04 Value for money and benchmarking

The introduction of the new Value for Money Standard 2018 by the Regulator of Social Housing and the associated changes in the required reporting framework, has come at the same time as LiveWest outlining our approach to value for money (vfm) for the new organisation, for the first time.

The vfm frameworks and targets for the former DCH and Knightstone Housing Group (KHG) were maintained and operated throughout the year. With the formation of LiveWest, to provide clarity, only it's performance is included in these financial statements and no reference is made to the former organisations' targets or performance.

Set out in this section is the first set of vfm performance as LiveWest in compliance with the new reporting format and to then provide analysis and commentary on improvements in subsequent reports.

Our adopted approach has been to report on the full Sector Scorecard indicators, which ensure compliance with the new vfm standard

A key driver for the formation of LiveWest was delivering improved vfm, over and above that achievable separately by KHG and DCH.

As a result the LiveWest board has agreed to deliver an efficiency target of £12m per annum by 2020/21 on a phased approach, whilst maintaining or improving upon current operational performance and at least meeting top quartile performance across all key indicators.

The financial capacity created by the merger will enable us to fulfil our strategic growth objective of developing a minimum of 16,000 new homes over the next 10 years.

To achieve the efficiency targets set, it is essential that vfm is incorporated into our operational and strategic activities, and included in our culture and decision making, including maintaining and building upon the previous robust and transparent assessments of the performance of all assets and resources.

In doing this, we compare ourselves against a selection of Moody's rated housing associations and against a broader group of English housing associations by using HouseMark data.

The Moody's benchmark group comprises current A2 or higher rated associations with the benchmark group comprising the following associations:

- Clarion Housing Group Limited
- Bromford Housing Group Limited
- Flagship Housing Group Limited
- Midland Heart Limited
- Moat Homes Limited
- Orbit Group Limited
- Sanctuary Housing Association
- Southern Housing Group Limited
- Sovereign Housing Association Limited
- Stonewater Limited.

By benchmarking against the strongest of the Moody's ranked associations, it enables us to measure those areas where we are performing well and to focus on those areas where we need to improve.

We also compare ourselves with others by using HouseMark data, where available, and:

- compare our current performance to the previous years' results
- set targets as part of our stated aim of continuous improvement.

In addition to our actual results, we have also provided a comparison to underlying performance by excluding non-recurring and merger costs, which is shown as the '2018 adjusted' column.

The principal focus of vfm activities within LiveWest is:

