



**BERNICIA GROUP LIMITED**

## **SECTOR SCORECARD 2016/17**

A group of Housing Associations, which includes Bernicia, have been piloting the Sector Scorecard over the past few months.

The Sector Scorecard is the name for a set of 15 indicators that can be used to benchmark efficiency across the sector. The aim is for these indicators to become the mainstream way that efficiency and effectiveness are measured. To test them a one-year pilot is being run, with a full launch planned for 2018.

The indicators allow comparisons to be made across five key areas:

- Business Health
- Development – capacity and supply
- Outcomes delivered
- Effective asset management
- Operating efficiencies

More than 300 housing associations managing 2.4 million homes took part in the pilot, which covers 82-83% of social housing in the country. These ranged from small associations with a turnover of £100,000 a year to some of the largest in the sector.

The first tranche of results from the pilot have now been published, and show that every association has “mixed results” on the scorecard. No association has performed above average on all indicators, similarly no association is below average on all indicators, and no association has achieved the median (average) for all indicators.

The report below compares Bernicia’s performance in 2016/17 compared to all those who took part. In addition, a comparison has been made with the thirteen social housing providers based in the North-East that took part in the pilot. We have not provided figures for the previous year (2015/16) as they do not provide a meaningful basis for comparison given the major change the organisation underwent in 2016 with the merger with Four Housing.

The results became available in late September 2017 allowing us to make an initial assessment to be included alongside our VFM Statement published on our website by the deadline of the 30th September. We will continue work with the Pilot Group to refine the Sector Scorecard and analyse and understand the results it presents.

## SCORECARD OVERALL RESULTS

The table below summarises Bernicia's results over the fifteen metrics

### Business Health

	Quartile
Operating margin	3 ●
Operating margin (social housing lettings)	3 ●
Interest Cover - EBITDA (MRI)	3 ●

### Development Capacity & Supply

	Quartile
Units developed (absolute)	2 ●
Units developed (as a percentage of units owned)	2 ●
Gearing	2 ●

### Outcomes Delivered

	Quartile
Percentage of respondents very or fairly satisfied with the overall service prov..	2 ●
Pounds invested for every Pound generated - in new housing supply	3 ●
Pounds invested for every Pound generated - in communities	4 ●

### Effective Asset Management

	Quartile
Occupancy	2 ●
Ratio of responsive repairs to planned maintenance	3 ●
Return on capital employed (ROCE)	2 ●

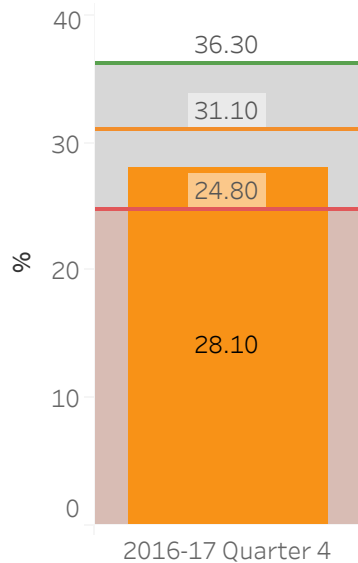
### Operating Efficiencies

	Quartile
Headline social housing cost per unit	3 ●
Rent collected from current and former tenants as a percentage of the rent du..	4 ●
Overheads as a percentage of adjusted turnover	1 ●

This shows that Bernicia is above the median level in seven of the fifteen measurements. It is in the top quartile for one measurement (overheads) and lower quartile for two (rent collected and pounds invested in communities). Further details are given in the sections below.

## Business Health

Operating margins and interest cover are performing in line with the national median, and do not indicate any areas for concern. Overall business health is strong.

