

# Sector scorecard



NATIONAL  
HOUSING  
FEDERATION

HouseMark 

analysis report 2018



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# Foreword

## Clare Miller

**Chair of the Sector Scorecard Advisory Group, and Group Chief Executive, Clarion Housing Group**

"We are pleased to see that housing associations have embraced the Sector Scorecard for a second year, following the successful pilot in 2017. The high level of participation from the sector shows a willingness to constantly improve and drive greater efficiency.

As the Sector Scorecard Advisory Group, we know the sector is committed to delivering value for money, transparency, and learning from each other – the Scorecard demonstrates that. This year's results show that housing associations' financial and operational performance remains robust in spite of a challenging environment.

I would like to thank all those who once again took part in this process."

## Kate Henderson

**Chief Executive, National Housing Federation**

"Following the success of the Sector Scorecard launch in 2017, I am delighted that the National Housing Federation is supporting the initiative for a second year, showcasing a continued commitment to transparency and improvement within the sector.

As Chief Executive of the National Housing Federation, it is clear to me that our members take value for money and efficiency very seriously in delivering on their social purpose. The Sector Scorecard is another excellent example of housing associations taking the lead and demonstrating their commitment to exceptional standards."

## Laurice Ponting

**Chief Executive, HouseMark**

"As the Sector Scorecard completes its second year, I'm pleased to see participation has increased. Reflecting our own experiences at HouseMark, with data submissions increasing across the board, it's clear that data analysis and insight is becoming more and more valuable to the UK housing sector. Data is providing the foundations for the sector's strategic decision-making, demonstrating the evidence for prioritisation and optimisation of resources, as well as delivering newly emerging opportunities for innovation, such as predictive analytics.

"Designed to support the sector to compare performance at the highest level, the Sector Scorecard report adds value to a suite of existing data analysis and comparison tools that together allow for both financial and consumer standard reporting, creating a complete performance narrative that can be explained and evidenced to tenants, colleagues, the regulator and wider sector stakeholders."

# Executive summary

The 2018 Sector Scorecard once again demonstrates housing associations' commitment to transparency, and to demonstrating and improving value for money and efficiency.

Despite a challenging external environment and pressure on costs, housing associations' financial and operational performance remains robust. The sector is responding to the call from the Government to invest in building new homes, delivering one quarter of all the houses built in England last year. They are committed to being responsible landlords and protecting the safety of residents, which has led to greater investment in fire safety measures and other risk mitigation techniques.

It is vital that the sector continues to measure what is important to boards, executive teams and tenants, as well as the Regulator. The fact that the Sector Scorecard is owned and led by the sector allows us to do this.

## Key messages

### Broad coverage of the sector:

- Participation: 329 housing associations
- Stock: 2.3 million properties – around 80% of UK housing association stock
- Geography: from the Channel Islands to northern Scotland, East Anglia to Northern Ireland
- Size: under £250k turnover to over £800m

### Business health

Housing associations are financially robust and efficient organisations, with margins of over 20% for three out of four organisations, with a median result of 27.89%. This has fallen slightly since the 2017 pilot, which could be a result of the ongoing rent reduction and greater pressures on costs.

### Development

Sector Scorecard participants completed 44,642 new dwellings in 2017/18. In England, this accounts for one in four completions. Non-social development is concentrated in London and the South of England.

### Outcomes delivered

Between eight and nine tenants out of ten are satisfied with the service provided by their housing association landlord. Sector Scorecard participants are reinvesting the equivalent of 5.8% of their assets' value in new and existing homes. And on average, participating landlords spent £58 per property on community investment – with Scottish landlords recording the highest rates.

### Effective asset management

Housing associations continue to be prudent asset managers. While the rent cut in England has affected year-on-year performance, the overall picture is one of realistic maintenance programmes producing a reasonable return on assets.

### Operating efficiencies

Rent collection levels have held up with rises across the sector. Cost per unit figures have risen at above inflation rates since the 2017 pilot. While there has been a slight change in the definition between years, it is also likely that landlords are needing to put more resources into operational services to deal with external factors such as welfare reform and fire prevention.

### Overall

No organisation or group of organisations consistently achieved upper quartile performance in all areas of the Scorecard, illustrating the diversity of the measures and of participants. No organisation achieved more than seven results in the upper quartile. Typically, an organisation had 2-3 measures in the top quartile.

# National medians

The chart below outlines the national median for each Sector Scorecard measure with commentary summarising 2018's results.

Theme	Measure	Median	Commentary
Business health	Operating margin (overall)	27.89%	<p>Three out of four participants had operating margins over 20%.</p> <p>Participants based in London recorded comparatively low operating margins reflecting higher costs, while those based in surrounding regions tend to be higher than the national figure.</p> <p>Participants with comparatively high gearing, high reinvestment, large development programmes and lower costs tend to record higher operating margins.</p>
	Operating margin (social housing lettings)	30.43%	Participants with lower social housing costs tend to record higher operating margins for social housing lettings.
	EBITDA MRI (as % interest)	213.61%	Smaller housing associations tend to report outlying figures for this measure – especially where they have no net debt.
Development – capacity and supply	New supply % (social)	1.00%	<p>Looking only at housing associations who developed new homes over the period, the median is 1.52%.</p> <p>Participants based in Central and Southern England recorded the largest social housing development programmes as a proportion of their stock size.</p>
	New supply % (non-social)	0.00%	One in four participants recorded any new supply (non-social). The majority of landlords with results above 1% are based in London and the South of England.
	Gearing	35.14%	<p>Participants with a development programme – of any size – recorded higher median gearing ratios.</p> <p>Smaller housing associations with fewer than 5,000 units and lower median gearing ratios tend to have comparatively lower operating margins and higher costs per unit.</p>
Outcomes delivered	Customer satisfaction	87.50%	<p>Customer satisfaction is high overall, with a quarter of participants recording satisfaction rates above 91%.</p> <p>London-based landlords recorded the lowest median satisfaction level by region.</p> <p>There are no clear correlations between median satisfaction levels and other measures such as gearing, operating margin, cost per unit or reinvestment.</p>
	Reinvestment %	5.80%	Landlords in the Midlands and northern England recorded the highest median rates of reinvestment, while those based in London and Scotland recorded the lowest median rates.

Theme	Measure	Median	Commentary
Outcomes delivered cont.	Investment in communities	N/A	<p>This measure is collected as an absolute figure. This report divides the results by the number of properties to make comparisons.</p> <p>While larger landlords are investing large sums in community activities, landlords in the smallest size band invest almost 80% more on a per property basis.</p>
Effective asset management	Return on capital employed (ROCE)	3.72%	<p>English associations based in regions outside London recorded median rates above the national figure.</p> <p>Organisations based in London and Scotland tended to record lower ROCE rates.</p> <p>Landlords with comparatively high ROCE rates tend to have one or more of higher gearing ratios, higher operating margins, lower costs per unit and higher reinvestment rates.</p>
	Occupancy	99.40%	<p>Participants in the smallest size band perform comparatively better on this measure, but occupancy rates tend to vary across the larger size bands. Participants in North East England recorded the lowest median occupancy rate.</p> <p>There are no notable patterns to link the financial measures in the Sector Scorecard and the occupancy measure.</p>
	Ratio of responsive repair to planned maintenance	0.61	<p>Landlords with a low headline cost per unit recorded a higher ratio for this measure.</p>
Operating efficiencies	Headline social housing cost per unit	£3,450	<p>London-based and Scottish landlords recorded comparatively high median cost per unit results. There is also a tendency for landlords in the smaller size bands to record higher cost per unit figures.</p>
	Rent collected	99.90%	<p>Landlords in the smaller size bands tend to record higher collection rates.</p> <p>Even though rent collection makes up a large proportion of turnover, there are no notable patterns to link financial measures with rent collection activities.</p>
	Overheads as % of adjusted turnover	12.03%	<p>Most landlords' overheads account for between 10% and 15% of adjusted turnover. While smaller landlords tend to record higher overheads rates, there is no evidence of economies of scale overall.</p>

# 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. Housing associations deliver where the private sector won't and the public sector can't. The income they generate doesn't go to shareholders – all their surpluses are reinvested into homes and communities.

### Context

Most housing association business is centred on supplying accommodation to a regulated market. While there is a range of rent levels, the rent charged and increases (or decreases) is determined by regulation. Allocation of properties to tenants and owners is regulated in many circumstances and based on the applicant's level of housing need, which is also set out in regulation. Providing accommodation in this market means that housing associations face a unique set of issues, stemming from their position as socially-minded independent enterprises.

Since the Sector Scorecard pilot in 2017, the English Regulator of Social Housing has introduced a new Value for Money Standard and set of standardised metrics drawing heavily on the work of the Sector Scorecard. The Government's Social Housing Green Paper has placed renewed focus on the importance of transparency and accountability in the social housing sector, and consultations are underway in England and Scotland on the wider regulatory environment for social housing. The continuing aftermath of the tragedy at Grenfell Tower has seen a vital focus on the quality and safety of existing stock. The Government is increasingly looking to housing associations to play a significant and unique role in building new homes and communities to provide the new houses the country needs.

This context demonstrates the importance of the Sector Scorecard. It shows the sector's commitment to transparency and accountability across a wide range of financial and operational metrics, using comparative information to support delivery.

### About the Sector Scorecard

The Sector Scorecard is an initiative to benchmark housing associations' performance and check they are providing value for money. It demonstrates the sector's accountability to its tenants and stakeholders, and includes 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. Some of these measures were subsequently adopted by the Regulator of Social Housing through its new Value for Money Standard. In 2018, the Scorecard has harmonised metric definitions with those used by the Regulator to ensure consistency, while retaining the additional performance, impact and satisfaction measures that are essential to telling the sector's story in a holistic and balanced way.

The 2018 Scorecard exercise has had broad support across the sector with increased participation across the UK and backing from key sector representatives as well as support from the National Housing Federation.



## Implementation

Following the success of the 2017 pilot exercise, the Sector Scorecard Advisory Group continued using 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 more than 1,000 properties as well as associations based in Scotland, Wales and Northern Ireland<sup>1</sup>.

The data for this report was extracted in October 2018. In total, 329 housing associations<sup>2</sup> took part in the exercise, which is an increase of 14 organisations from the pilot exercise. Participants are based across the UK, from the Channel Islands to the North of Scotland and from East Anglia to Northern Ireland. Together, these organisations manage almost 2.3 million properties, around 80% of UK housing association stock.

## This table shows the number of participants by location and size band

Location and size band	Fewer than 1,000 units	1,000 - 5,000 units	5,000 - 10,000 units	10,000+ units	Total
South West	11	11	4	5	31
South East	19	6	9	7	41
London	31	12	6	8	57
East of England	3	11	7	4	25
East Midlands	2	2	3	3	10
West Midlands	6	9	3	5	23
North East		4	1	6	11
North West	8	12	11	16	47
Yorkshire and the Humber	4	11	3	4	22
Mixed		5		7	12
Scotland	11	22	3	1	37
Wales		4	2	1	7
Northern Ireland	2	2	1		5
Channel Islands	1				1
<b>Total</b>	<b>98</b>	<b>111</b>	<b>53</b>	<b>67</b>	<b>329</b>

Where available, the location is based on the majority of an organisation's stock<sup>3</sup>. Where the majority of stock is located in more than one English region, they are recorded as 'Mixed'. The majority of participants are based in England. 37 organisations based in Scotland took part in 2018, representing a 54% increase on the 24 that took part in the 2017 pilot exercise.

Sector Scorecard participants are a broad range of sizes, from small associations managing fewer than 100 properties to large providers with portfolios in excess of 100,000 units. The financial turnover of these businesses ranges from under £250,000 a year to almost £800m. Most properties managed by Sector Scorecard participants are general needs and not designated for specific client groups or investment programmes. However, there are several organisations with considerable proportions of supported housing.

1. Where organisations submitted data to both HouseMark and Acuity, the duplicate dataset has been removed from the analysis.

2. Including one Arm's Length Management Organisation (ALMO) comparing its development programme and relevant business operations.

3. English organisations submitting 2017 Global Accounts for a comparable entity.

## Method of analysis

The analysis in this report considers the spread of results recorded for each measure, the relationship between measures and the comparative results entered by each housing association across the Scorecard. Definitions of each measure are available in Appendix 1 of this report.

This report uses quartiles to provide an idea of how the results entered by associations spread out across all participants. The median, or mid-point, in the results helps to set a benchmark for what is 'average' for associations. This is preferable to the mean average as it is not skewed by extremely high or low results. The first and third quartiles show where the results are low or high for the group. Each measure has an explanation about whether high is good, low is good or whether the measure is neutral.

The report compares 2018 results to 2017 where the measure definition is unchanged or largely unchanged. All comparisons are based on a balanced panel of organisations that submitted data consistently for both years.

The analysis looked at the spread of results in general, using a coefficient of variation analysis. This produces a result to show how wide the spread of results is. In 2017, this test was used in the business case to adapt the suite of pilot measures for the 2018 exercise. Individual measures reference this variation analysis where relevant.