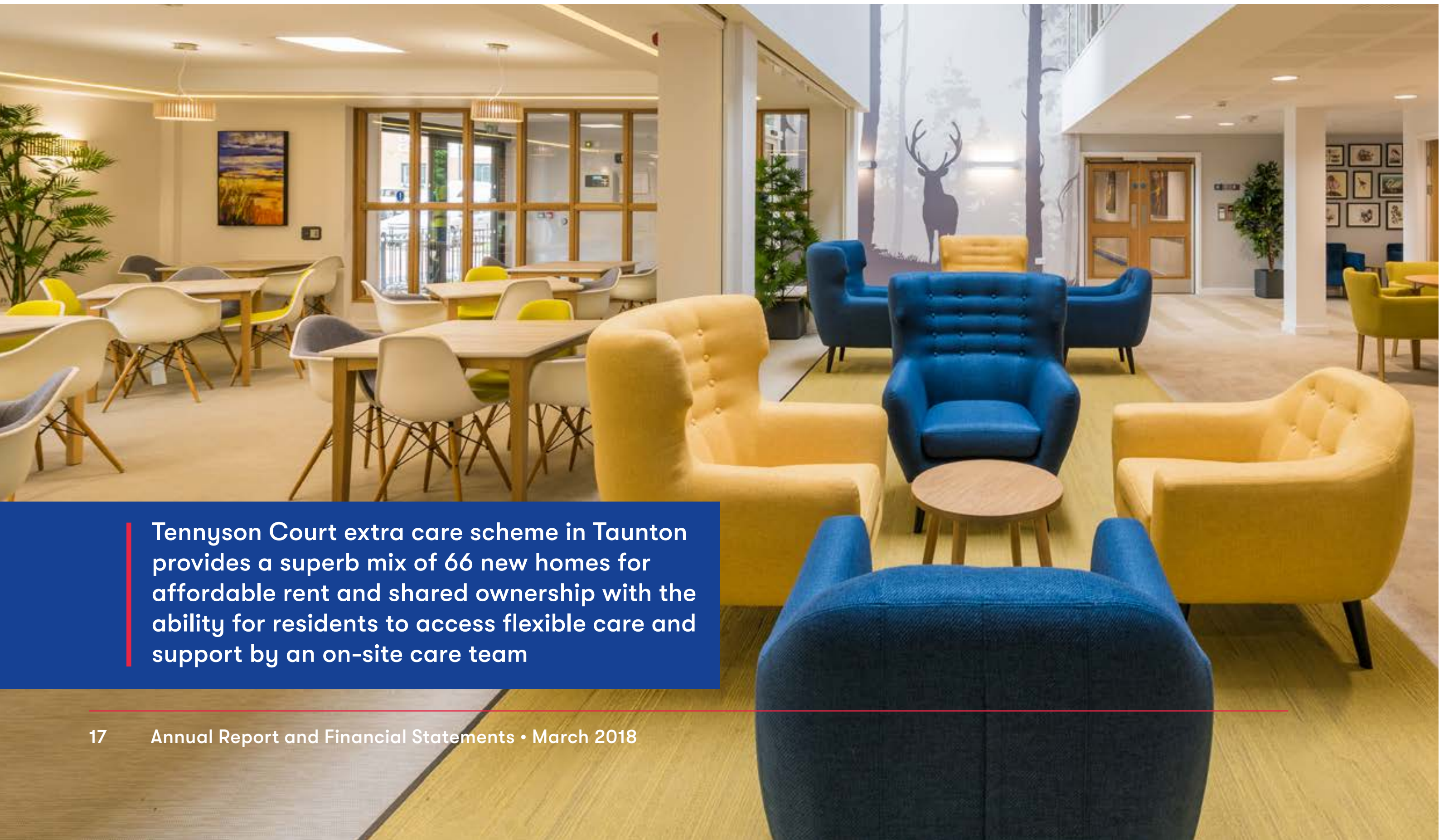
- generating additional financial capacity to maximise the provision of new affordable housing through delivery of efficiency savings
- ensuring that the new operational indicator and specifically customer satisfaction targets for LiveWest are met and where possible exceeded.

Business health

Operating margin – social housing lettings

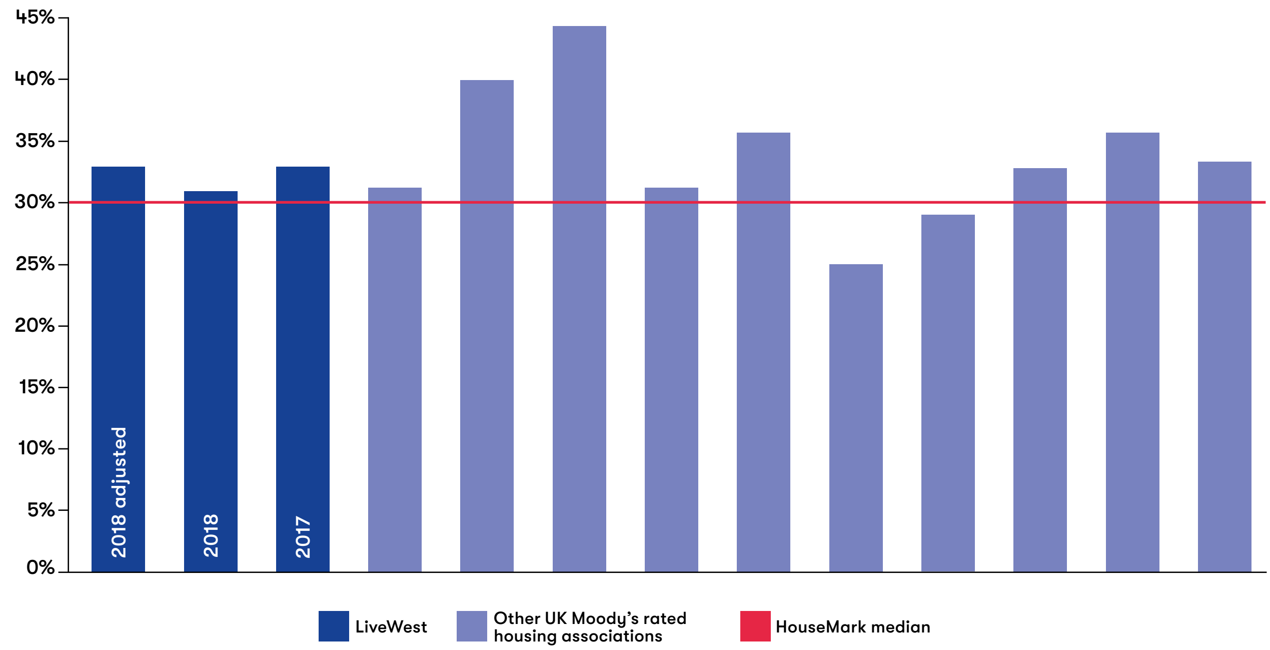
Social housing lettings' operating margin is the key driver for overall financial performance and enables us to focus on the level of operating costs that we incur to deliver our turnover. Underlying operating margin has improved to 35%, demonstrating a continued focus on cost control across the organisation.

