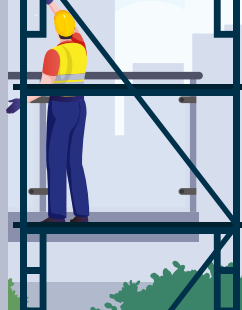
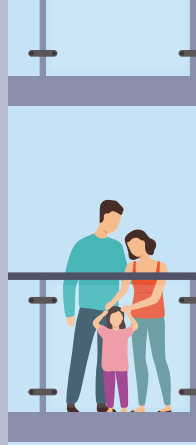
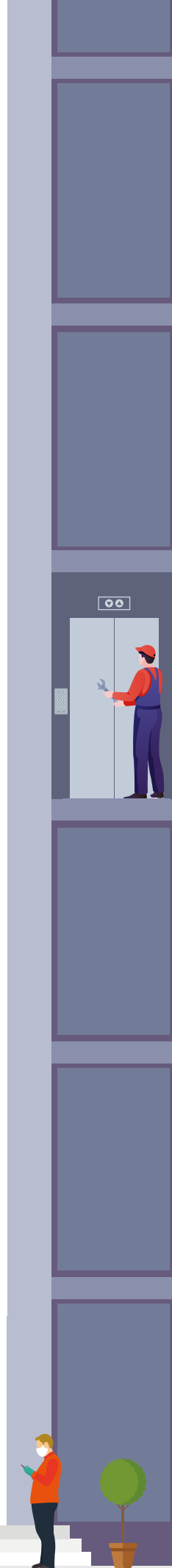
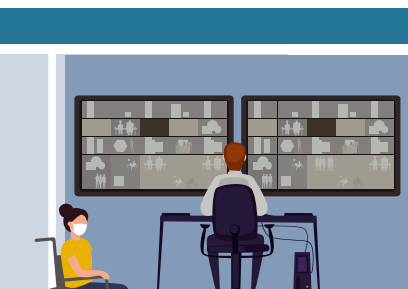
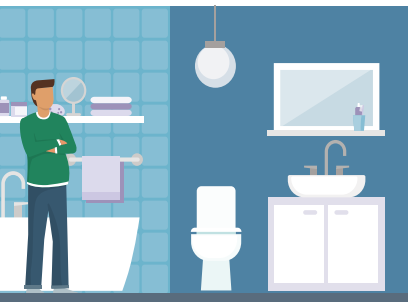
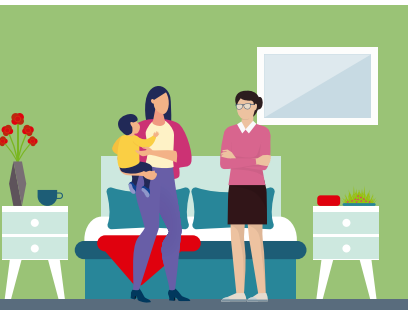
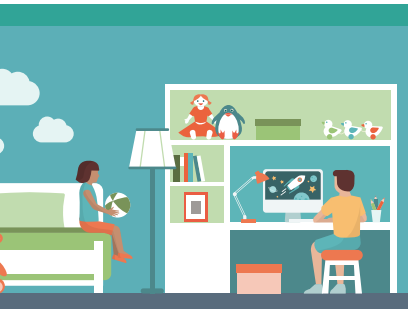


VALUE FOR MONEY STATEMENT & METRICS

2019/20



Report of the Board of Management and Strategic Review for the year ended 31 March 2020

Business model

The Group consists of two registered providers, three registered charities and two limited companies, headed by Newlon Housing Trust ('the Association'), a charitable organisation founded in 1968.

The Association is a registered provider of social housing in the north and east of London and was founded with the purpose of providing high quality affordable housing for the people of Hackney.

