BERNICIA

Housing people,
helping people

VALUE FOR MONEY STATEMENT

2021-2022

Contents

	Page
Introduction	1
Bernicia’s corporate strategy and VFM	2
• Priority 1 – Delivering an exceptional housing service	3
• Priority 2 – Investing in homes, neighbourhoods and communities	5
• Priority 3 – Effective organisation	8
• Priority 4 – Helping to deliver the Regional Agenda	10
Key Financial Ratios	11
How we perform against RSH VFM Metrics	13
• Business Health	13
• Development (capacity and supply)	14
• Outcomes delivered	15
• Effective asset management	16
• Operating efficiencies	18

Introduction

Our Value for money (VFM) strategy covering 2021/22 was approved by Board in April 2018. It was planned to run for a five-year period from 1st April 2018 to 31st March 2023 in line with our 2018/23 Corporate Strategy. Having already successfully delivered the majority of the 2018/23 Corporate Strategy objectives the Board agreed to bring forward the new Corporate Strategy which runs from 2022/26. Our VfM strategy has therefore, also been refreshed. This new VFM strategy focuses on the four years from 1 April 2022 to 31 March 2026 and draws upon the VFM initiatives and objectives of the Group's new Corporate, operating, enabling and cross cutting strategies which run for the same time period.

Both VfM strategies reflect the requirements of the Regulators 2018 VfM Standard and code of Practice. Our Value for Money Strategy can be access via the following link: Value-for-Money-Strategy-2022-2026.pdf (bernicia.com)

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. During the 2021/22 financial year a new corporate strategy was developed and approved by Board, which builds on our previous strategy. Our new corporate 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 continues to be to invest in homes, services and people 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 corporate strategy forms the basis of our operational strategies and plans. These detail the specific targets and measures in our core social housing business.

The Group has four strategic objectives, which have been refreshed and updated in the new corporate strategy, but for 21/22 these were as follows:

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

Performance against our corporate strategy 2018 to 2023 objectives, that were set at the beginning of the corporate strategy period, is set out below. Targets for the new 2022/26 corporate strategy and financial year have been approved by Board and performance will be reported against these in future financial statements.

The new 2022 to 2026 Corporate Strategy can be accessed via the following link https://www/bernicia.com/corporate/transparency-reports/corporate-strategy/

Priority one – Delivering an exceptional housing service

Key action and targets	Bernicia Target 2022	Bernicia 2022	Bernicia 2021	Bernicia 2020
Transforming delivery – aim to have 80% of transactions conducted on-line by 2023	N/A	N/A	N/A	N/A
Customer satisfaction with:				
• VFM of rent (STAR)	83%	89%	89%	89%
• Responsive repairs	90%	89%	93%	93%
• Major works	93%	N/A	N/A	91%
• Overall service (STAR)	89.6%	90%	90%	90%
• Views taken into account (STAR)	71%	73%	73%	73%
• Lettings	93%	95%	93%	96%
Performance:				
• Repairs completed at first visit	80%	86%	89%	87%
• Appointments made and kept	92%	98%	93%	93%
• Emergency repairs within 24 hours	99.5%	99.7%	99.7%	99.1%
• % of customer enquiries resolved at first point of contact	87%	95%	97%	94%

Transforming delivery – The target here was to have 80% of transactions across the business conducted on-line by March 2023. This was a Key Success Factor (KSF) for the 2018/23 strategy. An associated measure is to monitor the increase in the number of tenants signed up for and using Bernicia's digital portal. The number of tenants now registered to transact with us through the tenant portal has risen from 2,589 in March 2021 to 3,450. These developments significantly increase the ability for tenants to transact with us on-line, including managing payments, scheduling and tracking repairs, requesting aids and adaptations and reporting non-urgent ASB. Over the course of the strategy, the customer contact centre has also transitioned to managing service requests through multiple channels.