Correlation analysis is used throughout this report to analyse the relationship between two measures. While it doesn't show causality, it does help to investigate whether patterns that show in aggregated groups (e.g. smaller associations) are evident across the group.

The analysis looked at how many associations achieved best quartile results (where a polarity could be applied). Around 4% of participants had six or seven of their results in the best quartile across the 13 measures (excluding two neutral polarity measures). No organisation achieved more than seven results in the best quartile. Typically, an organisation had 2-3 measures in the top quartile. Around 20 organisations had no results in the top quartile, though many of these had submitted data for less than half the measures.

More information on analysis methods is available in Appendix 2.

# Business health

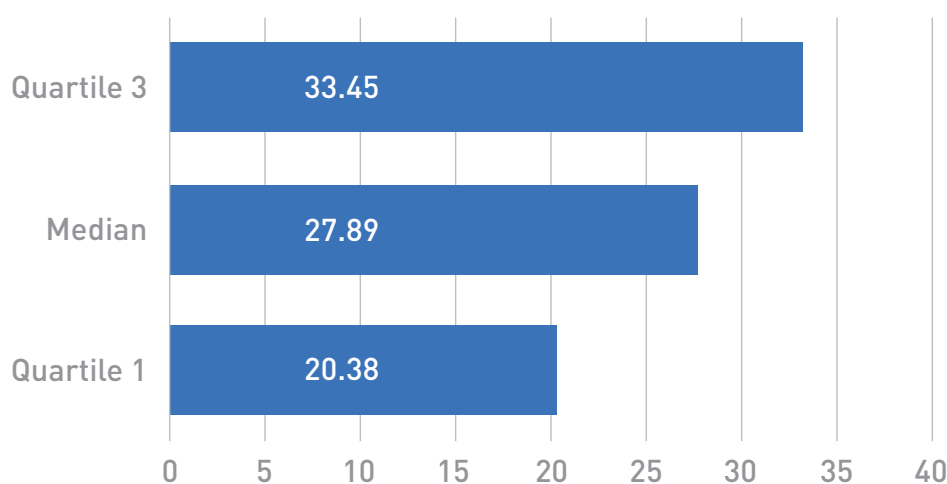
Business health measures demonstrate how associations are meeting the challenge of running successful businesses while fulfilling their social mission. All three measures in this section use the same definition as the English Regulator's VFM metrics.

## Operating margin (overall)

For the housing association sector, operating margin measures the amount of surplus generated from turnover on a provider's day-to-day activities. It is therefore a key measure of operational efficiency as it is influenced by both income and expenditure.

There are various factors that can affect a housing association's operating margin including the rent charged to tenants (lower rents mean lower margins) as well as expenditure on maintaining properties (higher costs mean lower margins).

This chart outlines the operating margin (overall) quartile points for the 319 Sector Scorecard participants who submitted data for this measure. Generally, a higher operating margin is regarded as better.



The figures show that housing associations are generally financially stable enterprises, with margins of more than 20% for three out of four organisations. Only two associations recorded a deficit for this measure in 2017/18 due to items such as organisational change and planned investment.

There are some notable patterns in operating margin (overall) results by location. English organisations based in the South, East and Midlands tended to have higher operating margins. Organisations based in the North of England recorded operating margins similar to the national median, while organisations in Scotland and London recorded comparatively low operating margins.

### There are several possible reasons for these differences:

- Housing association rents are lower in Scotland<sup>4</sup> than in England<sup>5</sup>
- Costs are higher in London (shown later in this report)
- Comparatively higher rent collection levels in southern England raises income levels and increases operating margins, without the higher operating costs of London-based participants.

4. <https://beta.gov.scot/publications/social-tenants-scotland-2016/pages/7/>

5. <https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies>

By size, associations with stock in the 5,000 - 10,000 units size band recorded the highest median operating margins. While the two smaller size bands (up to 1,000 units and 1,000 - 5,000 units) recorded lower median operating margins, there is a very weak correlation<sup>6</sup> between the number of units and this measure. The generally lower operating margins for the smallest housing associations is a likely explanation for median operating margins being somewhat lower than the English Regulator of Social Housing's analysis of VFM metrics<sup>7</sup> for organisations with more than 1,000 units.

One factor identified by the Regulator as influencing operating margins<sup>8</sup> is the proportion of supported housing in an association's stock. This is certainly evident in Sector Scorecard 2018 results. The median operating margin (overall) for participants managing the highest proportions of supported housing<sup>9</sup> was 12.76%, while providers with smaller proportions or no supported housing recorded median results similar to the national figure.

There also appears to be some relationship between other VFM metrics and the operating margin. Higher operating margins show a tendency to be associated with one or more of: higher gearing, higher reinvestment, larger development programmes and lower costs. For example, the median operating margin for an association with a comparatively large development programme is 30.08%, while the median for an association with no development is 21.31%. However these relationships are not linear and it is hard to discern causality.

### Comparison to 2017 results – operating margin (overall)

The table below outlines the change in quartile position between the two years. The calculation for this measure changed slightly between years. The VFM metric states that gain/loss on disposal of fixed assets (housing properties) is excluded from the operating surplus. In 2017 a minority of associations may have included this figure in their surpluses, but in general the years are comparable.

Operating margin (overall)	2017	2018
Quartile 3	35.83	34.09
Median	30.27	27.95
Quartile 1	21.44	21.05
Number of participants	252	252

Compared to the 2017 results, overall operating margins have decreased. Using a balanced panel of 252 organisations that recorded consistent figures, the median result for this measure dropped from 30.27% in 2017 to 27.95% in 2018. The decrease is evident across all quartiles. One of the reasons for this fall is likely to be ongoing rent reductions imposed on English housing associations over a five-year period to 2020 – which has reduced turnover. Over the same period headline costs have increased for participants, which coincides with additional expenditure on fire safety and quality works.

6. A Pearson correlation coefficient score of 0.1

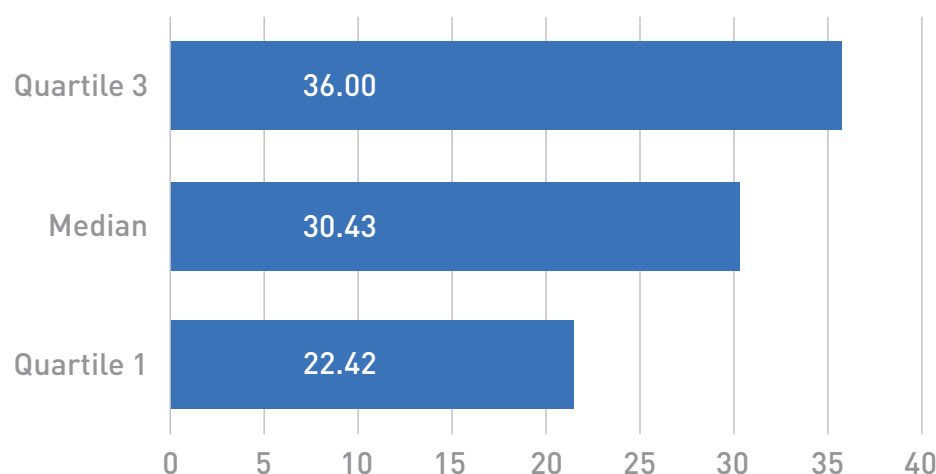
7. <https://www.gov.uk/government/publications/value-for-money-summary-and-technical-reports>

8. Ibid.

9. The top decile with more than around 13% of stock classified as supported.

## Operating margin (social housing lettings)

This measure looks at the operating margin for the part of the business that manages social housing. The chart below outlines the quartile positions for the 307 organisations that submitted data for this measure. Generally, a higher operating margin is regarded as better.



The chart shows that median operating margins for social housing lettings are just over 30%. There is a strong correlation between the operating margin (social housing lettings) and the overall figure, with a similar range between quartile 1 and quartile 3.

The profile patterns outlined for the overall measure are also applicable for social housing lettings. One exception to this is size – associations with more than 10,000 units recorded the highest median operating margin for social housing lettings. While there is no linear relationship, there does appear to be some economy of scale amongst larger organisations in this function.

There is a moderate negative correlation between participants' operating margin (social housing lettings) results and the headline social housing cost per unit.

Comparison to 2017 results – operating margin (social housing lettings)

The table below outlines the change in quartile position between the two years. The calculation for this measure changed slightly between years, but in general the years are comparable.

Operating margin (social housing lettings)	2017	2018
Quartile 3	37.25	36.20
Median	31.53	31.03
Quartile 1	24.57	23.43
Number of participants	238	238

The table shows that, similar to the overall measure, there has been a year-on-year decrease in operating margin (social housing lettings) figures. As social housing lettings is likely to make up the majority of an association's costs and turnover, this is to be expected. The English regulator found that larger associations' turnover decreased by 0.9% between 2015 and 2017 following the 1% rent cut. These results appear to show that this has continued into 2018, as shown by small reductions in margins across each quartile.

10. A Pearson correlation coefficient score of 0.8

11. A Pearson correlation coefficient score of -0.5

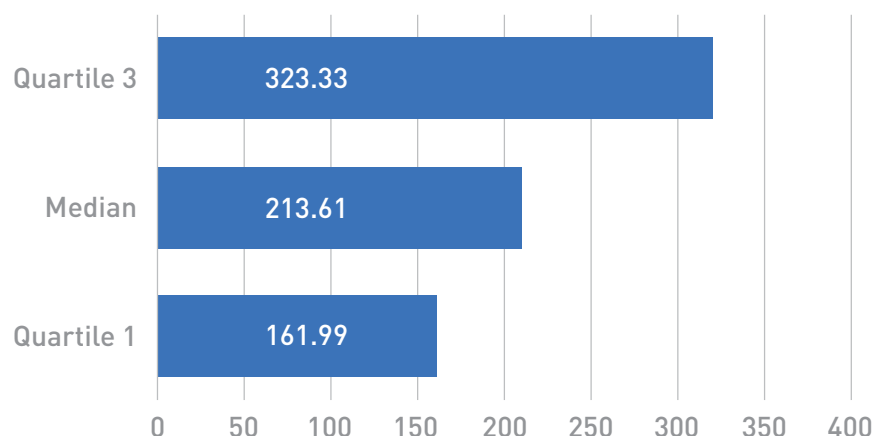
12. The VFM metric states that gain/loss on disposal of fixed assets (housing properties) is excluded from the operating surplus. In 2017 a minority of associations may have included this figure in their surpluses.



## EBITDA MRI (as % of interest)

EBITDA is an acronym for Earnings before Interest, Tax, Depreciation and Amortisation. MRI means Major Repairs Included. It measures a company's financial performance before factoring in financing decisions, accounting decisions or tax environments. EBITDA MRI 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.

The chart below shows the quartile points for the 311 organisations that submitted Sector Scorecard data for this measure. 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.



At the median point, housing associations' earnings are more than double their interest payments. This suggests that associations are prudently managing their finances, enabling them to cope with uncertainties such as a rise in interest rates. It may also reflect the maturity of their loan portfolios and could mean there is capacity to borrow more.

There are few patterns to note for EBITDA MRI (as % of interest), with no considerable differences at the median point relating to location, size band or type of housing association. The correlations with other measures are all weak or non-existent. The results for this measure showed the highest variability in our tests. There are outliers at the upper and lower end of the spectrum, as this metric only provides meaningful information for associations who borrow to invest and cover interest payments with their operating surplus.

The lowest figure was -8,487% for a small housing association with just over 100 properties. This association recorded a large capitalised major repairs figure following a comprehensive door and window replacement programme and had virtually no borrowing or interest payments in the period. This meant it had a negative earnings figure to divide by a very low interest figure – with a result that is outlying. Similarly, at the other end of the scale an association with just under 1,000 properties recorded a result over of 10,000% because it had no net debt.

## Comparison to 2017 results – EBITDA MRI (as % interest)

The table below outlines the change in quartile position between the two years for a balanced panel of organisations submitting consistent data for both years. The calculation for this measure changed slightly between years, but in general the years are comparable.

EBITDA MRI (as % interest)	2017	2018
Quartile 3	298.75	315.04
Median	228.95	211.60
Quartile 1	169.00	165.86
Number of participants	238	238

The difference between years do not suggest any particular trend, with results at quartile 3 increasing, while the median and quartile 1 points have reduced for the balanced panel of associations over the two years. Just over half the participants (130) recorded a decrease in this measure between years.

13. <https://www.gov.uk/government/publications/value-for-money-summary-and-technical-reports>

# Development (capacity & 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 % and gearing measures in this section use the same definition as the English regulator’s VFM metrics. The new supply absolute measure uses the same definition as the numerator for the new supply % calculation.

