Value for Money Statement

For the year ended 31st March 2021

CONTENTS:

EXECUTIVE SUMMARY

Delivering **Value for Money** is integral to the way the group operates and as such is overseen directly by the Board Our Value for Money Strategy is regularly reviewed and aligned to the Regulator's Value for Money Standard, the associated Code of Practice and the Sector Scorecard. This approach has become embedded in everything we do.

A key part of delivering our services as efficiently as possible is understanding the costs and main drivers, setting targets for key financial measures and understanding how our costs compare to our peers. We continue to use the *Sector Scorecard* to measure and monitor our progress across the agreed metrics and how these will be reported to our stakeholders.

EXECUTIVE SUMMARY

We measure a number of indicators, mostly taken from our financial accounts across five categories:

- Business Health
- Development
- Outcomes Delivered
- Effective Asset Management
- Operating Efficiencies

These five categories are in line with measures in the Sector Scorecard and allow us to track our progress with the delivery of cashable savings and demonstrate how we are controlling costs, whilst still delivering our core services and developing new homes.

During the current year the office structures were reviewed and following extensive appraisals the rationalisation of our office space was approved by the Group Board. Our head office in Coalville has been extensively remodelled to create an up to date, agile work space for all employees in the Group. This in turn has allowed for the review and potential disposal of obsolete offices. The impact of Covid 19 has led us to home based working not only reducing costs but also our carbon footprint as commuting is now at a minimum.

Following the completion of our 4 year efficiency strategy in relation to the rent reduction we have now implemented a further 5 year target to save £1.5m based on the move to agile working and the office changes. This will further embed our Value for Money within our new working approach and processes.

Value for Money remains central to the delivery of our strategic objectives as in the current operating environment there is increasing pressure to reduce costs and provide cost effective services. Delivery of the efficiency savings plan is a key priority for us, and we continue to challenge processes and working practices in order that we can continue to deliver high quality services with fewer resources.

We maintained our financial position within our peer group and the wider sector delivering results that are comparable to or healthier than the sector average.

We delivered strong performance against the key measures in the Sector Scorecard during the year and our key highlights include:

- Maintaining **top quartile** performance for total social housing cost per unit
- Having a stable EBITDA at **176.1%**
- Delivering **407** new homes achieving **2.2% growth** in units
- Maintaining **top quartile** performance for reinvestment

OVERVIEW OF FINANCIAL PERFORMANCE / SECTOR SCORECARD

	EMH 2021	EMH 2020	TREND	PEER GROUP 2021*	RANKING 2020**
UNIT COSTS					
Headline social housing unit cost	£2,679	£2,642	↓	£3,528	Upper Quartile
Management	£997	£947	↓	£992	3rd Quartile
Service charges	£415	£397	↓	£374	3rd Quartile
Maintenance	£873	£797	↓	£1,097	Upper Quartile
Major repairs	£355	£449	↑	£773	Upper Quartile
Others	£39	£52	↑	£195	Upper Quartile
BUSINESS HEALTH					
Operating margin (excl surplus on sales)	28.1%	29.0%	↔	23.0%	Upper Quartile
Operating margin – social housing lettings	31.0%	33.2%	↓	26.2%	Upper Quartile
EBITDA MRI % interest cover	176.1%	180.2%	↓	166.8%	2nd Quartile
DEVELOPMENT CAPACITY					
Social housing units developed	407	400	↑	293	2nd Quartile
Social housing units developed as % of unit owned	2.2%	2.2%	↔	1.1%	Upper Quartile
Gearing	53.1%	50.4%	↓	46.5%	3rd Quartile
OUTCOMES DELIVERED					
Customer satisfaction with services provided by landlord	81%	81%	↔	85%	2nd Quartile
Reinvestment %	7.6%	11.4%	↓	6.15%	Upper Quartile
Rent collected	99.8%	99.8%	↔	100.2%	3rd Quartile
EFFECTIVE ASSET MANAGEMENT					
Return on capital employed	3.8%	4.5%	↔	3.4%	Upper Quartile
Occupancy	97.4%	99.6%	↓	99.4%	3rd Quartile
Ratio of responsive repairs to planned maintenance	1.45	1.20	↑	0.8%	Bottom Quartile