The 2017/18 underlying margin after one-off costs is above the HouseMark median (32%) but below the benchmark group median (39%) and whilst not taking account of the relative rent levels within the group, which vary as rent is calculated on a county by county basis, is considered a key area for improvement in 2018/19 and subsequent years through delivery of efficiency savings as a result of the merger.



Tennyson Court extra care scheme in Taunton provides a superb mix of 66 new homes for affordable rent and shared ownership with the ability for residents to access flexible care and support by an on-site care team

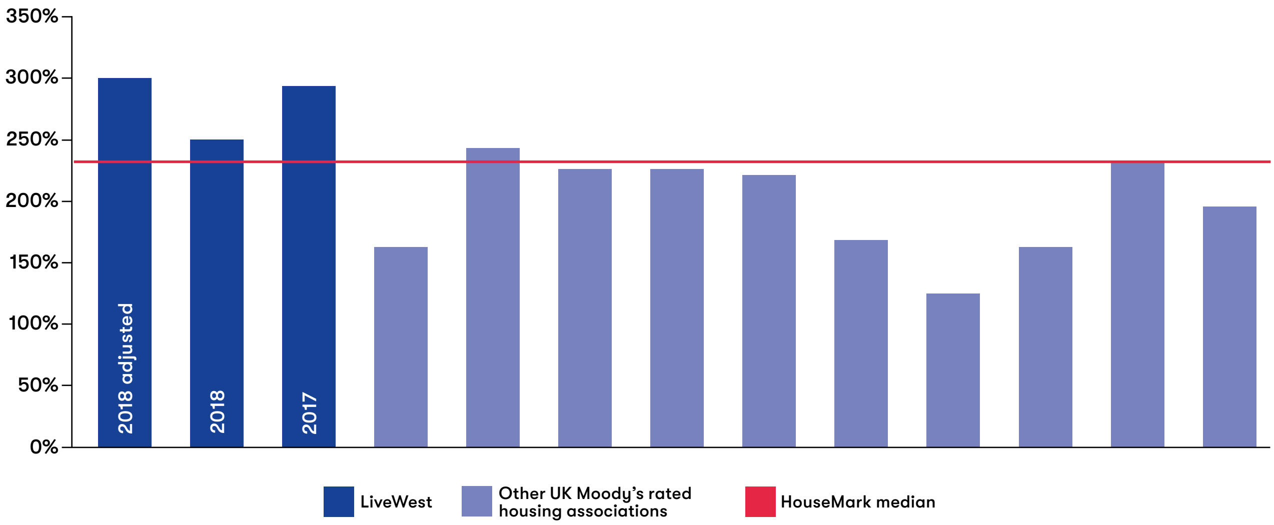
Operating margin – overall



Underlying operating margin remained consistent at 33%. This is significantly influenced by social housing lettings, which is the largest part of the organisation where the operating margin improved to 35% (2017:33%).

As lower margin open market sales become a bigger proportion of our business, it will result in the overall operating margin becoming under pressure.

