Sector Scorecard

analysis report 2017

Report produced by HouseMark

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Contents

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1. Foreword

Sector Scorecard Working Group Chair and Home Group Chief Executive Mark Henderson

"Accountability has never been more important in the housing sector. It has been incredibly rewarding to see the Sector Scorecard through right from the very start of the project to running such a successful large-scale pilot. Those who have been part of this since the beginning will know that it has been a long journey, and I'd like to thank those who participated in the working group or acted in an advisory role for their commitment and invaluable input throughout the process.

"I know the sector has always been committed to delivering value for money. However, in a changing world there are always opportunities to improve and learn from each other and drive commerciality while remaining customer-focused. Through a constant drive for efficiency in what we do, we can only increase the value we're able to deliver to our current and future customers.

"One of our aims has always been to deliver a set of measures that worked for everyone, and while acknowledging the diversity within the sector, we must remember that we share a core purpose – providing quality homes to those who need them. Our thanks must therefore go to everyone who took part in the pilot – your enthusiasm for the project has meant that we have been able to truly deliver a product 'for the sector, by the sector'."

National Housing Federation Chief Executive David Orr

"It is fantastic to see housing associations take leadership on the important issue of efficiency. It is vital that our sector tells its own story on its efficiency and the positive impact it has on communities right across the country.

"By taking part in the Sector Scorecard pilot, housing associations have been able to demonstrate their serious commitment to transparency, accountability and continuous improvement.

"The pilot has been a great success and paints a fascinating picture of our vibrant and diverse sector's impact. The next phase is crucial, and the full Sector Scorecard launch will equip housing associations to report, identify trends and challenge areas of improvement."

HouseMark Chief Executive Laurice Ponting

"I am really pleased that HouseMark, along with our partner Acuity, has been able to help shape and deliver this important initiative on behalf of the Sector Scorecard group. It is particularly impressive that this pilot year includes data from the smallest to the largest housing providers right across the UK.

"Housing providers need to be able to access a range information to underpin their strategic decision making, optimise benefit from resources and assets and confidently articulate evidence of high performance and efficiency.

"The Sector Scorecard is an important and welcome addition in helping the sector's narrative around value for money."

2. Executive summary

The results of the Sector Scorecard pilot are positive and encouraging. Engagement has been strong across the sector with organisations of all types, sizes and locations submitting data. The headline results show an ambitious and mission-led sector, improving performance and maximising impact.

Through balancing financial, operational and outcome-based indicators, and ensuring consistency of definition and measurement, the Scorecard provides Boards, Executive Teams, tenants and other stakeholders with a holistic overview of performance.

Encouragingly, where it is possible to compare the results to other studies and reports on the sector, the results are consistent. Similarly, where indicators have not previously been analysed at a sector level we gain further insight into what drives performance and differentiation.

2.1 Key messages

Broad coverage of the sector:
- Numbers: 315 housing associations
- Stock: 2.4m properties - over 80% of UK housing association stock.
- Geography: from the Channel Islands to northern Scotland, East Anglia to Northern Ireland
- Size: under £100k turnover to over £450m

Business health: the median operating margin for housing association is over 30%. This is testament to the work done by the sector to improve operational efficiency and ensure existing operations support business plan aspirations.

Development: Sector Scorecard participants completed almost 40,000 new homes in 2016/17 – almost 1 in 4 of the UK total[1]. They represent the overwhelming majority of developing associations. It's not all about big groups – for their size, some small landlords are building large numbers of homes. This data reiterates the crucial role played by the housing association sector in delivering new homes across the UK.

Outcomes delivered: typically, between eight and nine tenants out of ten are satisfied with the service provided by their housing association landlord. This compares favourably to the UK average of 78.2%.[2] Other analysis has found that median tenant satisfaction with the quality of their home is more than 85%.[3]

Effective asset management: occupancy rates show that most associations are keeping tenants in 99 out of every 100 properties, ensuring effective use of existing stock. In addition, most landlords are spending more on planned works than they are on responsive repairs, driving better value for money and reducing the disruption to tenants.

