Our Commitment to Value for Money (VfM)
2015 Self Assessment

Annex 1: Benchmarking Report

1. **Who do we compare ourselves with**
2. **Overall performance**
3. **How do our rents compare ?**
4. **What do our services cost to provide ?**
5. **Interest costs and debt levels**

1. Who do we compare ourselves with ?

We collect and analyse the statutory accounts of 17 other HA's and these make up our comparator group :

Affinity Sutton	Hyde	Peabody	Sovereign
Circle	London & Quadrant	Radian	West Mercia
Devon & Cornwall	Moat	Raglan	
Family Mosaic	Midland Heart	Riverside	
Hanover	Orbit	Sanctuary	

The majority of the comparator group have a credit rating of A1 or better. These are well performing HA's, generally offering a broadly similar range of services to ourselves.

For the subsequent analysis, we have

- used published statutory accounts information (2013/14 being the latest complete set)
- restricted the data shown under any heading to the 10 best overall performers in the comparator group and have indicated for each measure the range between the best and worst performance in the full comparator group
- included BHG information where appropriate for 13/14 and 14/15

Our data extraction and underlying database has been reviewed by our external auditors for accuracy.

The analysis set out below is the basis of an annual benchmarking workshop with the Board, where we review our comparative performance and any action following that review.

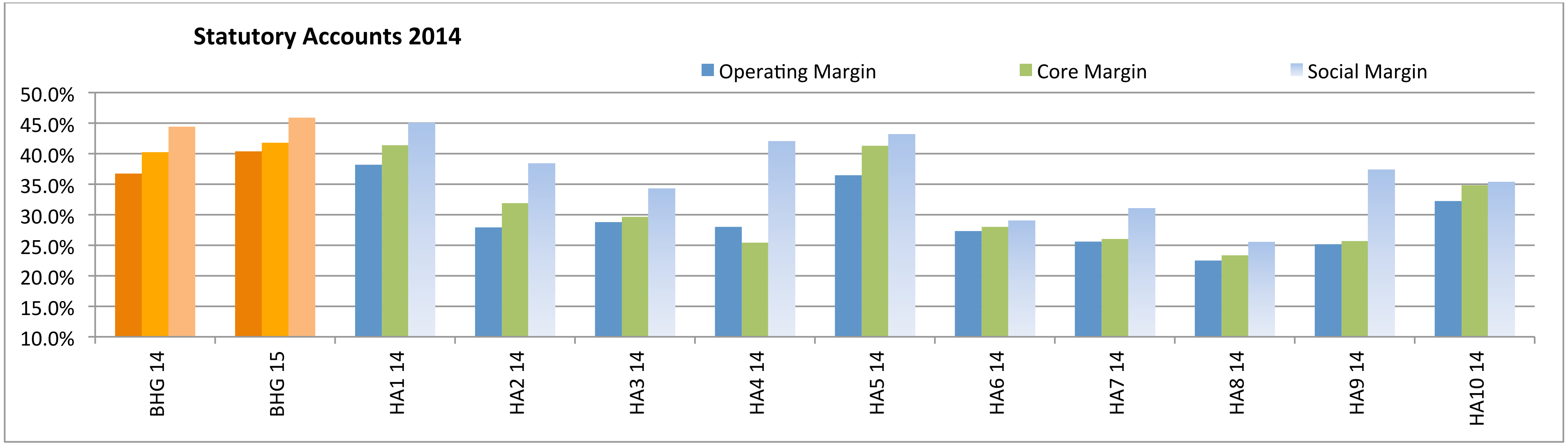
2. Overall Performance

2.1 Operating Margin

Operating margin is a measure of efficiency and economy and is a key VfM measure for us. The margin needs to be considered alongside effectiveness – for which our key measure is customer advocacy. Customer advocacy is not disclosed in statutory accounts and so lies outside the analysis presented in this annex to the main VfM assessment.

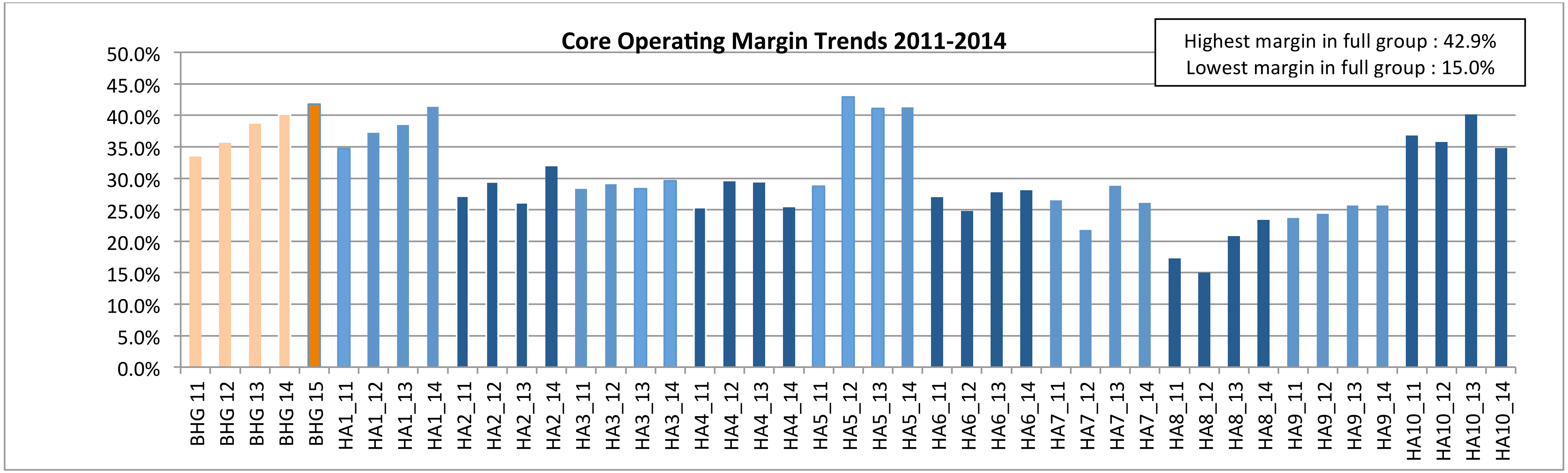
We look at margin in three ways:

Operating margin : the operating surplus divided by the turnover as set out on the face of the profit and loss account.
Core operating margin : excludes the effect of 1st tranche sales for shared ownership and any homes for outright sale
Social operating margin: is the social housing operating surplus divided by the social housing turnover as set out in Note 3 of the statutory accounts



Our margins – on whichever measure – continue to be amongst the very best in the sector. Our VfM framework is designed to drive a continuing improvement in this key measure.
As a context for the performance of this group of HA's overall, the HCA sector accounts show an average operating margin in 2014 of 26.5% (2013 25.9%) - source '2014 Global accounts of housing providers' – HCA publication. The range of the operating margins for our comparator group was from 38.2% to 18.3%

The trend in margins shows that we have consistently achieved excellent and steadily improving results on these measures :


