Bromford.

Our Commitment to Value for Money (VfM)

2016 Self Assessment

Benchmarking Report

1. Who do we compare ourselves with?
2. Overall performance
3. What do our services cost to provide?
4. 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	*AS*	Hyde	*Hyde*	Peabody	*Peaby*	Sovereign	*Sov'n*
Circle	*Circ*	London & Quadrant	*L&Q*	Radian	*Rad*	West Mercia	*WM*
Devon & Cornwall	*D&C*	Moat	*Moat*	Raglan	*Rag*		
Family Mosaic	*Fam*	Midland Heart	*MHt*	Riverside	*Rside*		
Hanover	*Han*	Orbit	*Orb*	Sanctuary	*Sanct*		

The comparator group is those HA's who have a Moody's rating of A1 or better as at April 15. 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; (2014/15 being the latest complete set)
- restricted the data shown under any heading to the 10 best performers in the comparator group; and have indicated the range between the best and worst performance in the 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

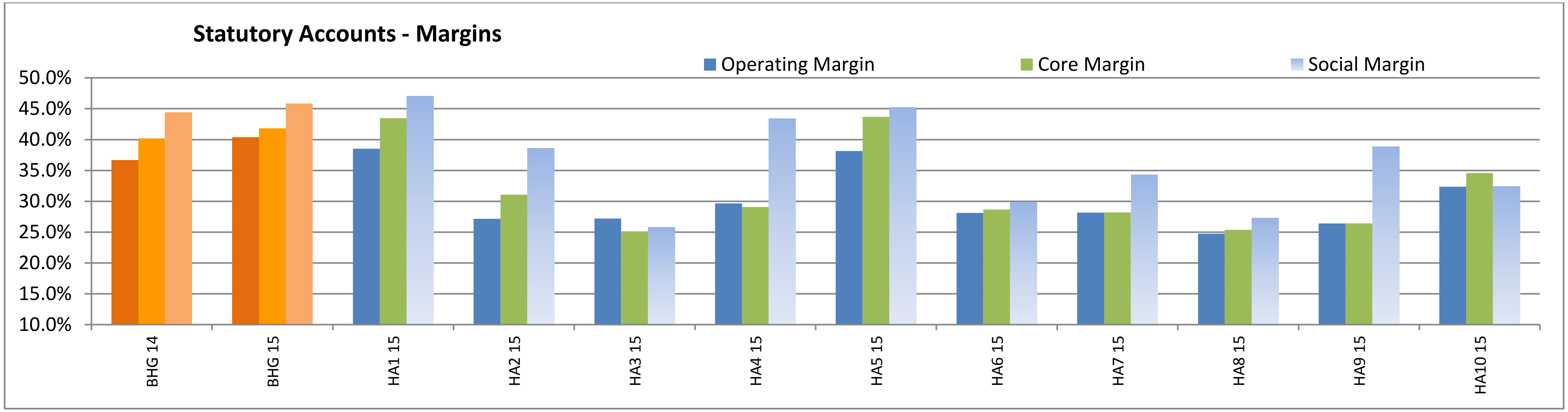
Operating margin is a measure of efficiency and economy and is a key VfM measure for us. The margin needs to be considered alongside effectiveness – for which our key measure is customer advocacy. Customer advocacy is not disclosed in statutory accounts and so lies outside the analysis presented in this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

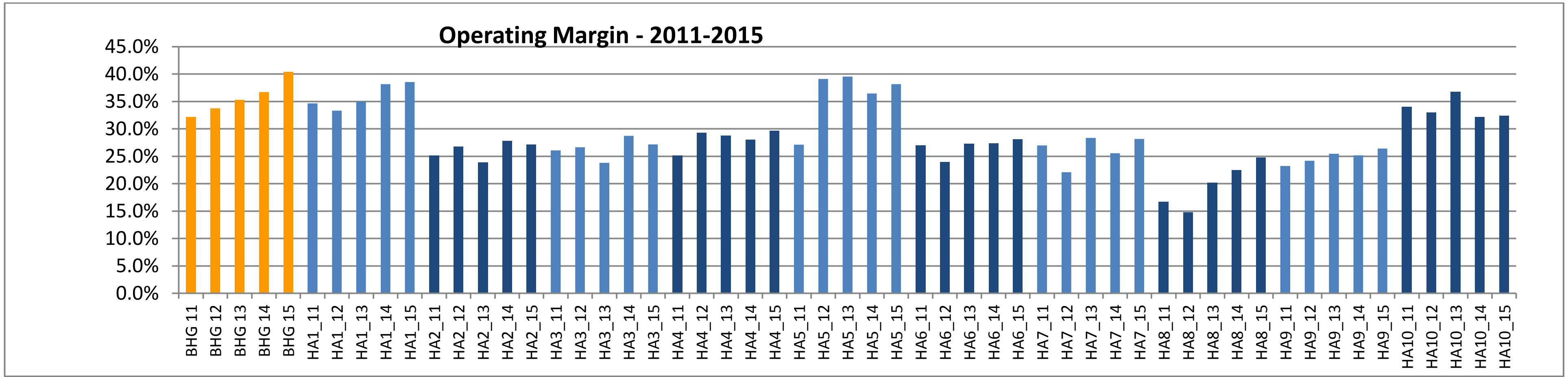


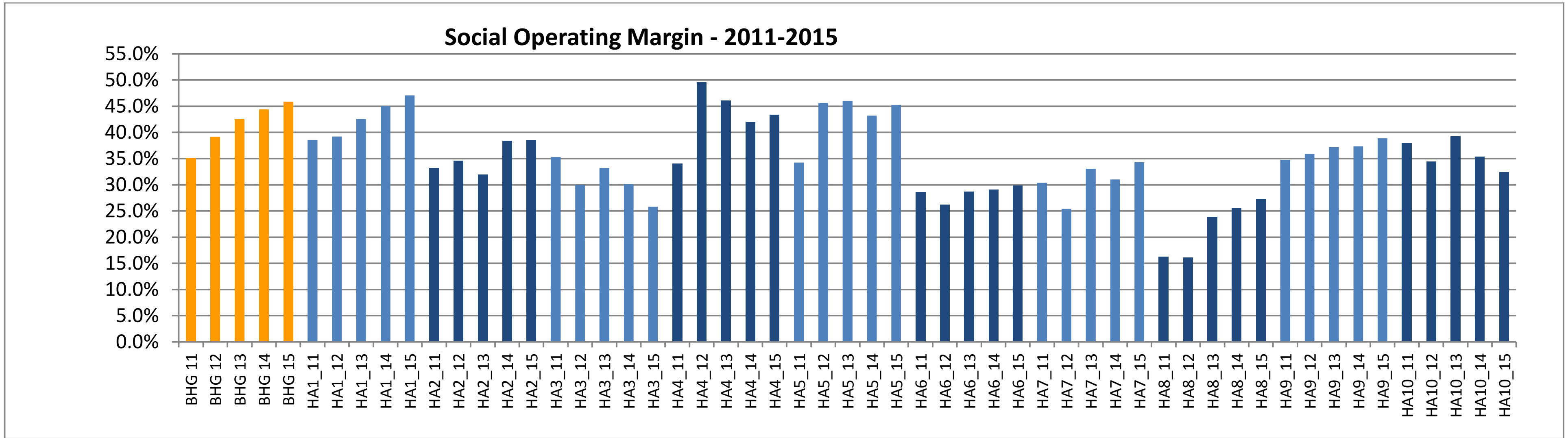
Our margins – on whichever measure – continue to be amongst the very best in the sector. Our VfM framework is designed to drive a continuing improvement in this key measure, and all three measures improved from 2014 to 2015.

