

2018-19

Orbit Group

Value
for Money
Statement



For the year ended
31 March 2019



building
communities

Value for Money

Our Value for Money Strategy

Delivering value for money is integrated into Orbit's profit for a purpose ethos. Our Board leads our approach, through setting our corporate strategy and approving our financial plan which is set to achieve metrics in line with value for money. The financial planning process ensures that Orbit achieves a healthy balance between delivering customer satisfaction, maintaining high quality energy efficient homes, creating a new supply of housing and creating a great place for employees to work whilst ensuring the financial health of the organisation. To aid this process, our active membership of benchmarking groups facilitates the review and challenge of our financial plan in our relentless desire to deliver value for money.

Over the last two years, Orbit's focus on operational efficiency has been channelled through its business transformation programme Shaping Our Future. The programme, under the strategic direction of the Board, is on track to deliver £10 million of annualised savings through streamlining our processes and rationalising our offices, whilst targeting improved customer service through the creation of our Customer Hub.

Orbit's determination to consistently deliver on value for money also requires investment into the business to ensure longer term efficiency and effectiveness. Our Board has approved a significant investment in a new ERP platform, Project Apollo, with implementation over the next two years. Once fully implemented this will remove legacy and costly IT systems, improving processes and controls and will allow us to leverage our data to improve business decision making. It targets to deliver cost savings in excess of £5 million a year and further improve our level of service to our customers. Furthermore, to increase the effectiveness of our procurement process and lower our cost base, we are developing our own Orbit design standards. These new standards, together with our 'place-making' activity to acquire, design and develop our own sites, will allow efficient procurement of components within our new build programme and for ongoing maintenance programmes. The new Orbit design standards not only improve our efficiency, they focus on the needs of our customers and improving their living standards.

Strategic corporate targets to 2020 include a number of metrics that drive value for money. Our continued improvement of products and systems, are producing helpful tools to allow customers to interact digitally, with 61% of transactions now online. In addition, our relentless focus to exceed customer expectation has seen satisfaction increase to 86.1%. Furthermore, our commitment to energy efficiency sees in excess of 75% of Orbit's properties at EPC band C or above. Work is underway to develop targets to 2025 which will continue to include value for money activities.

Our customer satisfaction has shown an improving trend over the last two years, increasing from 82.7% in 2017/18 to 86.1% in 2018/19. This has been driven by our focus on delivering excellent services resulting in high levels of satisfaction within our responsive repairs and capital delivery areas of the business.

Through a process of strategic asset management we are also continually seeking to improve the quality of our asset base, whether that is through asset sale, investment or reviewing asset swaps. For more detail on our approach to property development and asset management please refer to our Annual Report.

Against a backdrop of welfare reform, rent reductions and continuing uncertainty as a result of the ongoing Brexit negotiations, Orbit's focus on value for money remains a vital factor in creating the financial capacity to support the development of 12,000 homes by 2020 and 2,000 homes per annum beyond this. The creation of new housing supply is integral to our plans, and is aligned with our core social purpose to supply homes for those people who would not otherwise be able to afford them. The majority of our development activity will be targeted at delivering homes that can be rented at significantly below market levels. We take a commercial approach to project selection and management to ensure they are delivered to a high standard and at the best possible value. We are also looking to innovate in both the way our homes are constructed, such as modular housing, and in the technology incorporated into them, to minimise both the costs of developing new homes and their future maintenance.

Orbit's investment into our people and offices has been rewarded with our inclusion in the The Sunday Times 100 Best Companies to Work For, Not for Profit listing in 2019 at number 77. We are truly proud of this achievement. The investment in our offices has allowed us to rationalise our property portfolio and reduce our cost base.



An employee wellbeing event

Value for Money highlights

Orbit has set itself a number of strategic goals to achieve by 2020 which have been used to drive changes to the way we work, providing high quality homes and delivering excellent services for our customers. The strategic targets include improving customer satisfaction to 90%, ensuring all our homes are safe and warm, providing a full range of home rental and ownership options, ensuring 75% of customer contacts take

place online, £30 million of investment is made into sustainable communities and that we deliver 12,000 new homes. These targets ensure that we review all aspects of the value chain (economy, efficiency and effectiveness) and continue in our drive to deliver value for money. Progress against these targets, together with other strategic measures, are summarised below:



Operating Margin

| Actual 2018 | Actual 2019 |
|-------------|-------------|
| 25.4% | 27.3% |

Total people helped since project began 647 and a further 9,625 customers supported with employability and training