The experience of working through the pandemic also accelerated the digital provision of services to customers and working remotely. During the course of this strategy, it was recognised that as we aim to continue to tailor services to the specific needs of individuals, digital is not always the preferred option. The new corporate strategy emphasises the need to not leave anyone behind and this incorporates the focus on a range of interactions where we have the ability to interact, but not exclusively, through digital channels.

Customer satisfaction – The Board agreed six targets, four of which have met or exceeded the target, one returned below target and one, satisfaction with major repairs, not being reported this year. The results for three of the targets (VFM, Overall Service and Views) are based on the STAR survey with the target being the previous result and as such are only reported triennially (2019 results shown here). The other three are collected and reported annually and quarterly as part of the Operational KPIs with annual targets as set out in the Business Plan.

Satisfaction with overall repairs returned below target for the year. During the year there has been a change in methodology for collecting real time satisfaction data and a resulting negative impact on performance satisfaction statistics. Satisfaction levels with repairs has increased to 90.25% for April 2022, returning performance to above target.

Significant changes were required to the delivery of the planned works programme, primarily a shift from internal to external works due to Covid restrictions and changes in work streams due to the withdrawal of previous framework partners and difficulties in accessing labour and materials. We suspended the collection of satisfaction data during Covid and as a result of the “moving target” of the programme during 2021/22. Satisfaction surveys have now been recommenced for the new financial year’s programme.

Performance - The Board agreed four targets with performance meeting or exceeding the target for all four. Two of the four measures have maintained or improved, from an already high base, on the previous years with minor decreases being reported for repairs completed at first visit and customer enquiries resolved at first point of contact of 3% and 2% respectively. Additionally, a measure, the number of complaints received, forms part of the reporting in this area with 371 complaints being received during 2021/22 (329 in 20/21, 312 in 19/20, 373 in 18/19). Interestingly compliments over the same period were 2,597, 1,523, 1,229 and 1,274.

Priority two – Investing in homes, neighbourhoods and communities

Key action and targets	Bernicia Target 2022	Bernicia 2022	Bernicia 2021	Bernicia 2020
New homes:				
- starts on site (cumulative)	420	486	379	251
Existing homes:				
- SAP Rating	72.0 by 2023	71.82	71.55	71.35
- Average NPV of stock	>£25k	£27k	£27k	£27k
Social value:				
- SHIFT accreditation	Silver	Gold	Silver	N/A
- Apprenticeships supported – internal	17	19	19	20
- Direct funding of social initiatives	£182k	£280k	£261k	£120k
- Sustainability investment	£1,350k	£1,417k	£760k	£1,357k

New homes - the Business Plan had originally set a target of 500 new start on sites within the five-year period which was increased by a further 100 in 2019. Actual start on sites over the four-year period to 31 March 2022 were 486 against a target of 420.

Existing homes - Bernicia invests significantly in its existing stock. Two targets have been set to provide assurance that this investment is making a difference. The first relates to the SAP rating of our properties where we aimed to increase the average rating from the 2018 level of 70.24 to 72 over the five-year business plan period. This supports our aim of helping to tackle fuel poverty by improving the thermal efficiency of our homes. The SAP rating has shown year on year increases and is now 71.82 thereby continuing to report a 'green'.

The second target relates to increasing the average NPV of our stock as measured by our asset sustainability tool (SAMS). This KSF provides an assurance on two broad fronts, firstly that our investment is improving our homes rather than simply maintaining them. Secondly whilst we are committed to making decisions on scheme sustainability not simply on financial grounds and will continue to invest in schemes with a negative NPV where the socio-economic arguments over-ride the financial factors, this can only be supported if the business as a whole is financially healthy and robust. Hence, the Board set a target that the average NPV of our stock should increase over the period.

In 2017/18 this stood at £25k per unit. SAMS is updated triennially with the latest update being reported in October 2019. This showed an increase to £26.6k and thus returns a ‘green’ rating.

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.

During the year we improved our SHIFT rating (housing sustainability standard) to Gold and supported nineteen apprentices. Four colleagues were also upskilled through the apprenticeship levy.

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 and social wellbeing.

