



Sage Housing 2019 Value for Money Report

Introduction

Sage understands the importance of striving for value for money and delivering its services in an efficient and effective way to make the most of the rental and lease income it receives.

As part of our compliance with the Value for Money Standard, we strive to achieve economy, efficiency and effectiveness across all areas of activity. We are committed to increasing the number of quality social homes in England and to providing the highest level of service to our residents and this is central to our application of value for money strategies.

The Company commenced activity in its current form in 2017 and had 1,845 properties in management at its financial year end on 31 December 2019. As Sage is still maturing and growing rapidly, the Value for Money metrics will display significant variance from more mature providers in the sector. In future years, as Sage reaches maturity, performance is expected to become more directly comparable with sector peers.

Our strategy and ambition are to grow and become a major provider of affordable housing. We have therefore chosen to compare our performance to a peer group made up of all Registered Providers in England with more than 10,000 homes.



Metric 1

Reinvestment %

This metric looks at the fixed asset investment in properties (existing as well as new supply) as a percentage of the value of total properties held. At the end of 2019 we had invested £417.6 million compared to £138.5 million at the start of the year. This represents reinvestment of 67% (2018: 94%) compared with a peer group median of 6.43% and an upper quartile of 8.57%.



£279m

Sage invested £279m in 2019 which represents reinvestment of 67% compared with a peer group median of 6.4% and an upper quartile of 8.6%.

Metric 2

New supply delivered %

This metric considers the number of new housing units developed in the year as a proportion of the total units owned at year end.

Social housing units: At the end of 2019 we had delivered 1,845 new social homes from inception compared to 467 at the start of the year. As a result, we have delivered new supply of 75% (2018: 99%) compared with the industry median of 1.47% and the upper quartile of 2.24%.

Non-social housing units: Our sole focus is on delivering social housing. We have not acquired or developed any non-social housing units in 2019.

Our exceptional performance on new supply and reinvestment metrics reflects our initial success on our key goal to deliver new capital to the affordable housing sector and have a meaningful and positive impact on the supply of new affordable housing in England.





Metric 3

Gearing %

As at the end of 2019, the Company's gearing was at 111% (2018: 95%) compared with a peer group median of 46.4% and upper quartile of 52.2%. Debt was provided by the Company's parent, Sage Investments Sàrl, Deutsche Bank and Morgan Stanley.

The Company will ensure its debt and gearing levels are appropriate to protect the long-term financial viability of the Company and will ensure it balances the benefits of debt in reducing its overall cost of capital (allowing it to undertake more investment in affordable housing) and ensuring the levels, interest costs and covenant requirements of such debt do not put the business at excessive financial viability risk.

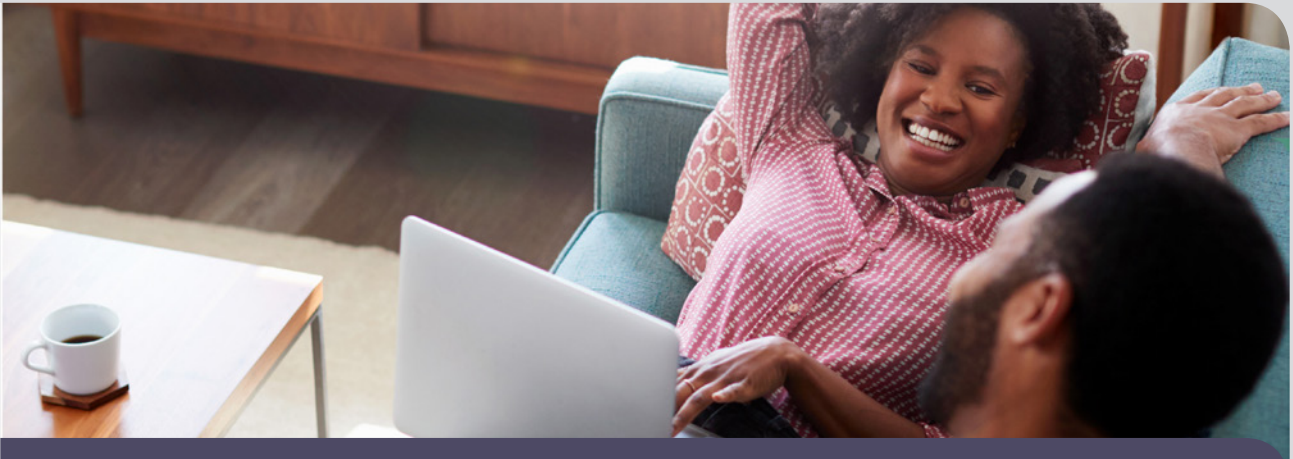


Metric 4

EBITDA MRI – Interest cover %

The 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. For the year ended 31 December 2019 the Company's EBITDA MRI – Interest cover was (89)% (2018: (729)%).





Metric 5

Headline social housing cost per unit (£)

The Company is still at an early stage in its portfolio development and as such has high overheads compared to delivered units. The focus has been on acquiring properties and hence this is to be expected. For 2019, Sage's yearly cost per unit was £13,139 (2018: £18,970) compared to an industry median of £3,522 and lower quartile cost per unit of £3,215



Metric 6

Metric 6A – Operating margin – social housing lettings (%)

This figure is not reflective of the true value and efficiency of the Company's business as at 31 December 2019 as the Company only owned 1,845 units (2018: 467). The Company had a negative margin of 486% (2018: (2,531)%) for the year, compared with a 30.2% industry median and upper quartile of 35.9%.



Metric 6B – Operating margin – overall (%)

The Company had a negative overall operating margin of 39% (2018: (196)%).





Metric 7

Return on capital employed (%)

This metric compares the operating deficit 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 for the Company was a negative 2.7% (2018: (4.7)%).



Although the Company's current metrics for social housing cost/unit and operating margin are outside sector norms this is solely a result of its completed portfolio's level of maturity and size and its current focus on acquiring and developing new affordable housing units in England. The Company currently has acquisition and project delivery teams scaled for its 20,000-unit target delivery level, compared to 1,845 completed units at the year end (2018: 467 units). This mismatch presents outlying Value for Money metrics; however, the Board believes this is the appropriate strategy to ensure the acquisition and delivery programme is managed and delivered successfully, and that all our residents receive consistently high standards of service during this high-growth stage. The Board believes Sage is on track to deliver sector-leading operating margins and cost per social unit when its development programme matures into completed and occupied units.

Additional Value for Money metrics

The following metrics are in addition to the core Value for Money metrics. These metrics are focussed on providing the best experience for residents and building on the more financially focussed Value for Money metrics.

Metric 8

Customer satisfaction with the service (%)

This metric considers the number of customers who have stated they are fairly or very satisfied with their interaction with the Company as a percentage of respondents. In 2019 the Company had 85% (2018: 84%) of respondents being fairly or very satisfied compared with a sector median of 84% and upper quartile of 87%. The Company's management regularly reviews the drivers of the metric in order to identify how to improve service with the aim of attaining top quartile results.



85%

In 2019 Sage had 85% of respondents fairly or very satisfied compared with a sector median of 84% and upper quartile of 87%.

Metric 9

Percentage of complaints responded to within target time

The Company achieved 91% (2018: 100%) responses within target time in 2019 against a sector median of 86% and upper quartile of 94%.





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