Bromford.

Our Commitment to Value for Money (VfM)

2017 Self-Assessment

Benchmarking Report

1. Who do we compare ourselves with?

We compare ourselves against our comparator group of **23** other Housing Associations. This comparator group has been selected as those Housing Associations with a Moody's rating of A1 or better as at April 2017 **and** stock of at least 20,000. These are well performing HA's, generally offering a broadly similar range of services at a comparable scale to ourselves.

Affinity Sutton	*Aff*	Guinness	*Guin*	Peabody	*Peaby*	Sovereign	*Sov*
AmicusHorizon	*Ami*	London & Quadrant	*L&Q*	Places for People	*PfP*	Stonewater	Stone
Circle	*Circ*	Midland Heart	*MH*	Radian	*Rad*	Together	*Tog*
DCH	*DCH*	Moat	*Moa*	Riverside	*Rside*	Walsall	*WHG*
Family Mosaic	*Fam*	Notting Hill	*Nott*	Sanctuary	*Sanct*	West Mercia	*WM*
Flagship	*Flag*	Orbit	*Orb*	Southern	*South*		

For the subsequent analysis, we have:

- used published statutory accounts information (2015/16 being the latest complete set);
- restricted the data shown under any performance measure to the 10 best performers in the comparator group and indicated the range between the top and bottom end performance across the entire comparator group;
- provided HCA sector-wide benchmarks for the median and upper and lower quartiles for the HCA Social Housing Cost per home metrics;
- included Bromford Housing Group (BHG) and comparator group information where appropriate for 2014/15. Note, we have not provided any figures for the years prior to 2014/15; the adoption of FRS102 has only been applied to 2014/15 and subsequent years, any trend analysis prior to 2014/15 would therefore not provide a like-for-like comparator to the current year figures and may therefore be misleading.

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. We have removed the names of comparators on charts, each chart shows the top 10 comparators.

2. Summary overview

Measure	Best	Worst	Bromford	Bromford rank
Operating margin	40%	20%	40%	1st
Social margin	49%	22%	48%	2nd
Return on assets	5.0%	0.6%	3.0%	4th
Full interest cover	5.53	1.23	2.86	7th
Social interest cover	3.45	1.05	2.57	3rd
Cash / home	£5,388	£1,051	£2,832	7th
Cash conversion	178%	69%	120%	7th
Voids & bad debts	1.01%	3.85%	1.28%	6th
Gross arrears	2.66%	11.64%	4.05%	3rd
Headline social housing CPU	£2,462	£6,885	£2,864	3rd
Management CPU	£511	£1,789	£671	3rd
Service charge CPU	£163	£1,248	£341	6th
Major repairs CPU	£443	£1,902	£718	10th
Total Maintenance CPU	£561	£1,833	£626	2nd

Measure	Best	Worst	Bromford	Bromford rank
Reactive repairs CPU	£396	£1,072	£547	3rd
Other Social Housing CPU	£53	£2,122	£508	16th
Full cost of funds	3.9%	15.5%	5.3%	12th
Debt per unit	£12k	£40k	£18k	9th

3. External benchmarking

3.1 Overall performance

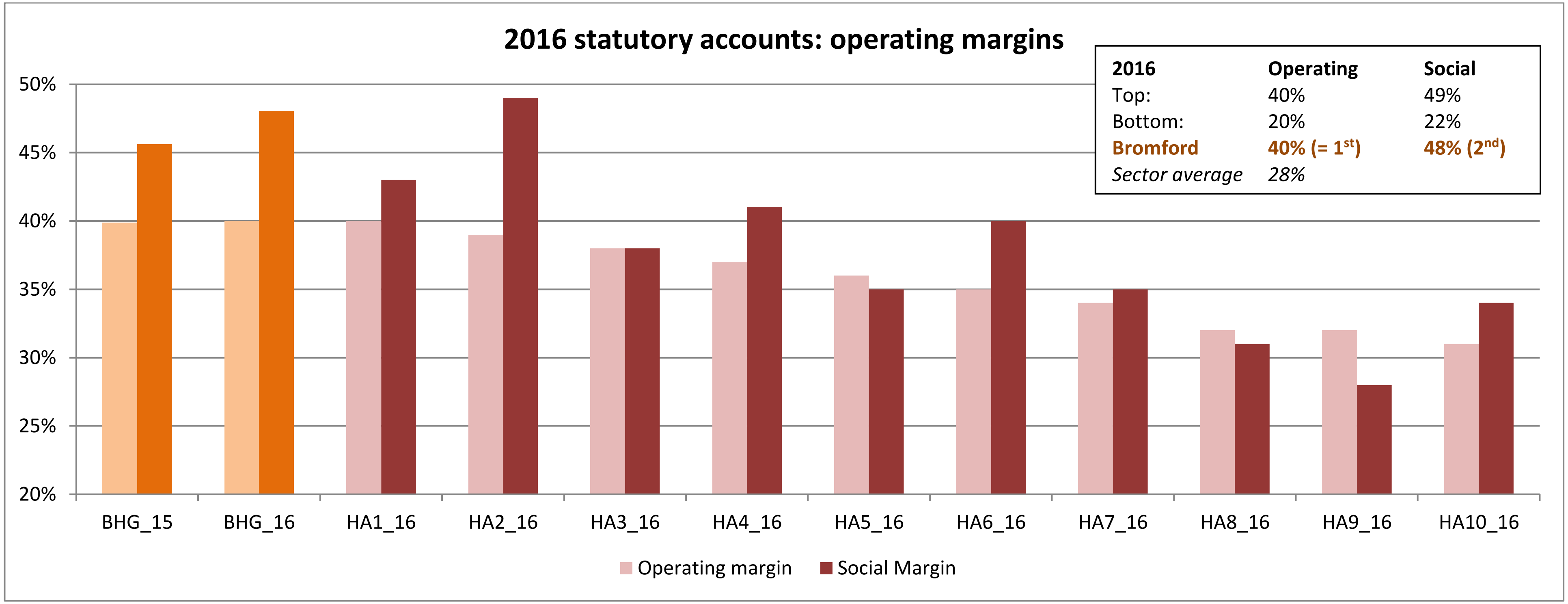
3.1.1 Operating Margin

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 by its nature difficult to benchmark; it is not measured in a consisted manner in the sector. It therefore does not form part of this benchmarking report but our customer advocacy performance is reported in our statutory accounts.

We look at margin in two ways:

Operating Margin: the operating surplus divided by the turnover as set out on the face of the Statement of Comprehensive Income; and

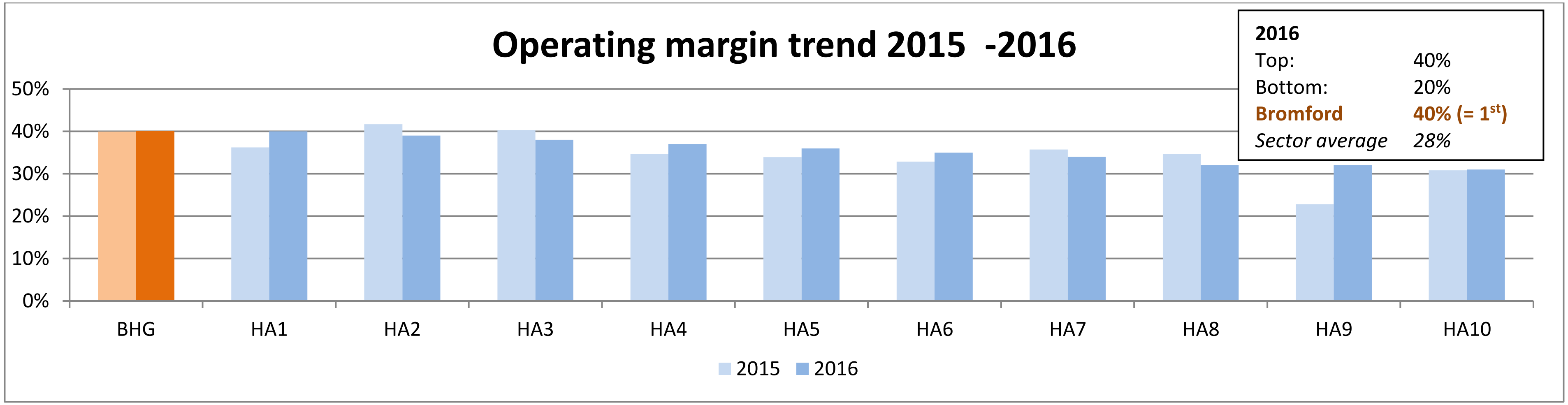
Social Operating Margin: is the social housing operating surplus divided by the social housing turnover as set out in Note 3 of the statutory accounts.

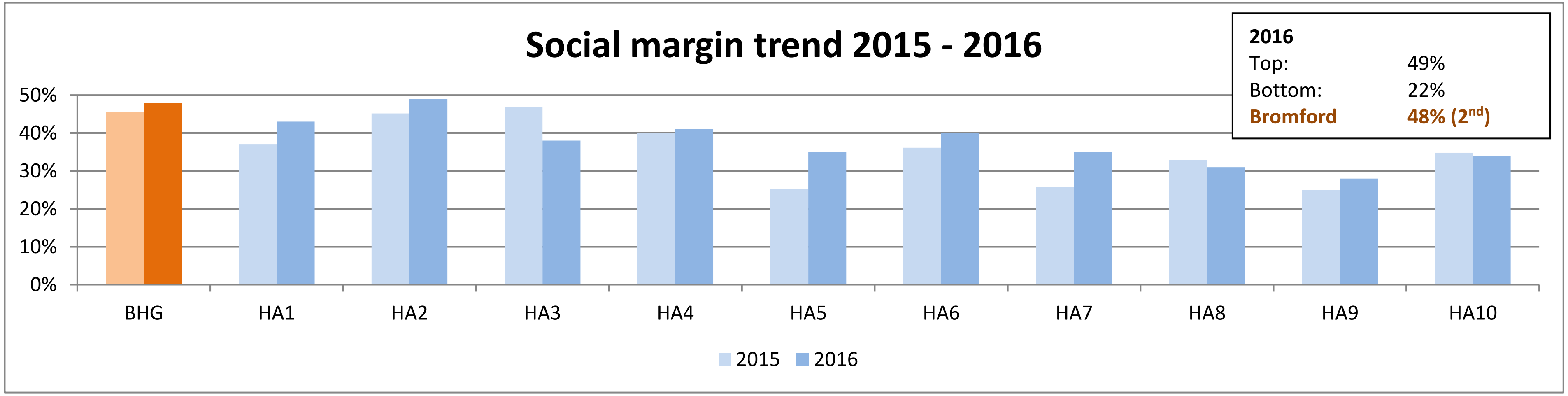


On both measures, our margins continue to be amongst the very best in the sector. Our VfM framework is designed to drive a continuing improvement in this key measure, and both measures improved from 2015 to 2016.

