Value For Money Statement 2022

POPLAR HARCA

Creating Opportunities Together

Introduction

This document outlines Poplar HARCA's Value for Money (VFM) Statement towards our 2026 VFM targets and compares our VFM metrics against our peers using the VFM Scorecard.

Poplar HARCA must comply with the Regulator of Social Housing's VFM Standard, which includes metrics for registered providers to demonstrate efficiency, effectiveness and economy. The standard sets out targets for measuring performance to see how we are achieving value for money in delivering our corporate strategic plan.

Poplar HARCA's Board sets our targets to push the organisation to get to a position of financial resilience that is stronger than today and comparable to Housing Associations with A grade credit ratings.

Poplar HARCA has a strong focus on regeneration, community investment and high service satisfaction. Whilst many Housing Associations share some of this focus, very few operate in the way Poplar HARCA does in delivering the scale of community investment and estate regeneration. The nature of our strategy means the number of social homes on some estates reduces during a regeneration programme, but ends up having significantly more social homes with improved infrastructure and community facilities. We experience pressure on operating margins and costs per units as a result. Our investment in community activities is on a scale that no other Housing Association gets close to, the result of which is a drop in operating margin of almost 10%. However, we still maintain G1 V2 ratings with the Regulator and are investment grade with strong liquidity and a strong balance sheet.

Our approach to VFM is to use our limited resources to provide as much opportunity for our community as possible, improving homes and infrastructure whilst managing liabilities and maintaining financial resilience. Our VFM purpose is mapped out in our journey towards the 2026 targets whilst investing to improve the safety, carbon efficiency and quality of our homes, estate environment and community facilities.

TO ACHIEVE VALUE FOR MONEY WHILE DELIVERING OUR STRATEGIC PLAN, WE FOCUS ON:

- **Spending less: minimising cost**
- **Spending well: getting the best results**
- **Spending wisely: achieving what we said we would.**

This is in line with National Audit Office's guidance on assessing value for money.

Our Value for Money strategy

Our five-year corporate strategy 2021-26 states our purpose is Creating Opportunities Together that realise community potential through exceptional homes and thriving places with social justice at our core. Achieving excellent value for money in all that we do is vital to achieving this vision. We aim to make the best possible use of resources to improve housing, neighbourhoods and opportunities for our residents, with high quality outcomes and demonstrable social returns.

Our VFM Strategy sets how we target and monitor VFM at every level of the organisation. The Board sets and monitors our VFM action plan annually, which includes 'Achieving the Vision' targets. The Finance Committee monitors this on a quarterly basis. The top level targets are set as a Financial Control Framework to enable us to 'Achieve the Vision' and to deliver the ambitious Corporate Strategic Plan.

The purpose of the VFM 2026 targets is ultimately maintaining financial resilience whilst delivering our corporate strategy within risk tolerance. The targets were set after comparing to peers and using the June 2021 business plan to ensure the targets were achievable. The five-year targets enable the Board to hold itself to account against its financial projections.

Our current approach to maximising the return on assets is characterised by extensive stock option appraisals based on detailed density calculations and net present value analysis. The progress of the Aberfeldy New Village LLP and completion of Jolles House are examples of regeneration increasing the number of homes and improving the local environment. Our decisions to sell empty homes or to let to homeless households are made using an asset evaluation matrix. This is ultimately to maximise the outcomes from the asset and control our long-term liabilities.

Social housing cost per unit is now projected to be 10% higher than target in 2026, largely caused by inflation. The upward pressure is particularly around maintenance costs. The £12m programme to get to EPC of C for all our rented stock is excluded from the cost per unit projections to enable a better comparison to the original targets set in 2021. We expect to be nearer the peer group average by 2026 as we work to control cost and as housing stock is replenished as our regeneration projects complete.