Core Operating Margin Trends 2011-2014
Highest margin in full group : 42.9%
Lowest margin in full group : 15.0%
50.0%
45.0%
40.0%
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30.0%
25.0%
20.0%
15.0%
10.0%
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0.0%
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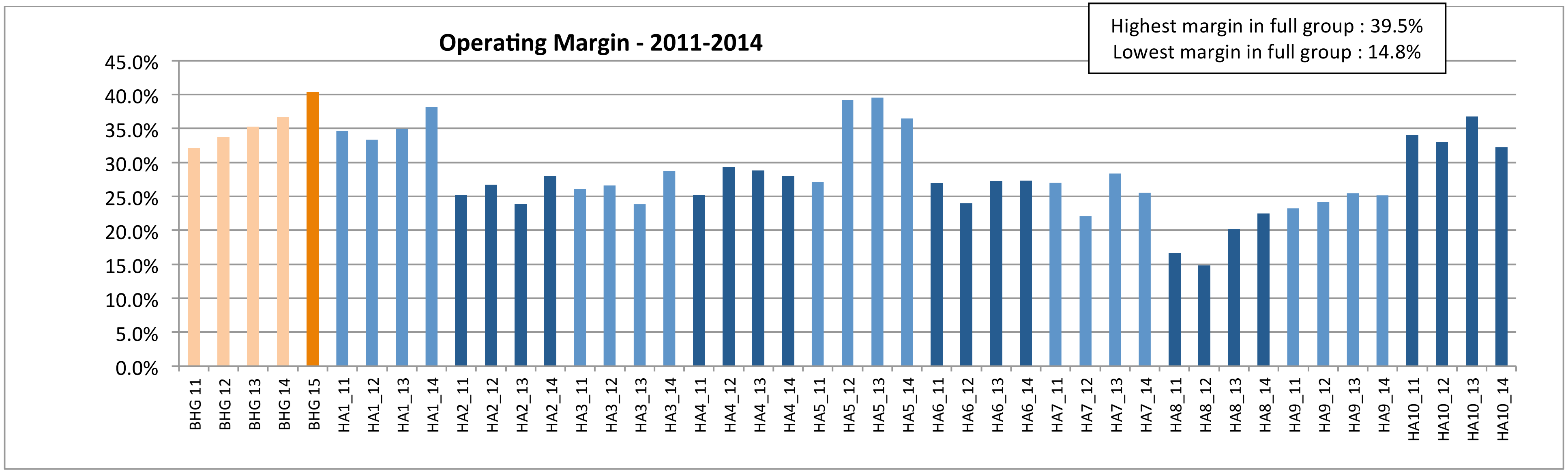
Operating Margin - 2011-2014
Highest margin in full group : 39.5%
Lowest margin in full group : 14.8%
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
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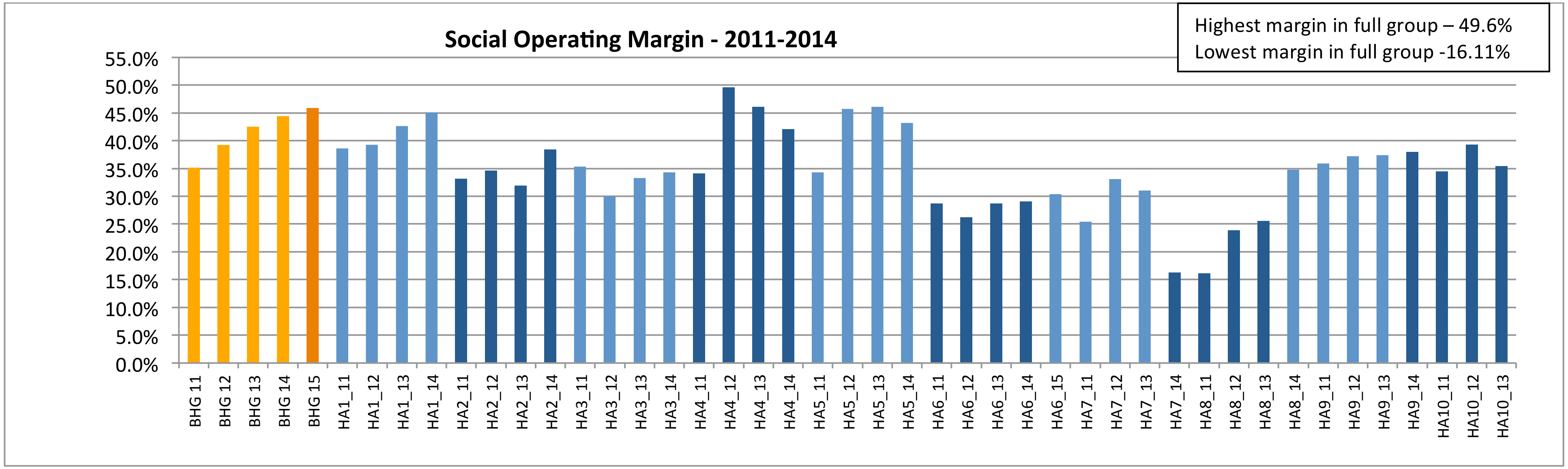
Social Operating Margin - 2011-2014
Highest margin in full group – 49.6%
Lowest margin in full group -16.11%
55.0%
50.0%
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
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BHG 11
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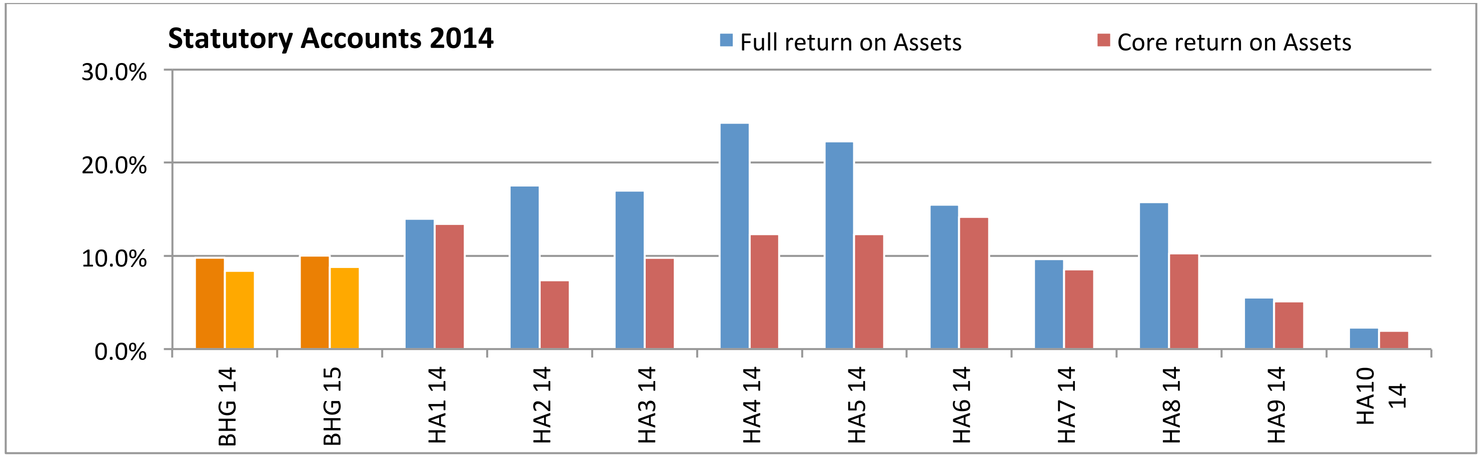
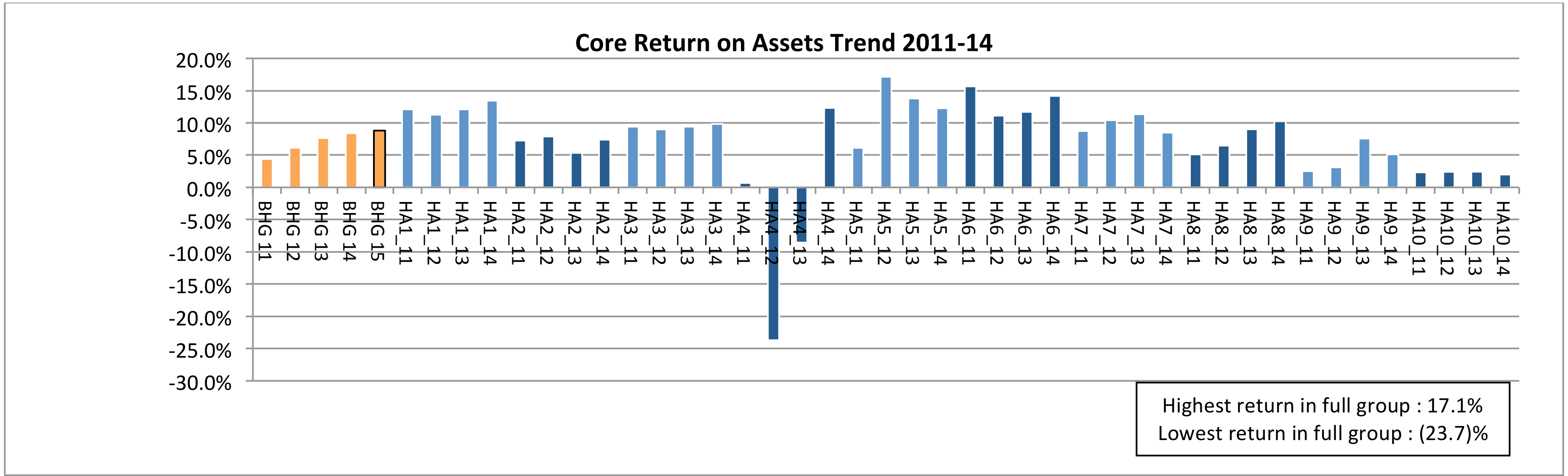
2.2 Return on Assets

We measure the full return on assets as the ratio of profit for the year to the shareholders funds. The core return on assets excludes the benefit of property sales. On both measures, our performance is improving year on year but we still only rank 11th in our comparator group. The gap is smaller when looking at core return on assets, reflecting our relatively small reliance on property disposals or outright sale compared to some of our peers. Factors such as location and value of stock and the previous history of mergers or acquisitions will affect the reported return on assets, so our improving trend is probably more important than the absolute number. Nonetheless we are targeting a return of over 10% pa as part of our VfM framework.



Highest return in full group : 49.9%
Lowest return in full group : 2.3%

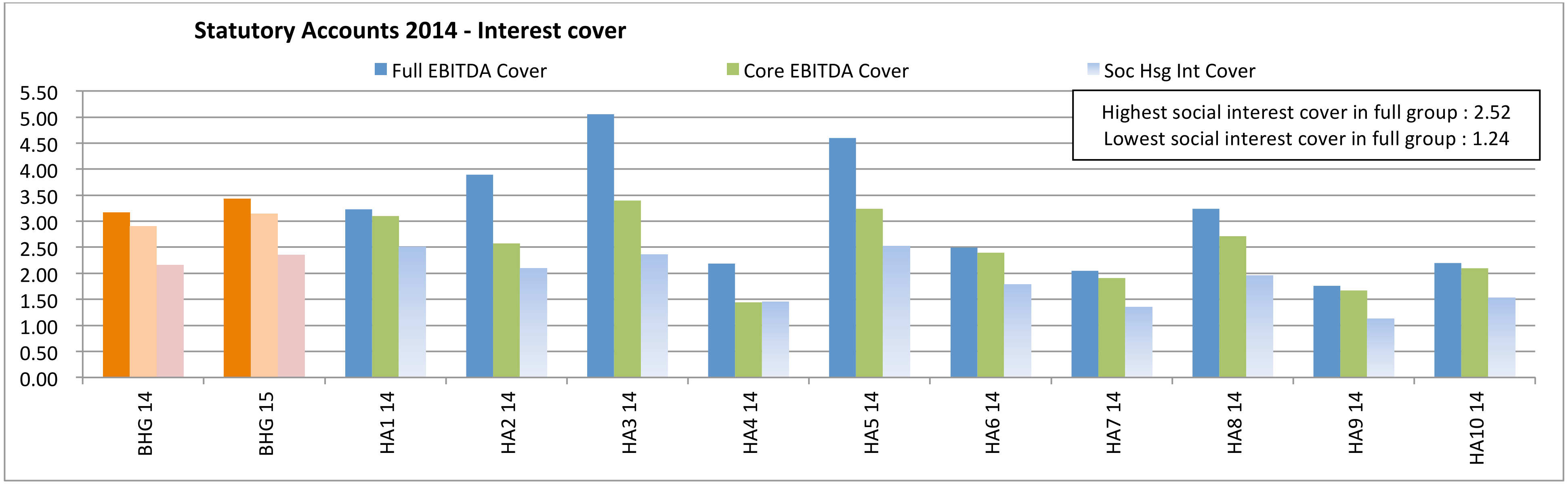
The highest return of 49.9% was inflated by the goodwill on acquisition of another HA joining that HA group in 2013/14. The adjusted return excluding goodwill is 6%.



