Value for Money Report

Overview

In March 2018 the new Value for Money Standard, replacing the then existing standard which dates from 2012, was issued by the Regulator of Social Housing (the Regulator) and came into effect from 1st April 2018. Amongst other things the new Standard replaces the requirement for Registered Providers (RPs) to prepare a Value for Money Statement with a requirement to include a report within the Financial Statements on Value for Money which includes seven standard metrics and allows for Boards to select other metrics which demonstrate how the Group is performing against its objectives.

Although the standard applies from 1st April 2018, the Regulator has specifically stated that it expects Registered Providers to use the new form report in Financial Statements published from 1st April 2018 even where the reporting period ends before that date. This report relates to the period 1st April 2017 to 31st March 2018 but has been prepared according to the new Standard and its accompanying Code of Practice.

The Board has also reviewed and updated our policy “Our Strategic Approach to Value for Money” to ensure we comply with the new Standard.

VFM activity in 2017-18

Although this is not a VfM statement, a number of VfM activities were outlined for the year in the 2017 statement and we note that, as a result of our approach to VfM, savings in all of £1,197,000 including £192,000 recurring savings have been made during the year to March 31st 2018. This is in addition to the approximate £1,000,000 savings made as a result of the refinancing on an ongoing basis. These savings will be re-invested in the business and support both the restructuring of the business to better deliver our purpose and the current and future plans to build new homes.

Standard Metrics

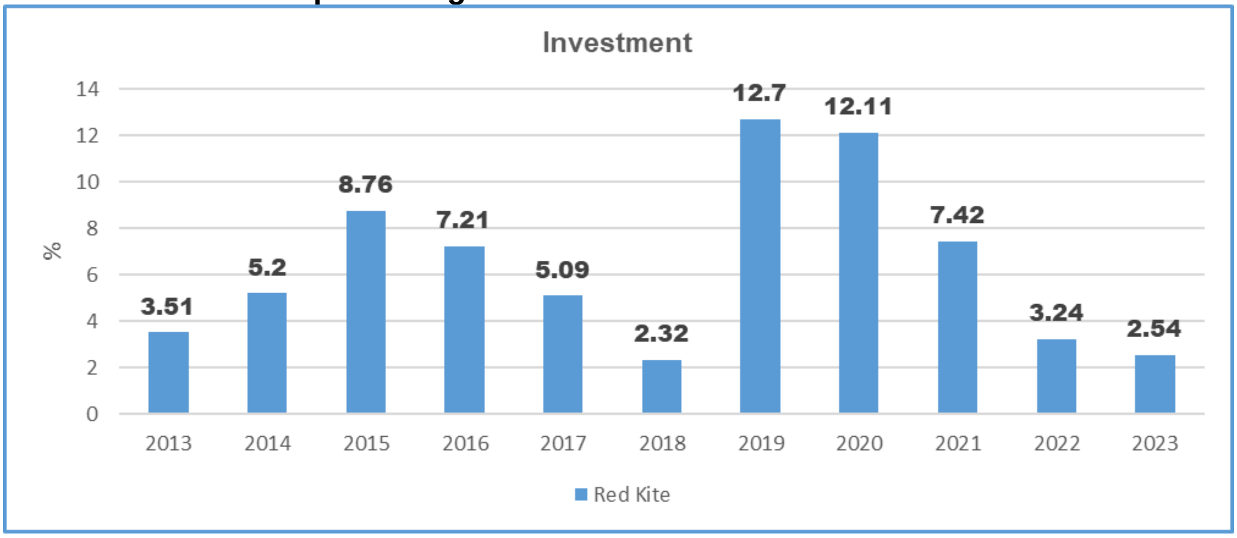
The seven standard metrics have been chosen, after consultation, by the Regulator so that they can be drawn from audited accounts and benchmarked against the Global Accounts report for comparative purposes. They are therefore of necessity in the main financial metrics. We report on them below. Where the Standard refers to “Housing Properties” we use “Homes” as the preferred Red Kite terminology.

Forecasts and Benchmarking Where the metrics relate to measurable items within the business plan, the forecast figures are drawn from the 30-year business plan approved by the Board in March 2018. We have included the forecast figures for the years ending 31st March 2019 to 2023.

For benchmarking we have used Global Accounts 2017 – published by the Regulator based on sector wide accounts where available or Sector Scorecard 2017 where not.

Red Kite Community Housing

Metric 1: Reinvestment percentage

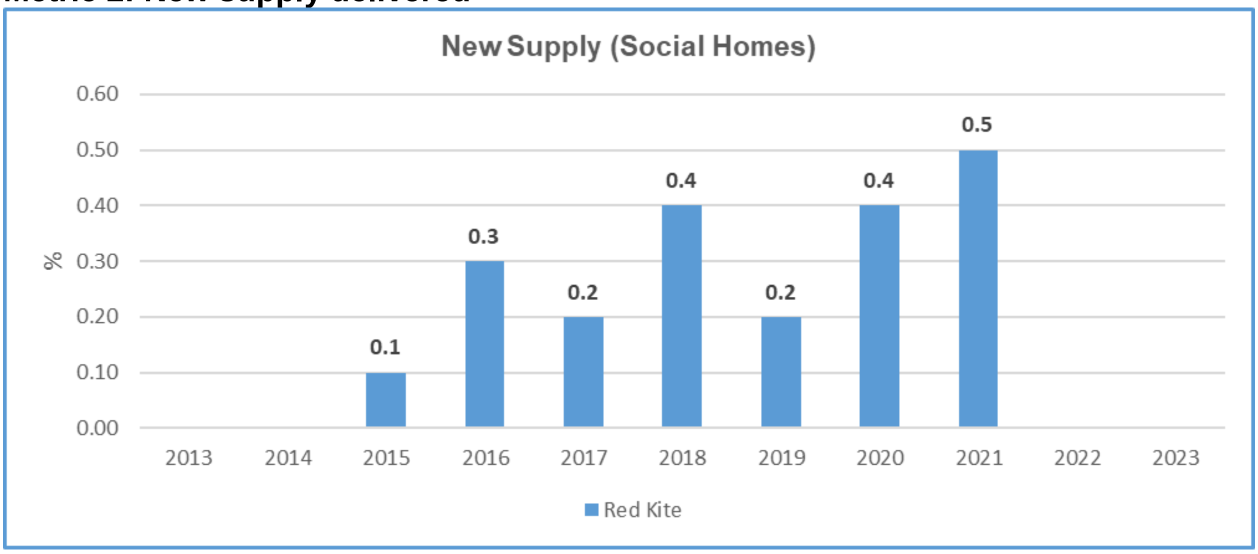


(Investment in existing and new Homes/Value of Homes at period end)

