

thirteen

Managing and building homes

Value for Money Strategy

2024-25



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The Thirteen Group strategy

In consultation with colleagues and executive management, the board has reviewed the group's strategic priorities and values to ensure a clear direction for the future and develop a clear strategy for the next ten years.



The Business Strategy 2024-2035 is focussed around doing the best for our customers, whilst recognising that to do that we need to ensure our homes are of the highest quality and we have the right people working in line with our organisational values.

Our ultimate aim and our key measure of performance is around making our customers happy with the services we provide. Nearly nine in ten customers are currently satisfied with Thirteen, and a large majority of those customers are very satisfied, but we know there is always room to improve on this.

This Value for Money Strategy supports the delivery of our Business Strategy by ensuring our resources are used effectively and efficiently.

What value for money means to Thirteen

For Thirteen, value for money means ensuring we have the right balance between the social and business aspects of our work and integrating and embedding a value for money ethos across all activities.

We focus on driving change to add value and give the best outcome to our customers whilst maintaining the quality of our services. We recognise that cheapest is not always best, and the need to balance cost against quality and outcomes.

Through understanding our cost base and questioning and challenging how we deliver our services, we can release financial capacity to deliver our strategic objectives, meet legislative requirements and customer demands.

In practice, delivery of our Value for Money Strategy is vital in the delivery of our three main strategic priorities:

Happy customers

In the current economic climate, many of our customers are facing financial hardship. Being aware of value for money principles enables our colleagues to consider the impact of every decision on the customer. Do we deliver services in the most efficient way possible, and do those services deliver the outcomes expected by our customers? Will investment in a property improve the customer's quality of life and provide a home that is economical for them to run? Value for money principles challenge us to ask ourselves the right questions.

CASE STUDY: An alternative solution to delivering our repairs service

Demand for our repairs service reached unprecedented heights during 2023/24. This left us unable to achieve the performance targets we had set and meant customers did not receive the timely repairs they need. We have responded by making changes to how we deliver this vital service, setting up an additional team to bring more work in-house. Whilst this may not deliver any cost savings, it makes us less reliant on external contractors and allows us to be more flexible in how we complete repairs, which helps us improve outcomes for customers.

Fantastic homes

We need to consider the future needs of our customers when developing long-term plans. Our existing housing stock may not be cost-effective or meet the changing needs of our customer base in the future. The correct investment decisions are crucial, both for existing homes and those we will develop in the future. Effective use of our available resources provides us with the capacity to build the homes we need to meet customer demand for affordable homes, both for rent and to enable our customers to make the first step into property ownership through low-cost home ownership. We also have an obligation to consider the impact of our actions on the environment, so all new homes are required to meet environmental requirements and our delivery partners must be accredited to ISO 14001 Environmental Standards.

Brilliant people

Our colleagues are at the core of everything we do and are critical to delivering the desired outcomes to our customers. By investing in our colleagues and growing our talent, we can ensure continuity of service delivery, enabling us to deliver long-term plans and service improvements.

Scrutiny and monitoring

Oversight of value for money is “owned” by the board but is the responsibility of everyone across Thirteen, from the executive and service directors to all colleagues.

Role of the board

Through the Business Strategy 2024-2035, the board has set out clear priorities and objectives for Thirteen. Challenging targets are set by the board and monitored through a suite of critical success key performance indicators (KPIs) linked to our priorities and objectives. These KPIs are underpinned by operational KPIs for every area of activity and reviewed monthly to monitor performance and customer outcomes and enable swift remedial action to be taken if necessary. As part of the financial planning process, the board also considers the impact of investment decisions on the Regulator of Social Housing (RSH) Value for Money (VfM) metrics, with progress being monitored during the year.

As part of the development strategy, the board supports the implementation and growth of long-term strategic partnership arrangements with local authorities, combined authorities and housing developers to develop shared values and ambitions and work together to deliver a cost-effective solution to addressing housing need. This also facilitates a longer-term pipeline of schemes, enabling us to be more selective as to the opportunities we take forward to ensure they deliver our strategic objectives and are the correct long-term investment decisions. All proposed developments undergo a robust appraisal, in which we assess their value for money and financial viability using the industry standard Proval system. This provides long-term discounted cashflow models to give a net present value which can be assessed against board approved hurdle rates. Every decision on whether to progress with a proposed development scheme is subject to approval by the board via delegated authority to the Development and Investment Committee. Given the rapidly changing external environment (e.g. inflation, interest rates, rent caps) the parameters used in the appraisal model are reviewed and benchmarked annually, and are considered by the board in varying scenarios as part of stress testing of the financial plan.

We need to keep our existing assets and activity under review to ensure they are performing as required, contributing to the financial robustness of the group, and not detracting from our core purpose of social housing lettings. This sometimes requires us to disinvest in certain assets or services we are delivering. An annual commercial review of our subsidiaries is undertaken for consideration by the board. In recent years this has led to the decision to wind up our construction company, Gus Robinson Homes, and supported the decision to exit the Thirteen Homes development site at West Park.

Role of our customers

Meeting at least four times a year, the Customer Committee has the following remit:

- Oversee services which impact upon customers
- Ensure use of data, insight and the voice of the customer in shaping services
- Promote great customer experience

This includes the monitoring of group performance and scrutiny of KPIs. The committee also considers new contracts, major proposals and significant business decisions which impact upon customers. 'Deep dives' are conducted on specific service areas, enabling our customers to directly challenge and influence service delivery. To promote a great customer experience, the committee reviews complaints and how these influence service delivery, and works to improve communications and relationships between the group and our customers.

