Value for Money Statement 2023-24

1. INTRODUCTION

Value for Money (VfM) is the relationship between economy, efficiency and effectiveness and is not simply about paying the smallest amount, as the lowest possible price is not always the most beneficial outcome. For our tenants, this means Westmoreland targets delivering the right quality of services, at the right time and at the right price. As a small organisation, what Westmoreland lacks in scale is compensated for in the fact we know all of our properties and tenants in detail, and can use this knowledge to tailor service delivery accordingly.

In April 2018, the Regulator of Social Housing (RSH) introduced a new Value for Money (VfM) Standard and accompanying Code of Practice. The Standard introduced a requirement for providers to publish performance against their own VfM targets, and a series of common metrics with which to measure economy, efficiency and effectiveness set by the Regulator. The Regulator defined seven metrics in the publication 'VfM Metrics – Technical Note Feedback and Responses'. These seven metrics are considered the most appropriate set of measures to capture performance across the sector in a fair and comparable way.

The Standard sets the expectation that VfM should be a key strategic objective for providers and, as before, the Regulator will continue to seek assurance through In Depth Assessments that this is the case.

One of the Regulator's key objectives in defining a set of standard metrics was to support transparency and allow providers to analyse their performance alongside that of their peers on a comparable basis. To support this objective, the Regulator has published the metrics for all providers with more than 1,000 properties alongside the 2023 Global Accounts data set. In order to drive better reporting performance, the Regulator hopes that the key themes and issues commentary will help Boards with future reporting.

Registered providers must ensure that they have sought to optimise the financial return from their assets and activities as far as that is consistent with achievement of the organisation's wider organisational purpose and strategic objectives.

2. VALUE FOR MONEY STANDARD

The full text of the Value for Money Standard is available for download at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/919929/VfM_Standard_April_2018.pdf and is not reproduced here. However, the key tenets are that Registered Providers must:

- Clearly articulate their strategic objectives and ensure decision making is focused on achieving VfM and gaining the optimal benefit from the resources under their control;
- Be able to demonstrate a robust approach to decision making, with VfM embedded within the process;
- Consider all areas of the business as to whether they achieve VfM, even if the activities are in areas outside of social housing;
- Have appropriate VfM targets to measure performance and regularly monitor and report against their performance; and
- Report against specific VfM metrics set by the Regulator, how that performance compares to peers and any measurable plans to address areas of under-performance.

3. REGULATOR OF SOCIAL HOUSING VFM METRICS

The RSH cannot change the required metrics, where they work for the majority of the sector. However, where a provider has reported data is affected by a factor particular to that organisation, they are able to clarify this in the commentary accompanying the publication of their data.

The metrics and their applicability to Westmoreland Supported Housing Limited are as follows:

Metric 1 – Reinvestment %

The Reinvestment metric looks at the investment in properties (Existing stock and New Supply) as a percentage of the value of total properties held.

For Westmoreland, this metric has limited value as it only owns one property, yet has management responsibility to invest in the upkeep of over 100 separate buildings. Applying the RSH's calculations results in a reinvestment percentage of greater than 100%.

Westmoreland therefore presents alternative calculations in addition to the RSH's metric, that calculate investment as a percentage of the total lease liability for the properties under its management. The lease liability denominators used are the total of all future lease payments and the total lease liability due within one year.

Metric 2 – New Supply delivered % (broken down into Social Housing units % & Non-Social Housing units %)

The New Supply metric sets out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units owned at period end.

While Westmoreland is working with developers and funders to increase supply of supported housing units, none of this stock is owned directly; instead, it is leased from the funders.

To better demonstrate Westmoreland's contribution in this area, alternative calculations that show new supply delivered as a percentage of total units under management (not just units that are owned) are used. New supply delivered does not include any stock that was already in use as social housing and that has simply been transferred from another provider to Westmoreland.

Metric 3 – Gearing %

The gearing metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance.

By the strict definition of the metric, Westmoreland's gearing is negative, as its cash balances exceed its only debt item, a long-term interest-free debt (relating to a settlement agreement for returning a number of leased properties to a former landlord some years ago); and it only owns one property.

To reflect the fact that Westmoreland leases all bar one of its properties, Westmoreland reports gearing of 100% as this more accurately reflects the substance of the financing arrangements.

