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# Introduction

Our Value for Money (VFM) strategy was approved by Board in April 2018, runs for a five-year period from 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2023, and reflects the requirements of the Regulator's 2018 VFM Standard and Code of Practice. Our Value for Money Strategy can be accessed via the following link <https://www.bernicia.com/wp-content/uploads/2015/03/Value-for-Money-Statement-2017%5E18.pdf>

# Bernicia's corporate strategy and VFM

VFM is embedded throughout Bernicia's business and is a constant theme that runs throughout our corporate and associated operational strategies. Our business strategy continues to place our work as a social landlord at the heart of what we do. Our vision is "Housing people, helping people". We believe that a good home makes lots of other things possible, so we aim to continue to provide great homes and services that do just that.

Our purpose, or mission is to invest in homes, services and people in order to make a positive impact on the communities of the North East. We will invest to provide quality new and existing homes, and provide services that respond to our tenants, customers and market place requirements, in our people and the communities within which we operate.























The Group's Business Strategy forms the basis of our Annual and Operational Strategies and Plans. This details the specific targets and measures in our core social housing business.

The Group has four strategic outcomes:

- Delivering an exceptional housing service;
- Investing in homes, neighbourhoods and communities;
- Building an effective organisation;
- Helping to deliver the regional agenda.

Our full corporate strategy can be accessed via the following link [https://www.bernicia.com/wp-content/uploads/2019/01/Housing\\_People\\_Helping\\_People\\_Jan\\_2019.pdf](https://www.bernicia.com/wp-content/uploads/2019/01/Housing_People_Helping_People_Jan_2019.pdf).

## Priority one – Delivering an exceptional housing service

Key action and targets	Bernicia Target 2021	Bernicia Target 2020	Bernicia 2020	Bernicia 2019
Transforming delivery – aim to have 80% of transactions conducted on-line by 2023	N/A	Progression to 80% by 2023.	N/A 	N/A 
Customer satisfaction with:				
• VFM of rent (STAR)	83%	83%	89% 	89% 
• Responsive repairs	91%	92%	93% 	92% 
• Major works	93%	93%	91% 	92% 
• Overall service (STAR)	89.6%	89.6%	90% 	90% 
• Views taken into account (STAR)	71%	71%	73% 	73% 
• Lettings	93%	93%	96% 	97% 
Performance:				
• Repairs completed at first visit	80%	80%	87% 	84% 
• Appointments made and kept	92%	92%	93% 	94% 
• Emergency repairs within 24 hours	99.5%	99.5%	99.1% 	99.8% 
• % of customer enquiries resolved at first point of contact	87%	85%	94% 	88% 















**Transforming delivery** - The Group is in the process of implementing a new housing management software system which will support and facilitate this objective, thereby ensuring a wider range of digital access points are made available to customers.

The first phase of the project was delivered in September 2019. The Group is delighted with the contribution this has made to date in supporting the transitions in both Housing related services and the delivery of the Group's day to property maintenance, where the majority of gains have been made to date. The first phase of the transition has created opportunities for partners to interact and engage more effectively with the repairs service. Since September 2019 a significant increase in efficiency has been created through automation of finance, admin and contract management processes.

The second phase of the project is expected to be in place by March 2021, creating improved engagement and interaction opportunities for tenants and the front line delivery of housing services. The next phase of the project will differentiate Bernicia's offer to tenants and is designed to respond to the changing needs and expectations of tenants throughout the next decade.

**Customer satisfaction** - Five of the targets were met during the year, with one falling short of target, "satisfaction with major works". Three of the targets have been measured in line with the Group's most recent STAR survey. Major works was 2% short of the target set as a result of a Group contractor failing to deliver performance in line with the Group's target and therefore expectation. The matter relates to a single project with customer satisfaction recorded at 89%. Following feedback from Tenants the contractor is under review. Bernicia continues to monitor performance and has engaged with the contractor setting out the expectation relating to the delivery of future contracts.

## Priority two – Investing in homes, neighbourhoods and communities

Key action and targets	Bernicia Target 2021	Bernicia Target 2020	Bernicia 2020	Bernicia 2019
New homes:				
- starts on site (cumulative)	250	150	251 	116 
Existing homes:				
- SAP Rating	72.0 by 2023	72.0 by 2023	71.35 	71.13 
- Average NPV of stock	>£25k	>£25k	£27k 	£25k 
Social value:				
- SHIFT accreditation	Silver	Silver	N/A 	N/A 
- Apprenticeships supported – internal	17	17	20 	15 
- Direct funding of social initiatives	£229k	£225k	£120k 	£225k 
- Sustainability investment	£1,350k	£1,350k	£1,357k 	£930k 

**New homes** - The business plan set a target of 500 new starts on site within the five year corporate strategy period. At the Board strategy day in April 2019, Board approved the delivery of a further 100 units. The business plan has been revised and is now focused on delivering 600 new units over the same agreed five year strategy period.