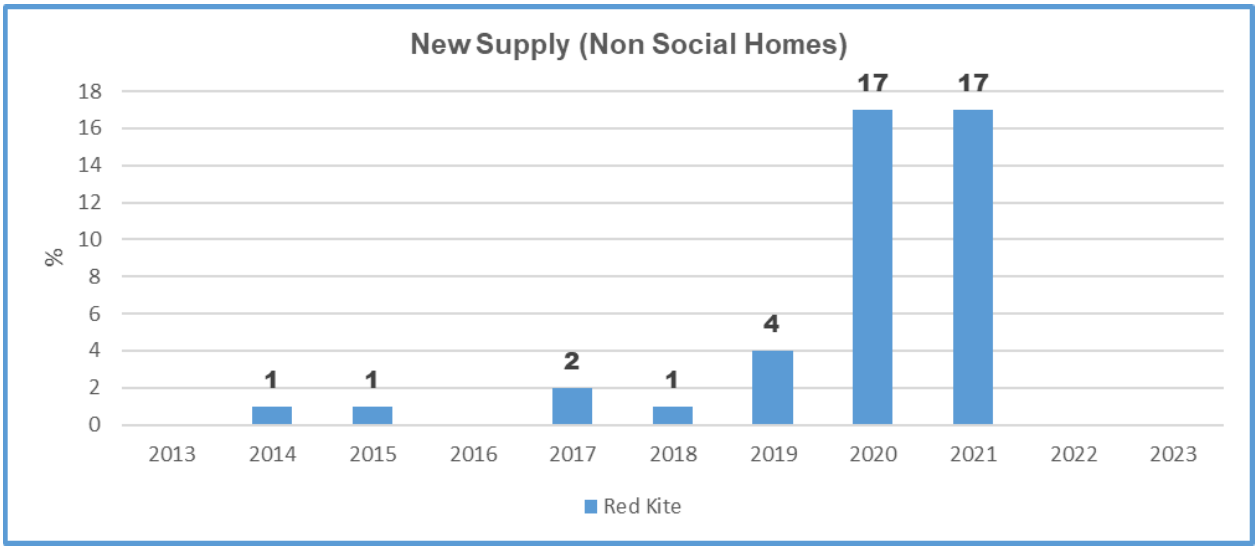
This is a new metric and so this year there is no benchmark figure from Global Accounts. It is provided on a group basis so will include development investment although much of this will be for homes transferred into Twenty11. It takes into account both capital investment in our existing homes and also includes investment in new properties.

The historic figures (to March 2018) largely reflect the investment in existing properties whereas the figures from 2019 to 2021 largely reflect the development programme which is expected to take place in those years.

Metric 2: New supply delivered



(Total homes acquired or developed in the period/Total homes held at the end of the Period)



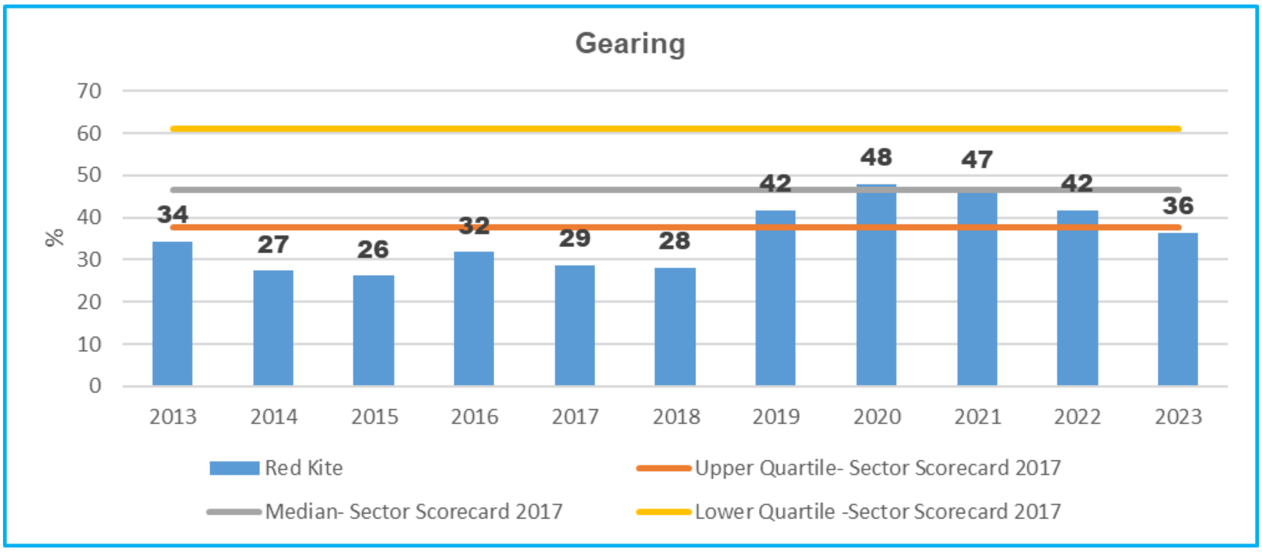
(Total homes acquired or developed in the period/Total homes held at the end of the Period)

This metric is on a group basis but there is a requirement to distinguish between social and non-social homes. On a strict interpretation of the definition of social homes the development homes transferred to Twenty11 are not included within this definition even though they will be discounted below 80% of market value and qualify from the point of view of Twenty11s charitable purpose.

For this reason, the new supply of social homes is relatively small; the development programme all falling in the second graph. It is anticipated given the status of our plans for development that some homes will be built this financial year but most completions will take place in the following two financial years.

The current development programme is explained in more detail under MetricF1 Below and has been designed in such a way that Red Kite Group will be able to prepare a further plan to ensure a continuous development pipeline to ensure that we continue to invest in homes available at a discount to the market value. This is not shown in the metrics as at the moment this is an intention without a definite plan to support it.