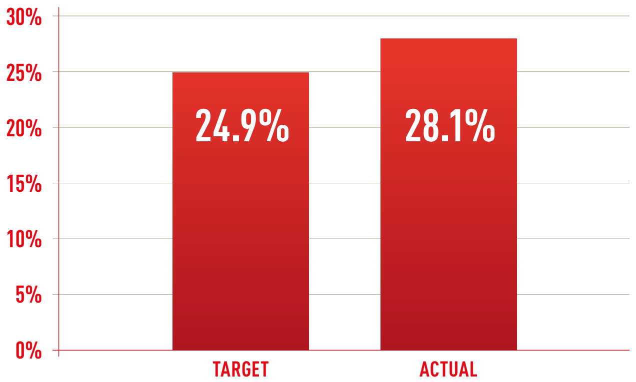
*Peer group median (peer group consists of approximately 53 other Housing Association; LSVT and traditional; managing in excess of 10,000 units in the year in England)

**Ranking system against peer group ● Upper Quartile ● 2nd Quartile ● 3rd Quartile ● Bottom Quartile

↑ Indicator has improved ↔ Indicator has stayed the same (or within 1% of prior year) ↓ Indicator has worsened

BUSINESS HEALTH

OPERATING MARGIN (ALL ACTIVITIES)

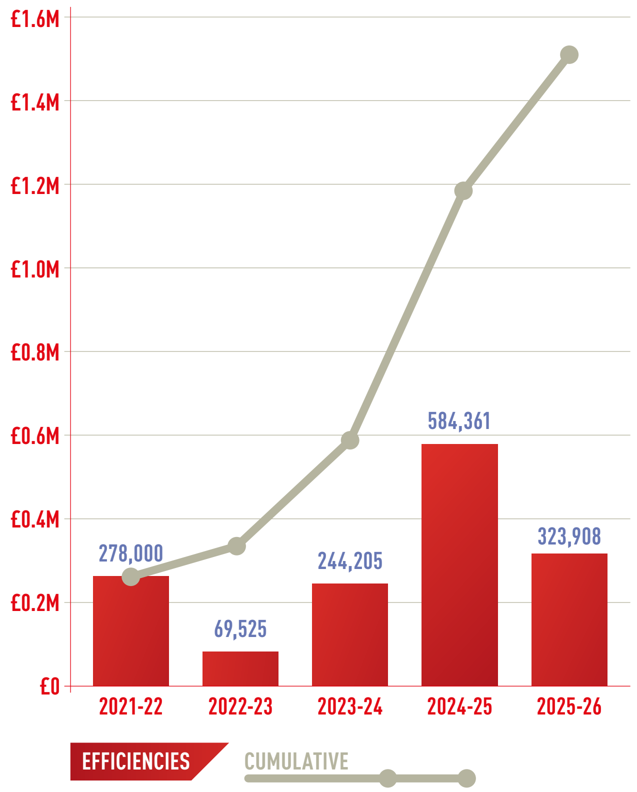


As a responsible landlord, we aim to balance the delivery of quality services to our existing customers with the provision of new homes to meet growing demand. We are a *profit for purpose* organisation; aiming to maximise the operating margin on our core social housing activities whilst maintaining customer satisfaction. Surpluses are then reinvested back into our existing properties and the development of new homes to meet the diverse range of housing needs within our geographical areas of operation.

Our results for 2021 compare favourably to our targets, achieving an overall operating margin of 28.1% against the target of 24.9%;
This is upper quartile performance within not only our peer group but the wider sector and is largely attributable to a few areas:

- We maintained the margin on our core social housing activities through robust and improved tenancy management.
- We exceeded our target margin of 5% on care and support activities with an overall surplus of £1m remaining consistent with the previous year.
- We experienced higher volumes of first tranche sales than expected and generated an average surplus of £19.4k on each property sold.

ANTICIPATED EFFICIENCIES



The group has now set its 5 year efficiency targets up to 2025-26 as set out below. We are confident that with the following steps we can achieve these targets.

- Office review and rationalisation
- Continuous reviews and changes to working practices
- Stringent cost control

The Group's procurement regulations mean that when significant contracts come to an end they are being subjected to open competitive procurement processes. In 2020-21 new contracts were awarded for agency staffing, employee assistance and occupational health programmes, central heating installation both gas and renewable energy, property maintenance framework, utilities, employers agents, architectural services, kitchen and bathroom supply, asbestos surveys, windows and doors supplies and a number of others. These contracts were awarded on the basis of most economically advantageous tenders, and some in conjunction with other buying consortia, delivering a combination of cashable savings, and the right quality and levels of service.