Metric 4 – Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %

The EBITDA MRI interest cover measure is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus that a registered provider generates compared to interest payable; the measure avoids any distortions stemming from the depreciation charge.

Westmoreland has no interest-bearing debt and so this metric is not relevant.

To reflect the lease-based nature of financing, Westmoreland calculates an alternative metric that shows lease rentals cover instead, by calculating its operating surplus excluding lease costs as a percentage of lease costs.

Metric 5 - Headline social housing cost per unit

The Headline social housing cost per unit metric assesses the headline social housing cost per unit as defined by the Regulator.

The Regulator's calculations of this metric include properties managed by the provider, not just those owned by it. As a result, the output for Westmoreland is at least representative of its entire portfolio.

However, the lease rent cost Westmoreland pays is effectively a financing cost, and financing costs are not included in this calculation by organisations who own their stock. Therefore, Westmoreland presents an alternative metric that calculates the headline cost per unit excluding lease rent.

Metric 6 – Operating Margin %

The Operating Margin demonstrates the profitability of operating assets before exceptional expenses are taken into account.

Westmoreland calculates this metric in accordance with the Regulator's requirements and does not present an alternative output. However, Westmoreland's performance is constrained by the fact the lease-based model operates at extremely small margins, and so cannot achieve the double-digit returns that many providers that own their housing stock report.

Metric 7 – Return on capital employed (ROCE) %

The ROCE compares the operating surplus to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources.

In previous years where Westmoreland had reported an overall deficit in assets but an operating surplus, it would have recorded a negative ROCE per the Regulator's definition. This would be misleading, as usually a negative ROCE would arise from an operating deficit, i.e. a provider has lost money in the period. Instead, Westmoreland would have a negative ROCE by generating a return out of negative capital, which is a completely different outcome.

In presenting its results against this metric, Westmoreland includes sufficient explanatory notes to show explain why a negative outturn is actually a positive result, and vice versa.

Now that Westmorland is now reporting a positive value for capital employed, a negative ratio would only arise in years where Westmoreland records an operating deficit, which is in line with how this ratio is usually calculated and understood. Even so, as Westmoreland has a very low asset base (as most of its properties are leased), the ROCE percentage can be extremely high, even in excess of 100%.

To present a meaningful ratio, Westmoreland would need to calculate a value for the properties it leases, to be able to include this in the total assets numerator. However, this information is not currently available and so an alternative ratio is not presented.

Benchmarking of Metrics

VfM performance is calculated in a standard format for all Housing Associations and is part of the Regulator of Social Housing's VfM Standard.

Westmoreland is a Specialised Supported Housing provider. As such, some of the standard VfM measures required by the Regulator for all Housing Associations are not ideally suited to our organisation. This can lead to some results appearing out of step with other benchmarks.

For the purposes of meeting the VfM Standard, Westmoreland uses data collated by the Regulator in its Global Accounts reporting to show the upper quartile (UQ), median and lower quartile (LQ) benchmark figures for each of the seven metrics. However, Westmoreland's key focus is on demonstrating an improvement in its own results when compared to prior periods, both in respect of the Regulator's set metrics and Westmoreland's alternative calculations.

4. WESTMORELAND VFM PERFORMANCE – APRIL 2023 TO MARCH 2024

While Westmoreland's most recent results cover a twelve-month period, the previous financial period was based on results for the eighteen months from October 2021 to March 2023, following a change in WSHL's year end. Where applicable, for the prior reporting period, numerators in both the RSH and WSHL's metrics have been reduced by one third, to present a twelve-month equivalent spend.

RSH VfM Metric	12 months to 31 March 2024	18 months to 31 March 2023	+ve or -ve change	Sector Upper Quartile	Sector Medium Quartile	Sector Lower Quartile
1. Reinvestment %	395.8%	581.9%	↓	9.4%	6.7%	4.3%
2. New supply delivered	0%	0%	↔	2.2%	1.3%	0.6%
3. Gearing %	-985.6%	-335.4%	↑	53.7%	45.3%	33.4%
4. EBITDA MRI interest cover	N/A	N/A	↔	169%	128%	89%
5. Headline social housing cost per unit	£20,157	£20,181	↑	£5,847	£4,586	£4,082
6. Operating margin %	8.3%	1.6%	↑	25.5%	19.8%	14.4%
7. Return on capital employed	107.6%	373.0%	↓	3.6%	2.8%	2.2%

