Value for Money

for the year ended 31 March 2020

Value for Money

Corporate strategy

Our Value for Money (VfM) Strategy emphasises that VfM underpins the achievement of our corporate objectives and maintaining a long-term sustainable business.

What does VfM mean for Catalyst?

- VfM is the relationship between economy (minimising cost and resources – Cost),
- efficiency (doing in the most economical way – Performance),
- and effectiveness (doing the right thing for the service being provided – Quality).

Cost is the price paid for what goes into providing a service.

Performance is a measure of productivity; how much we get out in relation to what we put in.

Quality is a measure of the impact achieved, and the customer outcome.

We measure our performance against our corporate objectives in following way:

Monthly performance scorecard reports

We have a comprehensive set of Key Performance Indicators (KPIs) that measure operational performance, compliance, risk and satisfaction-based outcomes against annual targets agreed by the Board. The KPIs are included in detailed Performance Scorecard Reports that are presented to, and regularly reviewed by the Board and Executive Committee. This ensures a clear line of sight over our performance. The reports include RAG ratings, narrative on performance, trend analysis and sector insight.

Management accounts

Performance against the agreed budget is reported in the Management Accounts, with an emphasis on analysing performance below budget.

Customer surveys

On a monthly basis, we undertake customer surveys to obtain feedback on our performance. These surveys include questions on customers' views on whether their rent and service charges offer VfM.

Customer representation

Our Customer Experience Committee includes resident nominated members, helping to ensure that we receive valuable customer input. This committee also reviews complaints and customer satisfaction data.

Peer group comparison

On an annual basis, we undertake a formal review of our VfM metrics against a range of comparators: G15 members, housing associations of similar size, and all housing associations in the sector. The review indicates areas of relative strength, where we are above the median average, and areas with potential for improvement.

On a monthly basis, within the Performance Report we include an insight section, benchmarking our performance against the latest quarterly housing association data from the Regulator of Social Housing, and other industry performance data.

Covid-19

More recently we have had the additional challenge of managing the influence of Covid-19 whilst still focusing on the achievement of our corporate objectives.

We have measured this influence daily with a dashboard of over twenty-five operational KPIs, alerting the Executive and Board to the impact on underlying business performance.

Corporate objectives

We have launched new objectives for 2020/21. Over the year we developed a new strategy. The first stage of our merger was for Aldwyck to join as a subsidiary in May 2019, and for the two organisations to initially continue. In 2019/20 the organisations operated under their existing corporate policies and priorities, while keeping in mind their future as a single new organisation.

In developing a new strategy, the Board considered the challenges and opportunities of the operating environment and the ambition and objectives for merger. We have set out five objectives and corresponding priorities for the next three years.

1 Get closer to customers and deliver great services

Our commitment to putting customers and customer experience at the centre of what we do.

Our priorities are:

- Service delivery
- Service behaviours
- Customer insight
- Customer engagement.

2 Build more quality homes

To address the housing crisis and increase the proportion of affordable rented homes.

Our priorities are:

- How and where we grow
- More affordable homes
- Being famous for quality
- Great design.

3 Safe and sustainable

Ensuring our homes are safe, affordable to run and build and maintained on sustainable principles.

Our priorities are:

- Safe homes
- Developing our data and knowledge
- Setting standards
- Expertise and research.

4 Revolutionise our data and technology

We plan to use data and technology to improve our service delivery, make the way we work more efficient, reduce our costs and enhance our decision making and performance.

Our priorities are:

- Foundations for the future
- Data and digital culture
- Building Information Modelling
- Innovation technology for homes and services.

5 Invest in our people and define our culture

Our people are central to our success and we are developing an organisation where talented, engaged people aspire to work and grow.

Our priorities are:

- Thriving organisation, thriving individuals, thriving leaders
- Growth ready
- A recognised employer of choice and great place to work
- A culture that enables high performance, growth and opportunity for everyone.

They clearly contribute to our purpose and vision, and our values will guide how we approach everything that we do.

Our strategy, and our success are underpinned by:

- Financial capacity and resilience
- Value for money
- Equality, diversity and inclusion
- Excellence in governance and risk management
- Successful partnerships and reputation.

The impact of the merger has resulted in a number of one-off costs this year that mask the underlying financial performance of the Group.

In addition, the Board recognises that the extra costs to replace cladding and other related fire remediation works have made it more difficult for readers of the accounts to understand the underlying financial performance.

The metrics in the VfM section below have therefore been calculated with, and without, the fire-related and the main merger-related impacts: £15.8 million for fire-related costs, £83.4 million gain arising from gift of net assets, and £9.1 million interest including mark to market of £15.7 million.

