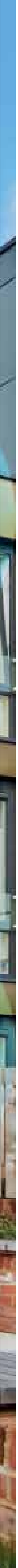
catalyst

Value for Money

Year ended 31 March 2018

High Road, Finchley – London



Value for Money

Introduction

The post-Brexit era coupled with the continued effect of the 1% rent reduction introduced in April 2016 has created both political and financial uncertainty for RPs. Despite this, our approach to delivering value for money has allowed us to achieve a strong financial performance in our social housing activities for the 2017/18 financial year, while building strong foundations for the achievement of our 2020 goals.

We define value for money as 'using our resources to deliver more of what our customers value'. We strive to build as many high quality homes as possible and to deliver an excellent customer experience every time.

The Regulator of Social Housing (RSH) introduced a new Value for Money Standard and Code from 1 April 2018, which applies to 2017/18 statutory accounts due for submission by 30 September 2018. We welcome the new Standard and Code and believe that the introduction of seven core value for money metrics will foster greater consistency and transparency in reporting across the sector.

In accordance with the new Standard and Code, our Value for Money Statement sets out our performance against our strategic objectives using our own value for money metrics, those we measure as part of our involvement in the sector scorecard working group and the seven core metrics defined by the RSH.

Excellent customer experience every time

	2018	2017	2016	2017 G15 average	2017 Sector scorecard
Customer satisfaction with service provided by landlord	71.6%	74.5%	76.1%	76%	86.6%

While we are disappointed that customer satisfaction has declined again this year, we have laid solid foundations in 2017/18 which will ensure we are well placed to deliver a comprehensive improvement programme in 2018/19.

We have:

- significantly strengthened the leadership and expertise of our Customer Services Team through the appointment of a Director of Customer Experience and a Director of Housing and Neighbourhoods;
- finalised strategies for Customer Experience and Neighbourhood Experience, which will deliver tangible improvements. These strategies spell out the future in terms of how we will interact and provide services to our customers, with the aim of being easier to do business with, more reliable delivering against our promises and empathetic with our customers. These are the things our customers have told us are most important to them;
- undertaken a significant piece of work to re-procure our repairs contracts with a view to ensuring that contracts are structured and run to provide better services for our customers.

There were encouraging signs of an uptick in customer satisfaction in the final months of the financial year which we are determined to sustain in 2018/19.

As detailed in the Strategic Report, our key focus in the coming year is around improving our service delivery particularly in respect of repairs and maintenance, tenancy and neighbourhood services and service charges.

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Provision of more quality homes and great places to live

Development and investment in homes

	2018	2017	2016	2017 Sector scorecard
Units developed	566	228	613	40
Reinvestment %	7.8%	4.6%	6.2%	n/a
New supply delivered % (social housing units)	2.1%	0.9%	2.6%	n/a
New supply delivered % (non-social housing units)	0.7%	0.3%	0.6%	n/a
Gearing	29.1%	28.4%	27.0%	41.6%

We completed 566 homes during the financial year compared to 228 last financial year, demonstrating our commitment to build more quality homes and great places to live. We continue to strengthen our development pipeline by acquiring sites and establishing partnerships, including entering into joint venture arrangements. We are focused on creating a pipeline that can support our 2020 goal of developing 1,000 homes per year. During 2018/19, we anticipate that our pipeline will increase by another c2,500 units through a mix of short term and strategic additions.

Our reinvestment (calculated as the cost of investment in new and existing homes as a percentage of the total value of properties) has increased from 4.6% to 7.8%. This reflects the investment we have made in new homes and building our development pipeline, as well as our commitment to invest in the upkeep and long-term viability of our property portfolio, as part of our Asset Management Strategy.

New supply delivered (calculated as 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) has increased for both social and non-social units. Our business model and growth strategy relies on investing in, and selling, non-social units in order to generate the surplus to invest in more affordable homes.

As mentioned in the Chair's Statement, we launched our first public bond during the financial year, a £250 million bond at a coupon rate of 3.125% over a 30 year term. This issuance will allow us to deliver enhanced value in the expansion of our development pipeline and achievement of our 2020 development ambitions.

Our gearing level (net debt and finance leases divided by the carrying value of housing properties x 100) is marginally higher than last financial year at 29.1% but remains well below the sector scorecard median, demonstrating our capacity to grow.

Effective Asset Management

	2018	2017	2016	2017 G15 average	2017 Sector scorecard
Return on capital employed	3.5%	3.8%	4.3%	3.9%	4.0%
Occupancy	100%	100%	100%	n/a	99.5%
Ratio of responsive repairs/planned maintenance	0.50	0.41	0.37	0.64	0.68

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Our return on capital employed (ROCE) (calculated as operating surplus + surplus on disposal of fixed assets + share of surplus in joint ventures divided by capital employed x 100) has fallen marginally year on year and remains below the sector average. The main reason for this is uncertainty in the housing market, resulting in fewer sales than anticipated during the financial year and therefore more assets being held at year end.