BUSINESS HEALTH

EBITDA MRI measures our ability to generate sufficient cash from our operating activities to meet our interest commitments. Comparability with other providers is difficult due to variability in risk appetite, development strategy, and treasury policies. Our EBITDA MRI has decreased slightly during the year however, at 176% still demonstrates that as a group, we are generating sufficient funds to more than meet our interest commitments. We have sufficient headroom in our loan covenants that we are facing in relation to investing in our existing homes and in developing new housing.

Our ratio of responsive repairs to planned maintenance remains bottom quartile having worsened during the year. This will improve over the next few years as we focus on stock investment to ensure that all of our homes meet the *Decent Homes Plus standard*.

A higher spend on planned works in relation to reactive works is deemed to be a more efficient and effective way for an organisation to spend its maintenance budget as this is likely to result in lower responsive repairs costs in the future.

Our ongoing strong financial position enabled us to secure a new 5 year £75m revolving credit facility with RBS and increased and extended our revolving credit facility with Lloyds to £65m (from £50m) with a revised expiry date of 2026. Both of these facilities are fully secured and available to draw. With the inclusion of our original facility with Santander we now have £190m all undrawn but all secured and available to draw.

In year we drew the £50m deferred element of the £100m facility arranged through Pension Insurance Corporation in 2019. This has enabled us to meet our growth strategy with increased borrowings to £501m.

The *One emh* Transformation programme has continued during the year to support our digital strategy. This thorough review of working practices to ensure efficiency, customer service and value for money has focused on repairs processes, our Care and Support Business and our Development activity in year.

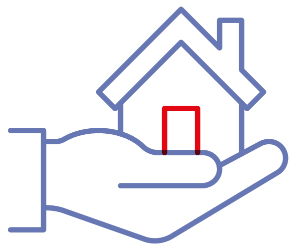
83% SATISFACTION THAT RENT PROVIDES VALUE FOR MONEY

Our customers believe that we continue to provide value for money with our rents and associated services.

98.93% OF RENT COLLECTED

DOWN FROM 99.87%

Rent collection dropped in 2020-21 by 1% to 98.93% placing us in the 4th quartile for collection for the first time.



2.94% RENT ARREARS

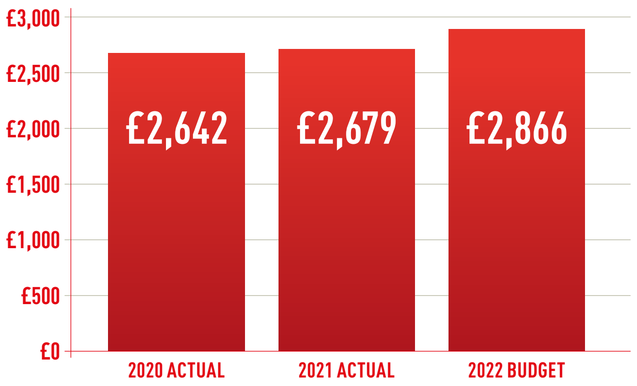
UP FROM 2.58%

Current tenant arrears increased slightly in 2020-21 as would be expected with a reduction in rent collected. The ongoing pandemic began to affect residents as government support changed. The sector as a whole is experiencing increased current tenant arrears at circa 3.5%

UNIT COSTS

The graph below shows how we continue to challenge ourselves on the routine costs of delivering our core social housing activities.

HEADLINE COST PER UNIT



The figures for 2020 and 2021 are actuals taken from our latest audited financial statements. 2022 is based on costs from the Board financial plan and highlights a significant increase in major repairs investment. To enable comparability with other registered providers we have excluded the direct costs of delivering our care and support activities from our unit costs. These costs are funded through their own income streams and are contained within a separate subsidiary in the group where we measure the profitability of each activity separately.

Our unit costs, at £2,679 exceeded our budgeted unit costs for the year of £2,829 (adjusted for actual unit numbers) and equates to £150 or a 5% positive variance. This was largely attributable to reduced costs on component replacements due to restrictions surrounding the Covid pandemic.

Our unit costs continue to compare favourably against our peer group with a total social housing cost per unit of £2,642 being in the top quartile when compared against similar organisations. The sector average rose by 4% to £3,830. Our management costs remain in the second quartile at £947 per unit. This is an increase of £33 from £914 and remains lower than our peer group of £1051. Despite an increase in year of 3.6% this is considerably improved on our peer group median which has seen an increase of 7%.