Operating efficiencies: median headline cost per unit is £3,301. This includes smaller organisations and associations outside England that are not included in the Regulator's Global Accounts analysis. Rent collection rates are comparable to previous years, despite the pressures of welfare reform, testament to the investment made in preparing and

[1] Using latest available figures. Table 209: permanent dwellings completed, by tenure and country DCLG:2017
[2] UK Customer Satisfaction Index 2017
[3] Housing association operational efficiency 2008/9 to 2014/15, NHF and HouseMark

supporting staff and tenants.

As whole: no organisation or group of organisations consistently performed well in all areas of the Scorecard. The highest number of best quartile placings was 9 out of 15 measures. This was achieved by a handful of associations, that were mainly English LSVTs with fewer than 10,000 units. For some measures, it is not necessarily appropriate to assume a high value represents 'better' performance than a low figure (or vice versa). An example of this is the gearing measure which is reflective of a range of factors.

Analysis of the spread of results across each measure showed that for 'established' performance measures, such as occupancy, rent collection and satisfaction, the variation in scores across participants was relatively low. These are core landlord functions and are potentially less influenced by organisation type, size and location. For financial measures, such as gearing, return on capital employed and cost per unit, there was relatively more variation across participants. To a degree this is to be expected given the enormous diversity of organisations operating across the sector.

2.2 The housing association sector

The evidence in this report demonstrates that the housing association sector is committed to improving efficiency, and doing so in a transparent and accountable way. In terms of results, associations are meeting the demands of boards, the market and the English Regulator by increasing supply and operating profitably while meeting their social objectives of providing good quality homes for people in housing need.

Within such a large and diverse sector, it is not surprising to find variation in performance and impact. Even though this is a pilot year, the Scorecard already provides an invaluable source of comparative data to be used by boards and Executive teams to challenge the status quo and drive future improvement.

Comparing the results of the whole sector to some PLCs has revealed that, in many cases, operating margins are higher for the social housing sector, but that the Return on Capital Employed is lower. Differences in product, priorities and practice can explain these results, but as the sector continues to innovate and adapt to a changing external environment, such comparisons will remain interesting and informative.

2.3 The pilot exercise

This is a report based on one year of data, meaning that definitive conclusions cannot always be made especially where some measures are subject to cyclical variation. Over time the Scorecard will build up trend data, producing greater intelligence from analysing these measures.

The information gathered in the exercise and summarised in this report is a 'can opener' that inevitably highlights areas for further exploration. Referencing the results in the pilot as a baseline, the sector can move forward in deciding what can and should be measured.

Following this pilot, the Sector Scorecard Working Group will evaluate the results and the value of each measure by considering areas such as variability, timescale and calculation as well as the proposed set of measures that the English Regulator is currently consulting on[4]. The Working Group is planning to make the Scorecard fully operational in 2018.

[4] Value for Money Metrics – Technical Note English Regulator:2017

2.4 National medians

The chart below outlines the national median for each Sector Scorecard measure with commentary explaining which types of landlords are likely to report different results.

Theme	Measure	Median	Commentary
Business health	Operating margin (overall)	30.3%	Higher operating margins tend to be recorded by associations with a development programme, who manage more than 5,000 units across of a variety of tenures and have leveraged assets.
	Operating margin (social housing lettings)	31.6%	
	EBITDA MRI (as a percentage of interest)	227.6%	Higher interest cover has some correlation with lower gearing, but there are no types of housing associations that recorded higher or lower interest cover rates.
Development – capacity and supply	Units developed (absolute)	40	Housing associations of all sizes are building new properties, though associations with more than 5,000 properties tend to have larger programmes as a % of stock.
	Units developed (as a percentage of units owned)	1.1%	
	Gearing	41.6%	As well as recording higher median development rates as a % of stock, associations managing more than 5,000 properties also tend to record higher gearing ratios..
Outcomes delivered	Customers satisfied with the service provided by their social housing provider	86.6%	Associations managing fewer than 1,000 properties and those based in Scotland and North East England tend to record higher satisfaction rates.
	£s invested for every £ generated from operations in new housing supply	£0.69	There is some relationship between this measure and positive performance with other measures.
	£s invested for every £ generated from operations in communities	£0.01	It is difficult to draw conclusions due to the variability in the results for this measure, this could relate to feedback stating that participants found this item hard to measure.
Effective asset management	Return on capital employed (ROCE)	4.00%	Associations managing over 5,000 units and those with comparatively high gearing tended to record higher ROCE rates.

