Value for money

Value for money is woven through the organisation and a core element of our culture. We believe in delivering social value through commercial strength, one of our fundamental values.

Board engagement, governance and performance monitoring

Throughout the organisation, co-ordinated processes support our delivery of value for money. In outline, these are:

**Governance:** Our Executive Team and Board scrutinise performance, review policies and ensure compliance. The Board is accountable for ensuring our compliance with regulatory standards.

**Business planning:** The budgets and objectives set by the organisation seek to ‘raise the bar’ on performance and efficiency.

**In-depth cost-base analysis and competitive procurement:** We have a number of initiatives, e.g. on asset performance and service charges, aimed at developing a richer understanding of our cost base, in order to identify opportunities for further improvement. This approach is supplemented by a procurement policy that helps to ensure that what we buy is fit for purpose and competitively priced.

**Performance tracking:** At Board, executive and functional levels, we scrutinise and report on our ongoing operating performance to identify trends and areas of opportunity for improvement.

<table>
<thead>
<tr>
<th></th>
<th>2016/17 Performance</th>
<th>2017/18 Target</th>
<th>2017/18 Performance</th>
<th>2018/19 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Margin (before Asset Sales)</td>
<td>36.2%</td>
<td>30.9%</td>
<td>29.2%</td>
<td>27.5%</td>
</tr>
<tr>
<td>Independence Steps</td>
<td>17,114</td>
<td>20,000</td>
<td>15,079</td>
<td>15,512</td>
</tr>
<tr>
<td>New Homes</td>
<td>832</td>
<td>758</td>
<td>623</td>
<td>710</td>
</tr>
</tbody>
</table>

**Developing new operating models:** Where the operation can be improved, we constantly look at ways of delivering better service more efficiently. During the year, our functional structure has been redesigned to maximise efficiency and value for the customer. Our former care and support and housing functions have been realigned into a Property directorate with responsibility for ensuring our customers’ homes are safe, fit for purpose and efficiently maintained, and a Customer Services directorate which is responsible for the interface with our customers, including delivery of care and support services.

**Resident involvement:** We use resident forums to capture valuable feedback from our residents on where and how to improve – this helps us understand value for money from the perspective of our customers.

**Our colleagues:** Our people are key to delivering the right service to our residents and our reward and recognition policies seek to ensure we drive the right delivery.

**Internal targets**

Throughout the year, three key targets were given prominence at Board and executive level to monitor our performance in meeting our objectives of providing homes and delivering social value while achieving Value for Money, as follows:
Value for money

• Operating performance as a whole is discussed more fully elsewhere in this report, but was adversely impacted by the market for new homes and the desire to improve our customers’ experience of living in our homes.

• Independence steps are Metropolitan’s measurement of instances where we have positively impacted our customers’ journeys towards independence in various aspects of their lives, such as finding employment, achieving training accreditation, buying a share of their own home, or completing support plans that increase personal independence. Although overall steps were down against prior year and our ambitious target, delivery of the most significant ‘high value’ independence steps increased by 22% from 2,252 in 2016/17 to 2,749 in 2017/18. We continue to review the way we measure and report the results of the work we do to support customers and communities, in order to best reflect the social value delivered.

• New Homes delivered fell below target primarily due to the loss of a scheme which failed to complete and some handover delays.

Underlying value for money performance is discussed in more detail in the Strategic and Operational review, including key performance indicators at a more detailed level, such as voids and arrears.

Performance against the Regulator of Social Housing’s (RSH) key metrics for Value for Money is included in the table at the end of this section of the report.

Social value

Value for money must be considered with reference to our purpose of providing housing and services to those in need. We measure customer outcomes through independence steps at Metropolitan. Social value is also achieved by our delivery of new homes for rental and Low Cost Home Ownership (LCHO).

Delivering value for money is about striking the balance between efficient delivery and doing the most we can for our residents and customers.

Increasingly, our approach to delivering value for money – be that through optimising our return on assets or refining our development strategy – involves striking a considered balance between financial and social return. For Metropolitan, delivering value for money is about balancing the interests of all our stakeholders.