2.3 Interest Cover

Maintenance of our financial viability has been identified as a key source of VfM for both our Regulator and our funders. A key aspect of this is our ability to pay our interest costs. Our main measure of this is the ratio of Earnings before Interest Deprecation and Amortisation (EBITDA) to our net interest costs. A value greater than 1 indicates that net income is more than sufficient to meet our interest costs. A value of less than 1 indicates that we are unable to meet our interest costs from our income.

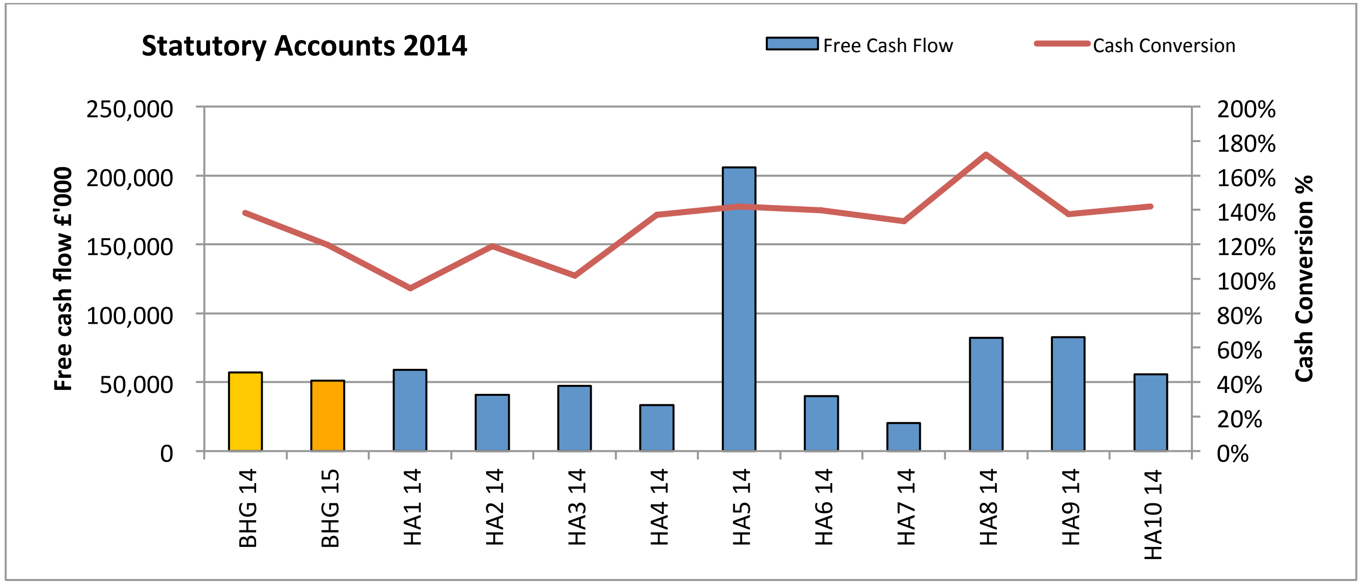
Our performance on this measure has been consistently good and improving :



Adjusted Core EBITDA cover is calculated after removing the benefit of property disposals and adding back capitalised interest. Social interest cover is the comparison of the operating surplus from social housing activity and the net interest cost. Our adjusted core EBITDA cover and social interest cover – which are good measures of sustainable underlying performance - are amongst the best in the comparator group and continue to improve.

2.4 Cash Generation

Another aspect of financial viability is our ability to generate cash. Our free cashflow and cash conversion % (which compares operating surplus to operating cashflow) remain in line with the majority of our comparator group:



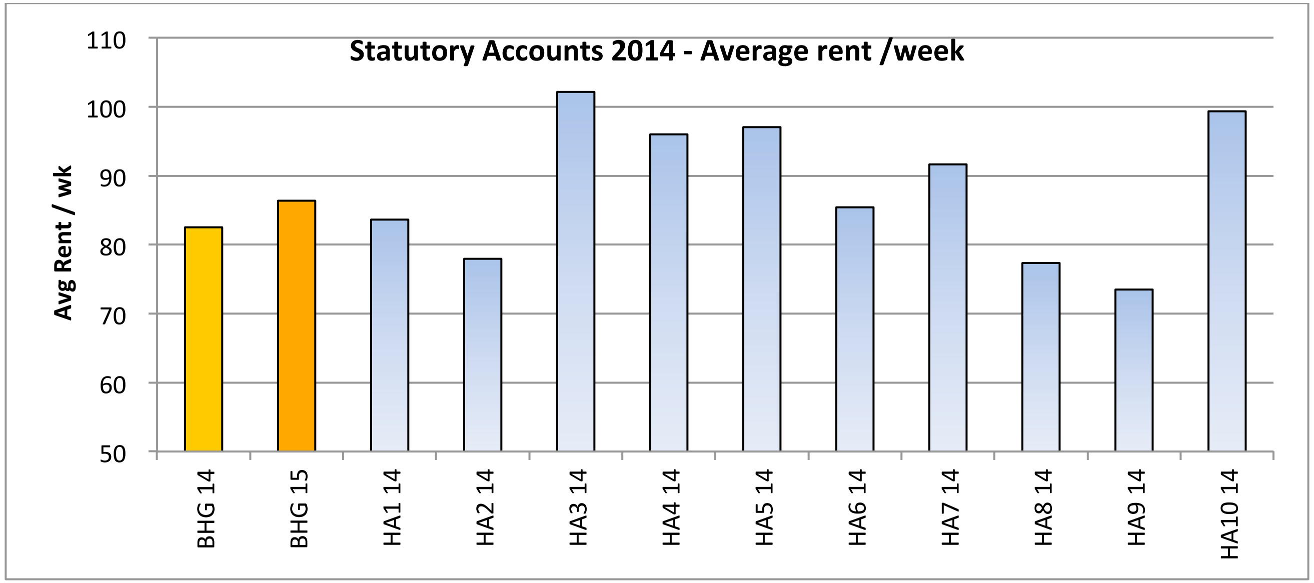
Highest Free Cashflow in full group : £206.0m
Lowest Free Cashflow in full group : £(4.5)m
Highest Cash Conversion % in full group : 209%
Lowest Cash conversion % in full group : 43%

3. How do our rents compare ?

3.1 Average rents per week

Bromford's Homes are located across 50 Local Authorities.. We conduct an annual review of the impact of proposed rent rises and this includes an assessment of the impact on those in low paid employment and in receipt of 'in-work' benefits.

Our average rents, on an overall basis, are broadly in line with the best performers in our comparator group :

