EAST MIDLANDS HOUSING GROUP LIMITED

VALUE FOR MONEY STATEMENT

FOR THE YEAR ENDED 31ST MARCH 2020

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EXECUTIVE SUMMARY

Delivering **Value for Money** is integral to the way the group operates and as such is overseen directly by the Board.

Following the approval of the Value for Money Strategy for 2019-2022, which is aligned to the Regulator's Value for Money Standard and associated Code of Practice and the Sector Scorecard, this approach has become embedded in everything we do.

A key part of delivering our services as efficiently as possible is understanding the costs and main drivers, setting targets for key financial measures and understanding how our costs compare to our peers. We continue to use the Sector Scorecard to measure and monitor our progress across the agreed metrics and how these will be reported to our stakeholders.

EXECUTIVE SUMMARY

We measure a number of indicators, mostly taken from our financial accounts across five categories:

- Business Health
- Development
- Outcomes Delivered
- Effective Asset Management
- Operating Efficiencies

These are in line with measures in the Sector Scorecard and allows us to track our progress with the delivery of cashable savings and demonstrates how we are controlling costs, whilst still delivering our core services and developing new homes.

In December 2015 the group Board agreed an Efficiency Gains Strategy to mitigate the 1% annual rent reduction imposed by the Government. A front-loaded four-year savings programme to deliver £4m of cashable savings was put in place ensuring that we remain financially viable whilst protecting our front-line services and development programme.

During the four years to 2019-20 over £4.7m of efficiency savings were delivered, exceeding target. Efficiency is considered in all activities undertaken across the group and the planned four-year efficiencies were successfully achieved in three years.

Value for Money is central to the delivery of the strategic objectives of the Association and in the current operating environment there is increasing pressure to reduce costs and provide cost effective services. Delivery of the efficiency savings plan is a key priority for the Association, and we continue to challenge processes and working practices in order that we can continue to deliver high quality services with fewer resources.

We apply a commercial approach to support our values-based approach and our new leaner operating model requires us to focus our attention on the activities that support the achievement of our corporate objectives.

We delivered strong performance against the key measures in the Sector Scorecard during the year and our key highlights include:

- Maintaining **top quartile** performance for total social housing cost per unit
- Stable EBITDA at **180.2%**
- Delivered **400** new homes achieving **2.2% growth** in units
- Delivered the final efficiency gains in cash terms during the year to achieve the target of **£4.7m** in three years

OVERVIEW OF FINANCIAL PERFORMANCE / SECTOR SCORECARD

	EMH 2020	EMH 2019	TREND	PEER GROUP 2020*	RANKING 2020**
UNIT COSTS					
Headline social housing unit cost	£2,642	£2,614	↓	£3,394	Upper Quartile
Management	£947	£914	↓	£949	2nd Quartile
Service charges	£397	£406	↑	£342	3rd Quartile
Maintenance	£797	£835	↑	£983	Upper Quartile
Major repairs	£449	£421	↓	£873	Upper Quartile
Others	£52	£38	↓	£251	Upper Quartile
BUSINESS HEALTH					
Operating margin (excl surplus on sales)	29.0%	29.8%	↔	25.9%	Upper Quartile
Operating margin – social housing lettings	33.2%	33.0%	↔	28.7%	Upper Quartile
EBITDA MRI % interest cover	180.2%	184.0%	↓	176%	2nd Quartile
DEVELOPMENT CAPACITY					
Social housing units developed	400	419	↓	274	Upper Quartile
Social housing units developed as % of unit owned	2.2%	2.4%	↔	1.2%	Upper Quartile
Gearing	50.4%	51.0%	↔	44.3%	3rd Quartile
OUTCOMES DELIVERED					
Customer satisfaction with services provided by landlord	81%	81%	↔	84.7%	2nd Quartile
Reinvestment %	11.4%	8.8%	↑	6.7%	Upper Quartile
Rent collected	99.8%	99.9%	↔	99.7%	2nd Quartile
EFFECTIVE ASSET MANAGEMENT					
Return on capital employed	4.5%	4.0%	↔	4%	Upper Quartile
Occupancy	97.4%	99.6%	↓	99.4%	3rd Quartile
Ratio of responsive repairs to planned maintenance	0.98	0.98	↓	0.7	Bottom Quartile

