TOWER HAMLETS Community Housing THCH

VALUE FOR MONEY SELF ASSESSMENT 2017/18

Tower Hamlets Community Housing

VALUE FOR MONEY

The RSH's Regulatory Framework includes a specific standard for Value for Money. The standard requires us to:

(a) have a robust approach to achieving value for money – this must include a robust approach to decision making and a rigorous appraisal of potential options for improving performance
(b) have a regular and appropriate consideration by our board of potential value for money gains – this must include full consideration of costs and benefits of alternative commercial, organisational and delivery structures.
(c) have consideration of value for money across our whole business and, where we invest in non-social housing activity, we should consider whether this generates returns commensurate to the risk involved, and justification where this is not the case.
(d) ensure that THCH has appropriate targets in place for measuring performance in achieving value for money in delivering our strategic objectives, and that THCH regularly monitor and report our performance against these targets.

THCH must annually publish evidence in the statutory accounts to enable our stakeholders to understand our:

(a) performance against our own value for money targets and any metrics set out by the regulator, and how that performance compares to our peers
(b) measurable plans to address any areas of underperformance, including clearly stating any areas where improvements would not be appropriate, and the rationale for this.

How we will ensure that we have a robust approach to achieving Value for Money?

We are a charitable housing provider with a strong community ethos that prides itself on its community undertakings, providing a mix of quality, affordable housing and has a proud history of regeneration and of delivering innovative housing developments.

We manage more than 3,000 homes in the western side of Tower Hamlets, covering Spitalfields, Bethnal Green, Stepney, Shadwell and Wapping. The majority of homes were transferred from Tower Hamlets Council in 2000, but THCH has since added a range of commercial and residential properties including properties for private sale, shared ownership and for social rent.

At THCH we are committed to delivering and demonstrating Value for Money in all that we do. The Board takes a lead on this, and has the commitment of the Management Team and all staff to achieve it. In particular, the roll out of our Fit for the Future programme in 2016/17 has brought Value for Money to the forefront of what we do.

Our Corporate Objectives specify what Value for Money actions and targets we must achieve in order to meet these objectives going forward.

We recognise that we have more to do to fully embed a Value for Money culture at THCH. We have, however, made improvements in 2017/18 and we are embracing changes that will mean we deliver progress in the future. We have adopted the Sector Scorecard and benchmark with a peer group of similar London based organisations through Housemark and Placeshapers, a network of more than 100 community based housing organisations.

Our Value for Money Strategy involves us in:

- Creating capacity by maximising our income and minimising our cost base where possible.
- Optimising the use of our assets to deliver our Corporate Objectives.
- Prioritising our resources in consultation with our customers.
- Having a culture where our staff strive to maintain an efficient business that delivers services our residents want.

We are regulated by the Regulator of Social Housing (RSH) which has a standard setting out its requirements in respect of Value for Money. We are determined to meet this current standard and any future standard, as well as evidencing this to our residents and other stakeholders.

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How do we ensure we have a regular and appropriate consideration by our board of potential Value for Money gains and consideration of Value for Money across our whole business?

During 2016/17 we implemented a major transformational programme at THCH, Fit for the Future. This was driven by the need for us to improve areas of our business that had led to our G3 (non compliant) regulatory judgment, including our internal assurance framework. This programme continued into 2017/18, focussing on reducing both financial and operating costs, whilst maintaining good quality services and investing in our homes and our communities.

Actions taken to reduce future costs and increase efficiency in 2017/18 included:

- Negotiating an extension of availability period of our remaining undrawn facility. This reduced funding costs by £132,000
- Implementing a new pay structure from April 2018. Whilst not expected to reduce costs, it will make THCH more effective in recruiting staff, ensuring we get the right person for the job first time.
- Comprehensive reviews of our IT systems to ensure that they are modern and efficient. All new IT projects go through a cost/benefit analysis to ensure value for money is obtained.
- A review of our estate services provision has been started with the aim of providing a significantly more effective and responsive service to our tenants and leaseholders

Following the Grenfell tragedy, THCH did an immediate review of all fire safety measures. This included working closely with the fire brigade in updating fire risk assessments of all our blocks of flats. As a result, THCH set aside £2.5m over the first two years and a further £1.7m over the following 5 years for fire safety works. THCH firmly believes the safety of our residents is of the highest priority and that this is money that provides real value in securing this assurance.

How do we ensure that THCH has appropriate targets in place for measuring performance in achieving value for money in delivering our strategic objectives?