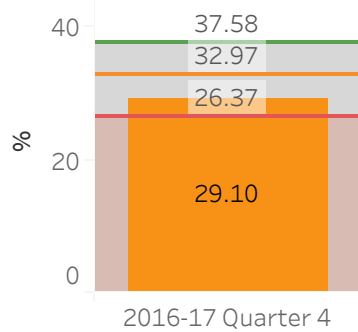


### Operating Margin

Operating margin is the operating surplus achieved as a percentage of turnover. For Bernicia this was calculated at 28.10%, which is mid-point between lower quartile and median performance (lower median). Of the first tranche pilot contributors (240), 91 achieved upper median or upper quartile, 102 achieved KPI results in the same range as Bernicia, and 47 achieved lower quartile.

For the 13 local associations that contributed to the first tranche pilot, operating surpluses ranged from 14.90% to 39.10%. Of the local peer group Bernicia had the 8th highest operating margin

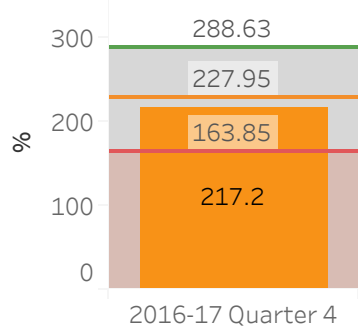
It should be noted that the Groups operating margin was after one off restructuring costs of £535k which will have adversely impacted performance.



### Operating Margin - Social Lettings

Bernicia's operating margin for social housing lettings was 29.10%, which was once again lower median. When compared to the local peer group, Bernicia ranked at number 9. The peer group margin percentages ranged from 14.90% to 48.26%.

Operating margin is mainly a product of rent levels and unit costs. Rental levels are low in the North East of England. Bernicia's operating costs are median as shown later in the report.

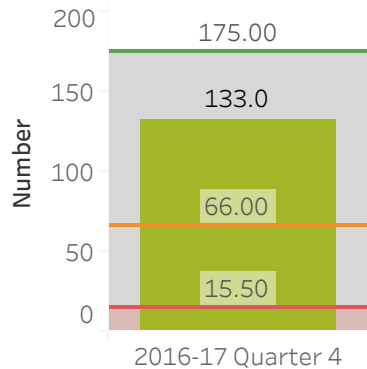


### Interest Cover

Interest cover (EBITDA MRI) for the Group was 217.20%. Of the total group, 194 associations reported Interest cover in the same range. The local peer group reported interest covers ranging from -664.00% (LSVT models) to 390.00%. Bernicia ranked at number 8 in the local peer group.

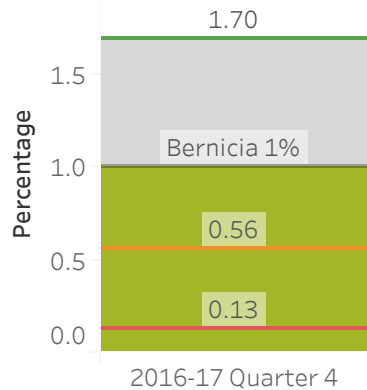
## Development – Capacity and Supply

Bernicia continues to be a major contributor of new housing supply to the North East, and when looking at units developed as a percentage of those owned is an upper median (nationally) performer. The Group has low gearing and this, combined with simplifying the group structure, will enable us to create additional capacity to develop even more homes for people who need them.



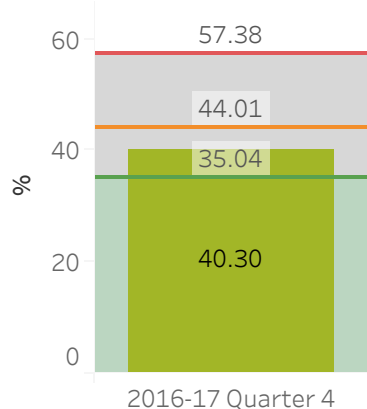
### Units Developed (absolute)

During 2016/17 the Group developed 133 new units, i.e. upper median. Of the local peer group, 11 associations developed units in the year, with completions ranging from 8 to 297. Bernicia ranked at number 4 in the group. The three associations ranked higher developed in excess of 200 units.