Role of our colleagues

Our values – proactive, accountable, considerate and courageous – support our colleagues to consider value for money in all they do. They are encouraged to be accountable for their actions, proactive in considering how a service is delivered, and courageous to challenge the status quo, whilst being considerate of others' views. This encourages colleagues to embrace positive change and take ownership of decision making.

The financial and operational performance of our assets and services is kept under consideration by all levels of management. Where properties are identified as performing poorly, e.g. through poor demand or property condition, they are referred to the Property Appraisal Group, a cross-department group bringing together experts to make decisions on the future of these properties. This could be continued investment or a decision to disinvest through sale or demolition. Decisions follow the scheme of delegation and are referred to the board as appropriate.

The decision to tender for new or continued delivery of contracts for external organisations is subject to a full appraisal, with the decision not necessarily being made on the financial implications. The financial impact is fully assessed through the financial appraisal model. Margins on care and support contracts can be minimal but if the contract is a good fit with our objectives, provides support to our customers to sustain tenancies, and supports the commissioning body or local authority, the decision may be made to progress or continue the contract.

Role of the Regulator

The RSH has set out a clear expectation that we optimise our resources to deliver high quality services and outcomes to our customers and that we report on how we deliver this in our annual accounts.

The VfM standard is one of the economic standards with which registered housing providers are expected to comply. The standard is intended to assess whether a provider is making best use of its resources to enable it to achieve its objectives. To monitor adherence to this standard, we conduct an annual assessment which is scrutinised and challenged by the board. We are also required to report against a prescribed set of metrics to support transparency, provide consistency and enable us to be compared to our peers across the sector.

How we monitor performance against our objectives

Our strategic plan sets out the three key objectives which Thirteen aims to deliver. To monitor progress against these objectives, the board has set a suite of critical success KPIs to ensure operational performance meets the targets set by the board and the desired outcomes for the customer.

Critical success KPIs we use to monitor our performance are:

Happy customers

- Satisfaction with our services
- Customer net promoter score
- Total current tenant arrears
- Tenancy turnover
- Satisfaction with repairs service
- Empty homes financial loss
- Repairs completed within timescale (non-emergency)

Fantastic homes

- New homes delivered
- % of homes with energy rating of C or above
- Satisfaction with new homes
- Strategic property disposals
- % of spend on maintenance through investment vs reactive repairs

Brilliant people

- Colleague net promoter score
- Voluntary staff turnover
- Average days lost to sickness
- EBTIDA MRI interest cover (excluding sales)
- Cash efficiencies delivered

These critical success measures will be used alongside the RSH measures (below) to measure the effectiveness of our value for money approach and the delivery of this strategy:

- Reinvestment %
- New supply delivered
 - Social
 - Non-social
- Gearing
- EBITDA MRI interest cover
- Headline social housing cost per unit
- Operating margin – social housing lettings
- Operating margin – overall

- Return on capital employed

Performance against the regulator's VfM metrics and key operational KPIs for the year are reported in our annual accounts.

CASE STUDY: Sustainable tenancies and income collection

Working across the group we have brought together colleagues to make targeted interventions in areas of highest debt, enabling a proactive approach to benefits take-up and employability advice which ensures customers receive all the help they need to sustain their tenancy. This, along with utilising AI to provide behavioural insight to support income collection, has contributed to reducing rent debt to 2.9% of rent available to collect (down from 3.15% the previous year), while supporting customers to sustain tenancies, reducing the number of void properties and saving the associated reletting cost, and therefore releasing cash to deliver and improve services.

How we deliver value for money

Our approach to value for money and its integration with the delivery of the group's overall and key strategies is essential to how value for money is embedded across the group.

The integration of value for money within our overarching Business Strategy and objectives has already been covered. To provide a holistic view of value for money which is embedded in all activities, we need to ensure that it is considered and is an integral component of all strategies which provide the framework to delivery of all activities.

Treasury Strategy

The Treasury Strategy sets out the group's key treasury risks and specifies the strategy for managing each risk, plus potential treasury management opportunities for the group. Each risk is considered by the board to ensure there is appropriate balance between the board's risk appetite and the most effective use of the available resources. Opportunities to ensure effective use of our loan facilities and maximise return on our assets are also considered. A suite of KPIs and golden rules are reported to the board to monitor adherence to the strategy.

Development Strategy

The Development Strategy sets out our clear objective of delivering high quality affordable homes and great places to live, whilst balancing this against the demands of existing homes and customers. The strategy includes consideration of the impact of external factors and acknowledges the requirement to be flexible on the scale and pace of delivery. It also considers the impact upon our future customers, aiming to deliver homes with Energy Performance Certificate (EPC) ratings of C or above to provide value for money to the customer. There are also other value for money considerations, such as minimising communal spaces – these are subject to service charges and therefore have an impact on customers – and careful design of communal spaces to keep future costs to a minimum.

Asset Strategy

Maintaining and investing in our current properties accounts for a significant proportion of our operating costs. The Asset Strategy underpins the Value for Money Strategy by ensuring a clear understanding of the investment required to meet building safety, fire safety, energy efficiency regulations, new customer standards and the changing expectations of our customers, and the long-term value of that investment. The strategy includes a specific 'enabling effective and efficient service delivery' objective in support of our strategic objectives of 'Fantastic Homes' and 'Happy Customers'. A key component in the delivery of the Asset Strategy is the understanding of the financial and operational requirements associated with our retrofit and net zero journey.