Our Board and Committees consider both past performance and the performance of our peers in setting appropriate targets. Our Corporate Objectives set the course for what we want to achieve in the future and the targets reflect these. In this way, our Board ensures appropriate targets are in place to deliver our strategic objectives.

Below are two charts. This first comparing our achievements against those targets set by the Board for 2017/18 and the second showing those targets set by the Board for 2018/19 as discussed in a Board Strategy Day or through budget approval.

2017/18 Targets versus Achievements

Table 2: Value for Money Targets

<table>
<tr><th></th><th>Value for money target</th><th>Target 17/18 £'000</th><th>Delivered 17/18 £'000</th><th>RAG*</th><th>Evidence</th></tr>
<tr><td rowspan="2">1</td><td>Reduce cost of housing management provision in salaries and office overheads through the Fit for the Future programme</td><td>433</td><td>271</td><td></td><td>Comparison of 16/17 to 17/18</td></tr>
<tr><td colspan="5">Housing management includes both housing and property services. Of the £271K delivered, £250K was through the reduction of housing management and 21K from reduced office costs</td></tr>
<tr><td rowspan="2">2</td><td>Increase income generation from commercial units</td><td>30</td><td>31</td><td></td><td>Comparison of 16/17 to 17/18</td></tr>
<tr><td colspan="5">Through the leasing of an additional unit, commercial income has increased.</td></tr>
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	Value for money target	Target 17/18 £'000	Delivered 17/18 £'000	RAG*	Evidence
3	Spend on reactive maintenance to be no greater than 50% total spend on properties - reduce reactive repairs expenditure	39%	41%		Ratio of Responsive Repairs to Planned & Cyclical works
	Both reactive and planned maintenance has reduced. Reactive by £145K (10.4%) and planned by £131K (7.3%). As they have both fallen, the ratio of reactive to planned repairs has fallen, but not significantly.				
4	Carry out a stock appraisal programme and review cyclical maintenance profile	160	Nil		Stock appraisal system implemented
	A stock appraisal system is in operation. It significantly improves our understanding of our stock and will be used in deciding the value of future investment on a property-by-property basis. As most of our stock is in large blocks, opportunities for single units to be disposed of through the open market is limited.				
5	Reduce overheads to no more than 15% turnover by exploring ways of sharing central services	15%	14.10%		17/18 accounts
	Although the sharing of central services has not been implemented, through cost reduction measures, overheads were reduced to better than target.				
6	Review service charges provided to tenants and leaseholders to reduce charges billed by 5%	211	Nil		Reduction in charge for 2017/18
	A review of the service charges is currently in progress.				
7	Modernise service offer to residents to ensure resident satisfaction does not fall	84%	64%		To be tested in 2017/18
	A limited number of modernisation programmes are in place including the access of residents to automated rent payments. We recognise that 64% is not an acceptable level of satisfaction and are implementing a number of programmes in order to improve overall customer satisfaction.				

**RAG status uses a simple colour coding to visually highlight the status of each action. Red highlights not making any substance towards the target, amber is making substantial inroads towards the target and green highlights achieving the target.*

A number of Value for Money goals were not fully achieved. Explanations to understand the reasons for this are below:

- Housing management salaries were significantly reduced but to a lesser extent than anticipated. During 2017/18 it was recognised that to provide a better customer service, we needed to provide additional customer service officers and support other services within THCH, reducing the cost reductions expected. Office cost operations reduced by £21K but the overall cost of offices increased due to repairs required on the office roof.
- The stock appraisal system has significantly improved our understanding of our stock and will be used in deciding the value of future investment on a property by property basis. Whilst it has not actually provided additional income or cost reduction, it provides essential information required in assessing future property investment.
- A review on service charges is being implemented in 2018/19. Its focus will be to ensure that service charges are being fairly apportioned and ensure that residents are benefiting from a more efficient service delivery.

- Resident satisfaction is much lower than we would like. A number of new modernisation programmes aimed at improving customer services are being implemented in 2018/19. This includes improving our ability to take rents through an automated system, allowing customers to give repair instructions through the internet, improved mobile communications and a more reactive estate service.

2017/18 New Value for Money Initiatives

In addition to the targets set in 2016/17 for 2017/18, there have been additional value for money initiatives implemented. These range from small initiatives, whilst not having significant financial impacts, do reflect the change in culture within THCH, to significantly larger savings.

Combined, the smaller value for money initiatives save almost £50K and include challenging charges to seeking additional tenders of services. Our largest saving in 2017/18 was the extension of our drawdown period on our loan facility. This has saved £132K in net interest during 2017/18.