### Units Developed (as a % of units owned)

The sector scorecard has not reported this metric for Bernicia, however, the Groups submission reported 1%, which would have been upper median. This statistic is only reported for 8 of the peer group, and Bernicia would have ranked 4th.

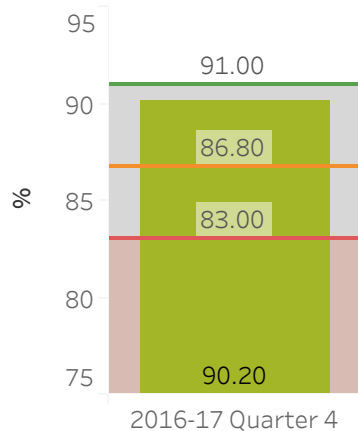


### Gearing

Gearing for the Group is reported at 40.30%, which is upper median. Of the peer group, Bernicia is the 4th lowest geared. The local peer group ranges between 16.57% and 95.20%. This shows that Bernicia has the capacity to fund additional investment.

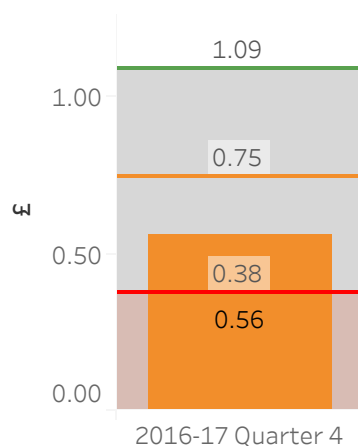
## Outcomes Delivered

Bernicia's customers continue to be satisfied with the services provided, with satisfaction nudging the upper quartile. Pounds invested in new housing supply is not favourable when compared at a national level, however the Group's investment when looking more locally is strong. The plans to simplify the group structure and utilise our latent financial capacity to develop more homes will enable Bernicia to increase its investment in new homes in future years



### Customers Satisfied with Service

90.20% of the Group's customers are satisfied with the service provided to them. This is approaching upper quartile performance and ranks Bernicia at number 9 in the local peer group. Two local associations achieved over 92% satisfaction, and 7 (including Bernicia) ranged between 90 and 92%.



### Pounds Invested in New Housing Supply

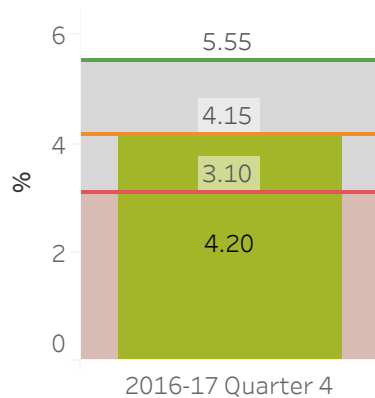
In 2016/17, the group invested 56p of every £ of net cash generated from operating activities in new housing supply. Of the developing associations (10) in the local peer group, Bernicia was ranked at number 4.

### Pounds Invested in Communities

Bernicia invested £115k in communities in 2016/17, which calculates at near zero for every pound generated. The upper quartile was £0.01 and the lower quartile was £0.05. One would question the value in reporting this metric, given how low the quartile comparators are. We will also seek further clarification on what others may have included and excluded from this measure to ensure meaningful comparisons.

## Effective Asset Management

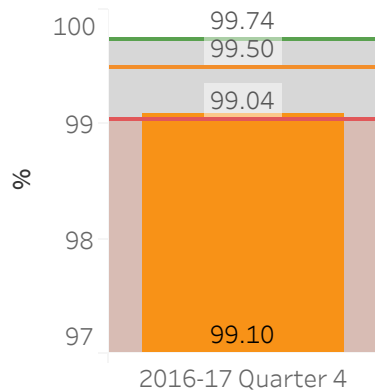
Effective asset management is critical to the Group and the results are positive for both the Group's return on its investment in properties (ROCE) and the ratio of responsive repair costs to planned maintenance costs. Occupancy, whilst lower quartile, saw only 86 properties vacant and available to let at the end of the financial year.