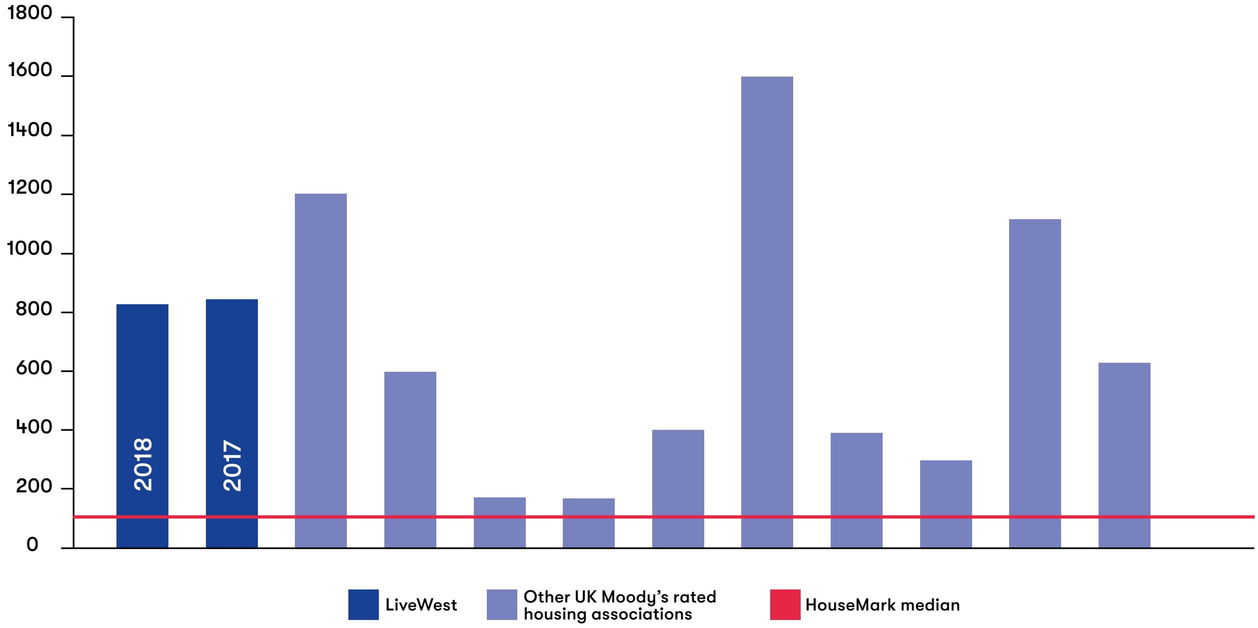
EBITDA – MRI interest cover %



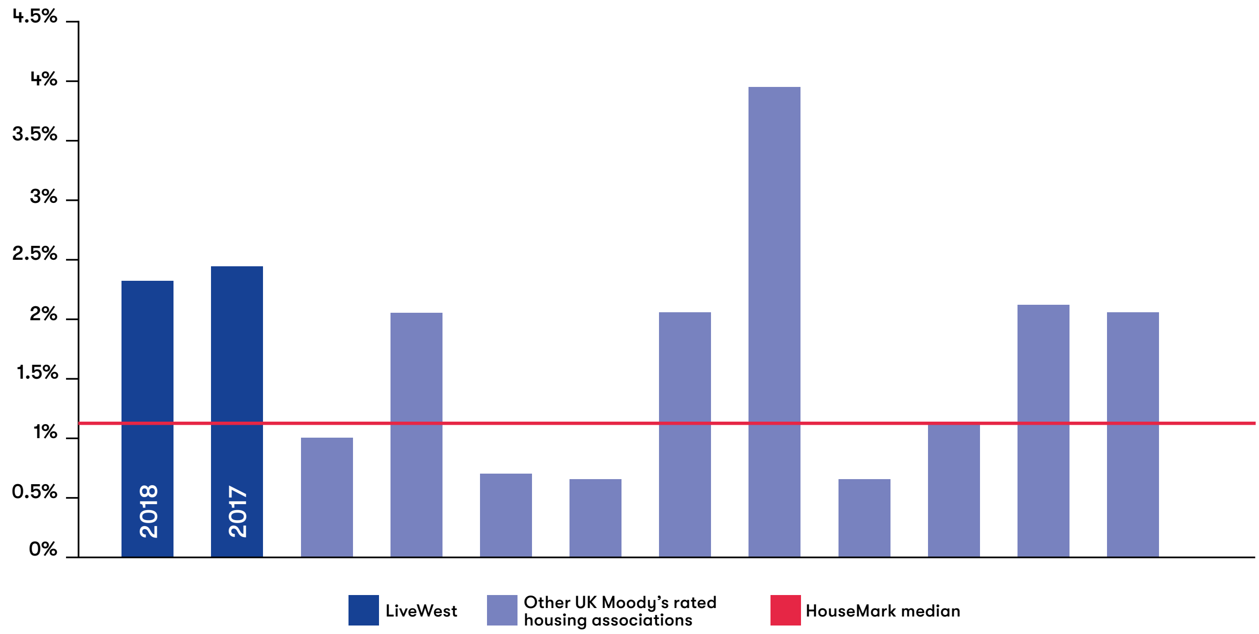
The EBITDA – MRI indicator is a good approximation for the amount of cash generation in the year and covers 252% of the cash interest payments made during the year. One-off payments and loan refinancing costs of £4m were incurred during the year which, if excluded along with other one-off costs, would improve the underlying performance (299%) which is the highest level in the benchmark group and a marginal improvement over the previous year (289%).