Service charge costs have decreased in the year by 2.2% following stringent control of costs and requirements of our customer base. The peer group median has remained the same.

Maintenance costs per unit at £797 have reduced by circa 5% whilst our peers have seen an average increase in costs of 8%. This is due to the mix of works carried out and the early impacts of Covid at year end. We remain in the second quartile for this indicator with additional investment earmarked over the coming years.

Due to the extended timetable for financial reporting some peer comparison has proven challenging in the current year and will be reviewed on an ongoing basis to provide meaningful and valuable indicators.

DEVELOPMENT CAPACITY AND OUTCOMES DELIVERED

It is recognised that increased delivery of new units is a significant driver of value for money as fixed costs are attributable to a larger stock base. Development has a negative impact on our financial viability and gearing, with each new property requiring an internal subsidy of up to £2,650. Despite this, the Board remain committed to the provision of new homes. We continued to develop in line with our Development Strategy with a programme of both affordable rented and low cost home ownership properties across the region. We are dedicated to exploring other tenures, including social rented properties and market sale in order to offer a balanced mix of new homes.

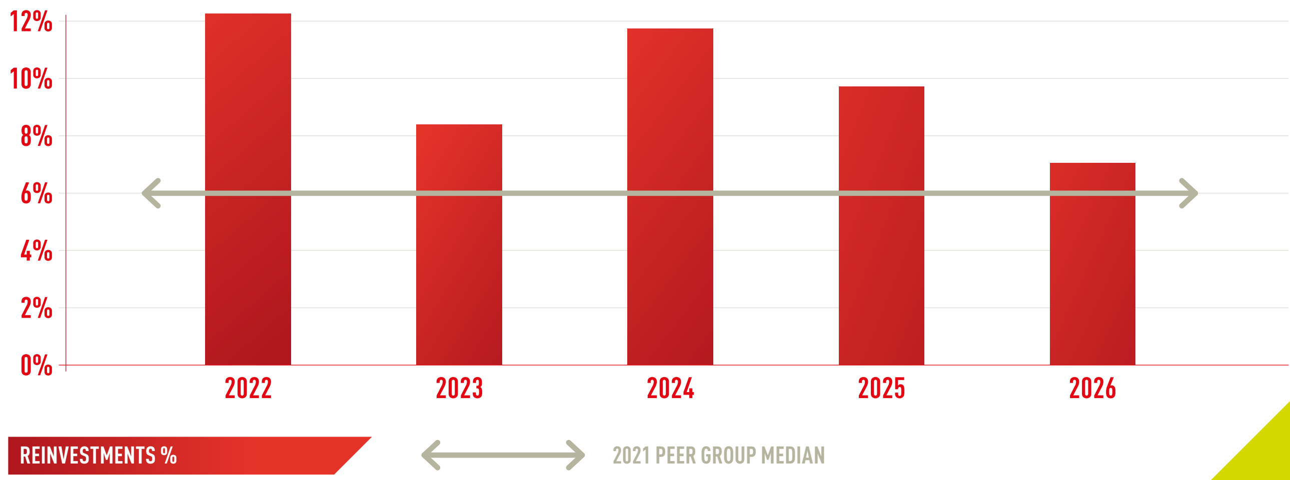
2021 saw us continue our delivery within the Strategic Partnership with Homes England with the partnership covering 948 units with £43.4m of attributable grant.

The development programme continues to focus on land-led schemes utilising emh Development Company Limited to provide design and build services for the Group. This compliments our strong experience of S106 and package deals and allows us to deliver our ambitious growth targets in a cost-efficient way. During the year we completed 407 new homes, a growth of 2.2% in the year. This is below our target of 550 new homes and is a direct result of the ongoing COVID-19 pandemic. Various lockdowns and restrictions during the year affected the supply chain, increasing material cost and availability of labour. At the year-end we had 802 new homes on site which will be delivered in future years and remain on track to achieve our target of managing at least 21,500 homes by 2023. £24m of grant was received to support our growing programme in the year with £18m of this being in relation to the Strategic Partnership. At the end of the financial year we had drawn down over 90% of our £43.4m grant allocation in totality. The sector average growth in year was 1.1% with the upper quartile being 1.8% putting emh in a strong position not only in our peer group but also in the wider sector.