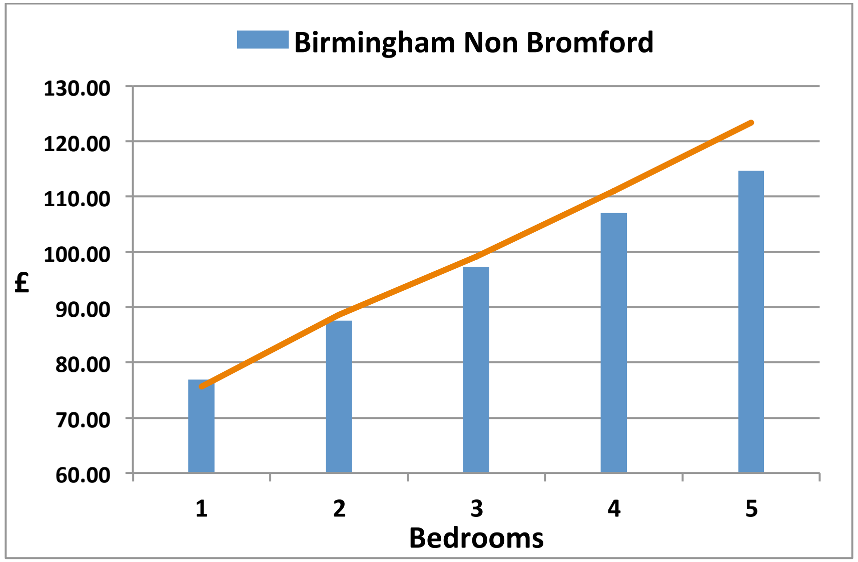


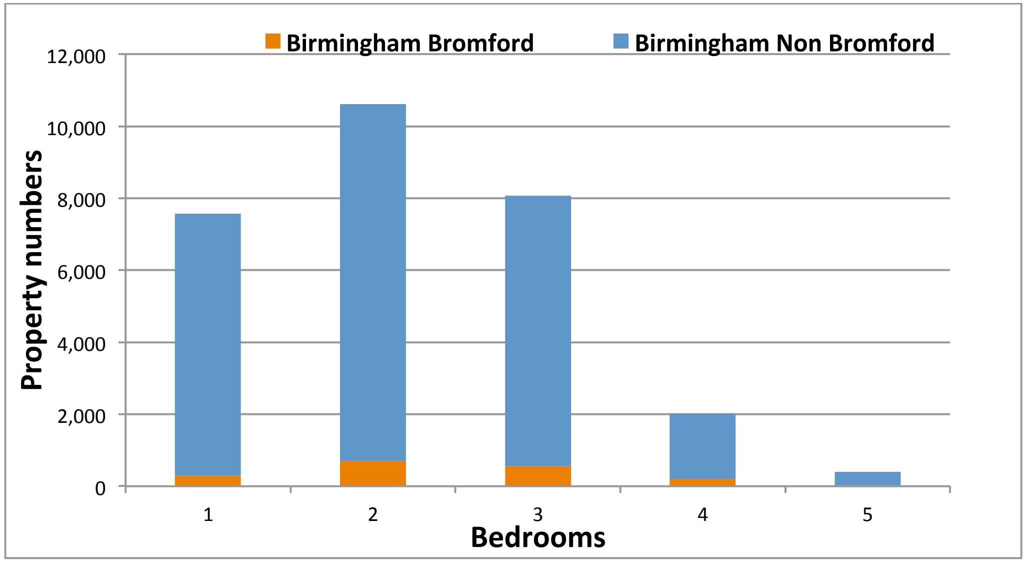
Highest Avg Rent in full group : £102/wk
Lowest Avg Rent in full group : £64/wk

The lowest avg rent reflects the high proportion (21%) of shared ownership properties owned by this HA. Shared ownership properties attract lower rents.

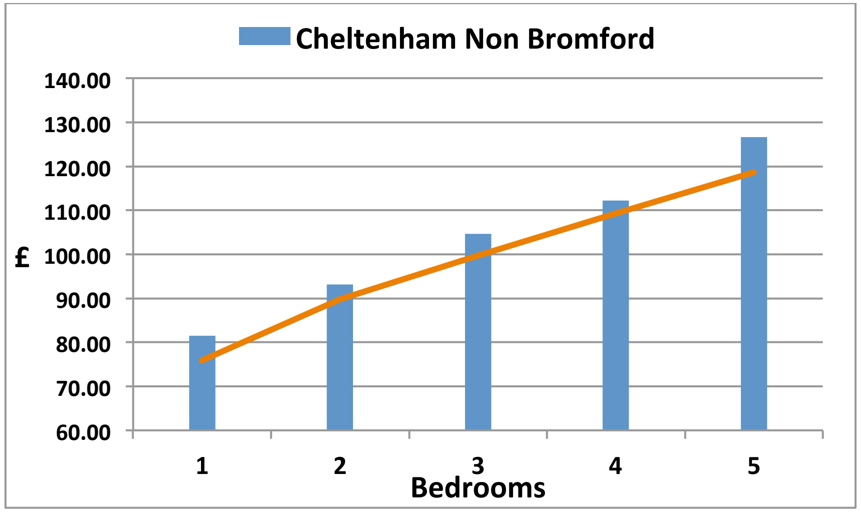
We also look at the average rents by Local Authority and by size of home. The seven Local Authorities where we have the majority of our homes are: Birmingham, Cheltenham, Cotswold, Lichfield, Shropshire, Telford & Wrekin and Wolverhampton. The charts below show average rents per week during 2013/14 for each of these Local Authorities compared to other Housing Associations with homes in that local authority area (**the average rents per week and property numbers below are sourced from the HCA's statistical data return for rents to March 2014).**

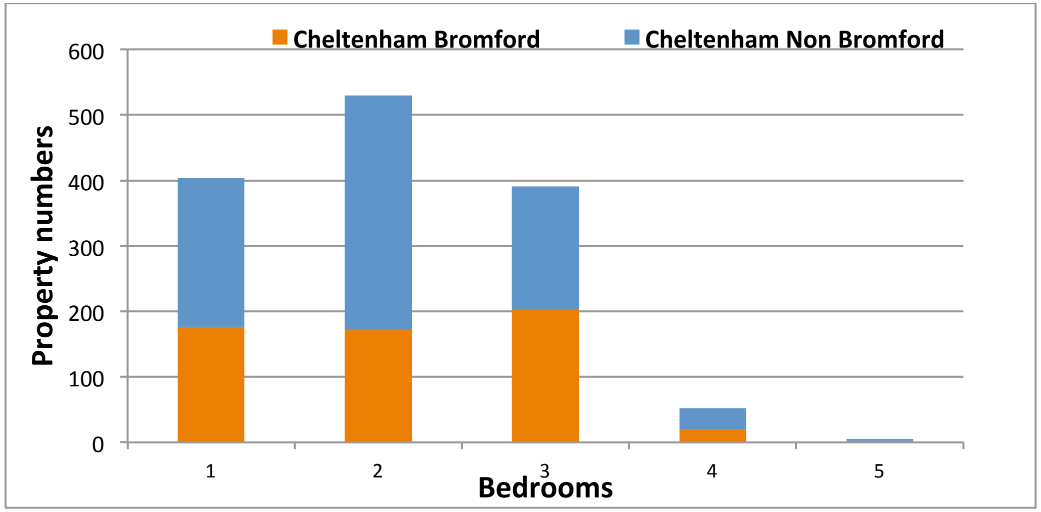
In general our rents are comparable to other Housing Associations' rents. The exceptions (where our rents are higher) arise from the location and relatively young age of our homes, which tends to lead to higher rents under the HCA's rent setting regime. For clarity, the charts below are for Housing Association rents only and exclude Local Authority homes in the same Local Authorities.



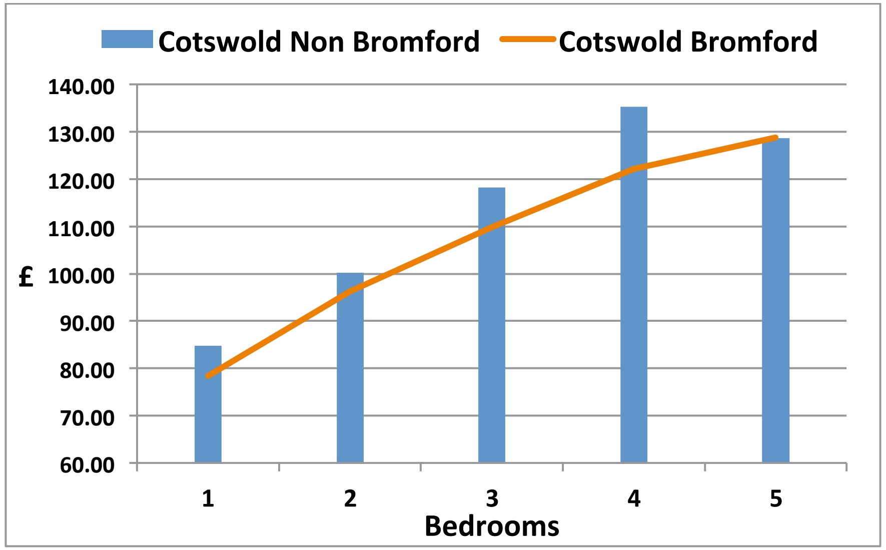


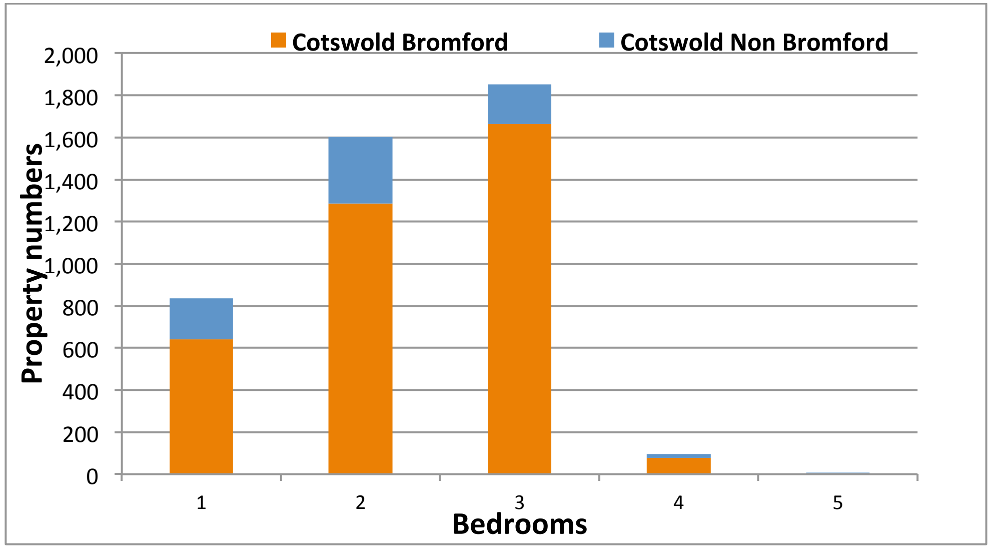
In Birmingham our rents, particularly for 3 beds and larger, are higher than average. We own only 6% of Birmingham's HA's homes, and the largest Housing Association in this Local authority is Midland Heart, who own 35%. The majority of their stock is in inner city, lower value areas, which reduces part of the rent. Their rents are typically £3pw lower for a 3 bed home and £8pw lower for a 5 bed home.