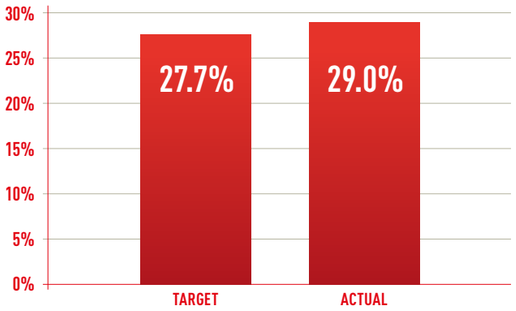
*Peer group median (peer group consists of approximately 70 other Housing Association; LSVT and traditional; managing in excess of 10,000 units in the year in England)

**Ranking system against peer group Upper Quartile 2nd Quartile 3rd Quartile Bottom Quartile

↑ Indicator has improved ↔ Indicator has stayed the same (or within 1% of prior year) ↓ Indicator has worsened

BUSINESS HEALTH

OPERATING MARGIN (ALL ACTIVITIES)

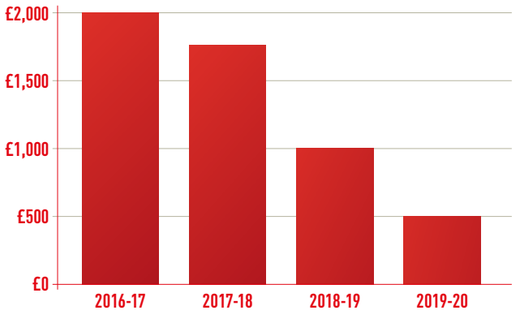


As a responsible landlord, we aim to balance the delivery of quality services to our existing customers with the provision of new homes to meet growing demand. We are a profit for purpose organisation; aiming to maximise the operating margin on our core social housing activities whilst maintaining customer satisfaction. Surpluses are then reinvested back into our existing properties and the development of new homes to meet the diverse range of housing needs within our geographical areas of operation.

Our results for 2020 compare favourably to our targets, achieving an overall operating margin of 29% against the target of 27.7%; This is upper quartile performance within the sector and is largely attributable to a few areas:

- We improved the margin on our core social housing activities through robust and improved tenancy management.
- We exceeded our target margin of 5% on care and support activities with an overall surplus of £1m remaining consistent with the previous year.
- We experienced higher volumes of first tranche sales than expected and generated an average surplus of £18k on each property sold.

ANNUAL EFFICIENCY GAINS



During the 3 years to 2018-19 over £4.4m of efficiency savings were delivered to meet the four-year target. During 2019-20 further efficiencies of circa £200k were realised within the in-house maintenance service, making the total saving during the four-year period £4.7m. It is accepted that efficiency is considered in all activities undertaken across the group.

EFFICIENCY GAINS AGAINST TARGET

TO DATE

The group's procurement regulations mean that when significant contracts come to an end they are being subjected to open competitive procurement processes. In 2019-20 new contracts were awarded for auditing, cleaning, kitchen supply, safety audits and a number of others. These contracts were awarded on the basis of most economically advantageous tenders, and some in conjunction with other buying consortia, delivering a combination of cashable savings, and the right quality and levels of service.

BUSINESS HEALTH

EBITDA MRI measures our ability to generate sufficient cash from our operating activities to meet our interest commitments. Comparability with other providers is difficult due to variability in risk appetite, development strategy, and treasury policies. Our EBITDA MRI has decreased slightly during the year however, at 180% still demonstrates that as a group, we are generating sufficient funds to more than meet our interest commitments. We have sufficient headroom in our loan covenants, which are calculated on the results of emh homes alone and through rigorous stress-testing of our financial plan, are confident that we can continue to meet the obligations placed upon us by our funders.

Our ratio of responsive repairs to planned maintenance remains bottom quartile having worsened in year. Generally, a higher spend on planned works in relation to reactive works is considered to be a more efficient and effective way for an organisation to spend its maintenance budget as this is likely to result in lower responsive repairs costs. This year has seen a further focus on stock investment to ensure that all of our homes meet beyond Decent Homes standard. This was a strategic decision taken by our Board and the prioritisation of this spend has impacted on this indicator this year.

Our strong financial performance has enabled us to access new funding in 2019/20. Following the repayment of the Lloyds facility, a drawdown of £50m was made through the successful private placement with PIC. This has enabled us to meet our growth strategy with increased borrowings to £457m.