Theme	Measure	Median	Commentary
	Occupancy	99.50%	Smaller associations tended to record higher occupancy rates but overall there was low variation.
	Ratio of responsive repairs to planned maintenance spend	0.68	Associations with a comparatively high proportion of Housing for Older People stock tended to record a low ratio of responsive repairs to planned maintenance spend.
Operating efficiencies	Headline social housing cost per unit	£3,306	Landlords based in London and those with comparatively high proportions of Supported Housing and Housing for Older People stock tended to record high costs.
	Rent collected	99.72%	Smaller associations and those with comparatively high proportions of Housing for Older People stock tended to record higher rent collection rates.
	Overheads as a percentage of adjusted turnover	12.33%	Larger organisations tended to record a lower ratio of overheads to their adjusted turnover figure.

3. Introduction

3.1 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. They generate income which doesn't go to shareholders, reinvesting profits in homes and communities [5].

3.2 Policy 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) are 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.

3.2.1 Rent cut

In 2015, English housing associations were forced to cut regulated rents by 1% each year for four years resulting in a 12% reduction in average rents by 2020-21[6]. While this cut had threatened future investments, the Government recently announced that for five years from 2020, social rents may be increased by CPI +1%[7]. This helps give housing associations the security and certainty they need to build homes and maintain existing properties in the future. The changes to social rent do not apply outside England, where devolved administrations manage their own rent setting criteria.

3.2.2 Welfare reform

For housing associations, the move from Housing Benefit to Universal Credit (UC) represents the largest change to their income streams for a generation. Put simply, Housing Benefit was paid directly to a housing association in regular four-weekly cycles. UC is paid by the Department for Work and Pensions direct to claimants monthly. Then, as housing association tenants, claimants need to budget to pay rent to their landlord. This represents a considerable threat to housing associations' income levels.

3.2.3 Housebuilding targets

There is political consensus at present that we need to build more homes to meet demand, housing need and improve affordability. The housing association sector is a major player in UK housebuilding. In England alone, housing associations completed over 40,000 new properties in 2015/16[8], this represents as much as 29% of all new homes built. Outside England, official figures show that associations in Scotland, Wales and Northern Ireland delivered 4,300 homes in the same year – representing 1 in 7 new homes built[9].

[5] NHF Ambition to deliver
[6] Rent setting: social housing (England) House of Commons library:2017
[7] DCLG and Prime Minister Office press release 4 Oct 2017. CPI is the Consumer Price Index measure of inflation.
[8] Key statistics briefing: How many homes did housing associations build in 2015/16? NHF:2016
[9] Table 209: permanent dwellings completed, by tenure and country [Latest year for all countries] DCLG:2017

3.2.4 Asset management

In addition to building new homes, a key part of the housing association business model is to maintain existing properties. As well as meeting health and safety obligations, the result of good asset management is that residents have a comfortable and desirable place to live, and associations can be confident that their assets will remain operationally viable in the longer term.

3.3 About the Sector Scorecard

3.3.1 Background

The need for the Sector Scorecard is derived from the desire and necessity for the sector to be able to tell its own story on efficiency, value and impact. Policy developments and media attention in recent years have highlighted the importance of the sector having its own evidence and narrative in this crucial area.

In 2016, the English Regulator published a detailed analysis of the operational costs of English housing associations with more than 1,000 properties[10]. As well as producing headline figures about costs and trends, it found considerable variation between different housing associations.

Overall, the analysis found that around 50% of the variation in unit costs can be explained by seven key measured factors included in its regression analysis[11], including the provision of supported housing and housing for older people, the area of operations, and Large Scale Voluntary Transfer (LSVT) status. However, the other 50% of the variation in costs could not be explained by observable factors. The report makes the point that some of the unexplained differences between providers are likely to be due to variations in operating efficiency.

