary accompanying the publication of their data.

Metric 1 – Reinvestment %

This metric looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.

Metric 2 – New supply delivered %

The new supply metric sets 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 period end.

Registered providers will report on two new supply delivered ratios:

A: New supply delivered (social housing units)
B: New supply delivered (non-social housing units)

Metric 3 – Gearing %

This metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance. It is often a key indicator of a registered provider's appetite for growth.

Metric 4 – Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDAMRI) Interest Cover %

The EBITDA MRI interest cover measure is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus that a registered provider generates compared to interest payable. The measure avoids any distortions stemming from the depreciation charge.

Metric 5 – Headline social housing cost per unit

The unit cost metric assesses the headline social housing cost per unit as defined by the regulator. The cost measures set out in the metric are unchanged from the metric used in the Regulator's publication VfM metrics technical note feedback and responses published in 2018. However, the numerator now includes a separate line for lease costs.

Metric 6 – Operating Margin %

The Operating Margin demonstrates the profitability of operating assets before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of a business. In assessing this ratio, it is important that consideration is given to registered providers' purpose and objectives (including their social objectives). Further consideration should also be given to specialist providers who tend to have lower margins than average. Registered providers will report on two Operating Margin ratios:

- Operating Margin (social housing lettings only)
- Operating Margin (overall)

Metric 7 – Return on Capital Employed (ROCE)

This metric compares the operating surplus to total assets less current liability is and is a common measure in the commercial sector to assess the efficient investment of capital resources. The ROCE metric would support registered providers with a wide range of capital investment programmes.

Table 1

Number	VfM Metrics	IH Actual 2019/20	IH Target 2019/20	Sector Lower Quartile	Sector Medium Quartile	Sector Upper Quartile	Continuous Improvement Trend
RSH 1	Reinvestment %	53.1%	**50%**	3.8%	6.2%	9.0%	
RSH 2A	New Supply delivered (social housing units)	16.1%	**17%**	0.4%	10.4%	2.5%	
RSH 2B	New Supply delivered (non social housing units)	0%	**0%**	0%	0%	0%	
RSH 3	Gearing % Assets Valuation	-383.2%	**-190%**	32.9%	44.1%	57%	
RSH 4	EBITDA MRI%	-14,700.0%	**17,000%**	133%	183%	244%	
RSH 5	Headline social housing cost per unit	£12,901	**£13,720**	N/A	N/A	N/A	
IN Matrix	Headline social housing cost per unit (omitting lease rent costs)	£4,363	**N/A**	£3,090	£3,620	£4,600	
RSH 6A	Operating Margin (social housing lettings only)	3.6%	**6.3%**	23.4%	29.7%	36.5%	
RSH 6B	Operating Margin	4.7%	**6.3%**	20%	27.2%	32.9%	
RSH 7	Return on Capital Employed	15.5%	**22%**	3%	3.8%	4.9%	

Source supported housing Acuity benchmarking club 2019/20 results.
Peer Group Median – Members of benchmarking club
SPBM the national median for all smaller HA SPBM members

Table 1 provides benchmarking comparisons with the supported housing Acuity benchmarking club; results suggest IH is undertaking investment & new supply at levels greater then peers, whilst securing as unencumbered assets influences the low level of gearing by comparison to peers. Inclusion has a 5% lower headline social housing cost per unit (excluding lease costs) by comparison to sector upper quartile comparison, reflective of the lean company structure.

Table 2

Number	VfM Metrics	2017/18	2018/19	2019/20	Continuous Improvement Trend
RSH 1	Reinvestment %	15.9%	0%	53.1%	
RSH 2A	New Supply delivered (social housing units)	14.9%	26.5%	16.1%	
RSH 2B	New Supply delivered (non social housing units)	0%	0%	0%	
RSH 3	Gearing % Assets Valuation	-365.1%	-590.6%	-383.2%	
RSH 4	EBITDA MRI%	-6218.5%	-15,038.6%	-14,700%	
RSH 5	Headline social housing cost per unit	£11,012	£11,209	£12,901	
IN Matrix	Headline social housing cost per unit (omitting lease rent costs)	£3,791	£3,746	£4,363	
RSH 6A	Operating Margin (social housing lettings only)	7.4%	6.3%	3.6%	
RSH 6B	Operating Margin	7.4%	6.5%	4.7%	
RSH 7	Return on Capital Employed	28.1%	22%	15.5%	

Table 2 highlights IH performance over the past three years reflecting positive trends in reinvestment, new supply and gearing. All the matrix showing a negative continuous improvement trend were heavily influenced by the professional fee costs (RSH court case) incurred in the year and a larger proportion of surplus being allocated to the sinking fund provision. Given similar costs do not continue to be incurred all matrix should be reflected in future years closer to the average of 2017/18 & 2018/19.

RSH 1 - REINVESTMENT

In 2017/18, IH was able to acquire three section 106 properties providing general needs accommodation in a rural setting, no suitable opportunities arose in 2018/19; however in 2019/20, a significant opportunity to purchase a small property portfolio, 13 supported housing units and funded from cash reserves.

The 2019/20 50% target detailed in table 1 has been achieved, with a further target of 40% set for 2020/21 to acquire the equivalent of £1 million of unencumbered property assets in line with the business plan.

The percentage growth exceeds the sector top quartile level of 9% due in part to the relatively low level of owned assets.

RSH 2 & 2A – NEW SUPPLY DELIVERED

New supply of social housing units peaked in 2018/19 with a healthy 26.5% level achieved just under the three-year average trend. The future trend is a slowing new supply delivered via the lease based module with a target in 2020/21 of 10%, ahead of the sector top quartile of 2.5% due in part to the lease based module allowing rapid supply of properties in response to commissioner demand.

Only 28% of the top 100 housing associations had a new supply percentage above 2%, predominantly located in the south of England.

No new supply of non-social housing units were delivered in the year in line with the business plan. The sector also supplied low levels of non-social housing with the benchmarked upper quartile at just 0.1%.

RSH 3 – GEARING % ASSETS VALUATION

The matrix is defined as the proportion of borrowing in relation to the size of the asset base. IH cash balances grew over the year by just over £2 million, alongside a static position on loan debt charged against the York head office; the movement in the matrix reflects the £1.2 million investment in unencumbered property assets. The business aim is to acquire additional properties as unencumbered keeping future debt to a minimum. The matrix does not align to the IH business module in the same way as a traditional RP would be due to the lease-based model.

RSH 4 – EBIDA MRI%

This metric (the acronym standing for Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs included) is defined as a key indicator for liquidity and investment capacity, as it seeks to measure the level of surplus that a housing association generates compared to the interest payable. IH has a very low level of debt due to the lease based module; the matrix reflects a healthy position, outside of the sector norm. The year on year comparison reflects an adverse trend due to the overall surplus generated in the year.