Procurement Strategy

Whilst value for money is not just about cost, the Procurement Strategy closely supports the delivery of value for money across the group. The key objective defined in the Procurement Strategy is the delivery of value for money through engagement with service teams from project concept to contract award, and robust contract management procedures. Additionally, for every tender over £75k we place a social value expectation on the successful supplier/contractor, giving direct support to our customers.

CASE STUDY: The Bread and Butter Thing

Due to the rise in food prices, energy costs and the general cost of living, our communities have felt significant financial pressures. Utilising £50k of social value donations from our investment partners, we partnered with Stockton-on-Tees Borough Council to bring five low cost food hubs to the heart of our communities across Stockton, Thornaby and Billingham. Once established this is a sustainable model which requires no further funding. The food hubs support over 400 customers each week to access a low cost alternative to supermarkets, providing savings of around £25 per family for each food shop.

People Strategy

Through our People Strategy, 'Creating great days at work', we recognise the significant investment we make in our colleagues. With c1,600 full-time equivalent staff and a pay bill of over £70m, we need to ensure that this cost also delivers value for money to our customers. The People Strategy confirms that we need to focus on inspiring, attracting, developing and keeping great people in order to deliver our objectives and achieve optimum outcomes. To attract and retain great people whilst delivering value for money to our customers we benchmark salaries every three years and aim to pay salaries at the median rate. We take the same approach as we do in other areas of the business, recognising that we need to 'invest to save' by investing in our talented people and ensuring we have the right people with the right skills both now and in the future. We're also prepared to adapt to changes in the type and number of roles we need, and the skills we need. To support the drive to increase professionalism in the housing sector and ensure our colleagues have the appropriate professional qualifications, we work in partnership with other housing providers, local universities and the government to deliver the required training as effectively as possible.

ICT Strategy

Key to efficient delivery of services is gaining the optimum benefit from the use of ICT solutions and automation. We recognise that this usually means we need to 'invest to save', making an investment in both time and money now to deliver more efficient services in the future with the optimum outcome for our customers. The ICT Strategy is currently in development and will be key to the delivery of the new Business Strategy.

Housing Related Support Strategy

Supported accommodation makes up around 10% of Thirteen's property portfolio and there is a growing demand for support services to help people live independently. As these services are not part of our core activity of social housing lettings, it is important that any support activity clearly aligns with our core objectives. The Housing Related Support Strategy sets out clear principles for growth, including the principle that this activity must either contribute a financial surplus or create additional benefits for Thirteen, e.g. supporting the sustainability of tenancies, which is determined through a project appraisal.

CASE STUDY: Future Steps – empowering customers to make positive change

After release from prison, David was struggling to re-integrate into society. He was sofa-surfing and had a limited income of £280 per month. Through our Future Steps programme, David obtained access to training and was supported in securing a tenancy for a flat with Thirteen. The team helped him set up council tax and utility accounts, obtain kitchen appliances, and liaise with charities to secure contributions towards carpets and furniture. They also helped him apply for additional benefits, which were backdated. David has now completed his qualifications, has a secure home he can call his own, has not re-offended and is happy and confident in his future. The support David has received has contributed £81,214 to the public purse and provided Thirteen with a happy customer with a sustainable tenancy.

Understanding our financials

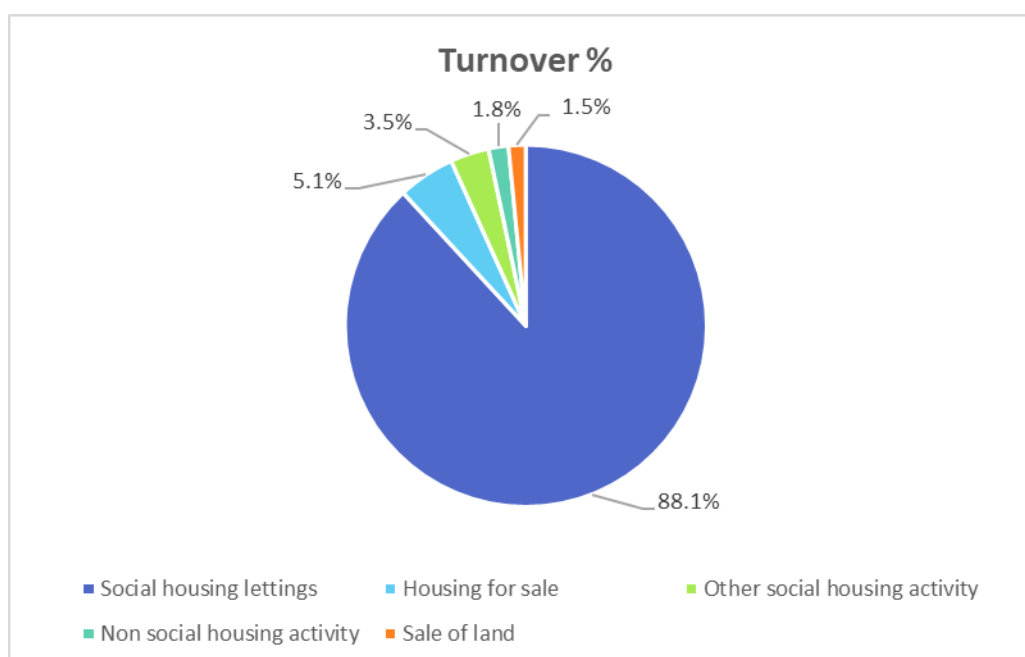
Key to delivering a value for money service is a clear understanding of where our income comes from and where this money goes, along with robust decision making to understand how, where and why we choose to spend, and robust financial planning to understand the pressures and priorities that will impact upon our costs and income in the future.