VFM Strategy targets 2026

£5,200 Social housing cost per unit of £5,200

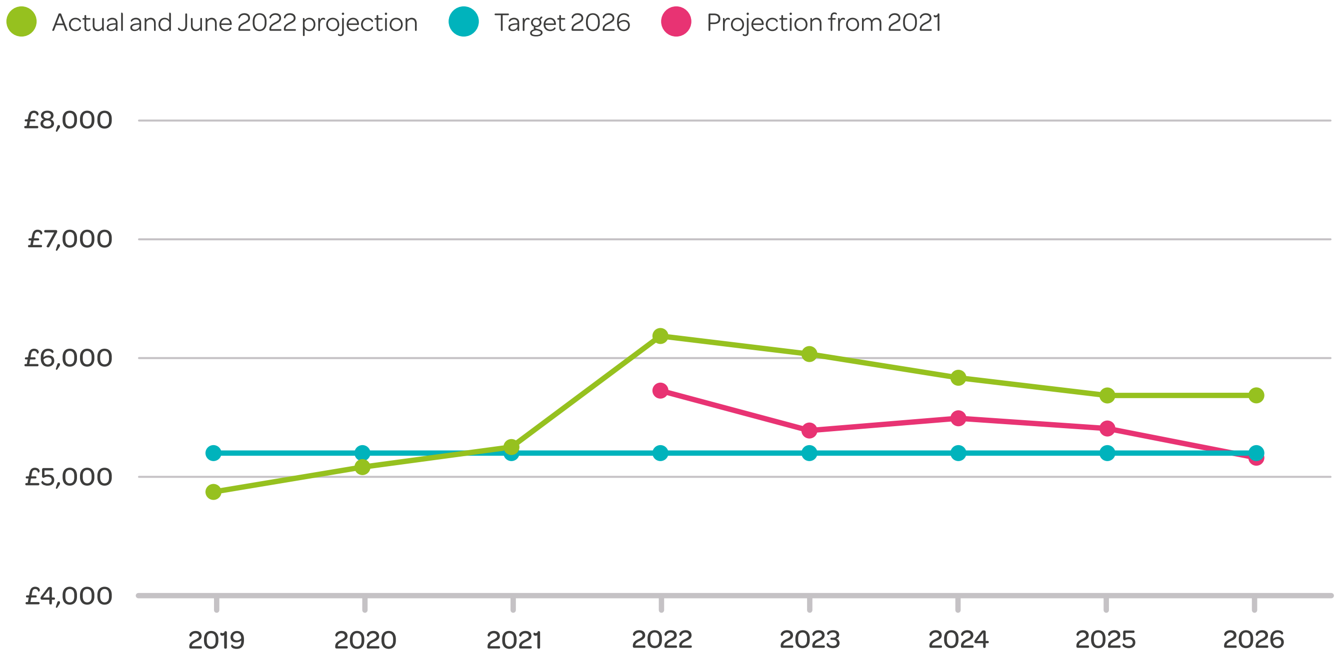
£1,600 Management cost per unit of £1,600

