Sector Scorecard

Analysis report 2020

HouseMark

NATIONAL HOUSING FEDERATION

Contents

Executive summary 3

Introduction 4

Business health 5

Development – capacity and supply 8

Outcomes delivered 10

Effective asset management 13

Operating efficiencies 16

Appendices 19

Executive summary

The Sector Scorecard is an annual exercise which benchmarks the performance of housing associations and provides an assessment of value for money. Since 2017 it has helped ensure that the sector is accountable to tenants and stakeholders, with measurements covering business and financial performance, supply, asset management and customer satisfaction.

The 2020 report includes data up to 31 March 2020. As such, it does not show the impact of the coronavirus pandemic on the sector. Where appropriate, we have included commentary highlighting how results may have changed using our analysis of sector costs and performance through the rest of the year to date.

Business health

Housing associations remain robust, secure organisations, with a median overall operating margin of 21.5% in 2019/20. This represents a four percentage point fall since the previous year, reflecting increased health and safety compliance costs and the impact of the ongoing rent reduction up to 2020.

Development

Across the UK, the sector increased the supply of new social housing. Following two years of steady development rates, 2019/20 showed growth with an increase of around 9,000 new units nationally compared to the report for 2019. Development of homes for sale and rent on the open market remains part of the business plan for a significant minority of housing associations.

Outcomes delivered

Housing associations achieve high rates of satisfaction with their services. Typically, between eight and nine tenants out of 10 are satisfied with the service provided by their housing association landlord.

Effective asset management

Housing associations are making effective use of their homes and investing in them. Over 99% of housing associations' homes are occupied, and for every pound spent on planned maintenance, 64p is spent on responsive repairs.

Operating efficiencies

Housing associations spend £4,023 each year managing and maintaining each social housing property, which represents a 6% real term increase in headline social housing cost per unit since the 2019 report. This reflects increasing investment in existing homes.

Introduction

What is the housing association sector?

Housing associations provide homes to rent and buy at affordable rates, cater for specialist needs and develop new homes. They also generate income which does not go to shareholders, reinvesting their surpluses in homes and communities.

About the Sector Scorecard

The Sector Scorecard is an initiative to benchmark housing associations' performance and assess value for money. It demonstrates the sector's accountability to its tenants and stakeholders, with measurements ranging from financial gearing ratios to customer satisfaction.

The initiative started with a well-received pilot exercise and analysis report in 2017, which proved the worth of comparing measures at a high level – for housing associations of all sizes, across the UK. The Scorecard includes financial metrics used by the English regulator alongside performance, impact and satisfaction measures that are essential to telling the sector's story in a holistic and balanced way.

This report covers data up to 31 March 2020. As such, it does not show the effects of the coronavirus pandemic. Where relevant, we have included commentary suggesting how results will have changed using our analysis of sector costs and performance through the rest of the year to date.

Implementation

Since the 2017 pilot exercise, the Sector Scorecard Advisory Group has used Acuity and HouseMark to collate Sector Scorecard data and provide reporting facilities. Acuity collects Sector Scorecard data from smaller associations managing up to around 1,000 properties, mainly in England. HouseMark collects data from larger providers managing over 1,000 properties as well as associations based in Scotland, Wales and Northern Ireland.

The data for this report was extracted in November 2020. In total, 275 housing associations, managing a total of 2.1 million homes, representing around 70% of all housing association properties across the UK took part in the exercise.

Participants were based across the country, from the Channel Islands to the north of Scotland and from East Anglia to Wales and Northern Ireland. Sizes range from small associations managing fewer than 100 properties to large providers with tens of thousands of homes.

Sector Scorecard for supported and sheltered housing

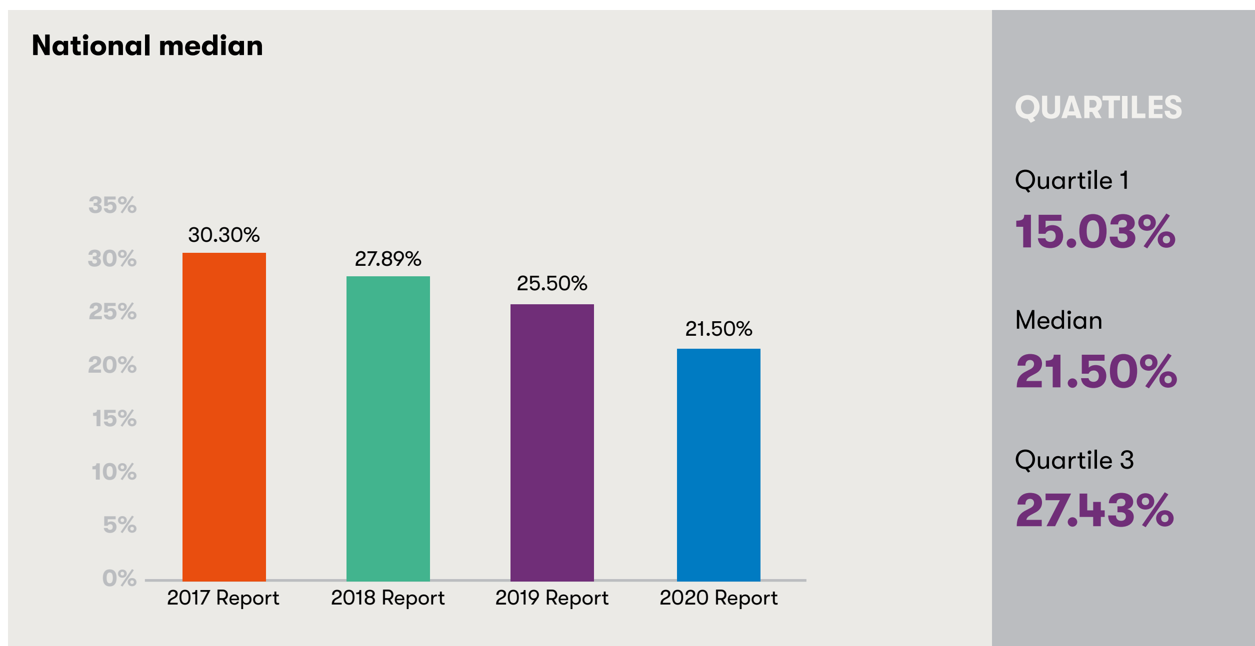
This year a group of housing associations led by Home Group with the support of HouseMark, Acuity, the National Housing Federation and the Ministry of Housing, Communities and Local Government piloted a scorecard for supported and sheltered housing providers. Costs in this part of the sector can be higher and the group felt it important to have data that organisations can use to compare performance in the context of supported housing provision. The Scorecard has the support of the government and is referenced in the National Statement of Expectations for Supported Housing launched by the Housing Minister in August 2020.