### Return on Capital Employed

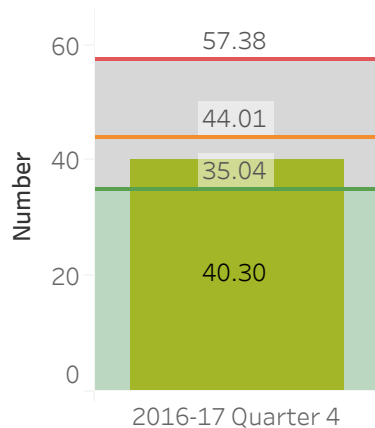
Return on capital employed allows you to understand the level of surplus that is generated as a result of investing capital (into fixed assets – property) in the business. For Bernicia, for 2016/17, this is reported at 4.20% which is median performance. Only 61 Associations nationally performed higher than the median.

Bernicia ranked 7th in the local peer group. The associations that had a higher return on capital employed are LSVTs. Typically LSVTs would have a lower fixed asset carrying value, and as such when compared to surplus levels, a higher return is calculated.



### Occupancy

The occupancy metric focuses specifically on general needs properties. For Bernicia, 86 of its 9,716 general needs properties were vacant and available to let at the end of the financial year; which, given some of the areas of low demand that we work across and that performance has improved since merger, is a positive result. In the local peer group Bernicia ranked 8th.



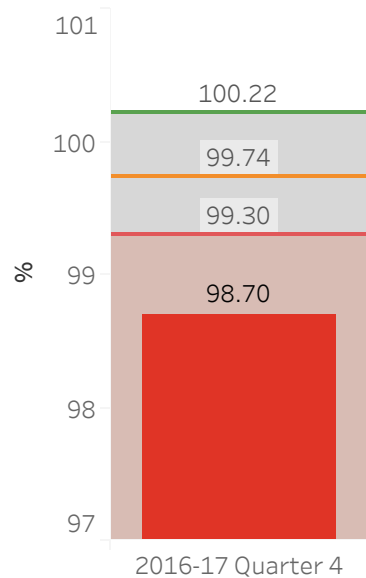
### Ratio of Responsive Repairs to Planned Maintenance

For 2016/17 expenditure on responsive repairs was 57% of the expenditure on planned maintenance. Nationally this performance is upper median. Comparing Bernicia with the local peer group, we are ranked 4th

## Operating Efficiencies

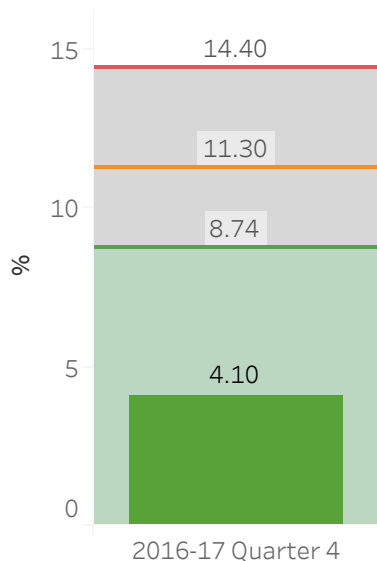
During 2016/17 the Group has reduced its social housing costs by £3.8million. These cost reduction have ensured that headline social housing costs per unit performed at the median nationally and our overhead costs at the upper (most favourable) quartile.

Rent collected remains strong, with over £1million additional cash being collected in the year compared to our internal performance target.



### Rent Collected as a Percentage of Rent Due

Rent collected percentage at 98.70% was lower quartile. It should be noted that the Group opted not to adjust rent collected for the housing benefit cycle. Rent collection for Berwick (one of our operational subsidiaries) was particularly impacted by this decision. Overall, the Group collected an additional £1million cash when compared with our internal performance target. When compared to the local peer group, Bernicia ranked 10th.