Employment Help Delivered

| Actual 2018 | Actual 2019 |
|-------------|-------------|
| 378 | 269 |

Efficiency

On track to deliver £10 m annualised savings from Shaping our Future programme

Transactions on line

| Actual 2018 | Actual 2019 |
|-------------|-------------|
| 51% | 61% |

Effectiveness

Sunday Times Top 100 Best Companies to Work For not for profit listing ranked 77

Customer Satisfaction

| Actual 2018 | Actual 2019 |
|-------------|-------------|
| 82.7% | 86.1% |

Community Investment

| Actual 2018 | Actual 2019 |
|-------------|-------------|
| £3.8m | £4.7m |

All Homes EPC band C or higher

| Actual 2018 | Actual 2019 |
|-------------|-------------|
| 71.8% | 75.7% |

Measuring Value for Money

We track our performance using financial, operational and strategic metrics as well as specific value for money metrics. These are monitored in line with the Value for Money Standard 2018 as set out by The Regulator of Social Housing. Further detail on our strategic metrics are covered in the strategic report.

The following scorecard shows our performance against prior year metrics and against the prior year metrics for housing associations with over 30,000 units as we believe that these are representative of our size and also our diverse business base.

Orbit is proud of its commitment and dedication to building homes and investing in its existing properties. These activities are at the heart of both our current and future strategy. However, as a consequence, we do not show as 'green' against metrics such as operating margin, gearing, EBITDA, whilst headline social housing cost per unit is in line with our peers. We firmly believe that our strategy is the right one for us and for our customers. Whilst we will always seek to deliver improved value for money year on year we will not expect these scores to change significantly due to the nature of our core strategy.

To support our drive for value for money, even on non-social housing activities, we ensure that all such development activities are tested against hurdle rates that are externally benchmarked.

| Metric | Value Chain Impact | 2019 | 2018 | Peer group Dec 2018* | Peer group Sept 2018** |
|--|--------------------|------------|--------|----------------------|------------------------|
| Operating Margin (Overall) | Efficiency | 27.3% | 25.4% | 27.9% | 29.7% |
| The Operating Margin, which excludes surplus on sale of housing properties, demonstrates the profitability of operating assets before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of a business. | | | | | |
| Operating Margin (Social Housing Lettings) | Efficiency | 39.5% | 37.8% | 33.2% | 36.8% |
| Demonstrates the profitability of operating assets before exceptional expenses are taken into account. | | | | | |
| EBITDA MRI Interest Rate Cover | Efficiency | 146.0% *** | 184.0% | 190% | 227.0% |
| Key indicator for liquidity and investment capacity. Measures the level of surplus that a registered provider generates compared to interest payable; the measure avoids any distortions stemming from the depreciation charge. | | | | | |

* Source 2018 Global Accounts

** SDR and FVA 2017

*** After adjustment for exceptional loan break costs (see below).

Operating margins, whilst a good indicator of profitability, should be viewed taking into account all activities that Orbit undertakes to deliver against our strategy of building communities.

Orbit is committed to developing more new housing stock in order to increase supply and to help fund our social purpose. As operating margins on sales of houses are lower than for social housing letting, our overall operating margin is suppressed and runs at a lower rate than that of our peers. In part, the increase in overall margin has been delivered through a change in the sales mix this year, with a higher proportion of social lettings compared to market sale activity. Next year's target is lower than the current year due to the anticipated increase in sale activity. Whilst Orbit will continue to focus on improving its operating efficiency, for that reason it is likely to continue to operate at a lower margin than that of our peers.

As noted above, whilst the overall operating margin is lower, our social housing lettings margin is showing both a year on year improvement and a strong performance against our peer group. This reflects Orbit's continual drive for value for money, and the savings delivered through our Shaping Our Future Programme.

EBITDA MRI is in part lower due to £27.6 million of break costs that are included in the interest charge in the current year. Consequently the ratio is driven by a higher interest cost than would be expected, rather than significant operational underperformance. In addition the EBITDA is lower than that of our peer group due to the higher volume of lower margin house sales that Orbit builds. Developing homes for both market sale and social letting also requires a significant amount of investment, which again increases the level of debt and therefore interest charge.

Orbit will continue to drive efficiencies and has a number of initiatives to lower costs through improved procurement activity, development of a new shared service centre ('The Customer Hub') and moving to a stock condition based repair strategy. Whilst these initiatives will improve efficiencies, Orbit remains committed to delivering new housing stock and improving the homes of current customers. This will continue to put pressure on both the overall operating margin and EBITDA and significant improvements in these metrics are unlikely. Orbit will continue to measure the efficiency of its operations through close monitoring of the Social Housing Lettings operating margin.