Being aware of the margins delivered on different activities across the group means we can make informed decisions to direct our valuable resources to the most cost-effective and effective outcomes.

Income

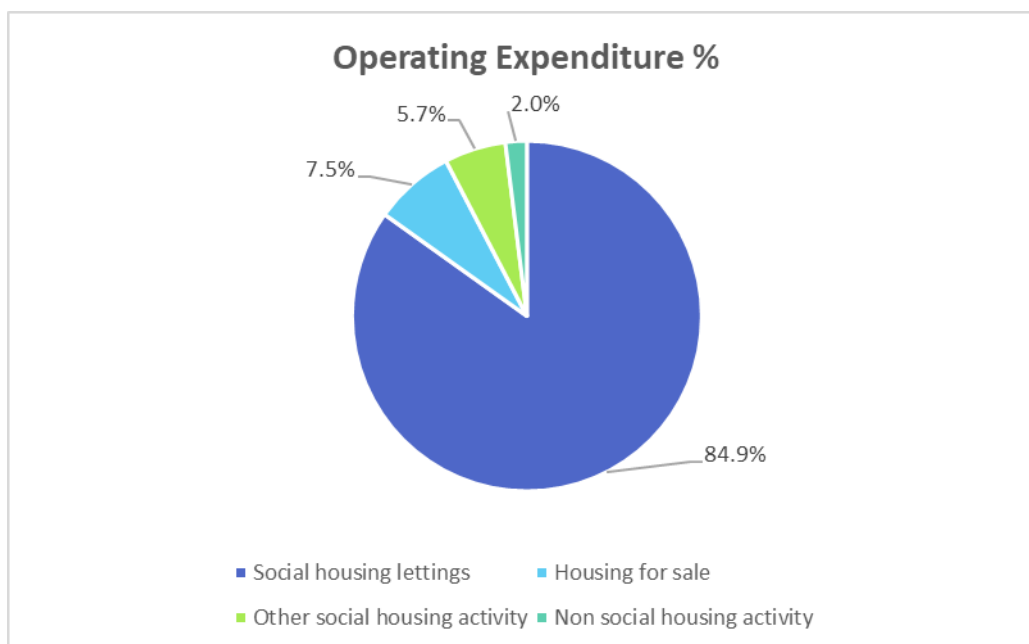
In 2024/25 we forecast that 83.1% of our income will come from our core activity of social housing lettings. This is a reduction from 88.1% in 2023/24 due to an increase in shared ownership sale receipts, but the longer-term aim is to increase this to 93.2% over the next five years as we make the conscious decision to reduce non-social housing activity through our subsidiaries due to the inherent risk in housebuilding activity and the lower margins delivered through this activity. A larger proportion of income from our core activity, which delivers a higher margin with a lower risk, means we can direct more of our resources to delivering services to our customers, protecting our assets and delivering on government targets for decarbonisation.

Inflation increases are a key pressure on our customers' finances. Balancing this against cost pressures and increased customer demand and expectation is difficult and is a key consideration by the board each year when reviewing and approving any rent increases.

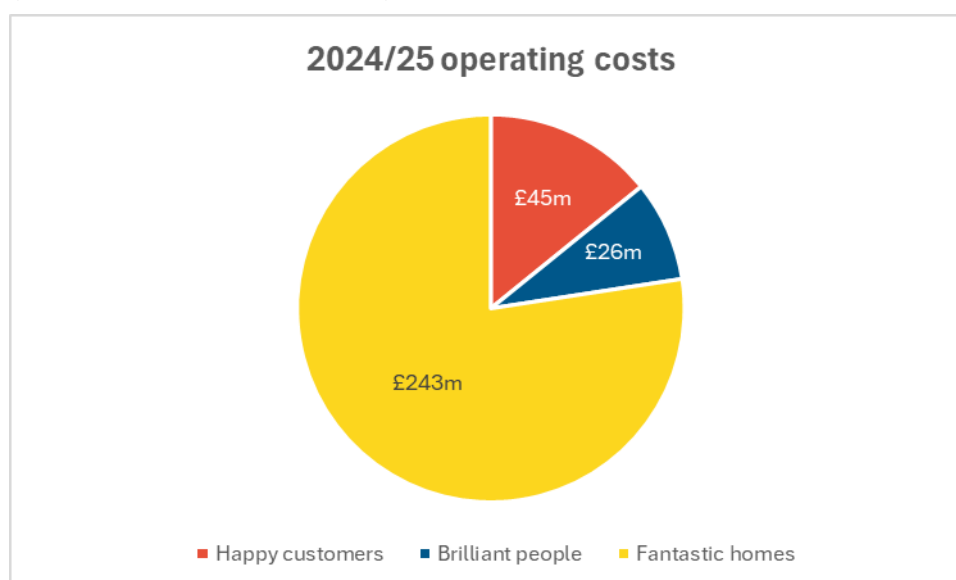


Costs

In 2023/24 we saw unprecedented demand for our services, particularly the repairs service which, along with significant inflation pressures, has led to increased costs across all activities. We also continue to face challenges from legislative changes and customer expectations, including the decarbonisation of our homes and prioritisation of the eradication of damp and mould. These cost pressures are expected to continue to grow in the future, particularly as we work towards meeting the government's environmental targets relating to homes achieving an EPC C rating by 2035, and net zero.