Significant investment in new developments is carefully balanced with the need to reinvest in our existing properties to maintain standards for our customers. Due to restrictions in year and national shortages of materials and labour we were only able to invest £6.8m on our current stock, despite provision being significantly higher. Our rolling programme of capital investment in component replacements for windows, kitchens and bathrooms has been increased significantly in the coming years to reflect the requirements of our updated Asset Management Strategy.

REINVESTMENT

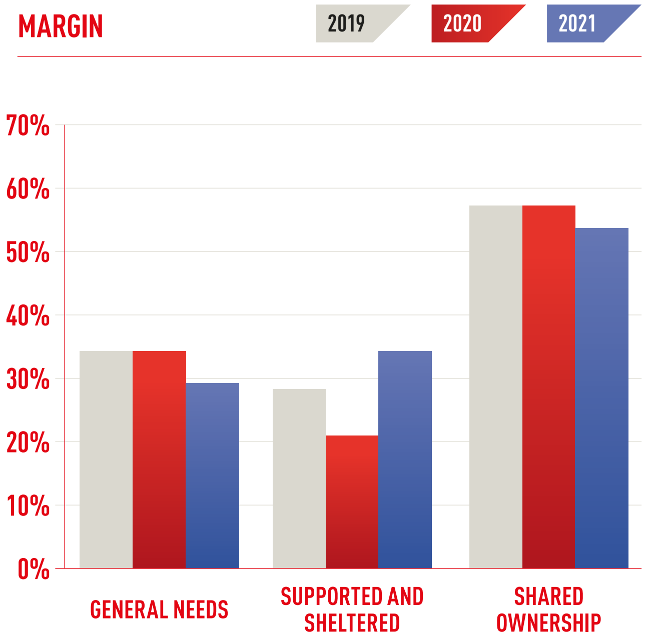
The chart below summarises our reinvestment activity (taken from the Sector Scorecard definition) and demonstrates our commitment to investing excess surpluses into maintaining our existing stock and building new homes. The current peer group median of 6.1% is significantly lower than our allocated resources over the next 5 years. Our current position also exceeds the sector average with reinvestment of just 5.9%



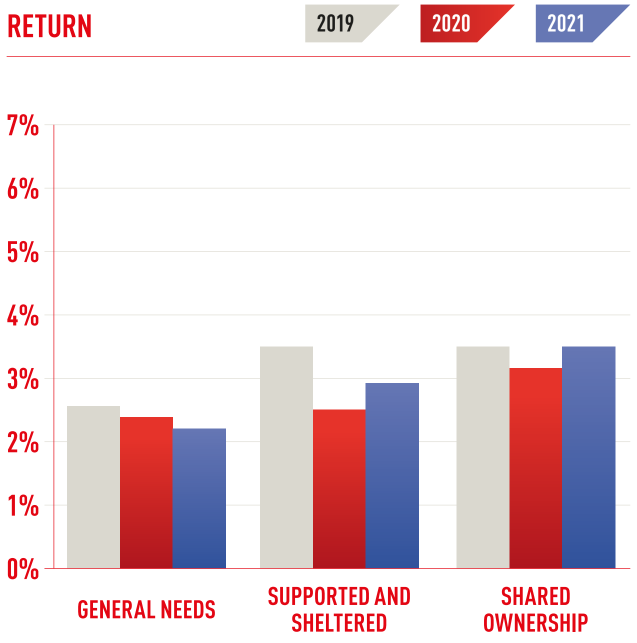
EFFECTIVE ASSET MANAGEMENT

As the majority of our income is asset generated, we measure the overall return on investment and operating margins for each significant class of income generating asset as identified in our audited accounts. The charts below show that year on year we have achieved strong operating margins of between **26%** and **56%** across the three categories of assets.