Examples of our added value work during 2021/22 included:

Financial wellbeing

In 2022, our focus has been very much on helping our tenants sustain their tenancies whilst dealing with the lasting financial impacts of COVID-19, Brexit and the wider economy, which have been far reaching to say the least.

Despite restricted face to face contact our Intensive Housing Management Team achieved a 74% success rate in successful tenancy outcomes. This meant 327 tenants were helped to sustain their tenancy, which without this help may have failed. Just over £165,000 was secured in personal gains for tenants.

We continue as partners in the ESF project North of Tyne Working Homes and the Durham L!NKCD employability project. This has allowed us to extend our offer of employability support to more tenants across the North East.

Our Learning Hives and the North of Tyne Working Homes programme, supported 423 individuals into training and 15 into employment. Additionally, Berwick Community Trust helped 112 individuals into training and 93 into employment.

Separately over 200 young people took part in a Career Ready Programme with advice and mentoring provided across subjects such as CV writing skills and mock interviews.

Social wellbeing

Loneliness and isolation have, for obvious reasons, been high on our radar.

Whilst we cannot even start to comprehend the full impacts of lockdown on our tenants and residents, we have done our best to help them through these difficult times, particularly our older residents. We continued our check in and chat service during restrictions but gradually reduced as in person visits returned, which included coffee and breakfast mornings.

A number of activities have taken place with young people with 137 active participants in group sports activities, in addition to the career support discussed earlier. Outcomes included participants registering relief from anxiety and increased confidence and volunteering.

To help people remain in their homes 533 aids and adaptations were fitted including 143 which were externally funded.

Bernicia owns and funds estate-based community centres, which provide a range of social activities and employability support. 202 people regularly attended social groups as 3 community centres.

Priority three – Effective organisation

Key action and targets	Bernicia Target 2022	Bernicia 2022	Bernicia 2021	Bernicia 2020
Governance:				
- Retain G1	G1	G1	G1	G1
- Valid gas certificates	100%	99.69%	99.87%	99.86%
- Valid solid fuel certificates	100%	97.96%	98.1%	100%
- Electrical testing	100%	99.48%	99.98%	99.97%
- Water hygiene	100%	98.79%	100%	99.37%
- Asbestos	100%	100%	98.4%	98.57%
- Fire Risk Assessment	100%	100%	100%	96.46%
Income collection:				
- Void rent loss	2.98%	2.74%	2.12%	2.09%
- Bad debts	1.86%	0.44%	0.63%	1.39%
- Rent arrears	4.1%	3.99%	3.83%	3.59%
- Rent collection	97.90%	99.62%	100.02%	100.53%
Cost control:[1]				
- Headline social housing	£3,719	£3,696	£3,212	£3,580
- Housing management	£699	£721	£672	£678
- Service charge	£416	£366	£364	£366
- Maintenance	£1,162	£1,219	£1,098	£1,107
- Major works	£1,047	£995	£751	£892
- Other	£395	£395	£327	£537
People:				
- Retain IIP Gold	Gold	Gold	Gold	Gold
Financial:				
- Minimum V2 rating	V2	V1	V1	V1
- Compliance with Golden Rules	Compliant	Compliant	Compliant	Compliant
- Additional capacity (Years 6-11)	+150 units	+150	+150	+150
- Increase commercial profitability[2]	22%	22%	19%	49%

[1] Cost per unit calculations as outlined by the Regulator of Social Housing in the Value for Money metrics adjusted for sustainability works shown in other costs in line with the Corporate Strategy targets.

[2] Year on year increase in net surplus

Governance - Bernicia has a zero-risk appetite for health and safety non-compliance hence all compliance targets are 100%. There is a robust process in place to deal with tenant access issues, the main reason for targets not being achieved. If any compliance requirements are outstanding due to issues associated with Bernicia or our contactors a red indicator is triggered. Audits are regularly carried out in this area to ensure all actions are being taken appropriately. All audits carried out this year have reported substantial assurance in terms of the controls upon which the Group relies to manage the identified risk is suitably designed, consistently applied and operating effectively.