3.3.2 Development of a Sector Scorecard

The Sector Scorecard was initially developed by a group of English housing associations called the Efficiency Working Group[12], working independently of the regulator. This Group, joined by organisations in other UK countries, developed a set of 15 indicators[13] for housing associations across the sector to benchmark efficiency in a scorecard format.

By demonstrating housing association performance across a broad range of measures, the Sector Scorecard enables housing associations of all sizes to participate and compare results. The measures seek to fill in some of the gaps identified in the English Regulator cost analysis by cross-referencing with the work that housing associations do to increase supply, deliver good services to customers and effectively manage their fixed assets.

To test and refine the 15 indicators, the Group decided to run a one-year pilot, with a full launch planned following an evaluation exercise. This report looks at the results of the pilot for the year 2016/17.

[10] Delivering better value for money: understanding differences in unit costs – summary report English Regulator:2016
[11] Delivering better value for money: understanding differences in unit costs – technical regression report English Regulator:2016
[12] Now called the Sector Scorecard Working Group
[13] A list of the measure is available in Appendix 2

While housing associations in other UK countries have different regulatory environments, their commitment to efficiency and continual improvement matches their English counterparts. As a result, associations from Scotland, Wales and Northern Ireland have taken part in the exercise, allowing pan-UK analysis of the indicators.

The suite of indicators has been developed to measure the business operations of housing associations. While the provision of accommodation by local authorities and ALMOs[14] is similar to housing associations, as businesses, there are structural differences which could affect some of the data in the scorecard. Local authority and ALMO landlords are therefore not currently included in this pilot.

3.3.3 Reporting Sector Scorecard results

While this report concentrates on presenting a sector-wide view of Scorecard results, participating housing associations can use an additional interactive dashboard and online reporting tools to understand the results in terms of meeting their own objectives and contributing to the overall success of the sector.

The dashboard presents the results published in this report alongside participants' actual figures. It is an interactive tool that allows participants to put together a peer group for direct comparison using scatter plots as well as bar charts. Participants can also access and extract the background data for use internally with the online reporting tool provided by HouseMark and Acuity.

3.4 Contextual information

The Sector Scorecard Working Group appointed two collection agents to collate Sector Scorecard data and provide reporting facilities. Acuity collected Sector Scorecard data from smaller associations managing up to around 1,000 properties, mainly in England. HouseMark collected data from larger providers managing over 1,000 properties as well as associations based in Scotland, Wales and Northern Ireland[15].

The data for this report was extracted in August 2017. In total, 315 housing associations took part in the pilot exercise, 74 smaller providers submitted data through Acuity and 241 used HouseMark. These organisations are based across the British Isles, from the Channel Islands to the north of Scotland and from East Anglia to Northern Ireland. Together, these organisations manage almost 2.4m properties, over 80% of UK housing association stock.

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

Location	Under 1,000 units	1,000 - 5,000 units	5,000 - 10,000 units	10,000+ units	Total
London	26	15	4	9	54
North West	7	13	10	15	45
South East	13	6	11	7	37
South West	11	11	3	8	33
East of England	4	12	11	4	31

[14] Arm's Length Management Organisations, who manage and maintain housing on behalf of one or more local authorities
[15] Where organisations submitted data to both HouseMark and Acuity, the duplicate dataset has been removed from the analysis.

Location	Under 1,000 units	1,000 - 5,000 units	5,000 - 10,000 units	10,000+ units	Total
West Midlands	5	8	7	4	24
Yorkshire and The Humber	5	8	2	4	19
Mixed		4	2	10	16
East Midlands	2	4	3	4	13
North East		4	3	5	12
Scotland	4	15	4	1	24
Wales		3		1	4
Northern Ireland		2			2
Channel Islands	1				1
Total	**78**	**105**	**60**	**72**	**315**

This table shows participants by location and organisation type.

Location	LSVT	Traditional	Mixed Group	Total
London	4	49	1	54
North West	22	21	2	45
South East	18	18	1	37
South West	15	17	1	33
East of England	13	18		31
West Midlands	11	12	1	24
Yorkshire and The Humber	5	14		19
Mixed		15	1	16
East Midlands	5	7	1	13
North East	7	3	2	12
Scotland	5	19		24
Wales	2	2		4
Northern Ireland		2		2
Other		1		1
Total	**107**	**198**	**10**	**315**

Where available[16], the location is based on the majority of an organisation's stock. Where the majority of stock is located in more than one location, they are recorded as 'Mixed'. Around 90% of participants are based in England. The 24 participants in Scotland represent around 8% of the total.