To ensure we are aligning our resources with the delivery of our Business Strategy, operating costs are identified by each of the strategic priorities. The chart below demonstrates that 77.4% of costs in 2024/25 are directed to the delivery of the 'Fantastic homes' strategic priority, which involves protecting our assets and delivering the investment in existing and new homes demanded by our customers.

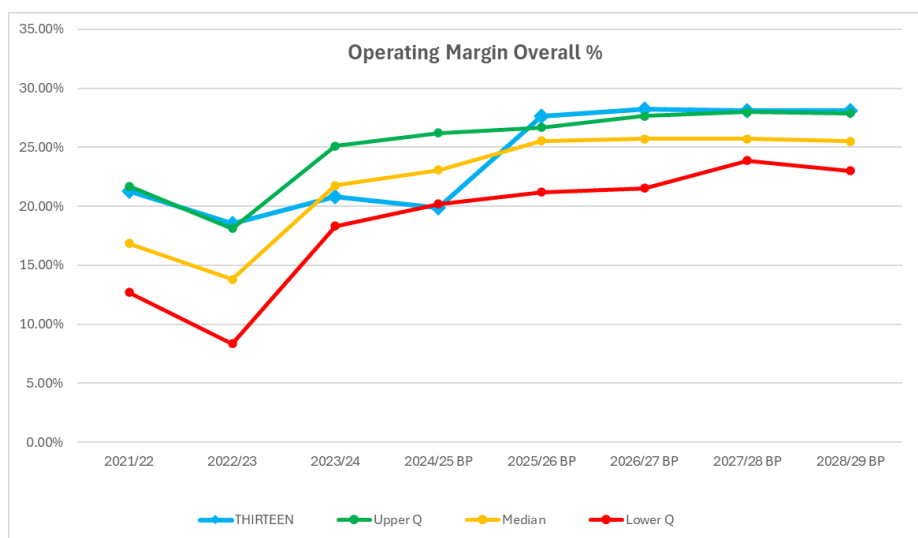


Comparison to our peers

We have access to a wide range of data from across the sector through the Global Accounts published by the RSH, which provides a standard set of metrics. To provide meaningful comparisons, we use this data to compare ourselves against organisations of similar size and location, enabling us to better understand our performance and inform improvement plans. We also utilise peer network groups, comparing both the RSH VfM metrics and other operational KPIs. Through peer comparisons, we can compare historic and future performance against our peers:

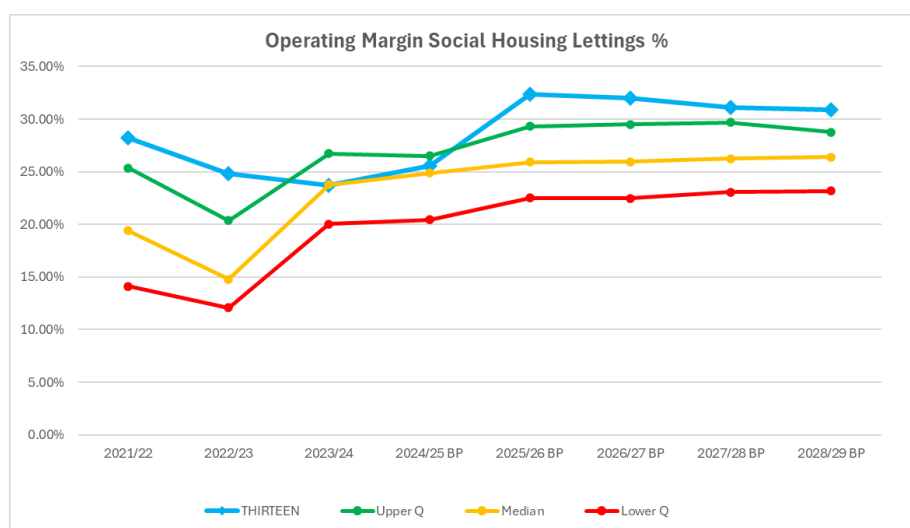
Business Health

Operating margin



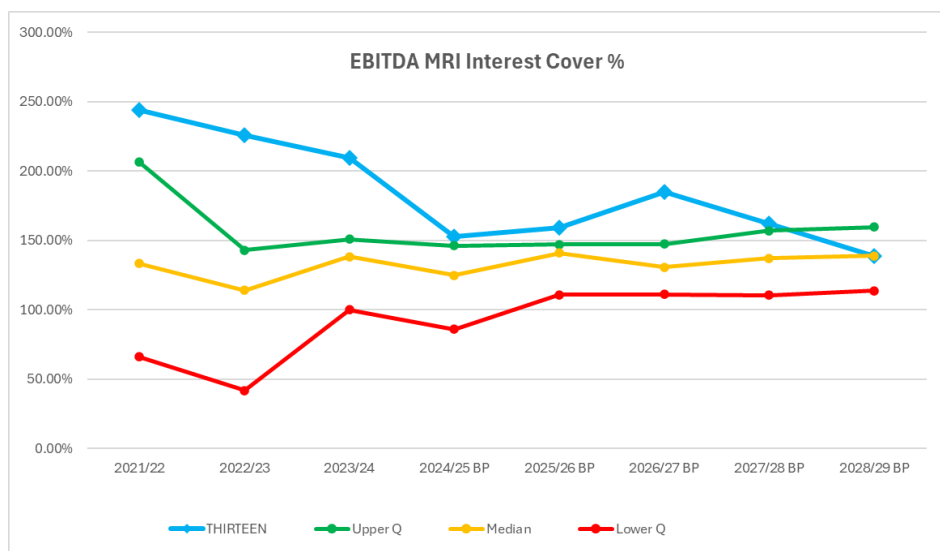
Overall operating margin has reduced due to loss-making activities in our subsidiary companies. The impact on the group's financial position has been considered as part of the board's review of commercial activities, and now that the decision has been made to stop these loss-making activities, operating margin is expected to increase to the upper quartile.

