Our Value for Money (VFM) Self-assessment Statement 2021

Lambeth & Southwark HOUSING ASSOCIATION

The arrival of COVID 19 impacted LSHA, along with all housing associations and the wider economy, in ways we had not foreseen. LSHA regularly undertakes Business Continuity Planning exercises but nothing could quite plan for the impact of the pandemic over the last 20 months.

As LSHA operates a September year end this VFM is the first self assessment to reflect a full twelve months of operating through the pandemic.

Any reflection on VFM at LSHA cannot start without reference to the impact that recladding costs have had on our accounts. The challenges we have had to manage have been compounded by the fact that LSHA is only a leaseholder and does not have a final say on the scope of works and programming thereof.

What VFM means to LSHA

'Value for Money' is a term used to assess whether or not an organisation has obtained the maximum benefit from the goods and services it acquires and provides, within the resources available to it. In achieving VFM LSHA is looking to consider:

1. **Equity**
   ensuring services are delivered fairly to a wide range of customers
2. **Economy**
   careful use of resources to save expense, time or effort;
3. **Efficiency**
   delivering the same level of service for less cost, time or effort
4. **Effectiveness**
   the degree to which something is successful in producing a desired result

We are open about how we meet our targets and manage our finances. Each year we publish our annual report so that residents and stakeholders can see how we are performing against agreed standards. Our financial statements explain how we have managed our money.

Significance

The Regulator for Social Housing's regulatory framework for social housing requires, under the Value for Money Standard, that:

"On an annual basis, RPs will publish a robust self assessment which sets out in a way that is transparent and accessible to stakeholders how they are achieving value for money in delivering their purpose and objectives." The assessment shall:

- enable stakeholders to understand the return on assets measured against the organisation's objectives;
- set out the absolute and comparative costs of delivering specific services;
- evidence the value for money gains that have been and will be made.

Strategic Approach

A key objective of LSHA's Business Plan is to deliver affordable quality in homes and services. Through VFM LSHA aims to ensure

- that resources are available to achieve the association's Business Plan objectives and key priorities;
- a balance between cost, quality and performance;
- a good level of customer satisfaction.

It is generally accepted that VFM is about:

✓ doing the right things (what customers want and what the business needs)

✓ doing things right first time

✓ at the right price (not necessarily the cheapest)

✓ and in the right way (the most streamlined way that meets requirements).

Maximising the value for money derived from scarce resources is always important for any housing association; never more so than at the present time of severe financial restraint and hardship as a result of the COVID-19 pandemic. As a small housing association with limited levels of activity we are constrained in the ways in which we can easily make savings without impacting the quality of our service. Over 2020/21 LSHA has been severely adversely impacted by the need to accrue for recladding costs on a block where we own 13 flats. As LSHA are not the buildings owner we have been limited in our ability to influence the process through which the recladding works are undertaken.

The impact on our finances has been significant but through sound treasury management and with the support of Optivo housing, the building's freeholder, the understanding of our main lender, Santander and our accountants we have successfully mitigated the cost impact.

Despite indicating that LSHA's costs as a leaseholder would be treated equally alongside shared ownership leaseholders the MHCLG notified us in September 2021 that a decision had been made, in July 2021, that whereas shared ownership leaseholders would qualify for the BSF, LSHA would not. The rationale being that LSHA has let its property on a 'social rented basis'. An appeal has been submitted which the DLUHC (formerly known as MHCLG) acknowledges has "merit" and is currently being considered.

Because of the serious potential financial impact we have kept the RSH fully informed throughout the process.

Lambeth & Southwark HOUSING ASSOCIATION

Areas for Investment

Development, community investment and staffing have continued to receive particular attention by the Board during the year, with a focus on making the best use of resources to enable further investment, particularly in developing new homes.

We also operate in an environment where staff are encouraged to take ownership of opportunities that could be used to achieve VFM and for business improvement.

There is no doubt that the impact of the COVID-19 pandemic has continued to have very significant consequences on the way we have been able to deliver services throughout the year. We have been very mindful of the mental health impact that events have had on both residents and staff.

We were pleased and grateful to receive a very positive assessment of LSHA's response to the pandemic by our business continuity support advisors:

"Lambeth and Southwark Housing Association have made an excellent recovery after four major business interruptions in the last 12 months, the pandemic itself, the Chief Executive having COVID, financial issues regarding flammable panels, and an office move (though planned)."

Executive Summary. COVID Incident (Interim) Review Report, Commercial Initiatives, February 2021

During 2021 the Board agreed its commitment to achieve a minimum of EPC level C by 2030 and zero carbon by 2050. A comprehensive stock condition survey to be undertaken in 2022 will be used to inform LSHA's business plan to ensure we are able to understand the costs on our business plan and what grant funding might be required.