150% EBITDA MRI

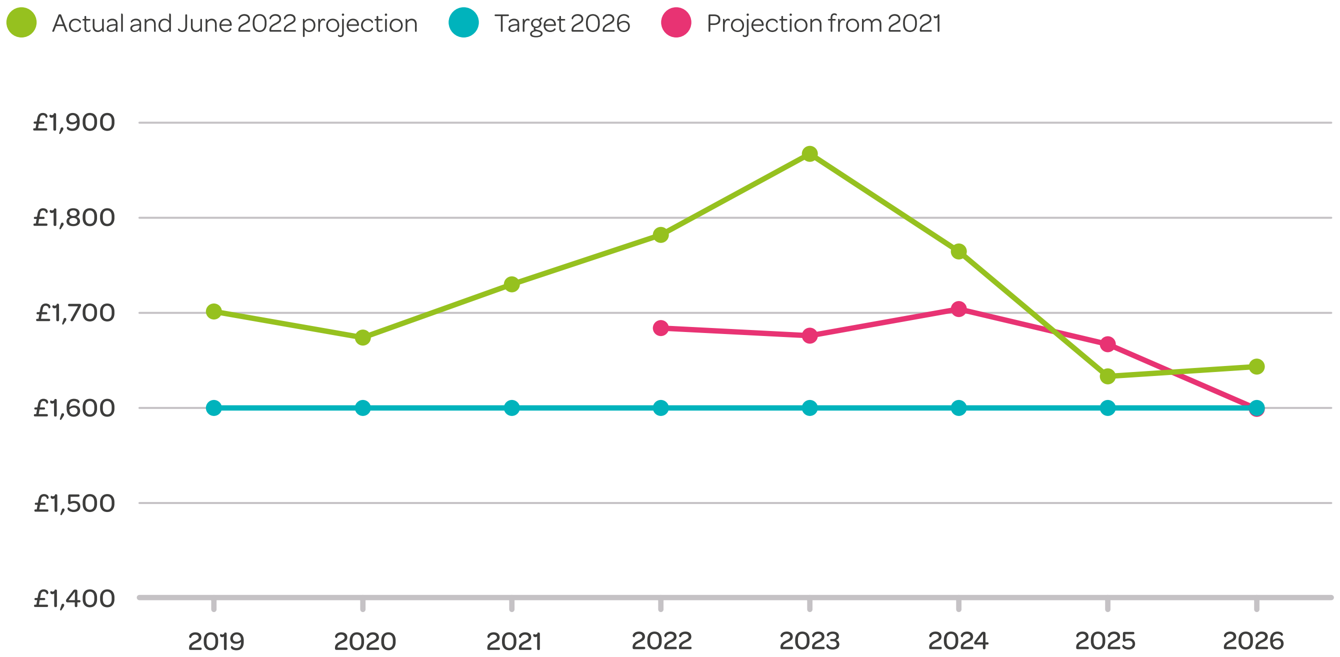
50% Gearing

20% Operating margin

SOCIAL HOUSING PER COST PER UNIT



MANAGEMENT COST PER UNIT

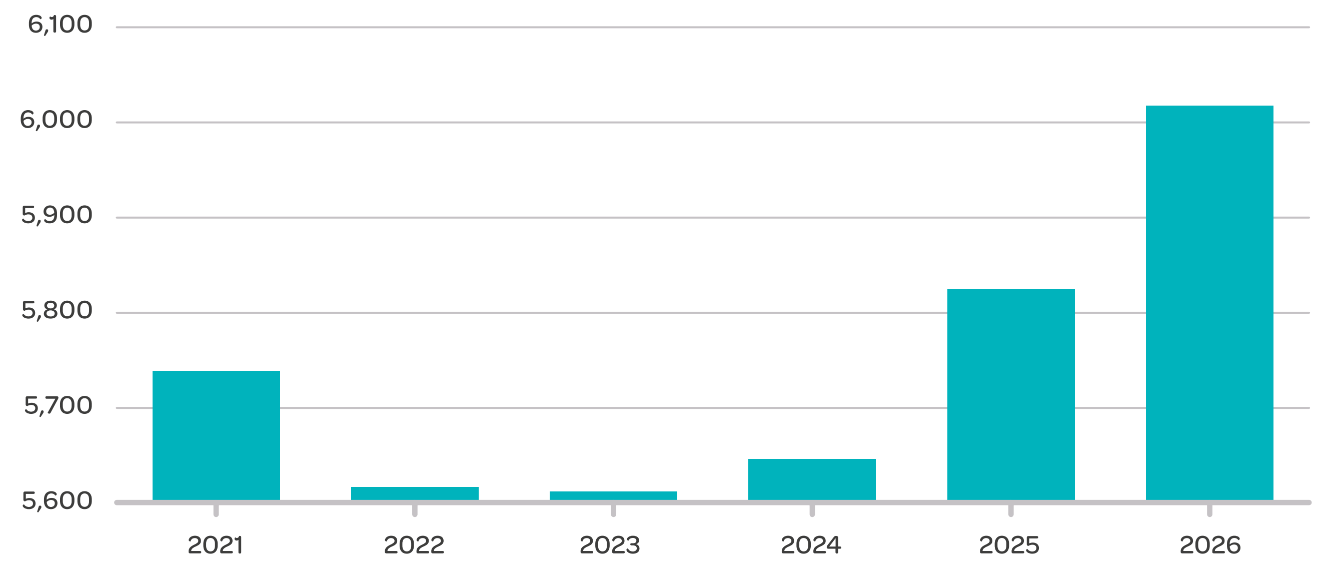


The chart below shows the extent of the increase in social homes. Whilst G15 peers also build a significant number of new social homes, Poplar HARCA's projects typically involve demolition of blocks and construction of larger estates with full replacement plus additional social homes. The strategy to sell some social