As a context for the performance of this group of HA's overall, the HCA sector accounts show an average operating margin in 2015 of 28.3% (2014 26.5%) - source 2015 Global accounts of housing providers' – HCA publication.

The range of the operating margins for 2015 of our comparator group was from 22.8% to 38.5%, Bromford's was 40.4%.

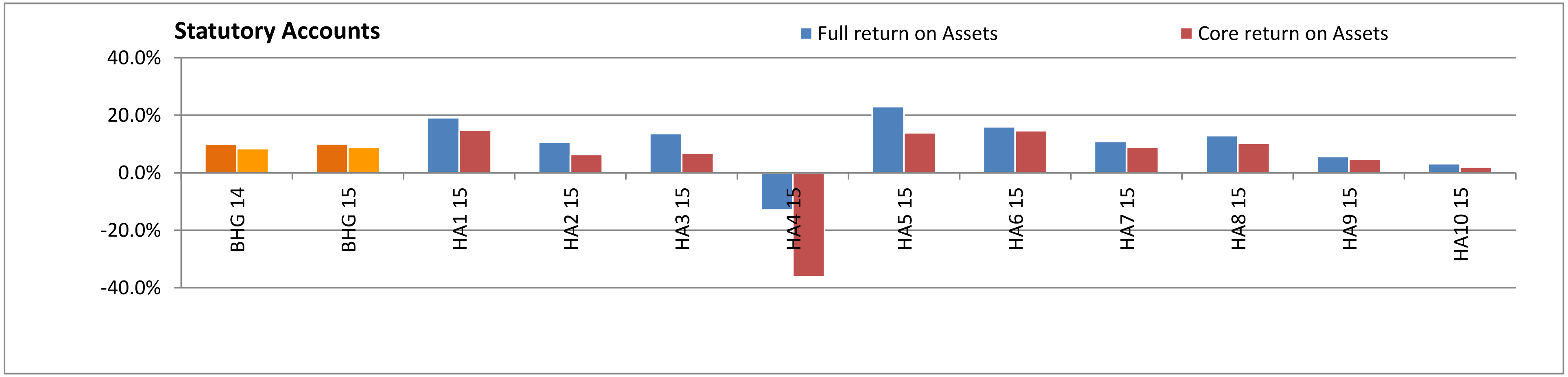
The trend in margins shows that we have consistently achieved excellent and steadily improving results on these measures:





2.2 Return on Assets

We measure the full return on assets as the ratio of profit for the year to the shareholders funds (reserves). 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 8th in our comparator group (2014=11th). 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 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. We achieved 10% for full return on assets in 2015, and a core return on assets of 8.4%. The full return on assets ranged from -13% to 23%. Interestingly, the -13% for HA4 was an outlier due to significant accounting losses from derivatives of £112m. This sort of volatility in reported surpluses/ losses will increase with the introduction of FRS102 accounting in 2016 accounts, making some traditional benchmarking ratios difficult to compare.



At a more granular level we can show our return on assets by tenure, using our operating results in published accounts. In future years we will look to benchmark with others in similar geographical areas.

Return on assets - trend	**EUV-SH 2016 £m ***	**MV-VP 2016 £m ****	**Rental income 2016 £m**	**Gross yield 2016 %**	**MV-VP 2015 £m**	**Rental income 2015 £m**	**Gross yield 2015 %**	**Operating profit 2016 £m**	**Operating margins 2016 %**	**Operating profit 2015 £m**	**Operating margins 2015 %**
General Needs	918	2,590	115	4.4%	2,476	110	4.4%	64	56%	58	53%
Supported Housing and housing for older people	83	235	8	3.4%	222	9	4.0%	1	18%	2	22%
Low cost home ownership	94	165	7	4.2%	161	7	4.3%	4	53%	4	48%
Social Housing Lettings	**1,095**	**2,990**	**130**	**4.3%**	**2,859**	**126**	**4.4%**	**69**	**53%**	**64**	**51%**
Market lettings	n/a	8	1	7.1%	8	1	6.4%	1	85%	1	85%

*EUV-SH Existing use value – social housing, ** MV-VP Market value with vacant possession

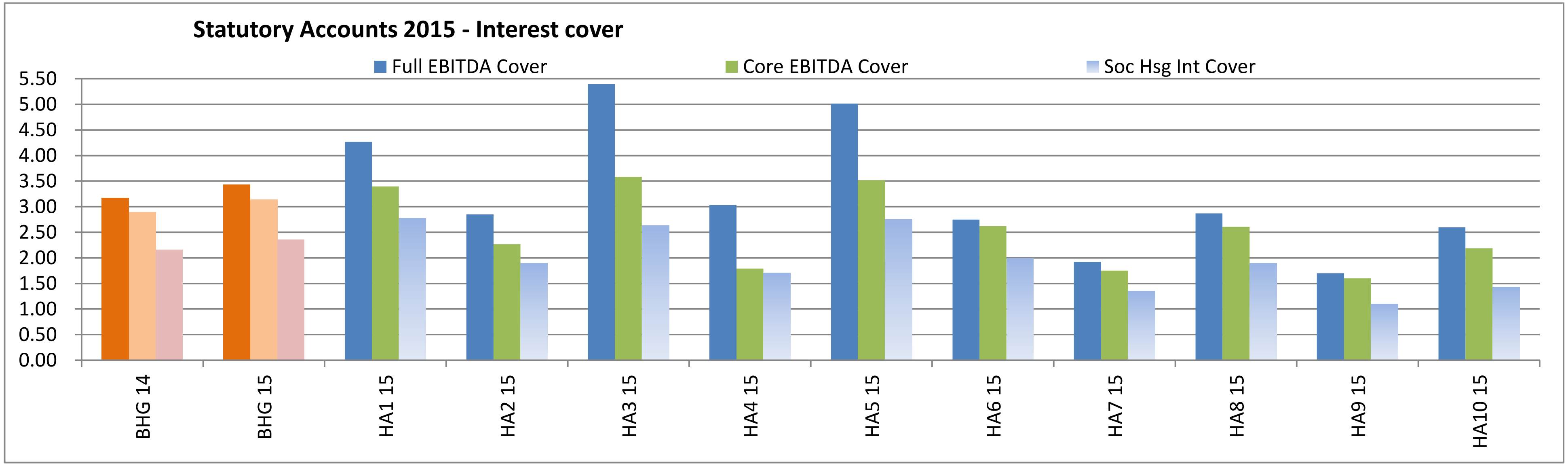
Gross yield is calculated as rental income as a percentage of MV-VP.