Metric 3: Gearing percentage



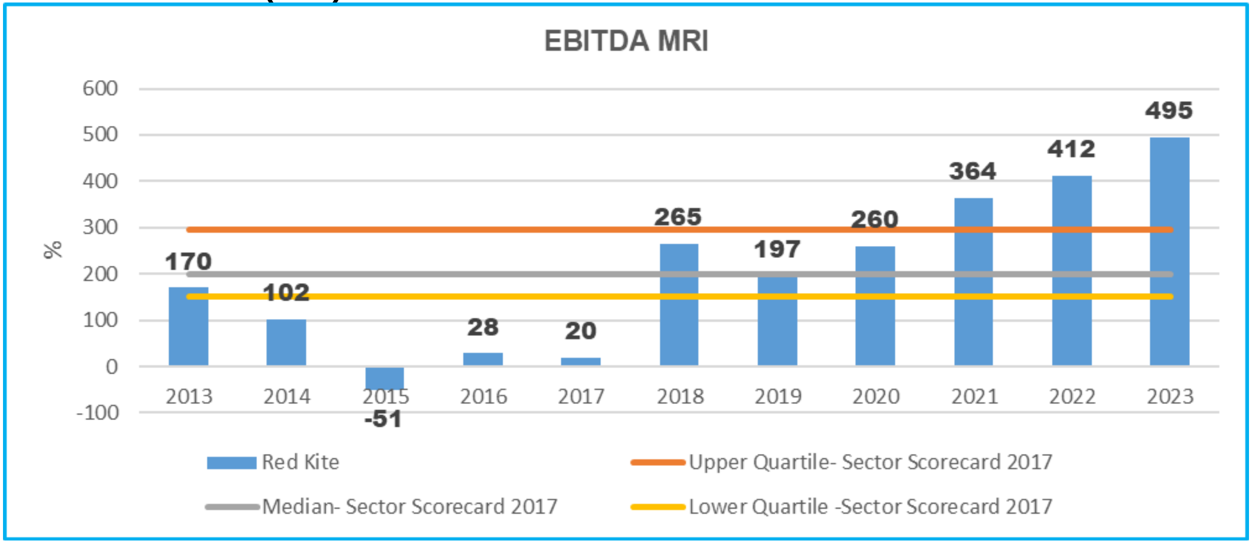
(Net debt/Value of Homes at period end)

Gearing shows the extent to which our investment depends upon debt, measured on a group basis. It has traditionally been quite low but increases to just above the median as our development programme gets built. Although this shows a decrease in 2022/23 there is an intention to sustain an ongoing programme of development.

Whilst Red Kite has as yet no definitive plans, the mix of development in the first phase alongside our relatively low gearing and unencumbered stock will allow further borrowings to support sustained development in future.

We are a relatively young organisation being a stock transfer from Wycombe District Council at the end of 2011. The Board took a strategic decision for Red Kite to concentrate in its early years on fulfilling the stock improvement promises made to its residents (investing in our existing homes) before embarking upon development activity. The next stage of our Corporate Journey has involved establishing our development programme of a minimum of 375 new homes over the next four years.

Metric 4: EBITDA(MRI)

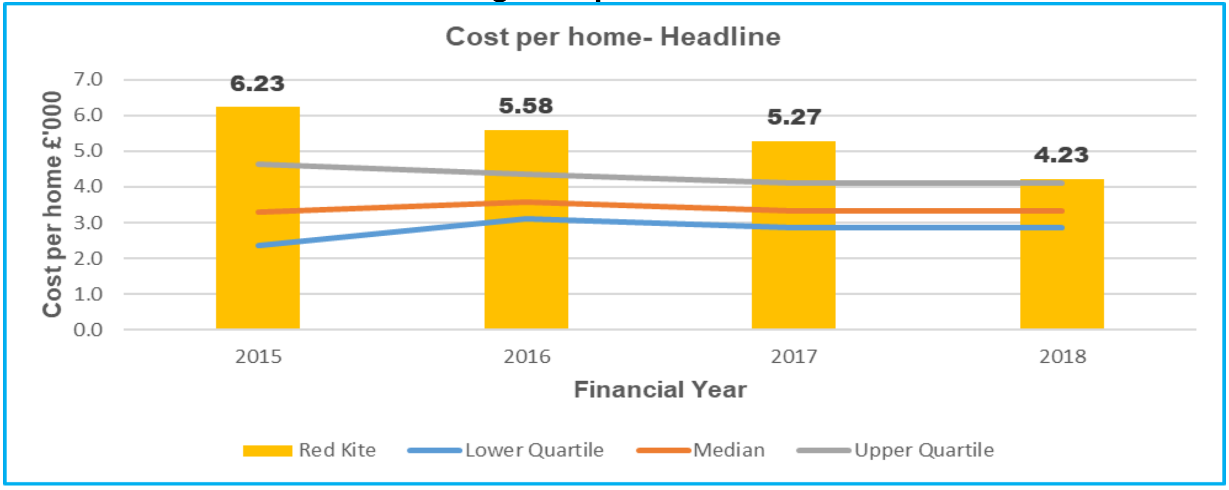


(Operating surplus adjusted for depreciation and grant and capital investment in properties/interest cost)

This key metric is one which our funders pay attention to. The levels of EBITDAMRI achieved and forecasted are comfortably above our covenant ratio and indeed our more challenging internal target of 130%. The significant improvement in this Financial year is a reflection of the very significant spend made in Red Kite in the first five years of its existence on improvements to its existing homes (see Metric 1 above) and the reduction in interest cost occasioned by our re-financing in 2017.

