Alliance homes

VALUE FOR MONEY

OUR APPROACH, PLAN AND TARGETS 2022/23

alliancehomes.org.uk

Contents

1. Background

In 2017, Plan A was developed, it set out our five-year strategy to transform the way in which we work. High level goals were created to support our ambition to be known for great customer experience and increasing the supply of housing. An integral part of achieving these goals is providing value for money across everything we do. This year, we have reviewed Plan A and have developed Plan A 2.0 which sets out our focussed five objectives for the next five years.

- Delivering a great customer experience
- Building more affordable homes
- Being a green and ethical business
- Investing in existing homes and neighbourhoods
- Being a great place to work

2. Our approach to delivering value for money

This document sets out our approach to value for money. It sets out our plan and targets for the coming year together with indicative targets for the following two years.

We are committed to driving efficiency within our business operations as well as providing value for money services to our customers, in order that we can invest more in our existing homes and to build more new homes. We recognise that our operating environment presents opportunities and challenges, and we are driving a culture to meet those challenges by understanding and responding to our cost and quality indicators.

Our approach to value for money focusses on the distribution of efficiency gains into reinvestment in our core services.

Value for money is implicit in everything we do. It is a cross cutting and overarching priority, intricately balancing cost and quality to drive optimum business and customer service decisions.

- We're fundamentally shifting our resources to investing in digital services and new homes. To achieve this, we will drive out cost from other parts of our business.
- We're a long term, asset driven business, so decisions we make will reflect this. We will ensure that all decisions consider overall cost effectiveness, e.g. installing components that will last rather than the cheapest and our aim is to deliver a broadly consistent quality of home for customers, whether they are living in an existing or new property.
- Our service offering will meet legal, contractual and regulatory requirements, and we will only provide services above this level where they can demonstrably contribute to the achievement of our objectives or if a customer pays for these services. The same principle applies to our business support services.
- Overheads, including business support services, are actively managed and flex in size to reflect the scale, complexity and requirements of our business activities.
- Our colleague offer is market-aligned, it's tailored to each sector or employment market. We will use a mixed economy of permanent, fixed term and contracted employees to achieve flexibility, high quality results and maximum business efficiency.

Value for Money is a cornerstone of everything we do, and our approach is a holistic one which places our customers at the centre of every decision we make, ensuring that five principles are considered:

Principle 1: Doing things economically

This principle considers effective and efficient ways to provide services and being innovative and using digital technology and research to design better ways to work.

Principle 2: Doing things right

This principle ensures that we have clear strategies, policies and processes in order to deliver the vision of the business.

Principle 3: Maximising the return on our assets

This principle sets out the way we will manage our existing assets and how we will create new assets to achieve maximum value from our assets for us and for our customers.

Principle 4: Maximising the return from our colleagues

This principle ensures that we invest in our colleagues to promote high performance and to support a culture of development and innovation. It addresses how we will work with our colleagues to train, support and retain them as they deliver high-quality services in an agile way for our business.

Principle 5: Achieving the right outcomes

This principle sets out how we will self-assess our business effectiveness and measure how successful we have been in achieving our corporate plan objectives, and what value has been delivered.

3. Context

This document sets out our approach to value for money. It sets out our plan and targets for the coming year together with indicative targets for the following two years.

4. Drivers for VFM

We have a number of key internal and external business drivers which influence value for money:

- Customer insights
- Plan A 2.0 (Corporate Strategy)
- Four key strategies - Asset Strategy, Customer Services Strategy, Resource Strategy and People Strategy
- Financial Plan
- Benchmarking our performance against other, similar organisations
- Governance and risk, including building safety requirements
- Economic climate

5. Value for money 2022/23

Two years since the global pandemic was announced and all covid restrictions have been lifted. Although the UK is learning to live with the virus, it is likely to be present for some time yet. In planning for 2022/23 we have assumed that society will continue to return to pre-pandemic activity levels.

A year ago, the Board approved four new strategies which support Plan A 2.0. Over the last few months, we have undertaken our third Great Places to Work (GPTW) survey. An action plan has been drawn up in response to this and this work has also been included in our plans.

6. Customer insight

We have a number of programmes in place to bring the customer voice into the organisation to inform decision making, shape our services and improve the customer experience. These include HIVE, our online community platform which has close to 700 active members; our transactional surveys; and our bi-annual customer experience KPI survey.