The Group is diverse and operates in the following key business areas:

- General Needs housing for rent, primarily for families who are unable to rent or buy at open market rates.
- Supported Housing and care especially for people with learning disabilities or those on the autism spectrum.
- Low cost home ownership, primarily Shared Ownership, whereby residents purchase a share in the equity of their homes and pay rent to the housing association on the remainder.
- Housing products aimed at the intermediate market including Intermediate Rent and Key Worker rent.
- Community services aimed at promoting social inclusion and a range of employment and training initiatives.

Objectives and strategies for achieving these objectives

Our simple mission is to increase the supply of affordable housing in London. To do this we provide a range of housing options designed to meet the diverse needs of local people. The Board has refined our business model in order to focus on two simple, complementary objectives:

Objective 1: Increase the supply of high quality, affordable housing in London. Our priorities for the next few years are:

- Meeting our ten year growth target of 2,000 homes by 2023.
- Investing in our existing properties to ensure they remain desirable and meet high standards of health and safety.
- To undertake a large regeneration project in one of our core boroughs.
- To remain a GLA preferred partner, obtaining grant when available to maximise our development potential.
- To continue to have required funding and good level of liquidity to finance our development plans.

Objective 2: Provide good quality, convenient, value for money services to our residents. Our priorities for the next few years are:

- Helping residents to maintain tenancies in difficult times, working with them to maximise income and opportunity, and to reduce rent arrears.
- Expanding our digital service to increase efficiency and provide more convenience for customers.
- Continuing to deliver better value for money for residents by further reducing service charges.
- Implementing our Resident Involvement Strategy, including involving more residents in recruitment, procurement and contract management.
- Implementing the asset management strategy and optimising return from our property assets.
- Building on improved resident satisfaction results, challenging ourselves to deliver better services and deal with complaints more swiftly and effectively.

Report of the Board of Management and Strategic Review for the year ended 31 March 2020

Results

At 31 March 2020 we had assets of £1.2 billion, reserves totalling £185m and an annual turnover of £91m. The Group turnover from our social housing and other activities for the year ended 31 March 2020 is shown below:

	Turnover 2020	Turnover 2019
	£'m	£'m
Social housing letting:		
General needs housing for rent	37	36
Supported housing	5	5
Low cost ownership	6	6
Key Worker housing	13	13
Other social housing activities:		
First tranche low cost home ownership sales:	14	5
Supporting people and care	12	13
Other activities	4	2
Total	91	80

Summary consolidated statement of comprehensive income

	2020	2019	2018	2017	2016
	£'m	£'m	£'m	£'m	£'m
Turnover	91	80	76	93	85
Cost of sales	(8)	(2)	(2)	(3)	(11)
Surplus on disposal of fixed assets	7	7	7	6	9
Operating costs	(54)	(52)	(50)	(46)	(48)
Operating surplus	36	33	31	50	35
Net interest payable	(18)	(14)	(13)	(15)	(16)
Other finance costs	-	-	-	-	(5)
Fair value movement	12	(2)	2	-	-
Surplus for the year	30	17	20	35	14

The higher level of surplus for the year compared to 2018/19 is due to the £12m positive fair value movements, £11.3m from expiry of financial instrument hedge contract and £0.7m from Outward's Social Housing Pension Scheme (SHPS) defined benefit scheme.

Summary consolidated balance sheet

	2020	2019	2018	2017	2016
	£'m	£'m	£'m	£'m	£'m
Tangible fixed assets - housing properties and others	1,115	1,090	1,033	971	934
Net current assets	69	39	28	34	41
Total assets less current liabilities	1,184	1,129	1,061	1,005	975
Long term liabilities and provisions	(999)	(973)	(922)	(886)	(891)
Net assets/reserves	185	156	139	119	84

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for the year ended 31 March 2020

Housing properties are held at historic cost and unamortised grant is held in long term creditors. The increased carrying cost of £90m of completed properties in 2019/20 includes an £83m investment in new homes and £7m spend on improvement and remedial work to the existing homes. As at 31 March 2020 we had £421m of social housing and capital grant to support our development programme.