The range of the Operating Margin for our comparator group in 2016 was from 20% to 40%; Bromford's were joint-top ranked with 40%. However, we are aware of a HA operating at a similar scale and in similar geographies to Bromford who generated an Operating Margin of 43% in 2016. As further context for overall performance of the comparator group against the sector, the HCA sector accounts show an average operating margin in 2016 of 27.6% (2015 27.4%)[1].

The range of Social Operating Margin for our comparator group in 2016 was from 22% to 49%; Bromford were 2nd with 48%. The trend in margins shows that we have consistently achieved sector leading results on these measures over the past two years:

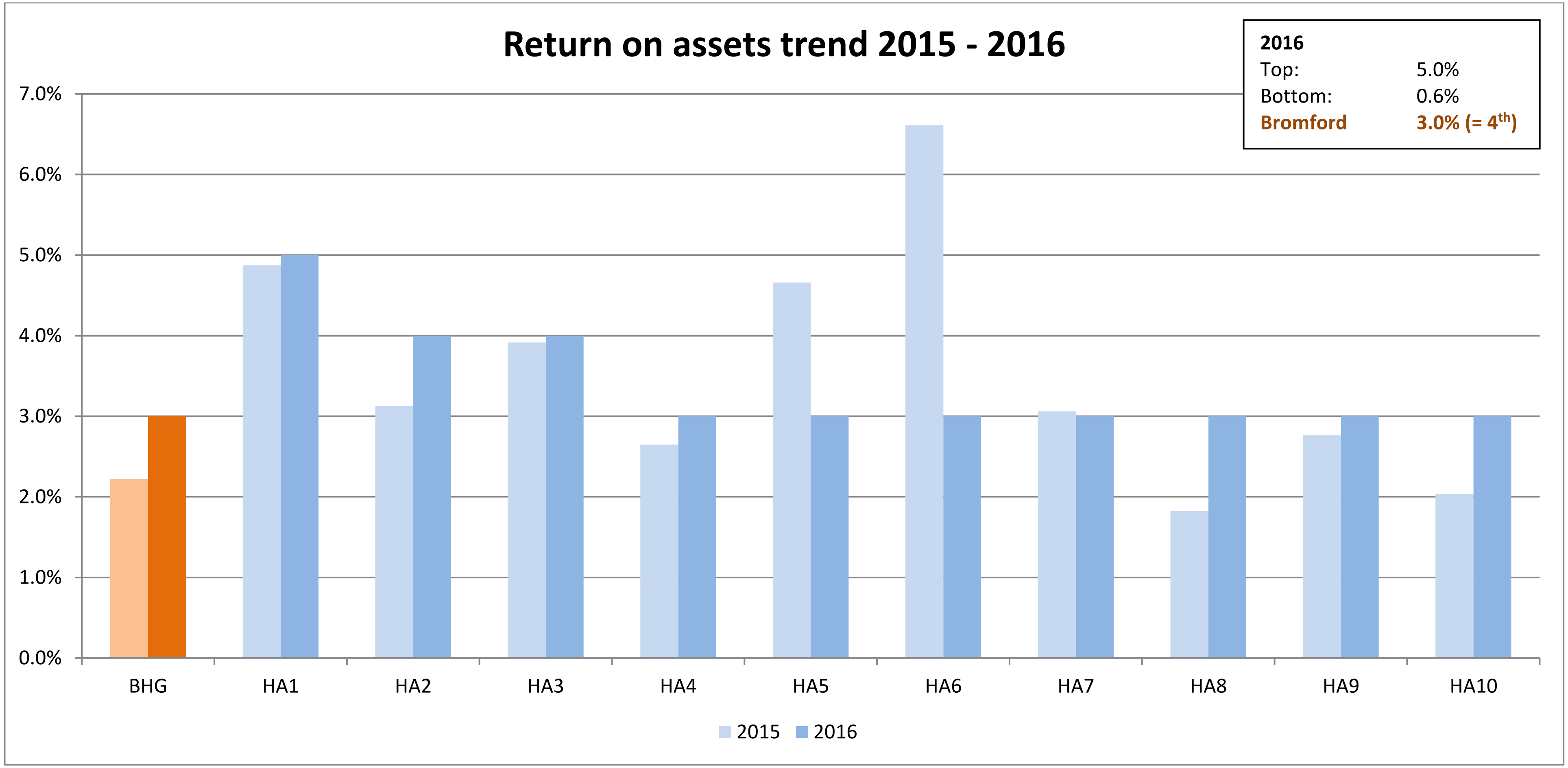




3.1.2 Return on Assets

We measure the full Return On Assets: the profit for the year (after tax) as a percentage of the NBV of our housing properties. Our performance has improved year on year from 2.2% in 2015 to 3.0% in 2016. We rank equal 4th in our comparator group, an improvement from 8th in 2015. Factors such as the previous history of mergers or acquisitions may affect a HAs reported return on assets, so our improving trend is perhaps more important than the absolute number.

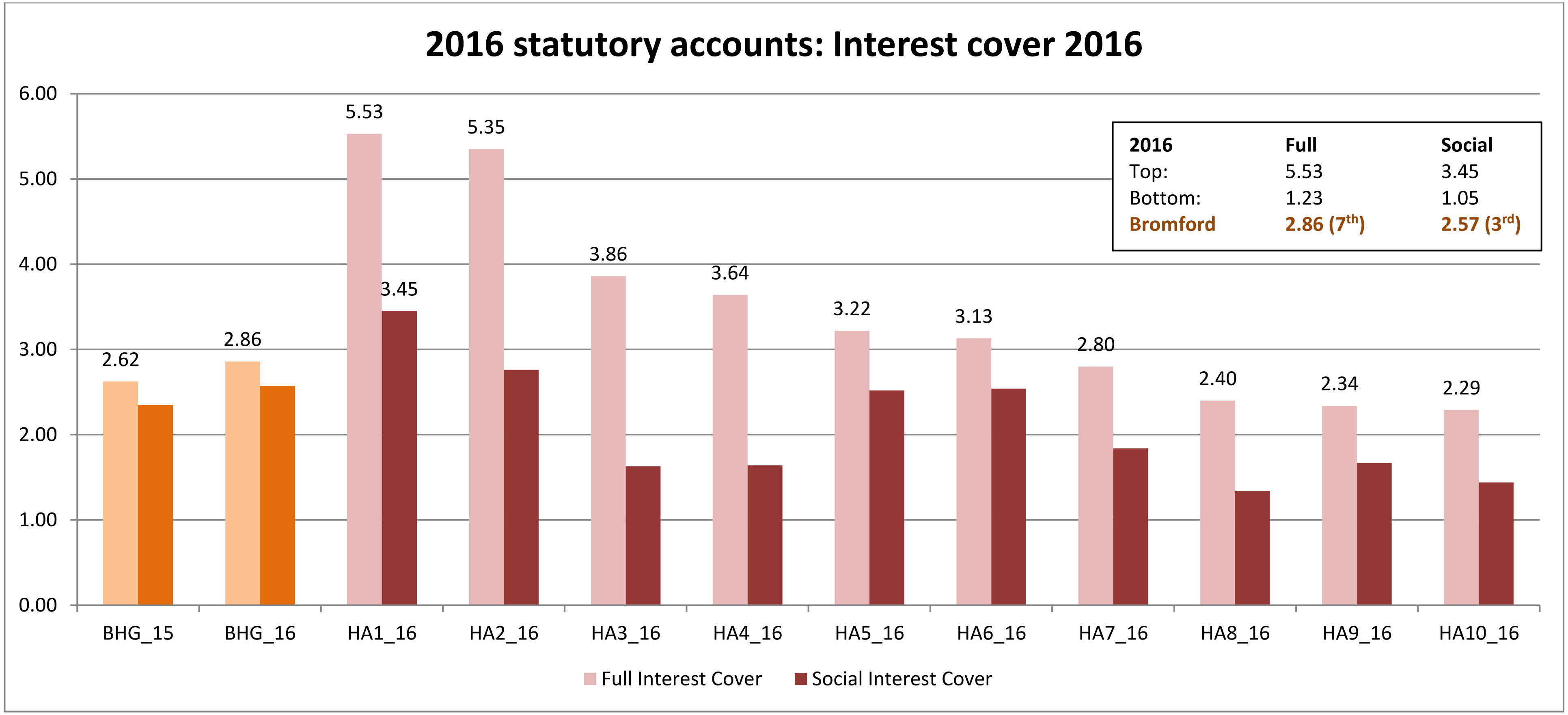
Some HAs have shown more significant year on year fluctuations; the volatility in reported surpluses/ losses has increased with the introduction of FRS102 accounting in the 2016 accounts, thus making some traditional benchmarking ratios difficult to compare.



3.1.3 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 meet our interest payments. Our main measure of this is the Full Interest Cover; the ratio of our operating surplus (plus the gain on disposals) to our net interest costs. A value greater than 1 indicates our 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. We are ranked 7th in our comparator group, but our performance on this measure is strong and has been improving, from 2.62 in 2015 to 2.86 in 2016. The Full Interest Cover across the comparator group ranges from 1.23 to 5.53.