Transactional surveys are designed to measure the customer experience at specific touchpoints. These include the experience of new customers who have just moved into their home; feedback on our Home Repairs Service via our SMS day after repair survey; feedback on our Major Works programme; our Support and Adult Carers services; our contact centre and how we handle Complaints and ASB cases. Results are used to understand the current experience and what learnings we can take forward to drive improvements.

Twice a year, we also measure our overall performance with our customer experience key performance indicator (KPIs) survey. To ensure transparency around how we are performing, we publish the results of these KPIs in our Annual Customer Review.

7. Quality measures

Latest Customer Experience KPI scores for core 'Need' measure and VFM

KPI measure	Baseline Nov 19	Wave 1 Jul 20	Wave 2 Feb 21	Wave 3 Jul 21	Wave 4 Jan 21	Trend
Satisfaction with Alliance Homes (very/fairly satisfied)	na	na	na	80%	82%	Stable
Alliance Homes meets my needs (agree/agree strongly)	72%	78%	77%	73%	75%	Stable (baseline vs Jan 22)
The value for money for the rent I pay is good (agree/agree strongly)	na	8585%	84%	83%	80%	Decline (Jul 20 vs Jan 22)
	n=1,405	*n=788*	*n=892*	*n=811*	*n=1048*	

8. Managing our homes

Our customer insight indicates that many of our customers would like to self-serve through an online customer portal. These customers see the key benefits as saving them time and delivering greater convenience, with 24 hours a day access to services such as checking their rent balance, paying rent, reporting or tracking progress of a repair. The portal will be of particular benefit to our working customers, many of whom tell us they find it difficult currently to phone us during working hours.

The portal will also be a positive step forward for customers who suffer from anxiety or stress when having to make phone calls, and who have a preference for communicating online. It is important to note that an online portal will be an additional service offered to customers, and not a replacement for any existing services. Our insight shows that there is a proportion of customers who will not wish to engage with us via an online platform, so the portal will allow us to focus our telephone service on these customers.

9. Income and customer support

In April 2022, we raised our rents by 4.1%. This decision will enable us to be able to provide further investment into existing and new homes.

We understand the impact of such a rent increase on our customers and we have established a Customer Support Package totalling over £200k and consisting of three different funds available to customers. In addition, we have invested in new roles to directly support customers in greatest need to ensure that they are accessing all benefits for which they are eligible.

Springboard fund	Essential living fund	Alliance charitable fund
• Financial hardship as a direct impact of covid 19 and the increase in rent liability • Support required to sustain tenancy to meet priority debts, long term debt solutions • Available to customers renting homes from us and seeking engage in long term debt solutions to sustain their tenancies	• Customers struggling to sustain tenancies due to the increase in rent liability and the increase in cost of living • Provide one off payment of costs or practical items such as energy, white goods, carpet • To enable customers to access, advise and support for mental health services • Available to customers renting a home from us	• Real time crisis intervention • Provision of small awards for crisis interventation such as food, energy or travel costs. • Availale to any customer engaged with any services offered by Alliance Homes.

10. Community and support services

We provide community and support services where they support our purpose, demonstrate a positive benefit to the communities in which our homes are situated and where they improve lives and enhance our brand. We will not undertake services where they are not commercially viable or where another organisation is better placed to provide those services.

During 2021, we took the decision to exit the Care Market as we felt that other specialist organisations are better placed to deliver this much-needed service.

11. Asset management

During 2022/23, we will continue to invest in our homes and move forward with the delivery of our Asset Strategy. The last two years have presented significant operating environment challenges, compounded by the impacts of BREXIT, Covid-19 and other continuing supply chain issues. As a result, performance against budgeted major works improvement programmes has been below forecast and future investment requirements now need to be programmed and smoothed.

Whilst 2021/22 was characterised by challenges, our Decent Homes performance was consistently maintained at over 99% and an action plan developed for all homes identified as non-decent. During 2022/23 we aim to maintain and where possible improve upon this performance. Whilst the sector anticipated the release of a new or updated Decent Homes Standard following the 2020 Social Housing White Paper, this has not been published and is now expected sometime during 2022.

Throughout the year, we will continue to capture more intelligence about our stock profile and its investment requirements through our asset surveying programme, with this being used to inform business decisions. Key considerations, going forward, include developing a proactive approach to tackling disrepair (especially where there is a potential building fabric failure) and ensuring building safety compliance (particularly fire safety).