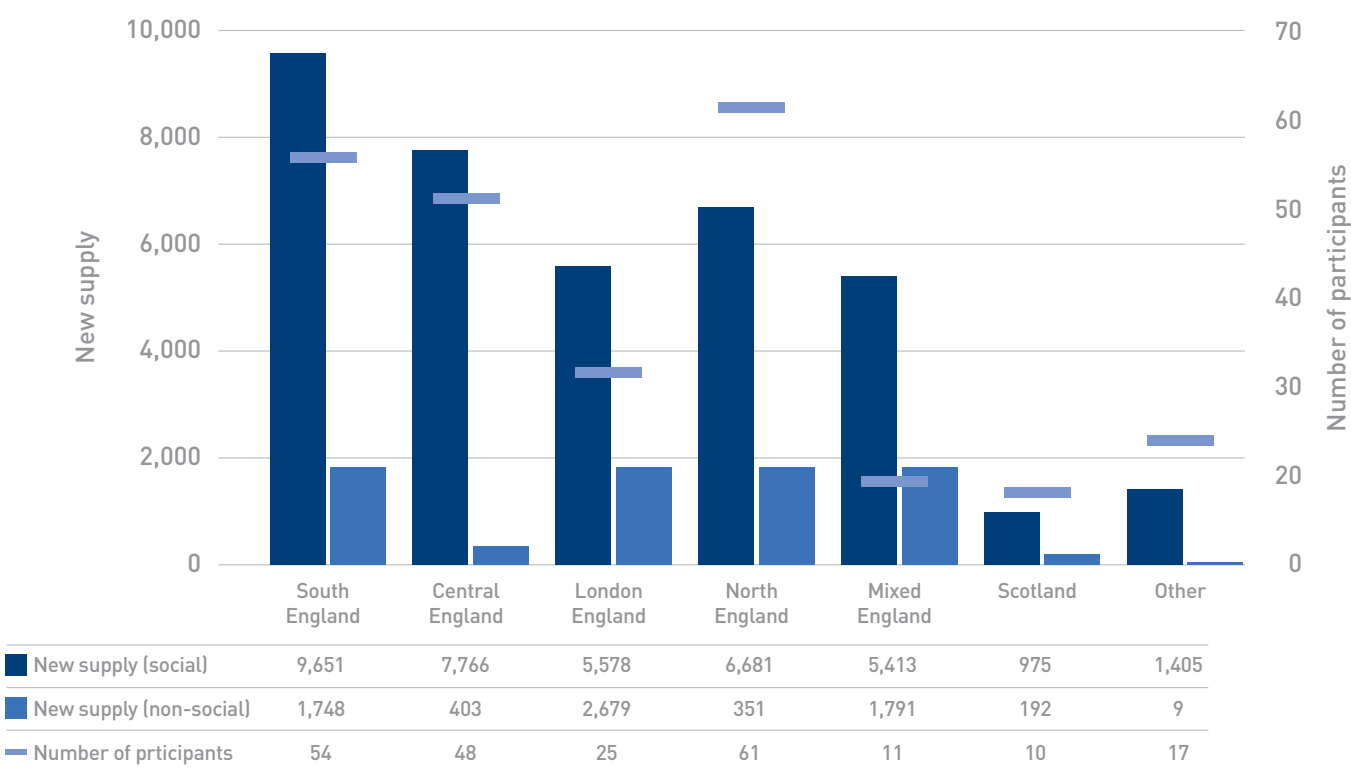
## New supply delivered: absolute (social and non-social)

In total, Sector Scorecard participants completed 44,642 new dwellings in 2017/18. Of these, English participants completed 42,061 – which accounts for around one in four of all new dwellings in the country<sup>15</sup>. Scottish Sector Scorecard participants completed 1,167 dwellings – which accounts for about 7% of the total in Scotland<sup>16</sup>.

Out of 292 organisations submitting data for this measure, 77% completed at least one new dwelling in the period.

The largest number of units developed (of any tenure) by a participant was 2,454. Six participants completed more than 1,000 dwellings in the period. All six associations were large organisations with more than 20,000 existing properties. The largest number of dwellings built by a small association with fewer than 1,000 units was 131.

The table below outlines how many properties were built by the location of participants<sup>17</sup>.



This chart demonstrates the pattern of social and non-social housebuilding across different locations and helps to show how important the housing association sector is to UK housebuilding – especially from landlords operating across multiple English regions. In high-cost areas, particularly London, housing associations rely on the surplus from market sale to cross-subsidise the delivery of affordable housing, which explains the high proportion of market sale housing in London.

15. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/720230/House\\_Building\\_Release\\_March\\_2018\\_Final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/720230/House_Building_Release_March_2018_Final.pdf)

16. <https://www.gov.scot/Topics/Statistics/Browse/Housing-Regeneration/HSFS/NewBuild>

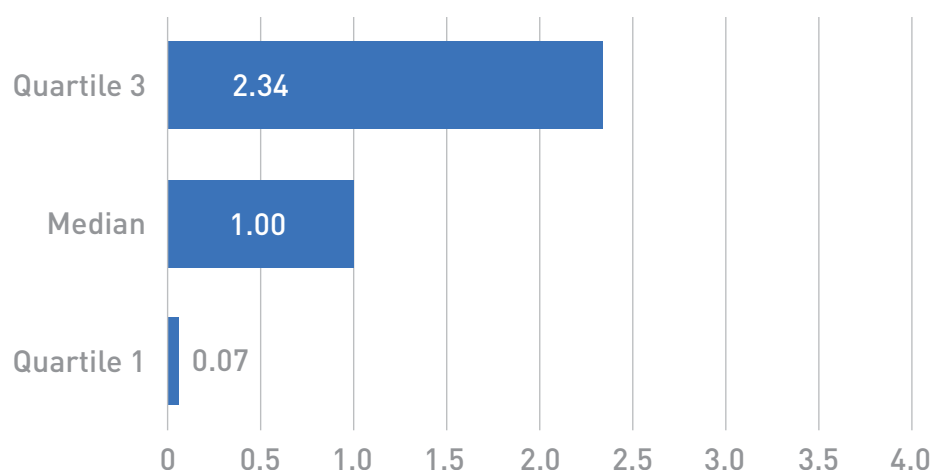
17. See Contextual information for definition of location. 'Other' includes Wales, Northern Ireland and Channel Islands. The chart excludes participants recording zero new supply for social and non-social units.

## New supply % (social)

This comparable measure allows associations to assess the size of their development programme in relation to the amount of stock they already manage. This makes it possible to compare large landlords delivering volume to smaller landlords concentrating on a particular type of provision or geographical area.

These measures follow the definition set out by the English Regulator's VFM metric. The differences between the current measures and those used in the 2017 pilot mean that there is no year-on-year comparison available.

The chart below outlines the quartile positions for the new supply % (social) measure. In total, 295 associations submitted data for this measure; of these, 222 recorded a figure above zero. Generally, larger development programmes are seen as better, but this has to be set in the context of appropriate risk management and the ongoing financial viability of the organisation.



The figures show that at the median, housing associations are developing new social housing equating to 1% of their stock in a year – this figure is lowered by the number of organisations recording zero. The median for landlords developing social housing (i.e. with a rate greater than zero) is 1.52%.

Of the 74 landlords recording zero for this measure, 67 had fewer than 5,000 units. These landlords are based across the UK, which suggests that the size of a landlord is a more of a factor than location where landlords are not developing. Due to the fluctuating nature of development programmes, some small housing associations with development programmes nonetheless recorded 0% because they had not completed any homes during the previous year.

Landlords with larger stock tend to have larger development programmes – the median for the 10,000+ units size band is 1.3%. There are, however, smaller landlords with considerable development programmes. Nine organisations recorded rates higher than 10% , all of which were smaller landlords with a maximum of 5,000 units.

Landlords based in central and southern England recorded the largest development programmes, with median rates above the national figure. Participants based in London and Scotland recorded the lowest new supply % (social) median rates at 0.14% and 0.16% respectively.

Smaller landlords were less likely to record a development programme, with more than half of those with fewer than 1,000 units recording 0% new supply % (social). There is a strong correlation<sup>18</sup> between stock size and new supply % (social), which suggests that the larger a landlord's stock, the higher the rate at which it can develop. In spite of this, a handful of landlords with fewer than 1,000 units recorded the highest percentage rates – showing this part of the sector is delivering new social housing. Smaller housing associations with lower median rates of new supply % (social) also tend to show one or more of low operating margins, low gearing, high cost per unit and low reinvestment.

18. A Pearson correlation coefficient of 0.7

## New supply % (non-social)

This VFM metric captures non-social New Supply as a percentage of all units owned by the association (social and non-social). It demonstrates how housing associations are moving towards developing non-social dwellings including outright sale, market rent and non-social leasehold units. While developing units for the open market presents a risk to housing associations, the additional surplus generated by these tenure types is used to cross subsidise the delivery of new social homes.

The quartile positions for the new supply % (non-social) measure are all zero because less than one quarter recorded any non-social completions in the year. In total, 267 associations submitted data for this measure. Of these, 66 (24.8%) recorded a figure above zero. The quartile positions for this measure highlight the fact that the majority of housing associations have not yet moved into developing non-social tenures.

Fifteen housing associations recorded non-social development rates of 1% or more. The majority of these landlords were based in London and the South of England. This pattern is evident in the quartile 3 position across different locations. Organisations based in London and neighbouring regions recorded quartile 3 figures above zero. The West Midlands quartile 3 point was just above zero, with other English regions and Scotland all recording zero at this quartile point. This pattern suggests that the model of developing non-social properties to cross-subsidise other parts of the business is necessary and viable in high-value areas but less so outside southern England.

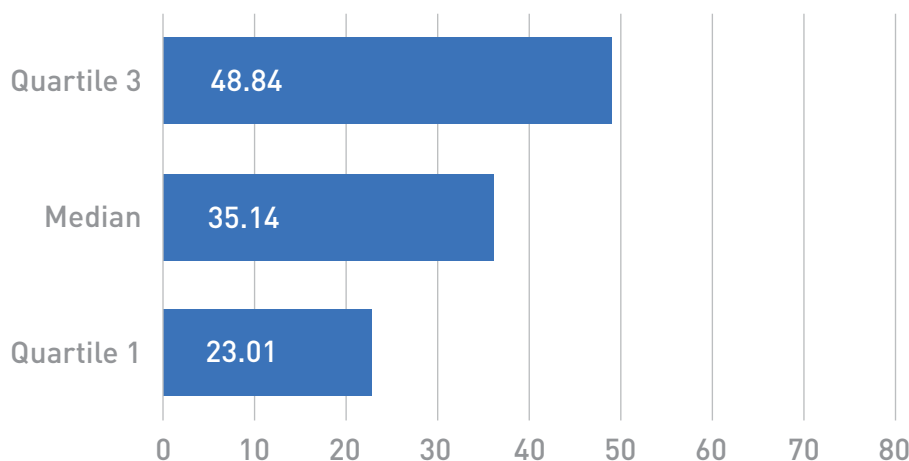
## Gearing

Gearing measures the ratio of debt to assets using a concept that is similar to mortgage lenders' loan to value measure. If the ratio 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. Gearing can also be affected by funders' lending covenants, which may set conditions in relation to borrowing levels.

There are several ways to measure gearing and little consensus about the best definition for housing associations to follow. The Sector Scorecard has adopted the English Regulator's VFM metric, which measures the proportion of borrowing (offset by cash and cash equivalents) in relation to the size of the association's asset base.

As a result of adopting the VFM metric definition, there is no comparability to the gearing measure collected in the 2017 pilot exercise (which did not offset debt with cash and cash equivalents).

The chart below shows the quartile points for the 310 organisations that submitted Sector Scorecard data for this measure. While a gearing ratio slightly above the median may demonstrate willingness to leverage assets to fund development, this measure has no real polarity.



The chart shows that the majority of landlords appear to use borrowing prudently, with half the participants recording ratios between 23% and 50%. There were 14 comparatively highly geared associations with ratios above 70%, even after offsetting borrowing against cash and cash equivalents. At the other end of the scale, there were 12 organisations who recorded negative gearing ratios, often due to cash and cash equivalents being greater than loans.

While there are no strong correlations between gearing and other VFM metrics, there are some notable patterns when associations are grouped together by comparative characteristics. Associations with no development programme – almost all small housing associations – recorded a median gearing ratio of 21%, while associations with a development programme – of any size – recorded median gearing ratios of around 40%. Lower median gearing ratios are also evident among associations with comparatively low operating margins, high costs per unit and low reinvestment rates.

By location, landlords based in the Eastern England and the Midlands recorded the highest median gearing ratios between 40% and 49%, while in London the median ratio was 31.6%. With southern England medians similar to the national figure, these results appear to be driven more by asset values than by borrowing. Landlords based in Scotland recorded the lowest median gearing ratio with a figure of 22.6%. As asset values in Scotland are comparatively low, this figure is more likely to be driven by lower borrowing and/or higher levels of cash and cash equivalents.