The reduction in the operating margin on supported housing in 2016 is due in part to increased major repairs works in that year.

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 net income 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.

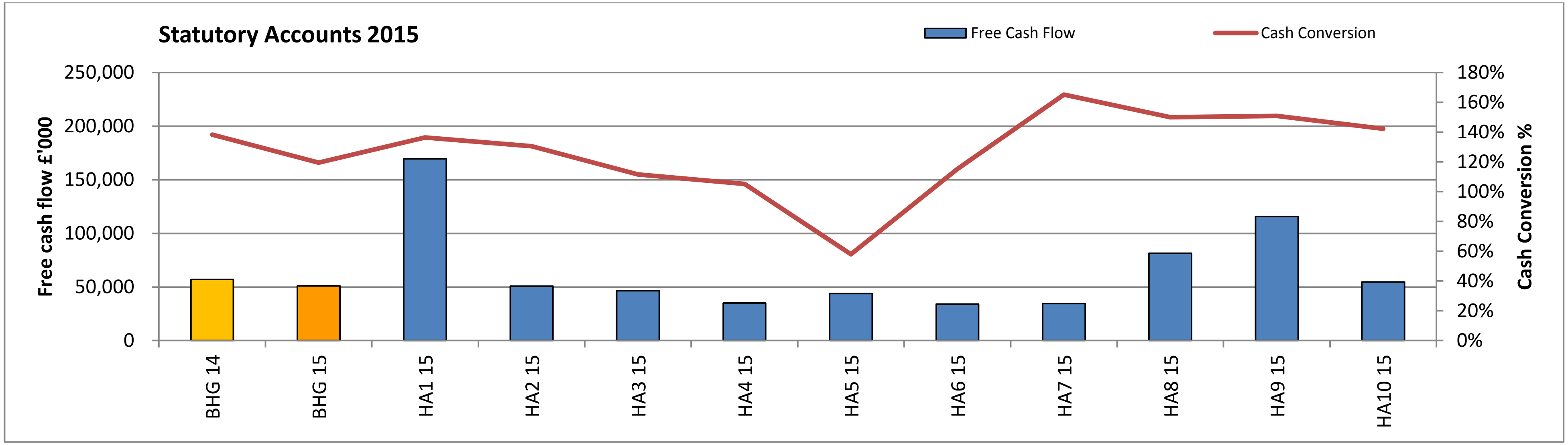
Our performance on this measure has been consistently good and improving:



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 gradually improve. We rank 4th in the comparator group with 3.43 for full EBITDA cover in 2015, with a range of 1.70 to 5.39 for the comparator group. As a context for the performance of this group of HA's overall, the HCA sector accounts show an average EBITDA cover in 2015 of 2.02 - source 2015 Global accounts of housing providers' – HCA publication.

2.4 Cash Generation

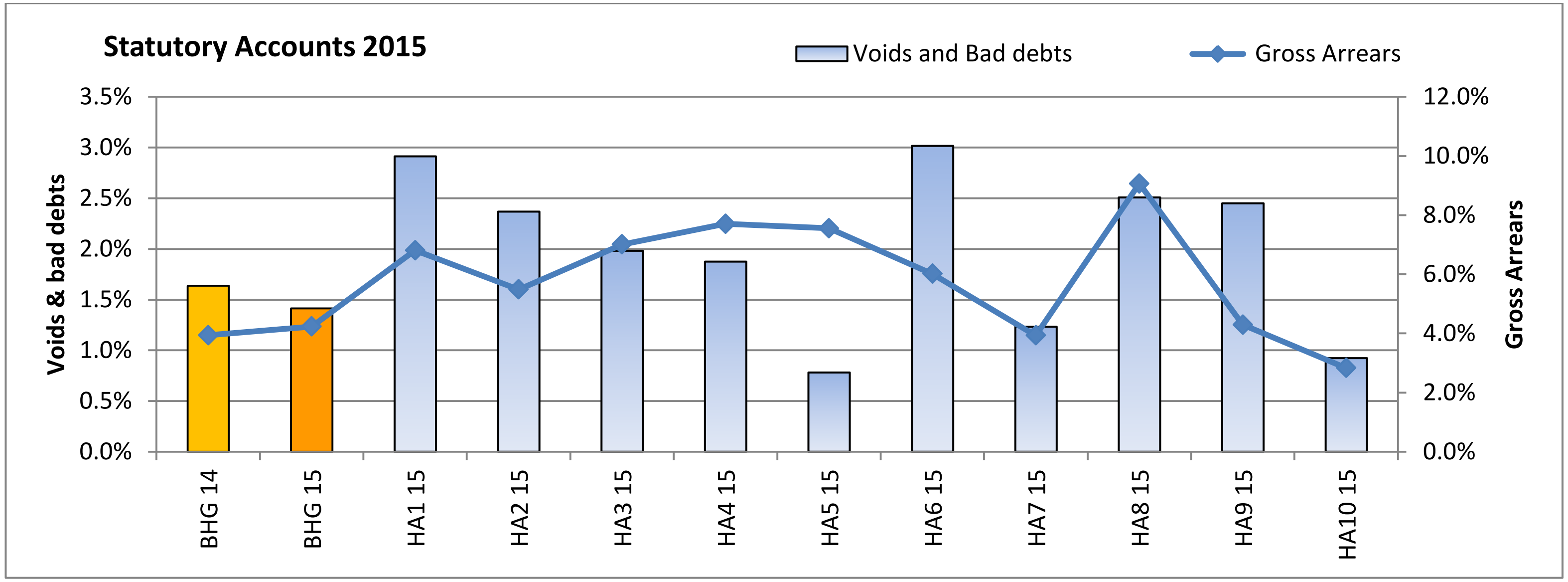
Another aspect of financial viability is our ability to generate cash. Our cashflows remain amongst the strongest in our comparator group and this is reflected in our cash conversion % (which compares operating surplus to operating cashflow):



Highest Free Cashflow in group: £170m	Lowest Free Cashflow in group: £34m
Highest Cash Conversion % in full group: 165%	Lowest Cash conversion % in full group: 58%

2.5 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 group: 3.0%
Lowest Void & bad debt loss in group: 0.8%

Highest gross arrears in group: 9.1%
Lowest gross arrears in group: 2.8%

Our performance on void and bad debt loss was the best in the comparator group for 2014, but we have slipped to 4th for 2015, despite seeing an overall improvement in our rent loss from 1.6% down to 1.4%.