Development

Units developed (absolute) – social housing



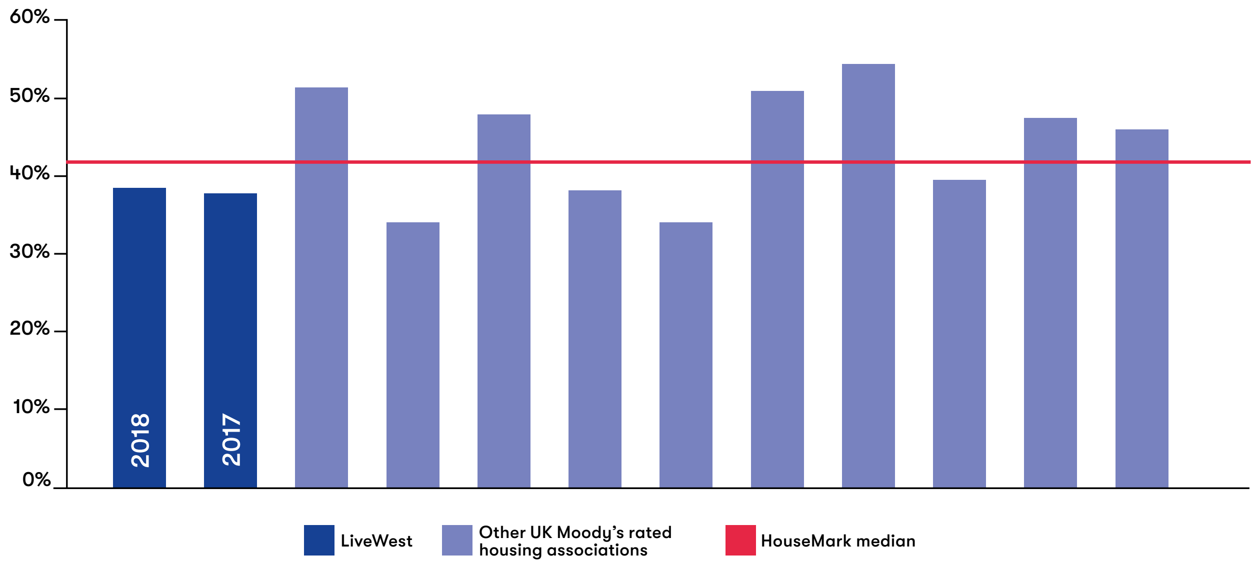
New supply delivered % – social housing



The number of social units developed in the year (812) remains consistent with the previous year with the new supply expressed as a percentage of total stock, again remaining constant at 2.4%, which out performed the majority of our Moody credit rated peer group. The ability to develop new social housing units was a key driver for the merger and is the focus of ambitious targets in future years.

The number of non-social units developed in the year (142) has again remained consistent with the previous year (147) which, expressed as a percentage of total stock, shows a slight fall to 0.4% from 0.5% the previous year. The relatively small percentage of new non-social housing is consistent with LiveWest's business plan, growth aspirations and risk profile.

Gearing %



The level of gearing, as calculated by the sector scorecard, has increased marginally in the year, (38.4% from 38.0%) reflecting the increased debt incurred from building new homes. The level of gearing is below the median of both the benchmark group (47.1%) and HouseMark (41.6%) and will provide the capacity to fund future development plans.