Consolidated cash flow

	2020	2019
	£'m	£'m
Cash generated from operations	35	41
Cash used in investing activities	(45)	(75)
Cash from financing activities	17	35
Net change in cash	7	1

At 31 March 2020 we had £41m cash and cash equivalent. In the year we:

- Received £35m from operating activities, including housing asset sales of £11m.
- Invested £45m in existing and new stock.
- Repaid £9m of loan balances.
- Paid interest of £22m.

Key financial indicators – Group

	2020	2019	2018	2017	2016
	£'m	£'m	£'m	£'m	£'m
Operating margin ¹	40%	41%	41%	54%	42%
EBITDA MRI ²	118%	132%	126%	268%	151%
Bank interest cover ³	175%	199%	214%	329%	225%
Bank gearing ⁴	49%	49%	50%	50%	45%
Debt per unit	£73k	£69k	£71k	£65k	£60k
Average cost of capital	3.47%	3.44%	3.26%	3.11%	3.66%
Housing units owned/Managed	7,974	7,768	7,847	7,782	7,974
Units developed as % of current stock	2.9%	2.2%	0.8%	-	5.4%

¹ Operating margin is defined as operating surplus as a proportion of turnover.

² EBITDA MRI is defined as operating surplus less surplus on disposal of fixed asset, amortised grant in year, capitalised major works plus interest receivable and depreciation, as a proportion of gross interest payable.

³ Interest cover is for the Association and is defined as operating surplus plus housing depreciation, less surplus on all property sales and grant amortisation as a proportion of net interest payable.

⁴ The bank gearing covenant is for the Association and is defined as net loans as a proportion of housing asset cost.

Report of the Board of Management and Strategic Review

for the year ended 31 March 2020

Value for money, performance and development during the financial year

The Board believes that value for money (VFM) is inextricably linked with the delivery of our two main objectives of increasing the supply of high-quality, affordable homes and improving resident services. The Board reviewed our Value for Money Strategy in March 2020. The strategy outlines Newlon's definition of VFM and identifies the ways in which we will seek to deliver it.

Newlon's approach to VFM

The Board is committed to the delivery of two simple business objectives: increasing the supply of affordable housing and providing good quality services to residents. In terms of our VFM Strategy, we have tried to keep things simple too. Our overall aim is to gradually reduce unit costs through growth and cost control. We intend to do this by developing an average of 200 new homes a year until 2023 whilst working to make the business operate more economically, efficiently and effectively through a programme of incremental, sustainable improvements. Our approach is captured in five value for money commitments:

1) We will maximise the potential of our resources in order to deliver more homes.

Growth in unit numbers is at the heart of our VFM strategy. We aim to reduce overall unit costs through increasing stock numbers and keeping increases in management costs below inflation. Delivering sustained growth relies on maintaining strong operating margins and keeping borrowing costs as low as possible and these are key considerations of the Board when approving budgets and seeking new funding.

2) We will provide good quality services and increase customer satisfaction without exceeding the sector median for management costs.

Maintaining a strong focus on the customer experience as well as on controlling costs means that staff are encouraged to be innovative in finding ways to improve services but cuts are not made at the expense of current residents.

3) We will seek to maximise return on our current property assets whilst maintaining a tenure mix that fulfils our charitable mission.

In 2017 the Board set a five year Asset Investment Plan based on independently validated stock information and this has been implemented alongside a strategic disposal programme, with the aim of improving long-term viability by boosting the overall stock efficiency and resident satisfaction.

4) We will scrutinise spending and challenge costs to ensure we reduce waste and deliver greater value.

As part of the annual business planning cycle, the Board consider detailed departmental plans for the coming year alongside a proposed budget to ensure that the business is making best use of resources. The budget is presented together with the predicted impact on unit costs, allowing the Board to make decisions about the allocation of resources with reference to overall impact on costs. The Board also identifies opportunities to deliver greater VFM and these are integrated into departmental targets and monitored throughout the year.

5) We will 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.