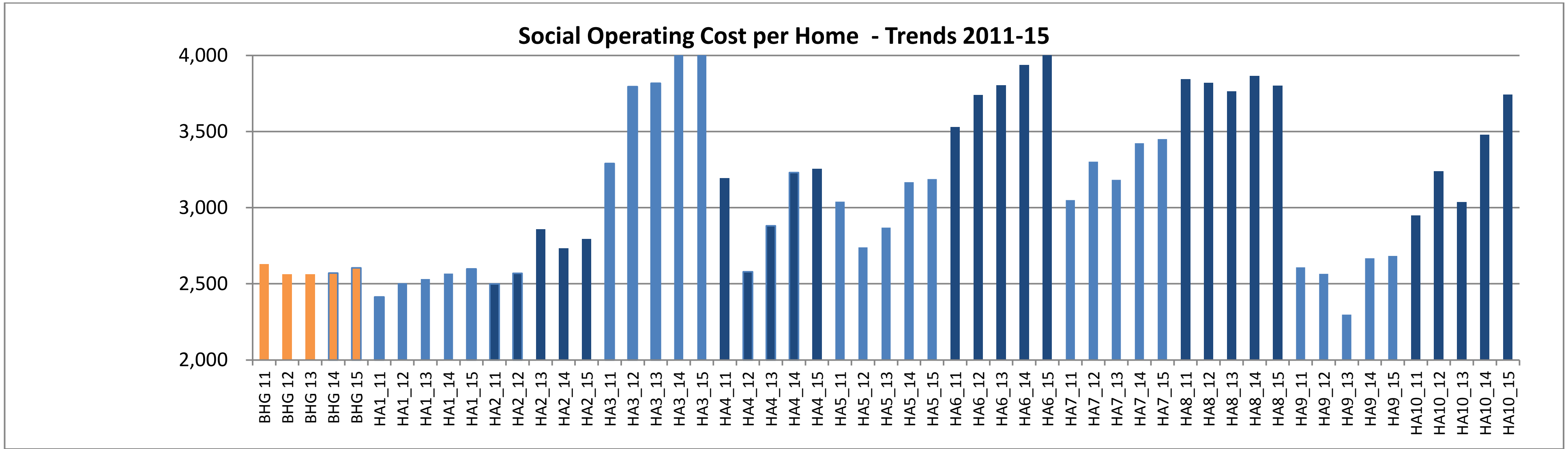
Our gross arrears are the 3rd lowest in the group at 4.3%. However we know some LSVT's achieve low arrears of circa 1%-2%, suggesting focused management in a local geography can improve rent collection. In future we plan to benchmark against the best in sector for arrears performance as well as our existing chosen peer group.

On average, for customers affected by welfare reform changes we saw arrears levels rise by c1% above our overall averages. This shows the importance of focusing on changes for our customers and supports our plan to rollout the Deal to more of our customers via our localities plan, building a relationship with every customer.

3. Cost of Our Services

3.1 Overall Performance

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



Lowest Social Operating cost / home: £2,599

Highest Social Operating cost / home: £5,733

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

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

HCA sector cost comparisons 2015

Entity	Closing social housing units managed	Headline social housing cost CPU (£k)	Management CPU (£k)	Service charge CPU (£k)	Maintenance CPU (£k)	Major repairs CPU (£k)	Other social housing costs CPU (£k)
Bromford Housing Association Ltd	21,973	3.09	0.72	0.37	0.68	0.66	0.66
Fosseway Housing Association Ltd	4,421	2.96	0.73	0.25	0.90	1.07	0.01
Bromford Homes Ownership Ltd	1,566	0.86	0.48	0.22	0.11	0.04	0.00
Bromford Group		2.92	0.72	0.34	0.68	0.69	0.49
Sector level data							
Upper quartile		4.30	1.27	0.61	1.18	1.13	0.41
Median		3.55	0.95	0.36	0.98	0.80	0.20
Lower quartile		3.19	0.70	0.23	0.81	0.53	0.08

Key:

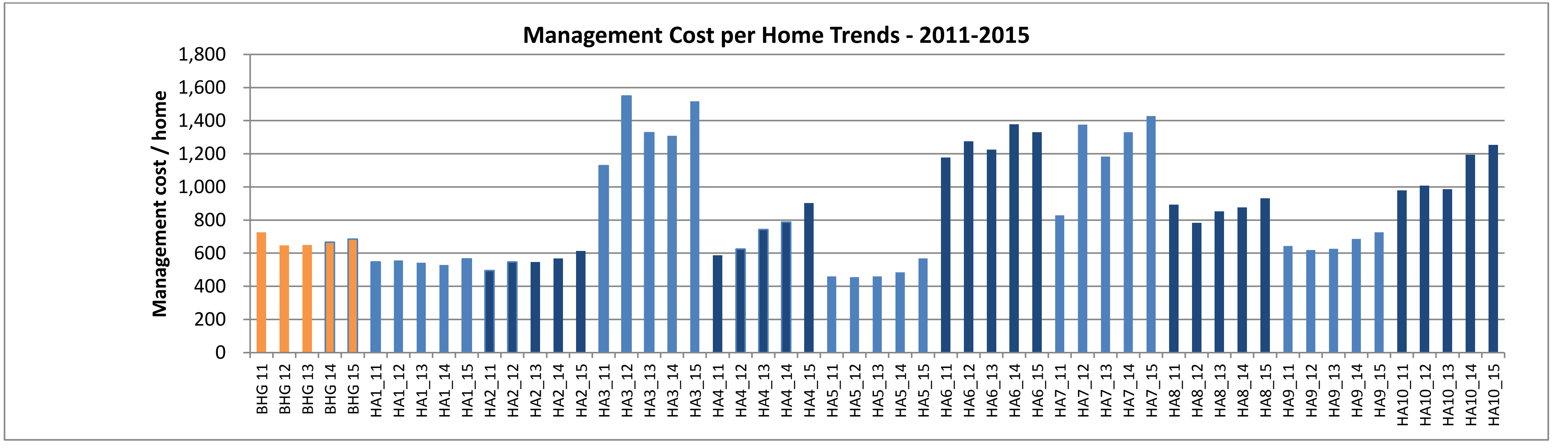
Below lower quartile	Lower to median	Median to upper	Above upper quartile

Total P&L Operating Costs − Depreciation and bad debts + Capitalised major repair Costs = Headline Social Housing cost

The HCA cost measure “headline social housing cost” is a different cost measure to the social operating cost per home measure we have benchmarked for several years. It excludes depreciation and bad debts expense included in our social operating cost measure, but includes the costs of major repairs capitalised, plus all other non housing related operating costs related to social and non social activities. The other socail housing costs CPU element above capures these non housing costs, and for Bromford, this includes any non capitalised new homes overheads, supporting people contract delivery costs and costs of managing non social housing accommodation. The supporting people contract costs part of the other social housing CPU of 0.66 is 0.44, the costs relate to non housing specific services.

Overall Bromford have low headline social housing cost compared to the sector, the Board have reviewed the differences between these measures and our own measures, and understand the impact of supporting housing (for eg. on service charges) and supporting people activity on the costs.