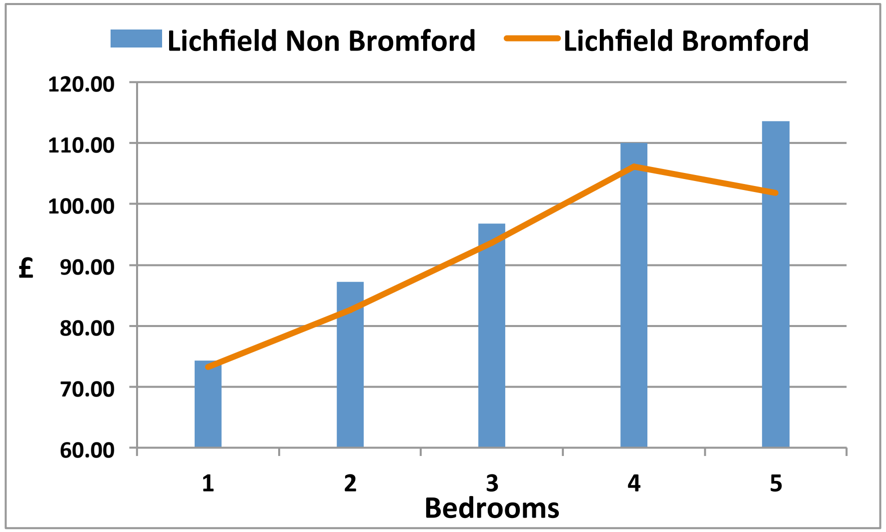


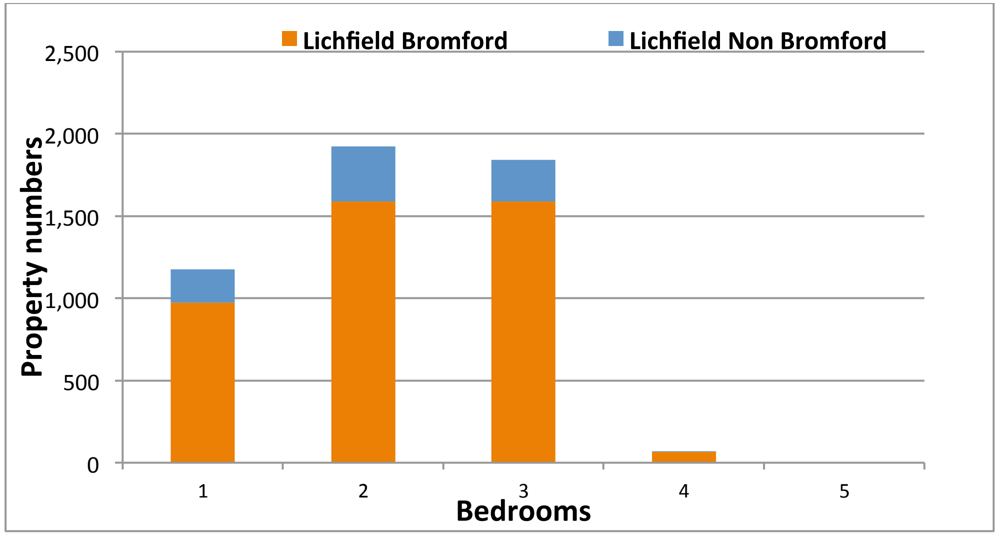


In Cheltenham, where we own 50% of the HA homes, our rents are slightly below average. For example a 3 bed home is £5pw lower than other HA's.

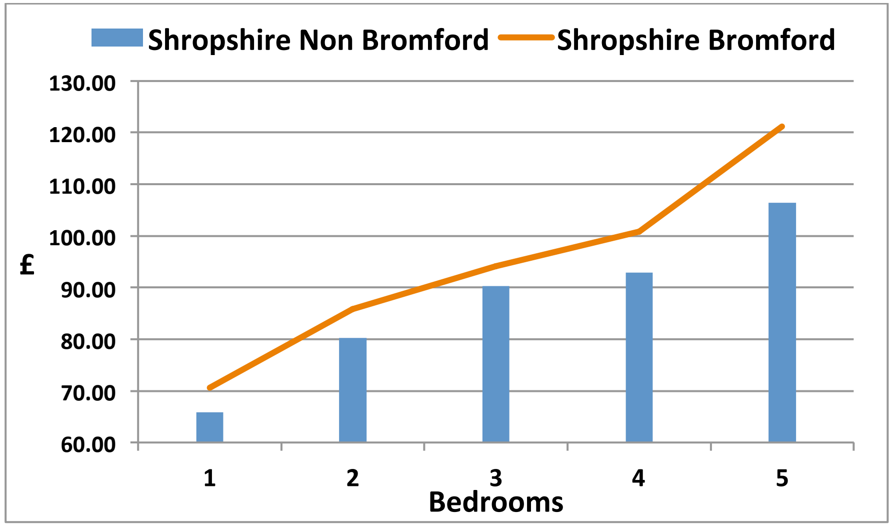


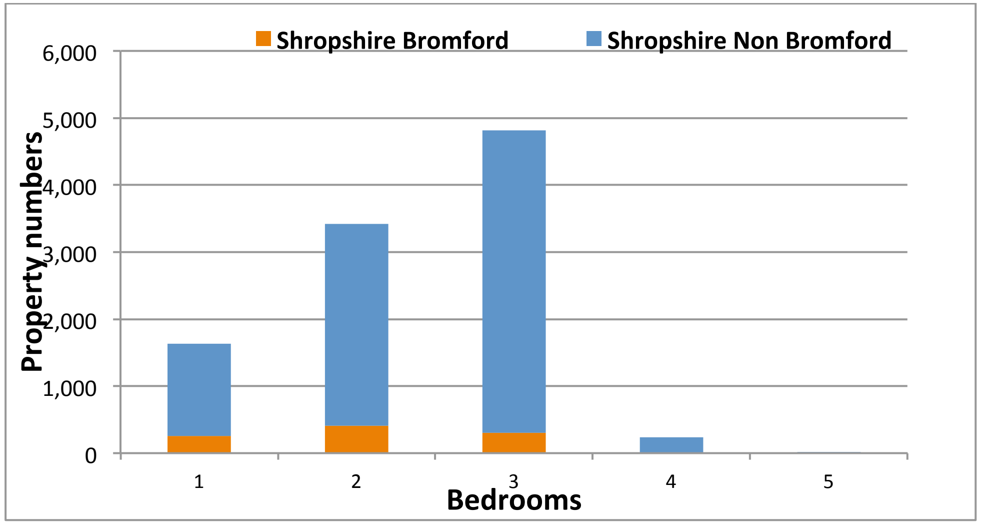




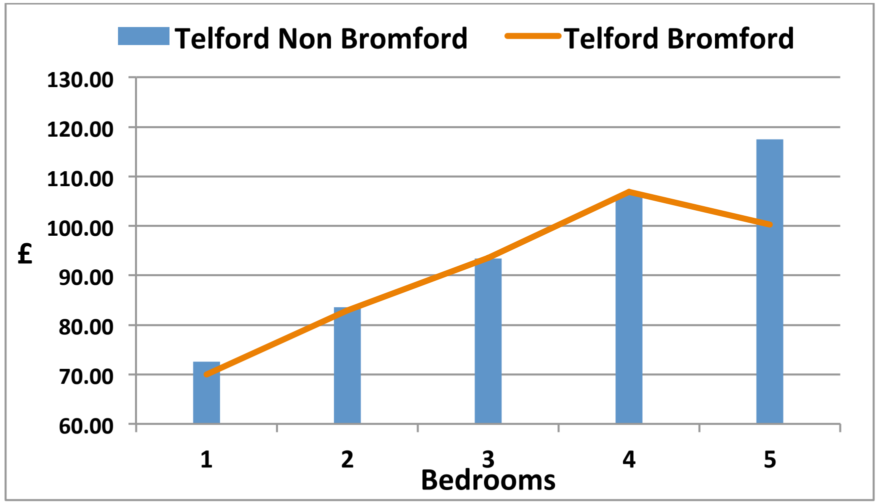


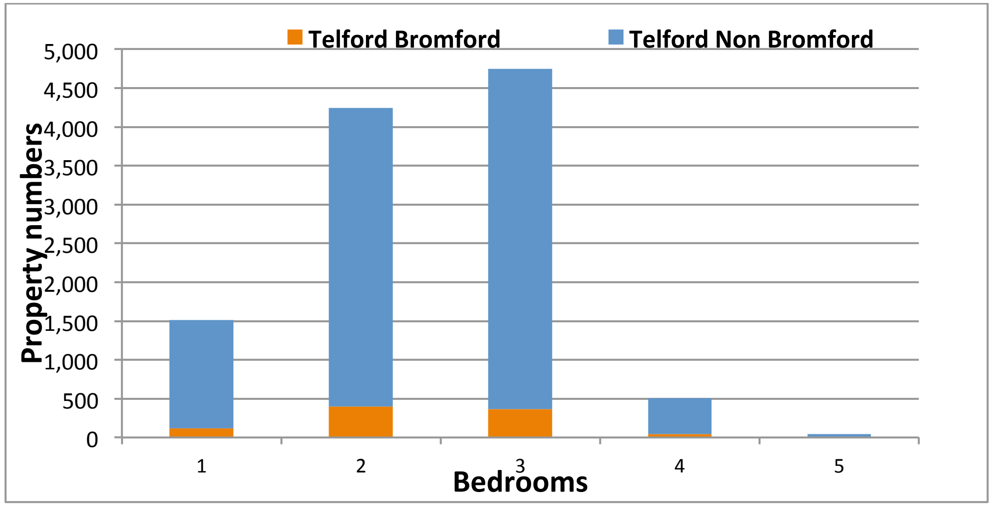
In Lichfield and Cotswold, we own the majority of the HA homes and our rents heavily influence the overall averages.