We have already had success in cutting overheads at Group level through optimising the resources of the Group such as office space, systems and back office functions. We will continue to look at opportunities to combine and streamline as well as examine the way we could do things more efficiently and deliver savings to each of the Group members, including opportunities for automation and streamlining of processes.

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Responsibility and reporting

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

We have produced regulatory metrics at both Group and Association level to be consistent with the financial statements as a whole. The section immediately below addresses the metrics at Group level before we focus in 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 and top performer/top quartile performance taken from a peer group of seven similar groups at Group level and all London providers at Association level.
- Reference to budgets and other performance targets agreed at the Board workshops earlier in the year, especially our commitments to invest in health and safety works.
- 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 wider view of costs.

We worked with the benchmarking consultancy, Vantage, who selected a small peer group with similar group structures. We have used the median from that peer group to provide a comparison in the table below.

Group performance*		2020	2019	Peer median 2019	Target 2020	Target 2021
Business health	Operating Margin	32.2%	31.8%	27.1%	32.0%	31.0%
	Operating Margin SHL	37.5%	37.6%	28.7%	39.0%	29.0%
	EBITDA MRI Interest Cover	118.3%	131.7%	131.7%	130.0%	125%
Development	New Supply Social	3.0%	2.3%	2.3%	3.0%	2.0%
	New Supply Non-Social	0.0%	0.0%	0.0%	0.0%	0.0%
	Gearing	48.7%	48.1%	43.8%	50.0%	50.0%
Outcomes	Reinvestment	12.3%	12.1%	6.2%	10.0%	6.5%
Asset management	ROCE	3.1%	2.9%	2.4%	3.0%	3.1%
Cost per unit	Headline social housing cost	£7,321	£7,070	£6,161	£6,970	£7,650

* The definitions are per the VFM Sector Scorecard.

At Group level we met our target for overall operating margin whilst falling slightly short of our target for social housing lettings with another year of increased spending on health and safety works and fire warden costs impacting these results. The Board is pleased that despite these challenges, profitability continues to compare well with similar groups.

Our investment in additional building safety works is also reflected in a reduction in our interest cover and an increase in the headline social housing cost. Headline social housing unit costs are also higher at

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for the year ended 31 March 2020

Group level than within the Trust because they include expenditure related to care and support services, which are recovered through charges to local authority clients – in 2019/20 these costs accounted for 23% of Group operating costs.

We expect the cost of safety improvements to continue to impact our results in 2020/21 as we progress with a programme of works on our tall buildings. It is with this and the potential impact of the ongoing public health crisis in mind that the Board have set less ambitious targets in relation to profitability and unit costs for the coming year.

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 2019/20 Outward attracted over £12m of funding to provide care and support services, with Newlon residents being beneficiaries of many of those services. Occupancy was 91.9%, up from 91.2% in 2018/19, but below Outward's target of 95%. Outward have committed in their three year plan to review void levels across all schemes, work to identify new referral sources and, as a last resort, consider closure of schemes with persistent voids.

Does Outward provide high quality services?

Outward has maintained 100% good ratings from CQC and the latest customer survey showed 83% of customers and stakeholders were satisfied with the support services they received, whilst 94% were satisfied with housing services.

Is Outward financially independent and secure?

Outward made a small surplus of £389k, this is up on the previous year. The care and support market is still very challenging though, with commissioning authorities still absorbing the impact of austerity and the increase in the national living wage both putting additional pressure on margins. Outward has developed a three year plan as part of which they will engage with commissioning bodies and seek a commitment to increase funding in order to safeguard the quality of services. The Board is reassured that Outward holds more than £5m in cash reserves, which provides some security in the event that financial targets are not met.

Is Outward efficient?

Outward successfully met targets to reduce overheads in 2020. The Outward Board is seeking continuous improvement in relation to occupancy, financial performance and efficiency.

