Yarlington's Approach to VFM

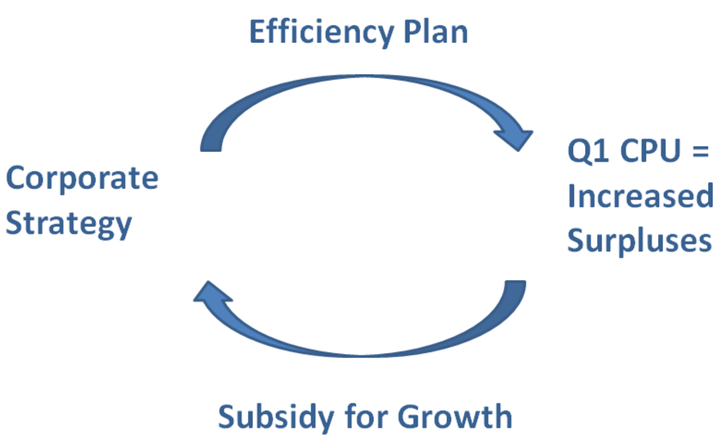
2017/18 - Value for Money disclosure

Our approach to Value for Money

Our approach to securing Value for Money is embedded in our corporate strategy, NextGen which covers the period April 2017 to March 2021. The three founding objectives of our strategy are:

Strategic objective	Outcome
Customers – serve our customers in the most economic, efficient and effective	Customers highly satisfied with our service offer
New homes – significantly increase the number of new homes we provide in the South West	1500 affordable homes built
New service – to implement a new service and operating model, consistent with the needs of our customers	Management cost located in top 25% of our peer group

As shown below, the interdependencies between these three objectives cannot be understated – each is dependent on the others in order that we realise our stated goals.



Our staff and stakeholders are clear that the VFM savings derived from a new service operating model, largely based on a digital platform, are reinvested to deliver additional new homes. These efficiency savings, coupled with profit from outright sale activity and disposals of underperforming assets, form the subsidy required to increase our development programme of new homes.

Our efficiency plan was contained within our Blueprint for Next Gen which identified savings potential of £2.3m per annum, predominantly from delivering a new service operating model. We can confirm that we have identified this level of savings and these are incorporated into our base operating costs for 2018/19 and onwards. A significant amount of these savings were achieved ahead of schedule, in 2017/18, contributing to the reduced headline cost per unit shown overleaf. The majority of the efficiency savings achieved in 2017/18 arose from greater productivity of our workforce leading to reduced expenditure from subcontractors.

In addition to these transformation savings, we also achieved a further £132k VFM savings against our annual target of £100k; and £483k cashable savings from our procurement activity through using our shared procurement consortium AdvantageSouthWest.

Our performance

We set out below our performance against the sector VFM metrics. We compare our 2017/18 performance against the prior year and against our 2018/19 targets.

VFM metric	2016/17	2017/18	2018/19 target	2016/17 Quartile (national)
Reinvestment – total investment as a % of existing properties	7.4%	5.3%	8.3%	n/a
New supply of affordable housing delivered	1.4%	1.4%	2.0%	Q2
New supply of non-affordable housing delivered	0	0	0.2%	n/a
Gearing %	37.3%	35.4%	36.1%	Q1
Interest cover % (EBITDA-MRI)	236.3%	232.8%	183.4%	Q2
Headline cost per unit of managing and maintaining affordable housing	£3,178	£3,091	£3,585	Q2
Operating margin – overall	34%	32.7%	23.8%	Q2
Operating margin – affordable housing activity	40.9%	37.4%	32.7%	Q1
Return on Capital Employed	4.5%	4.3%	3.2%	Q2

Our 2016/17 performance compared to our peers is favourable across all areas. Our new supply % is set to increase considerably in the short and medium term as we increase our development programme on the back of the savings delivered in our operating model, and thereby reducing our headline cost per unit of managing the stock. Our operating margins and interest cover remain one of the strongest in the sector, despite increasing development activity and therefore borrowing costs.

We show our 2018/19 target metrics, based on our 2018/19 budget. We are forecasting a decrease in our overall operating margin and EBITDA – MRI due to our increased sales activity which has a traditionally lower margin than affordable housing activity. Our headline (i.e. total) cost per unit of managing and maintaining our stock is set to increase in 2018/19 due to the planned increased investment in our assets in terms of component replacement; provision for additional fire safety works; and an increase in the agreed standard for voids works. Our actual management cost per unit (excluding maintenance) is budgeted to reduce by 5.5%; and our maintenance cost per unit (excluding major works) is budgeted to reduce by 5.3% reflecting the significant efficiency savings achieved through our transformation of the service delivery model.

Business improvement 2018/19 onwards

As noted above we have already achieved the efficiency targets set out within our NextGen corporate strategy. We will spend the first six months of 2018/19 finalising our new VFM plan to deliver further business improvement and efficiency. We have agreed a new three year Business Delivery Plan for our maintenance arm, Yarlington Property Management. This plan is set to deliver £1.6m additional net income to the Group, and is based on three key areas of activity:

- Streamlining our processes – we are confident there are further areas where we can make significant efficiency savings
- Further insourcing of activity – to improve productivity and reduce VAT exposure
- Additional services to customers – and thereby making our overhead cost more efficient.

Our Directorate Improvement Plans were launched in April 2018 and these contain various activities to improve our efficiency, economy and effectiveness. These activities will be brought together into our new VFM Strategy for the remainder of the NextGen period.