Development

| Metric | Value Chain Impact | 2019 | 2018 | Peer group Dec 2018* | Peer group Sept 2018** |
|---|--------------------|-------|-------|----------------------|------------------------|
| New Supply (Social) | Effectiveness | 2.5% | 4.9% | 1.4% | 0.8% |
| Number of new housing units acquired or developed in the year as a proportion of total social housing units and non-social housing units owned at period end. | | | | | |
| New Supply (Non-Social) | Effectiveness | 0.5% | 0.7% | 0.2% | 0.05% |
| Number of new 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. | | | | | |
| Gearing | Efficiency | 51.4% | 48.4% | 45.2% | 42.4% |
| This metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance. | | | | | |

* Source 2018 Global Accounts

** SDR and FVA 2017

Orbit's commitment to respond positively to the UK's housing crisis ensures a strong performance against the new supply metrics compared with peers. 1,036 social or affordable properties were delivered during the year (2018: 1,899), whilst 188 new homes for sale were built (2018: 256). Our Board approved strategy sees plans for our development programme following a long term target and numbers can fluctuate year on year.

As a result, our gearing metric is higher than that of our peers, as we leverage the balance sheet in support of our development programme, with debt increasing due to recent bond finance activity offset by higher cash balances and increased investment in existing and new properties.

Asset Management & Operational Effectiveness

| Metric | Value Chain Impact | 2019 | 2018 | Peer group Dec 2018* | Peer group Sept 2018* |
|--|--------------------|---------|---------|----------------------|-----------------------|
| Reinvestment | Efficiency | 8.3% | 8.7% | 5.8% | 4.8% |
| Investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held | | | | | |
| ROCE | Efficiency | 4.2% | 4.7% | 4.0% | 4.4% |
| This metric 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. The ROCE metric would support registered providers with a wide range of capital investment programmes. | | | | | |
| Headline social housing unit cost | Economy | £3.912k | £3.764k | £3.910k | £3.270k |
| The unit cost metric assesses the headline social housing cost per unit as defined by the Regulator | | | | | |

* Source 2018 Global Accounts

** SDR and FVA 2017

As one of the largest builders of affordable housing in the UK, and with a commitment to maintain high quality assets for our existing customers, we achieve an exceptional performance on our reinvestment metric. Our investment programme in new and existing assets saw Orbit invest a total spend of £208 million (2018: £206 million). This commitment to reinvestment impacts return on capital employed, with our asset base increasing through a combination of fixed asset growth from new affordable properties, an increase in work in progress through properties being developed for sale, and increases in cash held, whilst operating profits in absolute terms have remained flat year on year.

The headline figure of social housing unit cost has increased year on year due to a significant increase in investment in our properties and service chargeable costs of £7 million each. These increases reflect the need and the desire to invest in our customers' homes. The overall level of efficiency has increased as a higher volume of improvements were delivered within the budget.

Reviewing global accounts data for 2018 suggests that, whilst our overall cost per unit is in line with our peers, our investment in 2019 to improve the quality of our properties, saw Orbit invest 3% (£6 million) more of our rental income, on average, in maintenance than our peers to improve the quality of living for our customers.

Green = Exceeded Peer Group (30,000 units)

Amber = Below Peer Group (30,000 units)

Red = In bottom quartile

The headline social housing cost per unit is reviewed in the following component parts.

| Cost per unit (CPU) | 2019 £000 | 2018 £000 | Peer group Dec 2018* £000 |
|--|-----------|-----------|---------------------------|
| Management cost per unit | 0.521 | 0.700 | 0.986 |
| Service charge cost per unit | 0.675 | 0.494 | 0.542 |
| Maintenance cost per unit | 1.270 | 1.370 | 1.114 |
| Major repairs cost per unit | 0.836 | 0.595 | 0.826 |
| Other social housing costs per unit | 0.610 | 0.605 | 0.440 |

* Source 2018 Global Accounts

Management cost per unit has reduced by £6.3 million year on year reflecting the progress made through our Shaping Our Future programme as highlighted above, whilst service charge cost per unit has increased reflecting a higher level of required investment in our existing properties.

Maintenance cost per unit has fallen year on year, with improvements in our procurement strategy enabling an increased volume of work to be undertaken but at a reduced cost. In line with our corporate strategy we have significantly invested in major repair activity within our existing properties to improve the level of energy efficiency (75.7% are EPC band A-C) and the quality of the environment for our customers.

Headline social housing cost per unit, and operational efficiency will continue to be of importance for Orbit and improvements will be achieved through the measures outlined above.

Social Value

The creation of social value is core to Orbit's purpose, most evident through the provision of a variety of housing at sub market levels, helping to create high quality homes and thriving communities for those that otherwise would not be able to afford them. Our primary focus is on building and maintaining affordable housing. We have planned to invest £1.3 billion between 2018 and 2022.

In addition, Orbit invested £4.7 million into our community investment programme, (£3.8 million in 2018) and as part of this programme has:

- Saved £163,350 in energy bills due to the advice given to 1,935 customers relating to both energy and financial awareness
- Produced over £264,000 of income for Orbit due to our partnerships with Love London Working, Accelerate and various other companies.
- Provided CV, employment and digital training for 1,565 of our customers with 77 receiving formal qualifications

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