During the year the 'one emh' transformation programme was launched. A significant undertaking to support our digital strategy, to review all working practices and ensure efficiency, customer service and value for money across the group's undertakings. This two year programme will see all processes critically analysed and improved, automating where possible to eliminate waste and guarantee the best use of our resources.

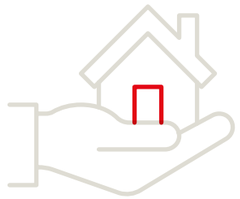
87.72% SATISFACTION THAT RENT PROVIDES VALUE FOR MONEY

Our customers are at the centre of everything we do and following consultation on our value for money ethos it became clear that they believe we provide value for money with our rental structure.

99.87% OF RENT COLLECTED

UP FROM 99.79%

Rent collection remained strong in 2019/20 with a slight increase to 99.87% whilst the median was 99.75%. The impacts of the covid pandemic are yet to be seen.



2.58% RENT ARREARS

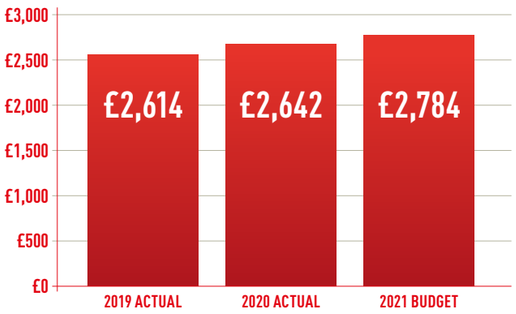
DOWN FROM 2.95%

Current tenant arrears reduced in 2019/20 with 1st quartile performance. It is anticipated that the covid pandemic will impact our customers ability to pay rent in 2020/21 and this will be monitored closely.

UNIT COSTS

The graph below shows how we continue to challenge ourselves on the routine costs of delivering our core social housing activities.

HEADLINE COST PER UNIT



The figures for 2019 and 2020 are actuals taken from our latest audited financial statements. 2021 is based on costs from the Board approved budget and highlights a significant increase in major repairs investment. To enable comparability with other registered providers we have excluded the direct costs of delivering our care and support activities from our unit costs. These costs are funded through their own income streams and are contained within a separate subsidiary in the group where we measure the profitability of each activity separately.

Our four year efficiency gains programme concluded in this year. We delivered in excess of £4.7m cashable savings from our operating costs to compensate for the lost income resulting from the Government policy to reduced rents by 1% annually from 2016-17 to 2019-20. In order to sustain value for money in the long term, any increase to the unit cost will be targeted at below inflation (except in exceptional circumstances). This will ensure efficiencies are derived through growth in unit numbers and this is a fundamental assumption in our financial plan.

Our unit costs, at £2,642 exceeded our budgeted unit costs for the year of £2,615 (adjusted for actual unit numbers) and equates to £27 or a 1% variance. This was largely attributable to increased costs on resident led initiatives.

Our unit costs continue to compare favourably against our peer group with a total social housing cost per unit of £2,642 being in the top quartile when compared against similar organisations. The sector average rose by 4% to £3,830. Our management costs remain in the second quartile at £947 per unit. This is an increase of £33 from £914 and remains lower than our peer group of £1051. Despite an increase in year of 3.6% this is considerably improved on our peer group median which has seen an increase of 7%.

Service charge costs have decreased in the year by 2.2% following stringent control of costs and requirements of our customer base. The peer group median has remained the same.

Maintenance costs per unit at £797 have reduced by circa 5% whilst our peers have seen an average increase in costs of 8%. This is due to the mix of works carried out and the early impacts of Covid at year end. We remain in the second quartile for this indicator with additional investment earmarked over the coming years.

Due to the extended timetable for financial reporting some peer comparison has proven challenging in the current year and will be reviewed on an ongoing basis to provide meaningful and valuable indicators.

DEVELOPMENT CAPACITY AND OUTCOMES DELIVERED

It is recognised that increased delivery of new units is a significant driver of value for money as fixed costs are attributable to a larger stock base. Development has a negative impact on our financial viability and gearing, with each new property requiring an internal subsidy of up to £2,650. Despite this, the Board remain committed to the provision of new homes. We continued to develop in line with our Development Strategy with a programme of both affordable rented and low cost home ownership properties across the region. We are dedicated to exploring other tenures, including social rented properties and market sale in order to offer a balanced mix of new homes.