This pilot used a subset of indicators from the general Scorecard, covering cost per unit, levels of occupancy, rent collection, operating margins, reinvestment and customer satisfaction. 21 organisations took part (12% of the sector) and we hope more will support this key work in future years. For more information, and to take part in the next round of data collection for this important exercise, please contact **supportedscorecard@homegroup.org.uk**.

Business health

Business health measures demonstrate how associations are meeting the challenge of running successful businesses while fulfilling their social mission. All three measures in this section use the same definition as the English regulator's Value For Money (VFM) metrics.

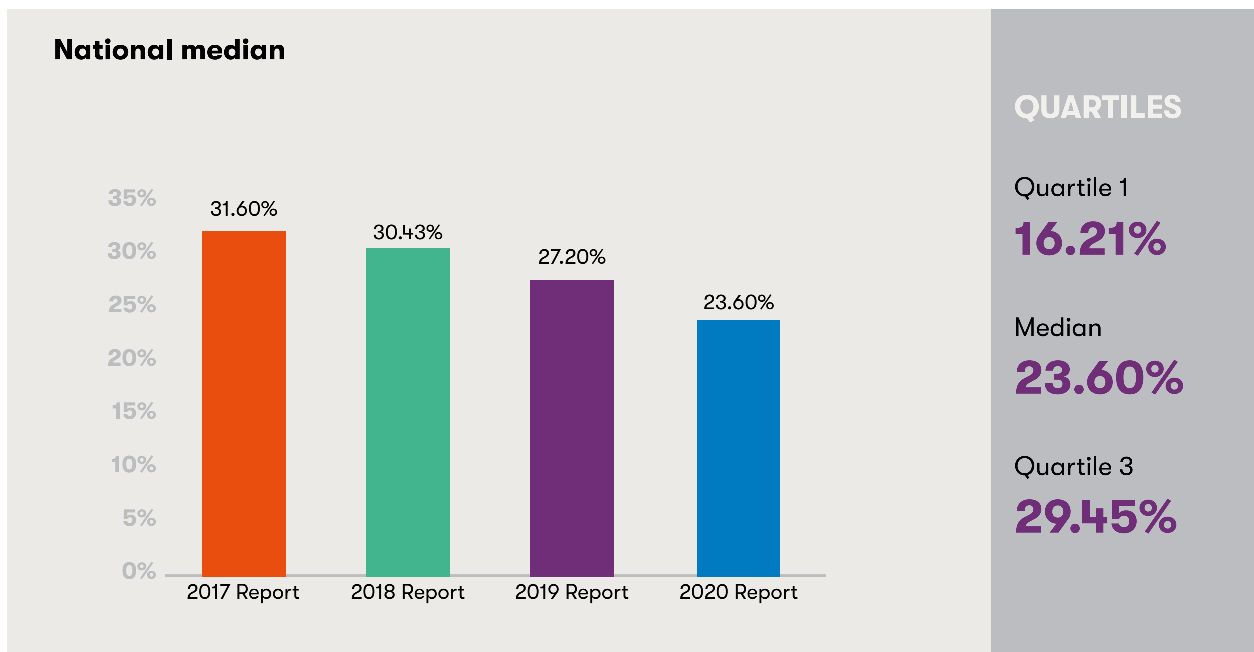
Operating margin (overall)



Operating margins for housing associations have been reducing in the sector since the exercise started in 2017. This has been the result of factors including the rent reduction for English landlords up to 2020 and increased expenditure on building safety in the aftermath of the Grenfell fire.

Over the course of 2020 we've found that housing associations are expecting a further squeeze on margins relating to the pandemic – the pause in development due to lockdowns coupled with lower income from increased vacancy rates are likely to offset any increase in rent charges following the introduction of the new Rent Standard in England.

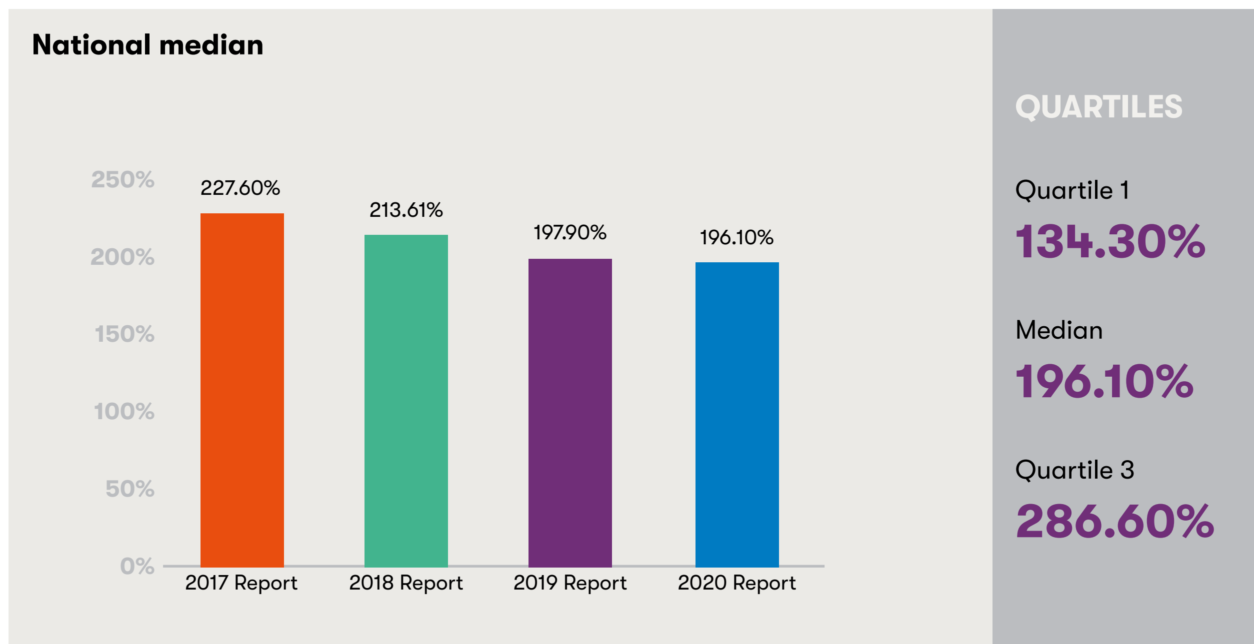
Operating margin (social housing lettings)



This measure looks at the operating margin for the part of the business that manages social housing. As the mainstay of many housing association business, social housing lettings is a key driver of overall operating margins – especially for associations with smaller development programmes and less business diversification. As such, there is a clear correlation between higher costs and lower margins.[1]

The effect of the pandemic on social housing lettings operating margins is mixed and is likely to play out financially over the medium-term. The pause in stock investment and most repairs during the first lockdown period resulted in lower outgoings for associations, but this means additional spend in subsequent years as work is re-profiled. Economic effects of the pandemic such as lower inflation rates and higher unemployment are both likely to reduce social housing lettings turnover in the year to March 2021.