The target within the 2019/20 year was 115 units. Actual performance was better than target with 135 starts on site achieved, reflecting Bernicia's agile financial capabilities and relationships with partners.

**Existing homes** - Bernicia knowingly invests in its stock at a rate above the median for the sector. Two targets have been set to provide an assurance that this investment is making a difference. The first relates to the SAP rating of our properties, with increases in ratings being targeted to tackle fuel poverty. For 2019/20 the SAP rating increased to 71.35. Bernicia's target for 2021 is 71.55 and 72 by the end of 2023.

The second relates to increasing the average NPV of our stock. This provides an assurance on two broad fronts, firstly that the investment above the median is

improving our homes rather than simply maintaining them. Secondly, that whilst we are committed to making decisions on scheme sustainability not simply on financial grounds, and we will continue to invest in schemes with a negative NPV where the socio-economic arguments override the financial factors. This can only be supported if the business as a whole is financially healthy and robust. The Board set a target that the average NPV should increase over the Corporate Plan period. In 2019/20 this stood at £27k (2019: £25k) per unit.

**Social value** - As a socially responsible landlord, we undertake affordability assessments of our rents. These assessments are then used to inform the annual rent setting process. Our assessments compare our rents to market rents within the same beacon reference area (e.g. NE63 0) applying an 80% affordability marker. We further layer this work with local earnings information. Using published average local earnings from the Office of National Statistics, and the Affordable Housing Commission (Lord Best) report, a 33% affordability marker was applied to the data. From this exercise we are able to determine our rents as affordable. Our affordability assessments are further supported by comparing our rents with our regional peers.

During the year Bernicia supported twenty apprentices. By year end, three had completed their apprenticeship and progressed to a permanent position within Bernicia.

Direct funding of social initiatives performed lower than target as a result of the disbanding of an external management committee that ran a community centre that the Group supported.

### **Added social value**

Optimising resources, be it financial or physical, and obtaining value for money across the business creates the opportunity for reinvestment in providing quality homes and services and delivering added value initiatives.

The added social value activities we continue to focus on are financial wellbeing, social wellbeing and building brighter futures.

Examples of our added value work during 2019/20 included:

### **Financial wellbeing**

We recognise that in many of our communities people are targeted by unscrupulous money lenders. To help combat this we've formed a close relationship with Northumberland Community Bank. Whilst we can't recommend the products and services offered by the bank we have worked alongside the bank to raise awareness that there are ethical ways to borrow and safe places to save. To support this we offer to pay an opening fee of £1 for anyone who wants to save with the bank. During the year we stood side by side with Northumberland Community Bank in supporting and participating in campaigns such as 'Let's Talk Money' and 'Stop the Loan Sharks'.



Our own Intensive Housing Management Team helped 350 households maintain their tenancy which, without the help and support the team provided, could have undoubtedly failed. Tenancies that end in a negative outcome have a significant cost not only to our business but also to statutory agencies and, most significantly, the person who may become homeless and/or damage their chances of accessing alternative settled housing. As a result of the work of the Team, £111,517 in additional income was secured for tenants.

By the end of the financial year Universal Credit cases had increased to approximately 3,000. Our staff have become expert in dealing with and advising those moving onto and in receipt of Universal Credit. Good partnership working with the DWP, Stepchange and the Voluntary Sector has continued, this has been essential in managing the impacts of Universal Credit.

Additional funding has, again, been provided to third sector organisations to help deal with more complex Universal Credit cases and facilitate access to food banks whilst people wait for claims to be processed.

The 'Here for you' project in Berwick is an example where 273 people received financial advice and 647 people benefitted from food parcels.

### **Social wellbeing**

By providing a shop unit on a peppercorn rent to an individual with a great idea, clear vision and business model and real determination to succeed, a thriving social enterprise is now going from strength to strength. The Northern Soul Kitchen take unsold food from supermarkets and turn it into nutritious meals that are offered to people, on a 'pay as you feel' basis. Northern Soul Kitchen now serves hundreds of people per month with healthy nutritious meals and, in doing so, has saved over 3 tonnes of unsold food over the last year and because of popularity has increased its seating capacity from 20 to 30. There is so much more value generated from this project, examples would include serving food at major local film and music festivals, hosting book club and knit and natter social groups, being a Disability Confident Employer, using the premises for weekly Narcotics Anonymous meetings and having a volunteer complete their silver Duke of Edinburgh award.

The healthy and innovative eating theme continued with our residents at two sheltered housing schemes. Working with the Full Circle Food Project residents experimented with new food pairings to create delicious recipes made from locally sourced fresh produce.