We will continue to assess our future investment requirements for decarbonisation and wider sustainability improvements. This will include refinement of our energy data, capacity testing our long-term financial plan and progressing with targeted energy efficiency projects. We are delivering works to 48 properties under the Green Homes Grant Local Authority Delivery Scheme, and subject to confirmation that all funding criteria have been met, this project will result in £245,000 of grant funding being successfully secured for energy efficiency works on our housing stock. In 2022/23 we will continue to seek opportunities to maximise value for money by securing external grant funding for energy efficiency measures where practicable.

We are well placed to meet the requirements of EPC C by 2030 and net zero carbon targets by 2050, although we recognise the need to be agile in our thinking. To support our planning and preparedness, we have appointed an external sustainability consultancy who will provide advice and guidance in the development of a strategic roadmap which will seek to outperform the timescales and targets set by Government.

Our asset strategy continues to evolve and seeks to drive value for money. A disposal policy was recently approved by Board, recognising the need to ensure long term viability of assets and seek alternative future use opportunities where they cannot perform adequately. Our approach to disposal is for it to be 'the exception not the rule' and only considered when set qualitative and quantitative criteria are met.

In respect of maintenance, we will continue to provide empty homes, repairs, home safety and other contracted works through our in-house Home Repairs Service (HRS) and through our Alliance Homes Partnership (AHP) with two other partners. Covid-19 and supply chain strains have also adversely impacted some elements of service delivery in these areas, and a backlog of work in progress has increased since early 2020. We are continuing to refine operational plans to ensure we meet customer promises and drive greater productivity in service delivery.

12. New homes

We are an ambitious and growing organisation with a clear strategic objective of building more affordable homes to meet the ever-growing housing need in our area of operation. Throughout 2021/22 significant investment in new housing supply has enabled us to deliver our highest ever number of new homes completions. This investment has also grown our development pipeline which will support our ambition of delivering 2,000 new homes over 10 years.

2021/22 will represent the largest annual growth by Alliance, with 234 homes completed. This performance represents a growth rate of 3.6%. Additionally, we have continued to provide homes for shared ownership sale. Shared ownership tackles affordability issues within many of our communities and during 21/22 we have sold 33 new shared ownership homes. This has generated an income of £4.2m at an average surplus of 28.9% that will be re-invested in new homes and services.

With significant variations in values across our operating area and varied delivery mechanisms, we continue to develop a portfolio that balances tackling housing need in high value areas with securing value for money within our investments. We develop our own homes through direct land purchase and partnerships with developers as this offers us the most flexibility to tackle areas that the market would not naturally address – and control the timing and specification of our homes. We also purchase S106 homes secured through the planning process from the housing market as they offer us greater value for money and speed of delivery. 2021/22 saw the completion of 140 new homes via land-led routes and 94 new homes through S106 agreements.

For 2022/23 we plan to complete 198 new homes, 30 of these will be through land-led routes and 158 new homes through S106 agreements.

We remain committed to our operating geography and continue to deliver most of our new homes in North Somerset. Providing homes where we are already a dominant landlord enables us to generate operational value for money in management, by giving creating a bigger economy of scale. Our pipeline in other local authority areas is modest, but we are establishing a growing portfolio in Sedgemoor where we able to secure good opportunities at competitive prices. Over the next two years Sedgemoor will represent our largest local authority operating area outside of North Somerset.

13. Finance and investment

The economic environment in which we work has been very uncertain over the last year or so, firstly due to Brexit, then the pandemic and now a high inflation economic environment. We have recently completed an extension of our Revolving Credit Facility with Lloyds Bank, increasing the facility from £45m to £75m for five years from 2022. This is a Sustainability Linked Loan (SSL) which gives a discount for meeting three ambitious environmental sustainability targets.

We produce an annual ESG Report which follows the framework set out in the Sustainability Reporting Standard for Social Housing, for which we were an early adopter. We recognise that 'green investments' are likely to offer further efficiencies in the coming years and we aim to take advantage of these where possible.

We are currently in the process of arranging our next long-term financing through a private placement which we plan to be in place by the end of the first quarter of 2022/23. We have received re-confirmation of our A1 credit rating from Moody's which will ensure we have access to the most competitve rates available.

14. Grants

We seek to maximise the availability of grant funding to support our investment in existing and new homes. We have access to Homes England grant funding to support our new build development programme via a partnership agreement with Curo, a West of England Housing Association. We will also identify other opportunities for public subsidy from partner organisations, such as our Strategic Partnership with North Somerset Council which will drive value for money from our new build programme.