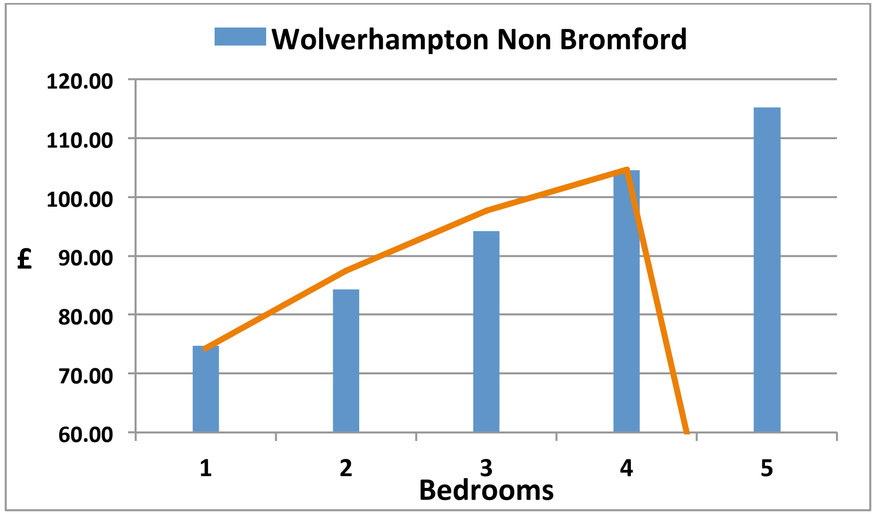


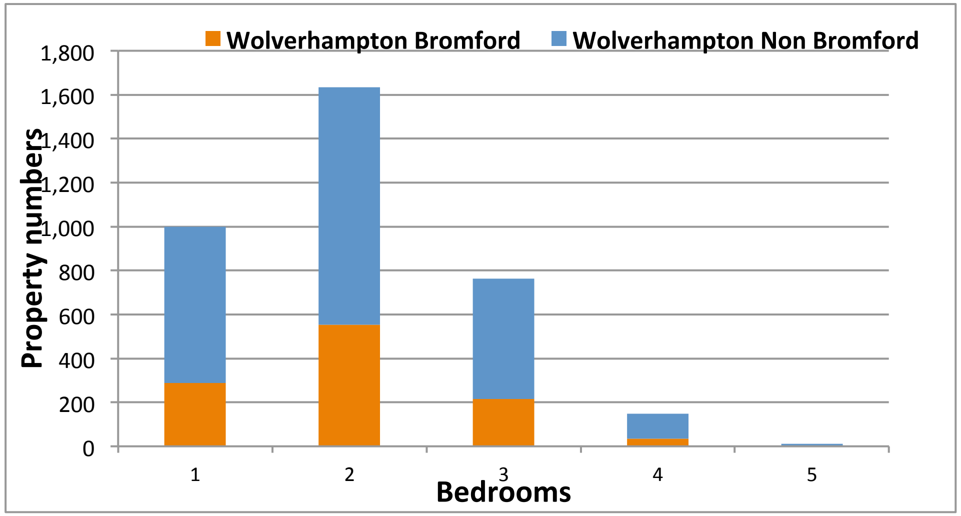
In Shropshire, we own 10% of the HA homes and Severnside own 38%. Severnside's rents are typically £4pw lower for 3 & 4 bed homes and £17pw lower for a 5 bed home (although we only have one 5-bed home). Severnside are an LSVT HA formed in 2001. Under the HCA rent setting regime, rents are based on a market value of the home in 1999. Ex council homes typically have lower values than those owned by traditional Housing Associations, where the homes were generally newer and better maintained. In addition, 66% of our homes are under 35 years old, and will attract higher rents under the HCA rent regime.





In Telford our rents are in line with the rents charged by other HA's. There is only one 5 bed property, which has a rent significantly below the average.

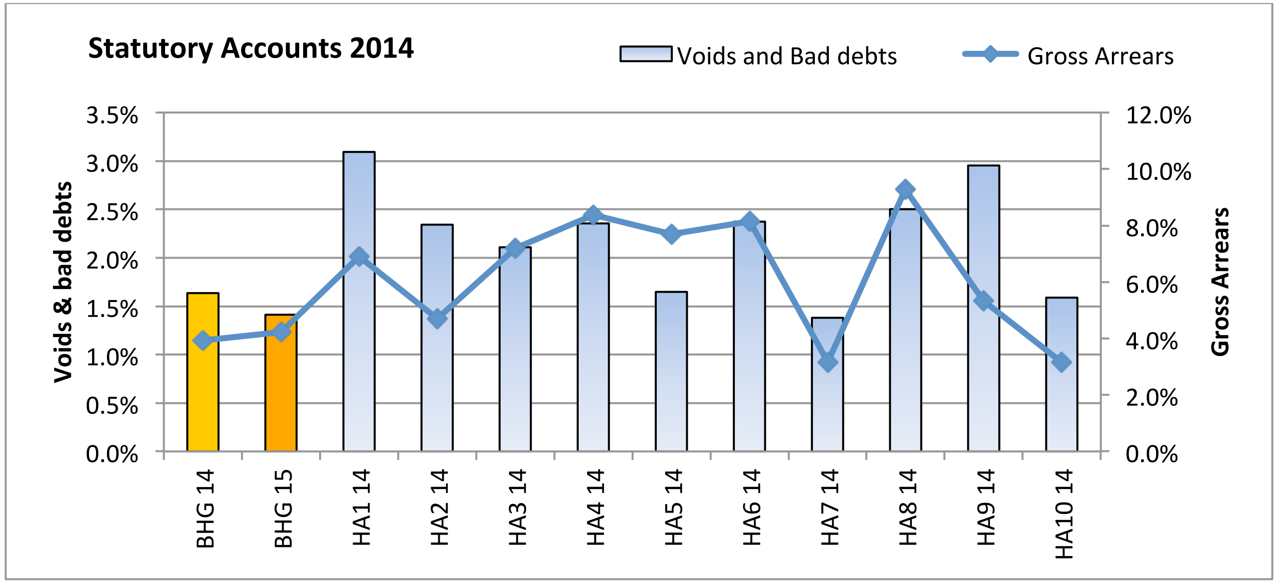




In Wolverhampton, we own 31% of the HA homes and Midland Heart own 47%. The rent for our 2 bed homes is £3 higher than average and for 3 bed homes £4 higher (We do not have any 5 bed homes in Wolverhampton). However, the majority of our Wolverhampton homes were built post 1990 and attract higher rents under the HCA rent setting regime.

3.2 Do we collect our rent ?

Our relative performance on void and bad debt loss and gross rent arrears is shown below :



Highest Void & bad debt loss in full group : 3.2%
Lowest Void & bad debt loss in full group : 1.2%

Highest gross arrears in full group :13.7%
Lowest gross arrears in full group :1.8%

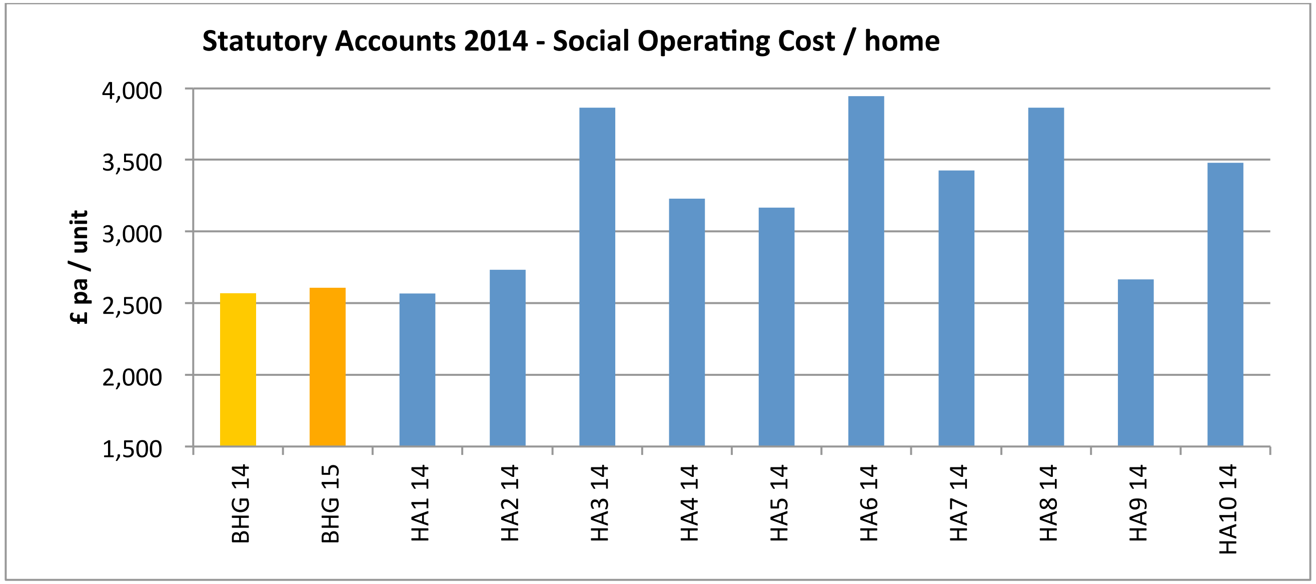
Our performance on void and bad debt loss is joint best in the comparator group.
Our gross arrears are amongst the lowest in the group.