Berwick Kicks continued in partnership with the Newcastle United Foundation which attracted an average of 39 participants at each of three 1 hour sessions held on Friday evenings. The Kicks programme is a combination of sport and promotion of good lifestyle choices. The project has caught the attention of some important people including the MP and High Sheriff.

New projects this year included supporting the Redheugh Boys Club and Silx Teen Bar. Both of which provide sporting and social activities for young people.

### Brighter futures

Working with local councils, other housing providers and third sector organisations North of Tyne Working Homes was launched in 2019. This is a £4.3 million, ESF funded, collaborative project that will help workless social housing tenants enter the labour market.

Our Learning Hives, which we operate in partnership with Northern Learning Trust, are a big part of our delivery model for Working Homes. Throughout the year the Hives continued to provide places that people go to for help and support and to undertake training, gain qualifications, access IT and build confidence. Headline results show 75 learners gained job interviews with 42 people moving into employment. There were 425 maths training sessions delivered along with 275 English lessons. Overall footfall in the Hives is recorded as 7,318.

In February 2020 we completed an ambitious National Apprenticeship Week Project at a local school in the heart of one of our most disadvantaged communities, our apprentices project managed and built an enchanted garden, building a story time fire pit, a 10 metre sand pit and a mud kitchen, with the aim of offering pupils at the school outdoor learning experiences.

Working in schools from Berwick to Durham we deliver employability skills through construction and business masterclasses, CV and mock interview classes and work experience opportunities.






























We are an Enterprise advisor for the North East Local Enterprise Partnership (NELEP) in a school in Northumberland and in October 2019 we partnered with a school in Durham working strategically with the school careers lead on improving and developing their career plan to embed the Gatsby Career Benchmarks.











We are working in partnership with Leonard Cheshire to work on their Change Now programme, with the aim of kick starting the careers of young disabled people by offering them visits to our workplace, career talks and work experience.

Overall in 2019/20 we engaged with 1200 young people aged 7 – 18 from 9 schools in our local communities.

We also retained the Better Health at Work Continuing Excellence Accreditation in December 2019 and are working towards Maintaining Excellence Level (the highest accreditation level). Our portfolio and assessment were highly commended, so much so we've been asked to share our best practice in a newly formed North East BHAW working group.

### Priority three – Effective organisation

Key action and targets	Bernicia Target 2021	Bernicia Target 2020	Bernicia 2020	Bernicia 2019
Governance:				
- Retain G1	G1	G1	G1 	G1 
- Valid gas certificates	100%	100%	99.86% 	99.96% 
- Valid solid fuel certificates	100%	100%	100% 	100% 
- Electrical testing	100%	100%	99.97% 	99.8% 
- Water hygiene	100%	100%	99.37% 	98.1% 
- Asbestos	100%	100%	98.57% 	100% 
- Fire Risk Assessment	100%	100%	96.46% 	100% 
Income collection:				
- Void rent loss	4.47%	2.98%	2.09% 	1.81% 
- Bad debts	2.79%	1.86%	1.39% 	1.32% 
- Rent arrears	6.00%	3.90%	3.59% 	3.28% 
- Rent collection	95.60%	97.80%	100.53% 	99.24% 
Cost control:				
- Headline social housing	£3,405	£3,633	£3,580 	£3,510 
- Housing management	£773	£700	£678 	£628 
- Service charge	£382	£414	£366 	£348 
- Maintenance	£1,203	£1,121	£1,107 	£1,105 
- Major works	£697	£998	£892 	£977 
- Other	£350	£400	£537 	£452 

Key action and targets	Bernicia Target 2021	Bernicia Target 2020	Bernicia 2020	Bernicia 2019
People:				
- Retain IIP Gold	Gold	Gold	Gold 	Gold 
Financial:				
- Minimum V2 rating	V2	V2	V1 	V1 
- Compliance with Golden Rules	Compliant	Compliant	Compliant 	Compliant 
- Create additional capacity (Years 6-11)	+150 units by 2023	+150 units by 2023	+150 units by 2023 	100 agreed 
- (Decrease) / Increase profitability of Commercial Companies	22%	18%	49% 	21% 

**Governance** - Bernicia has no risk appetite for health and safety compliance hence all compliance targets are 100%. Year end performance against the targets was impacted by COVID-19.

Gas servicing was reported at 99.86% at year end. At the end of the year seventeen properties had gas services outstanding. All were due to tenant access issues, with three of these cases linked to COVID-19. Five gas services remained outstanding at the date the financial statements were signed.

Electrical servicing was reported at 99.97% at year end. At the end of the year four properties were outstanding. Three were due to tenant access and one no access linked to COVID-19. Three electrical services remained outstanding at the date the financial statements were signed.