RSH 5 – HEADLINE SOCIAL HOUSING COST PER UNIT

Headline social housing costs yearly trend is adverse due to exceptional legal costs incurred during the year dampening the overall surplus generated. The measure is outside the sector norm due to the matrix including the lease rent costs, a further IH indicator has been added removing the lease rent costs. The revised measure (£4,363) reflects a cost closer to the sector upper quartile of £4,600 per unit and significantly lower than other supported housing providers whose costs are on average £6,490 per unit (2018/19 SPBM Benchmarking).

Beever & Struthers 2020 annual review of social housing top 100 companies benchmarked the social housing cost per unit as:

<table>
<tr><th></th><th>2019</th><th>2018</th><th>IH 2018</th><th>IH 2019</th></tr>
<tr><td>Lower Quartile</td><td>£3,180</td><td>£3,030</td><td></td><td></td></tr>
<tr><td>Median Quartile</td><td>£3,690</td><td>£3,350</td><td rowspan="2">£3,746</td><td rowspan="2">£3,363</td></tr>
<tr><td>Upper Quartile</td><td>£4,690</td><td>£3,910</td></tr>
</table>

At sector level, headline social housing costs have increased by 9% over the past 3 years (source VfM metrics and reporting 2019 Annex to the 2019 Global Accounts). This compares to a 15% increase for IH over the same period. Comparable costs with other supported housing landlords demonstrate that Inclusion has significantly lower cost per unit.

RSH 6 – OPERATING MARGIN

Operating margin is low due to the exceptional legal costs incurred in the year; this is not expected to reoccur with future margins set just above 6%. In addition, a larger proportion of surplus being allocated to the sinking fund provision. The normal margin levels achieved by IH are approximately a quarter of the sector median quartile this is due to the impact of the lease rent charges incurred as an operating cost.

RSH 7 – RETURN ON CAPITAL EMPLOYED

IH return on capital is approximately four times higher than the sector, due to the strong margin generated from a small property asset base.

The VfM metrics reflects an overall positive position with low levels of debt, strong growth in new supply and day-to-day costs under control. VfM is not just about the regulators matrix but in addition, the wider social value generated.

SOCIAL VALUE – HOME LIFE PROJECT

Home Life project is about forging links between tenants of IH and our neighbours in the local community, with the aim of tenants becoming more involved in local activities. A number of initiatives delivered benefiting up to 390 tenants during the year.

Home Life encourages our tenants to-

- Learn new skills
- Combat social isolation
- Access training or employment
- Improve health and wellbeing
- Access volunteering
- Join a social activity
- Improve confidence and self-esteem
- Reduce isolation, build connections and friendships

3. STRATEGY

The VfM objective is to –

'Ensure robust business planning that delivers value for money'

The objectives support the medium to long-term future of IH, include measured targets all linked to the aims and purpose of the organisation. The three classic components of 'VfM': - economy, efficiency, and effectiveness, are -

- **Economy** - minimising the cost of resources used while having regard to quality
- **Efficiency** - the relationship between the output from goods or services and the resources to produce them
- **Effectiveness** - the extent to which objectives are achieved (desired outcomes) and the relationship between intended and actual impacts

IH endeavours to achieve optimum economy, efficiency and effectiveness in delivery of our strategic objectives balancing the available resources, risks and legal requirements to ensure long-term financial viability.

4. AIMS

There are three VfM aims that make up this IH VfM Statement: -

- **Performance Management** – To measure and benchmark VfM to enable informed decision making on service improvements, costs and priorities understanding our service costs and the factors that affects these, both internally and externally.
- **Financial Viability** – Efficiency opportunities for procurement and collaborating are fully explored ensuring that efficiency gains are reinvested into front line services, and the people and infrastructure that support these services, in line with customer wishes and community needs.
- **Strategic Improvement** – To ensure VfM is embedded into all aspects of the Business's work through **continuous improvement** and that all staff fully understand the need for VfM, and that VfM improvement forms part of individual performance targets.

5. PERFORMANCE MANAGEMENT

5.1 Analysis of Performance / Benchmarking

In selecting a peer group for comparative purposes, we have regard to the size of business, location/character of housing stock and supported housing provision. IH has retained its membership of the supported housing benchmarking group, continuing to use benchmarking to help us identify where we are doing well and where we could do better and to learn from the performance of our peers in the sector. This report provides benchmarking information to our closest peer group supported housing associations operating nationally, takes information from audited annual financial statements and 2019 Global Accounts of private registered providers.

The business analyst provides the Executive team with timely in-depth performance reporting including the analysis of voids & relets, arrears, repairs expenditure, compliance and corporate indicators. The balance scorecard introduced in 2015/16 derived from individual service scorecards from each of our four main services (Property, Finance, Business, and Operations) has been enhanced to include further themed scorecards for the customer, compliance, a perfect storm and VfM.

An ongoing key priority for the business is to further reduce the percentage of lost income due to voids. Further reductions in lost income will be dependent on initial lease agreements including agreements to invoice third party from day one or immediate occupancy of schemes.

The tables below provide insight into our key performance management indicators compared to national benchmarking figures. This is the fifth year of such benchmarking and reflects the significant improvements, made.

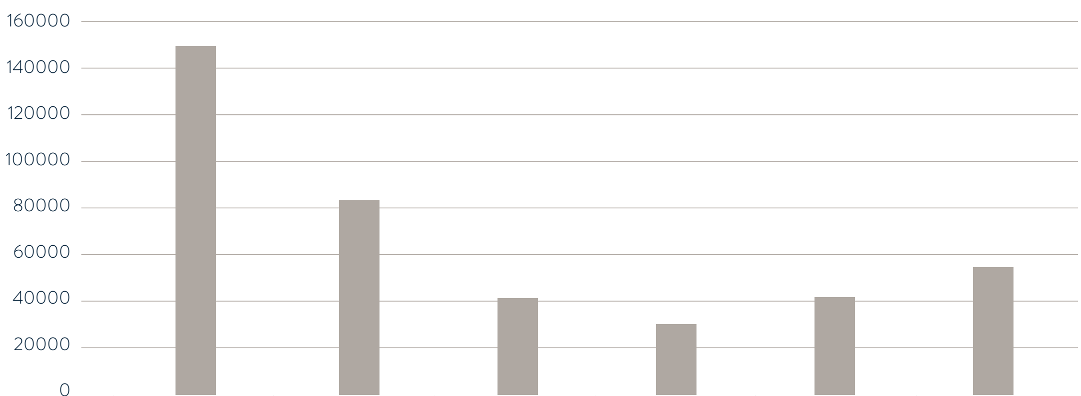
5.2 Analysis of Arrears

2019/20 has been a steady year for rent collection achieving 98.62% of the rental income, due to some restricted rents on the Peterborough schemes and isolated individual high arrears cases. This has resulted in a slight fall in arrears net of housing benefit at 2.04% by comparison to the previous year at 2.06%; Benchmarking data suggests rent collection levels are SPBM mid quartile (98.5%) and House Mark lower quartile 99.02%.