Since 2013/14 we have seen many challenges in the form of Welfare Reforms, with the Under Occupation charge and Household Income Cap both coming into effect, as well as rising living costs making it ever more difficult for our customers to manage their household budgets. Throughout the last 2 years we benchmarked the impact of welfare reforms. On average, for customers affected by welfare reform changes we saw arrears levels rise by circa 1% above our overall averages. This shows the importance of focusing on changes for our customers and supports our plan to roll out the Deal to more of our customers, helping them manage their tenancy with budgeting advice etc.

4. Cost of Our Services

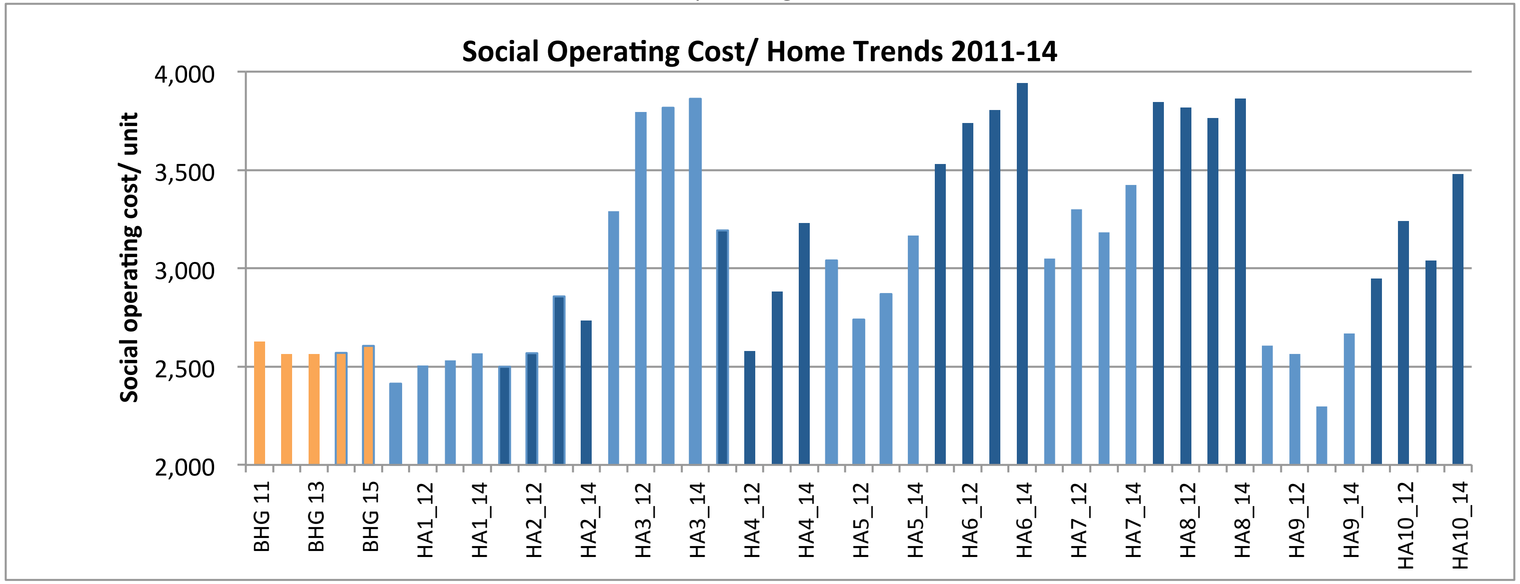
4.1 Overall Performance

Our preferred measure for this is the overall social operating cost per home :



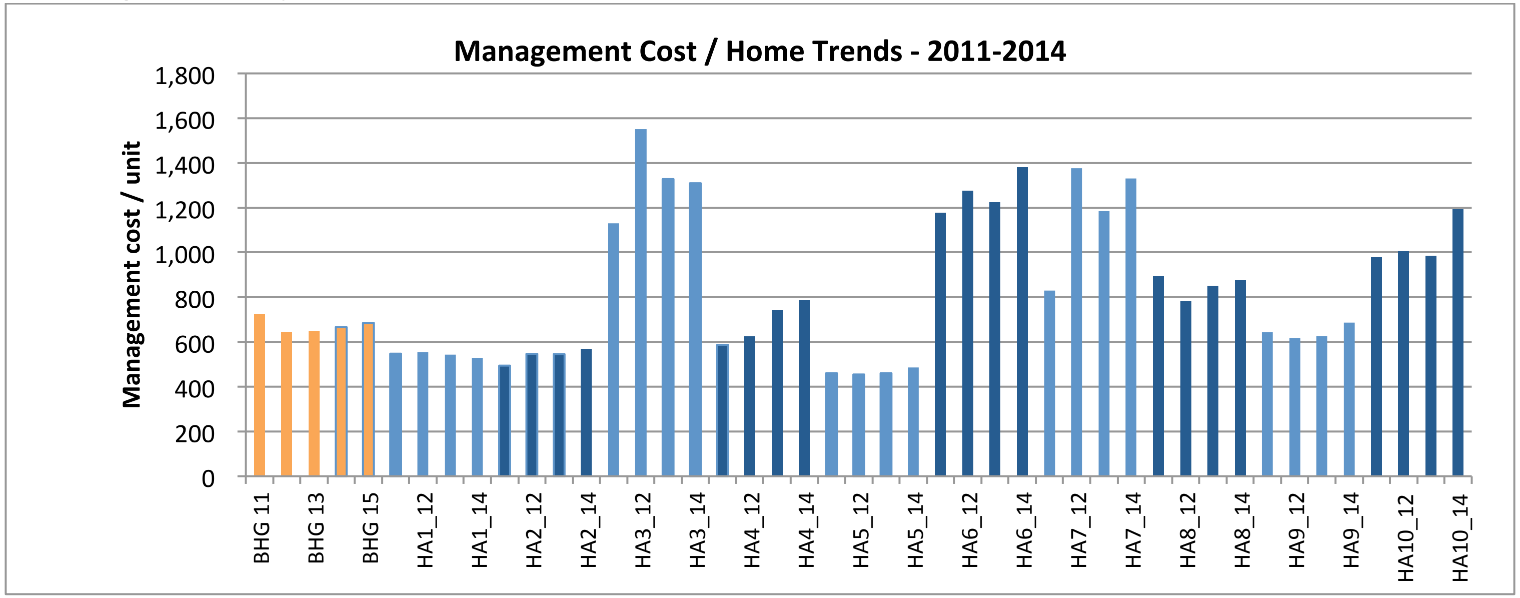
Highest Social Operating cost / home : £5,505
Lowest Social Operating cost / home : £2,197

A focus for us has been to restrict increases in the social operating cost / home and we have been successful in this :



Our ability to maintain the social operating cost per home at a broadly constant level is the notable feature in this graph.

4.2 Management Cost per home

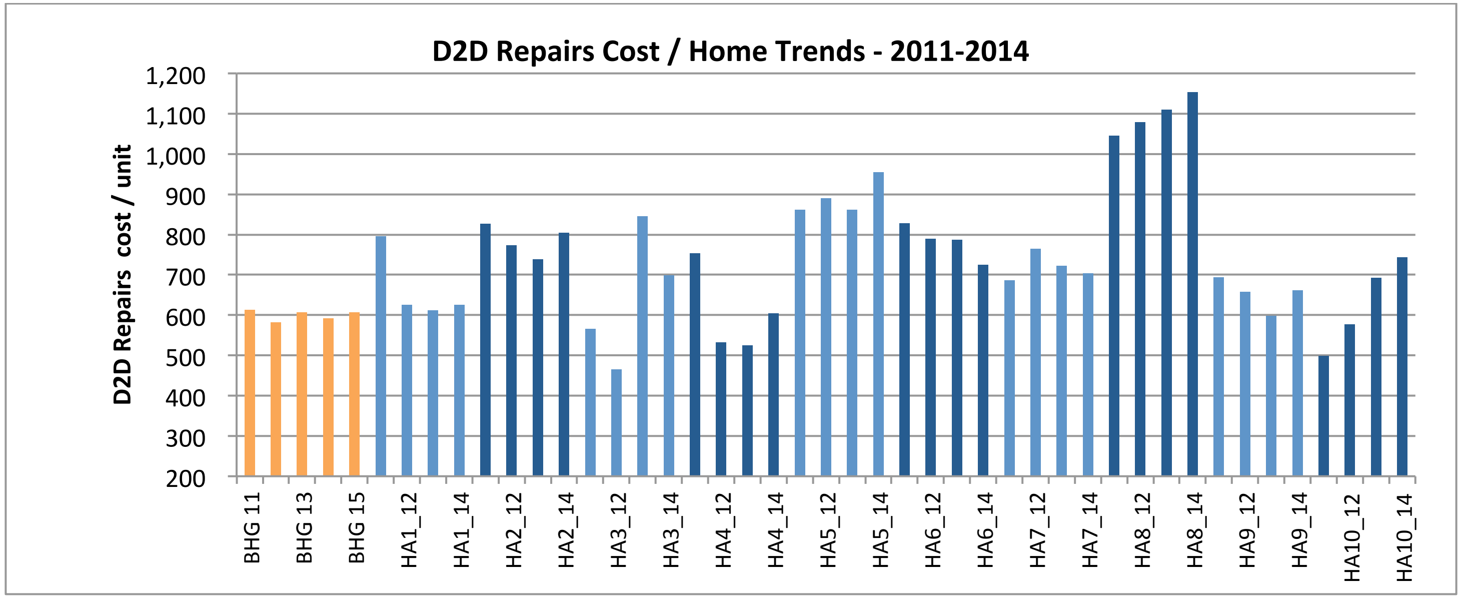


Highest Mgt Cost / home: £1,549
Lowest Mgt cost / home : £455

Our **management costs** have essentially remaining steady over time – our VfM activity is off setting the effects of inflation. We rank 3rd (2013 6th) in our comparator group for 2014.

