newlon
HOUSING TRUST

Value for money statement and metrics

2022/2023

Value for money

The Board believes that value for money (VFM) is inextricably linked with the delivery of our main business objectives. Our Value for Money Strategy is closely aligned with Newlon's corporate objectives, translating them into five VFM commitments with consideration of performance against the VFM metrics and the current challenges related to building safety, environmental efficiency, resident satisfaction and the wider economy.

1) Excellent services

We will deliver effective services that residents can access easily and that meet their needs. We will challenge ourselves and our contractors to deliver the best value possible on behalf of our residents.

2) High quality homes

We will ensure that homes are safe and decent whilst working towards making our overall stock more environmentally and economically efficient.

3) Growth

We will deliver a steady supply of new homes that meet the needs of future residents.

4) An efficient and effective business

We are an organisation for the long-term and will ensure there are strong foundations even in uncertain times. We will make careful decisions about our use of resources and, where costs are passed on to residents, work on their behalf to ensure these are good value for money.

5) A dynamic workplace

We will drive a culture of VFM and deliver efficiencies across the Group by reducing overheads, streamlining back office processes and systems, making better use of data, automating processing activity and improving cost analysis.

Responsibility and reporting

The overall responsibility for delivering VFM and ensuring VFM is considered as part of the decision-making process lies with the Board and the Chairs of the Resident Services Committee, the Group Audit and Risk Committee, the People and Governance Committee and the Development Committee.

We have produced regulatory metrics at both Group and Association level to be consistent with the financial statements as a whole. The section immediately following on page 8 addresses the metrics at Group level before we focus on the performance of the Association where we have compared performance across the Regulator of Social Housing (RSH) metrics and the Board's chosen VFM indicators.

The Board has set the targets at both Group and Association level. These were set taking account of:

- The principles and priorities set out in the VFM Strategy.
- Peer group median performance taken from a group of eight similar groups at Group level and all London providers at Association level.
- Reference to budgets and other performance targets agreed as part of the Corporate Plan.
- The overall ethos of continuous improvement encouraged by the Board when setting service performance targets.

Group VFM metrics

Registered providers are required by the Regulator of Social Housing to publish their performance against the indicators below. As the Newlon Group contains entities that are not housing providers (notably Outward, which is a care and support provider) these numbers give a broad view of costs but do not recognise all income as noted in the commentary below. We worked with a benchmarking consultancy to select a small peer group with similar group structures and have used the median from that peer group to provide a comparison in the table below.

Group performance		2023	2022	Peer median 2022	Target 2023	Target 2024
Business health	Operating margin	**22.1%**	25.1%	18.3%	**24.1%**	25.9%
	Operating margin social housing lettings	**19.1%**	31.9%	24.0%	**19.7%**	16.6%
	EBITDA MRI interest cover	**59.6%**	110.0%	87.7%	**42.8%**	46.3%
Development	New supply social	**0.6%**	3.1%	1.6%	**0.7%**	1.8%
	New supply non-social	**0.0%**	0.0%	0.6%	**0.0%**	0.9%
Debt	Gearing	**48.1%**	46.9%	46.2%	**51.0%**	52.0%
Outcomes	Reinvestment	**5.81%**	5.9%	4.6%	**8.0%**	6.5%
Asset management	ROCE	**2.3%**	2.5%	1.6%	**2.7%**	2.3%
Cost per unit	Headline social housing cost	**£9,626**	£7,393	£6,537	**£9,263**	£10,415

Overall financial performance was impacted by inflationary pressures and the cost of ongoing safety improvements, resulting in lower than expected performance in relation to operating margins and headline social housing unit costs. It should be noted that headline social housing cost per unit reported at Group level is inflated by care and support costs within our subsidiary, Outward. This metric is calculated according to a definition provided by the Regulator of Social Housing that does not take into account contractual income from care and support. The Trust calculation on page 11 provides a more accurate indication of the true cost of managing homes.

The cost of our building safety programme continues to impact EBITDA MRI which is set to remain low compared to peers for the next few years as the metric includes spending on safety programmes but does not recognise income from grants that we have secured to subsidise these works. Reinvestment was lower than target due to some delays in the delivery of large building safety projects. Meanwhile headline social housing costs increased slightly beyond expectations due to inflationary pressures.

Group entities

When looking at Group performance the Board has to take into account the impact of the subsidiaries and their contribution in terms of the value they bring to the Group.