Housing associations may be categorised as LSVT or traditional. LSVT (Large Scale Voluntary Transfer) housing associations are created when a local authority transfers more than 500 units to create a housing association. Traditional housing associations are not-for-profit landlords set up to meet a defined housing need.

The table shows that there are participants across both types of organisations, as well as some group participants comprising both traditional and LSVT associations.

[16] Based on SDR 2016 submitted by English housing associations

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 60,000 units. The financial turnover of these businesses ranges from under £100,000 a year to over £450,000,000[17].

Most properties managed by Sector Scorecard participants are General Needs and not designated for specific client groups or investment programmes. However, there are a several organisations with considerable proportions of Supported Housing and Housing for Older People[18].

3.5 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 association across the Scorecard[19]. Definitions of each measure are available in Appendix 2 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 analysis looked at the spread of results in general, using a coefficient of variation[20] analysis. This produces a result to show how wide the spread of results is. The variation in results for 'established' performance measures was quite low; the financial measures were slightly more varied and newly established measures had the highest variation. This analysis works best when the results are distributed normally. Where this isn't the case, the variability test results need to be qualified. 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. In the main, the correlation analysis in this report shows that there are generally only weak relationships between different sets of results. The diversity of the sector means that there are too many exceptions to the rule to be able to make generalised statements that an organisation's characteristics will produce a particular set of results.

The analysis looked at how many associations achieved best quartile results (by adding a polarity to each measure to say whether high or low is 'good'). Around 9% of participants had 7, 8 or 9 of their results in the best quartile across the 15 measures. No organisation achieved more than nine results in the best quartile. Typically, an organisation had 3-4 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.

It is worth adding that in the case of some measures it is not necessarily appropriate to assume a high value represents 'better' performance than a low figure (or vice versa). An

[17] Based on figures supplied to HouseMark and Acuity
[18] See Appendix 4 for details on analysing results from these groups
[19] See Appendix 4 for more details
[20] Coefficient of Variation = (Standard Deviation / Mean) * 100.

example of this is the gearing measure which is reflective of a range of factors.

4. Business health

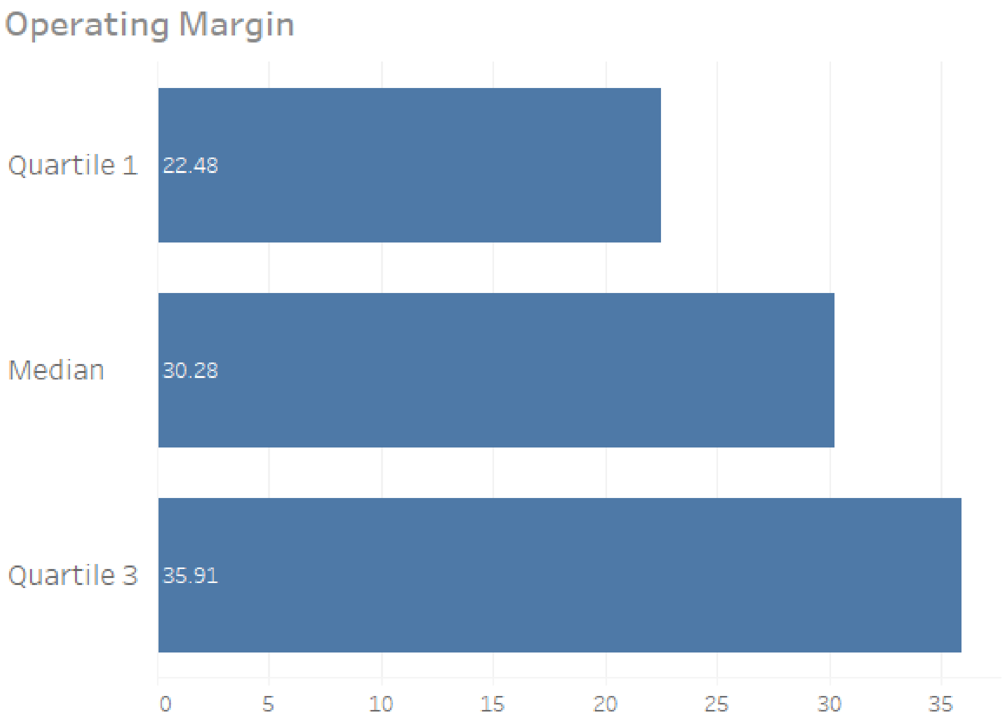
Housing associations operate in a challenging and uncertain environment – managing risk whilst maximising delivery/resources. Business health measures demonstrate how associations are meeting the challenge of running successful businesses while fulfilling their social mission.