A major refinancing exercise was undertaken which has resulted in a seventeen year £6.7m bond at a very favourable rate enabling the repayment of a higher interest rate loan. An additional £500,000 loan was also repaid.

The VFM savings we made in 2020/21

Practical examples of the ways in which VFM savings have been made include:

- A major refinancing exercise was undertaken.
- Recruited to new role of full-time surveyor
- Recruited to new role of team administrator and maintenance officer
- Developing Acuity Benchmarking Group (Chaired by LSHA CEO) into a pandemic support group sharing good practice and policy.
- Working with residents to agree a new set of service standards and contractor code of conduct.
- Implementation of a paperless invoicing system.
- Digitising all tenancy files.
- Not accepting cheques or cash as payment method.
- Introduced collecting payment by debit / credit card.
- Starting on site with a fixed price commissioning of thirty new, affordable airspace homes at Antony and Roderick House.
- Relocated to a new, level access office able to support an increasing staffing level and host Board meetings.

Projected value for money activities in 2021/22

- Remittance advise by email
- Stock condition survey to include costs to achieve zero carbon.
- Zero based reinstatement insurance survey
- Further implementation of community investment strategy
- In improvement in getting things right first time through additional investment in repairs management.
- Investment in staffing resource to ensure improvements in the repairs service and repairs satisfaction amongst residents.

Sector Score Card and KPI's

Measure (All measures are based on annual accounts unless otherwise stated)	LSHA 2018-19	LSHA 2019-20	LSHA 2020-21	Peer Group Median 2020-21 (Acuity Benchmarking Group)	Peer Group Quartile 2020-21*	LSHA Target 2020-21	Regulator of Social Housing Metric (see below for definitions)
Business Health							
Operating margin (social housing), m %	16.7	17.1	-8.1 (12.1**)	17.0			Metric 6
Operating margin (overall) %	13.4	30.6	-0.1 (17.6**)	16.5			Metric 6
EBITDA MRI Interest Cover	245	485	147		N/A*	>110	Metric 4
Headline social cost/unit	2937	4376	5953	6022	N/A*	<4000	Metric 5
Business Process							
Occupancy GN	99.6	98	99.6	99.5[1]			
Current arrears as % of rent due	4.0	3.9	3.7	4.3[6]		4.3	
% of repairs completed within target time. repairs %	90	93	92	96		97	
Cost per property p.a. Housing Management [2]	454	426	389	483			Metric 7
Cost per property p.a. Responsive repairs & voids [3]	565	658	821	893			Metric 7
Cost per property p.a. Major & cyclical works [4]	1377	1216	921	756			Metric 7

Our Value for Money (VFM) Self-assessment Statement 2021 *continued*

Measure (All measures are based on annual accounts unless otherwise stated)	LSHA 2018-19	LSHA 2019-20	LSHA 2020-21	Peer Group Median 2020-21 (Acuity Benchmarking Group)	Peer Group Quartile 2020-21*	LSHA Target 2020-21	Regulator of Social Housing Metric (see below for definitions)
Homes							
Return on capital employed %	1.6	2.2	-0.1 (2.0**)	2.5			Metric 7
Services							
Satisfaction with overall services GN %		76[5]	76[6]	79.5		80	
Satisfaction with responsive repairs %	84	88	79	82		85	
Growth & Capacity							
New supply % social units	0	0	0	0	N/A*		Metric 2
New supply delivered (non social housing)	3.6	0	0	0	N/A*		Metric 2
Reinvestment in supply of properties %	3.1	0.2	0.3	1.6	N/A*		Metric 1
Gearing %	23	24.5	22.2	12.1	N/A*	<45%	Metric 3
People							
Staff turnover %	15	0	25	N/A		<15	
Average days lost to sickness	9	2.2	2.3	N/A		<6	

*N/A indicates the fact the RSH does not benchmark these indicators

** Figure in brackets is the outcome figure net of cladding replacement costs

[1] Peer group metrics are overwhelmingly from March year end accounts and do not reflect Covid-19 impact

[2] Based on management accounts

[3] Based on management accounts

[4] Based on management accounts

[5] This is an adjusted figure to reflect satisfaction across stock in Lambeth & Southwark. Figure including Lewisham stock, where building is managed by Clarion Housing, is 73%

[6] This is an adjusted figure to reflect satisfaction across stock in Lambeth S Southwark. Figure including Lewisham stock, where building is managed by Clarion Housing, is 74%

Notes to the table

Metric 1: 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: 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: 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: 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: 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 2016 publication. Delivering better value for money. However, the denominator has been changed from units managed to units owned and/or managed.

Metric 6: 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.

Metric 7: This metric compares the operating surplus to total assets less current liabilities 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.