The VfM relating to arrears can be demonstrated through the low level of debt written off. Since 2014/15, there have been direct savings made by reducing the level of debt written off from £149k in 2014/15 to between £41K & £55K in recent years as detailed below in graph 1. Although the value of debt has increased from the low level in 2017/18 of £29K, the percentage of debt written off continues to reflect a low level at 0.15%; significantly lower than the SPBM peers medium quartile at 0.63%, a continuously high performing trend.

Graph 1

DEBTS WRITTEN OFF



	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Bad Debt Write off	149171	83037	41897	29834	41227	55000
% of income	3.1	0.75	0.26	0.18	0.1	0.15

% of Loss   Voids lost Income

Source: Financial Statements

5.3 Analysis of Voids Lost Income

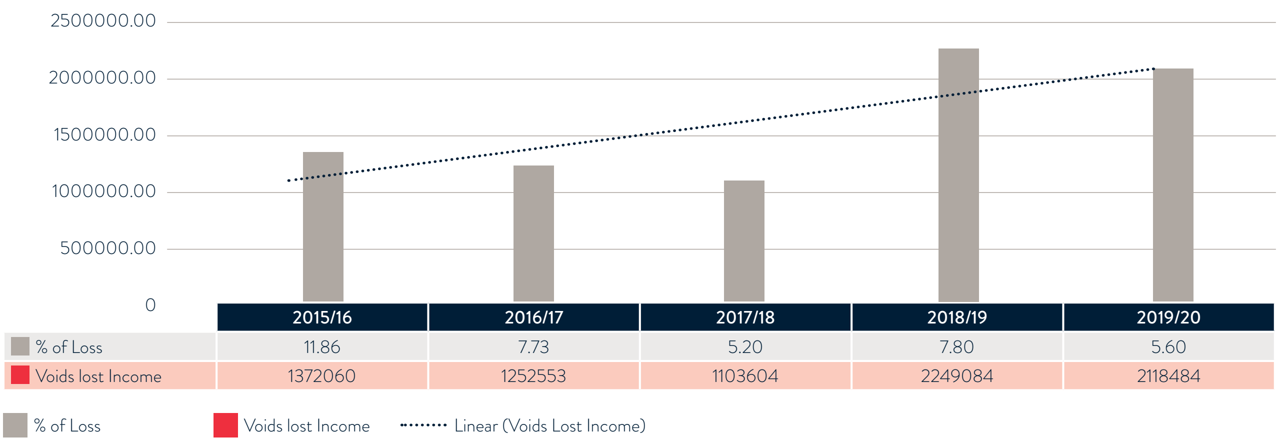
IH works in partnership with care providers and care commissioners in securing nomination rights and void obligation agreements. The betterment of lease terms to a shorter lease length, longer voids cover and a shorter turnover void non-payment period have all been secured providing better contractual terms. This has resulted in a rise from 39% of the lost income invoiced to a third party in 2015/16 to 57% in 2016/17 and 2017/18. In 2018/19, the percentage dropped to 46% with a number of historically negotiated schemes coming into management providing rent-free periods. Further mitigations in the form of new property lease subsidies and grants to support the initial void position on new schemes has resulted to a return to the higher recovery rate at 58% in 2019/20.

In conjunction with the enhanced lease agreement terms, landlords have been approached to secure agreement to allow IH to self-insure the void loss in line with industry standards. This change in working practices allowed **£1,331K to be retained within the business** rather than funding a voids assurance policy; offsetting the overall lost income due to voids.

The 2019/20 void loss trend is shown below and highlighting an improvement on the high losses in 2018/19 <u>mainly due to rent-free periods appertaining to new development schemes</u>. Inclusion mitigates its risk to void loss through void and nominations agreements, self-insurance and insurance cover. The yearly improvement was due to the gross voids loss income falling from 24.5% to 22.6% in 2019/20 influenced in part by a greater spread of smaller care providers looking to fill voids quickly and a number of schemes coming into management fully tenanted.

On average, it took 29 weeks to let a unit to a new tenant in 2019/20; in line with SPBM medium quartile and a little higher than the house mark medium quartile of 26 weeks. Top quartile benchmarked at 15 weeks for SPBM and 19 weeks for housemark.

Graph 2 **LOST INCOME TREND DUE TO VOIDS**



	2015/16	2016/17	2017/18	2018/19	2019/20
% of Loss	11.86	7.73	5.20	7.80	5.60
Voids lost Income	1372060	1252553	1103604	2249084	2118484

Source: Financial Statements

5.4 Customer Indicators

Overall, the customer service indicators when benchmarked against other supported housing organisations Inclusion is demonstrating favourable comparison and achieving high levels of customer satisfaction.

Table 3 - Customer Indicators	Benchmarking [Supported Housing median] 2019/20	2015/16 Inclusion Housing	2016/17 Inclusion Housing	2017/18 Inclusion Housing	2018/19 Inclusion Housing	2019/20 Inclusion Housing	T/L
Customer Satisfaction %	88%	72%	89%	89%	87%	86%	
Complaints resolved within timescale	98%	n/a	100%	80%	75%	75%	
Landlord listens to their views	86%	70%	84%	90%	87%	87%	
Satisfied with managing agent	90%	68%	94%	93%	92%	89%	

5.5 Cost Indicators

Overall, as Inclusion grows it is reducing its costs in all areas of the business and will continue to do so whilst retaining excellent levels of service. The table below highlights that our management and property costs are significantly lower than other operators in this market are. Please note the overhead cost per property percentage of turnover has been adversely affected by the high professional fee costs incurred in 2019/20.

Table 4 - Cost Indicators	Benchmarking [Supported Housing median] 2019/20	2015/16 Inclusion Housing	2016/17 Inclusion Housing	2017/18 Inclusion Housing	2018/19 Inclusion Housing	2019/20 Inclusion Housing	T/L
Cost per property Housing Management	£393	N/A	£432	£329	£293	£315	
Cost per property responsive & void repairs	£695	N/A	£374	£585	£693	£442	
Cost per property Major & Cyclical Works	£1095	N/A	£785	£626	£550	£408	
Overhead cost per property % of turnover	16%	N/A	6%	6.%	5%	11%	

5.6 Operations Indicators

Overall operation indicators reflect a year on year improvement in performance retaining low levels of former tenant arrears and a two consecutive years significant reduction in the number of workdays lost to sickness. The number of days to relet properties has increased and is influenced by the local authority commissioning process.