Water hygiene was reported at 99.37% at year end. There was one outstanding service at the end of the year, access issues are linked to COVID-19. The outstanding service was completed in April 2020.

At the end of March there were five common parts where the re-inspection of the condition of known asbestos had been prevented due to COVID-19. All works will be reprogrammed when restrictions are removed.

Fire Risk Assessments fell short of the Group's target at 96.4%. This related to eight common parts where it was not possible to complete the review of the Fire Risk Assessments within timescale as access was prevented through issues linked to

COVID-19. The Group carries out reviews on a twelve month cycle, therefore all eight common parts have a Fire Risk Assessment in place completed within the previous thirteen months. Arrangements will be made to carry out further reviews as restrictions are eased.

**Income collection** – Collection rates remained strong whilst all financial indicators relating to voids, bad debts and arrears have out-performed the targets set for the year. The increase in target for 2021 reflects the Group's assumptions relating to the underlying current economic environment.

**People** - The retention of our gold accreditation status was confirmed during the year. Bernicia is proud of its IIP status and will continue to invest in its people throughout 2020/2021. The continued retention of Gold status for another year is regarded as a major success.

**Cost per unit** – Other cost per unit exceeded the target by £137 and is therefore reporting a red RAG rating. During the year, Bernicia had undertaken several projects and initiatives contributing towards the increase over and above target. A fuller explanation of our other cost per unit is detailed on page 23 and page 24.

#### **Priority four – Helping to deliver the Regional Agenda**

Progress against this objective is assessed against the results of a triennial perception study. The original study identified Bernicia had a relatively low profile and little known presence in the region. The perception study was completed during the first quarter of 2020/21 and was reported to Board on 30 June 2020. Overall this was an overwhelming positive perception study. The results confirmed that extremely positive progress had been made, citing greater strategic communications that Bernicia is more outward focussed and that Bernicia has become more engaged and influential in the region.

The overall aim of this objective is to ensure Bernicia is able to engage positively with Government policy on matters relating to Social Housing within Bernicia's geographical operating area. However, Bernicia understands that Social Housing is only one aspect of its tenants requirements, and so where it can, it will work with other regional and national agencies operating within the same space to promote healthcare, wellbeing, transport and social and economic inclusion.

Bernicia welcomes the opportunity to work collaboratively with other like minded partners and will seek to influence and deliver plans aimed at improving the North East of England region. By growing its knowledge and understanding of the communities and markets it serves, Bernicia will position itself to promote and champion the needs of its current and future tenants.

Throughout 2019/20 Bernicia has continued to make progress on improving its stakeholder perception. In addition, significant investment and a wider social impact has been created in the communities where we work and the lives of our tenants and wider service users. In helping to deliver the regional agenda Bernicia has:

- Established the Bernicia foundation, contributing over £500k towards local social and economic initiatives. The projects delivered by the Foundation include:
  - helping to reduce isolation
  - promoting independence
  - building confidence
  - promoting inspiration
  - helping remove barriers to unemployment
  - working towards eradicating Child and Fuel poverty
  - improving financial wellbeing
- Reviewed the Social Value Impact of the Group's core added value initiatives. During 2019/20, a review of the 2018/19 social value activities was assessed. Using the wellbeing cost benefit analysis technique, Bernicia's social impact through projects it has supported has totalled £5.8m. It is estimated that 67% of this has created wellbeing for individuals, with the remaining 33% benefiting the state or economy.
- Developed a corporate public relations and communications strategy designed to promote Bernicia's ambitious Corporate Strategy, maximising the Group's profile amongst stakeholders, peers, tenants and communities we serve.

# Key financial ratios

Historically the Group has reported performance against a number of key financial ratios covering growth, profitability and our ability to service debt. The table below sets out the changes over the last three years and compares our performance to the latest available data for the sector (2019 Global Accounts).

Key financial ratios	2020	Global benchmark 2019*	2019	2018	2017
<b>Growth</b>					
➤ Growth in turnover	2.1%	2.0%	(1.5%)	1.1%	1.0%
➤ Growth in total assets	3.8%	12.0%	(2.6%)	(4.5%)	(0.3%)
➤ Growth in total debt	7.4%	6.0%	(11.7%)	(4.3%)	(3.5%)
<b>Profitability</b>					
➤ Effective interest rate	4.7%	4.7%	5.0%	5.9%	4.6%
<b>Debt servicing ability</b>					
➤ Adjusted net leverage	25.7%	Not available	27.6%	28.4%	29.1%
➤ Debt to turnover	1.9%	3.8	1.8	2.0	2.3

\* The Global Benchmark is taken from the 2019 Global Accounts of Housing Providers and is the mean cost across social housing providers.