The gearing calculation for loan covenants is 33% (2017:33%), which provides significant financial capacity and underpins our future growth programme.

We invested £55m in maintaining and improving our existing homes across the region

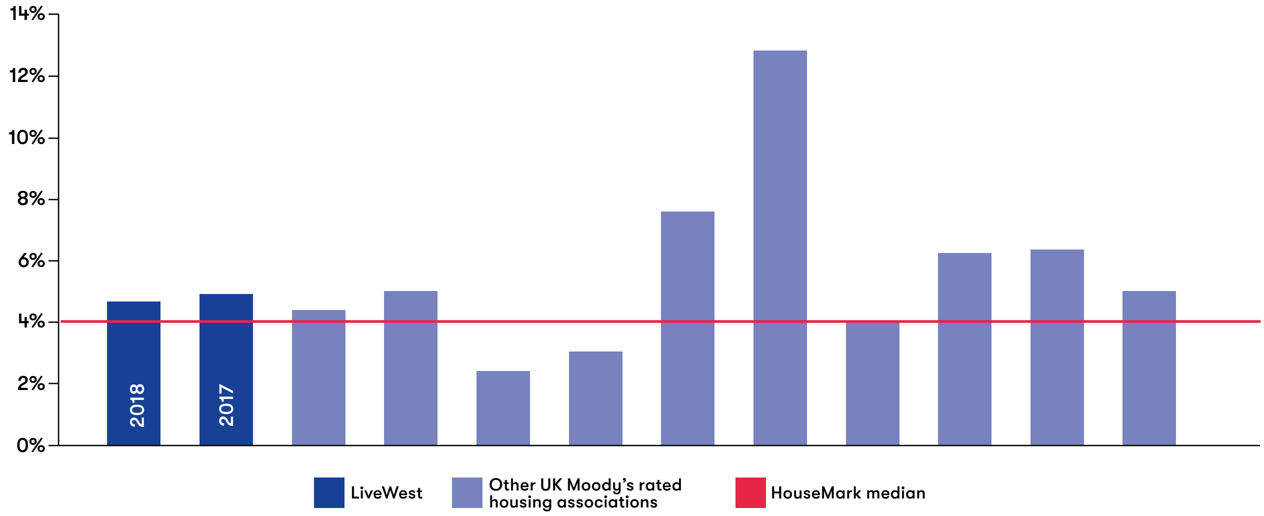
Outcomes delivered

Customer satisfaction

The customer satisfaction outcome of 89% is above the HouseMark median and is the result of continued focus on the service provided to our customers.

The reporting of internal customer satisfaction data in 2016/17 is not able to be provided due to differences in data collection methods between the two former organisations.

Reinvestment %



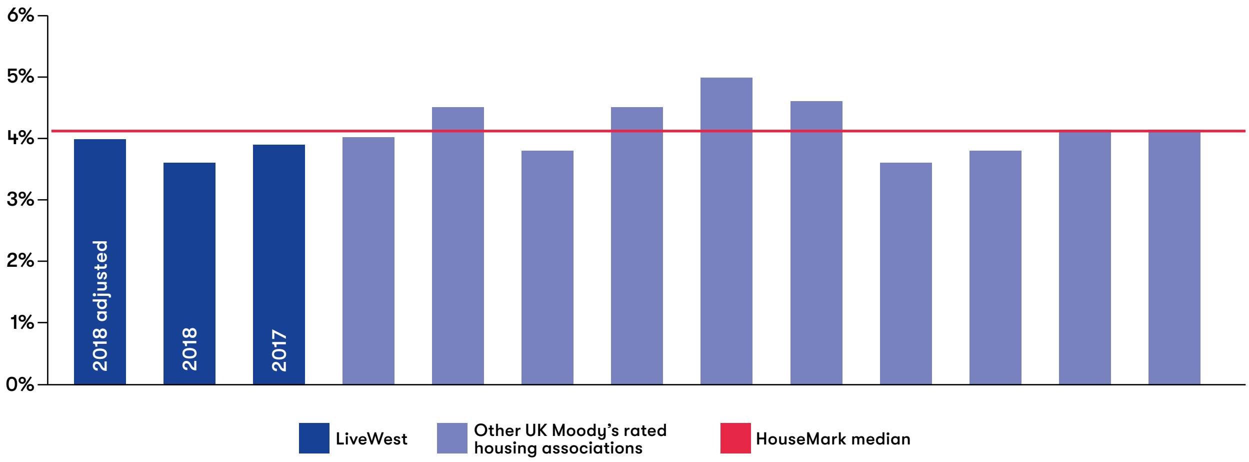
The level of reinvestment has remained relatively constant, reflecting the consistent development programme delivery between the two years and is higher than the HouseMark median, but below the benchmark group median.