homes that are not desirable and replace with S106 new social homes is beneficial for decanting tenants from blocks that are earmarked for demolition and ensuring we are able to offer better homes locally in the decant process.

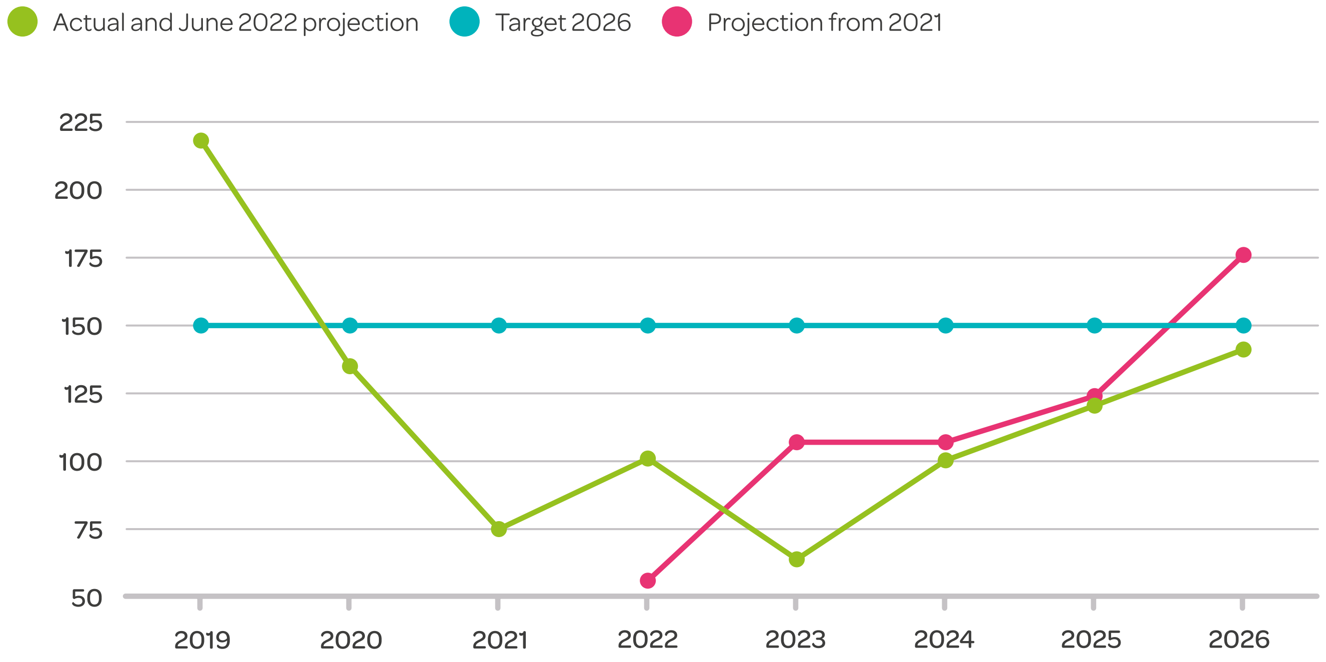
Our investing cash flows are high as a result of our strategy, as is the increase in homes. From a low in 2023 we increase by over 400 homes through to 2026, an increase of 7.2%. This is despite blocks continuing to be demolished over than time.