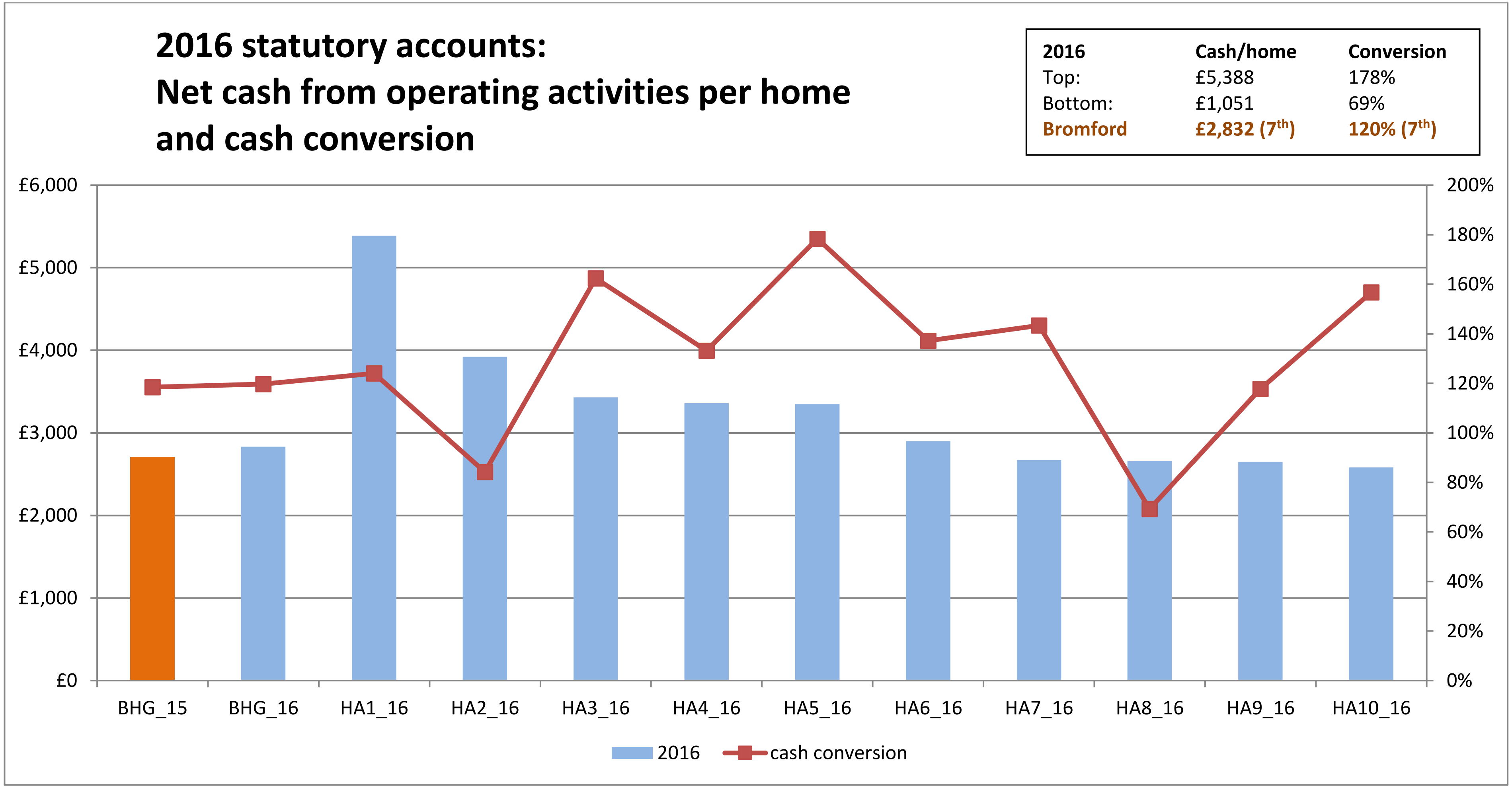
We also calculate Social Interest Cover; the comparison of operating surplus from social housing activity and the net interest cost. Social Interest Cover is a strong indication of sustainable underlying performance and our performance on this measure is amongst the best in the comparator group and continues to gradually improve. Out Social Interest Cover is 2.57; the range of the comparator group is 1.05 (bottom end) to 3.45 (top end).



3.1.4 Cash Generation

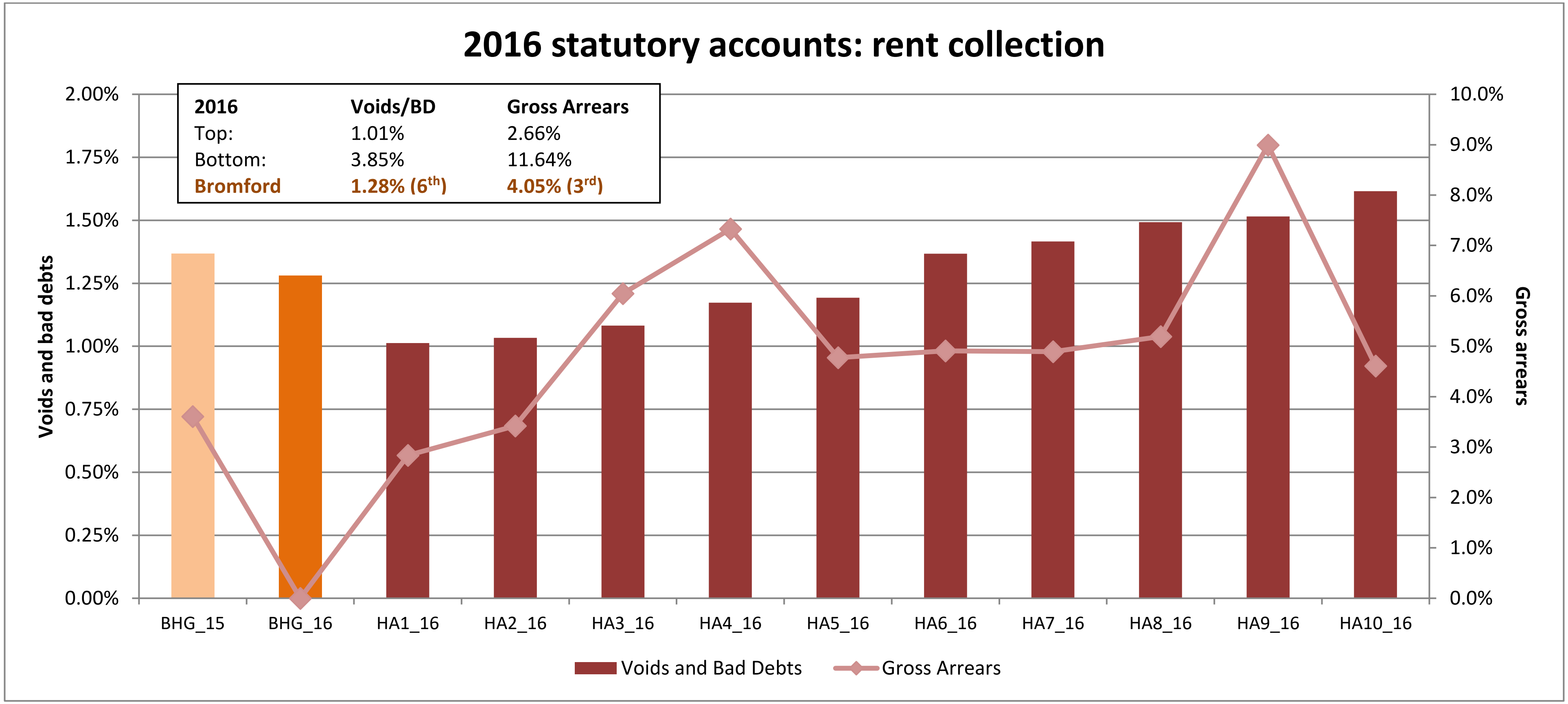
Another aspect of financial viability is our ability to generate cash from operating activities. In most cases, a HA's cash generation will depend on the size of its housing stock. For the purposes of benchmarking it is therefore more insightful to measure cash generated per home. On this basis, Bromford are ranked 7th in the comparator group, generating £2,832 per home. The comparator group ranges from £5,388 at the top end to £1,051 at the bottom end.

Another useful measure of cash generation is our ability to convert operating surpluses into operating cashflow; we convert at 120%, a strong performance amongst the comparator group.



3.1.5 Do we collect our rent?

Our relative performance on void and bad debt loss and gross rent arrears as a percentage of turnover from social housing lettings is shown below:



Our performance on void and bad debt loss has improved from 2015 (1.37%) to 2016 (1.28%). We perform well within the comparator group which ranges from 3.85% to 1.01%.

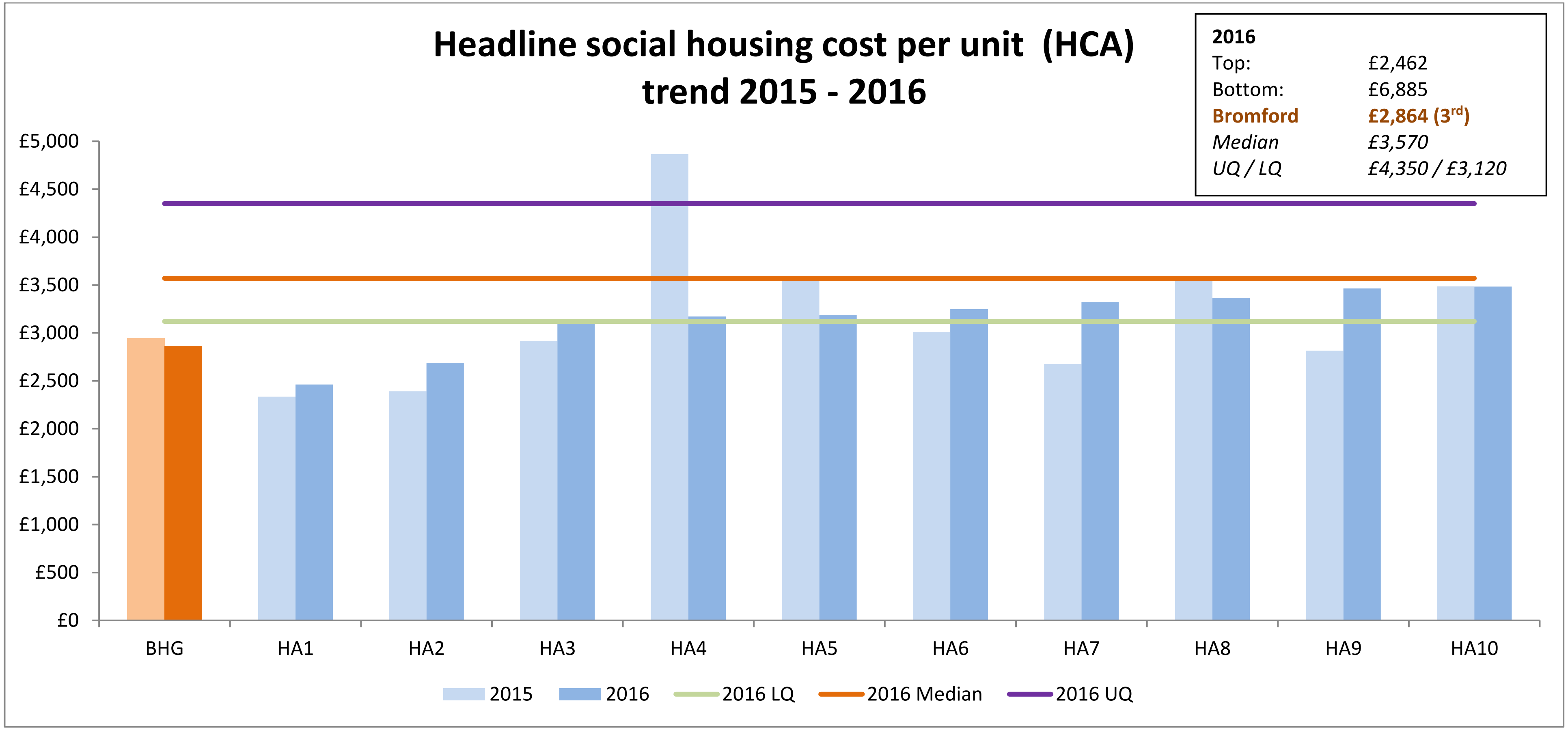
Our gross arrears are the 3rd lowest in the comparator group at 4.05%. The comparator group ranges from 2.66% to 11.64%. Our gross arrears increased from 2015 to 2016 due to the impact of welfare reform with housing benefit now paid directly to the tenant instead of the landlord. Our Neighbourhood Coaching model was introduced to provide further support to customers and the gross arrears position improved in the 2017 stat accounts to a performance better than 2015 (2017: 3.2%). 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.