## Growth

Growth in Turnover of 2.1% was driven by three separate revenue streams in the year, with each contributing one third towards the overall increase. Income from social housing activities was broadly in line with 2019 performance. Increases in other services income offset the final year statutory rent reduction contributing £507k (0.7%) towards the overall increase. Disposals of First Tranche Shared Ownership properties of £908k (2019: £377k) also contributed 0.7% towards the increase in Turnover. Finally, The Group's Commercial activities continue to generate strong revenues. Turnover for 2020 increased by £507k to £4,789k (2019: £4,282k), the increase in the year also contributed a further 0.7%.

Growth in total assets reports a year on year increase of 3.8%. Property, plant and equipment assets have increased by £7.5m during the year as new supply units are added onto the statement of financial position. Additionally, net current assets have increased by £12m. Cash balances at the year end increased by £16.6m whilst reductions in housing properties held for sale (stock) and long term provisions decreased.

The Group accessed its Revolving Credit Facility towards the end of the year drawing down £15m to ensure liquidity remained in place throughout the outbreak of COVID-19. The full amount of £15m was repaid to the Facility in May 2020. The Group's growth in total debt of 7.4% reflects the short term drawdown from the Revolving Credit Facility.

### **Profitability ratios**

The Group's effective interest rate dropped by 0.3% to 4.7% as a direct result of settling variable loan debt within the year.

### **Debt servicing ability**

This remains strong and well below the sector averages. Bernicia remains lowly geared with sufficient capacity for investment to support the Group's overall objectives.



## How we perform against RSH VFM metrics

Bernicia routinely reports its performance, against the sector as a whole and a regional peer group, to the Board, ensuring performance information is used to inform Board's decision making.

Demonstrating Bernicia's continued emphasis on value for money and understanding its performance, the following sections present how Bernicia has performed against the VFM metrics published by the RSH, along with Bernicia's own internal targets and performance measures. The 2020 results have been compared to the 2019 Global Accounts median VFM metric results with commentary provided where appropriate. A further comparative has been made with performance compared to a peer group of thirteen registered providers in the region. The 2021 targets contained within the following sections are based upon the Groups budget which was updated to reflect financial changes derived from COVID-19.

## Business health

Global Accounts VFM Metrics	Bernicia 2021 Target	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Bernicia 2018 (Group)	Global Accounts 2019 Median	Global Accounts 2019 local peer group Median
Operating margin – overall	17.5%	24.0%	24.4%	26.0%	25.8%	24.4%
Operating margin – social housing lettings	17.0%	27.4%	27.9%	28.7%	29.2%	25.8%
EBITDA MRI interest cover	242.2%	228.7%	223.4%	194.9%	184.0%	201.0%

**Operating margin – overall** - the 2019 global accounts median across the peer group was 24.4%, with margins ranging from 17.7% to 29.7%. Bernicia had an operating margin of 24.4% for 2019 and positioned the Group seventh highest within its peer group in 2019. The 2020 result has decreased slightly to 24% for the year and therefore operating margin overall, when compared to the 2020 global accounts, is expected to continue to be median quartile.

**Operating margin – social housing lettings** - the 2019 median for the peer group was 25.8%. In 2019 Bernicia ranked fourth highest with a margin of 27.9%. Margins in the peer group ranged from 20.1% to 33.0%. Bernicia's 2020 result shows a similar performance to that of 2019 with Operating margin – social housing lettings reported at 27.4%. The Group therefore expects to retain a ranking similar to that of 2019 when compared to the peer group results for 2020.

**EBITDA MRI interest cover** is a key measure of liquidity and investment capacity. The Group's Interest cover continues to remain strong, with 2020 performance exceeding the 2019 global accounts median.

EBITDA MRI interest cover for 2019 the median for the peer group was 201%. When comparing Bernicia's 2019 result to the regional peer group, Bernicia's EBITDA MRI was recorded at 223%, placing Bernicia in fourth highest position. EBITDA MRI for 2020 has outperformed the reported 2019 result at 229% and therefore Bernicia once again expects to retain a similar position within its peer group when compared to the 2020 global accounts.

## Development (capacity and supply)

Global Accounts VFM Metrics	Bernicia 2021 Target	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Bernicia 2018 (Group)	Global Accounts 2019 Median	Global Accounts 2019 local peer group Median
New supply delivered – social housing units	65	74	92	135	N/A	N/A
New supply delivered – social housing %	0.4%	0.5%	0.6%	0.9%	1.4%	0.8%
New supply delivered – non-social housing %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gearing	26.5%	24.9%	26.9%	28.1%	43.4%	40.7%

In 2020, Bernicia delivered a [new supply of Social Housing](#) accommodation totalling seventy four units. Sixty four units related to new development accommodation with a further ten units refurbished, bringing previous low demand property back into use.