19. Financial Viability Assessment (FVA) completed by English housing associations with more than 1,000 units.



# 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.

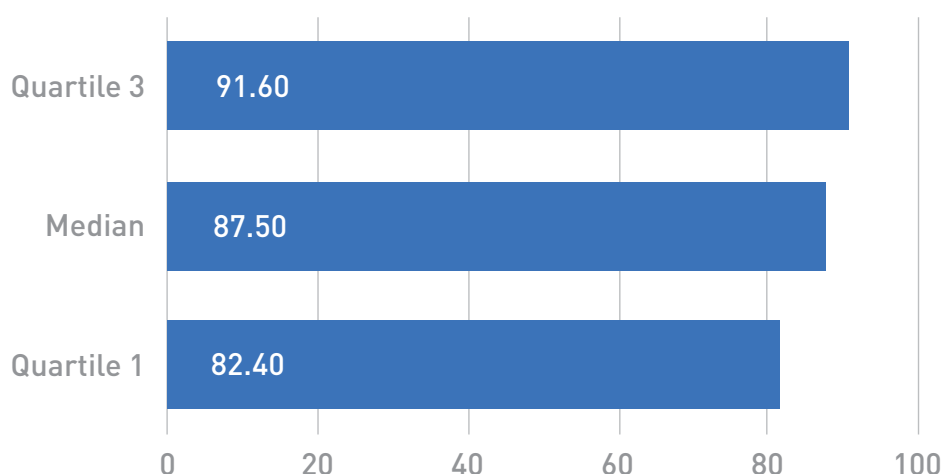
Alongside customer satisfaction, this section includes the English Regulator's reinvestment VFM metric and a measure for investment in communities, which aligns with an expenditure category in English housing associations' regulatory accounts submission<sup>19</sup>.

## Customer satisfaction

The social housing sector has a framework for periodic surveys of customer perception called STAR (survey of tenants and residents). The questions and methods have been rigorously tested allowing participants to measure customer satisfaction and to compare results with each other.

For the Sector Scorecard, associations enter the combined satisfaction score for the overall service question. This is the proportion of survey respondents who stated that they were fairly or very satisfied with the service provided by their landlord.

The chart below outlines figures supplied by 229 participants, who entered their results for tenants living in general needs and housing for older people stock. As a satisfaction measure, higher results are better than lower results.



The results show that, typically, between eight and nine tenants out of ten are satisfied with the service provided by their housing association landlord. The highest satisfaction rate was 98.7%, with four landlords recording scores of 98% or higher. At the other end of the scale, three landlords recorded satisfaction rates below 60%.

The well-documented patterns in regional satisfaction levels continue to be evident in this dataset. London-based landlords recorded the lowest median satisfaction level of 81%. Landlords based in Scotland and the North East of England recorded the highest median rates – both 91%. Apart from these results, there is no evidence of a North/South divide. The median satisfaction rates for landlords based in southern England were 88%, while in the East Midlands the median rate was 83%.

Landlords with fewer than 1,000 units recorded comparatively high satisfaction rates, with a median result of 91%. There is, however, no linear correlation between stock size and satisfaction – two of the three scores under 60% were landlords with fewer than 1,000 units. Eleven landlords in the 10,000+ units band had upper quartile satisfaction rates over 91.6%.

There are no patterns to link median satisfaction levels and VFM metrics such as gearing, operating margin, cost per unit and reinvestment.

## Comparison to 2017 results – customer satisfaction

As the Customer satisfaction measure is unchanged from the 2017 pilot exercise, it is possible to look at trends between the two years. The table below outlines the change in quartile position for a balanced panel of organisations between the two years.

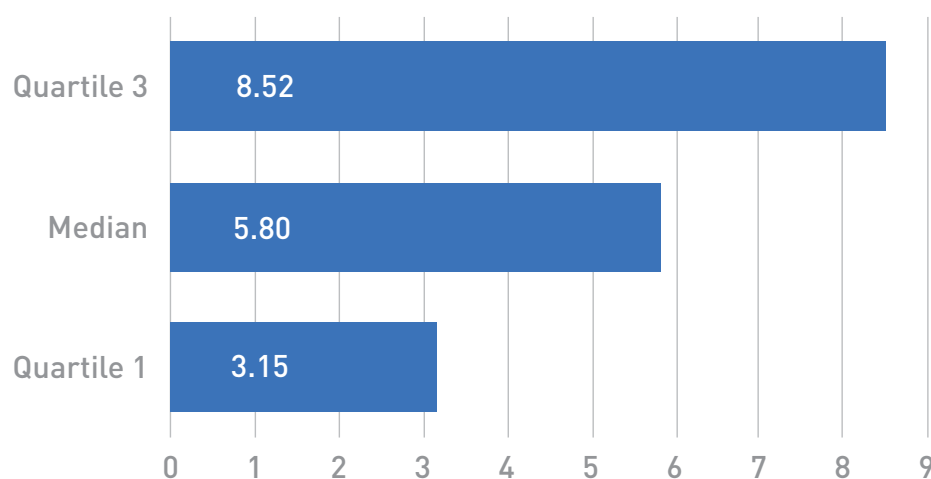
Customer satisfaction	2017	2018
Quartile 3	91.60	91.08
Median	87.25	87.00
Quartile 1	82.85	82.10
Number of participants	170	170

The results show a very slight decline in results for organisations that submitted data consistently across the two years. In spite of this, one in three organisations in the dataset recorded a rise in satisfaction between the two years. At this stage, there is no evidence of a general deterioration in tenants' perception of the overall service they receive from their landlord.

## Reinvestment %

This is a new measure for the Sector Scorecard in 2018. It adopts the English Regulator's VFM metric looking 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.

The chart below shows the quartile points for the 296 organisations that submitted Sector Scorecard data for this measure. While a higher reinvestment rate could overall be considered positive, outlying results could be the result of fluctuations in acquisitions or works programmes. The rate will also be affected by comparative property values across different locations.



The chart shows that at the median, participants are spending the equivalent of 5.8% of their assets' value on reinvestment. As an illustration, at this rate, a landlord with assets valued at £1bn would be spending £58m on items such as development and acquisition of new properties, works to existing properties and capitalised interest.

There is a moderate correlation<sup>20</sup> between reinvestment % and new supply % (social), which suggests that the comparative size of an organisation's development programme influences the level of reinvestment. This shows in results by development programme size – organisations with no development programme recorded a median reinvestment rate of 2.31% compared to 7.34% for organisations with a comparatively large development programme.

20. A Pearson correlation coefficient of 0.4

21. Large Scale Voluntary Transfer

Of the 296 organisations submitting data for this measure, six recorded 0% reinvestment rates. While all of these organisations were smaller housing associations with fewer than 5,000 properties, there is no linear correlation between stock size and the level of reinvestment. At the other end of the scale, the top 10 highest reinvestment rates were also landlords managing fewer than 5,000 properties. These observations suggest that organisations with fewer assets produce outlying results when measuring this VFM metric.

By location, the comparative value of assets appears to affect results. London-based landlords recorded a median result of 4.9% while landlords in the Midlands and northern England recorded the highest median rates of reinvestment (6.8% and 6.5% respectively). Landlords in Scotland recorded the lowest median rate by location at 4.5%. This is unlikely to be driven by asset values, and probably the result of comparatively small development programmes in Scotland.

Stock transfer housing associations recorded considerably higher median reinvestment rates compared to traditional associations. LSVTs<sup>21</sup> recorded a median reinvestment result of 7.88%, while traditional housing associations recorded a median of 4.95%. This suggests that stock transfers are fulfilling their conditions of transfer and promise to tenants by investing funds to improve stock and develop new homes.

## Investment in communities

Sector Scorecard participants are closely associated with a social mission. Investment in communities measures this through expenditure on community or neighbourhood activities such as employment skills training, money advice and community groups.

In the 2017 pilot exercise, the Sector Scorecard measure for investment in communities sought to show a ratio using a 'pennies in the pound' model. Participants found this difficult to calculate and the results were variable and difficult to interpret. For the 2018 exercise, the measure has been simplified so that it just records the expenditure relating to investment in communities without calculating a comparable rate.

In total, 204 organisations submitted data for this measure. About one quarter (54) of organisations recorded £0 for this measure. At the other end of the scale, 24 organisations recorded expenditure over £1m. While most of these £1m+ organisations were in the largest 10,000+ units size band, two landlords were in the size bands under 5,000 units.

Overall, participants recorded around £88m of investment in communities: a considerable amount for a charitable sector to be investing in addition to the already significant investment it makes in homes and infrastructure.

The table below shows how community investment compares between organisations of different sizes. The figures include organisations who recorded £0 for investment in communities. The calculations use a mean average.

Size band	Investment in community activities per participant	Investment in community activities per property	Number of participants
Under 1,000 units	£45,622	£93	57
1,000 - 5,000 units	£208,468	£74	70
5,000 - 10,000 units	£479,000	£69	32
10,000+ units	£1,252,584	£52	45
Overall	£435,723	£58	204

The results show that while larger landlords are investing large sums in community activities, landlords in the smallest size band invest almost 80% more on a per property basis. This suggests, that while smaller housing associations tend not to borrow money to invest in new supply, they are performing worthwhile activities by investing in the communities where they manage and maintain tenants' homes. This is echoed in the results by location, where Scottish participants' community investment was £119 per property.

# 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 and continue to see a sustained financial, social and environmental return in the long term.

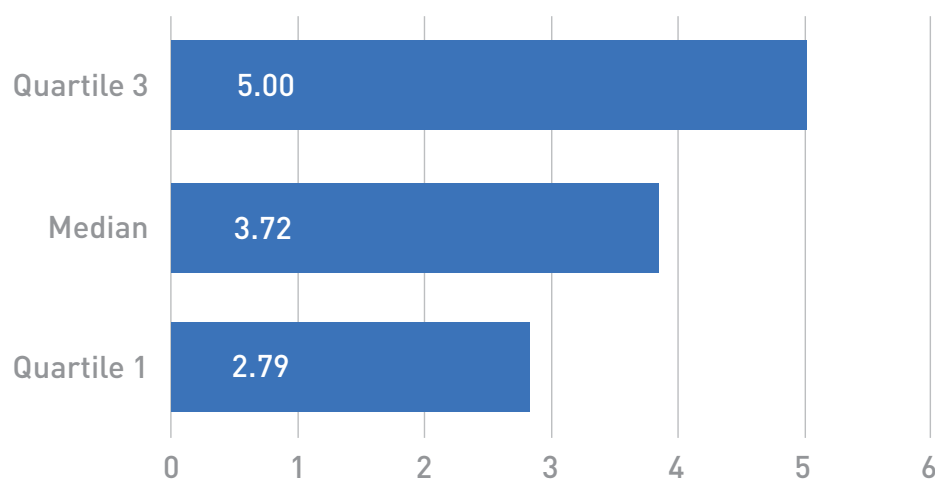
All three measures in this section were part of the Sector Scorecard 2017 pilot exercise. One measure – return on capital employed (ROCE) – is aligned with the English Regulator's VFM metric.

## 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. It is a commonly used ratio to assess the efficient investment of capital resources. The ROCE metric supports associations with a wide range of capital investment programmes. However, it can be influenced by the nature of the organisation's property portfolio (e.g. balance between market and social rent, age of stock, historic debt, basis of valuation).

While ROCE is like operating margin in that it uses an association's surplus in the numerator, unlike operating margin it measures this against the amount of capital in an association's asset base. Put simply, this means that an association's surplus is compared to the value of its properties.

This chart outlines the return on capital employed (ROCE) quartile points for the 311 Sector Scorecard participants who submitted data for this measure. Generally, higher returns are perceived as better.



At the median point, participants recorded a return of 3.72% on their capital employed, which includes fixed assets and current assets less creditors where the amount is due within one year. Two organisations recorded a negative ROCE rate where they incurred net losses on the disposal of fixed assets and/or made an operating deficit. Four organisations recorded ROCE rates above 20% – all of these were smaller associations with fewer than 5,000 properties.

By location, English associations based in regions outside London recorded median rates above the national figure. Organisations based in London and Scotland tended to record lower ROCE rates. At the median London-based associations recorded a ROCE rate of 3.16% – this is likely to be due to asset values being considerably higher than the sub-market rents that make up most of the 'return'. In Scotland, the median ROCE rate of 2.64% is likely to be a result of lower rent levels bringing in a smaller return compared to the asset base.

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. In spite of this, there are no notable correlations with other Sector Scorecard measures.

22. The VFM metric definition states that only gain/loss on disposal of fixed assets (housing properties) is included in the operating surplus. Previously, this figure covered gain/loss on disposal on all fixed assets, which included plant and equipment as well as housing properties.

## Comparison to 2017 results – return on capital employed (ROCE)

The table below outlines the change in quartile position between the two years for a balanced panel of participants. The calculation for this measure changed slightly between year<sup>22</sup>, but generally the two years are comparable.