2018/19 Value for Money Targets

In addition to the targets set for 2017/18, the below targets have also been set for 2018/19. These targets have been set by the Board either through the approval of the budget or of strategy days.

Table 3: 2018/19 Value for Money Targets

	Value for money target	Target 18/19	Evidence
1	A reduction on contractor and interim staff costs	£200K	Comparison of 18/19 to 17/18
2	A decrease of overhead costs (excluding depreciation) to £828 per home	£828/ home	Calculation
3	A decrease of cost per unit to below £3k per home excluding one-off events	£3,000/ home	Calculation
4	Increase revolving credit facility to enable cash reserves to reduce current debt	£73K reduction	Comparison of 18/19 to budget
5	Insurance savings through tender	£50K reduction	Comparison of 18/19 to 17/18
6	Review service charges provided to residents to ensure the charge fully reflects the services obtained	Neutral	Apportionment of service charges
7	Modernise service offer to residents to ensure resident satisfaction does not fall	84% satisfaction	Surveys

A reduction on contractor and interim staff costs: In 2017/18 there have been three key projects requiring significant interim staffing or contractor resources.

- Following the tragedy at Grenfell, THCH has worked closely with the Fire Services to ensure our properties are safe for our residents. As a result, there has been significant investment in fire safety assessments, with corresponding works, and a large programme of installing fire doors will be implemented in 2018/19. This has required a number of interim staff and contractors to ensure the programme runs effectively, in addition to other health and safety works.
- The General Data Protection Regulation (GDPR) came into effect on 25 May 2018 and has required significant changes to our systems, policies and procedures to ensure we comply with the legislation. Expertise has been required to ensure we are ready for the requirements of the legislation.
- Getting back to 'good': a number of projects have progressed to reach this goal, including using interim staff for senior positions until suitable permanent staff could be recruited. We are pleased to say that permanent staff have now been recruited into these senior positions, which is resulting in a reduction in expected costs in 2018/19 and in 2019/20.

A decrease of overhead costs and overall costs: a number of value for money initiatives are being implemented, most of which have been mentioned above. Key to our value for money initiatives is the use of ICT and bringing more communication with our residents in-house - estimated to save £236K for 2018/19. As a result of this we are aiming to reduce our costs per unit to £3,000 for all managed homes or £4,500 for all homes owned.

Increasing our revolving credit facility: we are currently working with our lender to transfer £10m from our standard loan facility to our revolving credit facility. This will enable us to repay £10m of debt with our cash holdings. As the cost of borrowing significantly outweighs the income from cash holdings, we estimate this will save us £78K in 2018/19, with potential further savings in 2019/20.

Insurance savings through tendering: We have completed a tender for our insurance contract. This has resulted in a reduction of overhead costs of £50K and another £30K passed on to our residents through a reduction in their future insurance costs.

Review of service charges: We are planning a full review of service charges to ensure that residents are obtaining full value for money for the services they receive. Whilst this has not had cost reductions factored into the 2018/19 value for money expectations, we do believe this will result in an outcome of a more efficient and economic service.

Modernise service offer to residents: We recognise that the resident satisfaction is below what we would like. To improve the service we offer to tenants, we are implementing ICT solutions to enable greater self-service by

our tenants. This will enable greater flexibility for tenants to access services and free up staff time to provide improved services.

Table 4: Sector Scorecard comparisons

	2015/16	**2016/17**	**2017/18**	**2018/19 target**	**2016/17 Placeshapers median**
	Business Health				
Operating Margin (overall)	20.0%	23.4%	18.3%	19.5%	31.9%
Operating Margin (SHL)%	27.7%	23.3%	17.6%	19.1%	34.4%
EBITDA-MRI (as a % interest)	188.8%	228.2%	111.1%	114%	211%
	Development (Capacity and Supply)				
New supply delivered	60	27	0	0	N/A
New supply (%)	1.9%	0.85%	0%	0%	1.25%
Gearing	38.5%	36.7%	37.1%	37.3%	50.9%
	Outcomes Delivered				
Customer satisfaction	84%	84%	64%	84%	84%
Reinvestment	1.90%	1.09%	1.10%	1.40%	6.34%
Investment in communities	364	388	438	482	N/A
	Effective Asset Management				
Return on capital employed (ROCE)	2.35%	2.63%	2.26%	2.39%	4.38%
Occupancy	99.8%	100%	99.7%	99.5%	N/A
Ratio of responsive repairs to planned maintenance	81.3%	79.0%	69.6%	66%	66%
	Operating Efficiency				
Rent collected	99.8%	97.9%	101.2%	101.4%	
Overheads as a % of adjusted turnover	16.7%	18.9%	20.2%	18.3%	N/A

Operating margins decreased in 2017/18 reflecting the increased costs of having interim staff in senior positions and significant expenditure on fire safety works. In 2018/19 there is expected to be a significant improvement due to interim staff being replaced with permanent staff and further efficiencies.