15. Data management

We continue to be a data driven organisation. After successfully completing our data management project we now have clear and accurate data on our customers and services. In 2022/23 we will be implementing a refreshed data insights strategy around monitoring and reporting to allow us to enhance our services to our customers.

16. Customer strategy

2021 saw the successful implementation of our Housing Management System “CX”. In 2022/23 we are focusing on the efficiencies and enhancements gained from this system to allow us to improve our customer offering. Additionally linking “CX” to our Home Repairs System, a customer facing portal and mobile app to allow easier communication and automate work processes between ourselves and our customers.

17. Procurement

We drive in value for money through all our purchasing decisions. In 2020, we started transforming our purchasing and procurement services through a categorisation of spends, identifying preferred suppliers and putting in place purchasing agreements with our preferred suppliers to drive in value for money efficiencies in all our purchasing decisions. We have also improved processes around the purchase-to-pay service, making system changes to drive efficiency. Training across the business was completed in 2021/22.

We have robust procurement processes which market test the costs of all our larger contracts, and we fully comply with all procurement legislation. We keep a VFM log of all of our procurement exercises and the following table shows the savings that will be achieved on new contracts starting in 2022/23:

Contract description	Contract start date	Contract end date	Base price	Tendered price	Contract term saving	Percentage saving	Annual saving
Veeam back-up and replication software 2021-22	28/07/2021	27/07/2022	£8,000	£4,896	£3,104	38.80%	£3,104
Legionella and water management services	01/11/2021	31/10/2027	£120,000	£57,000	£63,000	52.50%	£10,500
Occupational Health Services	06/11/2021	05/11/2025	£60,000	£15,600	£44,400	74.00%	£11,100
Mobile contract SIMS	24/11/2021	23/11/2023	£84,000	£57,000	£27,000	32.14%	£13,500
Kitchen and bathroom replacements	01/04/2022	31/03/2027	£1,140,000	£797,133	£342,867	30.08%	£68,573
Roofing repairs and replacements	01/04/2022	31/03/2027	£2,646,522	£1,191,604	£1,454,917	54.97%	£290,983
UPVC window replacements	01/04/2022	31/03/2027	£4,500,000	£2,993,730	£1,506,270	33.47%	£301,254
Edge panelling to PV arrays	01/04/2022	31/03/2027	£1,000,000	£887,203	£112,797	11.28%	£22,559
HR and payroll system	01/04/2022	31/03/2028	£450,000	£211,000	£239,000	53.11%	£39,833
All figures exclude VAT			**£10,008,522**	**£6,215,167**	**£3,793,355**	**37.90%**	**£761,408**

18. Financial plan

Our financial plan includes all strategic and operational aims detailed in this report. For the next three years our high level VFM targets are:

Measure	21/22 Budget	21/22 YTD	21/22 Forecast	22/23 Budget	23/24 Indicative Budget	24/25 Indicative Budget
Gearing %	46.6%	46.9%	47.2%	47.0%	51.0%	53.9%
EBITDA-MRI Interest Cover	2.4	4.0	3.2	1.7	1.8	1.5
Headline SHCPU (£'000)	4.4	4.3	3.9	4.9	4.8	4.8
Operating Margin	22.54%	24.68%	22.65%	22.54%	23.34%	24.38%
Overall Operating Margin (VFM)	21.29%	24.40%	22.38%	22.24%	23.02%	24.05%
Overall Operating Margin (SHL)	24.72%	na	23.38%	26.62%	27.16%	28.12%
Group Surplus for Period (£'000)	7,863	6,313	7.652	8.569	8,809	7,136
Return on Capital Employed	4.7%	4.9%	4.5%	4.6%	3.9%	3.5%
Reinvestment %	46.6%	40.3%	27.3%	13.7%	16.8%	15.0%

19. Benchmarking and continuous improvement

To ensure continuous improvement we've benchmarked our key metrics against a group of peer housing associations, based on our stock numbers and types, size and geographic location. Each measure tracks the trend from the last three years of the peer group performance and compares that with our VFM targets for the three years of our budget.

% Gearing

Our gearing has increased in 2021/22 due to the £16m loan drawdown which occurred in September 2021 (offset by a subsequent repayment of £3m). Our gearing is increasing in the coming years, which is in line with our plans to continue our ambitious new homes programme.

Our loans outstanding increase over the three budget years. In the past we have had a cash holding which was largely utilised in the purchase of Marina Gardens, therefore new developments will be funded by new borrowings which will increase our gearing.