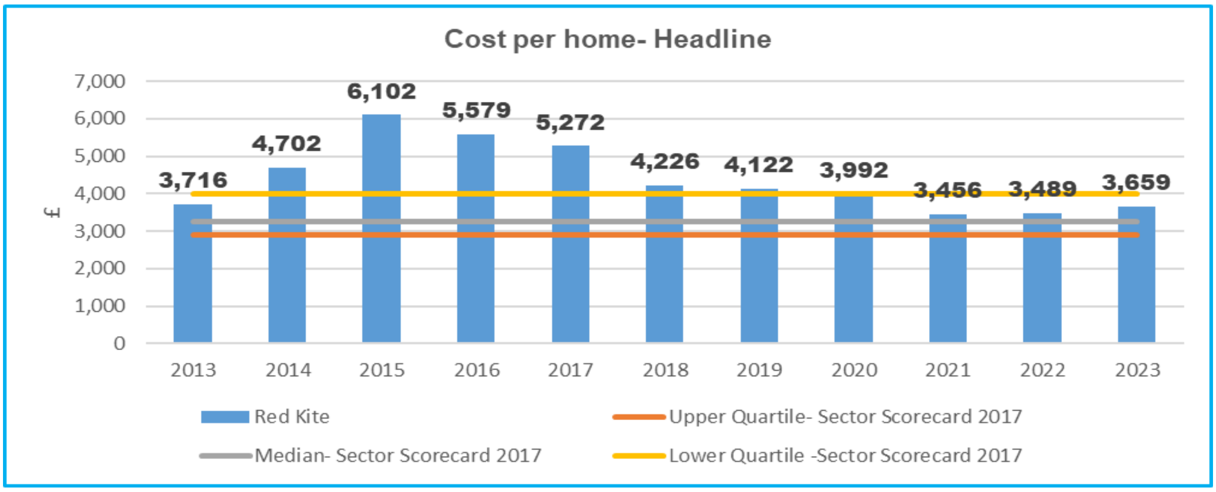
Red Kite delivered its promised investment in existing homes by December 2016 at a cost of £34m less than originally budgeted. Although Red Kite still has a very significant programme of investment in its homes, (see Metric 5 and Metric C below) its EBITDA(MRI) shows a strengthening financial position and strong interest cover going forward. It will dip in 2019 slightly as the development programme unwinds and the strengthening position thereafter will support the Board's ambitions to carry out a sustained programme of development beyond its current plan.

Metric 5: Headline social housing cost per unit

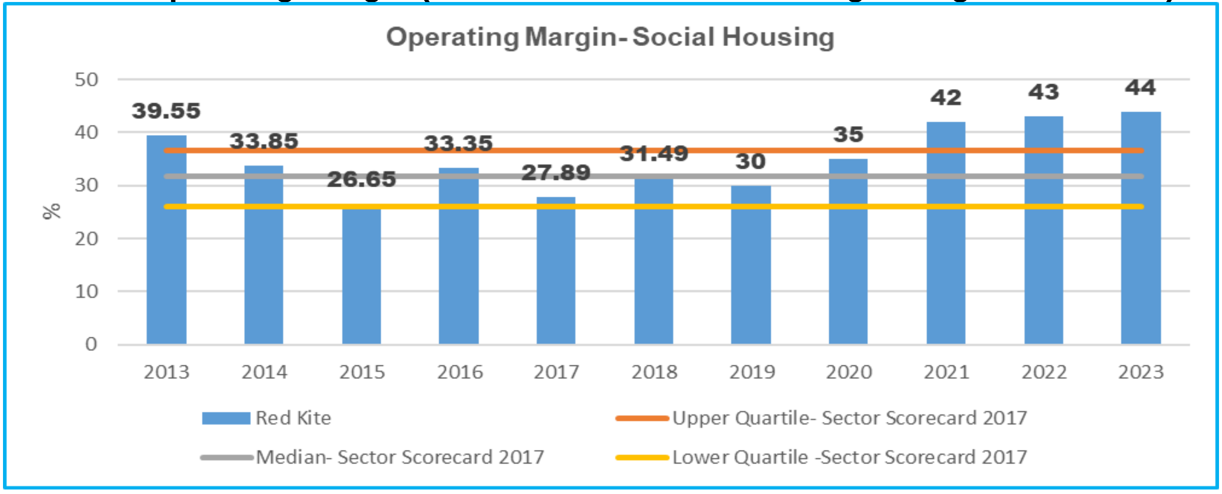


Historically Red Kite have had very high costs per home, in the main due to a high level of capital investment in our homes during the early years as we completed the promises made to our tenants at stock transfer. This year cost per home has decreased significantly so that it now corresponds to the upper quartile of costs from the global accounts. Further analysis of our cost per home is shown in Metric C. We have targeted reduction of management cost this year and this has reduced in part due to diversification of activities and in part due to efficiency savings. This is now at a level much closer to the median (global accounts comparison) and compares favourably with other local RPs. We will continue to manage these costs whilst ensuring that there is sufficient investment to meet our corporate objectives. For more detailed commentary see Metric C below.

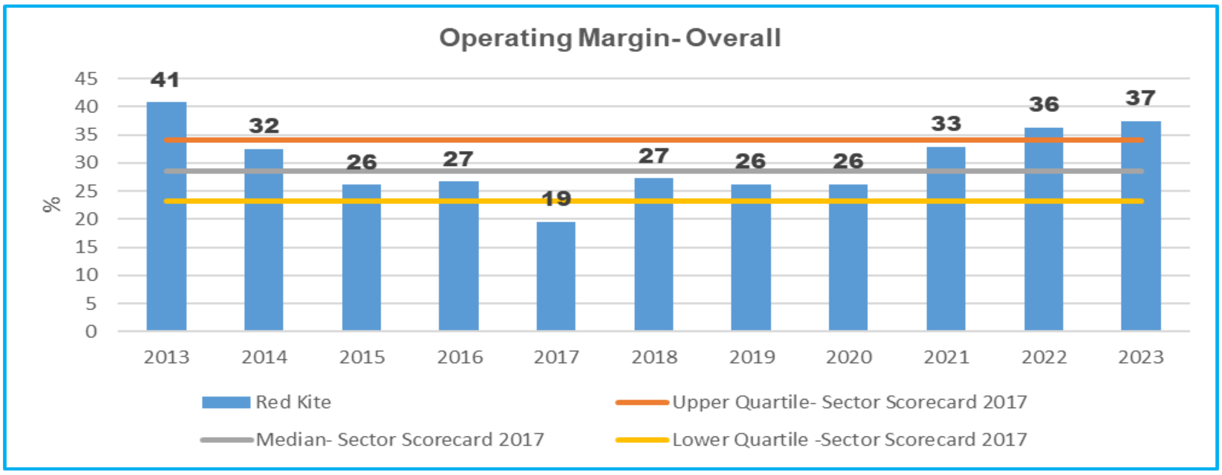
Looking forward, using comparative data from the Sector Scorecard (see below), we can see that we are forecasting cost per home to come down further and stabilise close to the median cost per home around the year ended March 20121 and beyond. Our Red Kite standard is higher than the basic homes standard and our future investment is fully in line with our stock condition survey information.