Gas servicing was reported at 99.69% at year end. At the end of the year, 37 properties had gas services outstanding, all of which were due to tenant access issues, hence the amber indicator. At the time of signing eight services were outstanding due to continued no access issues.

There were three solid fuel / oil safety checks outstanding at the end of the year, all due to tenant access issues. At the time of signing one remained outstanding.

Electrical servicing was reported at 100% for properties that have an inspection report within 10 years and 99.48% within the now adopted 5-year cycle, with 67 properties outstanding as a result of tenant access issues. As indicated by these statistics the Group is well on its way to transitioning from a 10-year inspection cycle to a 5-year cycle by March 2023.

Water hygiene was reported at 98.79% at year end, with two schemes over-due. Both of these tenant access issues are Covid 19 related. At the time of signing all services had been completed.

Income collection – Despite the challenges presented by the pandemic, collection rates were excellent whilst all financial indicators relating to voids, bad debts and arrears have out-performed the targets set for the year, a reflection on the success of the measures we implemented and the hard work and dedication of our staff.

Cost per unit – The cost per unit targets where calculated at the start of the current strategy period in 2018. Naturally, COVID-19 has impacted on the ability to deliver services over the last two financial years. Whilst all services resumed in full, the major works (investment programme) was reprofiled with additional sustainability work, classified as other, being carried out. For maintenance, costs are marginally higher due to well publicised inflationary pressures on both materials and labour costs, as well as costs in respect of unforeseen rectification works as a result of damage caused by several storms.

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.

Whilst the staff survey and perception studies are triennial and were undertaken in 2019/20, the 24-month IIP review demonstrates that we have positively moved forward in all nine indicators.

Priority four – Helping to deliver the Regional Agenda

The overall aim of this objective is for Bernicia to engage positively with Government policy on matters relating to Social Housing within Bernicia's geographical operating area. However, Bernicia understands that Social Housing policy is not the only issue impacting on, or important to its tenant's and communities, 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.

To evaluate delivery on this objective it was important to understand how we are perceived by our stakeholders. A triennial perception study carried out during the strategy confirmed and previously reported, revealed significant progress and provided high levels of assurance from our stakeholders that we are now viewed as a valued and trusted partner that is both committed to and delivering upon this objective.

During 2021/22, we continued to make a real and lasting impact through our social and financial inclusion activities, enabling hundreds of people to participate in employability training, with 108 progressing into employment, alongside supporting new entrants to the workplace through apprenticeships, traineeships and work experience, and delivering a package of wellbeing activities for our tenants to remain active members of the community.

Using the HACT Social Value calculator, we estimate the benefit realised from these activities equates to approximately £3.5m (2021:£2.64m) of social benefit to the region, with every £1 we invest generating £1.44 in the local economy.

This year saw The Bernicia Foundation award grants of £192,000 given to inclusion projects and inspirational young talent in the region.

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 four years.

Key financial ratios	2022	2021	2020	2019	2018
Growth					
➢ Growth in turnover	3.51%	0.8%	2.1%	(1.5%)	1.1%
➢ Growth in total assets	9.2%	(4.5%)	3.8%	(2.6%)	(4.5%)
➢ Growth in total debt	20.4%	(18.7%)	7.4%	(11.7%)	(4.3%)
Profitability					
➢ Effective interest rate	4.1%	5.9%	4.7%	5.0%	5.9%
Debt servicing ability					
➢ Adjusted net leverage	24.4%	25.2%	25.7%	27.6%	28.4%
➢ Debt to turnover	1.76	1.5	1.9	1.8	2.0

Growth

Growth in turnover of 3.5% was driven by three separate revenue streams in the year. Income from social housing activities was 3% higher than that of the previous year. Rental and service charge income increased by £875k to £62,098k (2021: £61,223k), c1.4% in accordance with the permissible levels as determined by the rent standard. However, first tranche low cost home ownership sales were £1,569k higher at £1,787k (2021: £218k), c720% with reciprocal increases in cost of sales. Finally, the Group's commercial activities continued to generate strong revenues. Turnover for 2022 increased by £691k to £5,730k (2021: £5,039k), the increase in the year also favourably contributed to the Group's overall growth in turnover.