EBITDA MRI (as % interest)



EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) MRI (Major Repairs Included), measures a company's financial performance before factoring in financing decisions, accounting decisions or tax environments. It is an approximation of cash generated; presenting it as a percentage of interest shows the level of headroom on meeting interest payments for outstanding debt. While it is important for earnings to cover interest payments, a high interest cover ratio could mean there is additional capacity for investment. As a result, this measure has neutral polarity.

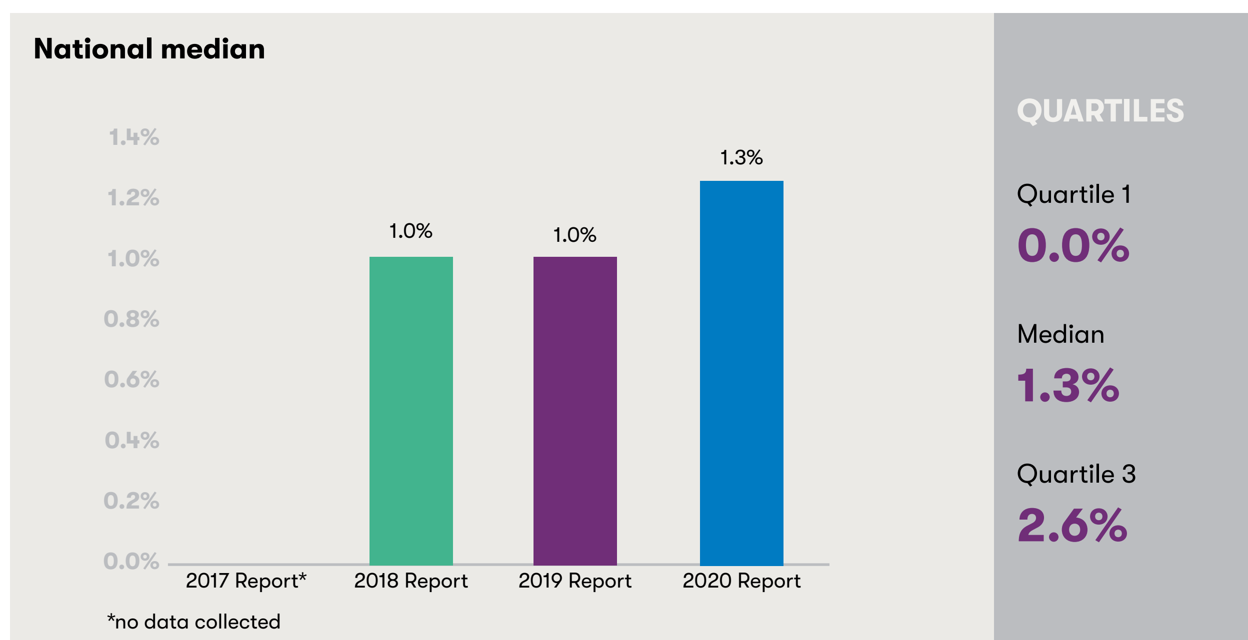
While smaller landlords tend to have lower borrowing and higher interest cover, there is no strong relationship between size and this measure. There are outliers at the lower and upper end of the spectrum, with figures ranging from -8,216% to 15,802% where smaller associations have low borrowing requirements and/or large capitalised expenditure in the year. These figures demonstrate that this metric only provides meaningful information for associations who borrow to invest and cover interest payments with their operating surplus.

Development – capacity and supply

With the country relying on housing associations to deliver a large proportion of new homes, and the vast majority of affordable homes, it is important that an exercise such as the Sector Scorecard captures performance in this area. The new supply delivered % and gearing measures in this section use the same definition as the English regulator's VFM metrics.

In total, Sector Scorecard participants completed 37,004 new units in the year to 31 March 2020. Out of 255 organisations submitting data for this measure, 74% completed at least one new unit in the period. The largest number of units developed (of any tenure) by a participant was 2,680. Nine participants completed over 1,000 units in the period, all large organisations with over 20,000 existing properties. The largest number of units built by a small association with fewer than 1,000 units was 104.

New supply delivered % (social housing units)



Across the UK, the housing association sector took significant steps to build more social homes in 2019/20. After two years with steady development rates, the year to March 2020 showed some growth in this metric. The increase from the 2019 Report represents around 9,000 new units nationally. Across the UK, the housing association sector added around 39,000 new social homes. By location, Northern Ireland continued as the UK social housing development hotspot, with greater subsidies allowing associations to record a median new supply rate of 3.2%.

In the first few months of the pandemic, construction sites across the UK were effectively closed for two or three months. Following this initial shutdown, the sector has been adversely affected by shortages in materials, contractors' financial viability and slower, coronavirus-safe methods of working. By the end of March 2021, data analysts at HouseMark forecast completions to be down around 7,000 social units on 2019/20, a reduction of around 17%. This would result in a social housing new supply delivered rate of about 1.1% for 2020/21.

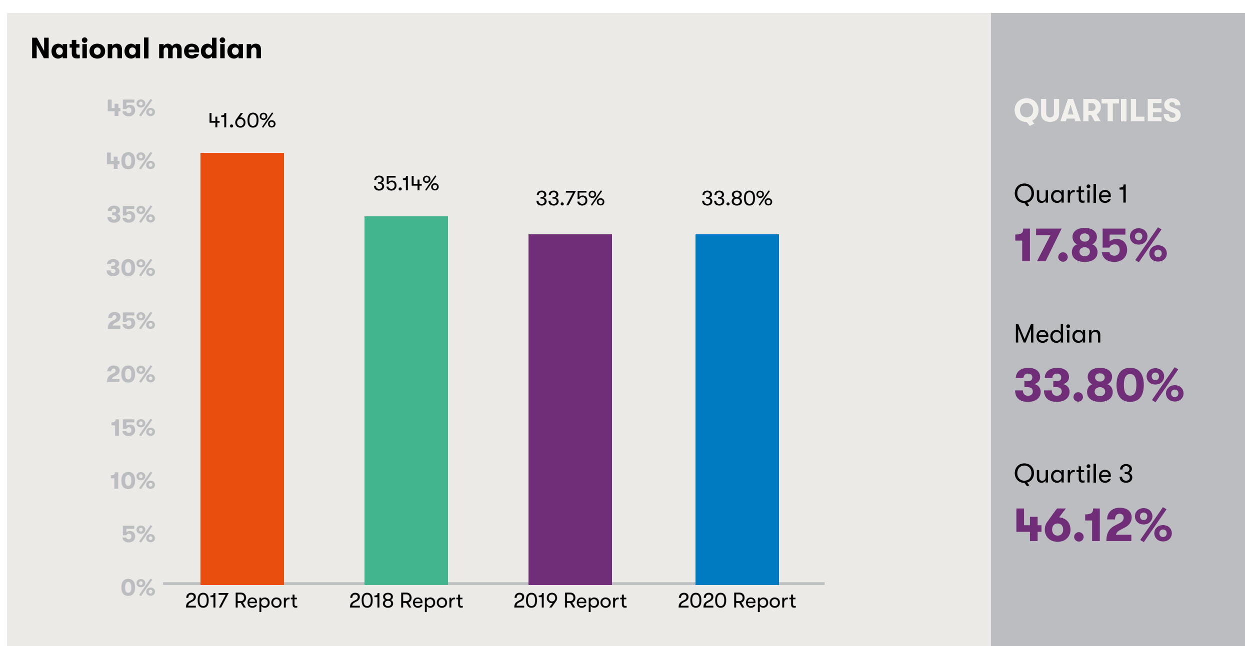
New supply delivered % (non-social housing units)

This VFM metric captures non-social new supply as a percentage of all units owned by the association (social and non-social). Developing non-social new supply is often part of a model that uses additional surplus generated by these tenure types to cross subsidise the delivery of new social homes.