3.2 Management Cost per home

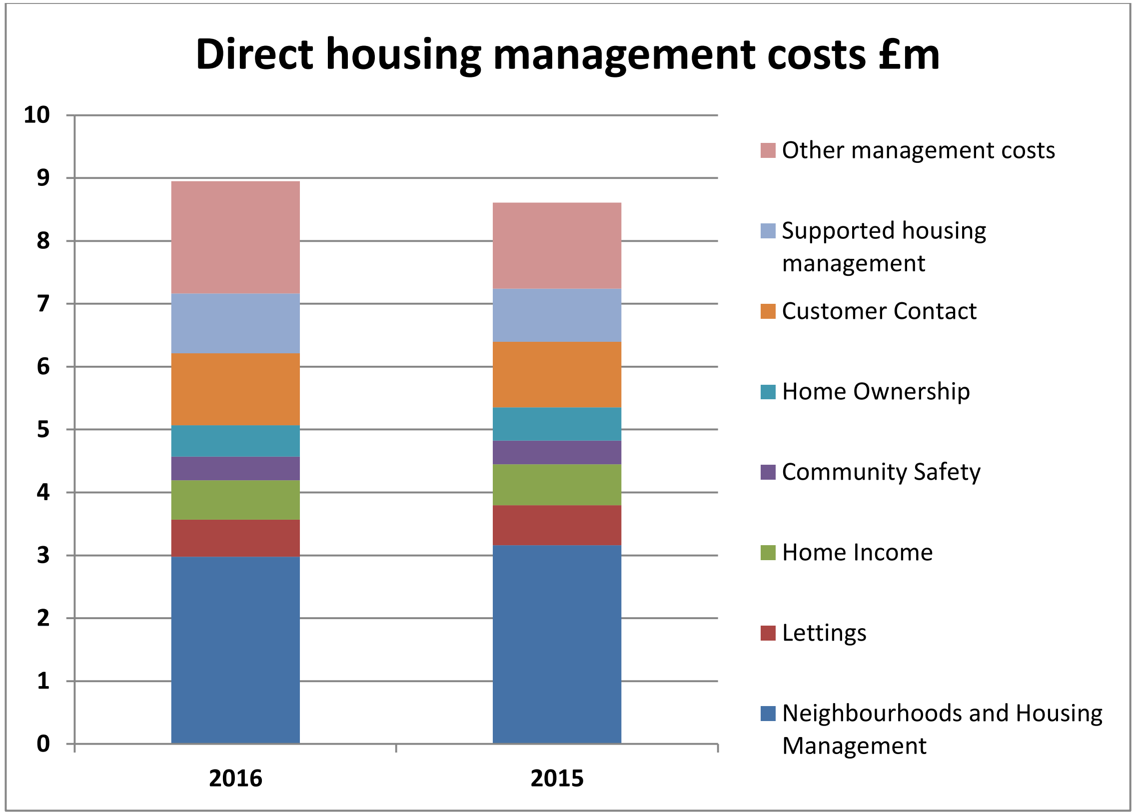


Lowest Mgt cost / home: £565	Highest Mgt Cost / home: £1,517

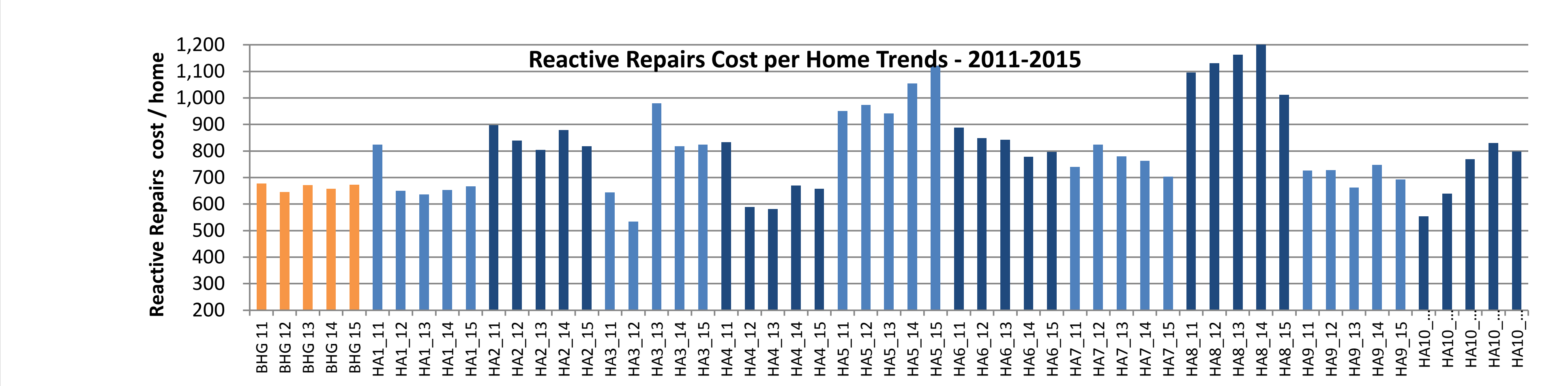
Our **management costs** are essentially remaining steady over time – broadly our VfM activity is off setting the effects of inflation. We rank 4th in our comparator group and like most of the group, have seen small increases in management costs in 2015.

For comparison, the Lowest quartile Management CPU per the HCA cost comparision exercise is £700 per home - see above; Bromford and three other comparator’s costs are below this.

The chart below shows how our direct housing management costs have changed from 2015 to 2016, by service team. Overall housing management costs increased from £8.6m to £8.95m in 2016, a rise of 4%. The overall increase was due to the increase in other housing management costs which reflects our investment in trialing new service offers and piloting direct payment of benefits to customers. This has provided significant learning and will be applied in the rollout of localities. For more information please see our main VfM self assessment document.