3.2 Cost of Our Services

3.2.1 Overall Performance

Our preferred measure for this is the HCA Social Housing Cost per Unit; the total operating costs per the Statement of Comprehensive Income less depreciation plus capitalised major repairs. Our performance on this measure is £2,864 per home; the third strongest across the comparator group which ranges from £2,462 per home to £6,885 per home. Our year on year performance has steadily improved from £2,946 in 2015 to £2,864 in 2016. Our overall operating cost is broadly stable but delivering to a growing housing stock; HCA Social Housing Cost per unit is therefore decreasing year on year.

The chart below demonstrates our performance across the comparator group and also against the 2016 sector-wide median (£3,570 per home) and quartiles (£3,120 per home and £4,350 per home). Our overall performance remains within the top performing quartile in the sector.



HCA sector cost comparisons 2016

	Headline social housing CPU (£k)	Management CPU (£k)	Service charge CPU (£k)	Maintenance CPU (£k)	Major repairs CPU (£k)	Other social housing costs CPU (£k)
Bromford Group	2.86	0.67	0.34	0.62	0.71	0.32
Sector level data						
Upper quartile	4.35	1.32	0.60	1.18	1.08	0.45
Median	3.57	1.02	0.36	0.97	0.81	0.21
Lower quartile	3.12	0.74	0.24	0.79	0.54	0.08

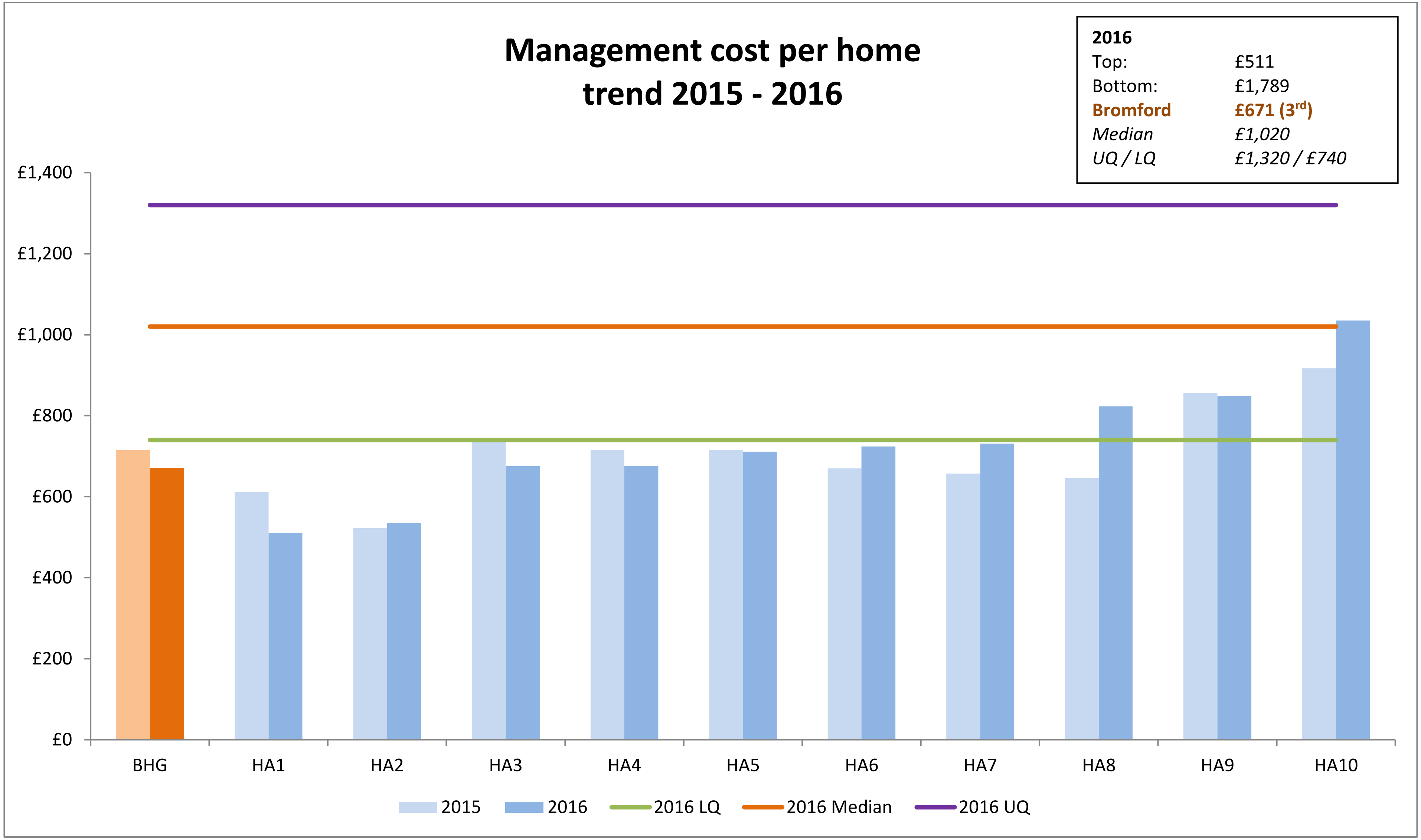
Key:

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

The constituent components of the HCA Headling Social Housing Cost per home are explored in turn in the following sections of this report.

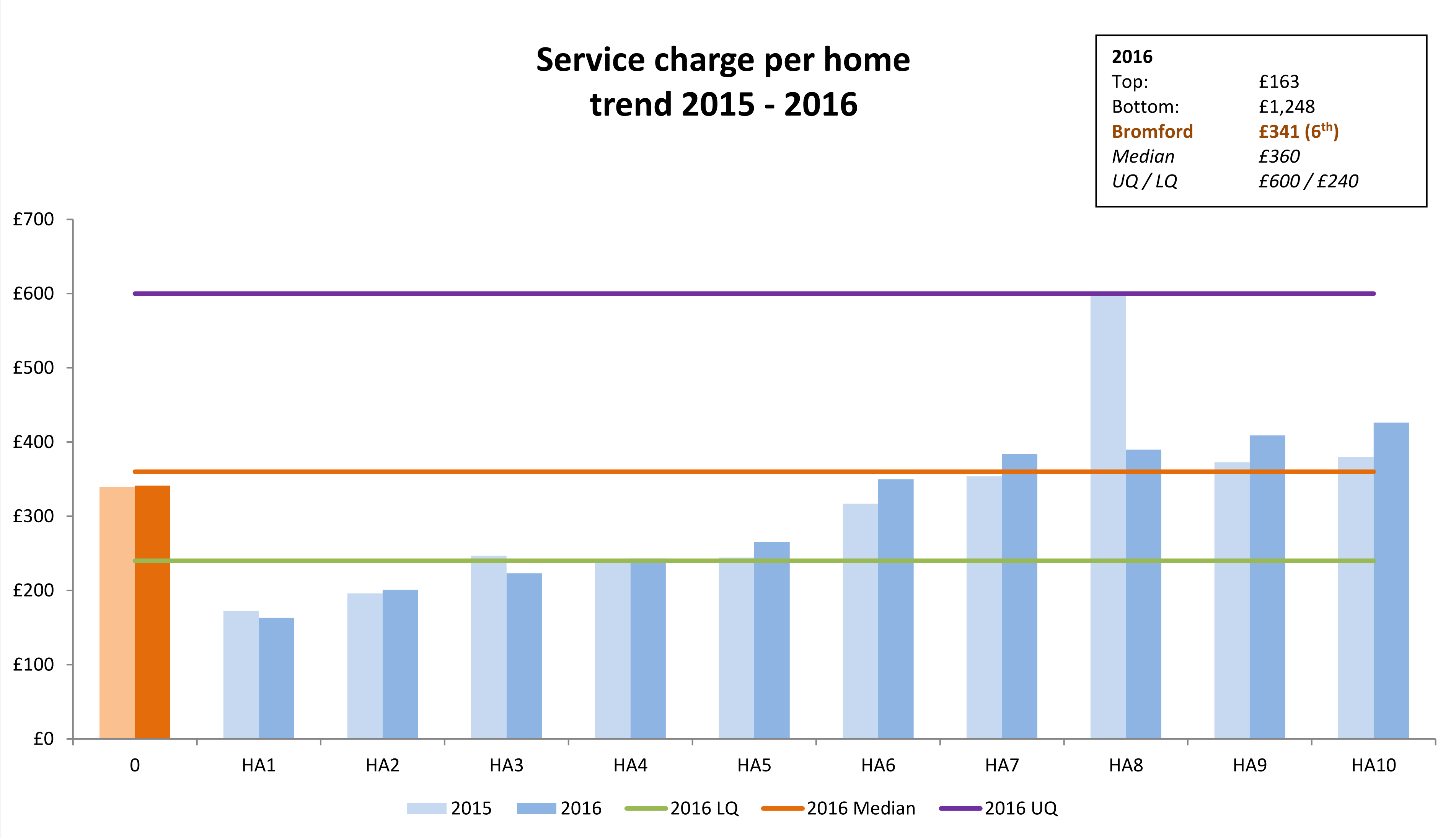
3.2.2 Management Cost per home

Our **Management Costs** have steadily improved year on year, from £714 per home in 2015 to £671 per home in 2016; broadly our VfM activity is off-setting the effects of inflation. We rank 3rd in our comparator group and are within the top performing quartile across the sector.