The planned £12m EPC programme is a key reason we now project being below the 150% EBITDA MRI target in 2026, along with inflation in cost. The Board has taken a prudent approach to its April 2023 rent increase assumption given the cost of living pressure on our tenants. This is another factor weighing on EBITDA MRI and operating margin. However despite that and the cost inflation environment, operating margin is now projected to be above our target of 20% in 2026. The improvement is due to higher capitalisation of maintenance costs. Note the low margin in 2021 was driven by an investment in Carradale House through a subsidiary making it an operating cost.

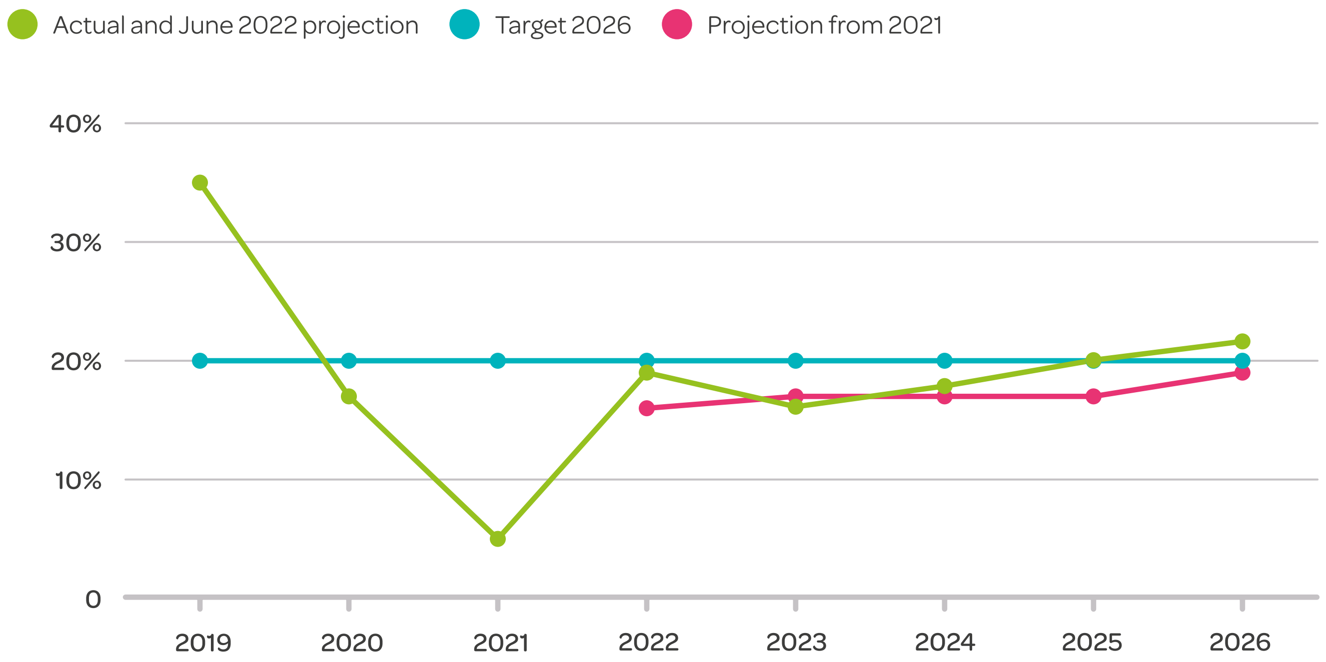
TOTAL SOCIAL HOUSING UNITS



EBITDA MRI (RSH DEFINITION)



OPERATING MARGIN EXCLUDING SALES (RSH DEFINITION)



Value for money scorecard

The tables below are from the Poplar HARCA Value for Money Scorecard. The performance measures are set by the Board and includes those specifically required to be published annually under the "Value for Money Standard 2018" issued by the Regulator. We compare ourselves to the G15 2021 averages. We also compare to two specific London based peers that both have a high proportion of flats and a relatively significant development programme for their size. Peer 1 is larger than Poplar HARCA and peer 2 is smaller in terms of the number of social homes managed.