In the tables, these have been referred to as Actuals (adjusted).

There has been a considerable impact on the surplus for the year resulting mainly from the merger of Catalyst Housing Limited and Aldwyck Housing Group Limited and restructure of funding, alongside the additional investment in fire safety to ensure our customers' homes remain safe.

The following table gives the surplus before tax adjusted for these items:

	2020 £000	2019 £000	Change £000
Surplus before tax	**82,438**	**30,018**	**52,420**
Adjust for:			
Net fire safety works	15,754	823	14,931
Accounting impact of loan restructure on interest cost	9,056	-	9,056
Derivative mark to market – ineffective	15,655	-	15,655
Gain arising from Gift of Net Assets	(83,387)	-	(83,387)
Adjusted surplus before tax	**39,516**	**30,841**	**8,675**
Summarised as follows:			
Social housing before fire safety costs	71,346	56,736	14,610
Non-social housing	5,947	302	5,645
Net interest	(38,236)	(24,586)	(13,650)
Movement in fair value of investment properties	459	(1,611)	2,070
	39,516	**30,841**	**8,675**
Adjusted operating margin	**21.2%**	**25.6%**	
Adjusted social housing operating margin	**31.5%**	**36.6%**	

Key points to note are:

The 2019/20 adjusted surplus increased by £8.7 million from the £30.8 million for 2018/19 to £39.5 million. This is after the 1% rent reduction on the social rented properties, the final year of the 4 year reduction, and from 2020/21 the social rents revert to CPI plus 1%.

The adjusted surplus from social housing activities increased by £14.6 million year on year.

The main driver being the addition of 11 months surplus from Aldwyck Housing Group Limited.

The adjusted net interest charge increased by £13.7 million, largely a result of the addition of £434.5 million of borrowings from Aldwyck Housing Group Limited and a further £51.5 million net borrowing in the year.

The adjusted operating margin reduced from 25.6% for 2018/19 to 21.2% for 2019/20, with development activity levels and the merger impacting performance.

The adjusted social housing operating margin reduced from 36.6% in 2018/19 to 31.5% for 2019/20, with the rent reductions and the merger impacting performance.

Targets

We set targets to maintain or improve our performance, although we recognise that in some years there are external pressures or changing regulations which mean that we cannot achieve those targets.

So how did we perform against our corporate objectives?

Excellent customer experience every time

– we will achieve sector leading levels of customer service

Measure	2019/20 Actual	2019/20 Target	2020/21 Target
Customer satisfaction – rented	74%	77%	75%
Customer satisfaction – shared owners	60%	62%	62%
Customer satisfaction – repairs	81%	85%	88%
Customer satisfaction – new homes	84%	77%	87%
Calls answered	87%	90%	90%

Our customer satisfaction from new homes was better than target, although customer satisfaction from rental customers and shared owners fell slightly short of target.

We have targeted both to improve in the current year. Our repairs customer satisfaction has dipped as our three new contractors transition the service from our previous arrangements.

During the year we:

- Launched a new Customer Experience Strategy
- Started the implementation of our new customer engagement model based on a co-creation concept. This included six workshops (including a digital workshop) with 30 customers to co-create our future customer promises
- Developed our customer engagement database 'Catalyst Voice', which now has over 700 customers and we have improved the diversity of our involved customers.

We will continue to improve our services in the current year by:

- Understanding better who our customers are, and their expectations
- Improving our customer journeys to create a frictionless end-to-end experience
- Reviewing the services we offer, prioritising those with the lowest customer satisfaction
- Engaging and involving a diverse customers base in co-creating new services
- Creating a modern and inclusive scrutiny panel to challenge us on our performance
- Enhancing our digital offer including developing a self-service offer
- Increasing proactive communication with our customers using different channels.

Provision of more quality homes and great places to live

– we will increase our housing supply providing a range of tenures to meet differing customer needs

Measure	2019/20 Actual	2019/20 Target	2020/21 Target
Reinvestment %	5.4%	5.2%	7.3%
Homes developed – social	595	683	288
Homes developed – non-social	192	201	82

Our reinvestment of 5.4% (calculated as the cost of investment in new and existing homes as a percentage of the total value of properties) has exceeded target. This demonstrates our commitment to making our existing homes better, and safer, places to live.

Combined with an increase of 2.41% in homes developed, demonstrates Catalyst's commitment to providing more quality homes. We achieved an increase in homes developed compared with the previous year but just fell short of the annual target by 97.

In order to comply with government advice on building safety, we altered specifications for balcony materials during construction, directly impacting 165 homes and subsequently delaying the projected completions until the final quarter of the financial year.