Table 5 - Operation Indicators	Benchmarking [Supported Housing median] 2019/20	2015/16 Inclusion Housing	2016/17 Inclusion Housing	2017/18 Inclusion Housing	2018/19 Inclusion Housing	2019/20 Inclusion Housing	T/L
Current Rent Arrears %	1.25%	5.51%	1.86%	1.31%	2.06%	2.04%	
Former Tenant Arrears %	1.18%	0.47%	0.25%	0.24%	0.20%	0.45%	
Arrears Written Off	0.63%	0.75%	0.26%	0.18%	0.10%	0.18%	
Rent Collection %	98.5%	95.5%	95.9%	100.15%	97.2%	98.2%	
Relet Days	209	183	156	219	175	209	
Net Void loss %	5.55%	11.8%	7.7%	5.24%	7.8%	6.06%	
Work days lost to sickness	4.9 days	5.5 days	4.2 days	5.9 days	3.7 days	2.8 days	

5.7 Property Indicators

Improvements achieved in all areas of the maintenance service highlighted in table 6. We continue to review and refine our maintenance services working towards further future improvements in performance.

Table 6 - Property Indicators	Benchmarking [Supported Housing median] 2019/20	2015/16 Inclusion Housing	2016/17 Inclusion Housing	2017/18 Inclusion Housing	2018/19 Inclusion Housing	2019/20 Inclusion Housing	T/L
Satisfaction with Home Condition – NPS / %	88%	67%	79%	78%	80%	86%	
Gas Servicing	100%	100%	100%	100%	100%	100%	
% Repairs Completed on First Visit	95%	85%	96%	94.%	98%	98%	
Routine Repairs Completed in Target Time	97%	41%	97%	91%	97%	98%	

Handyperson Service is contributing towards the level of satisfaction with home condition. 38% of schemes (131) receive a handyman service this proactive approach to delivering the repairs service is achieving added value through:

- Enhanced service provided through value added jobs
- Reduced number of informal complaints
- Reduced number of calls to IH staff ordering and chasing repairs
- The improved relationships between IH and care providers.
- Schemes stay fresher for longer as the handyperson regularly touches up paintwork around hard used areas (lifts/doors etc.).

Value added jobs (17% of total handyperson jobs) cover items not normally the responsibility of IH, where there is no capacity to undertake the jobs examples are - picture/mirror hanging, curtains/blinds rehanging/fitting, bulb changes, electronic fittings (TVs/DVDs/programming/setting of electrical items).

5.8 Return on Assets

IH undertakes twice yearly an analysis of the return on assets across the entire stock to ensure the returns are consistent with our overall financial strategy and business plan assumptions.

The number of schemes analysed:

Year	Number of schemes	Yearly % increase from 2015/16
2015/16	141	100%
2016/17	164	116%
2017/18	204	145%
2018/19	282	200%
2019/20	340	241%

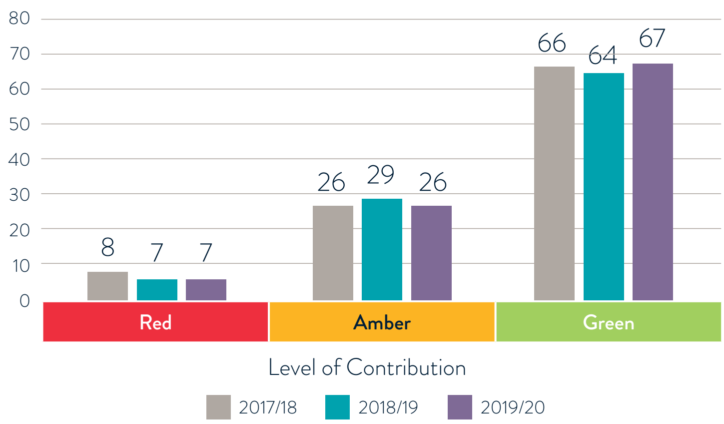
There is a significant **positive trend relating to a fall in the number of schemes making a loss**, now down to 7% consistently achieved over the last two years. This position is assisted by self-insurance arrangements and initial support for new schemes coming into management including lease subsidies, void pots, project management fees and council tax pots.

Classification	2015/16	%	2016/17	%	2017/18	%	2018/19	%	2019/20	%	% Trend
Leased / Owned	17	12%	19	12%	16	8%	20	7%	26	7%	◀▶
Total	141		164		204		282		340		

The year on year analysis indicates a 3% rise in the number of schemes making a green return and the highest percentage achieved over the past three years. Most notably this was due to 83% of all new schemes returning a green indicator. The number of schemes returning an amber indicator has improved from last year and consistent with 2017/18 (graph 3).

The Key driver to the source of losses remains the level of occupancy appertaining to each scheme in two ways, an under recovery of rent from third parties and independent additional costs to IH in the form of council tax, utility costs and property related works directly associated with empty new units into management.

Graph 3 **% OF TOTAL SCHEMES**



Detailed analysis is contained in the returns on asset report 2019/20.

6. FINANCIAL VIABILITY

6.1 Procurement

- In response to the growth in the number of units in management during 2019/20, the number of managing agents has increased reducing patch sizes with a corresponding reduction in the collective mileage incurred. These efficiencies will be enhanced further in 2020/21 increases in the units in management and the number of managing agents with corresponding reductions in patch sizes.
- Competitive procurement of property insurance resulted in 27% reduction in renewal rates: **£73K total saving against budget** in 2019/20. In addition, the **low claims rebate £24K.**
- The voids assurance policy provided a positive return on premiums paid of £23K due in part to being in a group policy. **The overall net gain was £23K.**
- During renewal negotiations for the 2017/18 policy it become apparent the level of commission charged by the broker was high at 25% and through negotiation; this has been reduced to 23% providing a small **saving of £2K in 2019/20.**
- Agreements negotiated with care providers to pay a portion of the utility costs at schemes - **£56K recovered.**
- DocuSign introduced allowing legal Operational documents such as tenancy agreements and facilities contracts to be signed remotely, reducing our carbon footprint and bringing time and material (paper / postage) efficiencies. Each DocuSign envelope providing a saving just under £4 per tenancy pack, estimated saving in the year **£2K**.
- In 2019/20, we made savings in the following areas: -

Title	Description	Saving
Voids Assurance Policy	Returns on the policy exceeded costs, plus reduced broker commission	£25K
Property Insurance Costs	Market Tested – Premium savings & low claims rebate	£97K
Travel Costs	Reduced managing agents patch sizes – reduced travel costs	
Care provider	Contribution towards utility costs at scheme	£56K
Utility costs	New procurement arrangements in 2020 estimated savings 9% gas & 21% on electricity supplies Second year of void property arrangements, mitigating the need to incur costs providing consumption is low. Costs contained in 2019/20 at £157K by comparison to the previous year at £152K	
Council Tax Void Subsidy	Introduced in 2019/20 mitigating costs incurred associated with new empty properties into management, both CT pots and invoicing care provider	£76K
Treasury Management	Interest bearing accounts generated additional interest receivable by comparison to previous years due to focused arrears collection.	£25K
DocuSign	Enhanced paperless office functionality	£2K
TOTAL SAVINGS		**£281K**

As a percentage of the overall operating costs (excluding property lease costs & salaries), £7.1M the £281K saving represents an approximate **4% efficiency on an annual basis.**

6.2 Treasury

- Cash generated from operating activities (£3,703k) reflected the surplus after tax generated in 2018/19 of £1,453K plus property sinking fund transfer to reserve £1,638K, less purchase property assets £1,298K & positive movement in working capital; a total increase in cash £2,170K. This reflects the efficient management of the organisations working capital.
- The healthy cash position achieved, has enabled a return on investment of funds generating interest receivable income of £56K in 2019/20, aided by the introduction of new investment arrangements with the Nationwide providing greater returns and reducing counter party risk.