The quartile positions for the new supply delivered % (non-social housing units) measure are all zero because less than one quarter recorded any non-social completions in the year. The quartile positions for this measure highlight the fact that the majority of housing associations have not moved into developing non-social tenures.

In total, 195 associations submitted data for this measure; of these 44 (22.6%) recorded a figure above zero. Around 60% of these landlords are in the large 10,000+ units size band, with the remainder spread out between the smaller size bands – including seven associations with fewer than 5,000 properties.

Gearing



Gearing measures the ratio of debt to assets using a concept that is similar to mortgage lenders' loan to value ratio. If the result is low, this could indicate that an association has capacity to leverage its existing assets to provide funds for development or new services. However, a high ratio could indicate that an association has taken on too much borrowing, which could put its assets at risk.

There are several ways to measure gearing, so we have adopted the English regulator's VFM metric for the Sector Scorecard. This measures the proportion of borrowing (offset by cash and cash equivalents) in relation to the size of the association's asset base.

Overall, gearing rates during 2019/20 were stable, with only a very small movement at the median point compared to the 2019 report. We found a moderate correlation[2] between an association's size and its gearing level. This corresponds with other development and finance metrics, and suggests that smaller associations are less likely to follow the 'borrow to build' operational and strategic model employed by larger landlords.

During 2020, we have heard mixed messages from regulatory bodies about borrowing. On the one hand, the pandemic has led to historically low interest rates, which means favourable conditions for the sector to take on new debt. However, the English regulator has highlighted the risks that this would involve, should interest rates rise.

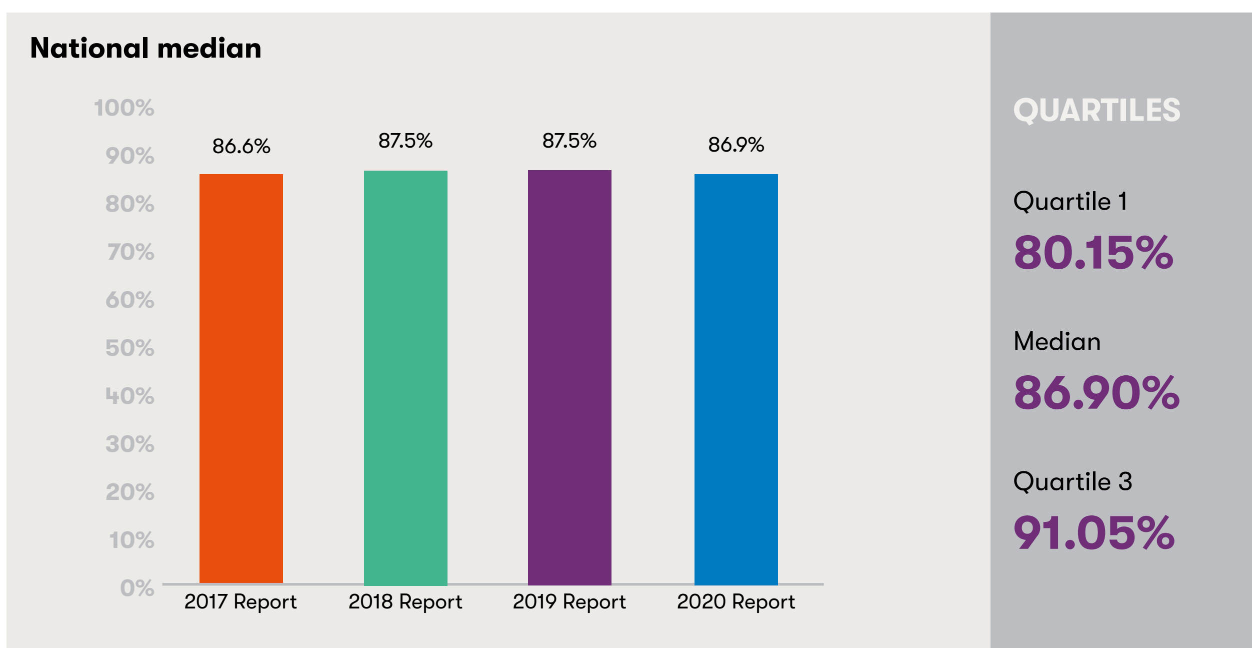
2. Pearson correlation of 0.3. See Appendix B for an explanation

Outcomes delivered

Housing associations need to achieve a balance between building homes and delivering services to existing residents. The Sector Scorecard measures some of the outcomes delivered for the millions of people who live in homes they manage.

Alongside customer satisfaction, this section includes the English regulator's reinvestment VFM metric and a measure for investment in communities.

Customer satisfaction – General Needs and Housing for Older People (GN & OP)



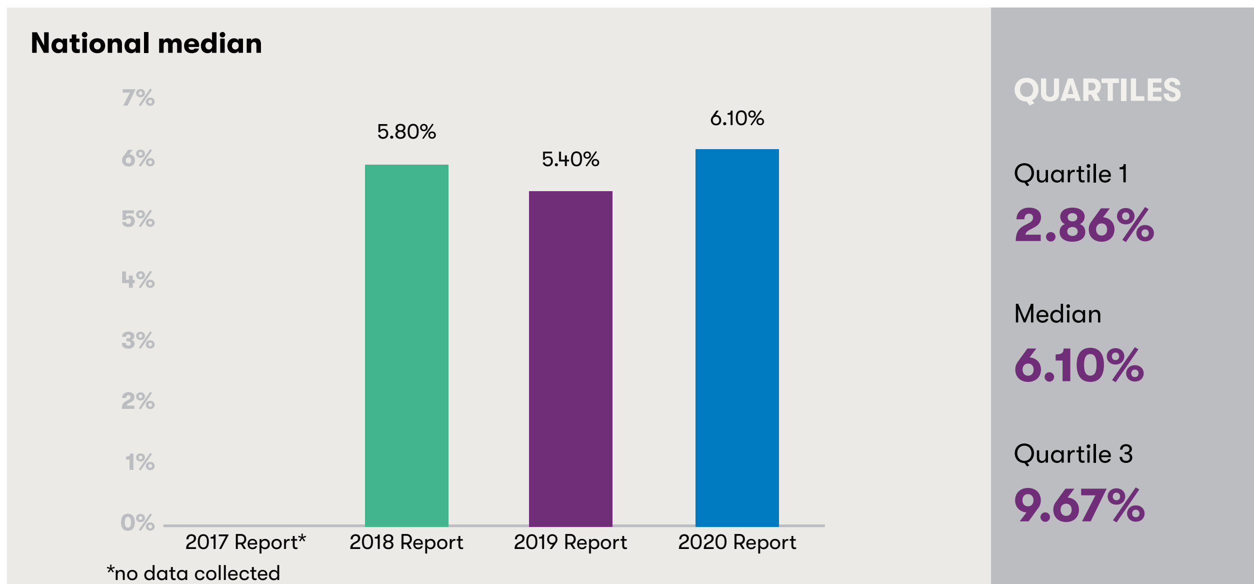
The social housing sector has a standardised framework for periodic surveys of customer perception, developed by HouseMark called STAR (Survey of Tenants and Residents). For the Sector Scorecard, associations enter the combined satisfaction score (respondents who stated that they were fairly or very satisfied) with the overall service provided by the landlord.