The other Sector Scorecard indicator in this category is the amount invested in communities but as this is a new indicator, there are no external comparatives available.

Our support of Wyndham Park Street Fayre, Yeovil highlights our community-led approach to deliver community investment with our residents

Effective asset management

ROCE



Return on Capital Employed (ROCE) measures the financial return on our assets and is affected by the £7m of one-off costs resulting in the reduction to 3.6%. If these costs were excluded, the performance has remained constant over the two years but below the median of both the HouseMark and the benchmark group. As we increase our development spend over time, we would expect ROCE to deteriorate.

The other indicators in this category measure the occupancy level of general needs properties at the specific point of the year end and the ratio of response repairs to planned maintenance. As the sector scorecard was introduced this year, there is no comparable data.

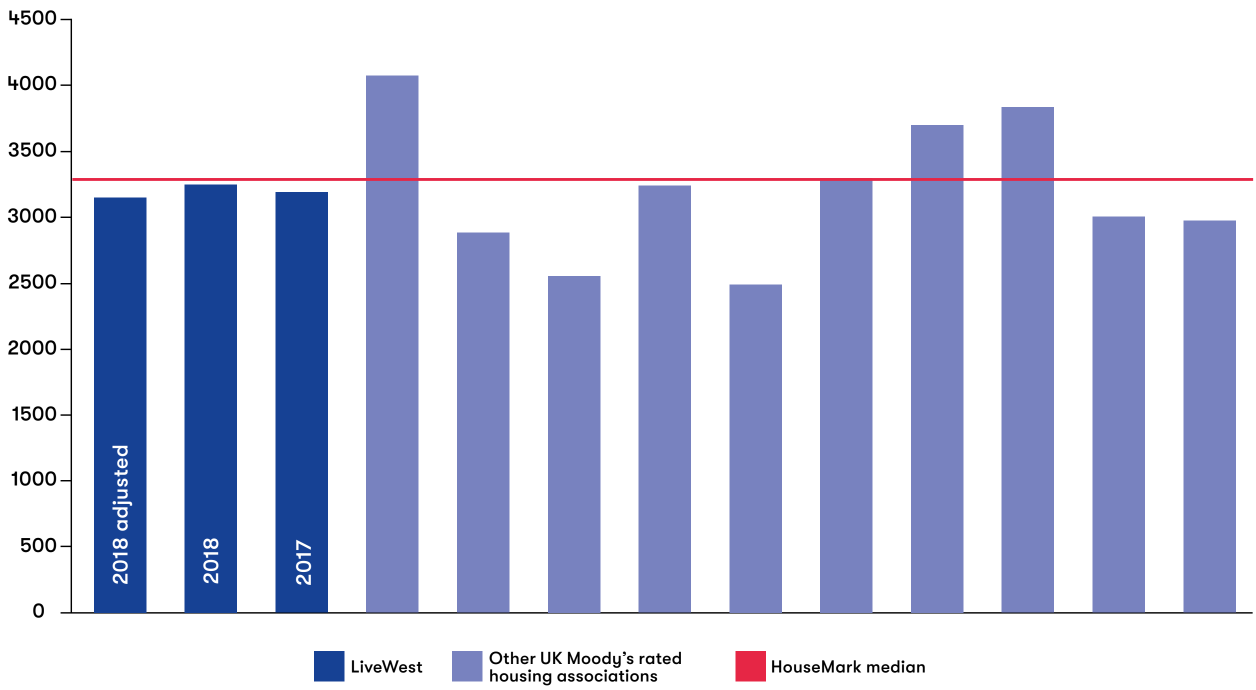
We aim to achieve efficiency targets by incorporating vfm into all operational and strategic activities

Our occupancy performance shows that 99.9% of our general needs properties were occupied as at 31 March 2018, which is above the HouseMark median.