Four of the subsidiaries do not have any staff of their own and share services and/or back office functions with Newlon Housing Trust. NewlonBuild and NewlonInvest facilitate the development programme and optimise the use of resources to deliver new homes. Meanwhile, Newlon Fusion, a charity, is able to fundraise and Access Homes is able to gift-aid profits from commercial activities.

In respect of the Regulator of Social Housing's metrics, Outward is the only subsidiary that has a significant cost associated with non-housing activities.

Due to an intra-group agreement, Group Audit and Risk Committee and shared services (crucially finance and landlord health and safety), the Board considers that the relationship with Outward presents significantly less risk than dealing with a range of third party care and support providers in what is a challenging market.

Does Outward add value and make the best use of properties?

In 2022/23 Outward attracted £11.3m in funding for care and support services, down £0.6m on the previous year. Newlon residents are beneficiaries of many of those services that have been especially vital over the past year. Occupancy was maintained at a level of 92% which is below Outward's target of 94%.

Does Outward provide high quality services?

Outward has maintained 100% good ratings from the Care Quality Commission (CQC) and the latest customer survey showed high levels of satisfaction amongst service users and stakeholders.

Is Outward financially independent and secure?

Despite the very challenging economic conditions and their commitment to paying the London Living Wage, Outward made a surplus of £103k. The Board are pleased to see Outward continues to be profitable in a difficult operating environment and takes additional comfort from the £5.6m Outward holds in cash reserves, which would provide some time and flexibility in the event of a serious downturn in financial performance or unexpected loss.

Is Outward efficient?

The Outward Board is seeking continuous improvement in relation to occupancy, financial performance and efficiency. In the year, there was particularly pleasing progress in relation to arrears with ambitious targets being met. Void losses, meanwhile, exceeded target due to issues with referrals from local authority clients. Though it has been a challenging time to reduce costs and deliver efficiency savings due to inflation, Outward have kept costs roughly in line with 2021/22 whilst maximising their capacity by securing 3,500 hours from community volunteers. Overall, Outward's financial performance remains stable.

Association metrics

We benchmark the Association's performance against a range of indicators across the themes of overall financial health, delivery of new homes, asset performance, quality of outcomes, efficiency and overall cost. In order to ensure a consistency of approach and access to a wide peer group, the Board adopted the Sector Scorecard as the foundation of this reporting and added a number of additional indicators that reflected Newlon's specific priorities. Peer group selection is consistent with reporting in previous years, using the latest available London median obtained from either the Regulator of Social Housing's published Global Accounts or the social housing benchmarking service HouseMark.

Business health

Association performance	2023	2022	Median 2022	Target 2023	Target 2024
Operating margin overall	**25.6%**	30.3%	18.1%	**26.4%**	30.5%
Operating margin social housing lettings	**18.0%**	31.5%	22.0%	**18.1%**	22.7%
EBITDA MRI interest cover	**59.7%**	111.7%	110.8%	**45.0%**	44.9%
Weighted average interest rate	**3.86%**	3.50%	-	**3.90%**	4.61%

Although we continue to demonstrate strong financial performance with our overall operating margin still comfortably above the sector average, profitability has been impacted by rises in inflation and interest costs.

As expected, there has been a decline in the EBITDA MRI metric due to the increased investment in buildings and this is below target. We expect this to remain relatively low over the next three years whilst we deliver planned safety works to tall buildings and fire warden expenses begin to decline.

Rising interest rates did result in a higher than expected increase in our average interest rate, however, with most of the loan portfolio fixed this has not had a significant impact and the rate still compares well with others in the sector.

Growth

Association performance	2023	2022	Median 2022	Target 2023	Target 2024
New supply (total units)	**48**	261	76	**57**	75
New supply as a % of current stock	**0.6%**	3.1%	1.1%	**0.7%**	0.9%
Gearing	**49.0%**	48.1%	44.9%	**51%**	53%

Our aim is now to deliver an average of 150 new homes a year to address housing need across a range of tenures. The Board's aim is to support the delivery of as much low-cost rental housing as possible and this has been supported by a programme of low-cost home ownership, low-risk private sale as part of mixed tenure schemes or through joint ventures with our development partners. Due to the phasing of our development programme we are delivering fewer new homes in the period between 2022 and 2024 but expect this number to increase again after that.