Return on capital employed (ROCE)	2017	2018
Quartile 3	5.05	5.11
Median	4.00	3.80
Quartile 1	3.00	2.90
Number of participants	240	240

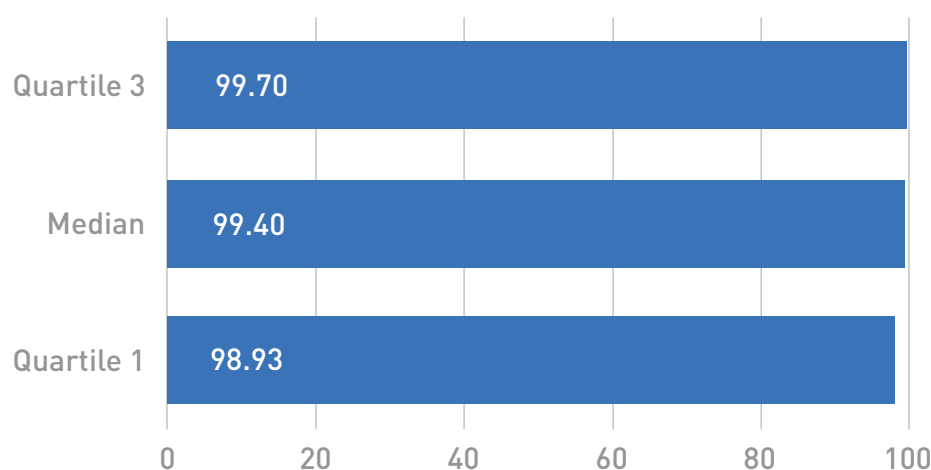
The results show a slight widening of the range of results between the two years, with a 0.2 percentage point drop in the median ROCE rate. This is likely to be linked to the small decrease in operating margins between the years – suggesting that surpluses for many participants fell between 2016/17 and 2017/18, in comparison to turnover as well as asset values.

Just over half the participants (130) recorded a decrease in ROCE rate between the two years, while 99 organisations recorded an increase. Housing associations recording the largest fluctuations between years tended to be smaller landlords with fewer than 5,000 properties.

## Occupancy

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) 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. The measure is taken as a snapshot at the end of the benchmarked period.

The chart below outlines the quartile points for the 282 participants that submitted occupancy figures as a snapshot at the end of the financial year. Higher occupancy rates are seen as better.



The quartile points for this measure are very close together with a range between quartile 1 and quartile 3 of less than one percentage point. At the median point an occupancy rate of 99.4 equates to around six empty properties for every 1,000 managed by the landlord.

23. HouseMark online reporting tool 2018; Voids and Lettings analysis 2010-15

24. Tenth decile of landlords by proportion of stock that is supported housing



Two organisations in the dataset recorded rates below 90%, while 26 recorded 100% occupancy rates. These organisations tended to be smaller landlords with fewer than 5,000 properties. While there is a tendency for smaller landlords to record higher occupancy rates, there is no linear correlation to link the two measures. This means that associations in the smallest size band perform comparatively well at this measure, but occupancy rates tend to vary across the larger size bands.

Landlords in the North East of England recorded the lowest median occupancy rate (98.9%). This concurs with HouseMark research, which has shown that landlords in this location reported the highest proportion of vacant properties<sup>23</sup> and is symptomatic of comparatively lower demand for social housing.

Landlords with a comparatively high proportion of supported housing recorded a lower median occupancy rate than landlords with small proportions or no supported housing. Landlords in this top band<sup>24</sup> recorded a median rate of 99.15% occupancy, compared to 99.40% for landlords with some supported housing and 99.60% for landlords with no supported housing. This suggests that occupancy levels of supported housing are likely to be lower than general needs properties.

There are no notable patterns between the financial measures in the Sector Scorecard and the occupancy measure.

## Comparison to 2017 results – occupancy

As the occupancy measure is unchanged from the 2017 pilot exercise, it is possible to look at trends between the two years. The table below outlines the change in quartile position for a balanced panel of organisations between 2017 and 2018.

Occupancy	2017	2018
Quartile 3	99.75	99.70
Median	99.50	99.43
Quartile 1	99.00	99.00
Number of participants	225	225

At the median point, there has been a slight decrease in occupancy between the two years. Put in context, this means that a landlord with 10,000 properties would have had 9,950 occupied at the end of March 2017, but 9,943 occupied at the end of March 2018. This increase of seven empty properties for a large landlord between the two years demonstrates that the change is small. With more years' data, it will be possible to understand whether this is a trend or a natural fluctuation.

Of the 227 participants with consistent year-on-year data, just over half (119) recorded a decrease in occupancy, while 37% recorded an increase in occupancy. Eleven organisations recorded 100% occupancy across both years.

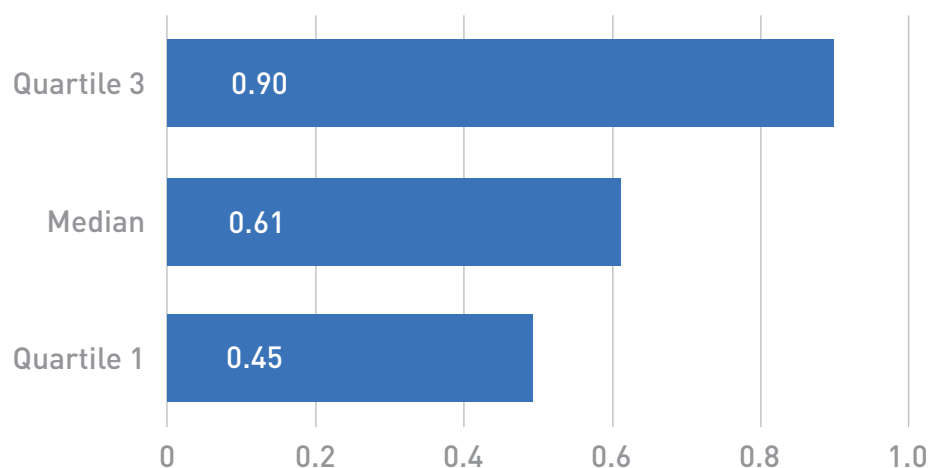
## Ratio of responsive repairs to planned maintenance

Effective planning based on detailed stock condition surveys and understanding of assets potentially allows the sector to reduce spend on responsive repairs in favour of planned maintenance. There is an assumption that planned work is the more cost-effective way of maintaining properties.

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.

The chart over outlines the quartile points for the 286 organisations that submitted data for the ratio of responsive repairs to planned maintenance. Generally, a lower ratio of responsive repairs to planned works is considered better, though there are likely to be explanatory reasons for ratios that are at either end of the scale. This measure may also be affected by cyclical fluctuations in expenditure.

25. Pearson correlation coefficient of -0.4



The chart shows that at the median, participants' expenditure on responsive repairs equates to around 61% of their planned maintenance expenditure. For example, if an association recorded £10m planned maintenance expenditure, a 0.61 result would indicate responsive repairs expenditure of £6.1m.

57 landlords recorded results over 1.00, which means they spent more on responsive repairs than on major repairs in the period. There was no particular pattern to note as these landlords were of varying size, type and location. This suggests that organisational characteristics do not influence comparative expenditure on responsive and major repairs.

This measure shows a moderately strong negative correlation<sup>25</sup> to housing associations' major repairs cost per unit, which is an indication that comparatively high expenditure on major repairs will make this ratio smaller. As expenditure on major repairs tends to fluctuate between years, this ratio is likely to change quite considerably for individual organisations. However, the overall effect on quartiles is small in a dataset of this size as different organisations will be at different stages of repairs cycles when the figures are taken.

This ratio has some discernible patterns relating to financial Sector Scorecard measures. Landlords with a low headline cost per unit recorded a higher ratio for this measure, which suggests that the major repairs component of the headline cost could be driving the overall figure. This may mean that a high headline cost per unit is simply reflecting a large amount of major repairs expenditure in a year rather than inefficiency – especially if there is a comparatively low ratio of responsive repairs to major repairs.

## Comparison to 2017 results – ratio of responsive repairs to planned maintenance

The ratio of responsive repairs to planned maintenance measure is unchanged from the 2017 pilot exercise, so it is possible to look at a trend. The table below outlines the change in quartile position for a balanced panel of organisations between the two years.

Ratio of responsive repairs to planned maintenance	2017	2018
Quartile 3	0.98	0.89
Median	0.64	0.66
Quartile 1	0.44	0.45
Number of participants	227	227

At the median point there has been a slight increase in the ratio of responsive repairs to planned maintenance, though it is worth noting the considerable decrease in the ratio for quartile 3. These results are due to a slightly larger number of organisations recording an increase in this ratio (112) compared to those recording a decrease (108), but there were fewer organisations with outlying high ratios in 2018. This suggests that there are a good deal of small fluctuations in the results between years as repairs budgets change.

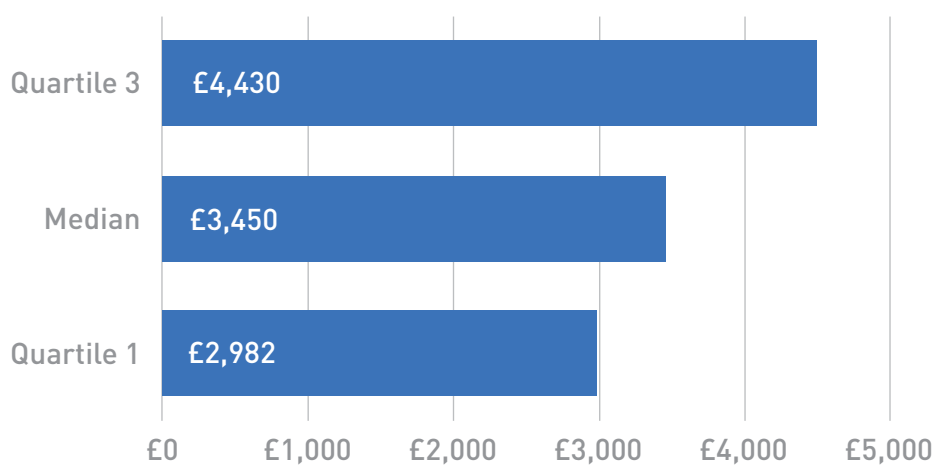
# Operating efficiencies

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<sup>26</sup> 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.

The chart below outlines the quartile points for the 311 organisations that submitted data for the headline cost per unit measure. It is important for associations to understand their cost drivers and the outcomes they are achieving by incurring this expenditure.



At the median point, housing associations spend £3,450 each year managing and maintaining each social housing property. Underneath this, there is some variation. One organisation recorded a unit cost of just over £1,000 per unit while four recorded cost per unit figures of over £10,000.

There is a moderately strong negative correlation<sup>27</sup> between the headline social housing cost per unit and operating margin (social housing lettings). As expected this indicates a tendency for higher cost landlords to have lower operating margins, all else being equal.

This is a measure where there is an identifiable 'London effect'. The median cost per unit for landlords based in London was £4,884, which is £1,400-£1,700 more than the median cost per unit for other locations. Scottish landlords recorded the second highest median cost per unit at £3,402.

There is a tendency for landlords in the smaller size bands to record higher cost per unit figures. Landlords with fewer than 1,000 properties recorded a median cost per unit of £4,004, compared to a median cost per unit of £3,210 for landlords in the 10,000+ units band. There is, however, no linear correlation between the two measures – five out of the 20 associations with a cost per unit below £2,500 had fewer than 1,000 units. This shows that smaller housing associations can achieve low cost per unit results.

Associations managing a large proportion of supported housing properties recorded a median cost per unit of £5,339, which is almost £2,000 per unit higher than the national median. This corresponds with findings in the English Regulator's regression analysis from 2018<sup>28</sup>, which states 'this is due to the high support costs and broader range of activities they undertake'.

26. And Financial Viability Assessments where completed

27. A Pearson's correlation coefficient of 0.5

28. <https://www.gov.uk/government/publications/value-for-money-summary-and-technical-reports>

## Comparison to 2017 results – headline social housing cost per unit

The calculation for this measure changed slightly between years. In 2017 the denominator for this measure was 'social housing units managed'. Aligning with the English regulatory VFM metric means the 2018 denominator is 'social housing units owned and/or managed'. While there will be some differences (owing to units owned and not managed), in general the years are comparable.

The table below outlines the change in quartile position for a balanced panel of organisations between the two years.

Headline social housing cost per unit	2017	2018
Quartile 3	£4,369	£4,502
Median	£3,291	£3,439
Quartile 1	£2,872	£2,977
Number of participants	233	233

The results show an increase of £148 per unit at the median point, with rises in quartile points 1 and 3 of £105 and £133 respectively. At the median point the rise represents an increase in costs of 4.5%, which is higher than the 2.5% CPI inflation rate for the year to March 2018<sup>29</sup>. This is likely to be the result of a combination of factors, including higher operational costs as a result of fire safety and quality assurance measures.