Metric 6: Operating margin (measured for social housing lettings and overall)

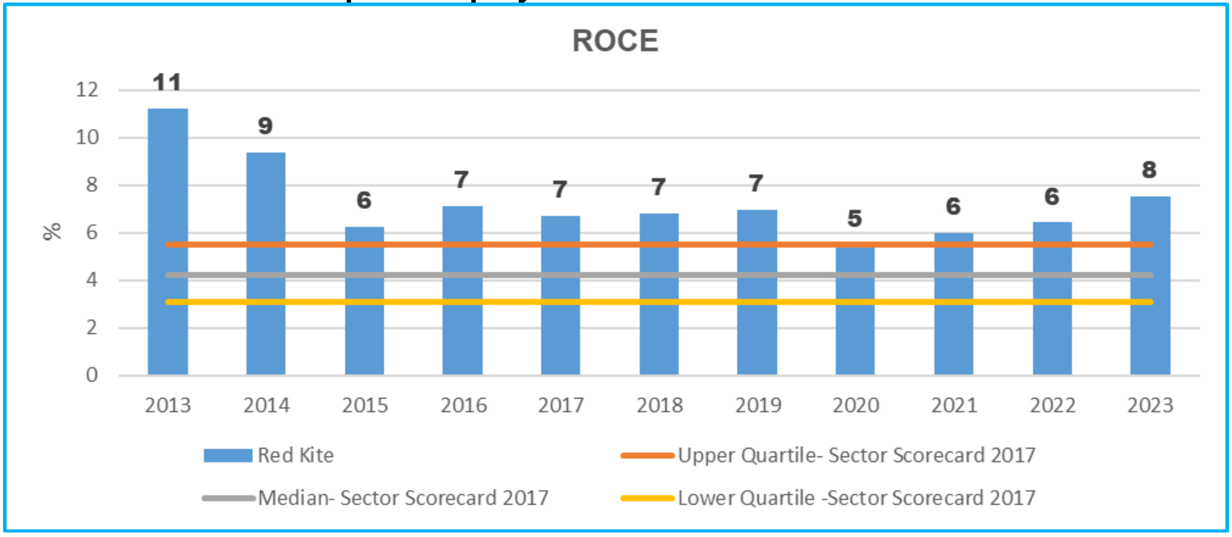


Our operating margin – Social Housing has improved this year but still sits below the median (sector scorecard). We are targeting in our Business Plan an improvement in this so that by 2020 this should be at sector median and thereafter reach the upper quartile. Our budgeting and efficiencies through development in our Information Technology systems will allow this to happen whilst not compromising our continued investment in our existing homes.



Overall operating margin follows a similar pattern to operating margin social housing.
The decline in operating margin from 2013 to 2016 is due to the investment in our homes, some of which is taken through the Income and Expenditure account but the drop in 2017 is in part a result of the government rent policy; efficiencies made in the business have enabled us to manage this and this can be seen in the recovery this year and going forward. The strong predicted improvement in operating margin from the year ended 31st March 2021 reflects both the lower required investment in our homes (having completed the promises, but still significantly higher than sector average – see Metric C) and the change in government rent setting policy (from a 1% year on year actual reduction to CPI + 1% for that year onward).

Metric 7: Return on Capital Employed



(Operating surplus plus other gains and losses/Total assets less current liabilities)

We have a strong return on capital employed; this is in part due to the low gearing of our organisation and again is an indicator of our financial strength which will support our growth ambitions going forward. We are currently focussing our efforts on delivering our initial development plan and providing new housing solutions through the set-up of our group structures and this will be the focus for the next two years at least.

Moving forward the Board will look to review our future growth plans to utilise our financial strength to maximise our ability to achieve our corporate “why?” – namely “To realise the potential of our communities”.

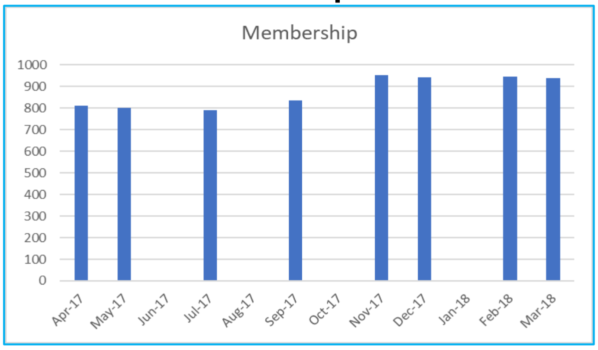
Red Kite Group Metrics (based on Corporate Objectives)

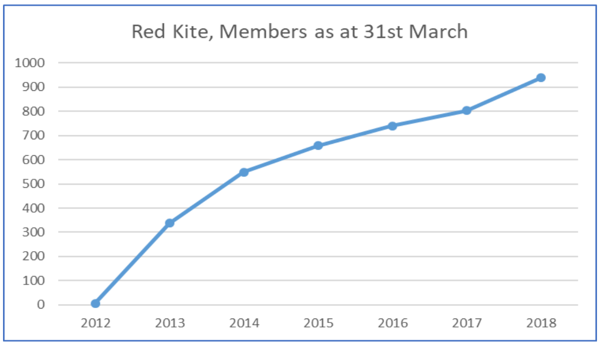
The Standard allows for RPs to select additional metrics which demonstrate performance against Corporate Objectives and the range of activities that the Group undertakes. As this is the first year of reporting against a standard published at the end of March, selection of these metrics has taken place after the year end – in some cases they set a base line and in others they provide more information to better understand existing metrics and in the case of the new group structures the intention to define metrics in the coming year is noted. To distinguish the Red Kite Metrics from the standard Metrics these will be numbered alphanumerically.