4.3 Day to Day Repair Costs per home

Highest repair cost / home : £1,153
Lowest Repair cost / home : £385



Although we do not have the lowest day to day repair costs, they are on a reducing trend, and are in line with those in the business plan for bringing our repairs service in house. The figures above include direct costs of repair as well as overheads allocated to this service.

4.4 Other Costs

Overall, in terms of rankings we have performed consistently on management costs and day to day repair costs. It is worth noting that internally when we monitor the trends in these costs, we look at the direct cost of service provision. We separately consider the trends in overhead costs and (through our 'ABC lite' methodology) the things that drive these costs. During the last year we have become members of the BOBPlus benchmarking group run by Baker Tilley to benchmark the costs of our back office support teams and overheads, such as the Finance team, Human resources, ICT and governance. We are evaluating the initial results and will publish these soon.

5. Interest Costs and Debt Levels

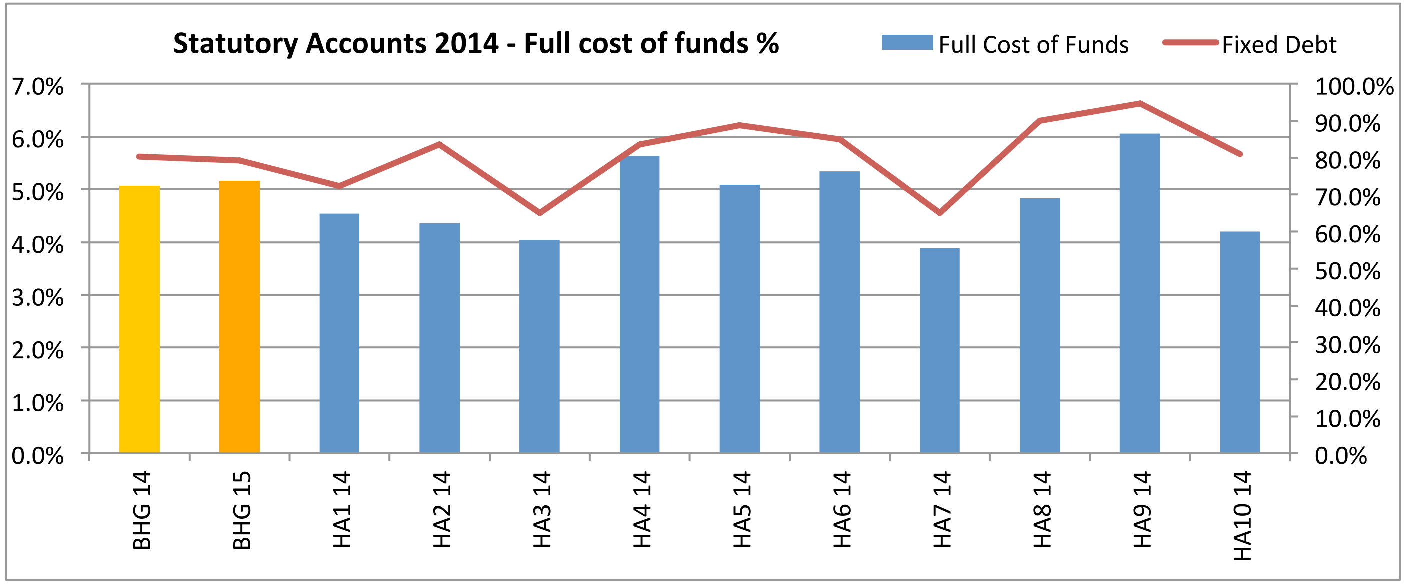
5.1 Cost of Funds

Our average cost of borrowing in 2014/15 was 4.62% (2013/14: 4.67%). This slight decrease was the result of the additional fixed funding levels and the contractual repayment of variable rate lines and Revolving Credit Facilities ('RCF') repayments.

The following table highlights our position on key measures:

Borrowing	£558.4m
Undrawn facilities	£115.9m
Fixed rate borrowing	79%
Cost of borrowing	4.62%
Asset gearing covenant (66.67% max)	31%

The full cost of funds (that is cost calculated after including capitalised interest) for our comparator group is shown below :



Highest Cost of funds in full group: 6.1%
Lowest Cost of funds in full group: 3.4%

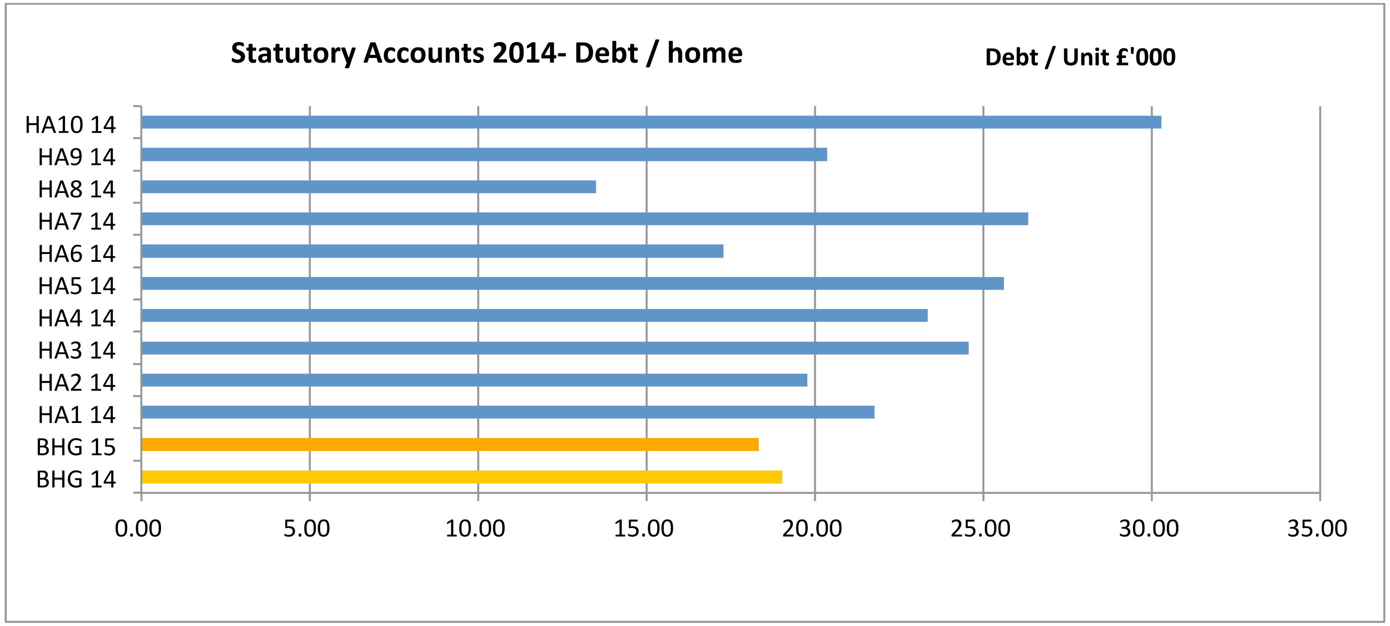
The chart reflects a snapshot position at year-end, calculated as interest paid for the year divided by year-end loan balances. Close to the year-end, we repaid some of our revolving credit facilities, lowering the year-end loan balances and inflating the cost of funds to 5.2% (the average cost of funds for the year was 4.62%).

Our cost of funds is largely determined by our fixed debt costs. Fixed rate debt is a relatively high proportion of our portfolio and most of it (79%) was fixed several years ago when interest rates were considerably higher. £84m of interest rate fixes will come to an end in the next 5 years, and this will reduce our cost of funds.

It is possible to secure the early end of other fixed rate transactions, but this will incur a significant upfront cost (essentially an accelerated payment of interest) and we this is not judged to be the best use of resources.

5.2 Debt per Unit

Another key VfM deliverable is investment in new homes. Historically, this has been achieved by taking on debt in relation to existing homes to build new ones. Comparative levels of debt per unit is therefore something we examine :



Highest debt/unit in full group : £30k
Lowest debt/unit in full group : £13k

Our levels of debt / unit are broadly similar to others in the group