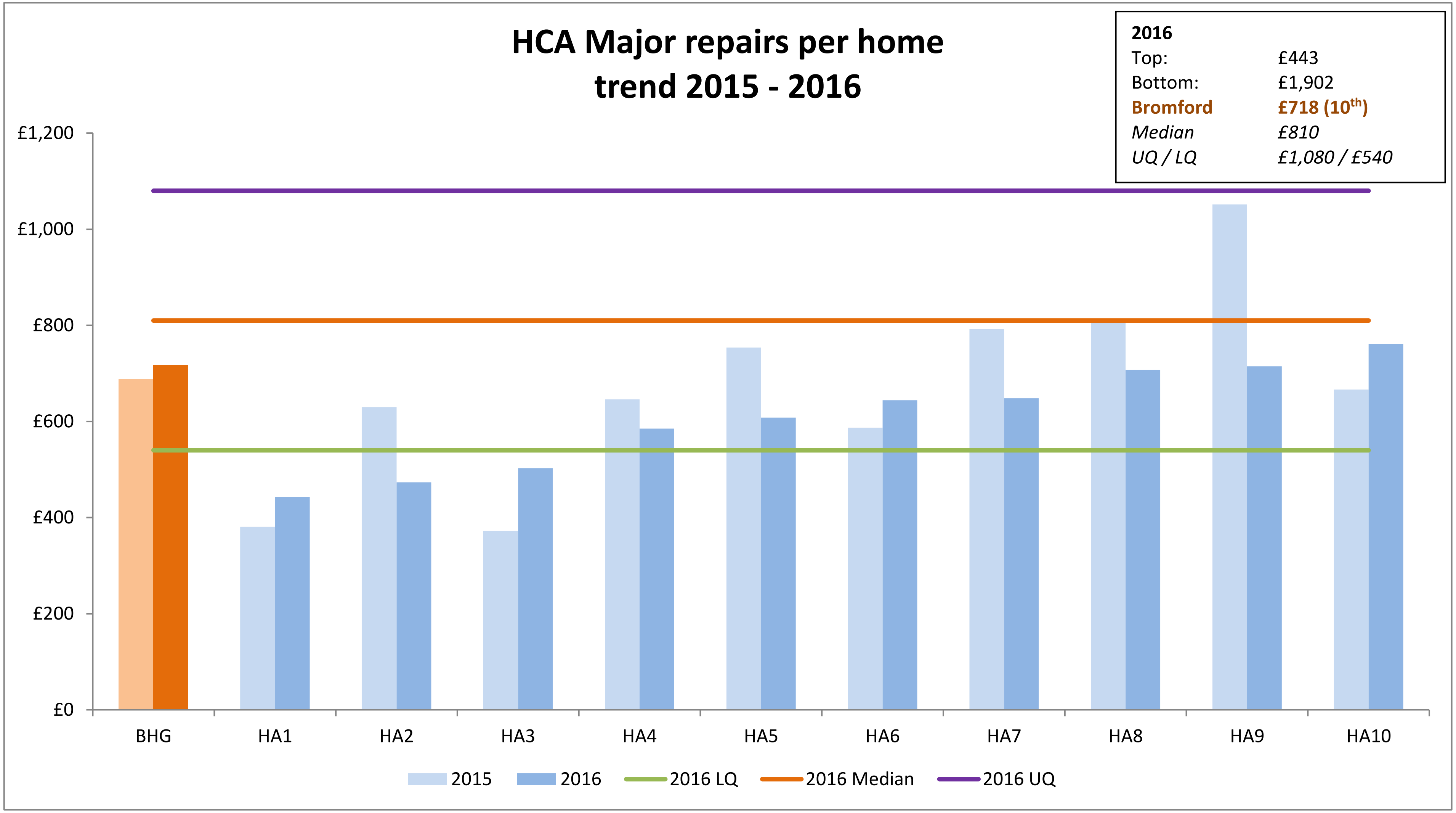
3.2.3 Service Charge per home

Our **Service Charges** have remained steady year on year (£341 per home in 2016 and £339 per home in 2015). We rank 6th in our comparator group and our performance is within the second quartile across the sector. We are aware that our service charge is relatively high in the sector as we have an above average element of supported housing and sheltered housing stock.



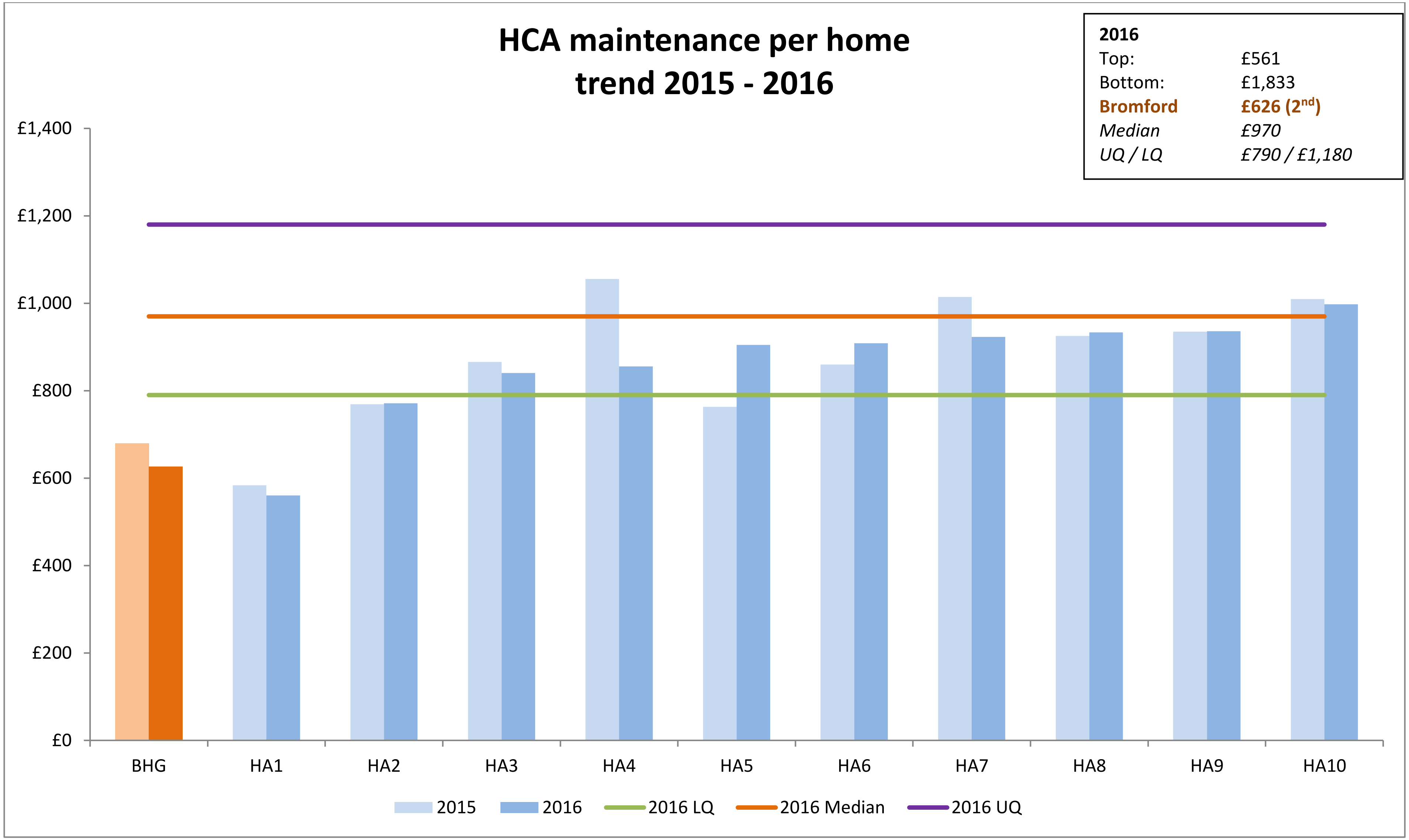
3.2.4 Major Repairs per home

Our **Major Repairs Costs** have steadily increased year on year, from £689 per home in 2015 to £718 per home in 2016. We rank 10th in our comparator group and are just under the median level (£810 per home) within the second quartile when measured across the sector. Our performance has been influenced by the front-ended the investment we made in our affordable warmth program which was agreed by the Board as part of the existing homes plan.