There has been very little movement in results over time. Typically, between eight and nine tenants out of ten are satisfied with the service provided by their housing association landlord. While there is no clear correlation, smaller landlords tend to record higher satisfaction rates than larger providers. This suggests that a closer, local relationship between landlord and tenant is likely to result in higher satisfaction rates.

There are also clear geographical differences noted before, that have continued into 2019/20. Landlords in Scotland, where this measure is part of the regulatory Annual Return on the Charter (ARC) submission, recorded the highest median satisfaction rate in the UK at 89.15%. Landlords based in London recorded the lowest rates with median satisfaction at 76.00%.

During 2020, the first lockdown put most satisfaction surveying on hiatus, with transactional satisfaction continuing only for emergency work. Anecdotally, landlords reported to HouseMark an increase in 'goodwill' from residents during the spring and summer. However, by the Autumn, with coronavirus-safe services returning, residents' expectations rose and landlords re-starting satisfaction surveys often recorded the same or lower results than pre-pandemic.

Reinvestment %



This measure adopts the English regulator's VFM metric. It looks at the investment an association makes in its properties (existing stock as well as new supply) as a percentage of the value of total properties held. This helps to demonstrate that housing associations are putting their finances to good use by maintaining and improving stock as well as adding to the asset base.

At the median, participants are spending the equivalent of 6.1% of their assets' value on reinvestment. This means that a landlord with assets valued at £1bn would be spending £61m on items such as development and acquisition of new properties, works to existing properties and capitalised interest.

There is a moderate correlation[3] between reinvestment and major repairs cost per unit. This suggests that investment in existing stock is a substantial driver of reinvestment rates. Landlords with comparatively large development programmes also record higher reinvestment results. This shows particularly strongly for Northern Ireland, where average developments are the highest in the UK and the median reinvestment figure was 7.02%.

3. Pearson correlation of 0.3. See Appendix B for an explanation.

Investment in communities

UK-wide results[4]

Measure	2018 Report	2019 Report	2020 Report
Average per landlord	£435,723	£430,828	£618,867
Average per property	£58	£61	£67

Introduced in 2018 and expanded in 2019, this Sector Scorecard indicator measures this through expenditure on community or neighbourhood activities such as employment skills training, money advice and community groups.

On average, Sector Scorecard participants invested the equivalent of £67 for every property in 2019/20. If this figure is multiplied to represent all housing associations across the UK, we estimate that the total amount invested in community projects is over £200m.

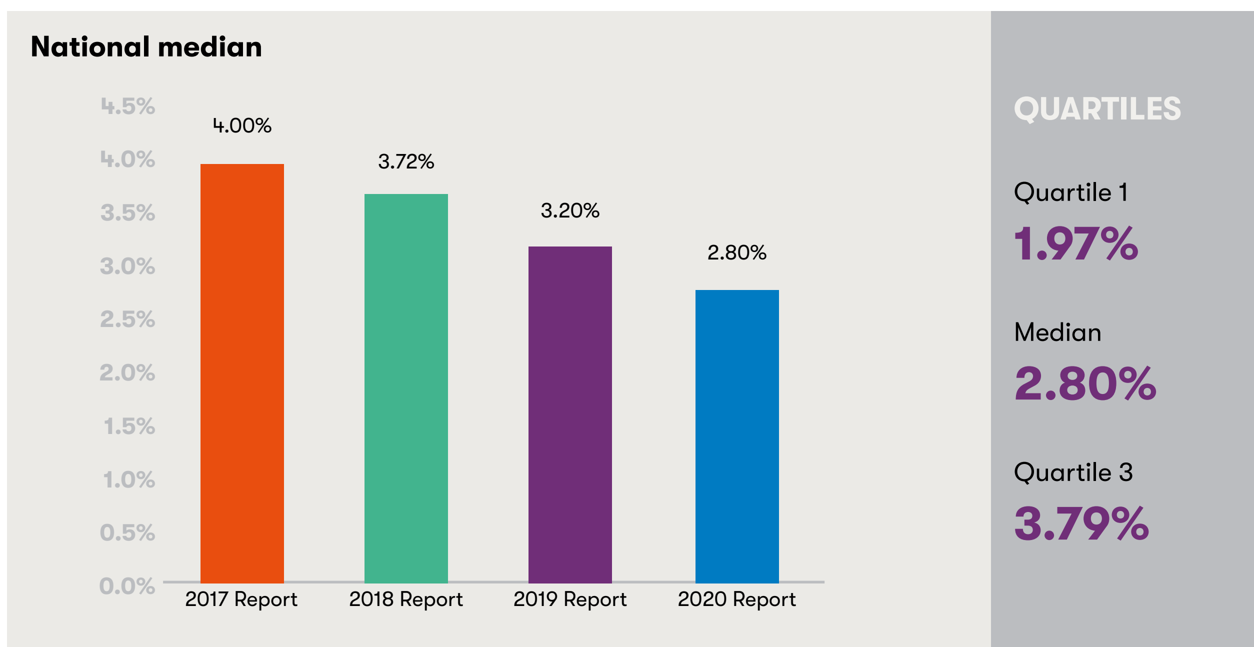
Over the course of 2020, HouseMark has collected examples from housing associations across the UK who are proactively mitigating the effects of the pandemic by investing in communities – on projects as wide-ranging as financial support, social activities, wellbeing check-ups and inter-agency working. This is an area where the sector's social mission has come into its own as associations make a positive contribution to the lives of people in communities where they own and manage homes.

4. This measure is collected as an absolute figure, so a median result is not appropriate.

Effective asset management

An important part of a housing association's business is looking after the assets it manages, ensuring they are good quality homes that people want to live in, now and in the future. Any business maintaining fixed assets needs to make strategic investments to renew and improve components, meet health and safety compliance measures as well as seeing a sustained financial, social and environmental return in the long term.