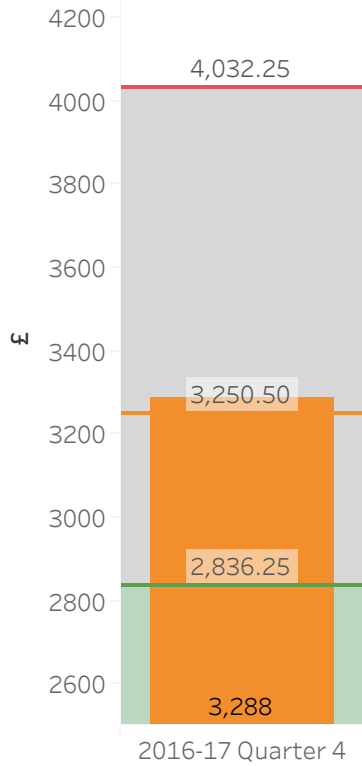


### Overheads as a Percentage of Adjusted Turnover

Overheads as a percentage of turnover, at 4.10% was significantly lower than the upper (most favourable) quartile. This supports the significant merger and rent reduction savings that the Group has made to date. When compared to the local peer group, Bernicia was ranked top at number 1. Efficiencies in management and overhead costs enable Bernicia to increase its expenditure on maintenance whilst still achieving an overall unit cost per property in line with the sector median.

## Headline Social Housing Cost Per Unit

During the year, the Group has seen a £3.8million reduction in social housing costs reflecting the savings made from the merger and the implementation of our plans to mitigate the rent reduction. The headline cost per unit, at £3,288, was only slightly higher than the 2016/17 median of £3,251. When compared to national providers, Bernicia ranked 103. When compared to the local peer group, Bernicia ranked at number 3. It should be noted once more that the 2016/17 financial statements included one-off restructuring costs following the merger between Bernicia and Four Housing.

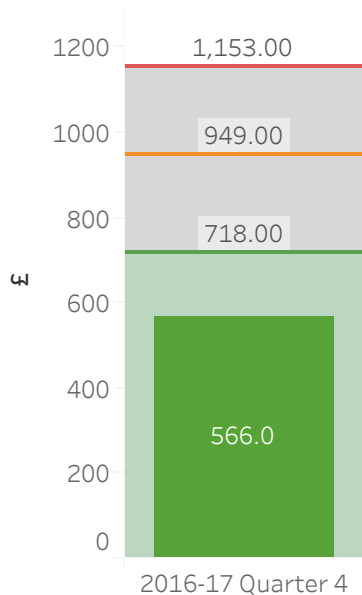


The overall cost per unit can be broken down into five constituent parts:

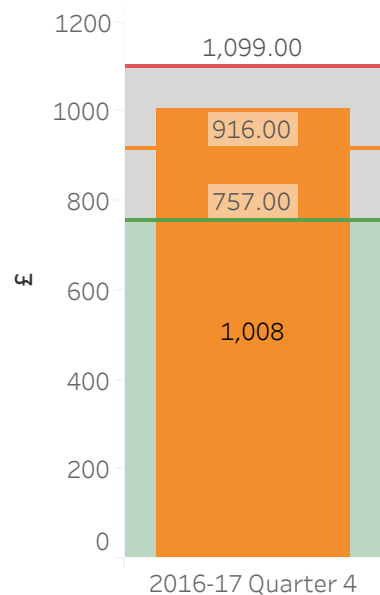
- Management
- Maintenance
- Major Repairs
- Service Charge
- Other Social Housing costs

More detail on each of the five areas is given below:

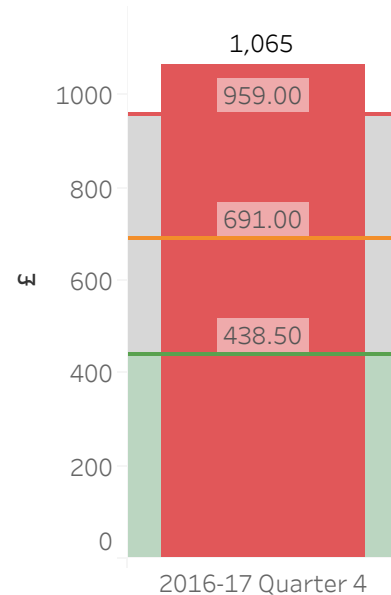
Management Cost p.unit



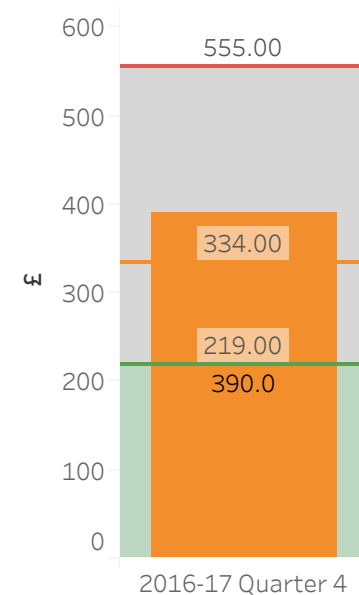
Maintenance Cost p.unit



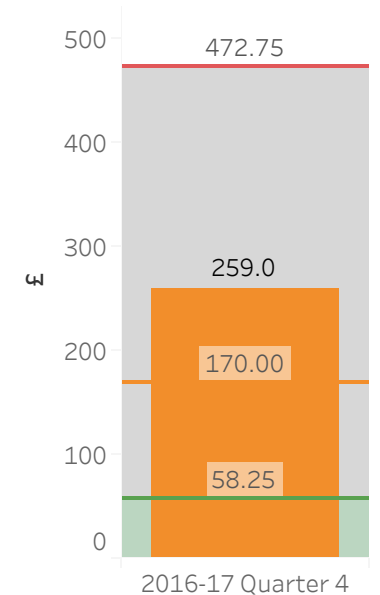
Major Repairs Cost p.unit



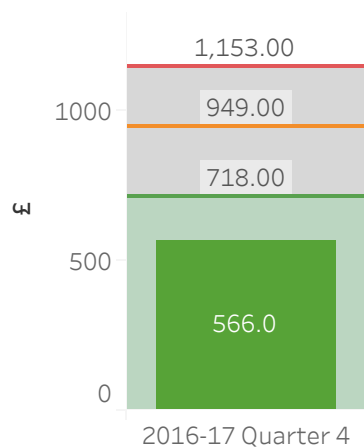
Service Charge Cost p.u



Other Social Housing cpu

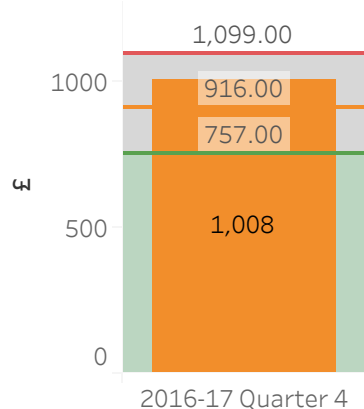






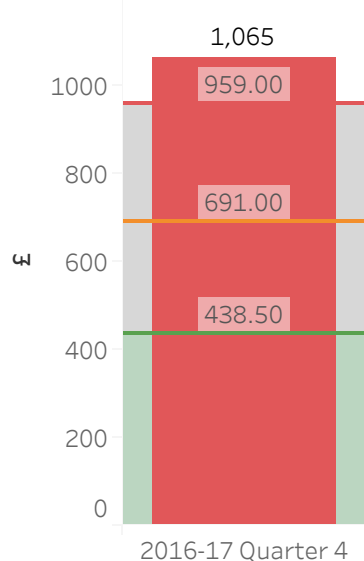
### Management Cost Per Unit

Management cost per unit at £566 is significantly lower than the upper (most favourable) quartile marker of £718. Bernicia ranked at 28 nationally and at 6th in the local peer group. Since the end of the 2016/17 financial year, a new five year Housing Services Strategy has been developed which will be effective from 1 April 2018. The strategy sets out the Group's direction of travel in respect of the service and reflects the Group's drive to harness digital technology. By continuing to invest in technology, we will be able to keep our cost base low whilst maintaining performance levels and continuing to invest in our strategic priorities.