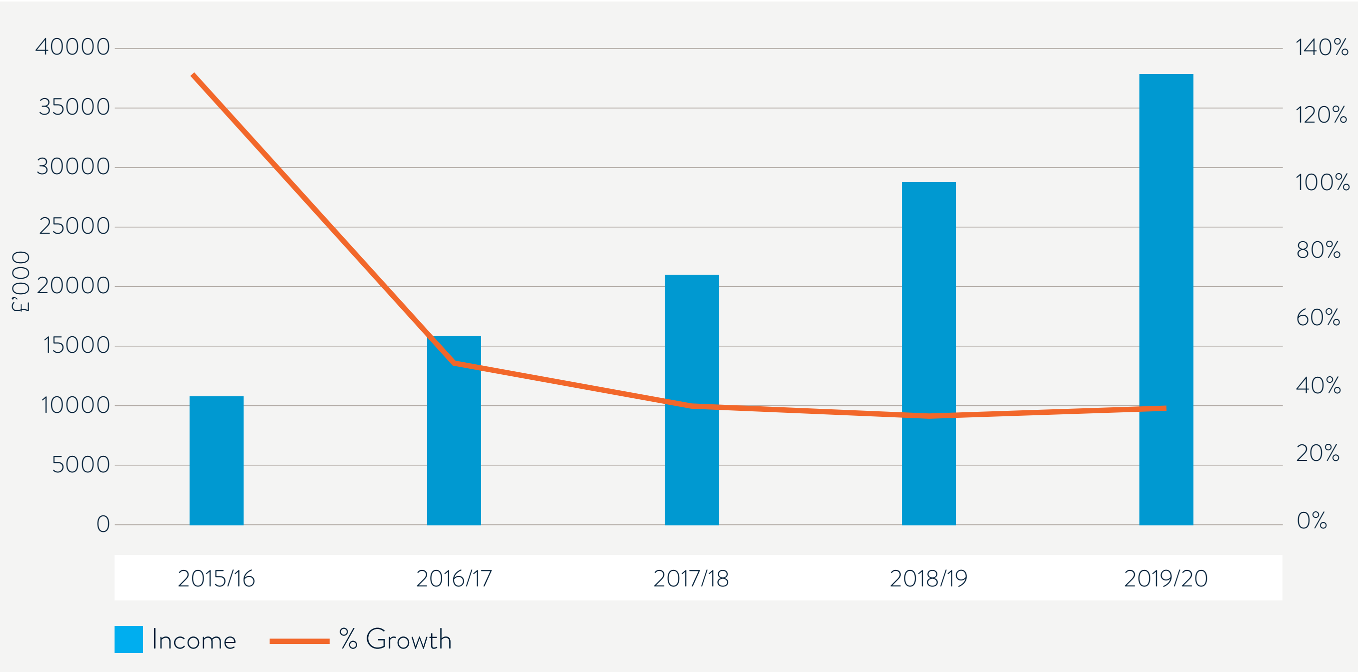
6.3 Financial statements

As a housing provider, it is essential IH generate a healthy surplus to be able to fulfil its core strategic priorities. All surpluses are reinvested into bringing new units either into management or into improving services for our tenants.

The income over the last five years (shown in graph 4) increased from just over £10 million to £37 million driven by the increase in the number of units in management shown in graph 5. The rate of increase peaked during 2015/16 at 112%, reducing to an average of 35% over the past three years. The yearly percentage increase in income generated is diminishing due to the current size of the organization. Future growth is projected to be at lower levels in line with the business plan, around 5%.