Return On Capital Employed (ROCE)

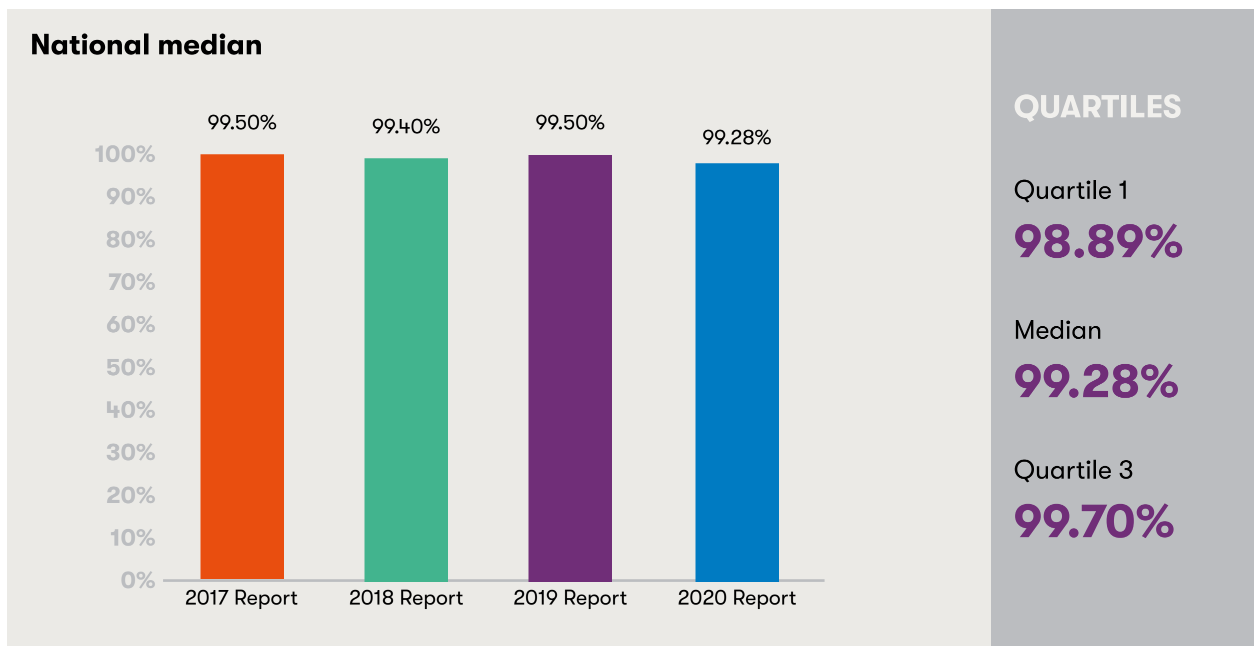


Return On Capital Employed (ROCE) shows how well a provider is using both its capital and debt to generate a financial return by comparing an association's surplus to the value of its properties. The definition is aligned with the English regulator's VFM metric.

There is a pattern with ROCE rates that is evident in other financial measures. Landlords with comparatively high ROCE rates tend to have higher gearing ratios, higher operating margins, lower costs per unit and higher reinvestment rates.

While surpluses have reduced across the sector since 2017 there has been no corresponding reduction in the value of housing association assets. This has resulted in a steady decrease in median ROCE rates over time. This situation is likely to continue into 2020/21 as the pandemic has reduced housing association surpluses but has had little or no effect on property values.

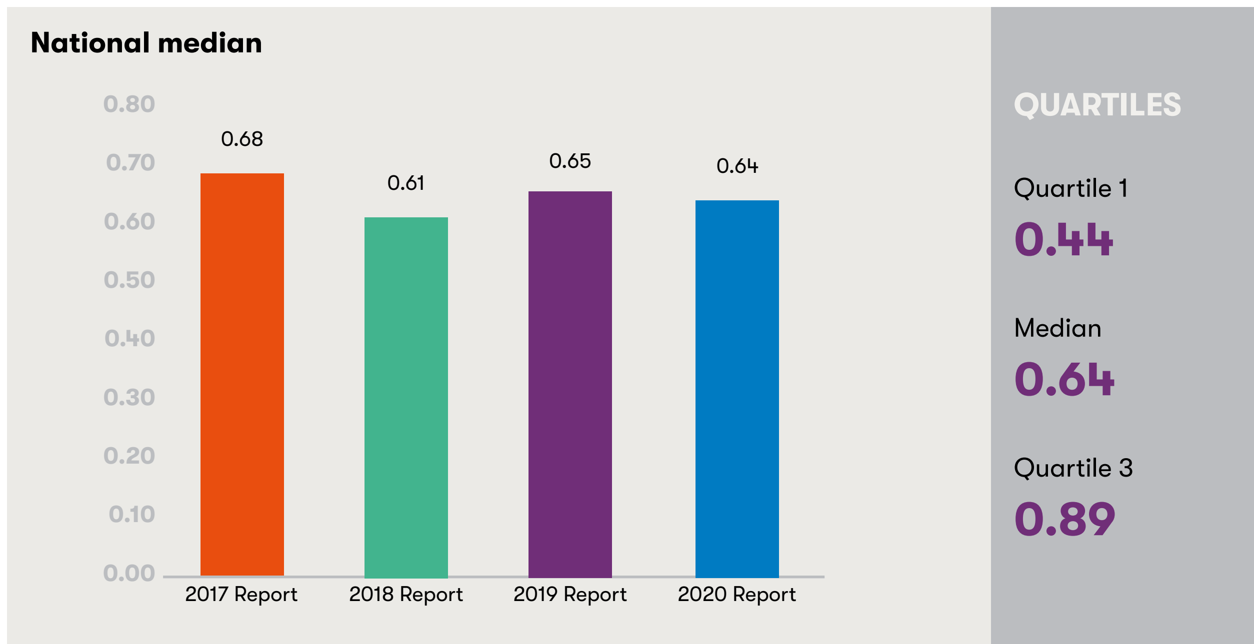
Occupancy



Now, more than ever, keeping tenants in properties is a crucial part of every housing association's business. Occupancy rates demonstrate how efficient providers are at turning around void (untenanted or empty) properties and at sustaining existing tenancies. Traditionally, landlords have measured this activity through vacancy rates and void rent loss. This measure provides a more positive perspective; looking at the number of homes occupied.

Following several years of steady occupancy rates, the median figure at the end of March 2020 was below 99.3%. Since this point, HouseMark has tracked a doubling of vacant properties as a result of the pandemic. Tenancy terminations have also continued coupled with restrictions on lettings and potential applicants putting off a move until they feel it is safe.

Ratio of responsive repairs to planned maintenance



This measure looks at the ratio of an association's expenditure on routine maintenance to spend on planned maintenance, major repairs and capitalised major repairs. It is calculated by dividing routine maintenance expenditure by the sum of planned maintenance, major repairs and capitalised major repairs.