4.1 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 expenditure means lower margins).

This chart outlines the operating margin (overall) quartile points for the 307 Sector Scorecard participants who submitted data for this measure[21]. Generally, a higher operating margin is regarded as better.



The median operating margin for housing associations participating in the Sector Scorecard was 30.3%. The first quartile point shows that three quarters of participants recorded operating margins in excess of 22.5%.

These rates compare favourably to private sector companies who are involved in developing new homes, property management or maintenance[22]. Using publicly available information, this analysis showed operating margins for Bovis Homes and Foxtons around

[21] See Appendix 4 for an explanation of how quartile points are used in this report
[22] Annual Report and Accounts 2016 Mears Group plc, Bovis Homes Group plc, Foxtons Group plc

half the median rate and Mears Group with 4.6%.

While out-of-sector comparisons can highlight as many differences as similarities, this broad overview suggests that housing associations operate as effectively as commercial sector companies working in the housing industry. The difference with housing associations is that profits are reinvested in building homes and communities rather than being paid as dividends to shareholders.

The strong operating margin performance is testament to English housing association response to rent reductions and a generally challenging operating environment. Associations have focused on reducing costs and maintaining or increasing income from other sources in order to protect margins and continue to generate the resources necessary to fund new homes – as shown in the effective asset management chapter of this report.

Organisations based in Scotland tended to report margins that were lower than the national median, this could be due to lower average rents charged. Average housing association weekly rents in Scotland[23] are around £16 less than England[24].

While organisations managing larger numbers of properties tended to have higher operating margins, there was no discernible correlation between the two measures. This suggests that smaller organisations can deliver similarly high operating margins as those managing many thousands of properties.

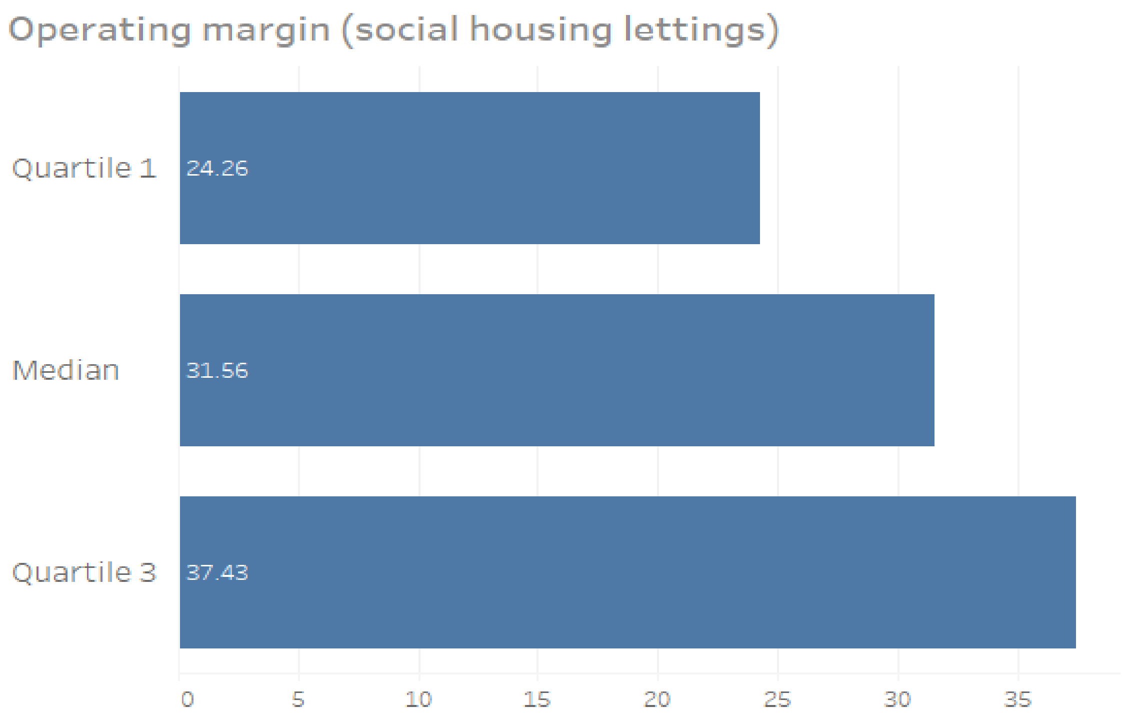
By type of organisation, there were no patterns between LSVT and traditional associations. However, LSVTs under 7 years old recorded lower median operating margins. This corresponds with the higher costs associated with the creation of an LSVT noted by the English Regulator in its 2016 regression analysis report[25]. These lower margins are likely to be due to higher expenditure on maintenance in the early years of transfer.