We described in previous reports a unique framework for the business for understanding Return on Assets across our general needs housing portfolio. This framework compares return on assets to the social value generated by those assets, working on the principle that, given the varying levels of discount to market rent in different locations, a higher return on assets should be expected in areas where the value of the discount to the customer is lower, and vice versa.

The result is that every new development project considered for approval over the year has required an analysis of the forecast return on assets for the subsidised rent element, versus the return expected within our framework, given the level of customer discount offered.

This step specifically ensures that those elements which utilise subsidy (whether internally or externally generated) strike an appropriate balance between financial sustainability and value for our customers.

We are also in the process of redeveloping our portfolio management strategy to ensure we are focused on achieving the best overall value from our properties. Although major transaction decisions are on hold while we continue partnership discussions, the balance between social and financial return will form a key part of these decisions.

Value for Money highlights in our operations

Repairs and maintenance – delivering better quality services

• Our in-house contractor, Metworks, has been rolling out in East Midlands, followed by London, over the last two years with the objectives of improving stock quality and service, and reducing customer complaints. As at the end of March 2018, approximately 80% of repairs in progress were ‘on target’ as opposed to 70% in April 2017.

• The void teams have been focusing on the end-to-end (key-to-key) process and targeting appropriate refurbishment solutions to maximise re-letting of the property. Overall monthly void in rented properties averaged 1.36% for the year, a reduction from 1.51% the previous year, with the year-end number at 1.19%.

• Other important benefits brought by the continued success of Metworks include:

  ▶ This first cohort of apprentices joining the business, with a positive impact on customer employment, employee engagement and staff turnover;
Value for money

▲ Delivering Social Value through involvement with several Corporate Social Responsibility (CSR) projects. These include the ground floor covering renewal at the fantastic Emmanuel House community project in Nottingham and (planned for the summer of 2018) improvements at Waverley School in Enfield, which serves the needs of 117 pupils with severe and profound learning difficulties.

▲ Corporate services savings of circa £100k across a number of projects.

▲ The areas of focus for the next 12 months include major procurements for property activities impacting on £100m of expenditure (for construction partners for our Clapham Park regeneration) and closer working with colleagues and stakeholders to improve the level of social value delivered from our supply base.

Procurement – reducing the costs of the goods and services we buy

Procurement has undergone significant development during the financial year with a number of improvements in key areas:

▲ Policies and procedures have been reviewed to ensure procurement activities are aligned to the business strategy. Commercial activities are compliant with legislation and policy. Delegation of authority is reviewed annually.

▲ Through training and specialism, procurement staff are beginning to differentiate themselves through their technical knowledge of the supply markets and how to optimise value for money from these markets.

▲ We have also implemented an updated electronic contract management and category management system in addition to the existing eTendering software to systemise a consistent approach and to provide visibility.

▲ The enhancements in the building blocks above are only worthwhile if they result in tangible value for money improvements and this year we have delivered £2.7m in procurement savings. Highlights of these improvements include:

▲ Property savings including £216k on components. We now undertake a pre-works validation of every planned works activity to ensure that the works need to be completed and components replaced. This new approach has seen a 15% reduction in works that need to be completed, allowing us to redirect the budget to other priority areas.

▲ Utilities savings of £940k through improved gas and electricity pricing;

▲ IT / telecoms savings of £650k on the procurement of IT hardware;

Arrears and tenancy sustainment – maximising our income

▲ The positive trend seen over recent years has continued, with improvements in collection rates bringing significant reductions in the income owed by customers:

▲ From a high point of arrears of £11.1m (7.44%), arrears reduced to £8.1m (5.24%) in 2014/15, £7.4m (4.66%) in 2015/16, £6.1m (3.95%) in 2016/17, and £5.9m (3.94%) in 2017/18.

▲ Importantly, the drop in arrears was also accompanied by a reduction in arrears evictions of 31%, showing the efforts taken by our team to work with customers have improved financial sustainability and independence.

▲ Leasehold arrears fell from £285k (2016/17) to £231k this year (2017/18), a reduction in year of 19%.