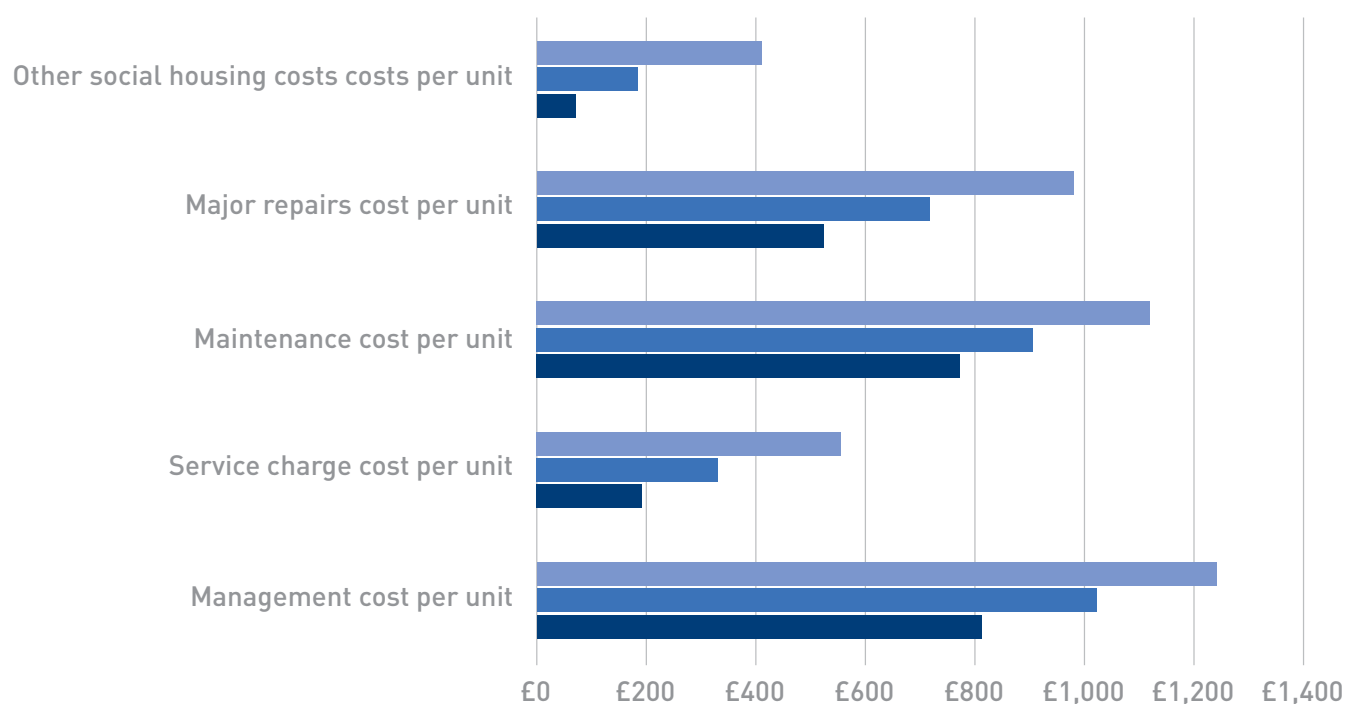
## Unit cost breakdown

Sector Scorecard participants could opt to enter the breakdown of their headline social housing cost per unit into its component parts:

- management cost per unit
- service charge cost per unit
- maintenance cost per unit
- major repairs cost per unit
- other social housing costs cost per unit.

29. <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7g7/mm23>

The chart below outlines the quartile points for these measures. Around 245 associations submitted data for each breakdown measure.



	Management cost per unit	Service charge per unit	Maintenance cost per unit	Major repairs cost per unit	Other social housing costs cost per unit
Quartile 3	£1,241	£559	£1,121	£983	£412
Median	£1,024	£332	£907	£720	£186
Quartile 1	£813	£193	£775	£525	£74

While the headline cost per unit is widely understood, there are few 'rules' governing which category the headline costs are broken down into. This leads to wide variation as some associations split out service charges and others pool them. The terms 'management' and 'maintenance' are also open to interpretation as management can cover both housing management and management of maintenance contracts<sup>30</sup>. The 'other' category's wide variation reflects the diversity of the sector and the nature of each business as it can cover items such as support provision, leasing temporary accommodation and non-capitalised development costs.

## Rent collected

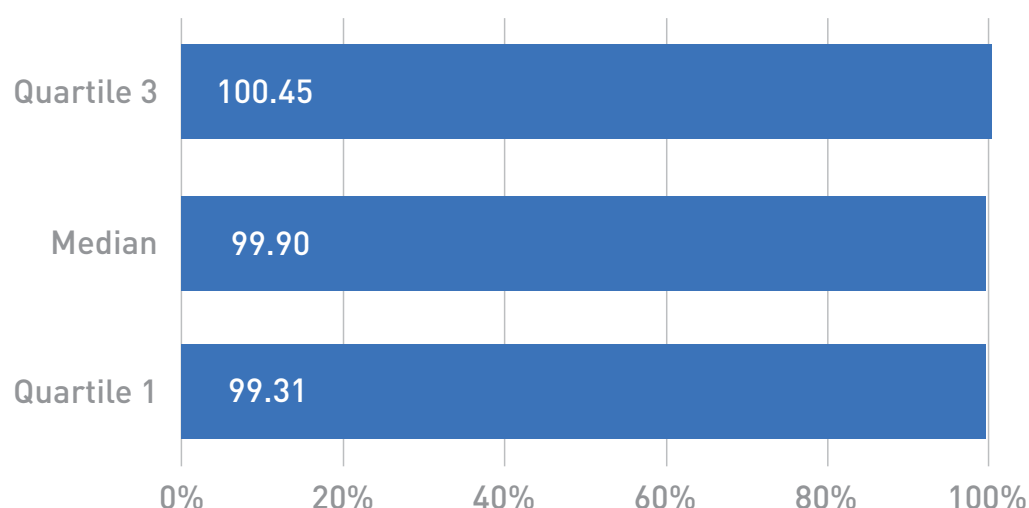
This Sector Scorecard measure demonstrates the effectiveness of the income management function in collecting rent due and managing arrears levels. Income management has been the subject of much attention recently as government-led reforms have changed the way rent is paid and increased the risk of tenant arrears. HouseMark research has found that, while performance levels for this activity have improved in recent years, the cost of providing this function has risen in real terms<sup>31</sup>.

The managed migration from Housing Benefit paid by the local authority to Universal Credit paid by the tenant poses considerable risks to housing associations as income will not arrive in four-weekly block payments and individuals will need to be approached for rent payments. Rent collection rates will be a crucial measure of operational performance going forward, as it accounts for a large proportion of turnover.

The chart below outlines the quartile points for the 280 landlords that submitted data for rent collected (excluding arrears brought forward) from general needs and housing for older people tenants. Generally, higher collection rates are seen as better.

30. In Scotland the category does include maintenance management  
31. Welfare Reform Impact report HouseMark:2016





The differences between each quartile are small in percentage terms, but the amounts they represent are large. An association with 10,000 units could have an annual rent roll of £50m, so 0.10% of this figure represents £50,000 of rent.

The chart shows that, nationally, housing associations are efficient at collecting rent. While 8 in 10 landlords collected at least 99% of rent due, 127 landlords in the dataset recorded collection rates of 100% or more – which means they collected all the rent due and reduced their arrears.

London-based landlords recorded the highest median collection rate of 100.20%. Landlords based in the South West and North West of England also recorded median collection rates above 100% (100.10% and 100.02% respectively). The differences in operating conditions between these three regions indicate that there is no pattern to rent collection influenced by location.

There is some relationship between the size of a landlord's stock and its rent collection rate. The median rate for landlords collecting rent from fewer than 1,000 units was 100.06%. This compares to a median rate for landlords in the 10,000+ units band of 99.80%. In spite of this, there is no correlation between the two measures – landlords in the 5,000 - 10,000 units size band recorded the lowest median rate of 99.77%.

### Comparison to 2017 results – rent collected

The rent collected measure is unchanged from the 2017 pilot exercise, so it is possible to look at a trend. The table below outlines the change in quartile position for a balanced panel of organisations between the two years.

Rent collected %	2017	2018
Quartile 3	100.33	100.40
Median	99.74	99.90
Quartile 1	99.30	99.39
Number of participants	204	204

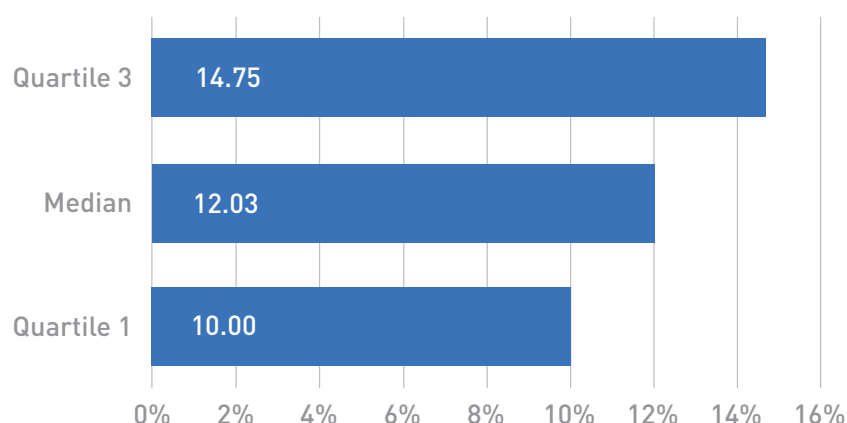
The results show a clear increase in rent collection rates across all quartiles. At the median point a rise in collection rates of 0.16 percentage points represents an additional £80,000 in income for a landlord with a £50m rent roll. Of the 204 landlords in the dataset 110 recorded an increase in rent collection. This suggests that housing associations are concentrating efforts on rent collection, perhaps in preparation for the further rollout of Universal Credit in 2019.

## Overheads as % adjusted turnover

This Sector Scorecard measure shows the proportion of an organisation's adjusted 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. It is the actual cost of overheads divided by the organisation's adjusted turnover. The turnover recorded in an association's financial statements is adjusted to make valid comparisons, for example by removing sales income. Overheads are calculated by mapping employee time and costs as well as revenue expenditure to activities identified as overheads.

The chart below outlines the quartile positions for the 227 organisations submitting data for the overheads measure. While lower figures are generally considered to be 'better', there may be justifiable reasons for higher figures.



The chart shows that, at the median, housing associations spend around one eighth of their adjusted turnover on back office functions. While most landlords' overheads account for between 10% and 15% of adjusted turnover, five landlords recorded a rate lower than 5% and five recorded rates higher than 25%. All but one of these organisations were smaller housing associations with fewer than 5,000 units.

There is some relationship between this measure and the size of an organisation. The median result for landlords with fewer than 1,000 units was 14.23%, while landlords in the 10,000+ units size band recorded a median result of 10.59%. There is, however, only a weak correlation<sup>32</sup> between stock size and the overheads measure – which is exemplified by the outlying low results recorded by smaller associations. This means it is not possible to say that larger organisations always benefit from economies of scale in this area.

## Comparison to 2017 results – overheads as % of adjusted turnover

The overheads as a percentage of adjusted turnover measure is unchanged from the 2017 pilot exercise, so it is possible to look at a trend. The table below outlines the change in quartile position for a balanced panel of organisations between the two years.

Overheads as % of adjusted turnover	2017	2018
Quartile 3	15.11	15.02
Median	12.25	12.30
Quartile 1	9.44	10.02
Number of participants	166	166

The results show that while there has been a small increase at the median point, there has been a larger increase at quartile 1 and a decrease at quartile 3. The result of this is a smaller range between quartile 1 and quartile 3, which means there is less variation in the results. Of the 166 participants, 86 recorded a rise in overheads as a percentage of adjusted turnover. With the split between increases and decreases in the measure being fairly even, the results suggest that there is no considerable change in overheads between years.

32. A Pearson correlation coefficient of 0.2

# Conclusions

The participation rate and sector coverage of the 2018 Sector Scorecard once again demonstrates housing associations' commitment to transparency, and to demonstrating and improving value for money and efficiency. Despite a challenging external environment and pressure on costs, housing associations' financial and operational performance remains robust.

The sector is responding to the call from the Government to invest in building new homes, delivering one quarter of all the houses built in England last year. And they are committed to being responsible landlords and safeguarding the safety of residents, which has led to greater investment in fire safety measures and other risk mitigation techniques.

This, along with the ongoing rent reduction, explains a very slight drop in performance against some of the financial measures compared to last year. However, trend data is still inconclusive only two years into the Sector Scorecard. As it emerges in future years the analysis will be further strengthened.

Variation in performance across measures demonstrates the value of continued benchmarking and evaluation across a wide range of measures covering both financial and operational performance. It is vital that the sector continues to measure what is important to boards, executive teams and tenants, as well as the Regulator. The fact that the Sector Scorecard is owned and led by the sector allows us to do this.