Looking at the type of stock managed, associations with large proportions of Supported Housing or Housing for Older People tended to record lower operating margins (by around 10 percentage points), compared to those with smaller proportions or none at all. This also corresponds with the higher costs associated with managing these types of properties as noted in the English Regulator's regression analysis[26].

4.2 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 291 organisations that submitted data for this measure. Generally, a higher operating margin is regarded as better.

[23] £81.14 Scottish Government 2017
[24] £97.84 DCLG: 2017
[25] Unit cost analysis - Technical Regression Report English Regulator:2016
26 Ibid.



There is a strong correlation between operating margin (overall) results and operating margin (social housing lettings)[27]. The profile patterns outlined for the 'overall' measure are also applicable for 'social housing lettings'. There is a moderate negative correlation between participants' operating margin (social housing lettings) results and the headline social housing cost per unit[28]. This suggests that associations with lower social housing costs tend to report higher operating margins.

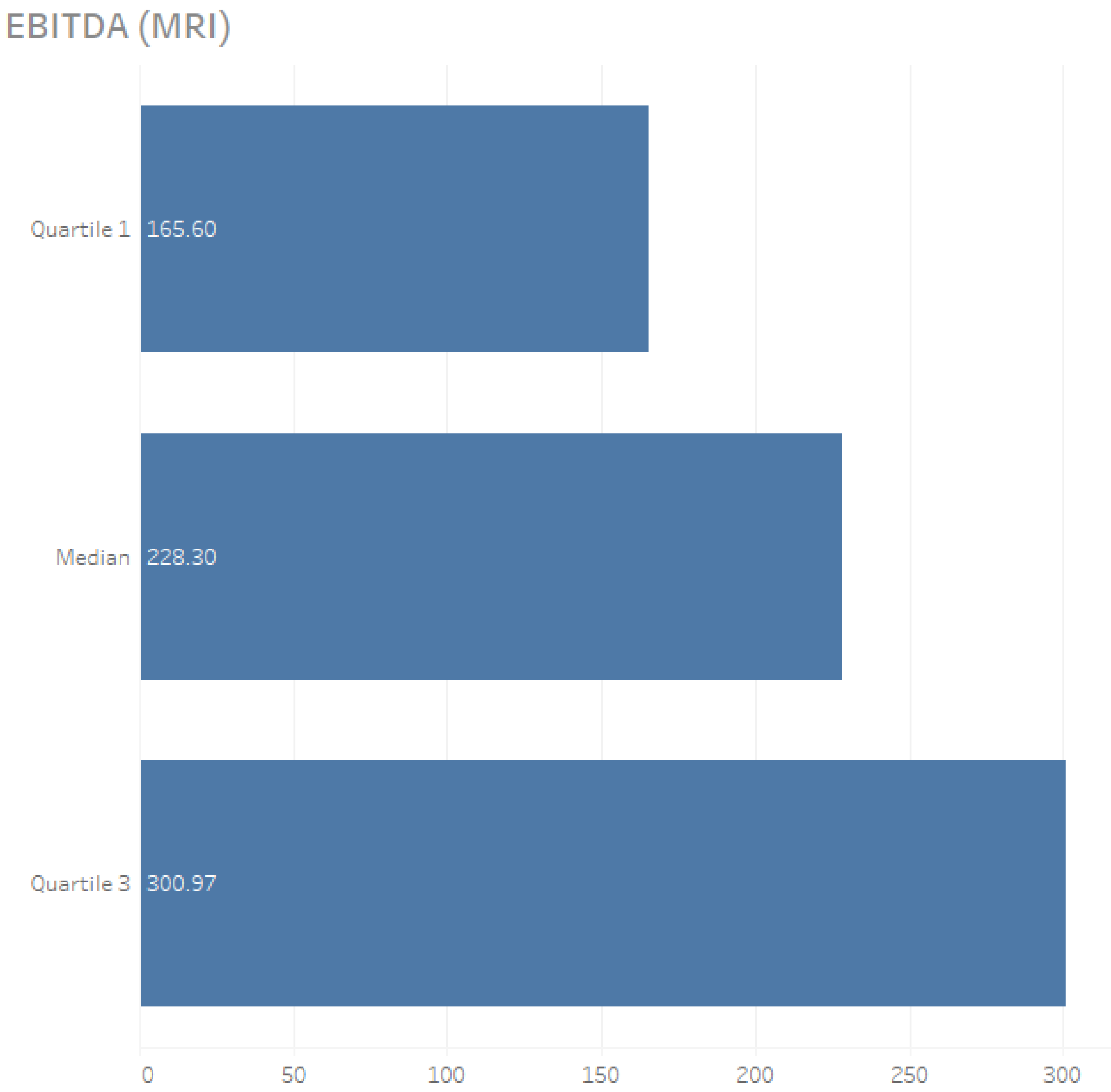
The quartile points are slightly higher than for the overall measure. While this makes it seem that margins are lower for development and non-social housing activities, there are a number of reasons linked to how accounts are presented which make direct comparisons difficult[29].

4.3 EBITDA MRI (as a percentage of interest)

EBITDA is an acronym for Earnings before interest, tax, depreciation and amortisation. MRI means Major Repairs Included. It measures a company's operating performance before factoring in financing decisions, accounting decisions or tax environments. EBITDA MRI is an approximation of cash generated, and presenting it as a percentage of interest shows the level of headroom on meeting interest payments on outstanding debt.