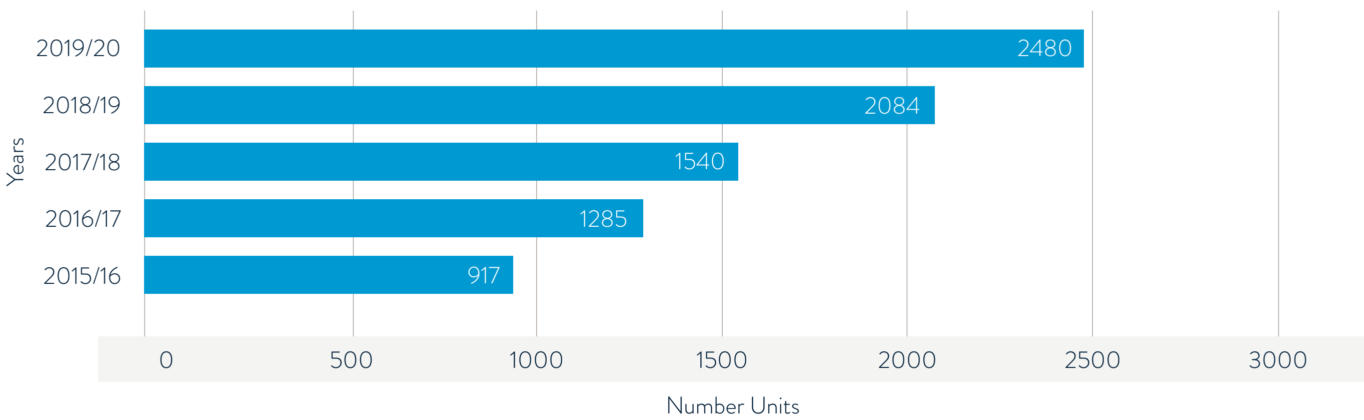
Graph 4

GROWTH IN INCOME AND YEARLY %



Graph 5

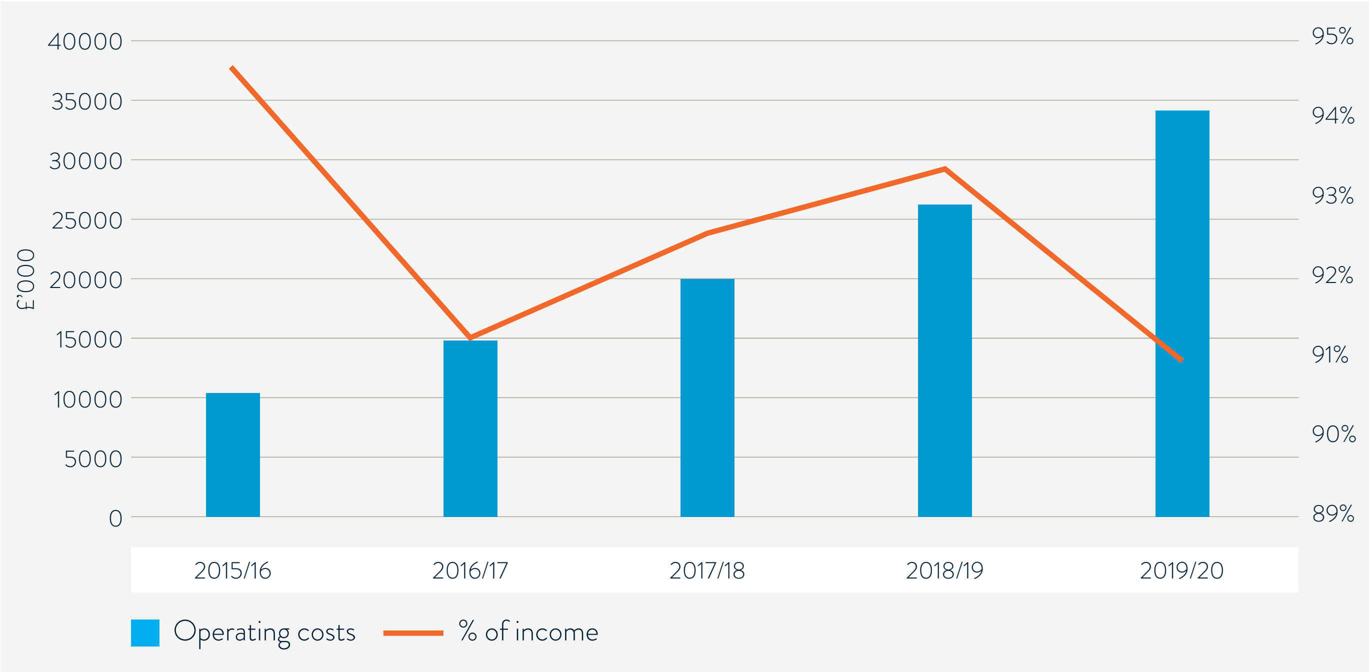
GROWTH IN NUMBERS OF UNITS & YEARLY % INCREASE



During the last five years, IH has achieved a significant reduction in operating costs, in particular during the period 2015/16 to 2016/17, stabilising during 2017/18 & 2018/19; 93% of income, demonstrating a history of cost control in an environment of rapid growth. During 2019/20 exceptional costs associated with the legal costs has increased operating costs to 94% of income; this is expected to fall next year.

Graph 6

OPERATING COSTS AND % INCOME

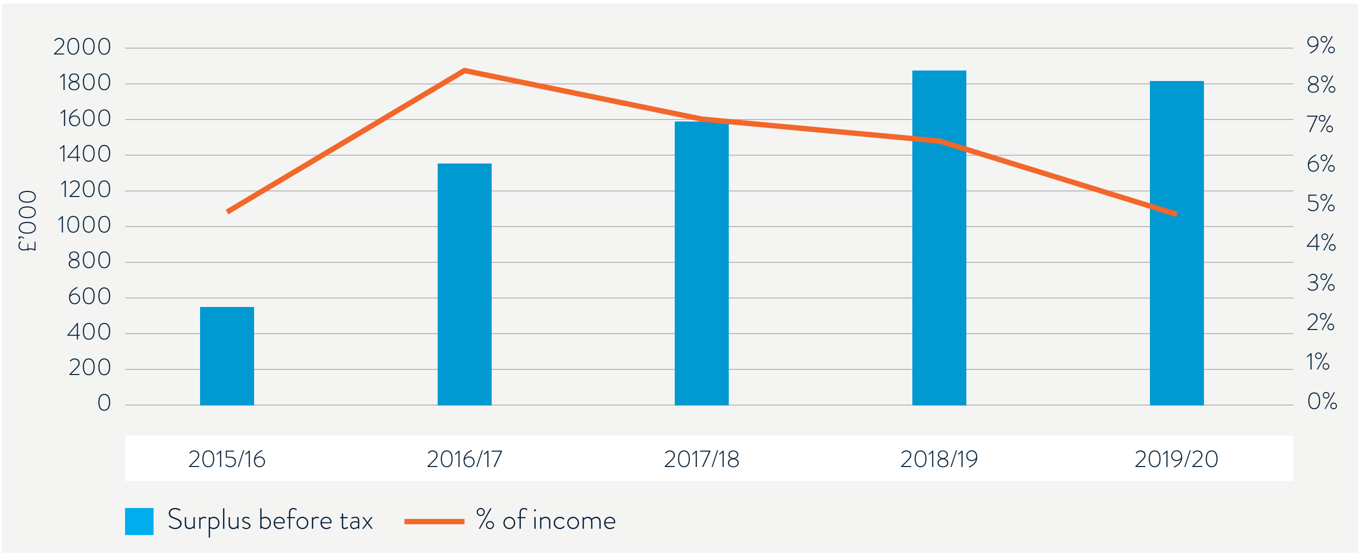


Economies of scale and efficiencies are being realized on staffing costs; 13% of income in 2014/15 reduced to 5.5% of income in 2019/20.

The combination of continued growth in income and the control of costs has resulted in yearly-sustained surplus before tax achieving a consistent return of 7% in the year 2017/18 and 2018/19. One off exceptional costs and a higher percentage of surplus being allocated to the sinking fund have been incurred in 2019/20 dampening the return 4.7%, the budget for 2020/21 reflects a 7% return in line with previous years.