Sector scorecard	PH Group	PH Group	PH Group	G15	Targets		Peer 1		Peer 2	
	2020	2021	2022	2021	2022	2023	2022	2021	2022	2021
Business Health										
Operating margin excluding surplus on disposals	17%	5%	12%	23%	16%	17%	14%	28%	30%	34%
Operating margin-social housing settings	14%	14%	19%	30%	11%	11%	27%	26%	32%	29%
EDITDA MRI % interest cover[1]	135%	75%	79%	134%	56%	108%	94%	165%	112%	142%

Poplar HARCA's operating margin is low compared to peers however by 2026 we expect to meet or better our target of 20% and be a lot closer to the G15 peer group average, particularly if the G15 average falls due to inflation in cost. The 2022 operating margin of 12% was lower than the 16% target for a number of reasons:

- There was difficulty with void turnaround in the year due to backlog from covid and supply chain issues and there was delay in sales of shared ownership stock. Rental income was £0.8m lower than budget as a result. The void process has now improved following a detailed process review, and shared ownership stock is selling well with just 10 homes available for sale at the time of writing.
- Lower surpluses from shared ownership sales due to delays (£0.6m).
- A £1.0m increase in investment in central and technical teams focusing on compliance, finance, regulation and IT security.
- Net write down in investment property of £0.5m driven by lower 'covid rents' in a private block. These rents are now recovering well and demand is high.
- Write down in investment of JV by £0.5m reflecting required expenditure in furthering the Balfron Tower Project to completion.

The higher investment in central and technical teams rolls forward into 2022/23 and beyond putting pressure on operating margin, however we are seeing lower costs elsewhere as a result which offsets the investment. Rent loss due to voids continues to be a challenge driven by aging stock in blocks earmarked for demolition. With shared ownership sales progressing well and the investment write downs behind us, we anticipate achieving our 2023 target operating margin of 17%.

Social housing lettings operating margin is lower for Poplar HARCA than it otherwise would be due approximately 300 homes classed as non-social housing, despite the tenants previously having 'statutory homeless' status. The rents are paid by LBTH and are set at the local housing allowance. This is significantly less than temporary accommodation costs, therefore saving LBTH money whilst providing more stability for the tenant.

EBITDA MRI % interest cover has fallen from 135% in 2020 to 79% in 2022 principally due to fire safety related investment and a boiler programme that replaced approximately half of the boilers in our flats.

The 2022 79% result was higher than target, largely due to difficulty in starting on site for external wall replacement due to lack of the specialist engineering resource required. The programme is now well advanced with the majority expected to complete by March 2023. Our programme to achieve EPC of C for all homes will run until 2026 and weigh on this metric and we currently expect to miss our 2026 target of 150%. The current projection is 141%. This is still above the G15 2021 average and shows we are on track to improve our financial strength by 2026 and have safer and more efficient homes.