Red Kite's Corporate strategy is expressed within "Our Corporate Journey" agreed by the Board in 2016. "Our Corporate Journey" starts with Red Kite's history and its foundation as a tenant led organisation. It goes on to express our purpose "To realise the potential of our communities" and expresses that in terms of five Corporate Objectives:

A) Being a Tenant Led Organisation
(Corporate Objectives; Knowing Our Customers and Inspiring People)

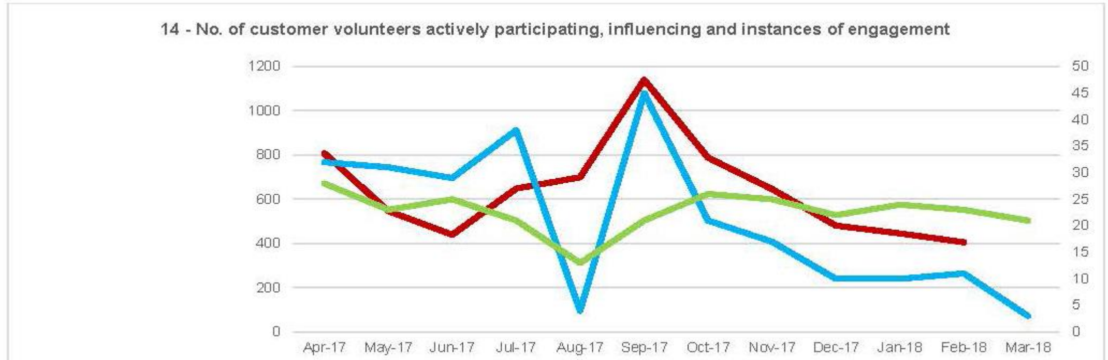
Metric A1: Membership





As a tenant led organisation we have an open membership and encourage tenant participation in decision making. Membership is formally measured on the occasion of Board meetings; hence this graph does not measure it every month.
Our membership has steadily grown each year since Red Kite was set up in 2012.
The increase in membership in the second half of the year corresponded with a drive to increase member participation around the time of consultation on the new group structure.
The Board sets no target for membership but actively encourages participation.

Metric A2: Tenant Participation



	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Engagement (secondary axis)	807	546	440	648	700	1140	788	646	481	445	406	
Participating	32	31	29	38	4	45	21	17	10	10	11	3
Influencing	28	23	25	21	13	21	26	25	22	24	23	21

We measure Influencing – Those involved in high-level consultation; Participating – Those actively contributing to what we do by carrying out activities on our behalf and Engagement – Those taking an active interest in what we do (e.g. answering surveys, providing feedback, applying for funding, becoming members).

This year has seen a decline in these metrics towards the end of the year. As an organisation we are already addressing this. We have refreshed our key tenant consultation group (CCIG) and they are looking at the question “What does “tenant led” look like and how do we increase engagement?” As part of this process they are engaging with members and the group will share its findings in a joint meeting with the Board in the autumn.

B) Inspiring People
Metric B: the nine-box grid

Potential \ Performance	Does not meet expectations	Meets expectations	Exceeds Expectations
	Conundrum *(unlock potential)* 0%	**Developing top performer** *(stretch / develop)* 7%	**Outstanding performer** *(focus)* 11%
	Inconsistent Player *(unlock potential)* 3.5%	**Key Player** *(develop)* 39.5%	**Positive Impact Performer** *(stretch / develop)* 18%
	Under Perfomer *(act now)* 4.5%	**Solid Professional** *(observe / develop)* 11%	**High Professional** *(develop)* 5.5%

Potential

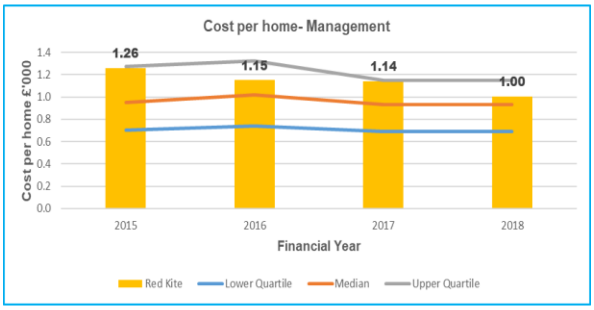
Performance

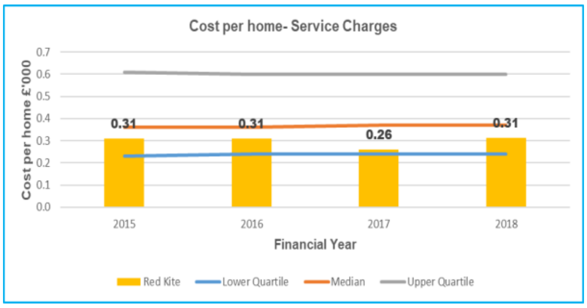
The nine-box grid is a tool we use to evaluate our staff’s performance and potential to ensure that we have the appropriate blend of people with the right values and experience to deliver our Corporate Objectives.

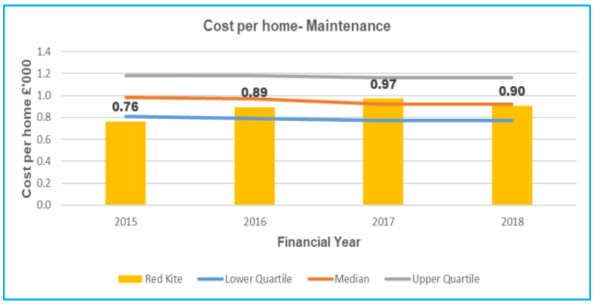
A base line was set in the year ended 31st March 2018 with only 8% of staff in the left-hand column indicating a need for improvement and 75.5% of staff in the upper right four quartiles. Whilst this is healthy and realistically any organisation will have some under-performers we will target increasing the percentage in the upper right four quartiles to 80% in the current year and those in the left-hand column to 5%.

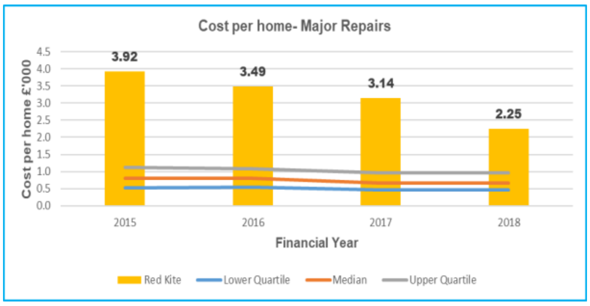
Red Kite aspires to be a growing organisation and to facilitate this we have introduced a corporate development programme this year - “GROW” - tailored to individual needs with the aim of more closely aligning the skills and values of the staff to those required by Red Kite group to enable our future growth.

