

The logo for Tower Hamlets Community Housing (THCH) is located in the top right corner. It consists of a green downward-pointing triangle containing the text 'TOWER HAMLETS' in white, a blue horizontal bar containing 'Community Housing' in white, and another green downward-pointing triangle containing 'THCH' in white.

TOWER HAMLETS

Community Housing

THCH

VALUE FOR MONEY STATEMENT 2019/20

Tower Hamlets Community
Housing



VALUE FOR MONEY

How have we ensured that we delivered Value for Money (VFM) in 2019/20?

The Board sets the Vision and Strategy for THCH and VFM is embedded within this strategic framework. Our clear and comprehensive strategic approach includes:

- Our Vision of Building Connected Communities has a specific theme of delivering great value services.
- Our Corporate Objectives of *Providing Great Homes*, *Delivering excellent services* and *Valuing our people* each have a VFM theme.
- VFM is embedded in every Corporate Objective action.
- Our VFM Strategy includes that we will:
 - Have a culture where staff strive for an efficient business that delivers good quality services for customers,
 - Create capacity by maximising income and minimising our cost base where possible,
 - Use our assets and resources to optimise options for delivering Corporate Objectives, and
 - Prioritise resources based on customer insight and consultation.
- Our Values include Openness and Partnership and these have been embedded throughout THCH.
- Our VFM and Corporate Objectives have been aligned with THCH and sector scorecard metrics to allow for effective Board oversight of performance.

All of THCH's decisions are made within this strategic VFM framework. This meant that during 2019/20 we:

- continued our programme of stock condition surveys and used this to ensure that our stock investment programme remains prioritised and an efficient use of resources. We have ensured that our stock condition data and Business Plan remain aligned.
- approved a new Business Plan, Treasury Strategy and Development Strategy in March 2020 that take account of increased investment in fire safety and include the provision of over 200 new "affordable" homes over the next 6 years.
- Took steps following the performance themed staff conference in March 2019 to embed a performance culture. These have been a success and "quick wins" led to improved (and better than target) rent arrears performance. This culture also supported excellent performance against all compliance KPI's helping to support our top priority of keeping residents safe.
- embraced new technology to deliver greater efficiency and VFM savings, for example through the introduction of a suite of eLearning modules, a new HR "self service" system and the roll out of Office 365.
- procured new contractors for fire servicing equipment, asbestos consultancy, asbestos removal, water management and door entry and CCTV services. This has led to contractors now delivering the quality of service required at a competitive price.
- used the March 2020 staff conference to prepare for the anticipated imminent arrival of a pandemic. This meant that all teams were able to operate remotely by the time that the lockdown was introduced.
- ensured that performance against core KPI's related to Covid-19 linked to income and health and safety have been monitored daily by a Business Continuity Group. This has led to excellent ongoing performance on compliance KPI's and income maximisation during a challenging period for residents.

Whilst performance has improved, it still needs to get better. A key area where improvement needs to be made is in resident satisfaction with the landlord. Improvement plans have been developed and we expect to see better performance achieved as a result.

How has the THCH Board had regular and appropriate consideration of potential VFM gains and consideration of VFM across the whole business?

The Board has ownership of VFM and monitors opportunities and performance in a range of ways including:

- considering reports on sector scorecard and THCH specific metric performance at each Board meeting
- agreeing and then monitoring performance on delivering a VFM element for each Corporate Plan action, and

- considering a report that aligns VFM and Corporate Objectives with THCH specific and sector scorecard metrics twice a year. This new form of reporting was introduced in 2019.

During 2019/20 there was a need for tight control of expenditure due to the ongoing high level of investment in one off health and safety works to THCH's properties. This primarily relates to fire safety work and during 2019/20 over £3.4m was spent on improving the safety of THCH properties. Whilst this will mean that THCH's cost per unit increases above an already high level, the Board and Executive of THCH see resident safety as their top priority and so have decided to continue with this high level of investment. In doing so, however, we have sought good value through the procurement of this additional work and we have also been able to secure £2.4m of grant from the Greater London Authority (GLA) for a recladding project.

The THCH Board approves the Business Plan of its subsidiary, THCH New Homes and in doing so ensures that its work will add value to that of the Group. We recognise that delivery good VFM remains work in progress and we continue to ensure that it has the profile and strategic leadership provided by our Executive and Non-Executive VFM Champions to maintain the positive culture and momentum.

How has THCH ensured that it has appropriate targets in place for measuring performance in achieving Value for Money in delivering our Strategic Objectives and that this is monitored and reported?