Sector scorecard	PH Group	PH Group	PH Group	G15	Targets		Peer 1		Peer 2	
	2020	2021	2022	2021	2022	2023	2022	2021	2022	2021
Operating efficiencies										
Headline social housing cost per unit	£5,082	£5,251	£6,186	£5,096	£5,726	£5,390	£5,184	£5,444	£5,427	£5,688
Management cost per unit	£1,674	£1,730	£1,782	£1,365	£1,684	£1,676	£1,422	£1,595	£1,020	£936
Service charge cost per unit	£1,180	£1,153	£1,271	£838	£1,083	£1,145	£1,101	£1,126	£1,269	£1,275
Maintenance cost per unit	£1,344	£1,124	£1,184	£1,275	£1,290	£1,296	£1,029	£856	£2,242	£2,301
Major repairs cost per unit	£368	£436	£1,209	£973	£1,187	£797	£1,332	£1,381	£651	£814
Lease costs per unit	-	£241	£248	£138	-	-	-	-	-	-
Other social housing cost per unit	£516	£567	£490	£507	£482	£506	£300	£486	£246	£270
Rent collected	100.7%	99.9%	100.1%	99.7%	98.0%	98.0%	100.2%	100.6%	96.2%	95.5%

Management cost per unit of £1,782 in 2022 was above target largely due to £0.3m increases in cost of finance, IT and technical teams to mitigate risk. Rising insurance cost was also a factor, up £0.1m on the business plan. The increase in cost is coupled with the fact that 27 new social homes were delayed until summer '22 increasing cost per unit.

Poplar HARCA has higher management cost per unit than the G15 average and both direct peer comparisons. The increase from 2020 to 2022 is only 6% despite a fall in the number of social homes managed in that time. Our costs have therefore not risen significantly since 2020. We have a high management cost base largely due to our regeneration activity and the complexity involved. However we still anticipate achieving a lower management cost per unit by 2026 of £1,600 which will bring us closer to the G15 peer group average.

The 2022 service cost per unit of £1,271 was higher that the target of £1,083 driven largely by £0.9m cost increase relating to communal energy and block based services. With an increasing proportion of newer units working with managing agents, service costs have increased in comparison to older, HARCA-managed units. Additionally, similar to increased management costs, services costs have increased due to increased investment in the finance, IT and technical teams (impact £0.2m higher than the business plan).

Maintenance costs per unit have reduced from 2020 through to 2022 and are now below the G15 peer group average. We have increased our major repairs for fire safety and the boiler replacement programme and this explains the jump in this cost per unit. In 2023, we anticipate major repairs cost falling back in line with comparable G15 peer group average and our repairs maintenance cost per unit remaining below the G15 peer group average.

Sector scorecard	PH Group	PH Group	PH Group	G15	Targets		Peer 1		Peer 2	
	2020	2021	2022	2021	2022	2023	2022	2021	2022	2021
Outcomes delivered										
Resident satisfaction with services	81%	-	85%	76%	81%	81%	85%	88%	58%	71%
Reinvestment % [3]	5%	9%	8%	5%	10%	11%	7%	8%	6%	4%
Investment in communities (spend in year)	£6.7m	£6.6m	£7.4m	£3.1m	-	-	£4.4m	£2.48m	£0.08m	£0.06m
£'s invested in communities for every £ generated from operations	£0.54	£1.36	£0.35	-	-	-	£0.06	£0.04	£0.01	£0.00

The result from the 2021/22 resident satisfaction survey of 85% (for tenants and leaseholders) compares to 81% from 2019/20 and 75% for the survey prior to that. This upward trend is something the Board is very proud of and we continue to set a target of maintaining a high level of satisfaction, specifically 81% in line with the performance at the beginning of the 2021/26 Corporate Strategic Plan.

Reinvestment is high at Poplar HARCA due to our regeneration strategy and the 2021 and 2022 results of 9% and 8% are significantly higher than the G15 average.

Investment in communities is an area where Poplar HARCA is very different to peers. The Board has been committed to its youth service, employment and learning and community centre activities for over 20 years. In comparison to peers, we spend far more relative to our scale. We consider this critical to our mission and the social impact generated is significant. These activities enhance our relationship with our community, without which we could not deliver our regeneration projects.