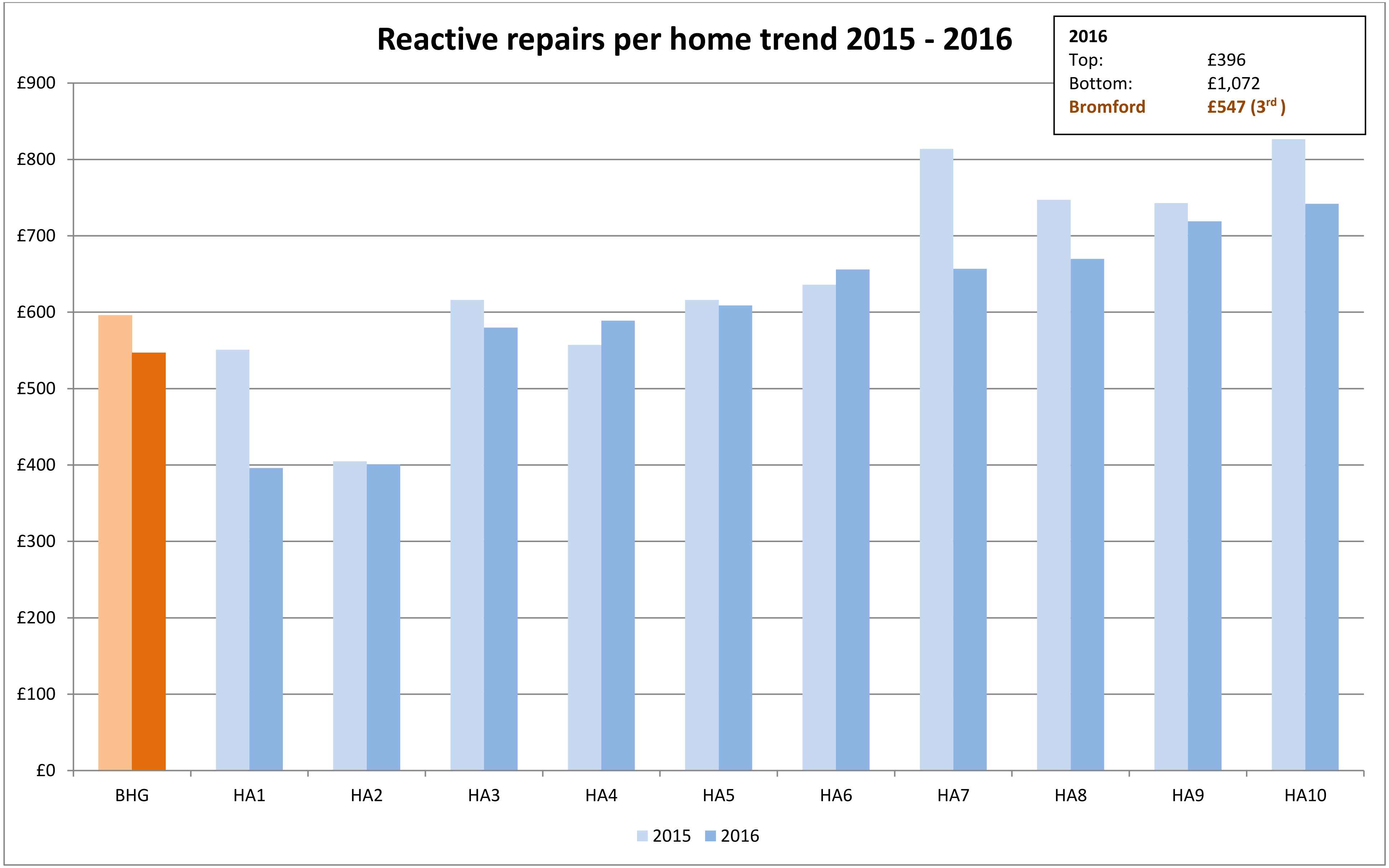


3.2.5 Maintenance cost per home

Our **Maintenance Costs** have improved year on year, from £680 per home in 2015 to £626 per home in 2016. We rank 2nd in our comparator group and our performance is within the top performing quartile across the sector.



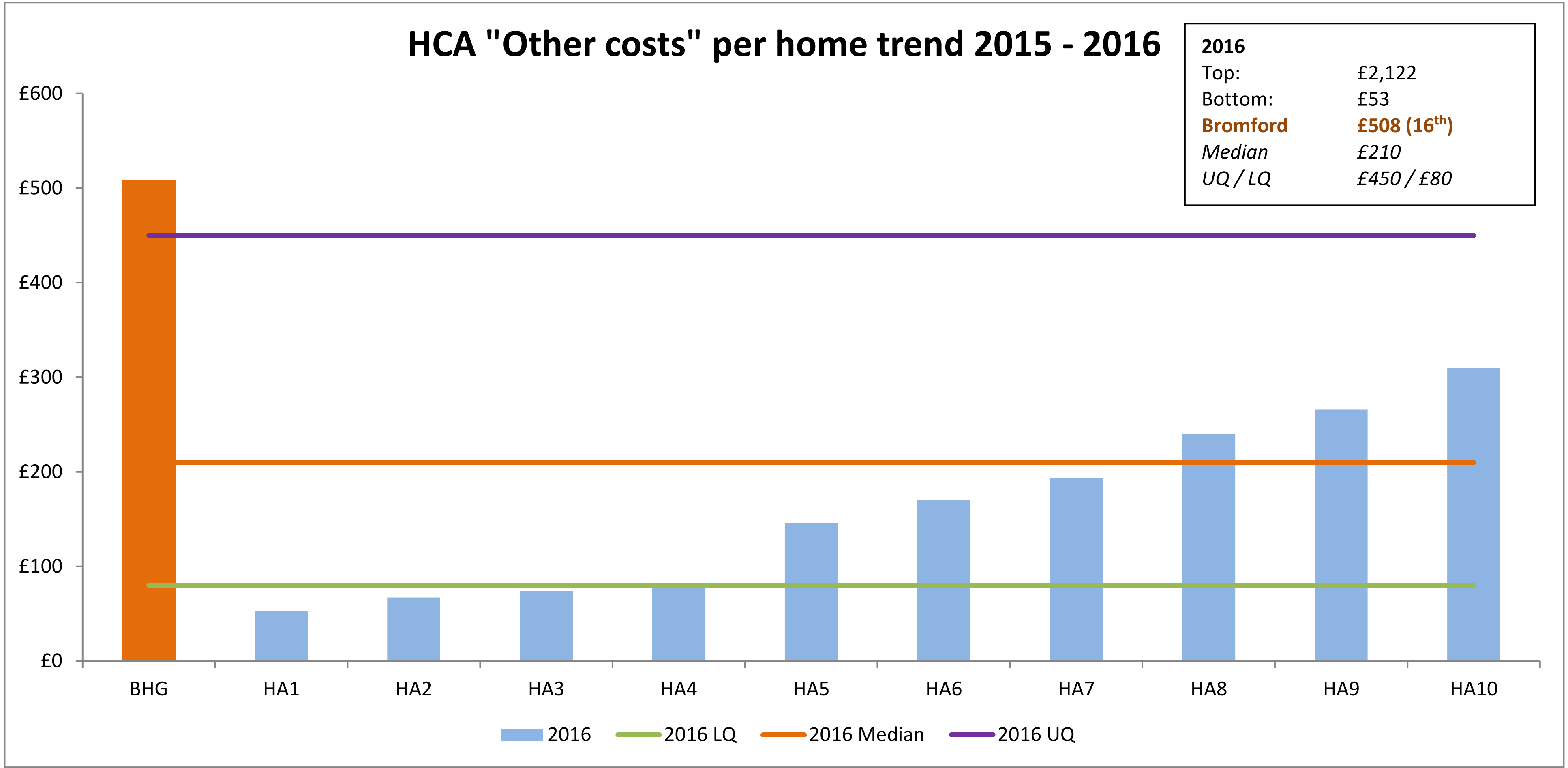
The Routine Maintenance (Reactive Repairs) element of the maintenance costs have also been benchmarked:



Bromford's 2016 reactive repairs cost per home was £547; 3rd in the comparator list and an improvement from £596 per home in 2015.

3.2.6 Other Social Housing Costs per Home

Our **Other Social Housing Costs per Home** are amongst the highest in our comparator group and are within the upper quartile of the sector. These costs include the supporting people contract costs, which do not relate to number of units managed.

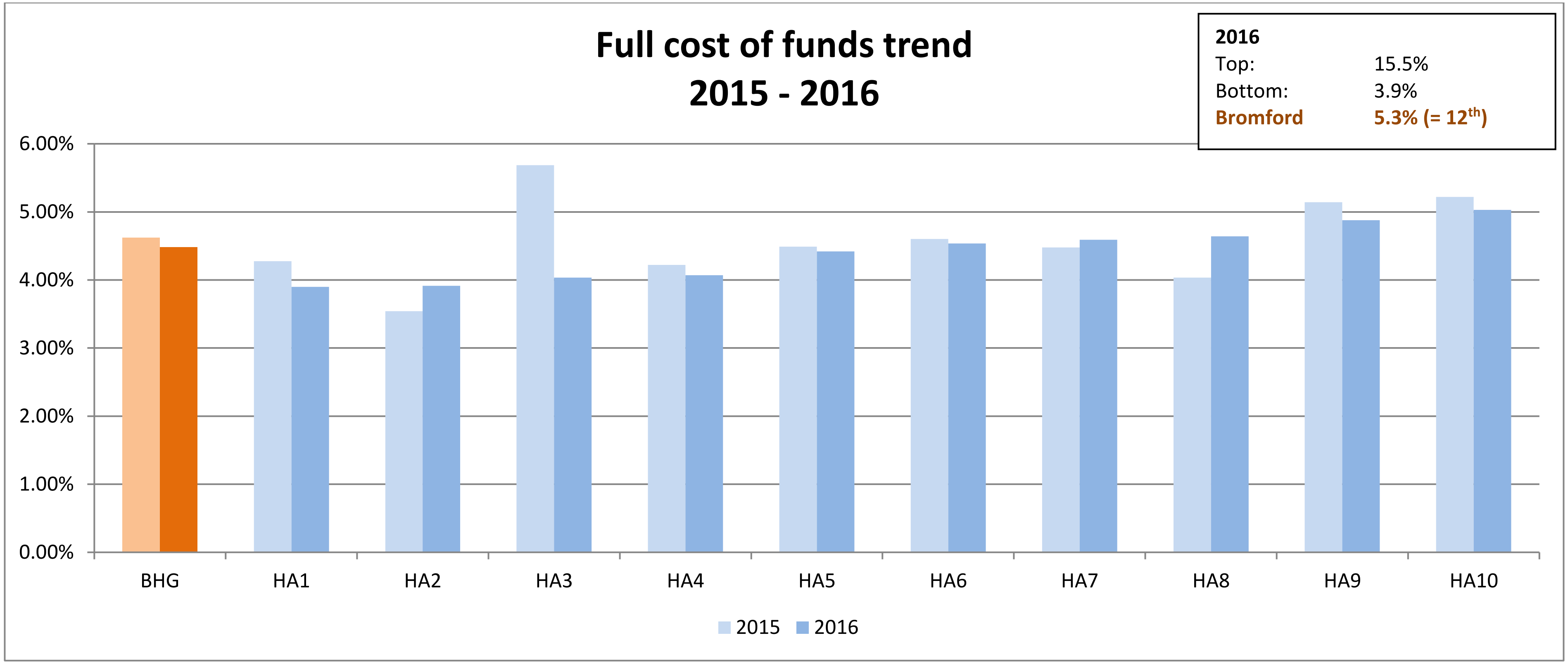


3.3 Interest Costs and Debt Levels

3.3.1 Cost of Funds

Our average cost of borrowing in 2015/16 was 4.59% (c.f. 4.62% in 2014/15). This slight decrease was the result of the contractual repayment of variable rate lines and Revolving Credit Facilities ('RCF') repayments.