3.3 Day to Day Repair Costs per home

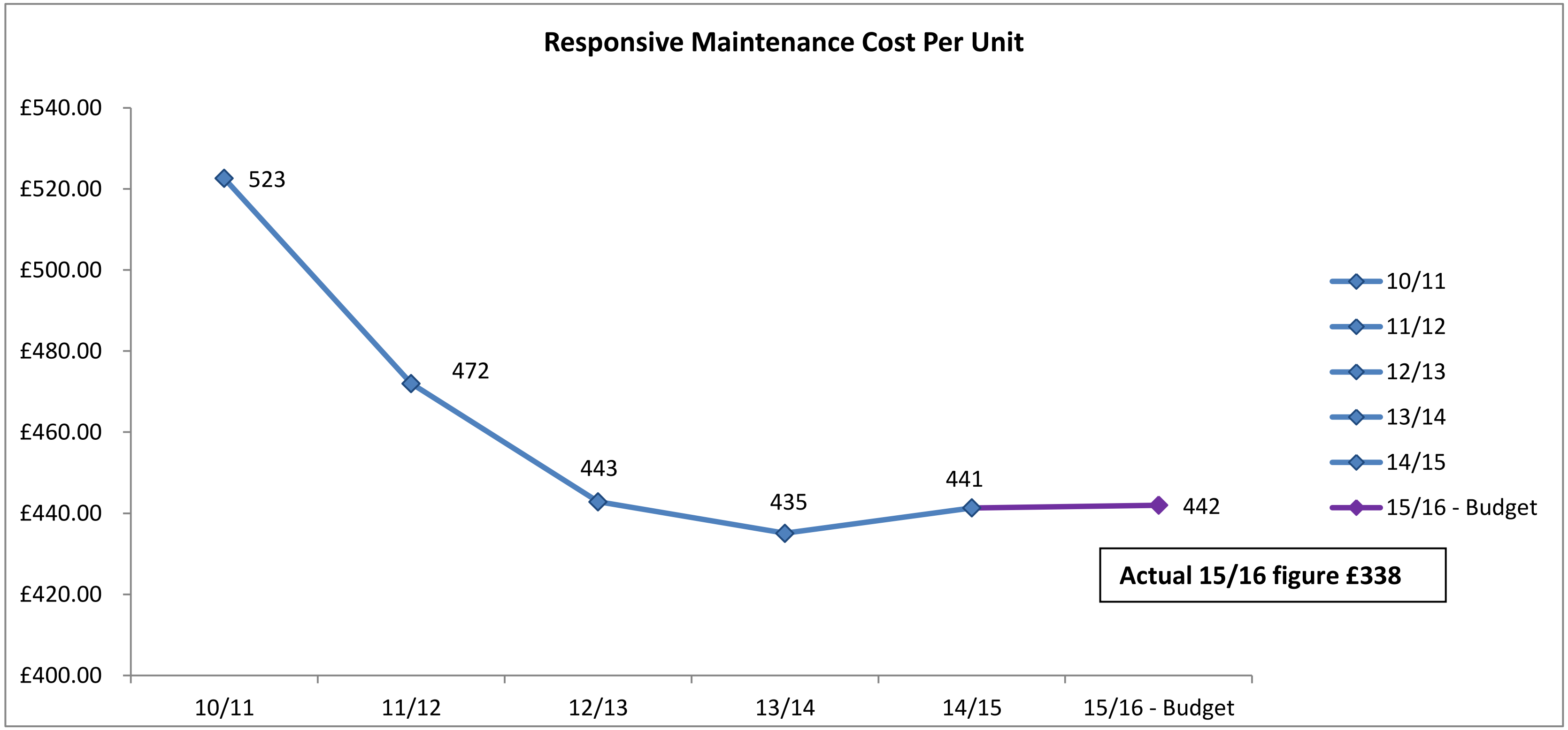


Lowest repair cost / home: £657	Highest repair cost / home: £1,121

Bromford's 2015 cost per home was £672; 3rd in the comparator list. Although we do not have the lowest day to day repair costs, our costs are on a level trend and are in line with targets 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.

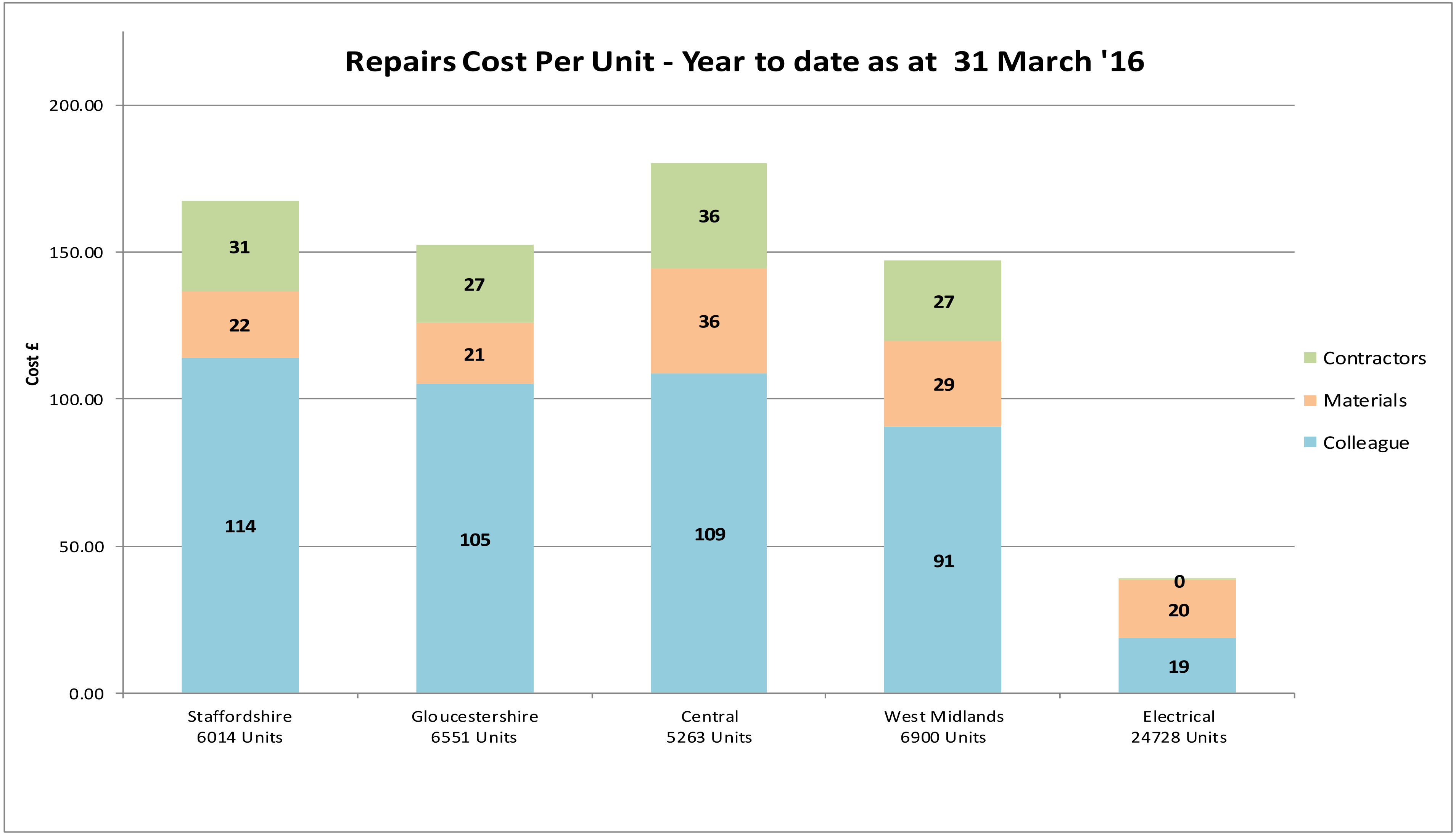
The chart below shows the responsive maintenance team cost per unit over a 5 year period and projection for 15/16 based on budget. In 2016 the direct cost of responsive maintenance per property decreased considerably to £338 (2014/15: £441), we have explained how we achieved this in our Self Assessment document. We have therefore now exceeded our business plan targets for a direct cost of £425 per unit by 2017. The majority of our repairs services are now in-house, including our maintenance for voids, and this has given us more control over the empty homes standard. The VFM savings made by the team have covered the inflationary increase we would have expected.