Graph 7

SURPLUS BEFORE TAX AND % INCOME



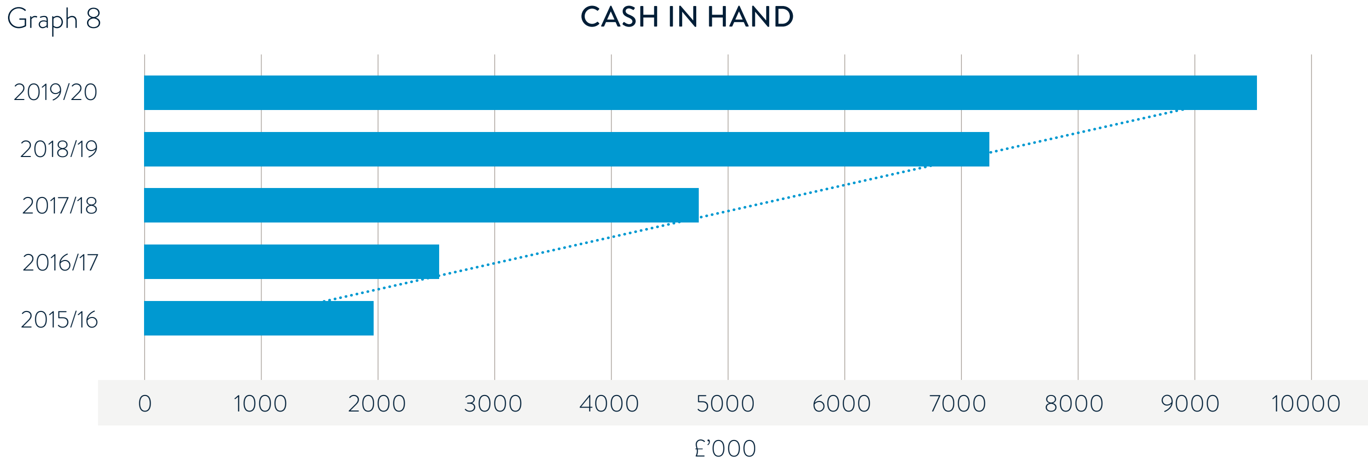
Overall, the business continues to be more profitable as it grows, as we achieve greater economies of scale that reduce overall costs.

6.4 Financial Ratios

The financial ratios support the improved financial position of the organisation from achieving break-even margins in 2014/15 through to sustainable operating margins at 6% in 2018/19 and 4.7% in 2019/20 to support the delivery of services for the long term.

The improved liquidity supports the future cash requirements, covering the risks associated with long-term lease commitments, excellent service delivery and investment in additional units in management. Over the past five years cash reserves have increased from just over £2 million to just over £9.5 million, a 475% increase.

Graph 8



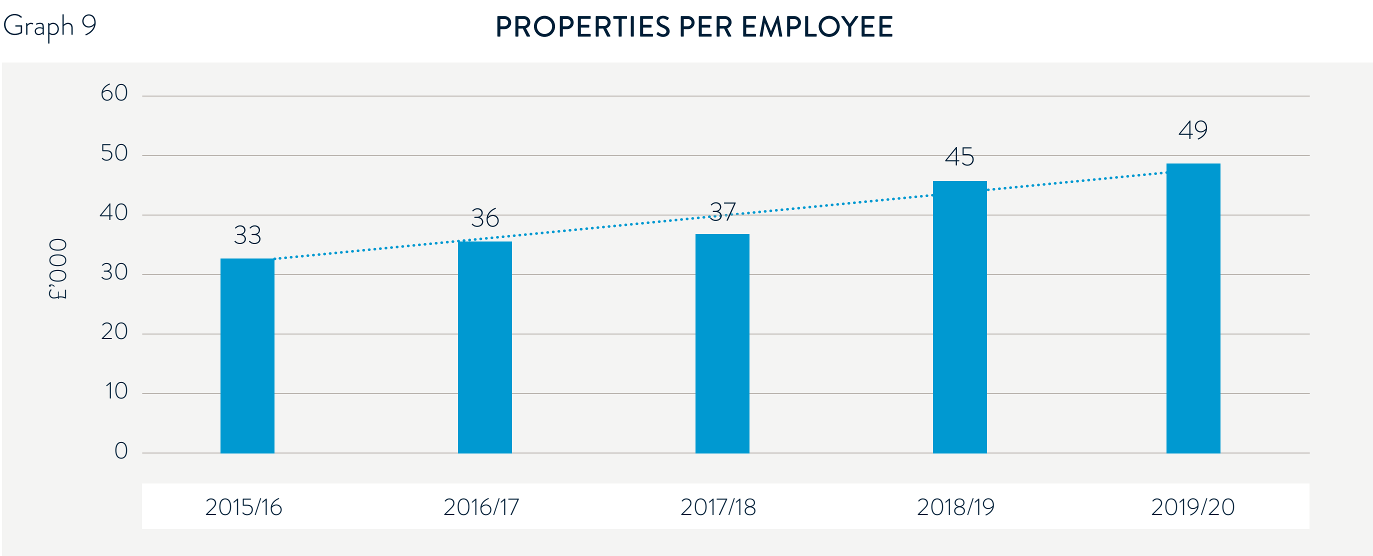
Leasing the majority of the properties in management means IH has no debt requirement. In 2016/17 IH repaid all historic loans relating to properties to rent. The only loans now in place relate to the purchase of the head office building at the beginning of 2017/18. There are no plans to increase the current level of borrowing.

6.5 Costs

6.5.1 Management Costs Per unit

As IH has grown we have managed to gain efficiencies through economies of scale, increasing front line staffing at levels to ensure excellent service delivery, whilst keeping the management numbers static. Graph 9 shows the sustained increase in efficiencies over the last 5 years achieving productivity gains from 33 properties in management per average number of employees to 49 in 2019/20 a 148% increase. This strategic approach is key to the business plan indicating future increases in the average number of properties in management per employee to 52 (6% increase) over the next 5 years.