### Maintenance Cost Per Unit

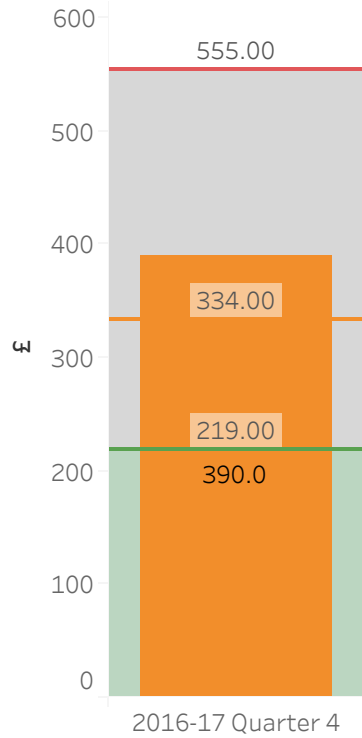
The Group's maintenance cost per unit, £1,008, when compared to the sector data is in between the median and lower quartile. For Three Rivers and Berwick there is a significant reliance on the use of external contractors to deliver repairs, which in turn increases the costs of delivering the service. The feasibility of expanding the internal repairs team across the whole group's operational area is currently being assessed. This work which will influence the Group's new Asset Strategy which will be effective 1 April 2018. Maintenance cost per unit, when compared to the local peer group was ranked at 11.



### Major Repairs Cost Per Unit

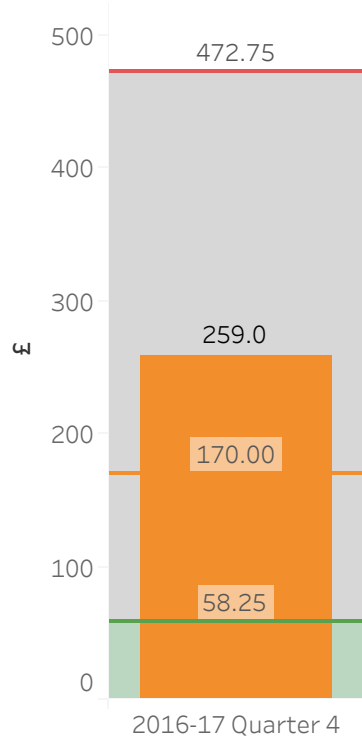
Major repair costs per unit, £1,065 are lower quartile. During 2016/17 the Board, after consideration of the improved financial position committed further funds to the investment programme. The Board made the decision with the knowledge that whilst it would increase our overall cost per unit it was in line with our tenants' priorities. This additional allocation allowed future works to be accelerated and will create capacity in future years to fund sustainability works. During 2016/17, £900k was spent on estate and property sustainability works. This spend was discretionary and was over and above that required for the Group to maintain properties at the requisite decent homes standard. Furthermore, £861k from the original budget allocation was spent on energy efficiency and sustainability works. When eliminating these additional and sustainability costs, major repair costs per unit was £950 per unit, which is inside the lower quartile. Major repair cost per unit, which compared to the local peer group was ranked at 11.

### Service Charge Cost Per Unit



Service charge cost per unit at £390 was lower median. It should be noted that the service charge costs are matched by service charge income, and whilst lower median performance is noted any increases or decreases in costs in this area would be matched with compensating income entries. Service charge cost per unit, when compared to the local peer group was ranked at 9.

### Other Social Housing Cost Per Unit



Other social housing cost per unit at £259 are above the median. When comparing with the local peer group, Bernicia was ranked 8th. The other social housing costs typically reflect the costs associated to rental bad debts and, more significantly, water rates which we collect on behalf of the local water company. It should be noted that the water rates expenditure is offset by income at the same level. Had these charges been excluded, the Group's performance would have been lower quartile.