Responsive Maintenance Cost Per Unit

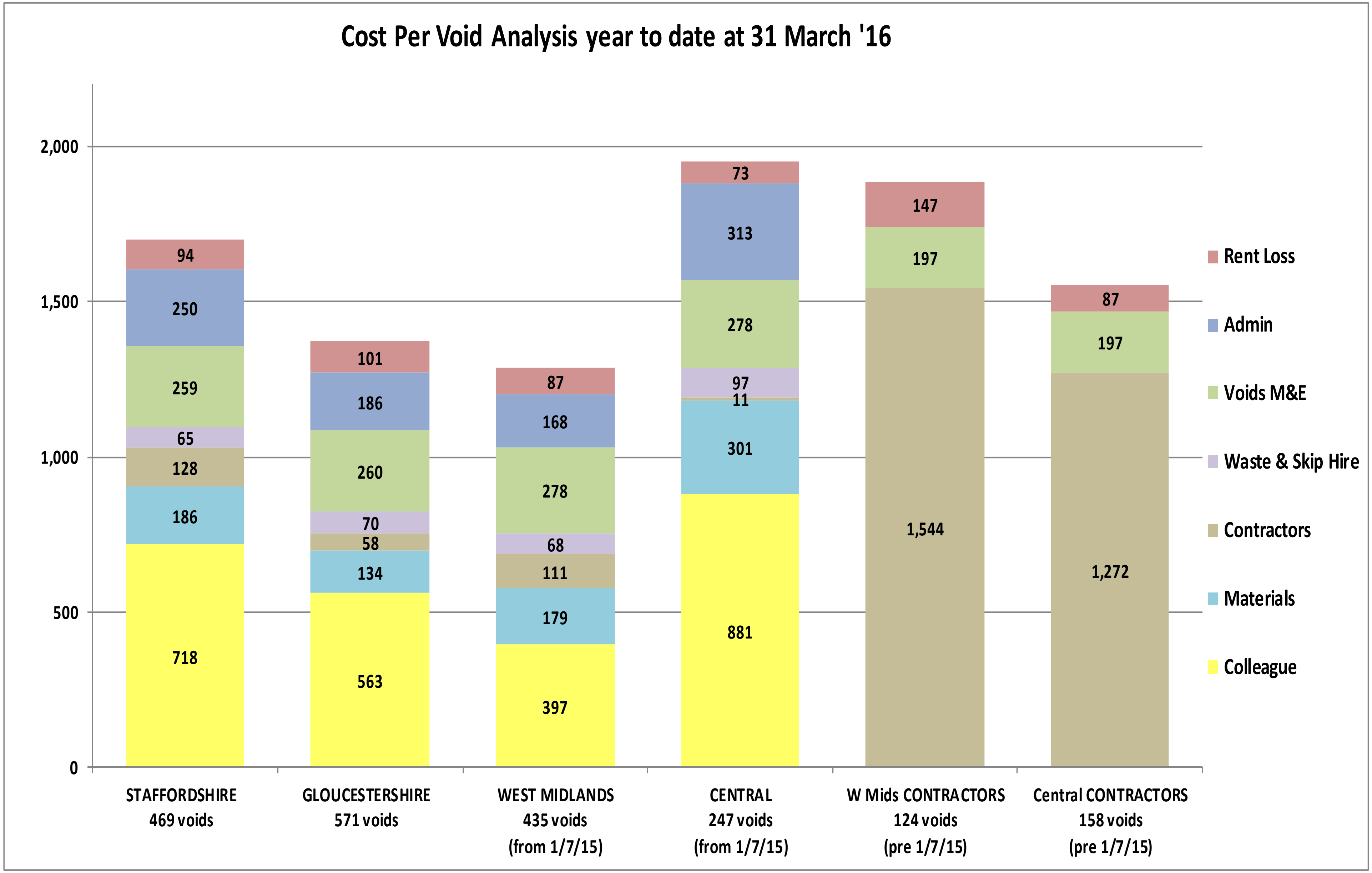


This overall reactive repairs cost per unit is an average of normal day to day repairs plus our costs of repairing properties while empty. We have seen improvements in performance in both of these service areas. See charts below, we monitor performance by regional area and understand the elements of the cost of the repair.

Normal day to day repairs – per home



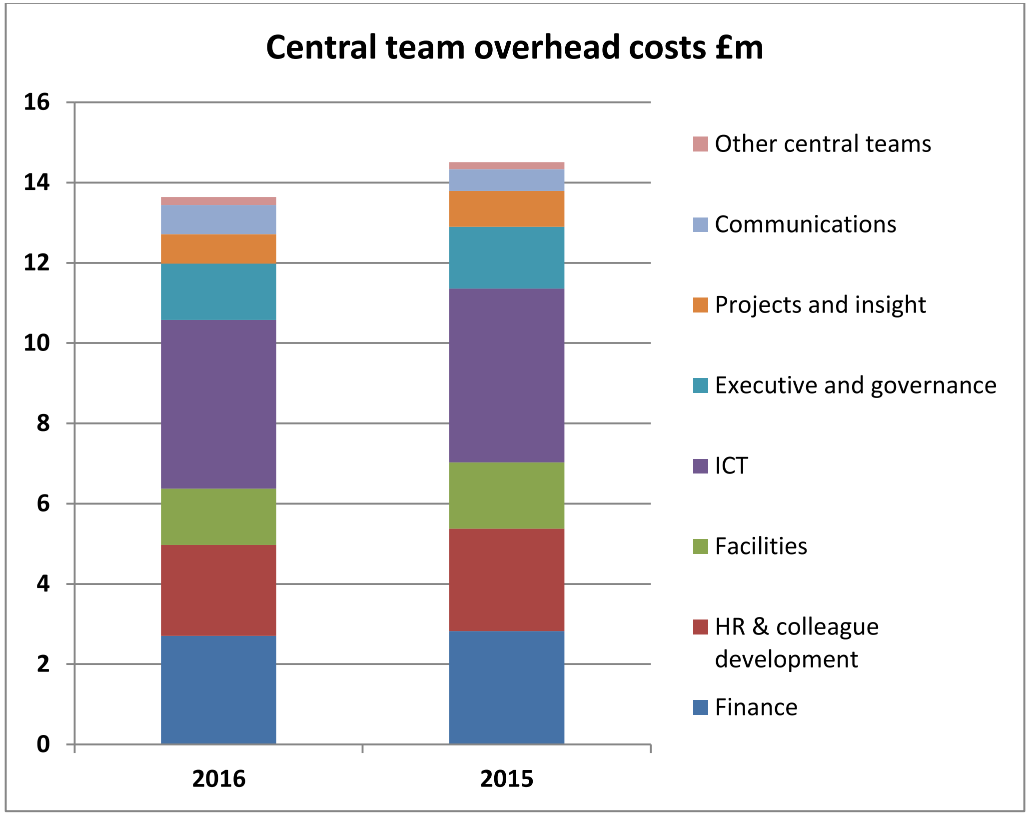
Costs of repairs for empty homes have also benefited from being brought in-house, see charts below, all costs are £ per empty property



3.4 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.