# Appendices

## Appendix 1: Sector Scorecard definitions

Sector Scorecard definitions are also available online from [www.sectorscorecard.com](http://www.sectorscorecard.com)

\* Denotes where the measure is an English regulatory VFM metric

### 1 Definitions – business health

#### 1.1 RSH 101 – operating margin (overall) \*

The operating margin demonstrates the profitability of operating assets before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of a business. When the Regulator assesses this ratio, consideration is given to registered providers' purpose and objectives (including their social objectives). Further consideration is also given to specialist providers who tend to have lower margins than average.

Operating margin (overall) =  $(A \div B) \times 100$

A = Overall operating surplus/(deficit), not including any gain/(loss) on disposal of fixed assets (housing properties). Similarly, results of JVs are not included in either turnover or operating surplus.

B = Turnover (overall)

Source = statutory financial statements or FVA. Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: [Accounting Direction 2015](#).

#### 1.2 RSH 102 – operating margin (social housing lettings) \*

Operating margin (social housing lettings) =  $(A \div B) \times 100$

A = Operating surplus/(deficit) on social housing lettings, not including gain/(loss) on disposal of fixed assets (housing properties). Similarly, results of JVs are not included in either turnover or operating surplus.

B = Turnover from social housing lettings

Source = statutory financial statements or FVA. Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: Accounting Direction 2015.

#### 1.3 RSH 103 – EBITDA MRI (as % interest) \*

**NB: definition has been updated for 2018**

The EBITDA MRI interest cover measure is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus that a registered provider generates compared to interest payable. The measure avoids any distortions stemming from the depreciation charge.

EBITDA MRI (as % interest) =  $(\text{EBITDA MRI} \div \text{gross interest payable}) \times 100$

EBITDA MRI = [Overall operating surplus / (deficit)

- Gain/(loss) on disposal of fixed assets (housing properties)

- Amortised government grant

- Grant taken to income

+ Interest receivable

- Capitalised major repairs expenditure for period

+ Total depreciation charge for period]

Gross interest payable = [interest capitalised + interest payable and financing costs]

Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: Accounting direction 2015.

### 2 Definitions – development (capacity and supply)

#### 2.1 New supply delivered: absolute

##### 2.1.1 SS 201A – social housing units

This uses the numerator for the RSH VFM metric on new supply (social housing).

Total social housing units developed or newly built units acquired in-year (owned):

- Social rent general needs housing (excluding affordable rent)
- Affordable rent general needs housing
- Social rent supported housing and housing for older people (excluding affordable rent)

- Affordable rent supported housing and housing for older people
- Low Cost Home Ownership
- Care homes
- Other social housing units
- Social leasehold

MHCLG definition of completion: in principle, a dwelling is regarded as completed when it becomes ready for occupation or when a completion certificate is issued whether it is in fact occupied or not.

Newly-built acquired properties includes new dwellings built where construction is carried out by another entity (such as newly-built S106 acquisitions).

A unit completed by a joint venture with a private sector partner should be counted as a whole unit. A unit completed by a joint venture with another registered provider should be counted as a whole unit only by the provider that will own the unit (to avoid double counting).

## 2.1.2 SS 201B – non-social housing units

This uses the numerator for the RSH VFM metric on new supply (non-social housing).

Total non-social units developed or newly built units acquired in-year (owned):

- Total non-social rental housing units owned
- Non-social leasehold units owned
- New outright sale units developed or acquired

MHCLG definition of completion: in principle, a dwelling is regarded as completed when it becomes ready for occupation or when a completion certificate is issued whether it is in fact occupied or not.

Newly-built acquired properties includes new dwellings built where construction is carried out by another entity (such as newly-built S106 acquisitions).

A unit completed by a joint venture with a private sector partner should be counted as a whole unit. A unit completed by a joint venture with another registered provider should be counted as a whole unit only by the provider that will own the unit (to avoid double counting).

## 2.2 New supply delivered %

### 2.2.1 RSH 204 A – social housing units

**NB: new definition for 2018**

New social housing supply delivered as a percentage of stock owned, during the period April – March.

$[A / B] * 100$

A = Total social housing units developed or newly built units acquired in-year (owned) [social rent general needs housing (excluding affordable rent), affordable rent general needs housing social rent supported housing and housing for older people (excluding affordable rent), affordable rent supported housing and housing for older people, low cost home ownership, care homes, other social housing units, social leasehold]

B = [Total social housing units owned at period end ('social units' as defined in numerator)]

MHCLG definition of completion: In principle, a dwelling is regarded as completed when it becomes ready for occupation or when a completion certificate is issued whether it is in fact occupied or not.

Newly-built acquired properties includes new dwellings built where construction is carried out by another entity (such as newly-built S106 acquisitions).

A unit completed by a joint venture with a private sector partner should be counted as a whole unit. A unit completed by a joint venture with another registered provider should be counted as a whole unit only by the provider that will own the unit (to avoid double counting).

### 2.2.2 RSH 205 B – non-social housing units

**NB: new definition for 2018**

New non-social housing supply delivered as a percentage of stock owned, during the period April – March.

$[A / B] * 100$

A = [Total non-social units developed or newly built units acquired in-year (owned)]

[Total non-social rental housing units owned, non-social leasehold units owned, new outright sale units developed or acquired]

B = [Total social housing units owned (period end)]

+ total non-social rental housing units owned (period end)

+ social leasehold units owned (period end) [if not included in total social housing units owned]

+ non-social leasehold units owned (period end)]

MHCLG definition of completion: In principle, a dwelling is regarded as completed when it becomes ready for occupation or when a completion certificate is issued whether it is in fact occupied or not.

Newly-built acquired properties includes new dwellings built where construction is carried out by another entity (such as newly-built S106 acquisitions).

A unit completed by a joint venture with a private sector partner should be counted as a whole unit. A unit completed by a joint venture with another registered provider should be counted as a whole unit only by the provider that will own the unit (to avoid double counting).

## 2.3 RSH 203 – gearing \*

**NB: definition has been updated for 2018**

This metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance. It is often a key indicator of a registered provider's appetite for growth.

Gearing = (net debt ÷ carrying value of housing properties) x 100

Net debt = sShort-term loans

+ long-term loans

- cash and cash equivalents

+ amounts owed to group undertakings

+ finance lease obligations]

Carrying value of housing properties = [tangible fixed assets: housing properties at cost (period end) / tangible fixed assets: housing properties at valuation (period end)]

The English Regulator recognises that there is a wide variety of different gearing measures in use across the sector. Different organisations will use different metrics to reflect the nature of their business and their existing loan covenants. In order to reflect the growing number of providers who operate through the capital markets in which to access funding, this metric measures gearing on a net debt basis.

This will provide a more meaningful measure of the financial position of the significant minority of providers who have recently raised funding from the capital markets and therefore hold a significant amount of cash, in preparation for a range of investment programmes. The English Regulator recognises that registered providers can be restricted by lenders' covenants and therefore may not have the ability in which to increase the loan portfolio despite showing a relatively average gearing result.

Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: Accounting Direction 2015.

## 3 Definitions – outcomes delivered

### 3.1 STA 001 GN/OP – customer satisfaction GN and OP

Percentage of respondents very or fairly satisfied that their landlord's services overall. In line with STAR guidance. Includes general needs and housing for older people.

### 3.2 RSH 304 – reinvestment %\*

NB: new definition for 2018

This metric looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.<sup>33</sup>

Reinvestment % = [A ÷ B] x 100

A = [Properties acquired (total housing properties)

+ development of new properties (total housing properties)

+ works to existing (total housing properties)

+ capitalised interest (total housing properties)

+ schemes completed (total housing properties)]

B = [tangible fixed assets: housing properties at cost (period end) / tangible fixed assets: housing properties at valuation (period end)]

Source: Statutory financial statements (cash flow statement). Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: Accounting Direction 2015.

### 3.3 SS 303 – investment in communities

**NB: definition has been updated for 2018**

Community investment is expenditure on community or neighbourhood activities (e.g. employment skills training, money advice, community groups etc.). This does not include capitalised spend or spend on estates recovered through service charges.

For providers submitting an FVA, this should align with the FVA heading 'Community / neighbourhood services'.

Note: There may be inconsistency in how community investment is measured and it could underestimate the overall community impact that housing associations have. The Sector Scorecard's advisory group agreed that "£s invested in communities" will be collected in 2018, but it will be collected as actual spend (rather than as a percentage of money generated) and that housing associations will be able to analyse it with reference to income generated, or per property, within the Sector Scorecard dashboard itself.

## 4 Definitions – effective asset management

<sup>33</sup> This metric is not based on cashflow data given the limitations on data collected as part of the FVA regulatory return.

#### 4.1 RSH 401 – return on capital employed (ROCE) \*

This metric compares the operating surplus to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources.

$$\text{ROCE} = (A \div B) \times 100$$

A = Return [operating surplus / (deficit) (overall) including gain / (loss) on disposal of fixed assets (housing properties) + share of operating surplus/(deficit) in joint ventures or associates]

B = Capital employed [=total fixed assets + total current assets - current liabilities]

NB. Gain / (loss) on disposal of fixed assets (housing properties) is not usually included in operating surplus. Similarly, results of JVs are not usually included in either turnover or operating surplus. However, these results are included in this measure as they can be considered to form part of the return on the capital investment in either fixed assets or joint ventures.

Source = statutory financial statements or FVA. Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: Accounting Direction 2015.

#### 4.2 SS 402 – occupancy

General needs only:

$$\text{Occupied units} \div (\text{occupied units} + \text{vacant units}) \times 100$$

This percentage should be the inverse of your vacant properties available and unavailable to let measure.

Units in the following states would be considered to be available for letting:

- first let and ready for immediate occupation
- re-let and ready for immediate occupation
- to be let or re-let after minor repairs or normal maintenance and redecoration work between lets
- the previous tenant is no longer being charged rent and no works are required before a new tenant can move in
- handed over from a contractor, development section or maintenance section on completion of works, for new letting or re-letting, and is in a satisfactory condition for letting.

Units would not be considered available for letting:

- awaiting improvement, conversion, repair or other works
- awaiting sale
- unauthorised occupation
- waiting to be demolished.

Additionally, a unit can only be considered as being available for letting if it can be freely let by the provider.

Source: definition of available and unavailable for letting are aligned with the Statistical Data Return (SDR). Note: unit numbers may differ from the SDR if a provider has units outside England.

#### 4.3 SS 403 – ratio of responsive repairs to planned maintenance

Routine maintenance  $\div$  (planned maintenance + major repairs expenditure + capitalised major repairs and re-improvements expenditure)

Source = statutory financial statements or FVA.

### 5 Definitions – operating efficiencies

#### 5.1 RSH 501 – headline social housing cost per unit \*

**NB: definition has been updated for 2018**

The unit cost metric assesses the headline social housing cost per unit as defined by the Regulator. The cost measures set out in the metric are unchanged from the metric used in the Regulator's 2016 publication Delivering better value for money. However, the denominator has been changed from units managed to units owned and/or managed.

Headline social housing cost per unit =

social housing costs  $\div$  social housing units

Social housing costs =

[management costs + service charge costs + routine maintenance costs + planned maintenance costs + major repairs expenditure + capitalised major repairs expenditure for period + other (social housing letting) costs + development services<sup>35</sup> + community / neighbourhood services + other social housing activities: other (operating expenditure) + other social housing activities: charges for support services (operating expenditure)]

**NB. Use actual expenditure rather than £000s in this and all related cost per unit measures.**

Social housing units = Total social housing units owned and/or managed at period end<sup>35</sup>

34 Accounting Direction 2015 requires material items of social housing activity to be separately identified. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/465837/Accounting\\_direction\\_2015\\_full.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/465837/Accounting_direction_2015_full.pdf)

35 Leasehold units which for example include Right to Buy and fully staircased shared ownership units where the provider retains the freehold are excluded from this definition.



(Social rent general needs housing (excluding affordable rent), affordable rent general needs housing, social rent supported housing and housing for older people (excluding affordable rent), affordable rent supported housing and housing for older people, low cost home ownership, care homes, other social housing units)

**NB. Leasehold units (e.g. Right to Buy and fully staircased shared ownership units where the provider retains the freehold) are excluded from this definition and all related cost per unit measures.**

Source = statutory financial statements or FVA. Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: Accounting Direction 2015.

## 5.2 SS 502 – management cost per unit

This unit cost metric assesses the management cost per unit as defined by the regulator in the Accounting direction for providers of social housing 2015. The denominator is the units owned and/or managed.

This measure may be used by the RSH in its analysis of providers costs.<sup>36</sup>

Management cost per unit =  $A \div B$

A = Management costs

B = Social housing units

“Management costs” = total expenditure on management relating to social housing lettings, as per the financial accounts

“Social housing units” = Total social housing units owned and/or managed at period end<sup>35</sup>

(Social rent general needs housing (excluding affordable rent), affordable rent general needs housing, social rent supported housing and housing for older people (excluding affordable rent), affordable rent supported housing and housing for older people, low cost home ownership, care homes, other social housing units)

Source = statutory financial statements or FVA. Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: Accounting Direction 2015.