In addition to this, we disposed of fewer properties than anticipated during the year due to void properties not meeting our ‘c-class’ (poor performing) asset classification. Instead of selling these assets, we made the decision to re-fit and re-let them, having identified that this would generate a more favourable long-term financial outcome.

Occupancy levels (calculated as the proportion of available general needs units that are let) have remained stable at 100%, indicating that our homes are desirable to our customers and that homes available to be let are let quickly, optimising our financial return. During the year, we reduced our void turnaround time by c67% as a result of the work undertaken by our dedicated Service Improvement Group.

Our responsive repairs to planned maintenance ratio increased from 41% to 50% this year as a result of additional fire safety precautionary measures being taken on our higher risk properties following the Grenfell tragedy. Our investment in major and planned works remains proportionally higher than our G15 peers and is in accordance with our Asset Management Strategy, which is focused on investing in the long-term viability of our property portfolio.

Investment in the community

£’000	2018	2017	2016
Invested in communities	2,525	2,229	2,033

As outlined in the Strategic Report, our social investment arm, Catalyst Gateway, delivers a range of services to enhance the life chances of our customers and improve our communities. Our funding of these services, which increased by c£300k this year, has enabled us to extend our reach to nearly 1,000 customers and has generated a social return of £2.7 million as calculated using the definition provided by the Housing Association Charitable Trust (HACT).

High business performance

	2018	2017	2016	2017 G15 average	2017 Sector scorecard
Operating margin (overall)	29.4%	35.6%	30.5%	33%	30.3%
Operating margin (social housing lettings)	35.5%	35.1%	32.9%	37%	31.6%
EBITDA MRI	187.6%	234.9%	221.2%	217%	227.6%

Our overall operating margin has fallen from 35.6% to 29.4%, predominantly as a result of our development activities not generating the operating surplus that we anticipated. High return schemes sold last financial year, delays in respect of construction and an uncertain housing market have all contributed to this undesirable outcome. In contrast, our operating margin for social housing lettings (operating surplus on social lettings divided by turnover from social housing lettings x 100) has continued to increase and reached 35.5% during the 2017/18 financial year. Our ongoing drive to increase the efficiency of our customer services and central services teams and the creation and embedding of a central procurement team has contributed towards cost savings in respect of our core landlord activities.

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EBITDA MRI interest cover % (Earnings before Interest, Tax, Depreciation and Amortisation, Major Repairs Included as a % of interest payments) is used to measure our ability to pay the interest on the funds that we have borrowed to run our business.

Our EBITDA MRI % has reduced from 234.9% to 187.6% as a result of our lower than anticipated surplus on development activities and the additional financing costs related to our bond issue.

Operating efficiencies

	2018	2017	2016	2017 Sector scorecard
Headline social housing cost per unit (£)	4,287	4,638	4,728	3,306
Rent collected	99.5%	99.5%	100.1%	99.7%
Overheads % adjusted turnover	13.5%	16.5%	9.9%	12.3%

Our headline social housing cost per unit has fallen year on year to £4,287 and is below the G15 average of £4,398. Our overheads as a % of turnover have also fallen by 3% to 13.5%. We continually challenge the way we run our business and strive to deliver efficiencies that can contribute towards our social purpose.

Moving forward, we believe that there are more opportunities to reduce our social housing costs. We have embedded our new Procurement Team within the business and are in the process of finalising our ‘procurement pipeline’, which will set out how we intend to deliver savings across our procurement activities over the next two years. In addition to this, we are implementing more rigorous financial management practices, have redefined our budget-setting and reforecasting processes and are embedding a stronger finance business partnering capability to drive value across all parts of the organisation.

Rent collected remains high and has improved marginally compared to last year. Catalyst Gateway do a lot of work with our customers to support them with budgeting and managing their finances, which helps reduce rent arrears. We have also taken measures to enhance our internal rent collection processes.

Great people, great place to work

	2018	2017	2016
Employee engagement	656.6	642.9	n/a
Stability index	82%	68%	79%
% time lost to sickness	2.8%	4.4%	4.6%

We recognise that one of the keys to unlocking value for money is attracting and retaining the right people to our organisation. During the year, our employee engagement (the average score achieved on our Best Companies questionnaire), stability index (the % of people at year end with in excess of one year’s service) and time lost to sickness (number of sick days/total number of working days available) all showed significant improvements, indicating that we are creating a positive working environment that encourages our people to perform to their potential. In addition to this, from a total of 798 applications, we were ranked number 83 in the Sunday Times Best Companies 100 in the not-for-profit category.

St. Bernards Gate, Southall

catalyst

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020 8832 3334
www.chg.org.uk

Registered Society
Registered Number: 16561R

Homes and Communities Agency
Registered Number: L0699

A charitable housing association

Catalyst is one of the leading housing associations in London and the South East. Our vision is to create a self-sustaining business, which uses commercial disciplines and profits to provide affordable homes, improve neighbourhoods and change lives.

CAT900_Value for Money Report 2018