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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	2020	2019	Median 2019	Target 2020	Target 2021
Operating margin overall	39.4%	39.5%	25.3%	40.0%	32.0%
Operating margin social housing lettings	38.4%	39.9%	28.7%	40.0%	30.0%
EBITDA MRI interest cover	124%	131%	150%	130%	125%
Weighted average interest rate	3.47%	3.44%	-	3.60%	3.55%

We continue to demonstrate strong financial performance with margins well above the sector average. The drop in the target operating margin for 2021 reflects the increase in overheads due to the fire safety costs. We maintained our A3 stable credit rating in January 2020 with Moody's credit opinion noting our 'strong profitability' 'healthy liquidity position, and 'management's continued focus on efficiency'.

The Board has noted that the report also recognises our 'higher than average debt burden' and 'interest cover below the sector average'. The Board will continue to rigorously stress test our plans against a range of scenarios that reflect the challenges of the current operating environment and has regular reporting in place to ensure that we continue to perform comfortably within covenants.

Growth

Association performance	2020	2019	Median 2019	Target 2020	Target 2021
New supply (total units)	232	175	100	240	193
New supply as a % of current stock	3.1%	2.3%	1.5%	3.0%	2.0%
Gearing	49.8%	49.2%	45.2%	50%	50.0%

Our aim is still to deliver an average of more than 200 homes a year up until 2023 in line with our Growth Strategy which seeks 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 and a joint venture.

Although we narrowly missed our target this year, the Board remains satisfied that Newlon continues to make a significant contribution to the supply of new homes in London.

The Board has agreed a Growth Strategy for 2023-28 which aims to increase supply to 300 units a year. The Board will review these ambitions annually taking account of the operating environment.

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Asset management

Association performance	2020	2019	Median 2019	Target 2020	Target 2021
ROCE	3.1%	2.9%	2.9%	3.0%	3.0%
Occupancy %	99.5%	99.7%	99.6%	99.9%	99.7%
Ratio of responsive to planned repairs	49%	42%	65%	42%	50%
% of residents satisfied with property condition	72%	69%	-	70%	72%
Reinvestment %	12.4%	12.2%	4.9%	10%	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 rising reinvestment percentage. Although the ratio of responsive to planned repairs has risen due to greater investment in safety works, it remains significantly below the London average and we expect it to remain around this level for the next few years as we continue to invest in improvement works.

We failed to meet our end of year occupancy target partially due to difficulties letting properties in March due to Covid-19. The Board has set a target in line with some of the top performers in London.

The Board are pleased to see an increase in the percentage of residents who are satisfied with the condition of their property for the second year running.

Outcomes

Association performance	2020	2019	Median 2019	Target 2020	Target 2021
Customer satisfaction with the service overall (Rented)	75%	74%	75%	75%	76%
Customer satisfaction overall (Supported Housing)	94%	94%	-	94%	94%
Income per £ invested in community services	£1.30	£1.37	-	£1.04	£1.30
Net social value of community services (HACT)	£4.3m	£3.6m	-	£3.7m	£4.3m

The Board is pleased to see further improvement in overall customer satisfaction having made this a priority for 2019/20. During the year staff attended a series of Newlon Gold customer service training events and, in addition to overall satisfaction, we also saw improvements in satisfaction with staff helpfulness and the ability of staff to deal with queries efficiently, as well as an increase in the percentage of residents saying their query was dealt with the first time they called. There was a small decrease in satisfaction amongst supported housing residents but, overall, the level remains high.

Another factor that has been influential in improving standards of customer services is our employment programme through which an increasing number of residents have been recruited into roles across the business. Residents now make up almost 20% of Newlon's workforce and the Board were pleased to see the programme receive recognition in the Guardian's Public Service awards where we were selected as finalists in the Recruitment and HR category.

The Board considers the Resident Services team to be an important part of our VFM offer to residents. The role of the team is to maximise income for the benefit of Newlon residents and their communities. The team's ability to generate income in excess of its budget means that the social value generated by the employment, training and advice services they provide was not subsidised by other residents or delivered at the expense of Newlon's other objectives.