Bernicia's five year Corporate Strategy, in which the Group targets the completion of 600 units, has now completed its second year. Within the two years, the Group has delivered 79 units against its target, with a further 65 units targeted for delivery in 2021. The remaining 456 units are forecast to be delivered in 2022 and 2023. The current progress towards achieving the delivery of 600 new units in this Corporate Strategy should be considered alongside the Group's start on site target as detailed on page 5.

Bernicia continues to deliver appropriate housing accommodation where there is a demand. When comparing 2020 performance to the regional peer group for 2019, the new supply of social housing is recognised as median quartile, this is in line with 2019 performance. The Board and Officers have considered this measure with both a retrospective and prospective outlook and remain confident Bernicia's contribution to the supply of housing accommodation in the region is comparable to that of other providers.

Bernicia's **Gearing** is low when compared to other providers. As such, Gearing relating to 2019 is recognised in the lower quartile of the Global accounts national data set and in line with the median of Bernicia's regional peer group, where Bernicia is ranked fifth lowest.

Although Bernicia delivered seventy four units in the year ended March 2020, no new funding was required to deliver the programme. Towards the end of the financial year the Group accessed its Revolving Credit Facility, drawing £15m to ensure liquidity throughout the COVID-19 pandemic. The full amount was subsequently repaid in May 2020.

Despite the Group accessing its Revolving Credit Facility, Gearing at 24.9% for the year ended March 2020 remains in line with the 2019 lower quartile of the global accounts national data set and median quartile when compared to the peer group data set. Therefore, performance is expected to be unchanged when compared to the 2020 Global accounts and peer group quartiles.

Bernicia's business plan has sufficient finance in place to meet the requirements of the 2018-2023 development programme. Bernicia's low gearing therefore demonstrates it is well positioned, nationally and regionally, to weather a potential economic storm and at the same time, is able to leverage more debt than others should it choose to.

## Outcomes delivered

Global Accounts VFM Metric	Bernicia 2021 Target	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Bernicia 2018 (Group)	Global Accounts 2019 Median	Global Accounts 2019 local peer group Median
Reinvestment %	5.7%	4.6%	4.2%	4.2%	6.2%	5.7%

In 2019/20, Bernicia made a combined investment in existing stock and new stock of £20.3m, with £9.3m invested in existing properties and £11m invested in the new supply of properties. This represents a reinvestment of 4.6% when compared to the overall value of Housing properties. Investment in **existing** properties considers only the capital expenditure spent on improvement and modernisation of existing housing stock.

A sustained higher than average investment in existing properties has been a conscious and informed decision of the Board. Taking its responsibilities seriously, the Board aims to ensure the quality and safety of its Tenants homes remains at the very highest standards possible. This continues to be a Board priority.

The Global accounts for 2019 highlighted Bernicia's continued investment for the 2018/19 year of £9.8m, equating to £715 per property. Investment at this level positioned Bernicia as the regions fourth highest investor in its existing stock.

During 2019/20, Bernicia invested £9.3m equating to £678 per property in existing stock, providing further evidence of a continuous commitment to focus on the quality and safety of Tenants homes. With investment maintained at similar levels to the prior year, Bernicia expects to retain its position as one of the regions highest investors in its existing housing stock.

The Group's investment in **new supply** continues to benefit from the Corporate Strategy aim of delivering 600 new units. With a total spend of £8m on the development of new properties in 2018/19, the 2019 Global accounts position Bernicia as the regions seventh highest investor in new housing accommodation.

The 2019/20 year end accounts include a total spend on new supply of housing accommodation of £11m. 2019/20 has seen a higher amount of investment made than reported in the prior year as the Group makes progress on its Corporate Strategy. With continued high investment in the region throughout 2019/20, Bernicia anticipates maintaining its position as one of the regions highest investors in new supply housing accommodation.

When comparing with the local peer group, Bernicia's 2020 reinvestment percentage is in line with the 2019 median.

## Effective asset management

Global Accounts VFM Metrics	Bernicia 2021 Target	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Bernicia 2018 (Group)	Global Accounts 2019 Median	Global Accounts 2019 local peer group Median
Return on capital employed (ROCE)	2.6%	3.88%	4.06%	4.10%	3.80%	3.60%
Ratio of responsive repairs to planned maintenance	74.5%	57.8%	51.9%	44.4%	66.2%	63.6%

The Group is proud of its approach to effective asset management. This is underpinned by significant capital investment deployed into the Group's property portfolio. Investment decisions are informed through the use of the Group's sustainability model, further demonstrating the Group considers effective asset management critical in its strategic and operational activities. The metrics above focus on how well Bernicia has taken care of its assets, ensuring the high quality of homes that people want to live in, now and in the future.