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WSHL VfM Metric	12 months to 31 March 2024	18 months to 31 March 2023	+ve or -ve change
1. Reinvestment as % of total lease liability/ Reinvestment as % of lease liability within one year	0.3%/ 8.3%	0.5%/ 13.4%	⇩
2. New supply delivered including leased stock	8.2%	1.8%	⇧
3. Gearing recognising substance of financing%	100%	100%	⇔
4. Operating surplus ex. Lease costs as % lease costs	115.3%	103.0%	⇧
5. Headline social housing cost per unit excluding lease rent	£8,038	£8,640	⇧

5. VFM COMMENTARY

Westmoreland's performance against both the RSH and its own VfM metrics in the past twelve months is either positive or neutral in five of the seven categories. In particular, the addition of 52 new-to-market units during the year represents an 8.2% increase in WSHL's units under management (WSHL metric 2).

The improvement in RSH metric 6, along with WSHL's metric 4 show WSHL's progress in achieving VfM in the year. Much of this improvement can be linked to the dilutive effect of additional growth on WSHL's existing overhead cost base, with the same costs shared by more units, reducing the overall cost per unit and increasing WSHL's operating margin.

This is further borne out by RSH and WSHL metrics 5, which show that while the headline social housing cost per unit (including lease rent, which is outside of WSHL's control) is barely changed, WSHL has recorded a significant reduction in other costs, such as overheads and general maintenance.

Of the metrics that show a decline in performance, RSH metric 7 (ROCE) remains misleading as a result of the factors stated above: in the prior period, WSHL reported a six-figure operating margin on a five-figure capital employed value, whereas the current year's result of 107.6% stems from an operating margin of £1.3m against capital employed of £1.1m.

The reduction in reinvestment % (metric 1) follows a large increase in works in the previous financial period, including a significant amount of works paid for by the ultimate landlord. Expenditure on component replacements in the year to March 2024 relates to WSHL's ordinary planned works programme, which was completed within budget.

6. KEY VFM ACHIEVEMENTS IN THE YEAR

During the year, Westmoreland achieved significant VfM savings in the following areas:

- The procurement and management of Westmoreland's entire cyclical services provision (window cleaning, gardening etc.) was brought in-house, moving away from an externally managed national contractor to using local tradespeople in each property area, a suggestion that came from an all-staff away day in September 2022. This has significantly reduced the overall cost of providing the services and has also improved the quality of the delivery. The total expenditure on these services was c. £70k less than had been budgeted.
- Westmoreland has continued to focus on keeping utility costs as low as possible, in a very challenging market. Bulk contracts covering the vast majority of Westmoreland's supplies were agreed in autumn 2023, with new rates effective from March 2024. Having all the supplies billed on a bulk contract with a single energy supplier has noticeably reduced processing time, allowing for more efficient allocation of staff resources.
- 52 new-to-market units have been added to Westmoreland's portfolio with no additional overhead costs required. This has had the effect of reducing the total overhead cost per unit under management.
- Westmoreland has continued to work with landlords to improve lease terms, providing Westmoreland and its tenants with additional security through better risk-sharing.

In addition, while VfM is not directly measurable in Westmoreland's financial results, we believe that the very service Westmoreland provides - delivering homes for vulnerable adults that might otherwise be in institutionalised care - provides real and demonstrable cost savings to the public purse, freeing up NHS resources and enabling our tenants to live healthier lives in the community.

7. VFM TARGETS FOR 2024-25

Westmoreland has set the following targets in respect of VfM for the coming year:

- Deliver 90 new units, working in conjunction with developers, funders, local commissioners and care providers to identify needs and source high quality homes for tenants.
- Successfully deliver a transfer of c. 230 units from another Housing Association, maintaining or even improving the service delivered to these customers and reducing WSHL's overall management cost per unit via dilution of its overhead base.
- Continue to develop understanding of its ICT estate and use this knowledge to design an improved architecture with better integration and on-the-road access for Housing Officers to access tenant data, which will significantly increase colleague efficiency across the business.
- Consolidate existing business practices and processes to drive efficiencies in delivery and servicing costs.