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



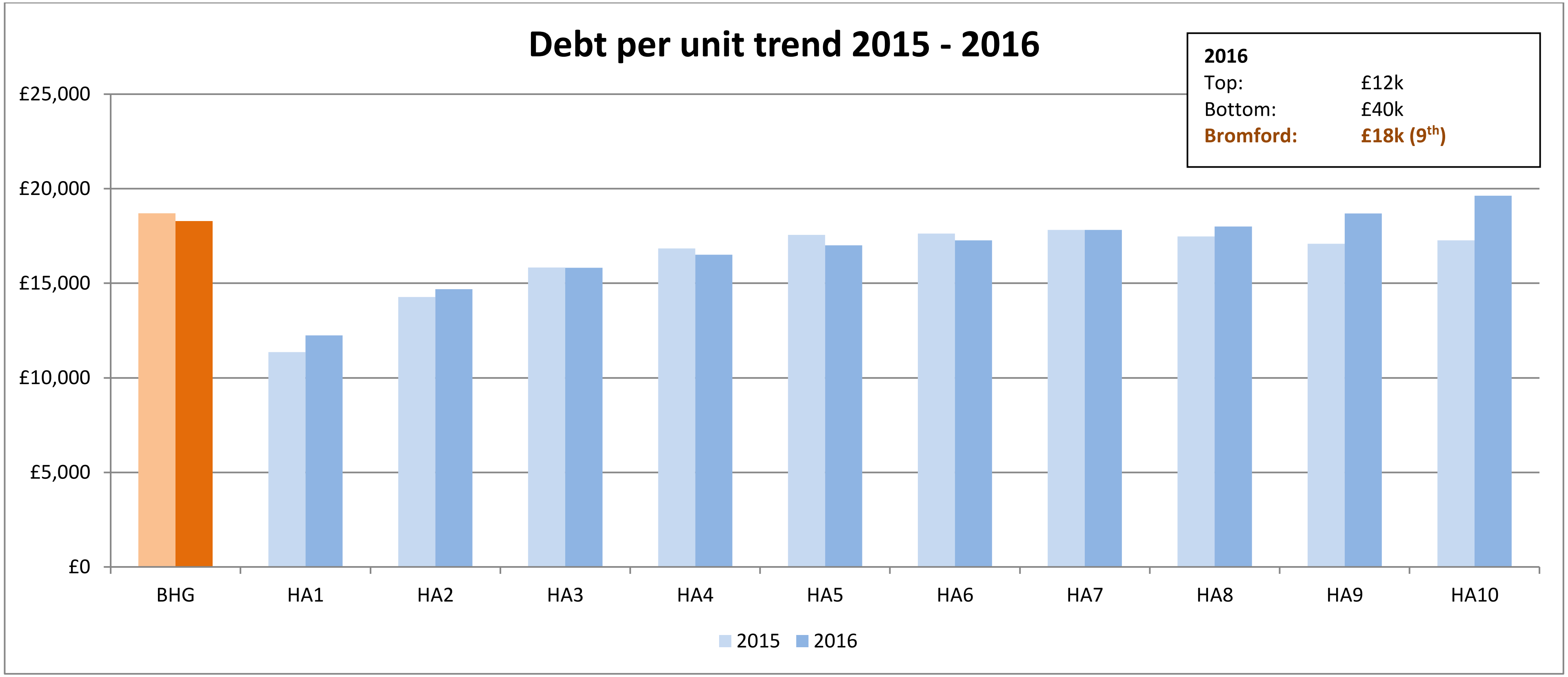
Our cost of funds is largely determined by our fixed debt costs. Fixed rate debt is a relatively high proportion of our portfolio (84% in 2017 c.f. 80% fixed at 2016) and most of it (c.90%) was fixed several years ago when interest rates were considerably higher. An additional 15% (£74m) of fixed rate debt will come to an end in the next 5 years, and this will reduce our cost of funds further.

The average cost of funds for the year, calculated from actual interest rates, was 4.48%. The chart above reflects a snapshot position at year-end, calculated as interest paid for the year divided by year end loan balances. Over the course of the year, we repaid some of our revolving credit facilities and some of our fixed debt came to maturity, lowering the year end loan balances and inflating the cost of funds as measured on the year-end loan balance basis to 5.2% in the chart above.

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.

3.3.2 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 a measure we examine:



Our levels of debt / unit are broadly similar to others in the group, and decreased slightly in 2016 due to repayments and no new funding being drawn.

3.3.3 Debt summary

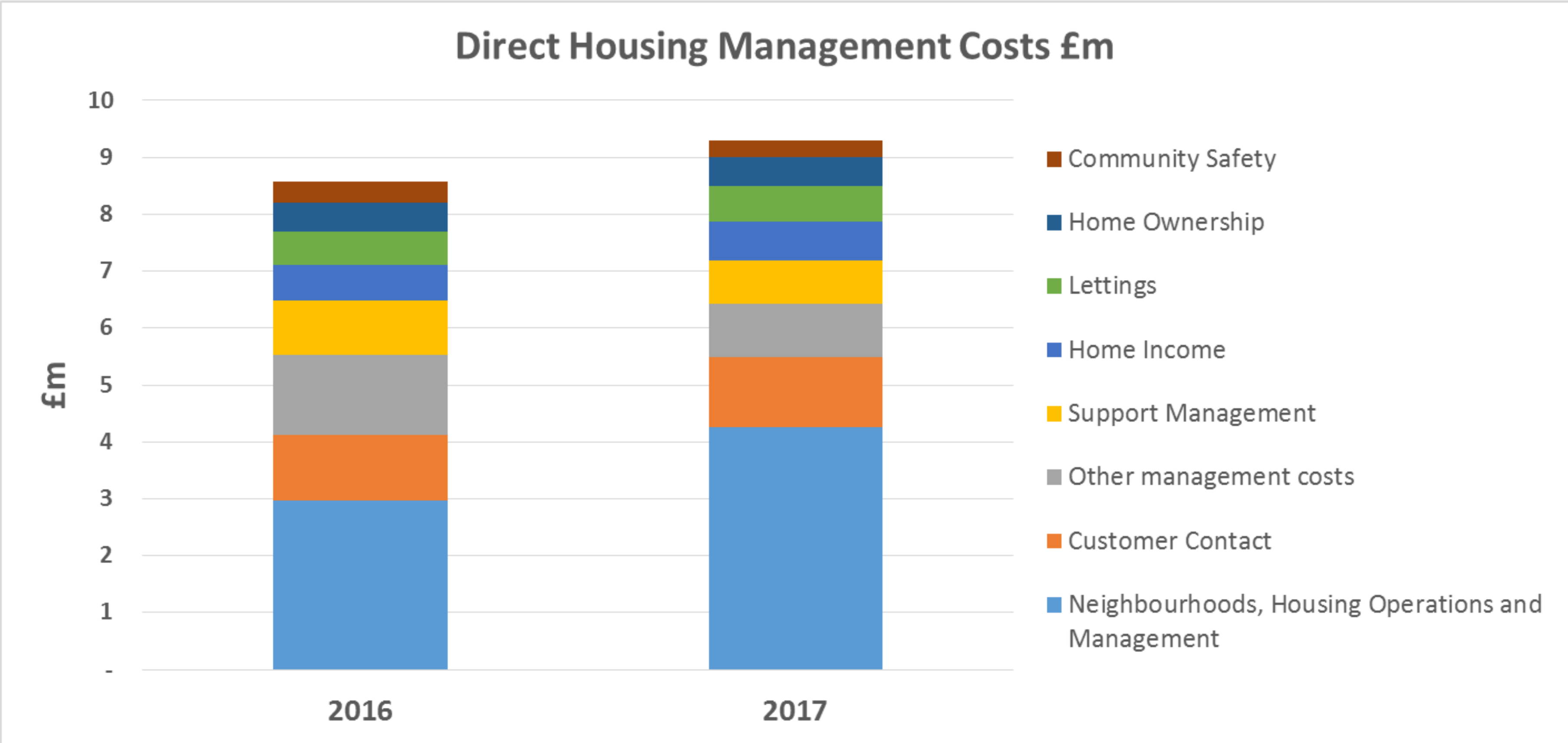
The following table highlights our current position on key measures at 2016 and 2017:

	2016	**2017**
Borrowing	£583m	£583m
Undrawn facilities	£122m	£154m
Fixed rate borrowing	80%	84%
Cost of borrowing	4.48%	4.39%
Asset gearing covenant (66.67% max)	29%	28%