MARGIN



RETURN



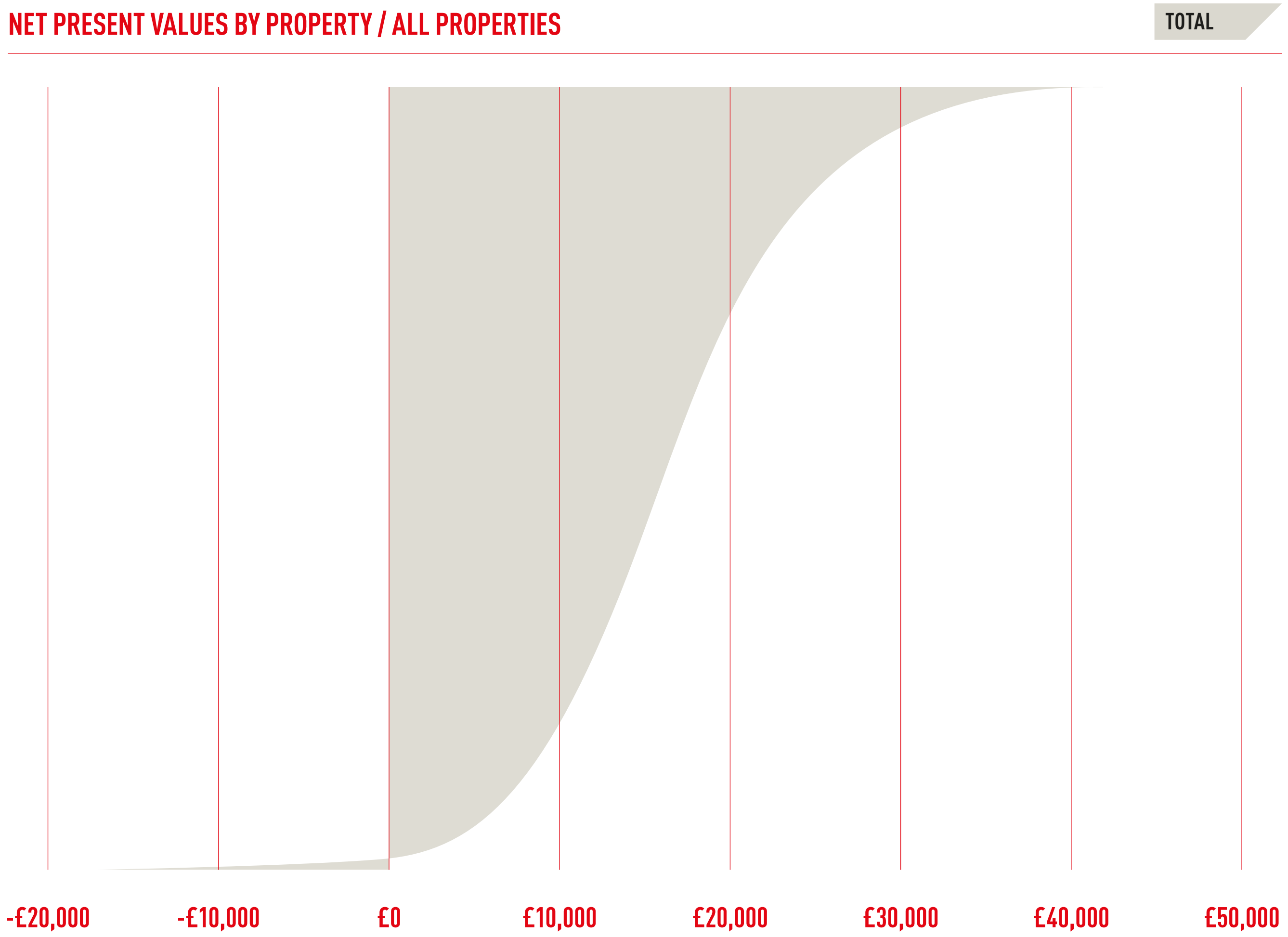
There has been a slight reduction in operating margin in both general needs and shared ownership stock whilst supported and sheltered housing has seen an increase not only in operating margin but also on return on investment.

We also measure the returns on individual assets in line with our Stock Rationalisation Strategy. Any property that generates a net present value of £2,500 or less is not considered financially viable. In the last financial year we voluntarily disposed of a further 15 poor performing properties, generating sales proceeds in excess of £1.8m.

EFFECTIVE ASSET MANAGEMENT

We have refreshed our asset management strategy this year taking into account changes in our operating environment and setting out the priorities for the next five years. The chart below summarises the outputs from the model by property.

NET PRESENT VALUES BY PROPERTY / ALL PROPERTIES



We continue to appraise properties as they become vacant and have set ourselves a target to achieve at least £0.5m per annum in net sales proceeds from the voluntary sales of properties that are deemed financially unviable. We are actively managing those properties that have been approved for disposal by the Board and will in future consider incentivising tenants to vacate properties where appropriate so that disposals can be accelerated.

EFFECTIVE ASSET MANAGEMENT

The chart below summarises the outputs from the model by property.

LOW AND NEGATIVE NET PRESENT VALUES