## 5.3 SS 503 – maintenance cost per unit

This unit cost metric assesses the routine and planned maintenance cost per unit as defined by the regulator in the Accounting direction for providers of social housing 2015. The denominator is the units owned and/or managed.

This measure may be used by the Regulator in its analysis of providers' costs.

Maintenance cost per unit =  $A \div B$

A = Routine maintenance + planned maintenance

B = Social housing units

“maintenance costs” = total expenditure on routine maintenance and planned maintenance costs relating to social housing activities, as per the financial accounts

“Social housing units” = total social housing units owned and/or managed at period end<sup>37</sup>

(Social rent general needs housing (excluding affordable rent), affordable rent general needs housing, social rent supported housing and housing for older people (excluding affordable rent), affordable rent supported housing and housing for older people, low cost home ownership, care homes, other social housing units)

Source = statutory financial statements or FVA. Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: Accounting Direction 2015.

## 5.4 SS 504 – major repairs cost per unit

This unit cost metric assesses the major repairs cost per unit as defined by the regulator in the Accounting direction for providers of social housing 2015. The denominator is the units owned and/or managed.

This measure may be used by the Regulator in its analysis of providers' costs.

Major repairs cost per unit =  $A \div B$

A = Major repairs + capitalised major repairs expenditure for period

B = Social housing units

“Major repairs costs” = total expenditure on major repairs (including capitalised) relating to social housing activities, as per the financial accounts

“Social housing units” = Total social housing units owned and/or managed at period end<sup>38</sup>

(Social rent general needs housing (excluding affordable rent), affordable rent general needs housing, social rent supported housing and housing for older people (excluding affordable rent), affordable rent supported housing and housing for older people, low cost home ownership, care homes, other social housing units)

Source = statutory financial statements or FVA. Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: Accounting Direction 2015.

<sup>35</sup> Leasehold units which for example include Right to Buy and fully staircased shared ownership units where the provider retains the freehold are excluded from this definition.

<sup>36</sup> Leasehold units which for example include Right to Buy and fully staircased shared ownership units where the provider retains the freehold are excluded from this definition.

<sup>37</sup> As above

<sup>38</sup> As above

## 5.5 SS 505 – service charge cost per unit

This unit cost metric assesses the service charge cost per unit as defined by the Regulator in the Accounting direction for providers of social housing 2015. The denominator is the units owned and/or managed.

This measure may be used by the Regulator in its analysis of providers' costs.

Service charge cost per unit =  $A \div B$

A = Service charge costs

B = Social housing units

"Service charge costs" = total expenditure on Service charge costs relating to Social Housing activities, as per the financial accounts

"Social housing units" = Total social housing units owned and/or managed at period end<sup>39</sup>

(Social rent general needs housing (excluding affordable rent), affordable rent general needs housing, social rent supported housing and housing for older people (excluding affordable rent), affordable rent supported housing and housing for older people, low cost home ownership, care homes, other social housing units)

Source = statutory financial statements or FVA. Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: Accounting Direction 2015.

## 5.6 SS 506 – other social housing costs per unit

This unit cost metric assesses other social housing costs per unit as defined by the Regulator in the Accounting direction for providers of social housing 2015. The denominator is the units owned and/or managed.

This measure may be used by the Regulator in its analysis of providers' costs.

Other social housing costs per unit =  $A \div B$

A = Other (social housing letting) costs + development services + community / neighbourhood services + other social housing activities: Other (operating expenditure) + other social housing activities: charges for support services (operating expenditure)

B = Social housing units

"Other (social housing letting) costs" = total expenditure on other costs relating to social housing activities, as per the financial accounts

"Social housing units" = Total social housing units owned and/or managed at period end<sup>40</sup>

(Social rent general needs housing (excluding affordable rent), affordable rent general needs housing, social rent supported housing and housing for older people (excluding affordable rent), affordable rent supported housing and housing for older people, low cost home ownership, care homes, other social housing units)

Source = statutory financial statements or FVA. Clarification of the accounting terms used in this and other definitions provided by the Regulator for Social Housing may be found here: Accounting direction 2015.

## 5.7 GNPI 28 – rent collected as a % of rent due (general needs)

For general needs properties only:

Rent collected  $\div$  (rent and service charge due for the period - rent loss due to empty properties)  $\times$  100

Rent and service charge due for the period = gross rent and service charge due on the relevant units (gross annual rent roll), including void properties and excluding arrears brought forward.

Rent collected = actual rent and service charge income received in the period from current or former tenants (including Housing Benefit payments), with no adjustments made for late Housing Benefit payments, pre-payments or post-payments.

Items collected by the landlord as an agent such as water rates, those not directly part of the rent such as court costs and repairs recharges, and recovery of overpaid housing benefit through the rent collection system should be excluded.

It is acceptable to report this figure a few days after the end of the reporting period to coincide with the end of the rental period. However, no adjustments should be made to this figure for payments received after the end of the rental period.

Rent loss due to empty properties = rent and service charges that could not be collected during the period due to empty dwellings. The dwelling may have been vacant for any reason and includes dwellings that are unavailable to let. Dwellings that are unavailable to let and excluded from the annual rent roll (policy voids), the rent and service charges should be zeroed out. For example, properties awaiting demolition.

## 5.8 CPP 04 – Overhead costs as a percentage of turnover

This measure is aligned with the HouseMark/Acuity measure. For SPBM members we would expect a figure of between 10% and 20%.

Overheads  $\div$  adjusted turnover  $\times$  100

Overheads

Overheads are broadly categorised into finance, IT, premises and central (corporate costs, HR, staff benefits, governance etc).

The numerator must include:

- total cost of all staff directly engaged in overhead (back-office) functions, including their national insurance, pensions and on-costs
- all non-pay costs relating to overheads.

<sup>39</sup> As above  
<sup>40</sup> As above

Exclude costs relating to direct activities (repairs, maintenance, housing management, supported housing, development, estate services, leasehold, shared ownership, other social housing, costs eligible for service charges, property insurance, community investment, costs relating to property sales or non-social activities).

Overheads should only include staff costs (including travel and subsistence) for staff where time is not spent on any of the above direct activities.

Calculation for adjusted turnover

Adjusted turnover = (statement of comprehensive income turnover + DLO internal turnover - First tranche home ownership sales turnover - Non-social housing properties built for sale turnover)

DLO internal turnover: Whether or not you have an in-house maintenance DLO could significantly affect this indicator – there will be associated overheads but no corresponding turnover. An adjustment is therefore made for the notional turnover generated by this business, being the schedule of rates or equivalent value of the repairs carried out for your own organisation. As a rough check, we would expect the internal turnover to be in the region of 150-200% of the corresponding staff costs of the internal workforce. This adjustment should only be made if the DLO is part of the entity being benchmarked.

## Examples of overheads and direct costs

Overheads employees include:

- Chief executive and PA
- Corporate services directors and PA
- Office managers
- Corporate support officers
- Front-of-house receptionists
- IT staff
- Finance staff (including rent and service charge accountants)
- Insurance officers
- HR and payroll processing staff
- Performance management and business improvement staff
- PR and marketing staff (including any graphic designers)
- Company secretary and other corporate governance staff

Note it would exclude:

- All staff engaged in housing management as detailed under 'direct cost per property of housing management'
- All staff engaged in management or delivery of responsive repairs and void works as detailed under 'direct cost per property of responsive repairs and void works'
- All staff engaged in management or delivery of major works and cyclical maintenance programmes as detailed under 'direct cost per property of major works and cyclical maintenance'.
- All estate services 'contractor-side' staff, such as caretakers, concierges, groundsmen, cleaners etc.
- All care and support staff
- All staff carrying out 'wider-role' functions, such as community investment, financial inclusion, regeneration etc.

Overhead non-pay costs include:

- Office rent and/or depreciation
- Other office premises costs (utilities, cleaning, maintenance, furniture, fixtures and fittings)
- Office supplies (such as stationery, printing, postage, refreshments, books and periodicals)
- Finance costs (including audits fees and payroll processing)
- General business insurance liability premiums (but exclude property insurance premiums which go to 'other')
- IT costs (including hardware and software purchase and depreciation, and telephone costs)
- HR costs
- Recruitment
- Staff training costs
- Corporate board and governance costs (including payments to board members, committee costs and training costs)
- PR and marketing costs (including graphic design and website)
- Corporate membership and subscription fees
- Tenant survey costs
- Consultancy fees relating to central corporate management (but stock condition survey costs are included in major works and cyclical maintenance).

Note it would exclude:

- All housing management costs as detailed under 'direct cost per property of housing management'
- All responsive repairs and void works costs as detailed under 'direct cost per property of responsive repairs and void works'
- All cost relating to major works and cyclical maintenance programmes as detailed under 'direct cost per property of major works and cyclical maintenance'
- Estate services (contractor side) costs
- Costs relating to care and support
- Other costs eligible for service charge
- All costs relating to 'wider role' type activities (such as area regeneration, financial inclusion, employment and training)
- Reconciling items such as:
  - › one-off redundancy costs
  - › one-off pension deficit funding
  - › loan fees and financing arrangements
  - › charges for bad debts
  - › charitable donations
  - › depreciation of housing stock
  - › impairment
  - › cost of sales
  - › any other costs that are not part of your ongoing operating expenses.

## Appendix 2: 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.

### 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.

### Quartiles and medians

Quartile information is used to analyse benchmarking data and is an effective way of ranking results. The following terms are used in this report:

When the data is ranked in ascending or descending order, the median is the value at the mid-point. It can be used to give organisations an idea of how close to 'the average' or 'normal' their figures are.

The charts in this report have been given no valutive polarity (though some guidance is given in the commentary). The terms quartile 1 (lowest 25%) and quartile 3 (highest 25%) are used consistently throughout.

The quartile 3 value is the 'cut-off' point for the highest 25 per cent of the data – e.g. highest rent collection rate.

The quartile 1 value is the 'cut-off' point for the lowest 25 per cent of the data – e.g. lowest cost.

The following table shows example satisfaction scores for eight organisations and how the median value and quartile information is reached.

Organisation	Data values	Quartile
A	99	Quartile 4 – highest 25%
B	97	
C	95	Quartile 3
D	87	
E	83	Quartile 2
F	79	
G	77	Quartile 1 – lowest 25%
H	75	

The diagram shows three blue arrows pointing left towards the table rows. The top arrow points to the boundary between rows B and C, labeled 'Quartile 3 value = 96'. The middle arrow points to the boundary between rows D and E, labeled 'Median value = 85'. The bottom arrow points to the boundary between rows F and G, labeled 'Quartile 1 value = 78'.

## Coefficient of variation

We used the Excel functions STDEV.P and AVERAGE to calculate a variability score for each measure. This shows how spread out the results are for a measure and can be used as part of an assessment of its value to the exercise. This calculation can be affected by skewed distributions and means that are close to zero.

## Profile characteristics

This report uses several characteristics that have been calculated using results entered by Sector Scorecard participants as well as external data sources.

## Location and stock size

For HouseMark participants, we used publicly available sources of information for location and stock figures: English Global Accounts 2017, Scottish AFS units 2017, Welsh Government data, Northern Ireland DfC data, English SDR 2017 and individual organisations' websites.

Acuity members supplied location and stock information directly as part of their data collection exercise.

Housing association type

We sourced housing association type information from the following sources:

- Global accounts: Provider type, type
- HouseMark benchmarking information
- Acuity benchmarking profile information
- Individual organisations' websites

## Supported housing % of stock

We sourced housing association tenure type information from the following sources:

- Global accounts: % social housing owned or managed by type
- SDR 2017
- Scottish AFS units
- Welsh Government data
- Northern Ireland DfC data
- HouseMark benchmarking information
- Acuity benchmarking profile information

## Comparative groups

As well as banding organisations by stock size, this report also bands together participants by the figure they entered for three measures: development programme size, gearing and operating margin.

For each of these measures we split the group into three 'terciles' using the 33rd and 66th percentiles. This means that organisations' results in the highest third could be described as having a large development programme in relation to stock, high gearing and high operating margin. Those in the middle third were described as medium and those in the lowest third were described as having a comparatively small (development programme) or low gearing / operating margin.

We applied a similar method to organisations' supported housing and housing for older people stock. Using supported housing as a percentage of stock, we calculated the top 10% (decile). These organisations were described as having a comparatively large proportion of supported housing stock. Organisations that recorded a figure above zero were recorded as having 'some' supported housing stock.

## Balanced panel

To compare the movement of quartile points over time, we have used a dataset of organisations that submitted data for the measure in 2017 and 2018, so the comparison of quartile points over time is based on a consistent cohort of organisations. This is referred to in the report as a balanced panel.

The balanced panel is based on the name of the organisation matching in 2017 and 2018. It excludes organisations that have merged and/or changed name between the years. The balanced panel will include organisations whose business has changed between years, but retained the same name.

To maintain a reasonable dataset size, the balanced panel is different for each measure. This is due to very few organisations submitting full sets of data in both years. As a result, no direct comparisons are made between measures over time.



This report has been produced by HouseMark.  
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