The expenditure ratio of responsive to planned maintenance has fallen to 71.4% from 76.2% in 2017, which reflects the differing component life cycles and replacement programme from year to year.

Operating efficiencies

Headline social housing CPU



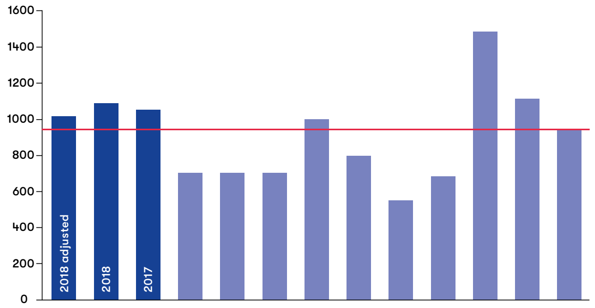
The headline social housing cost per unit (£3,224) has increased by £42 from the previous year (£3,182) and has been affected by the one-off management costs and loan arrangement fees associated with the merger of £1.7m which, if excluded, gave a recalculated figure of £3,174 per unit, a reduction of £50. This revised figure was around the median level of the benchmark group (£3,105) and below the HouseMark median (£3,306).

The key constituent elements of the headline cost per unit are:

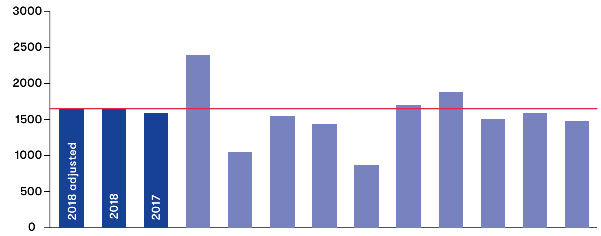
- Management cost
- Maintenance cost
- Service cost
- Other cost.

Last year we developed 812 much needed new homes for shared ownership, affordable and social rent

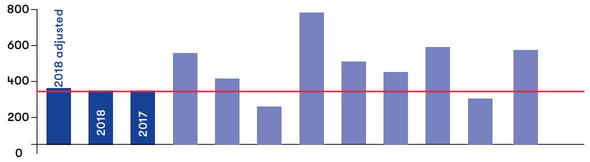
Management CPU – social housing



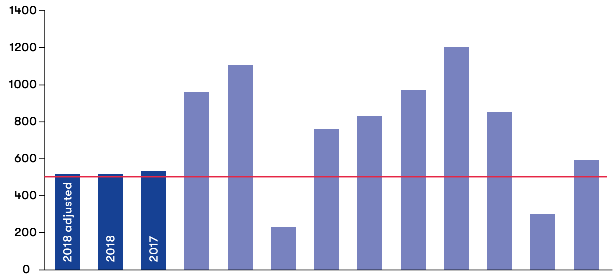
Total maintenance CPU – social housing



Service charge CPU - social housing



Other CPU – social housing



LiveWest　Other UK Moody's rated housing associations　HouseMark median

Management cost per unit (£1,083) was higher than the previous year (£1,051). After revising for the one-off costs the figure reduced by £50 per unit to (£1,033) which is above both the median for the benchmark group and HouseMark, highlighting an area for improvement through the delivery of efficiency savings resulting from the merger.

Maintenance cost per unit increased marginally during the year (£1,618 from £1,600) and was above the median for the benchmark group (£1,555) and, at the median for HouseMark, again highlighting an area for improvement through the delivery of merger efficiency savings.

Service cost per unit reduced by £6 per unit in the year (£306 from £312) and was well below the benchmark median (£500) but marginally above the HouseMark median (£290).

The balance of other costs in the headline cost per unit have remained constant year on year being at the HouseMark median but below the benchmark group median.

The other indicators in this category measure the percentage of rent collected (general needs) properties for the year end and overheads as a percentage of turnover, with 2017/18 performance being 99.3% and 11.4% respectively which are both marginally below the HouseMark median. Due to these being new measures the comparatives from the benchmark group are not available.

The selection by Homes England to deliver a further 2,275 homes by 2024 in partnership with Sovereign Housing will accelerate the development of an additional 1,000 new homes for LiveWest over the next 5 years