EBITDA-MRI (Earnings before taxation, depreciation and amortisation less major repairs) drops significantly in 2017/18 and 2018/19 as the significant fire safety works are in contract. This includes the replacement of cladding, fire safety doors and additional fire-proofing of flats. Our actual EBITDA-MRI loan covenants exclude a number of items, such as fire safety work, and will result in a more favourable calculation.

New supply delivered: During 2017/18 the focus by the Board and Executive team was to improve governance. As such, it was felt that property development should be temporarily delayed until he Board felt it had improved governance around property development, resulting in there being no development in 2017/18. THCH is committed to building new homes for the people of Tower Hamlets and set a new Development Strategy for 2018/19 aimed at building 600 new homes by the end of 2022/23. This would represent a 20% increase in units THCH manages.

Gearing: In 2018/19 the gearing definition changes, but for this report we have maintained the historical definition. Gearing has remained relatively consistent over the last 4 years. This is expected to decrease under the new definition of gearing as cash held is included.

Customer satisfaction: We recognise that 64% is not an acceptable level of satisfaction and are implementing a number of programmes in order to improve overall customer satisfaction.

Reinvestment: From 2015/16 to 2016/17 most of the reinvestment has been through the development of new homes. The suspension of the development programme has not resulted in a reduction of reinvestment in our properties due to the significant investment in fire safety works as part of THCH's firm commitment to our residents safety.

Investment in communities: THCH takes significant pride in "communities" being part of our name. We have invested increasing sums towards our communities and expect by 2018/19 to spend a third more on our communities than in 2015/16.

Return on capital employed (ROCE): THCH has made the strategic decision to charge only social rent on its properties. We recognise that this will restrict both our operating revenue and ROCE, but we believe that this supports our principal activity of the provision of good quality, affordable housing for people on low incomes who are in housing need.

Occupancy: The demand for affordable housing in Tower Hamlets is huge. THCH has maintained an occupancy rate of at least 99.5% throughout the last 3 years and expects to continue to do so in the future.

Ratio of responsive repairs to planned maintenance: It is more cost effective in terms of planning and resource allocation in focussing on planned works (consisting of major repairs and cyclical works) to that of responsive repairs. This will also maintain our homes to a level expected by our residents. Over the last 3 years there has been a favourable reduction in this ratio and it is expected to reduce in 2018/19 as we continue to implement the 2016 Savills stock condition survey investment programme.

Rent collected: Our rent collected continues to be high as we collect both rent due and rent arrears through repayment agreements. THCH's adoption of the "firm but fair" income collection policy has continued to result in an improved rental collection rate. The real test for THCH income collection will be the implementation of Universal Credit. Trials have suggested a significant reduction in rent collection upon Universal Credit adoption and THCH will continue to monitor and work with the goal to safeguard tenants homes.

Overheads as a percentage of adjusted turnover: THCH recognises that overheads are an area that we need to improve. The Board has reviewed a detailed analysis of the breakdown of overheads on a Board Strategy Day. A significant proportion of the overheads have been in working towards our goal of "getting back to 'good'" and the use of interim staff for both projects and cover for vacant positions. As these projects reach completion and the vacant positions are filled, we expect a significant reduction in overheads in 2018/19 and a further reduction in 2019/20.

Costs Per Unit

Table 5: Cost per unit analysis

Cost per Unit Analysis					
	2015/16	**2016/17**	**2017/18***	**2018/19* forecast**	**2016/17 Placeshapers median**
Social housing overall cost	3,220	3,893	6,664	5,014	3,206
Management cost	745	801	1,189	1,073	903
Service charge cost	931	1,097	1,601	1,632	340
Maintenance cost	1,377	1,541	2,789	1,459	976
Major Repairs cost	162	221	731	587	643
Other social housing costs	4	233	354	263	185

***** prior to 2017/18, the regulator used all units "owned or managed" to calculate the per unit costs. From 2018/19 the regulator changed this to properies "owned". As around one-third of our homes are leasehold and therefore not included in the "new" units classification, this results in around a 50% increase in the cost measurement despite costs not significantly changing. On a like-for-like basis to pre-2017/18, 2017/18 would be £4,415 and 2018/19 £3,342

THCH recognises that our cost per unit is higher than our peers and the Board has invested significant time in understanding the reasons for this, including at two Strategy days. Significantly a number of costs have been one-off costs, such as fire safety works and interim staffing costs for senior positions. In 2018/19 we are expecting a reduction in all costs with the exception of service charges.