VFM was embedded in **every** Corporate Objective Action for 2019/20. Board considered draft 2019/20 Corporate Plan actions at their January 2019 meeting and agreed the final actions at their March 2019 meeting. Board received a 6 month update at the September 2019 Board meeting and noted that overall good progress was being made in delivering the actions. Board received the outcome report for the 2019/20 Corporate Action Plan in May 2020 and, as part of this scrutinised the evidence of VFM that had been provided against each action.

Board decided based on performance in delivering the actions that THCH had delivered its Corporate Plan during 2019/20. Board also observed additional achievements in the year not reflected in the Plan included:

- achieving a governance upgrade to the top level from the Regulator of Social Housing of G1
- a comprehensive response had been taken to changed Government guidance and regulations relating to fire safety, and
- significant preparation had taken place to maintain services for THCH residents during the Covid-19 emergency and a smooth transition had taken place to home working for a number of colleagues at the time of the lockdown.

The 2020/21 Corporate Action Plan agreed at the March 2020 Board meeting similarly contains a VFM element for **every** action. Board will receive a 6 month update in delivering this Action Plan in September 2020 and an outcome report in May 2021.

As well as embedding VFM in Corporate Action Plan initiatives and targets, THCH considers both past performance and the performance of our peers in setting appropriate VFM metric targets. These metrics are incorporated into THCH's VFM Strategy and this has been published on THCH's website.

As well as the metrics required by our Regulator, specific metrics of particular relevance to THCH have been set where the Board wants to see performance improve. These THCH metrics cover increasing income from non-core activities, reducing spend on temporary staff and securing planning consents for new homes.

Performance in delivering VFM metrics is provided on THCH's website (as part of the VFM Strategy) and it is reported as part of each Performance Report to Board. This helps to ensure that VFM performance has the necessary profile and priority within THCH and that stakeholders can easily assess THCH's performance.

How have we performed against our targets for VFM metrics?

The table below shows THCH's performance in delivering its targets for its own VFM metrics and those prescribed by the Regulator of Social Housing.

Theme	Metric	Sector Scorecard National Median	Placeshapers National Median	THCH Actual 2018/19	THCH Target 2019/20	THCH Actual 2019/20	THCH Target 2020/21
THCH Specific Metric	Increase income from non core activities	n/a	n/a	£91k	£40k	£62k	£60k
	Reduce spend on temporary staff	n/a	n/a	£286k	£400k	£167k	£250k
	Necessary steps progressed to commence building new homes	n/a	n/a	n/a	2 planning consents and 1 start on site	n/a	2 planning consents and 1 start on site
Sector Scorecard Metrics							
Business Health (FS)	Operating margin (overall)	25.9%	29.3%	18.0%	16.4%	11.6%	>15%
	Operating margin (social housing lettings)	28.5%	30.1%	16.0%	16%	8.4%	>15%
	EBITDA MRI (as % interest)	191%	194%	129%	>120%	142%	>120%
Development Capacity & Supply Decent & Safe, FS	New supply % (social)	1.2%	1.1%	0	0	0	0
	New supply % (non-social)	0.0%	0.0%	0	0	0	0
	Gearing	38%	42%	35.4%	<32%	34%	<32%
Outcomes Delivered (Value the Residents)	Customer Satisfaction	87%	86%	66%	>84%	62%	>75%
	Reinvestment %	6.2%	6.8%	1.4%	Subject to budget	1.7%	>3%
	Investment in communities	£167k	£292k	£407k	£248k	£371k	>£250k
Effective Asset Management	Return on capital employed (ROCE)	3.4%	4.0%	2.57%	>2.1%	1.6%	>2%
	Occupancy	99.40%	99.50%	99.7%	>99.5%	99.3%	>99.0%
	Ratio of responsive repair to planned maintenance	0.64	0.63	0.83	0.66%	0.64	0.66
Operating Efficiencies	Headline social housing cost per unit	£3,591	£3,385	£6,914	£7,000	£7,723	£7,000
	Rent collected	99.78%	99.86%	101.1%	101.6%	100.3%	101.1%
	Overheads as % of adjusted turnover	11.8%	11.7	19.8%	17.5%	17.6%	<16.0%

The following provides further detail in respect of the performance for each metric:

Increase income from non core activities; We exceeded our target and this was achieved by securing additional income from commercial lettings, community centres, sheds and garages. We plan to continue to maximise the return on these non-social housing assets and are hence seeking a further £60k in 2020/21 on top of previous increases.

Reduce spend on temporary staff; Interim staff were required to cover senior roles (including the Director of Resources and Head of Finance) that had not been expected to become vacant during the year and this significantly impacted on the full year performance. Despite this a saving of £167k was achieved and a further saving of £250k is planned for 2020/21.