Lambeth & Southwark HOUSING ASSOCIATION

Progress 2020/21 over 2019/20

No reflection on performance for 2020/21 could start without reference to the very significant impact that recladding costs at Steedman Street have had on the organisation. The need to accrue for a figure in excess of 50% of our turnover to meet the cost of waking watch and recladding costs has been extremely challenging. We are extremely grateful to the help and support from the various stakeholders; including the building freeholder, Optivo; our accountants Beever & Struthers; and our main lender, Santander along with a great deal of forethought and diligence on the part of staff have helped guide us to a position where we are confidant we will see LSHA come through this most challenging episode in our recent history. It further underlies the fact that despite our commitment to develop new homes we remain a financially sound and well managed business.

With the table of metrics it is not always easy to draw direct comparisons between our performance and sector benchmarks. As a small organisation there will always be a tendency to greater extremes in variation than would be the case for larger organisations. The entire 2020/21 year has continued to unprecedented disruption for everyone. It has impacted on our staff, our residents and our contractors. As the pandemic has continued we have been more acutely aware of the potential mental health impacts it has had. This manifests in the impact that increased levels of anti social behaviour have impacted some residents. We have also sought to work with staff who may have struggled with working in isolation.

Considering the challenging year we have experienced it is particularly encouraging that performance has either remained broadly similar or has improved in a number of areas (other than those directly impacted by the recladding works). The fact that rent arrears have decreased to a record year end low for the second successive year is testament to the work that the housing management team undertaken and the positive relationships that have been established during a year when it was not possible to refer cases to court.

Void turnaround times have been poor and this is due entirely to challenges faced with undertaking void work and letting property during the year. We also had to deal with the difficult situation of a property becoming void following the murder of the tenant by an ex partner.

Both staff turnover and sickness have remained broadly consistent. With such a low complement of permanent staff anyone leaving does tend to skew the figures. We did have two member of staff leave during the year but have been successful in making three recruitments.

Areas that we performed well in

- Staff sickness continues to remain very stable.
- Rent arrears. Despite the impact of covid-19 on the economy we have been successful in reducing rent arrears to 3.7%. This is an historic year end low.
- Staff satisfaction. Our 2021 staff satisfaction survey evidenced a staff team happy with the work environment and feeling supported.

Alongside this we are continuing to work with tenants on our Community Investment Strategy to identify local priorities and to better understand tenant perception of repair challenges. Working with our tenants group we have updated both our Service Standards and the Contractor Code of Conduct. All of which has been undertaken remotely to ensure social distancing.

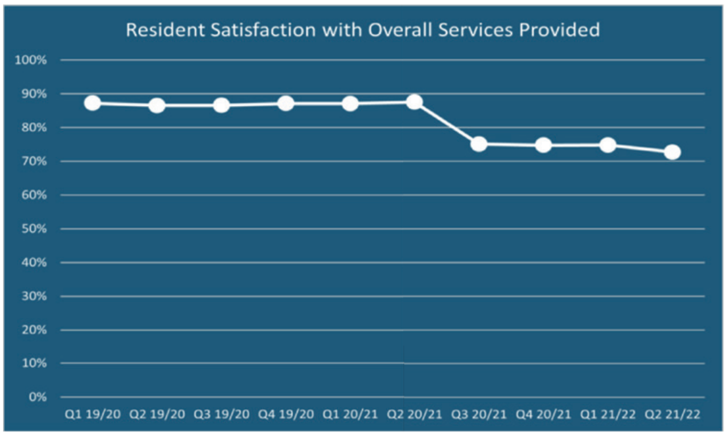
Areas that require attention

The area that has let us down the most in recent years has been the management of the day to day repairs service. We have invested into this service area with the creation of an administrative support role and a full time surveyor role. Anecdotally, we are getting some very encouraging feedback on the repairs work. Averages out over the year we have definitely seen a fall in overall satisfaction. Given the challenges of providing a repair service during the pandemic this is probably not surprising and is born out by research undertaken by Acuity which shows a very real decline in tenant satisfaction in the period up to September 2021:

'Satisfaction Surveys: the impact of the pandemic' Acuity Nov 2021

A number of our sector score card indicators have this year been negatively skewed as a result of the recladding works including:

- Metric 5 - Headline Social Housing Cost Per Unit where we have a cost of £5,953 up from a sector average of £4,377
- Metric 6 - Operating Margin which is showing as a negative 8.1 due to an operating deficit.
- Metric 7 - Return on Capital Employed (ROCE) %



Summary

In summary, this section of the financial statements has outlined:

- How important VFM is in achieving LSHA's strategic objectives.
- The VFM savings we made in 2020/21 and areas that require attention.
- How our operating costs compare with others.
- Our performance in relation to the VFM metrics and what we expect the projected figures to be.
- Our sector score card indicators have been adversely impacted by the recladding costs at Steedman Street.