Asset management

Association performance	2023	2022	Median 2022	Target 2023	Target 2024
ROCE	**2.5%**	2.6%	2.5%	**2.7%**	2.5%
Occupancy %	**99.6%**	99.7%	99.2%	**99.7%**	99.5%
Ratio of responsive to planned repairs	**52%**	54%	50%	**50%**	57%
% of residents satisfied with property condition	**63%**[1]	60%	65%	**65%**	65%
Reinvestment %	**5.9%**	6.0%	8.0%	**8.0%**	6.5%

The Board has approved a programme of disposal, development and improvement that is designed to improve the overall quality, safety and economic performance of our stock. The level of investment in new and existing properties is reflected in the reinvestment percentage, which is roughly in line with peers, though below target due to some tall building safety projects starting on site later than anticipated.

Outcomes

Association performance	2023	2022	Median 2022	Target 2023	Target 2024
Customer satisfaction with the service overall (Rented)	**59%**	58%	63%[2]	**65%**	65%
Customer satisfaction overall (Supported Housing)	**71%**	71%	-	**90%**	65%

The Board was pleased to see an increase in resident satisfaction this year particularly against a backdrop of declining satisfaction within the sector. Initial analysis of the Regulator's Tenant Satisfaction Metrics (TSMs) has shown Newlon to be close to the London median in most categories. The Board welcomes the introduction of a consistent methodology for the sector and is confident that the Trust Newlon service improvement initiative is beginning to deliver results for residents. The programme focuses on improving the reliability of the repairs service as well as making improvements to the way we communicate with residents and resolving complaints more quickly.

Operating efficiency

Association performance	2023	2022	Median 2022	Target 2023	Target 2024
Rent collected %	**97.7%**	96.2%	94.6%[3]	**99.9%**	99.9%
Overheads as a % of adjusted turnover	**8.7%**	8.9%	13.9%	**10.0%**	9.6%

Despite the challenges residents are facing in relation to the cost of living, rent collection levels have improved since last year and exceed the sector median. Though we did not meet the ambitious rent collection target set at the start of the year, we did meet arrears targets both overall and for our social rented homes. Overheads continue to compare well with the sector median.

[1] Wording changed in the year in line with new TSM guidance but still closely comparable.
[2] London Median from Housemark March 2023 TSM report
[3] Housemark General Needs Social Rented only

Cost per unit

Association performance	2023	2022	Median 2022	Target 2023	Target 2024
Headline social housing cost	**£7,417**	£5,427	£5,963	**£6,000**	£7,434
Management cost	**£1,148**	£1,020	£1,527	**£1,200**	£1,236
Maintenance	**£3,190**	£2,242	£1,615	**£2,500**	£3,026
Major repairs	**£1,307**	£651	£1,123	**£980**	£1,537
Service charge costs	**£1,744**	£1,269	£1,065	**£1,300**	£1,575
Other social housing costs	**£28**	£246	£266	**£20**	£60

Headline social housing costs ended the year considerably higher than budgeted due to a combination of factors. The increase in the overall cost per unit was primarily driven by higher than budgeted maintenance and major works costs. In addition to the Board's additional investment in stock condition and building safety, inflationary pressures impacted spending across both routine repairs services and planned projects with construction cost indexes consistently running even higher than CPI. Maintenance costs also include some unrecoverable costs associated with the remediation of building safety defects. It has also been a challenging year in terms of service costs with a particularly steep increase in insurance costs impacting residents.

Operational Value for Money targets

A key strand of our Value for Money Strategy is to drive efficiency through more effective delivery of services. The Board had identified a reduction in failure demand as a priority, setting a target to reduce overall telephone and email contact by 10% over the course of 2022/23. We have been seeking to achieve this through having more closely integrated systems with our contractors, providing better, more timely updates for residents and improving the overall reliability of the repairs service. The Board are pleased to see signs that this approach is beginning to deliver results and an update on progress is included below:

Increase in satisfaction and reduction in overall avoidable contact.	Although we fell short of a target of 10% reduction in overall contact over the year contact was down 4.4% on the previous 12 months, a trend that was continuing in the early months of 2023/24. As noted in the commentary above, we have seen a recovery in resident satisfaction over the year with a small increase in overall satisfaction underpinned by a significant improvement in levels of satisfaction with the repairs service and with the percentage of residents saying Newlon is easy to deal with.
Significantly increase the number of residents accessing services online.	Over 2,700 households are now using our resident portal and use has increased by 90% this year. We have set a target of 3,500 for 2023/24.

Newlon House – 4 Daneland Walk – Hale Village – London – N17 9FE
T: 020 7613 8000
E: customerservice@newlon.org.uk
www.newlon.org.uk

Newlon Housing Trust is a charitable housing association