At the median, participants' expenditure on responsive repairs equates to around 64% of their planned maintenance expenditure. For example, if an association recorded £10m planned maintenance expenditure, a 0.64 result would indicate responsive repairs expenditure of £6.4m.

Since the end of March 2020, the UK social housing sector's planned, major and routine maintenance service have experienced significant changes. The first lockdown resulted in very little maintenance taking place – except emergencies and vital health and safety compliance. Over the summer, HouseMark found that landlords adapted to coronavirus-safe working methods for routine maintenance, while many re-profiled large parts of their major repairs programme to future years.

The result of these changes is likely to be higher ratios for this measure in 2020/21, with considerably lower ratios in 2021/22 and beyond as expenditure on re-profiled major works starts to appear on housing associations' balance sheets.

Operating efficiencies

Housing associations need to demonstrate how they deliver value for money through their strategic and operational choices. The Sector Scorecard takes this on board with measures looking at the cost of providing social housing, which is an English regulatory VFM metric as well as income collection rates and proportionate expenditure on overheads.

Headline social housing cost per unit

This measure is aligned with the English regulatory VFM metric. It uses components from associations' financial statements to create a social housing cost figure. This is divided by the number of properties owned and/or managed by the association for a cost per unit figure that is comparable between different organisations.

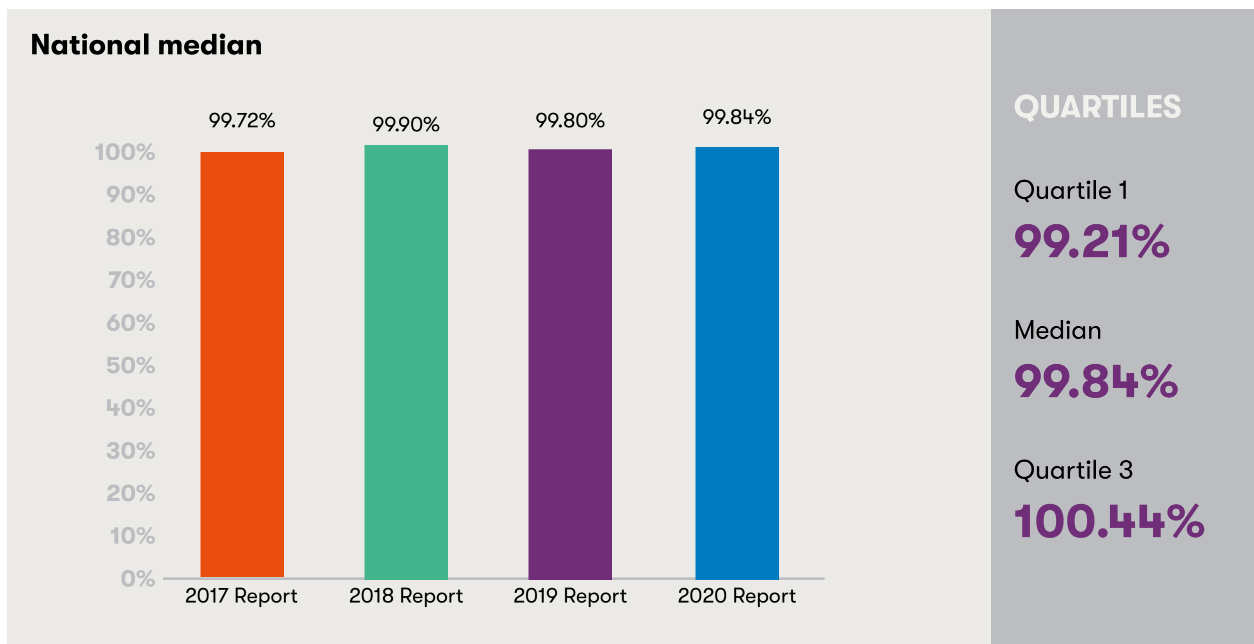
Over time, housing associations' costs have been rising faster than CPI inflation. At the median point, headline social housing costs recorded in Sector Scorecard reports have risen by 6% in real terms[5]. This corresponds with the tighter margins as a result of increased asset-based expenditure such as building safety compliance, while management costs have remained stable.

Previous trends around size and location have continued, with smaller landlords tending to record higher costs, and those based in London spending around £1,200 more per unit than the national median.

With major repairs and maintenance costs making up half the overall cost per unit, we can expect some changes to this figure at the end of 2020/21 as a result of the pandemic. While management costs are likely to stay similar to 2019/20, the reduction in maintenance over the first half of the year is likely to result in lower cost per unit figures at year-end.

5. Based on CPI in September following YE https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7g7/mm23

Rent collected as % of rent due (GN)

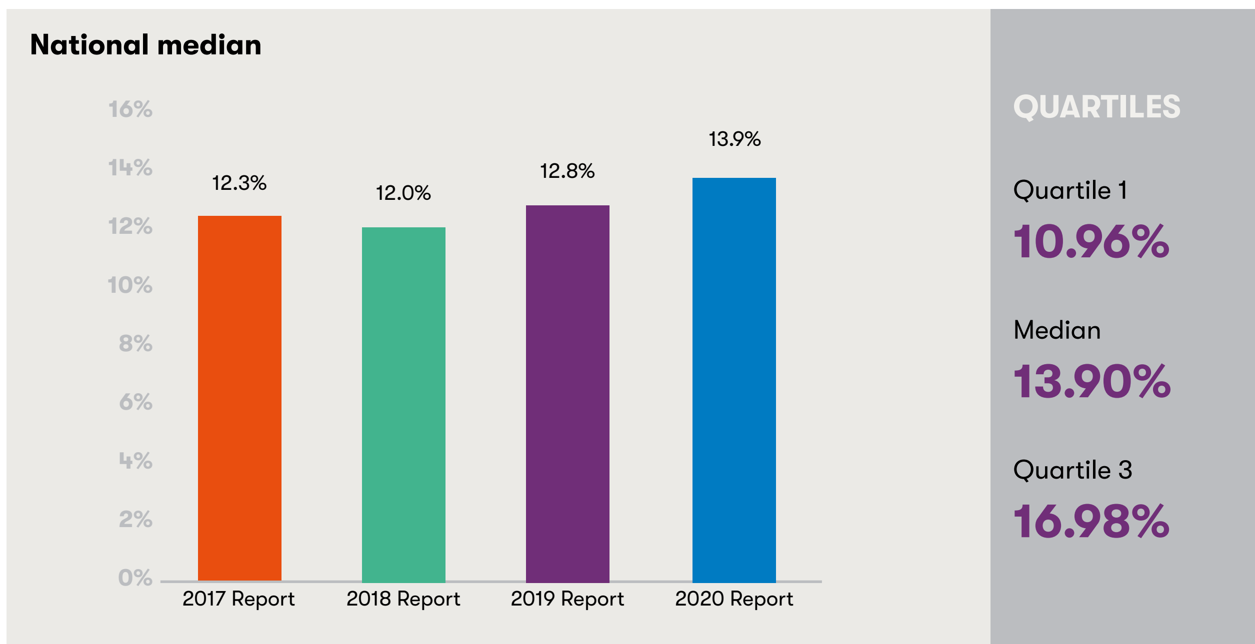


A rent collection rate is a crucial measure of a landlord's operational performance, as it accounts for a large proportion of turnover. This Sector Scorecard measure demonstrates the effectiveness of the income management function in collecting rent due and managing arrears levels.