Operating margin – social housing lettings



When we consider our core activity of social housing lettings, the graph reflects that non-core activity dilutes the overall margin. We will therefore keep non-core activity under review.

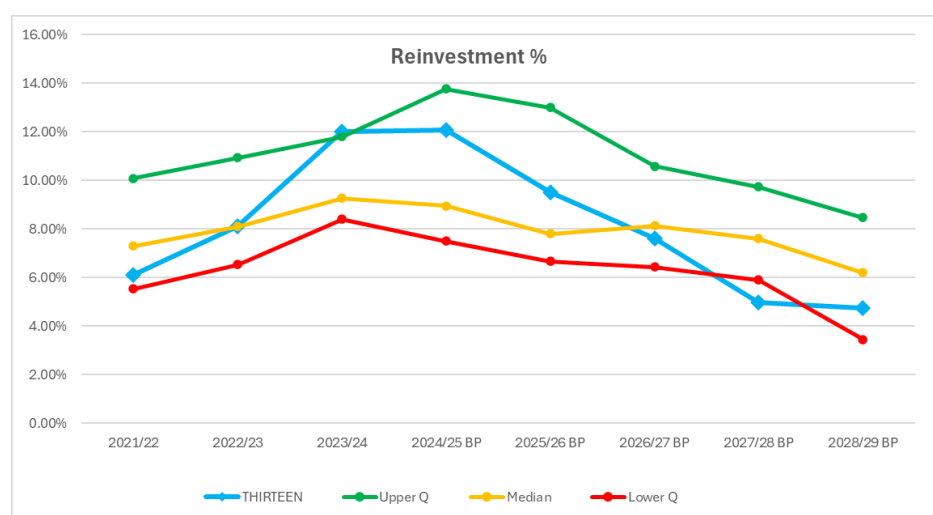
EBITDA MRI interest cover



Interest cover has historically been high when compared to our peers. This enables us to release capacity to deliver on investment plans and meet customer expectations, whilst maintaining strong performance against our peers.

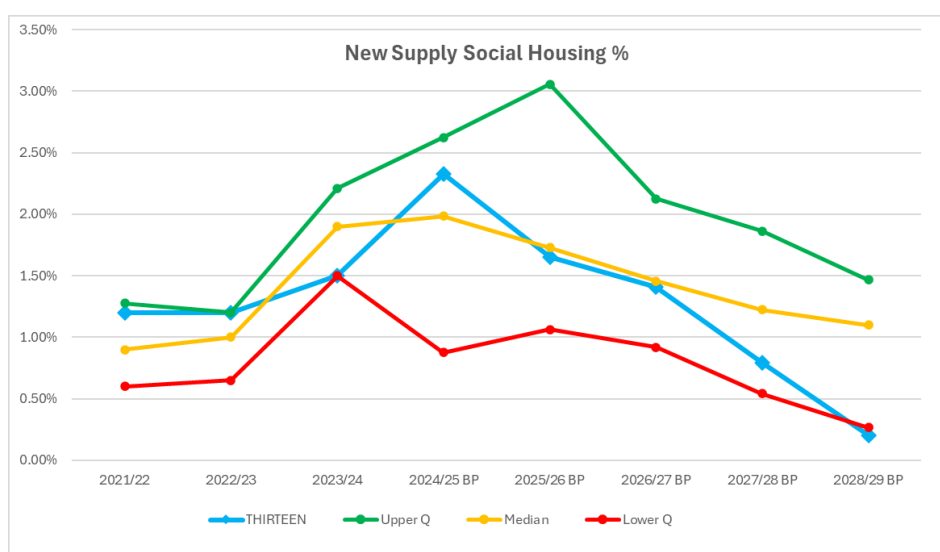
New supply & investment

Reinvestment



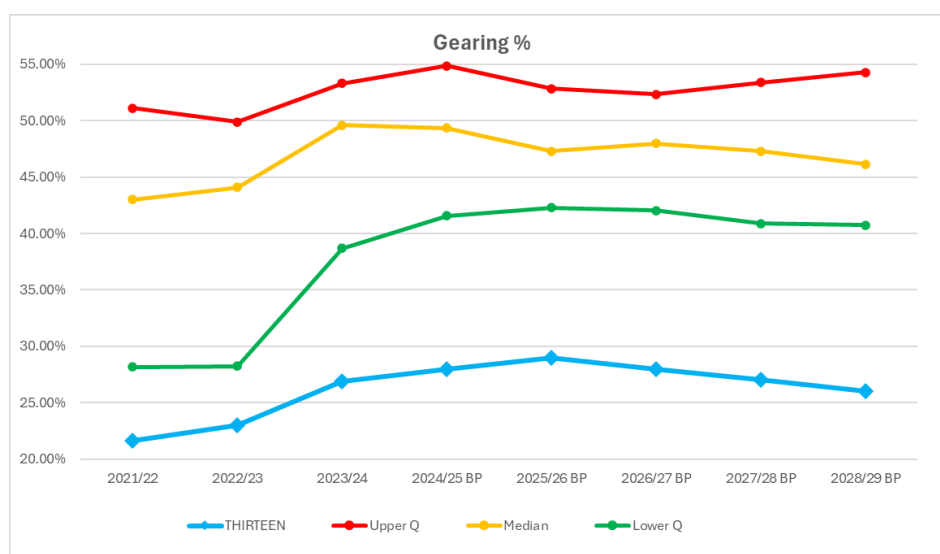
The increasing trend indicates the delivery of the increased investment programme, both development of new homes and investment in existing stock, including delivery of decarbonisation in line with government targets. The comparison indicates that investment levels rise above our peers, but it is unclear whether our peers have included the full cost of decarbonisation in their financial plans.