The chart below shows how we have reduced the cost of central support team overheads from £14.5m in 2014/15 to £13.6m in 2015/16, a reduction of 6%. We will continue to review the VfM of our support team services.



4. Interest Costs and Debt Levels

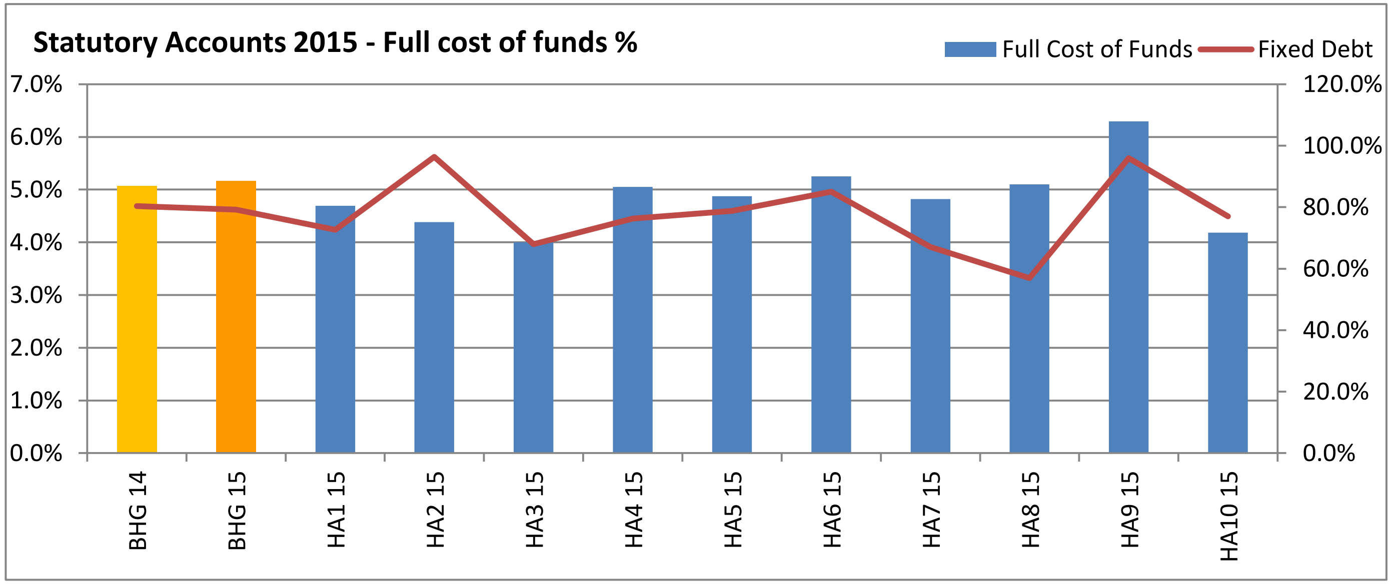
4.1 Cost of Funds

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

The following table highlights our current position on key measures at 2016:

Borrowing	£583m
Undrawn facilities	£122m
Fixed rate borrowing	80%
Cost of borrowing	4.48%
Asset gearing covenant (66.67% max)	29%

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



Lowest Cost of funds in group: 4.0%
Highest Cost of funds in group: 6.3%

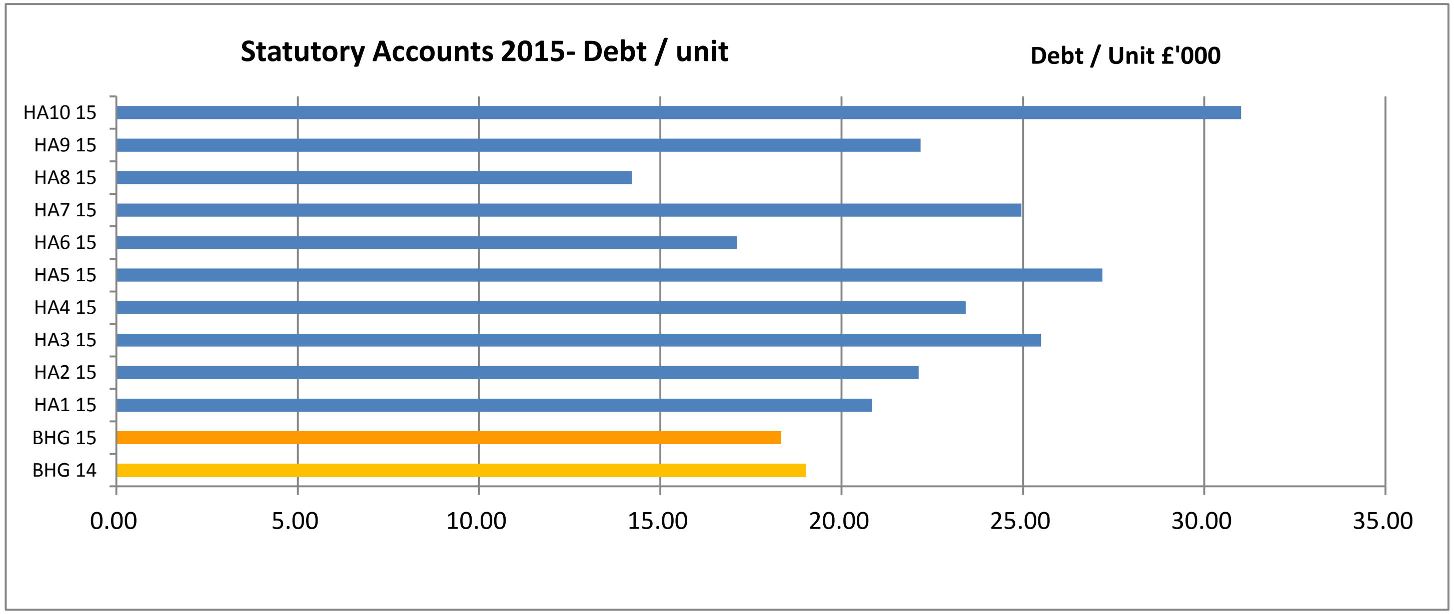
The chart reflects a snapshot position at year-end, calculated as interest paid for the year divided by year end loan balances. Close to the year end, Bromford repaid some of our revolving credit facilities, lowering the year end loan balances and inflating the cost of funds to 5.2% (whereas the average 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 (79% fixed at 2015) and most of it (90%) was fixed several years ago when interest rates were considerably higher. £88m 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 have not judged this to be the best use of resources.

4.2 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: £31k
Lowest debt/unit in full group: £14k

Our levels of debt / unit are broadly similar to others in the group, and decreased slightly in 2015 due to repayments and no new funding being drawn.