▲ There were 3,546 referrals received by the Money Advice team and 2,555 customers were seen by advisers. Additional income secured for customers reached £464k and rent arrears reduced by £652k for customers referred.

▲ The Tenancy Sustainment Team (METTS) saw 354 customers last year. Additional income of £197k was secured for customers, with rent arrears reduced by £135k for customers supported by the team.

▲ Our target for arrears in 2018/19 is 3.95% – in other words, we aim to hold arrears steady despite the roll-out of Universal Credit.

▲ At year end 2017/18, we had 1,184 customers claiming Universal Credit, an increase of 503 in the year. Total arrears of Universal Credit claimants at year end were £955k.

▲ The average arrears per claimant have remained fairly static at £1,170.
Value for money

- We estimate we will have 1,900 Universal Credit claimants by year end 2018/19, following two years of the Universal Credit full service roll-out (based on stock sizes in the areas being rolled out). This means an estimate of £2.22m arrears for customers in receipt of Universal Credit by year end 2018/19. An active programme is underway to support customers in the transition to Universal Credit, in order to mitigate the impact.
- The Behavioural Insights Project commenced with two income interventions starting in May 2018. The experiment will use behavioural informed letters to change how the Income Team communicates with customers to support positive responses, reduce arrears and prepare customers for Universal Credit. These interventions offer highly cost-effective ways to help reduce arrears.

Tackling tenancy fraud – delivering value to the taxpayer

- Using Housing Partners software, we have been able to target tenants living in our properties whose details do not match ours. In the last financial year, 32 properties where tenancy fraud was found were returned to house those in need. The target for 2018/19 is to recover 36 properties, meaning that over two years, 68 properties will be returned to their proper use.

Neighbourhood Investment – delivering social value to our customers

- During the year we invested a total of £2.1m in Neighbourhood Investment work, working on over 400 projects and creating 45 different health and well-being programmes.
- Working with approximately 5,000 customers, we have supported 1,300 into training (with over 300 achieving accredited qualifications) and 1,026 into employment.
- We also launched a two-year programme with J. P. Morgan supporting customers from East London into work, supporting 200 customers into work and 460 into increased independence. J. P. Morgan have supported the programme to the value of £30k over the two years, representing the first time a large financial institution has worked with a housing association in this way.

<table>
<thead>
<tr>
<th>Based on RSH revised definitions published April 2018</th>
<th>2016</th>
<th>2017</th>
<th>2017 G15 average</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reinvestment %</td>
<td>5.8%</td>
<td>n/a</td>
<td>6.4%</td>
<td></td>
</tr>
<tr>
<td>2a. New supply delivered % (Social housing units)</td>
<td>2.1%</td>
<td>1.7%</td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>2b. New supply delivered % (non-social housing units)</td>
<td>1.1%</td>
<td>n/a</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>3. Gearing</td>
<td>41%</td>
<td>33.7%</td>
<td>47.0%</td>
<td>35.9%</td>
</tr>
<tr>
<td>4. EBITDA MRI Interest cover</td>
<td>136%</td>
<td>185.9%</td>
<td>217.0%</td>
<td>129.6%</td>
</tr>
<tr>
<td>5. Headline social housing cost per unit</td>
<td>4,421</td>
<td>4,416</td>
<td>4,398</td>
<td>4,923</td>
</tr>
<tr>
<td>6a. Operating margin (SHL only)</td>
<td>38%</td>
<td>40.2%</td>
<td>37.0%</td>
<td>33.2%</td>
</tr>
<tr>
<td>6b. Operating margin (overall)</td>
<td>35%</td>
<td>36.2%</td>
<td>33.0%</td>
<td>29.3%</td>
</tr>
<tr>
<td>7. ROCE</td>
<td>3.6%</td>
<td>4.0%</td>
<td>3.9%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

Over the last two years we have outperformed our sector peer group (the G15 group of Housing Associations) in terms of the units delivered and our overall operating margins. Our EBITDA cover headline social housing cost per unit remain comparable with the G15 average despite a significant one-off investment in 2018 to bring our properties up to a better condition and safety standard.