**Return on Capital Employed** is essentially a profitability ratio focused on returns over the long term aspect and is a measure of how well net assets is performing. The ratio focuses on two primary calculations, operating surplus and the capital employed in the business. The Group's profit margin performance is detailed in the Business Health section on page 16.

The Return on Capital Employed at 4.1% for the year 2018/19 was within the upper quartile when compared to the 2019 Global accounts national and regional peer group data set. Return on Capital Employed at 4.1% placed Bernicia fifth highest when compared to its regional peer group. With an upper quartile performance, the Group can demonstrate it is using its debt and capital to effectively manage its assets. The results for the year 2019/20 indicate a Return on Capital Employed of 3.9%, assuming no change in the quartiles, the result for 2020 is expected to remain in line with the upper quartile.

**Ratio of responsive repairs to planned maintenance** explains how much money is spent on responsive repairs when compared to the amount invested into planned maintenance. Generally a lower percentage is regarded as more favourable. In 2018/19, Bernicia's ratio of responsive repairs to planned maintenance was 52%, meaning for every pound spent on planned maintenance, Bernicia spent a further fifty

two pence on responsive repairs. A ratio of 52% positioned Bernicia in the lower quartile (most favourable) and fifth lowest in the regional peer group, where ratios ranged from 49% to 230%. The results for 2020 are promising, Bernicia spent 58% on responsive maintenance when compared to planned maintenance which is an increase on the prior year. The results are expected to remain in line with the median quartile.

In its 2019 Sector Risk profile, the Regulator has highlighted it will focus particularly on areas of health and safety compliance, overall condition of housing stock, business plan reliance on market sales exposure, reputational risk, rent setting beyond the current agreed settlement and new business entrants.

The areas of Regulatory focus all have a potential to influence the results of the effective asset management ratios, along with the other ratio's contained within this report. It's therefore important that Bernicia monitors the emerging risks to ensure it remains able to deliver its strategic objectives and reports its financial performance in-line with the targets set out in the short-term financial plan.

### **Strategic asset management**

Our property and assets are crucial to our long term business plans. Our five year Asset Management Strategy, commenced in April 2018, and it governs the decisions we make on future stock.

Our strategy is based on full financial appraisal of current stock collectively and individually, together with the assessment of other factors such as social and environmental issues of each estate, enabling us to take a view on the future potential of each asset we own.

In informing our decisions we consider:

<b>Stock condition information</b>	Surveying of our existing stock enabling better planning of work and expenditure. This has helped us to identify savings within the investment programme.
<b>Asset management matrix</b>	We have developed the matrix to enable the analysis of a range of indicators to assess the future sustainability of our homes including; property condition, demand and socio-economic factors. From this we categorise our estates as high, medium high, medium and low risk.
<b>Financial return on assets</b>	To help us determine the financial return on our assets and inform investment decisions we have implemented a model to assess the net present value (NPV) of each estate and individual property, taking into account income and expenditure.

This information tells us a considerable amount about our properties and estates. We have a full financial appraisal of our current stock, and this helps us form an overall assessment when making decisions to invest in our existing homes.

In taking those decisions, Board balances financial investment decisions against the overall objectives of the organisation, which takes into account issues such as the geographical areas where we operate, the local housing market and the nature of the communities that we want to help. We take particular note of the relatively deprived nature of some of the communities and the positive impact that good quality affordable housing can have on the quality of life there.

In terms of assessing the overall returns from our assets a sustainability matrix is used. The matrix is re-run in full every three years and uses a range of indicators including demand and socio economic factors to assess sustainability of estates, and provide us with an indication of the social value that our estates provide to our communities. The model was re-run in 2019/20 with results being analysed and informing the Group's future spending priorities.



## Operating efficiencies

Global Accounts VFM Metrics	Bernicia 2021 Target	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Global Accounts 2019 Median	Global Accounts 2019 local peer group Median
Headline social housing cost per unit	£3,405	£3,580	£3,578	£3,695	£3,367
Management cost per unit	£773	£678	£628	£1,004	£678
Service charge cost per unit	£382	£366	£348	£395	£358
Maintenance cost per unit	£1,203	£1,107	£1,105	£1,013	£1,105
Major repairs cost per unit	£697	£892	£1,045	£794	£906
Other social housing cost per unit	£350	£536	£452	£245	£235
Overheads as a % of turnover	8.62%	7.41%	6.17%	-	-

Bernicia's headline social housing cost per unit for 2019/20 was £3,580, some £115 per unit lower than the 2019 Global Accounts median.

Our management costs continue to be in line with previous year's trends being considerably lower than the median. Our budgets expect this level of resourcing to continue into the future. Our 2019 STAR survey reported significant customer satisfaction levels, so we are confident in holding resourcing at this level at the present moment in time.