The completions were then further impacted by lockdown restrictions. These affected one scheme of 76 homes that was certified as completed on 3 April 2020.

High business performance

– we will operate efficiently and effectively, meet all our operational performance targets and optimise our Social Housing Operating Margin

Measure	2019/20 Actual	2019/20 Actual (adjusted)	2019/20 Target
Gearing % (Sector scorecard VfM)	42.3%	42.5%	36.8%
EBITDA MRI interest cover %	79.2%	130.1%	98.4%
Social Housing Operating Margin %	22.8%	31.5%	37.6%
Operating Margin %	15.7%	21.2%	22.7%
Return on Capital Employed %	1.9%	2.4%	2.7%
Headline Social Housing Cost per Unit	£5,209	£4,117	£4,069
Rent collected %	100.3%	100.3%	98.0%

The Board utilises the regulatory VfM metrics and Sector Scorecard metrics in monitoring performance against our high business performance corporate objective. We continually challenge the delivery of value for money across all business activities and strive to reduce costs and free up more capacity to allow us to fulfil our corporate objectives.

The overall performance against this objective has been affected by the increasing need to invest in fire safety measures for our properties, an additional £4 million was spent above the amount originally budgeted. The Board recognises that the safety of our customers is paramount and also recognises the temporary impact the investments will have on the financial performance metrics. In the year, we took the decision to further invest in our property marketing activities, including commencing earlier in the development to generate higher pre-sales.

This has reduced the surpluses on our property sales activities as we increase our development programme.

We also incurred additional fire safety costs at two schemes (Wornington Green and Burnt Oak) following the new guidelines that delayed handover and sale. We continue to review our stock holding, considering our offer and competitiveness within the market place.

More specifically:

The **gearing metric** measures how much of our adjusted assets are made up of debt and the degree of dependence on debt finance. Our performance of 42.3% is higher than the target of 36.8% due to additional investment in our properties and the fair value adjustments in some of our loans. It still indicates scope for future capacity.

The **EBITDA MRI** metric is a measure of cash generation as a percentage of interest (net of amortised cost) and is a key indicator of liquidity and investment capacity. It seeks to measure the level of surplus generated compared to interest payable, avoiding any distortions stemming from the depreciation charge.

Our performance of 79.2% is below the target of 98.4% due to the impact of fire safety costs. The Board recognise that investment in fire safety measures will over the short-term reduce this measure below historic target levels.

Excluding these one-off costs, the metric improves to 130.1%.

The **Social Housing Operating Margin** measures the surplus that we generate from our core landlord services.

This reduced during the year due to the fire safety works and the target of 37.6% was not achieved. Future years will see a continued focus on tight budgetary control, targeted performance improvements and managing the impact of Covid-19.

The **Operating Margin** measures the surplus that we are generating from our social and non-social activities. This was lower than target due to increased asset management work from Fire Risk Assessments and lower margins on development sales. Fire safety costs and a challenging housing market will put pressure on our operating margins.

The **Return on Capital Employed** metric compares the Operating Surplus (including the disposal of Fixed Assets) to Total Assets (less Current Liabilities). Our performance of 1.9% was lower than the target of 2.7%. This is principally due to the lower margins and higher costs stated above.

Our headline **Social Housing Cost per Unit** metric measures total property costs (including capital expenditure) per property owned or managed.

We fell short of our target of £4,069 by £1,140 due to the reasons noted above; namely our investment in our properties, asset management spend, and service chargeable costs that will be recovered in future years.

A detailed breakdown of these costs is noted below:

Detail	2019/20 Actual	2019/20 Actual (adjusted)
Management cost per unit	£1,363	£804
Service charge cost per unit	£939	£939
Routine maintenance cost per unit	£973	£973
Planned maintenance cost per unit	£141	£141
Major repairs expenditure per unit	£202	£202
Capitalised major repairs per unit	£1,153	£620
Other costs per unit	£438	£438
Headline Social Housing Cost per Unit	**£5,209**	**£4,117**

Our performance against the objective of ‘High Business Performance’ also uses the Sector Scorecard metrics. The table below includes the Sector Scorecard metrics not covered above.

Measure	2019/20 Actual	2019/20 Target	2020/21 Target
Occupancy %	99.6%	99.8%	n/a
Ratio of responsive to planned repairs spend	0.65	0.4	0.37
Overheads as a % of turnover	11.6%	12.5%	13.2%
Community investment £’000	£2,283	£2,990	£3,084

Great people, great places to work

– we will attract and retain exceptional, motivated people who will help drive our organisational performance

Measure	2019/20 Actual	2019/20 Target	2020/21 Target
Stability index	82.3%	75%-85%	75%-85%
Sickness absence	3.7%	3.0%	3.0%
Voluntary turnover	13.0%	14.5%	14.5%

We have performed well against our KPI targets. The Stability Index measures the overall retention of colleagues with more than one year’s service and our performance of 82.3% was in the range originally targeted of 75%-85%.