4. Internal Benchmarking

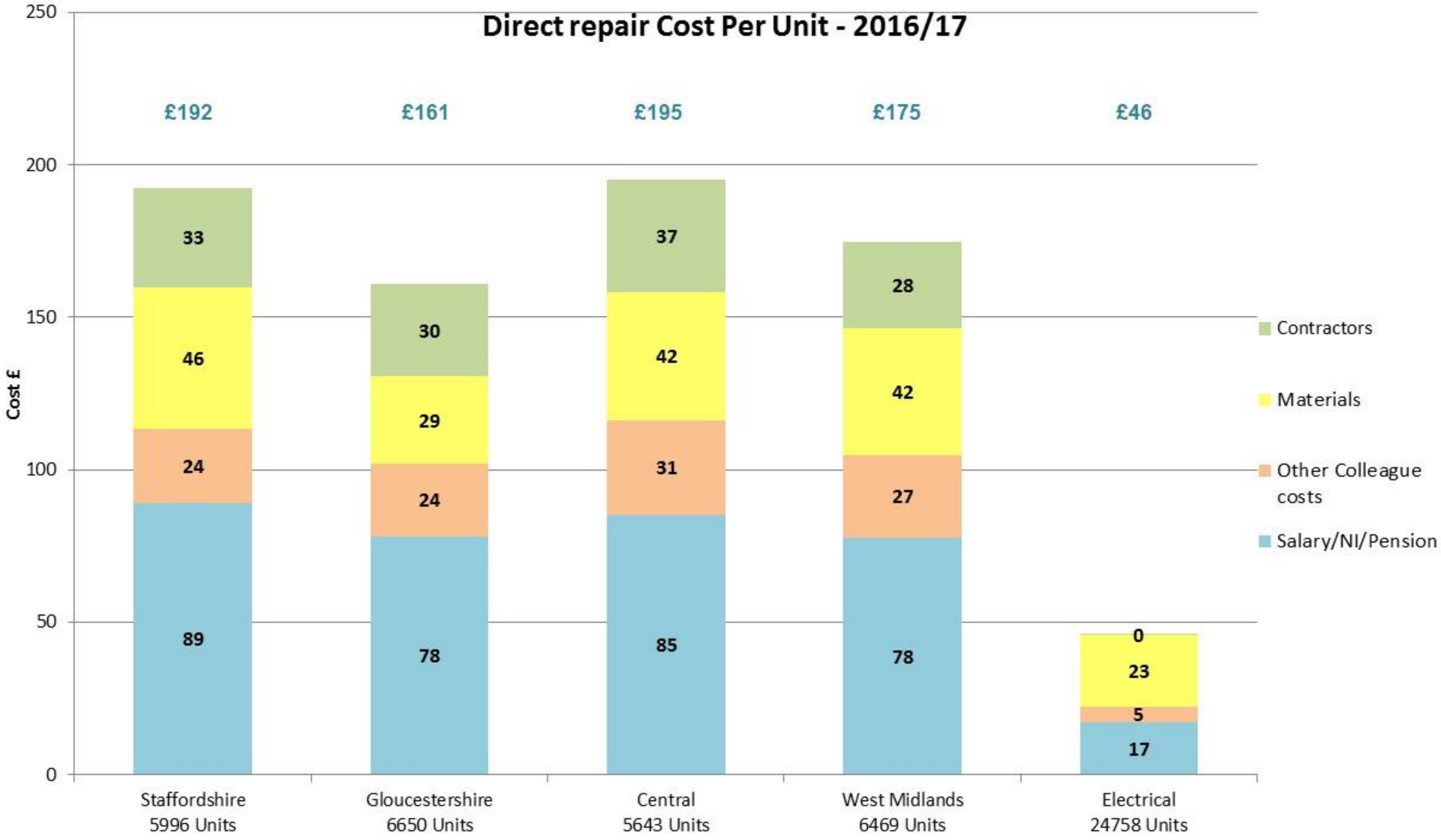
4.1 Management costs per home

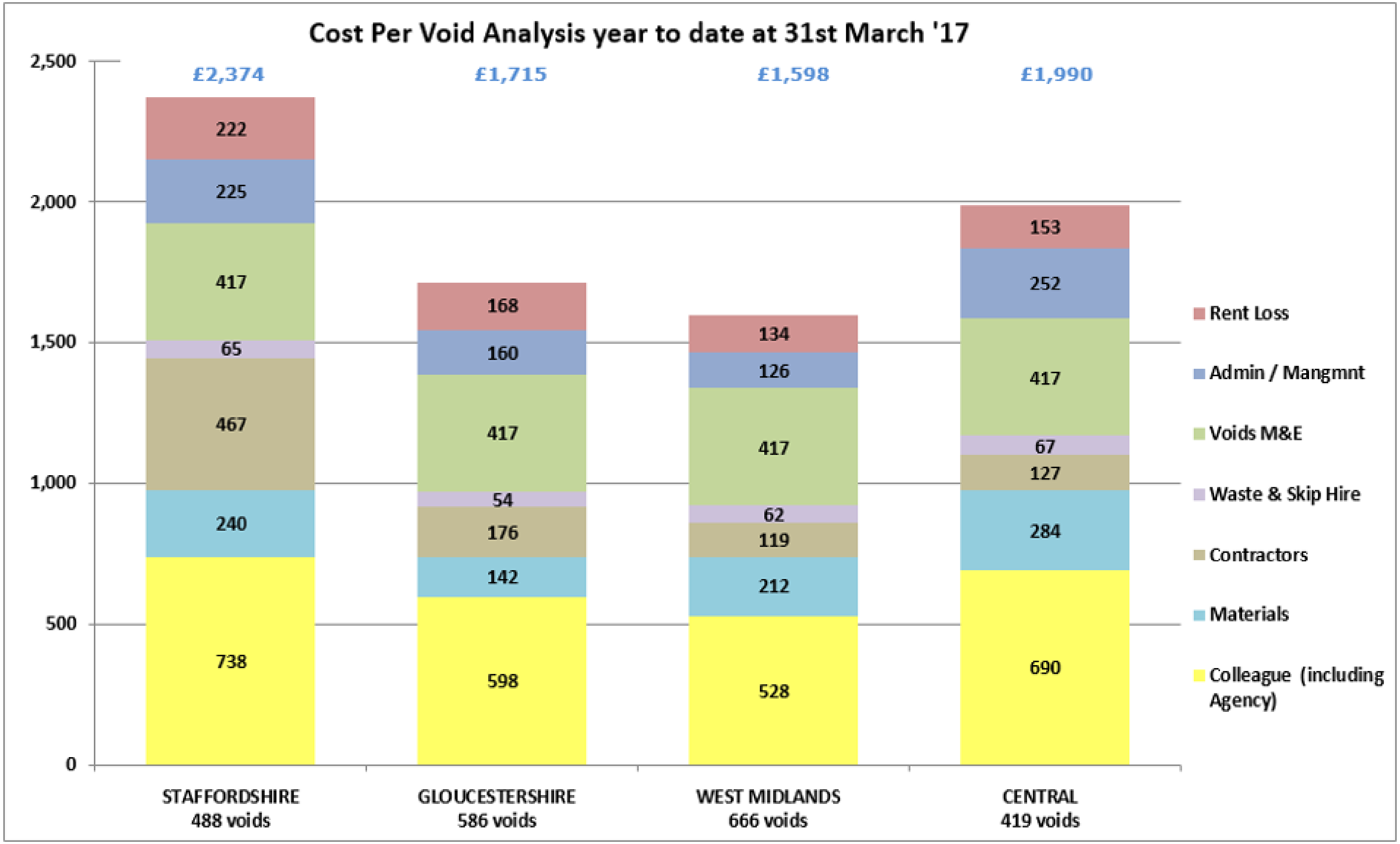
The chart below shows our Direct Housing Management Costs by service team, which have increased in overall terms by £0.7m from £8.6m in 2016 to £9.3m in 2017 (note, the 2016 figures were previously reported to be £8.95m but this figure has been re-based to account for the more accurate re-allocation of MA and PA time to the appropriate areas of the business). The key year on year increase is in the Neighbourhoods, Housing Operations and Management costs by 42% to £4.26m, reflecting our investment in the training and deploying of new Neighbourhood Coaches to deliver our Localities Plan following last year's successful pilot. We expect the Localities Plan to generate operational cost savings in future years as the benefits of more personalised coaching for tenants is realised.



4.2 Maintenance costs per home

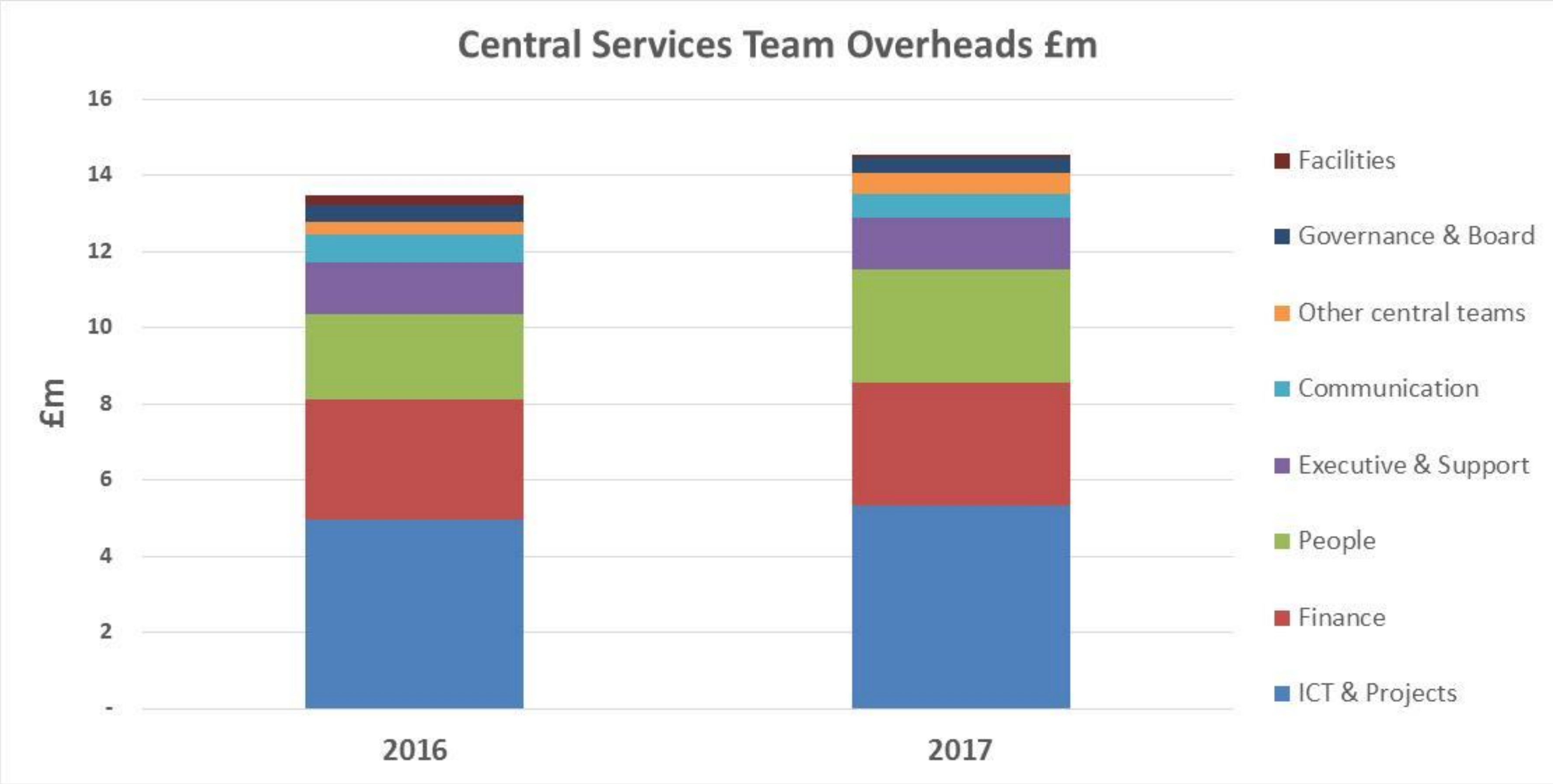
It should be noted that the Reactive Repairs per home is an average of normal day-to-day repairs and the costs of repairing properties when they are empty. We have seen improvements in performance in both of these service areas. The charts below demonstrate how we monitor performance by regional area and by component cost of repair:




Cost Per Void Analysis year to date at 31st March '17
2,500
2,000
1,500
1,000
500
0
£2,374
£1,715
£1,598
£1,990
222
225
417
65
467
240
738
168
160
417
54
176
142
598
134
126
417
62
119
212
528
153
252
417
67
127
284
690
Rent Loss
Admin / Mangmnt
Voids M&E
Waste & Skip Hire
Contractors
Materials
Colleague (including Agency)
STAFFORDSHIRE 488 voids
GLOUCESTERSHIRE 586 voids
WEST MIDLANDS 666 voids
CENTRAL 419 voids

4.3 Other costs

The chart below shows how we have increased the cost of central support team overheads from £13.5m in 2015/16 to £14.5m in 2016/17, an increase of 8%. We have increased our expenditure on ICT & Projects costs to support our business transformation programme, and our People costs have increased as a result of the additional recruitment and training of Neighbourhood Coaches and the New Homes development team. We will continue to review the VfM of our support team services.



Notes

1. Source: 2016 Global accounts of private registered providers (HCA publication).