New supply – social housing



The graph demonstrates our increased ambitions for delivery of new affordable homes for rent and shared ownership, peaking in 2024/25. The reduction up to 2028/29 reflects completion of the current agreed programme with Homes England, with our peers showing similar downward trends.

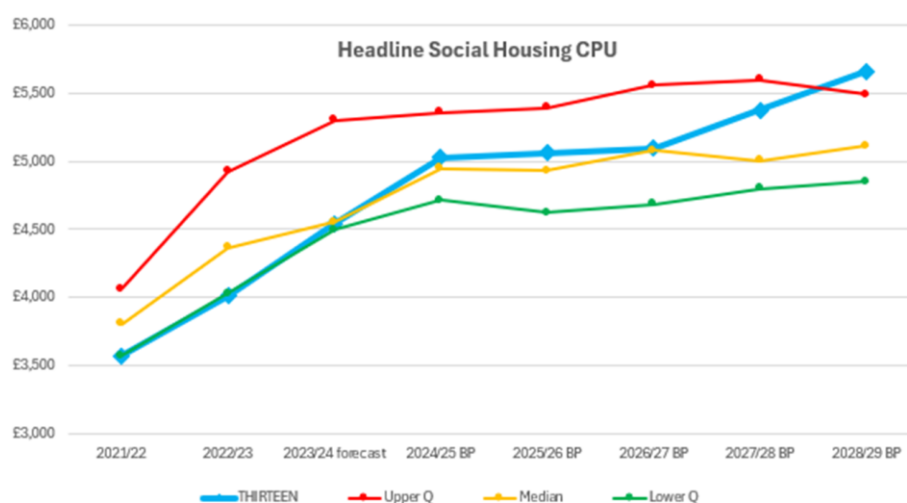
Gearing



Compared to our peers, gearing has been consistently low. Despite the planned increase in investment, we expect to remain below the lower quartile, demonstrating we have the capacity to deliver on our development and investment plans.

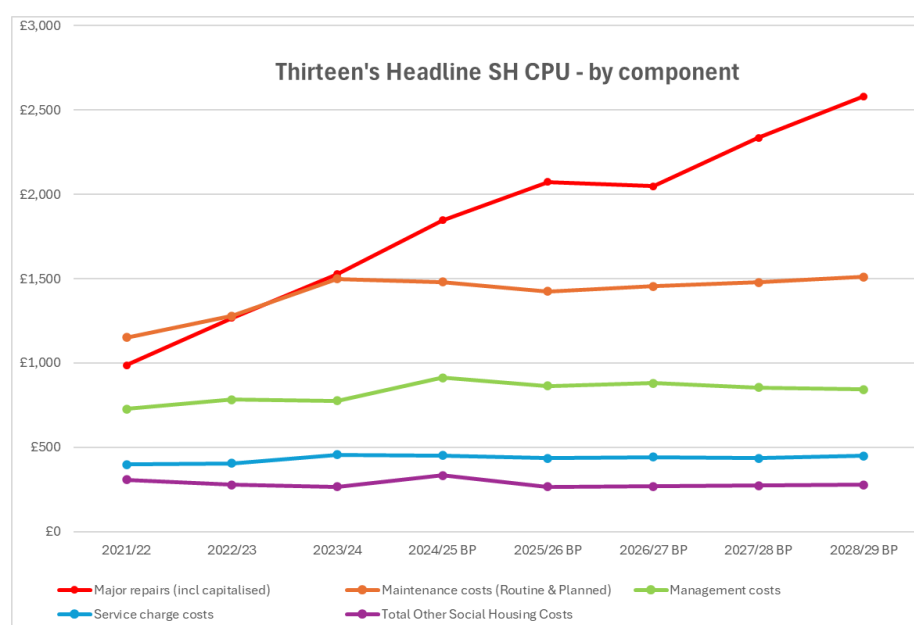
Operating Activity

Headline social housing cost per unit (CPU)