Particular focus has been made on the management costs as these are seen being an area where efficiencies can have real impact. We are anticipating our management costs as a percentage of adjusted turnover to reduce in 2018/19 to the level of our benchmarked peers in 2016/17.

Financial Review

The group's financial performance over the past five years is summarised below:

	2018	2017	2016	2015	2014**
Statement of comprehensive income	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Social housing lettings	17,143	17,138	16,693	16,142	15,620
Non social housing activities	575	549	480	508	472
Housing property sales	610	8,911	4,647	5,552	5,871
Gift on stock acquisition	-	-	-	-	4,002
Amortisation of Grant	60	60	60	-	-
Total turnover	**18,388**	**26,658**	**21,880**	**22,202**	**25,965**
Operating costs - social housing lettings*	(13,718)	(13,929)	(12,719)	(12,213)	(10,934)
Operating costs - non social housing activities	(932)	(425)	(138)	(139)	(99)
Cost of sales	(361)	(6,065)	(4,657)	(5,338)	(5,808)
Total operating costs	**(15,011)**	**(20,419)**	**(17,514)**	**(17,690)**	**(16,841)**
Operating surplus	**3,377**	**6,239**	**4,366**	**4,512**	**9,124**
Gain/(loss) on disposal of property, plant & equipment	822	1,334	2,616	2,482	1,142
Net interest payable	(3,305)	(3,238)	(2,973)	(4,086)	(3,743)
Taxation	0	3	-	4	23
Actuarial (loss)/gain in respect of pension schemes	294	406	816	(1,122)	94
Revaluation (loss)/gain on investment properties	0	2,031	-	-	-
Surplus/(deficit) transferred to reserves	**1,188**	**6,775**	**4,825**	**1,790**	**6,640**
Statement of financial position					
Housing properties - cost less depreciation	152,507	154,245	153,591	155,764	147,811
Investment properties	7,142	7,135	4,420	4,481	-
Estate renewal challenge fund	-	-	-	-	(15,621)
Social housing grant	-	-	-	-	(29,396)
Other grants	-	-	-	-	(21,900)
Other property plant and equipment	4,405	4,459	4,728	4,643	4,642
Investments	-	-	-	-	-
Fixed assets	164,054	165,839	162,739	164,888	85,536
Net current assets/(liabilities)	10,285	8,762	8,077	3,559	2,255
Total assets less current liabilities	**174,339**	**174,601**	**170,816**	**168,447**	**87,791**
Loans	56,624	56,614	59,065	61,524	62,879
Disposals proceeds fund	494	1,284	2,204	1,709	922
Recycled capital grant fund	802	933	732	486	195
Grants	6,540	6,552	5,539	5,306	-
Section 106 Disposal Proceeds	2				
Pension scheme liability	2,088	2,461	2,912	3,618	1,822
Total liabilities	**66,550**	**67,844**	**70,452**	**72,643**	**65,818**
Total net assets	**107,789**	**106,757**	**100,364**	**95,804**	**21,973**
Reserves	**107,789**	**106,757**	**100,364**	**95,804**	**21,973**
Social housing properties owned (no)	2,072	2,077	2,078	2,039	2,122
Surplus/(deficit) as % of turnover	6.46%	25.40%	22.05%	8.06%	25.57%
Operating Surplus/(deficit) as % of turnover	18.37%	23.41%	19.95%	20.32%	35.14%
Rent losses (voids as % of turnover)	0.18%	0.15%	0.18%	0.15%	0.17%
Rent arrears (arrears as % of turnover)	3.79%	4.05%	4.94%	4.49%	2.46%
Gearing (loans as % of grant and reserves)	49.53%	49.96%	55.77%	60.85%	70.74%
Reserves per social housing properties owned	52,022	51,400	48,298	46,986	10,355
Debt per social housing properties owned	27,328	27,258	28,424	30,174	29,632
Fire saftety related costs					
Capital	1,064				
Revenue	916				
Total Fire saftety related costs	1,980				

***Audited accounts using old UK GAAP*