Both maintenance and major repair costs are higher than the 2019 Global Accounts median. As discussed in the outcomes delivered section, Board has made an informed decision to invest substantially in the existing property base; ensuring quality and safety remain throughout our tenant homes.

Included within our annual spend is an amount of £1,234k invested in fire safety works. This added £90 onto the major repairs cost per unit. When compared to the peer group; performance is in line with the median.

Other social housing costs are also higher than the median by £291 per unit.

Bernicia collects water rates on behalf of Northumbrian Water under the terms of its agency agreement. Accounting treatment determines that the income (water rates collected from the tenant) and the expenditure (water rates paid back to Northumbrian Water) should be treated on a gross basis. This treatment has the impact of adding £261 onto each unit's cost.

In addition to this, during the year, Bernicia invested £1,357k on property and estate sustainability works, in support of our strategic aim “Investing in homes, neighbourhoods and communities”. This contributed a further £99 per unit.

Finally, Bernicia made a £250k contribution towards the Bernicia Foundation in 2019/20 adding an additional £18 onto other social housing cost per unit. Had Bernicia not made the conscious decision to include these costs within its operating base the other social housing cost per unit would have been £158, which would have been lower than the median.

When comparing Bernicia’s 2019 performance to the 2019 local peer group, overall headline cost per unit ranked sixth highest (2019: third highest), with the peers costs ranging from £2,848 to £5,082.

For Bernicia, our less favourable performance against the peer group is directly as a result of our higher “other costs” spend.

## Future plans

Bernicia's Corporate Strategy is its most ambitious yet, setting a high but attainable target of investing in the delivery of six hundred new housing units aimed to address the needs of the communities Bernicia serves. Investment in housing stock will also extend to the Group's existing properties, which will continue to benefit from significant investment as the Group makes plans towards ensuring its portfolio is well positioned to respond to the challenges presented from an expected revised Decent Homes Standard. Through its transformation agenda, Bernicia continues to invest in its capabilities, which will ultimately lead to further improvements in services and the way they are delivered.

Bernicia will also seek ways to influence and work collaboratively with its partners so it can do more to support the communities it serves. Commercially, Bernicia will continue to grow and develop its commercial division with the intention of maximising profit through ethical and responsible services expected from a highly reputable Provider of social housing.

The 2020/21 financial year will be the third year of Bernicia's 2018-2023 Corporate Strategy. Within the first two years, many of the priorities which underpin the Strategy have been successfully achieved and the Group looks forward to building upon the strong foundations already in place.

As detailed in the financial review and supported by the financial statements, the Group has had a further year of solid financial performance. It has in place a robust short term and long term financial plan, benefiting from low debt. Furthermore, Bernicia's performance when compared to its peer group indicates Bernicia is well positioned with sufficient resources in place to continue delivering its Corporate Strategic aims.

Looking forward, the Group has set its sights on the work to be achieved in the forthcoming year as it continues its progress against its Corporate Strategy.

During 2020/21, Bernicia will launch the Your Homes / Your Service campaign, where it will work with Tenants in reviewing local offers and devising a range of metrics and performance measures in which it will enable Tenants to monitor performance against.

With an evolving landscape ahead, Bernicia will work towards understanding the impact of emerging quality standards and Government policy. In particular, the outcomes from the Housing White Paper and policy relating to building safety and energy efficiency will all have an influence on the future housing offer made to tenants as well as a future impact on the delivery of services and financial resources.

As a responsible landlord, Bernicia is aware of its Corporate Social Responsibilities. To that effect, Bernicia will develop its approach to reducing potential damaging effects the business may have on the environment and communities it serves.

As Bernicia continues to contribute towards the regional agenda, it is important for Bernicia to understand stakeholder perception of the Group. The study was commissioned during the first quarter of 2020/21, with the results reported to Board in June 2020. The study was intended to gain a deeper understanding of stakeholder perception, and extremely positive results have been reported, with Bernicia now being seen as more influential in the region. The study will support the formation and delivery of future plans.

Following the outbreak of a Coronavirus (COVID-19), The Group will review its response and the lessons learned from the handling of the pandemic. Although Bernicia is confident and proud of the decisions it made to safeguard tenants, contractors, staff and the business, it intends to have an independent review of its approach and to incorporate any learning into future scenario testing.

Finally, the group has devised a COVID-19 recovery and resurgence plan. The coming year will see the plan deployed as Bernicia seeks to re-establish services. The plan aims to support economic and social recovery within the region. With significant financial capacity and a robust and healthy financial base, Bernicia is very well placed to engage with partners in driving forward a regional economic and social recovery plan.

Bernicia will be revisiting its corporate strategy during 2020/21, with a view to developing and launching a new strategy the following year that is reflective of what our new operating environment will be. The Annual Plan for 2020/21 contains various work streams that will support its development.

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