In the period since 2017, the sector's income management function has been under pressure as increasing numbers of tenants moving from Housing Benefit to Universal Credit have corresponded with higher arrears levels and lower rent collection while landlords await payment. In spite of this, the year to March 2020 shows that the sector maintained collection rates at over 99.8% of rent due.

Looking forward to March 2021, this is a measure where the economic effects of the pandemic will be keenly felt by housing associations. HouseMark has forecast a 30% increase in arrears for the UK housing sector, which will be felt in lower collection rates as a result of rising unemployment related to coronavirus restrictions on the economy.

Overhead costs as a percentage of turnover



This Sector Scorecard measure shows the proportion of an organisation's turnover that is spent on overheads, including IT, HR, finance, office premises and corporate services. This measure is sourced from the annual cost and performance benchmarking exercise conducted by HouseMark and Acuity[6].

The median figure has increased in each of the last three reports. This may relate to smaller turnover for English housing associations during the years of the rent cut, coinciding with higher costs for back-office functions.

There is some relationship between this measure and the size of an organisation, suggesting an economy of scale in this area. Landlords with fewer than 1,000 units recorded a median rate of 16.24% compared to a rate of 10.97% for landlords managing more than 10,000 units. There is, however, only a weak correlation[7] between stock size and the overheads measure, smaller associations are capable of recording results that compare favourably to the biggest in the sector.

6. A full definition for this measure is available in the Sector Scorecard guidance manual. See website for details.
7. Pearson correlation of 0.2. See Appendix B for an explanation.

Appendices

Appendix A
Definitions used in this report

Definitions for measures used in this report are available from the Sector Scorecard website:

http://www.sectorscorecard.com/about-the-sector-scorecard/about

Appendix B
Calculations used in this report

Aggregation

The figures in this report are based on aggregated data from individual landlords. Sector Scorecard participants' underlying data is available in an accompanying schedule.

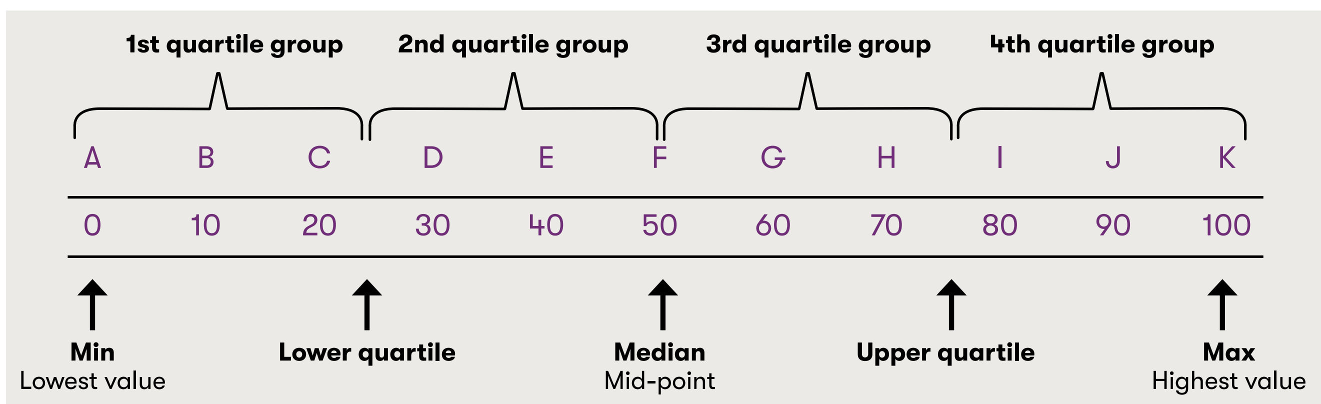
Percentages and percentage points

This report uses % to indicate proportional increases and percentage points to describe the change in percentage figures between years.

Quartiles and medians

Medians and quartiles are used throughout the report to indicate how your organisation compares to the other participants. With the data points arranged in numerical order, the median is the middle value and the quartiles divide the dataset into four equal parts.

The 4th quartile group represents the organisations with the highest values and the 1st quartile group, the lowest - regardless of whether having a high value is seen as positive or negative.



Unbalanced panel

To compare the movement of quartile points over time, we have the figures published in previous reports. These figures include organisations that may or may not have submitted data consistently, and are referred to in the report as an unbalanced panel.

Correlation

Correlation is a technique for investigating the relationship between two variables. We have used Pearson's correlation coefficient to measure the strength of the association between the two variables. Pearson's method rates correlation on a scale ranging from -1 to +1, where +1 and -1 are perfect linear correlations, which show up as 45° diagonal lines on a scatter plot. If the value is 0, then there is no apparent linear relationship between the two variables, this appears as a horizontal line on a scatter plot. The closer the correlation coefficient gets to +1 or -1, the stronger the correlation; the closer it gets to 0, the weaker it is.

We have interpreted the strength of the coefficient scores in the following way:

- 0.50 to 1 Strong
- 0.30 to 0.49 Moderate
- 0.10 to 0.29 Weak
- 0 to 0.09 No correlation

Note: the scale is the same for negative scores.

It may help to interpret the figure as percentages, so 0.33 = 33%, where 100% is the maximum.

Appendix C
Sector Scorecard UK-wide quartile results

2020 results	Participants	Quartile 1	Median	Quartile 3
Operating margin	262	15.03%	21.50%	27.43%
Operating margin (social housing lettings)	259	16.21%	23.60%	29.45%
Interest cover - EBITDA (MRI)	257	134.30%	196.10%	286.60%
Units developed (as a % of units owned) - social	255	0.00%	1.26%	2.55%
Units developed (as a % of units owned) - non-social	233	0.00%	0.00%	0.00%
Gearing	263	17.85%	33.80%	46.12%
Satisfaction with the overall service provided	179	80.15%	86.90%	91.05%
Reinvestment %	257	2.86%	6.10%	9.67%
Investment in community activities	167	N/A	N/A	N/A
Headline social housing CPU	261	£3,377	£4,023	£5,031
Rent collected % - GN	195	99.21%	99.84%	100.44%
Overheads as a % of turnover	189	10.96%	13.90%	16.98%
Return on capital employed (ROCE)	264	1.97%	2.80%	3.79%
Ratio of responsive repairs to planned maintenance	211	0.44	0.64	0.89
Occupancy	196	98.89%	99.28%	99.70%