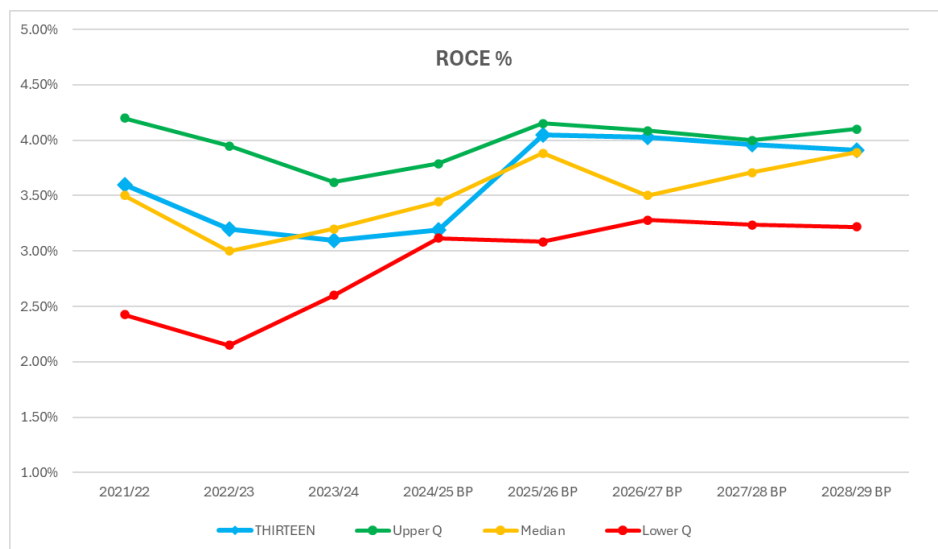


Historically when compared to our peers, our housing cost per unit has been in low quartile. In future years we expect CPU to rise as investment increases and we work to deliver decarbonisation of our stock. Comparisons of future costs to our peers will become more meaningful once we can confirm that all other organisations also include the full cost of decarbonisation in their financial plans.

Cost per unit is split down further to provide additional insight:



Return on capital employed



Once our loss-making subsidiaries are removed from the group results from 2024/25, we expect to improve our performance to near top quartile. This is expected to reduce once investment plans start to be delivered but we are unable to quantify the extent to which our peers have included decarbonisation costs in their financial plans, which may affect forecast comparisons.

What we have achieved

To assess the impact of decisions, we monitor performance against a value for money target to save 3% of social housing lettings costs every year, and report this to committee and board.

In recent years we have achieved this target, achieving quantifiable cashable and non-cashable savings of £6.1m in 2023/24, which equates to 4.4% of social housing lettings costs.

This has been achieved in a number of ways, including:

- Contract negotiation and challenging suppliers to ensure we achieve the best possible price for the required outcome, including below inflation price increases and negotiation of increased contract income
- Terminating or not extending contracts that do not provide value for money
- Disposal of assets that are not cost-effective for current or future investment
- Redesigning service delivery to minimise cost impacts and improve outcomes to customers
- Renegotiating loan covenants with our lenders to release future capacity
- Securing new sources of funding to reduce future interest costs

Not all achievements can be financially quantified or deliver a cost saving to Thirteen. Some initiatives are aimed at delivering direct cost benefits or improvements for the customer.

CASE STUDY: Thirteen teams up with IKEA Gateshead to upcycle furniture and support its customers

We've been working with the IKEA store in Gateshead, which has generously donated furniture items such as mattresses, sofas, rugs and cupboards to support our furniture upcycling scheme. The scheme is based at our recycling centre in Billingham. Donated furniture items are reconditioned by our specialist upcycling team and then given away to customers that have low incomes, have lost possessions when fleeing dangerous circumstances, or have previously been homeless. The facility, which became the first of its kind among northern housing associations, has seen the upcycling team transform an empty storage warehouse into a working space stocked with a wealth of material, upholstery and soft furnishings, complete with a woodwork and metal workshop. We are working to reduce our waste by 95% and this proactive approach to reducing, reusing, and recycling unwanted items continues to be a huge boost to our efforts, whilst giving direct support to customers who need a bit of extra help.

We also review how we deliver our services, seeking out the best approach to provide the most efficient outcome.

CASE STUDY: Automation to reduce manual processes

Whilst this sounds like a straightforward administrative task, the move by the Department for Work and Pensions which required us to verify 100% of all rent increases for c13,000 customers meant the previous manual process could not continue. We worked with colleagues across the group to develop an in-house solution – an ‘autobot’ which has fully automated the verification process, reducing the risk of error, increasing accuracy and freeing up valuable staff time. The autobot gained official DWP approval in March 2024.

What we want to achieve

The economic environment remains challenging at a time when there is more demand than ever for our services and limited financial capacity. Delivery of value for money services therefore remains at the forefront of our objectives and future plans. We will focus on making better use of IT solutions and automation and as part of this we will start a transformation project led by our recently appointed Chief Information and Technology Officer. Whilst this will require initial investment, this long-term 'invest to save' strategy will deliver more efficient, effective, and value-added services.

Effective financial planning will ensure we clearly understand the resources available to deliver our objectives. We will continue to work with our peers to identify best practice and also explore purchasing opportunities to release economies of scale.

We are embarking upon a full review of all service charges, which have a significant impact on a number of our customers, to ensure the services customers are receiving and paying for deliver value for money and are of the quality and level they require.

Key aims:

- Complete the new Asset Strategy, including disinvestment and decarbonisation, to enable informed investment decisions
- Make best use of our assets, utilising the Property Appraisal Group to make appropriate decisions on whether to retain and invest, or dispose of assets
- Increase understanding of maintenance costs through a 'deep dive' into operational delivery and costs
- Provide new and replacement stock through delivery of the development programme within approved financial appraisal
- Consider extending the development programme to increase new supply and provide long-term financial benefit
- Provide cost-effective homes and services for our customers through meeting of EPC C targets and delivery of the service charges review
- Deliver the ICT Strategy to enable our services to be delivered more effectively through making better use of IT solutions, increased automation and use of AI
- Achieve KPIs, including efficiency targets, to demonstrate we are able to deliver within our plans whilst maintaining flexibility
- Make effective use of benchmarking to better understand our costs
- Refine business case processes to ensure decision making is informed by a clear understanding of the return on investment