2020 saw us further strengthen our delivery within the Strategic Partnership with Homes England following approval for an additional £12.9m of grant to deliver a further 200 units. The partnership now covers 948 units with £43.4m of attributable grant.

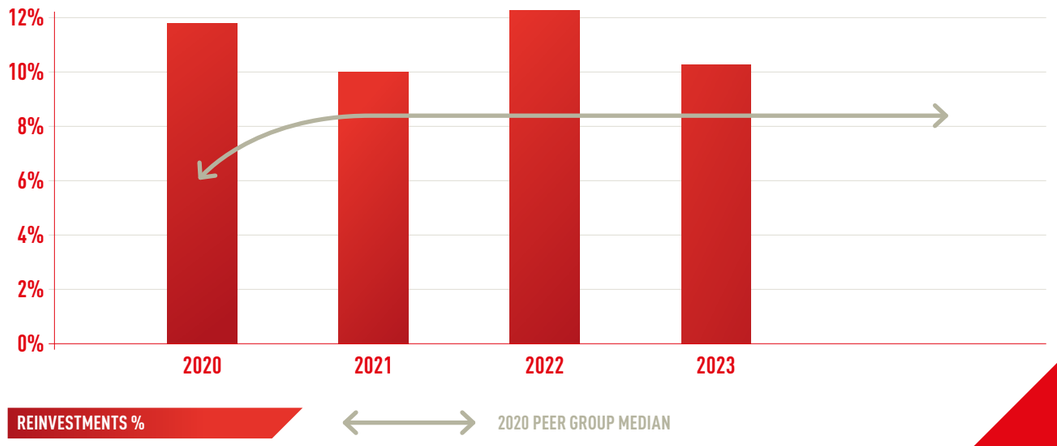
The development programme is also transforming as we focus more land-led schemes following the formation of Emh Development Company Limited which will provide design and build services to the group. This will complement our strong experience of S106 and package deals and allow us to deliver our ambitious growth targets.

During the year we completed 400 new homes, a growth of 2.2% in the year. This is below our target of 550 new homes and is a direct result of the COVID-19 pandemic. The imposition of lockdown in the last quarter of the year affected the supply chain and availability of labour. At the year-end we had 998 new homes on site which will be delivered in future years and remain on track to achieve our target of managing at least 21,500 homes by 2023. £23m of grant was received to support our growing programme in the year with £9m of this being in relation to the Strategic Partnership. Over 50% of the grant under this regime has now been drawn down. The sector average growth in year was 1.5% with the upper quartile being 2.4% putting emh in a strong position not only in our peer group but also in the wider sector.

Significant investment in new developments is carefully balanced with the need to reinvest in our existing properties to maintain standards for our customers. Historically we have invested, on average, £9m each year into our properties through our rolling programme of capital investment in component replacements for windows, kitchens and bathrooms. In the forthcoming years we will see a significant increase in further investment to reflect the requirements of our updated Asset Management Strategy.

REINVESTMENT

The chart below summarises our reinvestment activity (taken from the Sector Scorecard definition) and demonstrates our commitment to investing excess surpluses into maintaining our existing stock and building new homes.

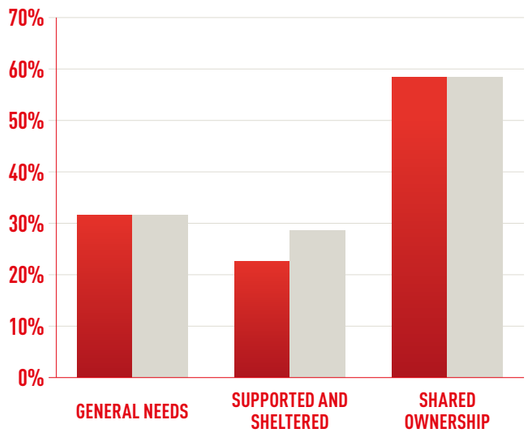


EFFECTIVE ASSET MANAGEMENT

As the majority of our income is asset generated, we measure the overall return on investment and operating margins for each significant class of income generating asset as identified in our audited accounts. The charts below show that year on year we have achieved strong operating margins of between **24%** and **59%** across the three categories of assets.