Necessary steps progressed to commence building new homes; Work on our Development Strategy was paused in November 2019 to allow the Board to assess the impact of changing Government Guidance and regulations relating to fire safety. A new Development Strategy was approved in March 2020 and work is now progressing to deliver against this Strategy and VFM metric.

Operating margin (overall); During 2019/20 THCH invested significant resources in health and safety work linked primarily to fire safety. An element of the £3.4m invested in fire safety in 2019/20 is revenue and this impacts on THCH's operating margin. Excluding these costs the operating margin (overall) would increase from 11.6% to 19.4%. Our investment in one off fire safety projects will continue for the next four years and the safety of THCH's residents remains the top priority for THCH's Board and Executive Team. After this period investment will reduce to the much lower level required to deliver ongoing "business as usual" safety work.

Operating margin (social housing lettings); Excluding one off fire safety costs the operating margin (social housing lettings) would increase from 8.4% to 16.6%.

EBITDA MRI (as % interest); Costs associated with the additional investment in fire safety have been excluded by our lender from covenant calculations. We have a covenant of 110% and a golden rule not to fall below 120% and our performance comfortably exceeded this.

New supply % (social) and New supply % (non-social); A new Development Strategy was approved in March 2020 and this will see over 200 homes being built for "affordable" rent over the next 6 years. The latest Business Plan and Treasury Strategy incorporate this growth in homes. As well as helping to address the very significant local housing need, growing THCH will allow for management costs and overall cost per unit to be reduced as the Executive Team believe that the growth contained in the approved Development Strategy can be achieved without the need to add significantly to the staff team resource.

Gearing; Contingency planning linked to Brexit and Covid-19 led to increased levels of liquidity being maintained during the year. However, the level of liquidity linked to risk management has been actively managed and this has helped maintain our low level of gearing. We plan to sweat our assets and recognise that our gearing will increase as we start to build more homes.

Customer Satisfaction; We recognise that performance in this area is not good enough. Service improvement plans are in place to help deliver increased satisfaction although Covid-19 has recently delayed some actions being delivered. The Board has decided that low resident satisfaction is a strategic risk and reviews steps being taken to address this as part of the Risk Map at each Board meeting.

Reinvestment %; Whilst some planned investment was switched to fire safety work a kitchen and bathroom programme commenced in late 2019 and will continue in 2020 once the lockdown is eased. This and increased activity linked to development, is expected to result in a higher level of reinvestment as a % in 2020/21.

Investment in communities; Thousands of residents have benefitted during 2019/20 from services and activities delivered from our 7 community centres and through tenancy support. THCH's direct investment

has again been matched many times over by the level of social return on investment, positive impact on health and wellbeing and on community cohesion.

Return on capital employed (ROCE); Our drive to make sure our homes remain safe through increased investment in one off projects means that our ROCE is relatively low. This is expected to increase but not until after the one off investment projects are completed over the next four years.

Occupancy; Performance remained strong but was 0.2% below target due to properties having to be held as void at the end of March due to the pandemic. A lower target of 99% has been set to reflect the fact that no letting activity was possible from late March until late June 2020 due to the lockdown.

Ratio of responsive repair to planned maintenance; Our responsive repairs spend was higher than last year due to a range of factors including a higher number of voids and communal and individual property repairs being completed. However, our target for the year was met due to the high level of proactive investment work to our properties.

Headline social housing cost per unit; 90% of our homes are flats and many of these are within buildings over 18 metres. Following Grenfell and in response to changes in Government Guidance in 2019 we continue to invest significant resources into one off fire safety projects. During the year we invested £2,857 per unit in planned, major and capitalised work. Our combined investment in these areas was £2,015 per unit higher than the 2018/19 Placeshaper average. Our cost per unit increased from the previous year by £809, however our investment in planned, major and capitalised work increased by £1,257 during the same period. A third of THCH's homes are leasehold. Costs associated with the management of these homes are incorporated in the headline social housing cost, however, the properties are not included in calculating the per unit cost. We secured £2.4m for our ACM recladding contract and will continue to explore sources of available funding for future projects. We are continuing to drive down costs such as overheads to enable this ongoing significant investment in safety work and so that we can evidence an efficient business.

Rent collected; Our rent collected performance continues to be in the top quartile of our peers and we are aiming to continue this trend. We are closely monitoring and managing the impact of Covid-19 on collection rates and we see this as needing to be a focus throughout the year ahead.

Overheads as % of adjusted turnover; Our overheads have reduced both as a percentage of adjusted turnover and in real terms. During the year our overheads reduced by £481k compared to 2018/19. We will continue the downward trend in the year ahead.