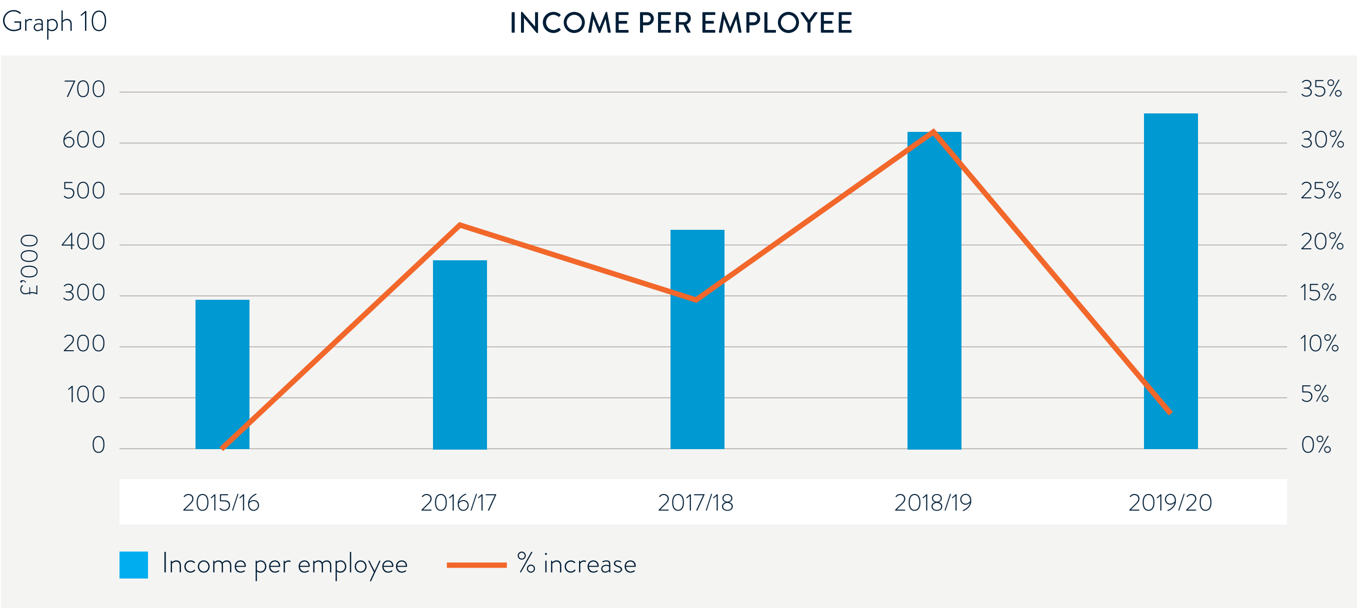
Graph 9



6.5.2 Productivity per employee

Graph 10 highlights the substantial year on year increase in the income per employee rising from just under £300k per employee to £653k over the five-year period, a 225% increase. Greater productivity achieved an average year on year improvement of 18%. The business plan captures further yearly productivity gains of approximately 5% over the next three years reflecting an established lean structure and slowing of the growth aspirations.

Graph 10



7. REPORTING

Transparency and accountability help drive improvement in VfM. A monthly balanced score card is produced and shared with the Executive team and Board on a bi-monthly basis. This includes departmental performance, compliance, VfM and the perfect storm matrix. The Board review and challenge expected levels of delivery and challenge executives to ensure robust plans are in place for improvement.

The VfM standard requires reporting of the metrics defined by the regulator in the financial statements and monitored through the VfM balanced scorecard.

8. LOOKING TO THE FUTURE

- IH ability to measure and compare the financial performance of all our schemes. This has allowed us to decide whether to surrender lease's where possible, or to work with the owner of the scheme to convert the accommodation to better suit to the needs of our tenants.
- We continue streamlining back office processes with the development of information and communications technology (ICT) platforms across the business including electronic processing of invoices and electronic signing of legal documents reducing the number of paper-based processes.
- Exploring new ways of working including expanding the handyperson service, which is helping to reduce average repairs costs but also increase customer service.
- With the launch of the self-service customer web site, this has enabled an improved level of communication with customers through online interaction.

9. DELIVERY

The Executive team is charged with delivering VfM through business planning, forecasting and the budget process through day-to-day scrutiny of performance management. Delivery plans are focused on driving efficiency through ensuring the VfM concept is embedded within the everyday management of IH's activities. Throughout the year, the Executive team monitor financial performance through monthly review of management accounts and rolling forecasts.

Our Board play a key role in the delivery of VfM by setting the strategy and scrutinising the annual assessment and ensuring VfM becomes a key part of all Board decisions. The 30-year business plan demonstrates the commitment to drive improved financial performance year on year.

10. GOVERNANCE

The Board has gained assurance IH has complied with the Regulators VfM Standard through its integrated approach to;

- Annual review of VfM aims and objectives, and VfM strategy to ensure reflects regulatory updates and any changes within the organisation;
- Reviewed annual self-assessment and provided direct scrutiny where required;
- Approval of 30-year business plan ensuring consistency with the corporate priorities and VfM aims;
- VfM is fully embedded within culture of the organisation and part of everyday activities (VfM report);
- Return on Assets Annual report.

It is our assessment that Inclusion has in place an effective foundation (and track record) that enables us to confirm that we have a robust and comprehensive approach to achieving, demonstrating and comparing performance in relation to VfM. Not only is the approach comprehensive, it also tangibly shows that IH is generating real VfM outcomes and positive benefits for the business its residents and stakeholders.

It is therefore the Board's assessment that IH meets the requirements of the VfM standard. It has a robust and comprehensive approach whilst demonstrating real VfM outcomes and tangible benefits for its residents, and stakeholders.

The Board will continue to review progress against the business plan and assesses progress against the delivery of agreed priorities and targets including those, which are VfM related. It will also continue to review this VfM self-assessment process in the context of its wider role of monitoring and ensuring compliance and helping to drive further improvements across the business.

11. REGULATION

The regulator considers VfM as an integral part of providers' compliance with the economic standards via its In-Depth Assessments (IDA). The regulator will seek assurance that providers and their boards are challenging themselves to make the best possible use of their resources to deliver their social purpose and objectives. Where the regulator does not have sufficient assurance that this is the case, it will reflect this conclusion in the provider has published governance grade. In order to provide sufficient assurance, it is proposed that Inclusion Housing will implement the following to ensure compliance:-

- Update the Controls Assurance Matrix reported annually to the Risk & Audit Committee to ensure compliance against the VfM Standard.
- Continue to devise and publish an Annual VfM statement incorporating the new performance metrics, subject to Board approval.
- Continue to incorporate VfM into the Annual Report and Financial Statements to ensure compliance with the regulatory standard.
- Update our VfM scorecard for reporting to Board at every Board meeting.

12.0 CONCLUSION

This statement has been designed to demonstrate and highlight Inclusions' holistic approach to achieving VfM. It should never be assumed that this is our sole document where we demonstrate our commitment to this topic. From our Strategic Vision document, through to our Annual Report, and Financial Statements, we continually highlight different ways we embrace the continuum that is VfM.

We have not yet achieved all our aspirations in this area and the Board and Executive team are focused on meeting the challenging targets included in the 30-year business plan.

The Board of Management through its governance and oversight has satisfactory control of its finances and through the business plan has identified reasonable VfM improvements that are both sustainable and achievable.

Performance Management within the business continues to be a key focus through the balanced and service scorecard approach and resourced through the employment of a dedicated analyst to enhance the use of data to inform service and performance improvement.

Our VfM approach is aligned to our continuous improvement framework ensuring that efficiencies and outcomes are aligned to our strategic objectives.

Overall, this IH VfM statement will be enhanced and improved upon in subsequent years as we build up a track and trend analysis whilst enhancing our benchmarking comparison with other similar businesses. VfM is an IH objective, linked to our vision, ensuring that a 'golden thread' runs through all aspects of our planning and delivery.

We look to drive an effective, efficient and economic business delivering the best returns and value from available resources whilst working towards delivering an excellent customer service and freeing up resources to allow further supported and general needs housing accommodation to be brought into management.

Our VfM Self-Assessment is written to demonstrate our progress in delivering business effectiveness and VfM for our residents, stakeholders, board members and staff. VfM for us means that we use our rental income and assets in the best way possible to deliver excellent services, excellent homes and growth.

Our ambition is to achieve top quartile performance when benchmarking against others in the Registered Supported Housing Sector and in the future to begin to benchmark ourselves with commercial housing providers and developers.

The government agenda to reduce and control costs supports our drive for further efficiencies. IH is well placed to support the current agenda and has a financially strong 30-year business plan containing an overarching intent to reduce yearly costs per unit.

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