However, our gearing results continue to remain lower than the projected trend of our peer group and remains well within our funders' covenant of 75%, indicating the capacity within our business plan for future investment.

EBITDA-MRI interest cover

Our EBITDA-MRI interest cover reduces over the three budget years, partly due to an increase in capitalised major repairs as we plan to catch up on the backlogs resulting from the Covid-19 pandemic. The backlog of repairs is set to be carried out over the next five years.

The EBITDA in budget year 2021/22 is significantly higher than in future years due to the repairs backlog being pushed out to those later years.

As our loans outstanding increase, the additional associated interest costs also contribute towards the reduction in our interest cover.

However, our interest cover is higher than our peers, and remains higher than the projected trend of our peer group.

Headline social housing cost per unit

Historically, our cost per unit has been higher than that of our peers due to higher spending on repairs and maintenance in comparison.

This trend is set to continue as we push forward with our plans to invest in and improve our existing properties in addition to working through the major repairs backlog. Our capitalised major repairs spend over the three budget years contribute towards the increases in our cost per unit. The capitalised major repairs spend for these three years is £7.8m in 2022/23, £7.1m in 2023/24 and £7.2m in 2024/25 (compared to £3.1m in 2021/22).

The projected trend suggests additional costs from the impacts of the Covid-19 pandemic will also impact our peers. Therefore, whilst our cost per unit increases, that of our peers is likely to follow.

Overall operating margin (VFM)

The overall operating margin is intrinsically linked to the cost per unit measure above; the more that is spent on services, the less the operating margin is likely to be (assuming income remains fairly static).

The increase in our operating margins over the three budget years is impacted by reduced shared ownership activity year-on-year from 2022/23 through to 2024/25. The dilution of our operating margins throughout each year is reduced as the volume of shared ownership disposals decreases.

Our overall operating margin (VFM) is projected to align more with our peers over time, coming into line with our peers by budget year 2024/25.

Return on Capital Employed

Our Return on Capital Employed (ROCE) shows that we are making a good return on capital invested in the business and is higher than our weighted average cost of capital (currently 3.252%)

We experience a downward trend in the three budget years. Our operating surpluses will be impacted by increased interest costs on new borrowings to fund our ambitious development programme, where budgeted capital expenditure is £32.1m in 2022/23, £48.1m in 2023/24 and £51.0m in 2024/25.

Despite this, our results remain healthy throughout and are bolstered by a strong balance sheet which includes the significant investments we plan to make in our existing properties.

Assuming that our peer group retain their trend, we will remain higher than the average of our peers in this respect.

Group surplus

This measure shows that our group surplus is projected to increase in 2022/23 by 12.8% vs the 2021/22 forecast.

The planned investment in new and existing properties will be funded by new borrowings, hence additional interest costs will be incurred.

% Reinvestment

This measure shows the amount of investment in existing and new properties.

Our reinvestment percentage increases significantly in 2021/22 as a direct result of the Marina Gardens acquisition in September 2021. The capitalised major repairs spend for the three budget years is £7.8m in 2022/23, £7.1m in 2023/24 and £7.2m in 2024/25. This is a significant increase compared to 2021/22, resulting from the backlog of major repairs works being pushed out to later years.

Our percentage is then set to reduce in 2022/23 due to lower total capitalised spend in each of budget years 2022/23 -2024/25, despite the major works increases stated above.

Our performance remains significantly higher than the projected trend of our peer group.

20. Action plan

The VFM metrics give assurance that our targets provide value for money when compared with our peers' projected trends in these measures.

We are committed to continuous improvement, and from our latest benchmarking review we have identified the following areas for review in the 2022/23 financial year:

- Ensure that the cost of carry of debt is as low as possible, balancing borrowing with the requirements of the business.
- Review peer group to ensure that we are benchmarking against similar organisations providing similar services.
- Consider the effect of shared ownership schemes on the overall operating margin of the Association. Ascertain if some schemes are more financially beneficial than others.
- Consider how all companies within the Group can further increase surplus.
- Ensure that our ROCE remains higher than our weighted average cost of capital i.e. return is higher than cost of borrowing.
- Analyse staffing costs by service and benchmark to identify under/over provision. Review all vacant posts prior to going out to recruitment.

21. Reporting

Each year we will report our targets and how we did against each one. We will set out the reasons for not meeting a target and explain how we will remedy this in the future. This will be published as part of our Annual Report to our customers and stakeholders.

22. Review

This Plan will be reviewed annually as part of the budgeting process.

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