Sector scorecard	PH Group	PH Group	PH Group	G15	Targets		Peer 1		Peer 2	
	2020	2021	2022	2021	2022	2023	2022	2021	2022	2021
Effective asset management										
Return on capital employed [4]	4%	3%	6%	1%	3%	1%	1%	3%	3%	2%
Occupancy	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Ratio of responsive to planned maintainance	48%	51%	50%	47%	50%	48%	51%	51%	48%	48%

Return on capital employed is typically high for Poplar HARCA driven by our property disposal programme and wider regeneration strategy. However property disposals are reducing in 2023 and beyond and we will return to levels that compare to the G15 average.

The ratio of responsive repairs to planned maintenance of 0.5 is a good result, partly helped by the external wall system investment programme. The Board has set an objective of achieving a ratio of 0.5 as part of our asset management strategy. Excluding the external wall system programme, the result for 2021/22 is 0.6 with the improvement on the previous year driven largely by the 2021/22 boiler replacement programme.

The number of new social homes developed in 2022 was lower than the target because two large schemes achieved practical completion March 2021 and that is why 2021 was a high result.

Gearing of 50% in 2022 meets the 2022 target and the longer-term 2026 target. The Board consider 50% gearing appropriate for Poplar HARCA and comparison to G15 and the two specific peers shows this is an average debt position for Housing Associations that have reasonably significant development programmes.

Sector scorecard	PH Group	PH Group	PH Group	G15	Targets		**Peer 1**		**Peer 2**	
	2020	2021	2022	2021	2022	2023	2022	2021	2022	2021
Development - capacity and supply										
Units developed social housing units	4%	3%	1%	1%	3%	1%	1%	3%	3%	2%
Units developed non-social housing units	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Gearing[2]	48%	51%	50%	47%	50%	48%	51%	51%	48%	48%

Our VFM action plan and delivery

The Board and Finance Committee monitor individual projects that all play their part in the delivery of the high level metrics discussed above and out journey towards our 2026 targets. The following are examples of what has been achieved.

GENERATING INCOME

- Our Hidden Homes Scheme delivered 17 new homes bringing in additional rental income

REDUCING TRANSACTIONAL COSTS AND RESOURCES; AND IMPROVING EFFICIENCIES

- 42% of all resident transactions and contacts were done online reducing transactional costs.
- £2.3m collected through our new online payment method for residents
- 52 homes fitted with smart devices allowing for better intelligence and timely interventions
- Introduced smart heat, smoke and CO detectors that self-test and record accurate expiry dates. This will reduce the frequency of replacements and allow remote monitoring which reduces visits
- 80% of our invoices were processed using Robotic Process Automation (RPA)
- Launched post-inspection functionality on a mobile app to reduce officer time and duplication, and increase the number of repairs quality inspected
- Reducing staff hours on dealing with incoming and outgoing mail by introducing our digital mailroom
- In-house delivery of annual resident survey saving £15- £30k per year
- Void process redesign to improve turnaround times and make general efficiencies
- Introduced basket rates in for repairs and maintenance to reduce administration time, improve record keeping and cap costs.

DELIVERING COST SAVINGS THROUGH OUR DECARBONISATION PROGRAMME

- £2.3m boiler replacement programme completed; 1,179 boilers replaced; saving on 29% on boiler price; saving residents £28k per year; reducing carbon emissions by 1,500 tonnes
- By strategically replacing some system boilers with combination boilers, we have reduced the number of roof tanks needed in two of our blocks. This reduces annual inspection, cleaning and disinfection costs, along with risk assessment and future replacement costs.
- 600 new homes improved EPC rating from D and E to EPC passing on savings of £28,000 collectively to residents.
- 2 new electric vans added to our Estate Services team contributing towards a reduction on fuel costs.

GENERATING SOCIAL VALUE

Invested £5m in community services and secured a further £2m funding, delivering a total return on social investment of £16m

Social Value Generated (measured using HACT's social value insight tool)

£5.5M	**£5.6M**	**£1.2M**	**£2.6M**	**£1.1M**
Employment & Training	Health & Wellbeing	Digital Inclusion	Youth Service	Volunteering

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