Growth in total assets reports a year on year increase of 9.2% (2021: decrease of 4.5%). Property, plant and equipment assets have increased by £19.4m during the year as new supply units were added to the statement of financial position. Net current assets have increased by £17.4m. Cash balances at the year-end increased by £22.5m whilst housing properties held for sale (stock) increased. The Group accessed the 2nd tranche of the LGIM Private Placement in August 2021 which contributed to the increase in cash balances.

The Group's growth in total debt of 20.4% reflects this drawdown.

Profitability ratios

The Group's effective interest rate decreased by 1.8% to 4.1% as a direct result of the settling of fixed rate debt in the prior year and these new facilities.

Debt servicing ability

This remains strong and well below the sector averages. Bernicia remains lowly geared with sufficient capacity for further 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 would traditionally present how Bernicia has performed against the VFM metrics published by the RSH, along with Bernicia's own internal targets and performance measures. Whilst the 2022 results have been compared to the 2021 Global Accounts median VFM metric results with commentary provided where appropriate, it should be noted that 2021 was, in financial terms, an anomalous year due to COVID-19. Further comparative would also normally be made with performance compared to a peer group of thirteen registered providers in the region.

Business health

Global Accounts VFM Metrics	Bernicia 2023 Target	Bernicia 2022 Target	Bernicia 2022 (Group)	Bernicia 2021 (Group)	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Global Accounts 2021 Median	Global Accounts 2021 local peer group Median
Operating margin – overall	24.0%	20.9%	25.0%	27.7%	24.0%	24.4%	23.9%	25.1%
Operating margin – social housing lettings	27.7%	20.8%	26.2%	29.6%	27.4%	27.9%	26.3%	25.8%
EBITDA MRI interest cover	190.3%	227.0%	272.1%	192.5%	228.7%	223.4%	184%	213%

Operating margin – overall - the 2021 global accounts median across the peer group was 23.9%. Bernicia had an operating margin of 27.7% for 2021 which would have positioned the Group fourth highest within its peer group in 2021. When compared to the 2022 target, the operating margin exceeded expectations. During the year staffing costs were significantly lower than budgeted due to vacancies, with lower day to day operating costs also impacting as a result of on-going changes in working practices during and following the pandemic period. Furthermore, Bernicia's commercial company Kingston Property Services outperformed budget expectations. All of these factors contributed to the higher operating margin and have also favourably impacted on a number of the other value for money metrics reported in the following sections.

Operating margin – social housing lettings - the 2021 median for the peer group was 25.8%. In 2021 Bernicia ranked 2nd highest with a margin of 29.6%. Margins in the peer group ranged from 17.6% to 29.3%. Bernicia's 2022 result of 26.2% when compared to the in-year target of 20.8% was positively impacted due to, in the main, lower staffing and operating costs and excellent income collection performance in line with the operating margin – overall section.

EBITDA MRI interest cover is a key measure of liquidity and investment capacity. The Group's Interest cover continues to remain strong, with 2021 performance exceeding the 2021 Global Accounts median and falling into the 3rd quartile of the peer group despite increased interest charges of £5m associated with the early repayment of some long-term debt. 2022 performance outperforms both the 2021 actual and 2022 budgeted position due to the factors discussed in relation to operating margin.

Development (capacity and supply)

Global Accounts VFM Metrics	Bernicia 2023 Target	Bernicia 2022 (Target)	Bernicia 2022 (Group)	Bernicia 2021 (Group)	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Global Accounts 2021 Median	Global Accounts 2021 local peer group Median
New supply delivered – social housing units	135	182	167	78	74	92	N/A	N/A
New supply delivered – social housing %	0.9%	1.2%	1.2%	0.5%	0.5%	0.6%	1.3%	0.9%
New supply delivered – non-social housing %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gearing	25.2%	26.1%	23.4%	24.1%	24.9%	26.9%	43.9%	42.8%

In 2022, Bernicia delivered a new supply of Social Housing accommodation totalling 167 units comprised of 118 affordable rent units and 49 low cost home ownership units.