MARGIN

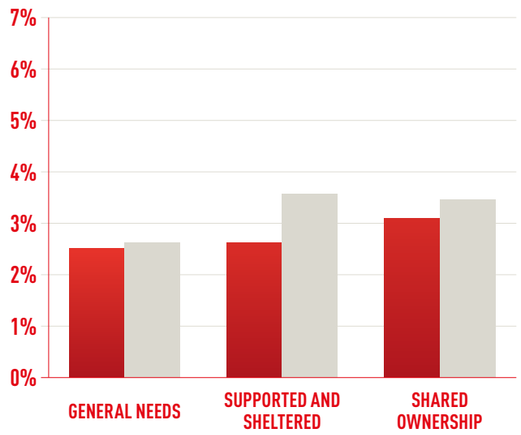
2020 2019



This slight reduction in operating margin has been mirrored by a reduction in the value of our properties to give returns of between 2.6% and 3.3% for the year. The reductions affected our shared ownership and sheltered stock, whilst general needs properties have largely held their position.

RETURN

2020 2019



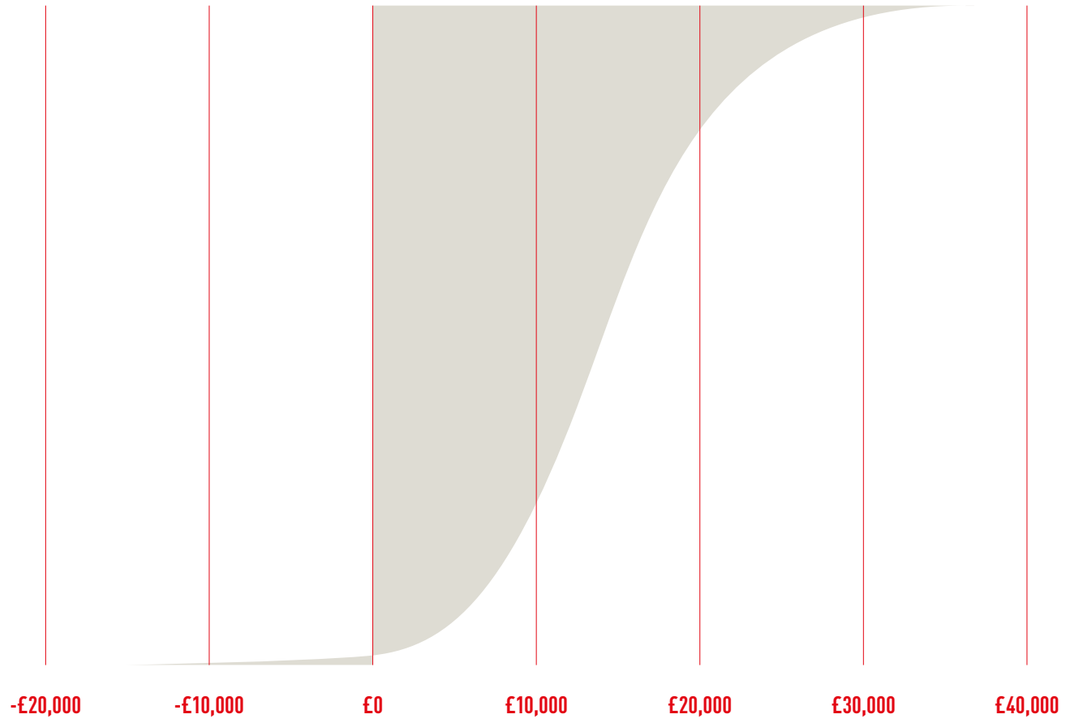
We also measure the returns on individual assets in line with our Stock Rationalisation Strategy. Any property that generates a net present value of £2,500 or less is not considered financially viable. In the last financial year we voluntarily disposed of a further 23 poor performing properties, generating sales proceeds in excess of £1.9m.

EFFECTIVE ASSET MANAGEMENT

The chart below summarises the outputs from the model by property.

NET PRESENT VALUES BY PROPERTY / ALL PROPERTIES

TOTAL



We continue to appraise properties as they become vacant and have set ourselves a target to achieve at least £0.5m per annum in net sales proceeds from the voluntary sales of properties that are deemed financially unviable. We are actively managing those properties that have been approved for disposal by the Board and will in future consider incentivising tenants to vacate properties where appropriate so that disposals can be accelerated.

EFFECTIVE ASSET MANAGEMENT

The chart below summarises the outputs from the model by property.

LOW AND NEGATIVE NET PRESENT VALUES