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Operating efficiency

Association performance	2020	2019	Median 2019	Target 2020	Target 2021
Rent collected %	99.7%	98.8%	99.6%	99.9%	99.9%
Overheads as a % of adjusted turnover	6.2%	9.0%	12.8%	9.0%	6%

Although there was an increase in the level of rent collected, we also saw an increase in arrears for the first time in over five years. Our overheads remain low compared with many others in the sector and performance against this metric improved as a result of a 15% increase in turnover in the fiscal year together with prudent management of overhead budget, keeping cost increases to a minimum.

Cost per unit

Association performance	2020	2019	Median 2019	Target 2020	Target 2021
Headline social housing cost	£5,167	£4,799	£5,665	£4,699	£5,086
Management cost	£956	£914	-	£900	£950
Maintenance	£1,817	£1,515	-	£1,515	£2,020
Major repairs	£1,018	£805	-	£805	£959
Service charge costs	£1,078	£1,330	-	£1,250	£1,057
Other social housing costs	£298	£132	-	£130	£100

Additional safety works resulted in increased maintenance and major repairs expenditure and this was the main factor behind the increase in headline social housing cost. Management costs also increased slightly above inflation as a result of additional investment in our Property Services departments, who are now handling more complex major works projects.

The Board is pleased to see that service charge costs, which were identified as a particular area of focus when we first published these metrics, have been reduced. This is a result of savings on communal services which were tendered in consultation with residents. A consolidation of cleaning services contracts was particularly successful last year and should result in most residents seeing a saving on their service charge bills next year.

VFM targets

Last year the Board identified specific opportunities for savings within the procurement pipeline.

Area	Saving	Method	Outcome
Overall communal cleaning	5%	OJEU tender	Met with a saving of over 20%.
External audit services	5%	Open tender	Fewer bidders than expected and no saving achieved.
Building security systems	5%	OJEU tender or framework	Not yet tendered due to additional workload and prioritisation of health and safety tenders.
Heating system maintenance and servicing	Efficiency savings	Framework procurement and delivery of efficiency savings through IT integration	Improved integration has reduced back office administration such as payment processes and manual database reconciliations.

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Savings opportunities that have been identified by the Board for this year include:

Area	Saving	Method
Insurance	5%	OJEU tender or framework
Door and window replacement	5%	OJEU tender or framework
Kitchen and bathroom replacement	5%	OJEU tender or framework
Water maintenance services	5%	OJEU tender or framework

The Association will continue to work towards implementing digital solutions to improve efficiency. Over the next 12 months we expect to complete the following projects that are focused on improving efficiency and effectiveness. Progress will be monitored by the Board during the year:

- Implement a portal to improve the exchange of information between Newlon and contractors and reduce administration.
- Implement price per property arrangements with our principal contractor to reduce administration in the repairs process and enable easier online reporting for residents.
- Significantly increase the number of residents accessing services online and implement automated surveys.
- Review remote working arrangements in light of lessons learned from working in lockdown, including consideration of opportunities to reduce costs and improve efficiency.



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Newlon Housing Trust is a charitable housing association

Group Chief Executive: Mike Hinch Chair: Sarah Ebanja

Newlon Housing Trust is a Community Benefit Society - company no. 18449R, registered with the Regulator of Social Housing no. L0006, HMRC charities reference no. EW91301, VAT registration no. GB778532683.

Access Homes is a Community Benefit Society - company no. 24992R, registered with the Regulator of Social Housing SL3605

Outward Housing, trading as Outward, is a company limited by guarantee - company no. 02151434, registered charity no. 800529.

Finsbury Park Homeless Families Project is a company limited by guarantee - company no. 2879813, registered charity no. 1030970.

Newlon Fusion is a company limited by guarantee - company no. 04000022, registered charity no. 1119673.

NewlonBuild Ltd is a private limited company no. 07884092.

NewlonInvest is a private limited company no. 09492006.

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