Bernicia's five-year Corporate Strategy, in which the Group targeted 600 units to start on site, has now completed its fourth year. During the four years, the Group has delivered 486 units against its target exceeding the profiled target of 420 new homes. The new Corporate Strategy, commencing a year earlier than originally planned, will see out the commitment with an additional 178 units approved to start on site under the original strategy commitment. In addition, the new corporate strategy will see a further 600 units start on site over the next four years.

Bernicia continues to deliver appropriate housing accommodation, to meet local demand and strengthen communities. When comparing 2022 performance to the regional peer group for 2021, the new supply of social housing is recognised as 2nd quartile, however as discussed earlier, 2021 was a difficult year in relation to progressing on site and the two periods are not necessarily comparable.

Bernicia's Gearing is low when compared to other providers. As such, gearing relating to 2021 is recognised in the lower quartile of the Global Accounts national data set and third quartile in the regional peer group, where Bernicia is ranked fourth lowest.

2022 gearing levels are consistent with the previous year and reflect decisions made historically in relation to the repayment of expensive legacy debt, along with reduced expenditure during the year.

Outcomes delivered

Global Accounts VFM Metrics	Bernicia 2023 Target	Bernicia 2022 (Target)	Bernicia 2022 (Group)	Bernicia 2021 (Group)	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Global Accounts 2021 Median	Global Accounts 2021 local peer group Median
Reinvestment %	7.2%	9.1%	6.8%	4.1%	4.6%	4.2%	5.9%	5.4%

In 2021/22, Bernicia made a combined investment in existing stock and new stock of £31.8m (2021: 18.5m), with £21.1m (2021: £12.6m) invested in the new supply of properties and £10.7m (2021: £5.9m) invested in existing properties. This represents a reinvestment of 6.7% 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. The investment programme has been reshaped during the last two years as a direct consequence of the pandemic. The budgeted spend for 2021 of £12.8m, approved by Board in March 2020, was adjusted accordingly to £8.5m, with the costs associated with catch up works being incorporated into 2021/22 onwards. This impacted performance in both 2021 and 2022 financial years.

Works continue to be informed by our information in relation to the condition of the stock, which supports the sustained higher than average investment in existing properties being a conscious and informed decision of the Board. This approach to stock investment, the associated data and the linkage between this data and our business plan was externally validated in July 2021. Taking its responsibilities seriously, the Board aims to ensure the quality and safety of its tenant's homes remains at the very highest standards possible.

The Group's actual investment in **new supply** reflects the 2018/23 Corporate Strategy aim of delivering at least 600 new units.

With a total spend of £12.6m on the development of new properties in 2020/21, the 2021 Global Accounts position Bernicia as tenth highest investor in new housing accommodation out of the thirteen in the peer group.

The 2021/22 year-end accounts include a total spend on new supply of housing accommodation of £21.1m as the Corporate Strategy aim progresses and restrictions in relation to Covid have eased. Whilst significant, this spend is lower than planned due to on-going pressures in this area, relating to labour and material shortages and subsequent price increases.

Effective Asset Management

Global Accounts VFM Metrics	Bernicia 2023 Target	Bernicia 2022 (Target)	Bernicia 2022 (Group)	Bernicia 2021 (Group)	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Global Accounts 2021 Median	Global Accounts 2021 local peer group Median
Return on capital employed (ROCE)	3.9%	3.6%	4.19%	4.69%	3.88%	4.06%	3.30%	3.50%
Ratio of responsive repairs to planned maintenance	57.51%	77.9%	58.02%	69.4%	57.8%	51.9%	73%	79%

The Group is proud of its approach to 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 are 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 13.