C) Providing Great Homes and Increasing our Investment
Metric C: Cost of Homes Broken into individual Components







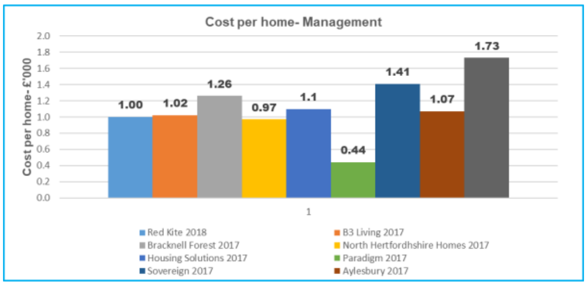


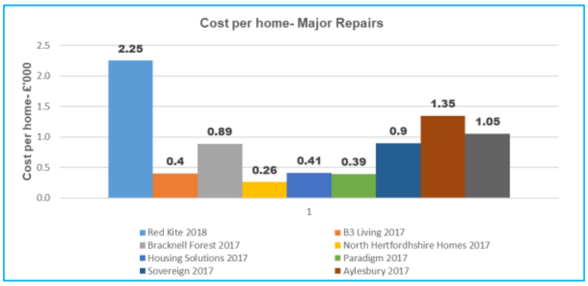
The figures, as per overall cost per home (Metric 5) are benchmarked against the Global Accounts. When broken down to its components it is clear that, whilst overall cost per home is coming down and just about matches upper quartile, it is in the area of management cost and major repairs that Red Kite is high.

In the case of management cost this has steadily decreased over the last three years and is now close to the median for the sector. This reflects our approach towards Value for Money which is to look for every opportunity to improve either the efficiency or effectiveness of our approach.

The other outlier is major repairs. This has come down very significantly this year as we completed our promises in the stock transfer in December 2016 but is still high compared to sector norms. However, this is a conscious decision on the Board's part to invest in our existing homes beyond the decent homes standard and is not untypical for relatively new stock transfers.

Comparing Red Kite cost to other RPs in our vicinity (all figures taken from published Global Accounts) is also illuminating.

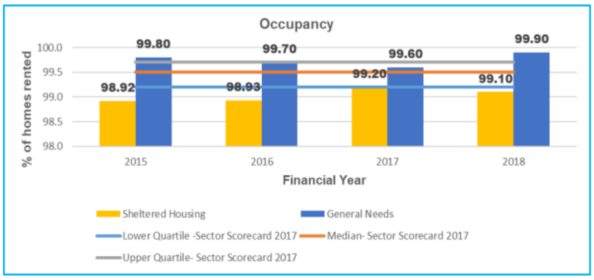


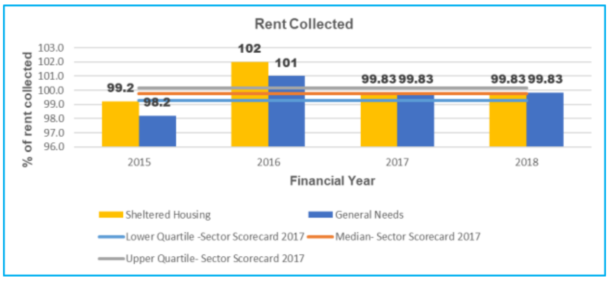


Whilst this shows that we are investing more in our existing homes in terms of improvements (major repairs) this is a positive strategy and consistent with our Corporate Objectives (Providing Great Homes, Increasing our Investment). However, it shows that our management cost per home is competitive in comparison to our local peers with the exception of Paradigm which is something of an outlier.

D) Providing Great Homes

Metric D1 and D2 - Occupancy Level and rents collected

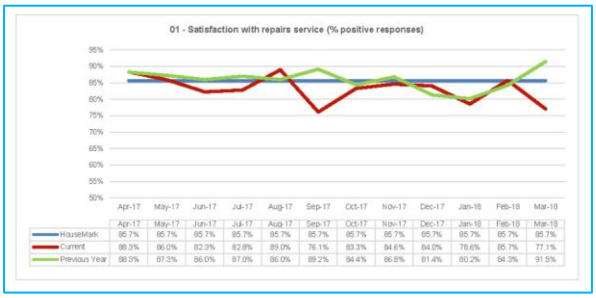


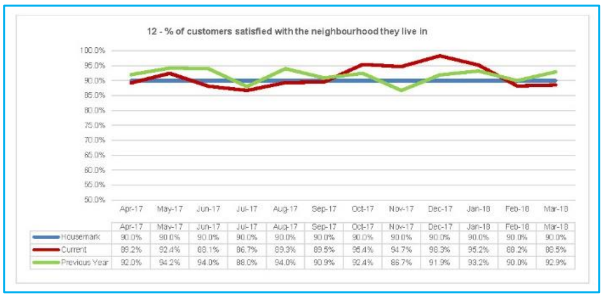


To measure our effectiveness of utilising our homes in providing homes to our customers we monitor occupancy rate and rents collected. The benchmark figures are taken from Sector Scorecard information and relate to general needs homes only.

We target maximising our occupancy levels and rents collected and pay attention to any decrease. Against the Sector Scorecard we are maintaining levels between the sector median and upper quartile. Our occupancy levels are significantly lower in our sheltered housing accommodation where there is a higher churn and an oversupply of the traditional type of housing in the area. To address this the first sheltered housing review in 2015 led to the closure of a number of schemes some of which have been included as sites for development and others sold. Two mixed schemes were converted to all general needs. We have started a second review this year because the initial review identified a need for further action. The aim is to conclude the review this financial year with implementation to follow thereafter.

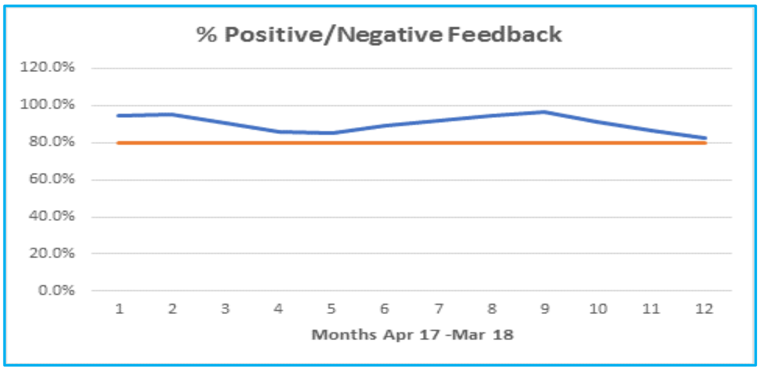
E) Knowing our Customers
Metric E1: Customer satisfaction





We monitor customer satisfaction on a monthly basis in a number of areas but the two most important issues to them (according to feedback from our customers) are repairs and anti-social behaviour so the measures above are indicators of our success in dealing with these issues.