The voluntary turnover measure of 13% was within the target of 14.5%.

The absence due to sickness was above target, mainly due to higher instances of sickness in the first quarter. Since then, levels have performed on target due to more emphasis on the management of sickness.

More broadly there has been significant progress in developing great people and Catalyst as a great place to work.

Early in the year we established a new Executive team to lead Catalyst post-merger, and through the year we made a number of changes to strengthen the wider Leadership team.

Colleague engagement underpins a high-performing culture. Catalyst was placed in The Sunday Times Top 100 Not for Profit Best Companies to Work For in 2020. Completed in October, the survey showed that high levels of colleagues feel proud to work for Catalyst, with 77% saying that they love working for the business.

This has established the baseline engagement position and informed the development of both corporate and local plans.

Further engagement surveys will be carried out to regularly track progress and reassess these plans.

So how did we perform against our merger objectives?

Build more homes, ambition to deliver 1,300 a year following full integration, with the potential to build more

We developed 787 homes compared with a combined 667 in the previous year. A further 76 properties were certified on 3 April, with the delay due to Covid-19.

Improve our customers’ experiences and services, combining the ambitions of both Catalyst and Aldwyck to build a strong customer centric-culture, allied with high quality service delivery

We launched a new Customer Experience Strategy and focused on higher levels of customer consultation. We also integrated our complaints handling, customer experience and community investment teams post-merger to provide group-wide services.

Foster a high-performing culture, attracting, retaining and developing the best talent, and foster a constructive customer focused culture

During the year we have made substantial progress in developing a high-performing culture. Many of these are noted above, including the achievement of our employee retention targets.

We established a new set of values for the combined organisation, along with a new purpose and vision, which provided a consistent set of expectations regarding culture and behaviour across Catalyst.

Further investment in leadership development for the senior leaders of the organisation has ensured a shared understanding of the culture that Catalyst wishes to promote.

Strengthen both organisations commitment to Supported Housing and supporting the most vulnerable in our society

Around 1,500 customers live in Catalyst's Supported Housing services spanning Hertfordshire, Bedfordshire and London boroughs. They offer wide-ranging, including younger peoples' services, housing for older people, floating support and housing for people who are experiencing mental ill-health, or have a learning or physical disability.

Our merger commitment is demonstrated by our successful bid to join the Hertfordshire County Council Framework Agreement for the Provision of Supported Living Services in June 2019. This provides the opportunity to invest and grow the service further through tender opportunities.

Realise long-term efficiencies from bringing the two organisations together

The initial phase of integration focused on combining the two organisations. We have created a new Performance Improvement team to drive performance across the business and identify potential synergies from the merger.

We are currently undertaking IT systems integration and this will be a key driver to achieving longer term efficiencies.

Benchmarking and peer Group review

Measure	2018/19 Actual	2019/20 Actual	2019/20 Actual (adjusted)	2019/20 Target	2018/19 G15 median	2018/19 Sector median
EBITDA MRI interest cover %	153.7%	79.2%	130.1%	98.4%	119.0%	184.0%
Gearing %	29.6%	42.3%	42.5%	36.8%	48.9%	43.4%
Social Housing Operating Margin %	36.0%	22.8%	31.5%	37.6%	31.7%	29.2%
Operating Margin %	25.2%	15.7%	21.2%	22.7%	25.8%	25.8%
Return on Capital Employed %	2.3%	1.9%	2.4%	2.7%	2.9%	3.8%
Headline Social Housing Cost per Unit £	£4,518	£5,209	£4,117	£4,069	£4,950	£3,690
Reinvestment %	6.2%	5.4%	4.9%	5.2%	6.0%	6.2%
Social homes developed as % of homes owned	2.5%	2.4%	2.4%	2.3%	1.9%	1.5%
Non-social homes developed as % of homes owned	0.7%	0.7%	0.7%	0.6%	0.6%	0%

As part of our target setting process, we benchmark our financial performance annually against peers in the G15.

The G15 is a good comparator given the location of their stock and as they have headquarters based in London. We also undertake a comparison against the weighted average in the sector.

Figures for the year 2019/20 are not available yet and so the 2018/19 year has been used.

The analysis shows that in relation to the G15 our performance was very strong. We were above the median for five of the nine KPIs.

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Registered Society
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A charitable housing association

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