The Return on Capital Employed at 4.69% for the year 2020/21 was within the top quartile when compared to the 2021 Global Accounts national group and 2nd quartile in the regional peer group data set. Bernicia was 5th highest when compared to its regional peer group. The Group can therefore demonstrate it is using its debt and capital to effectively manage its assets. The results for the year 2021/22 indicate a Return on Capital Employed of 4.19%, and whilst lower than the previous year, assuming no change in the quartiles, the result for 2022 is expected to be in line with the 2nd quartile for both data groups. It should be noted, that Bernicia's operating surplus during the both this and the previous financial year was higher than expected as not all operating costs were expended due to the pandemic.

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 2020/21, Bernicia's ratio of responsive repairs to planned maintenance was 69.4%, meaning for every pound spent on planned maintenance, Bernicia spent a further sixty-nine pence on responsive repairs. A ratio of 69.4% positioned Bernicia towards the lower quartile (most favourable) and fifth lowest in the regional peer group. The results for 2022 report that Bernicia spent 51.3% on responsive maintenance when compared to planned maintenance which is a reduction on the prior year, however, it should be noted that expenditure on both routine and planned maintenance has been disrupted during the last two years due to the pandemic and Storm Arwen.

Strategic asset management

Our property and assets are crucial to our long-term business plans. Our updated Asset Management Strategy will commence in April 2022. Our strategy continues to be based on full financial appraisals 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:

Stock condition information	Surveying of our existing stock enabling better planning of work and expenditure. This has helped us to identify savings within the investment programme.
Asset management matrix	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.
Financial return on assets	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 2023 Target	Bernicia 2022 (Target)	Bernicia 2022 (Group)	Bernicia 2021 (Group)	Bernicia 2020 (Group)	Bernicia 2019 (Group)	Global Accounts 2021 Median	Global Accounts 2021 local peer group Median
Headline social housing cost per unit (CPU)	£4,162	£3,779	£3,696	£3,212	£3,580	£3,578	£3,731	£3,212
Management CPU	£756	£756	£721	£672	£678	£628	£1,060	£722
Service charge CPU	£389	£375	£366	£364	£366	£348	£435	£364
Maintenance CPU	£1,282	£1,184	£1,219	£1,098	£1,107	£1,105	£1,108	£1,209
Major repairs CPU	£1,240	£1,004	£1,098	£751	£991	£1,045	£717	£751
Other social housing CPU	£495	£460	£292	£327	£437	£452	£211	£74
Overheads as a % of turnover	-	8.62%	7.37%	7.71%	7.41%	6.17%	-	-

Bernicia's headline social housing cost per unit for 2021/22 was £3,696 with both that and the more granular cost per units being comparable to historic periods excluding 2020/21. In 2020/21 the major repairs cost per unit was lower, as explained earlier, as the delivery of the major repairs programme was hindered by the pandemic. Allocations were made in the 2022 budget to enable catch up works, however work was also impacted during the year and some of the allocation was utilised for sustainability works planned for future periods. The collection of water rates on behalf of Northumbrian Water cause the other social housing metric to be higher for Bernicia than many other providers, as these costs aren't applicable to all.

When compared to the 2021 Global Accounts, Bernicia's cost per unit for 2020/21 was £519 per unit lower than the national median and in line with the regional peer group median. Caution should be made when trying to compare 2022 with the 2021 benchmark due to the anomalous year that 2021 has been due to COVID-19, that said, the 2022 individual cost per units are broadly comparable to the 2021 peer group median, with the exception of the major repairs and other categories.

T 0344 800 3800
F 01670 819844
E contact@bernicia.com
W www.bernicia.com

Oakwood Way
Ashwood Business Park
Ashington
Northumberland
NE63 0XF

Bernicia Group is a Registered Society in England and Wales under the Co-operative and Community Benefit Societies Act 2014 No. 7711. Affiliated to the Federation of Housing Associations. Registered under the Housing and Regeneration Act 2008, Registration No. 4868. VAT Registration No.733 8036 38