However recently we have taken soundings from our customers and these have suggested that feel they are surveyed too often. So, we are looking at other ways of monitoring customer feedback and particularly we monitor unsolicited feedback.



Unsolicited feedback paints a similar picture to that of our surveys; most notably the decline towards the end of the year has been related to dissatisfaction with our repairs service which is being addressed through a re-procurement.

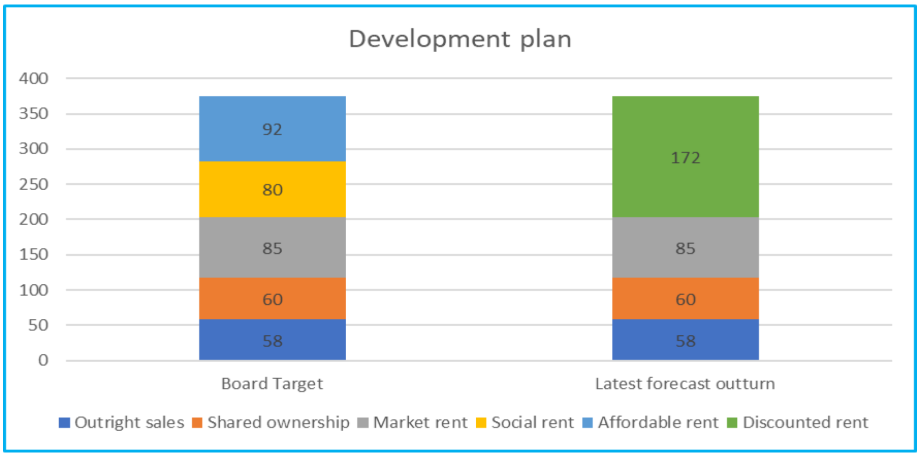
It also gives us early warnings of issues as it is specific and enables us to address these issues quicker than simple survey information.

F) **Commitment to our community –**
Our why "To realise the potential of our communities"
Corporate objectives: Building Thriving Communities, Increasing Our Investment

Bringing it all back to the way we engage with the community now, we do this in a number of ways; through members' surveys, job fairs, running pop-up business schools, through a community morning where the whole staff team engage in various community support projects, through engagement weeks with the customers and families and through a Christmas market where we encourage some of the local small business start-ups helped through our pop-up business school to participate. We work to develop partnerships locally through our Community and Volunteering team and will be expanding that in future through our recently employed Community Potential Specialist.

The most important way in which we are showing this commitment however is through our development programme (see also metrics 1 and 2) and through the development of new ways of supporting people's life ambitions (see G below "the future")

Metric F1: Development plan



Our development plan, approved by the Board in 2016, is for a sustainable mixed development of 375 new homes over a number of sites. The intention and financial commitment to develop is expressed in Metric 1 - Reinvestment and Metric 2 - New Supply Delivered.

Our mixed tenure development plan allows us to cross-subsidise homes at lower than market rental (social, affordable, discounted) and shared ownership homes to enable a sustainable development plan. This means that we will have resources once we have completed the current plan to continue to develop. Red Kite group will look to the next phase of development in bringing forward plans towards the end of the five-year period that the current plan covers. There is potential within the current plan to exceed the 375 homes planned, building up to 500 homes, depending upon the viability of site assessments. What has changed is that the homes built for subsidised rental will be transferred to our new unregulated subsidiary, Twenty11, where a more flexible rental of between 50% and 80% of market value will be applied (see below - G the Future)

G) The Future - Twenty11 and Pennvale
Corporate objectives: Knowing Our Customers, Building Thriving Communities, Increasing Our Investment

One of the requirements of the new standard is that Boards should review from time to time whether they had the most effective delivery structure in place to deliver their objectives. Such a review took place in June 2017 building on the "Corporate Journey" and reflecting on the best way to deliver our "Why" and our Corporate Objectives. The conclusion, after asking our customers what was important to them, was that we could do this best by developing a new corporate structure including both a commercial subsidiary that among other things would be able to compete in the estate management market as an ethical estate agent (Pennvale) and a new charitable subsidiary to provide subsidised or discounted housing with the same objectives as Red Kite, but as an unregulated housing provider (Twenty11).

The process of setting these subsidiaries up has necessarily been a long one and included an options appraisal using the Form Follows Function toolkit and extensive consultations with our residents, Wycombe District Council, the Regulator and the MHCLG (then DCLG). The Board approved business cases for both Pennvale and Twenty11 demonstrating their viability as stand-alone businesses with initial investments paying back within the first few years of their existence.

The current financial year will see the first lettings by Pennvale and also the first transfer of homes to Twenty11 and lettings to tenants using the model developed for that company. The objectives in setting up Twenty11 include setting rents appropriate to people's circumstances which can from time to time be adjusted as those circumstances change, supporting tenants and their families to improve their life chances through the employment of a Community Potential Specialist who will work in partnership with other organisations and with tenants to do this, and having a simple and effective way of managing both positive and negative tenant behaviour. The design of Twenty11 is based upon what our tenants told us was important to them and tenants have been involved in its development and set up.

Pennvale, in turn, whose staff will work with Red Kite and Twenty11 as well as in the commercial market, is key to us developing a range of housing solutions to support people at different stages in their life and also to lift standards locally.

During this Financial year we will develop metrics to measure the success of Pennvale and Twenty11 and these will be reported on in the 2019 report. We are looking for support from an external body to independently verify our performance in Twenty11 against the selected metrics to demonstrate the effectiveness of this pioneering approach to the provision of sub-market rental housing solutions.

As well as developing relevant metrics for our new businesses the Board will consider setting specific targets for the seven RSH standard metrics and Red Kite specific metrics during this year and these will be added once approved as an Appendix to the VfM Strategy (Our Strategic Approach to Value for Money).