The chart below shows the quartile points for the 293 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 i.e. it is not necessarily appropriate to automatically assume a high figure is always 'better'.

[27] A Pearson correlation coefficient score of 0.7
[28] A Pearson correlation coefficient score of 0.4
[29] See 2016 Global Accounts of private registered providers English Regulator:2017



At the median point, housing associations' earnings are more than double their interest payments. This suggests that associations are prudently managing their finances with the capacity 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. While there are some outliers with results under 100% and over 1000%, the overwhelming majority of associations recorded earnings that covered interest payments by a reasonable margin.

While organisations with a comparatively low operating margin had a comparatively low median EBITDA result, there is no correlation between this interest cover measure and operating margin.

Looking at different sizes of organisation revealed that larger organisations managing more than 10,000 properties had a lower median result (205%) for this measure than participants managing fewer than 1,000 properties (246%).

5. Development – capacity and supply

While many Sector Scorecard participants are involved in building for outright sale, the typical housing association model is to build quality homes to generate a sustainable income through rent across a variety of tenures.

With the country relying on housing associations to deliver a large proportion of new homes, it is important that an exercise such as the Sector Scorecard captures performance in this area.

House building is an area that is affected by cyclical fluctuations linked to funding programmes and capacity. This is an area that will benefit from trend data collected over a longer period.

5.1 Units developed (absolute)

Sector Scorecard participants completed 39,776 new homes in 2016/17; this indicates how widespread participation in the exercise was for developing associations, with such a high proportion of new properties built by organisations submitting data.

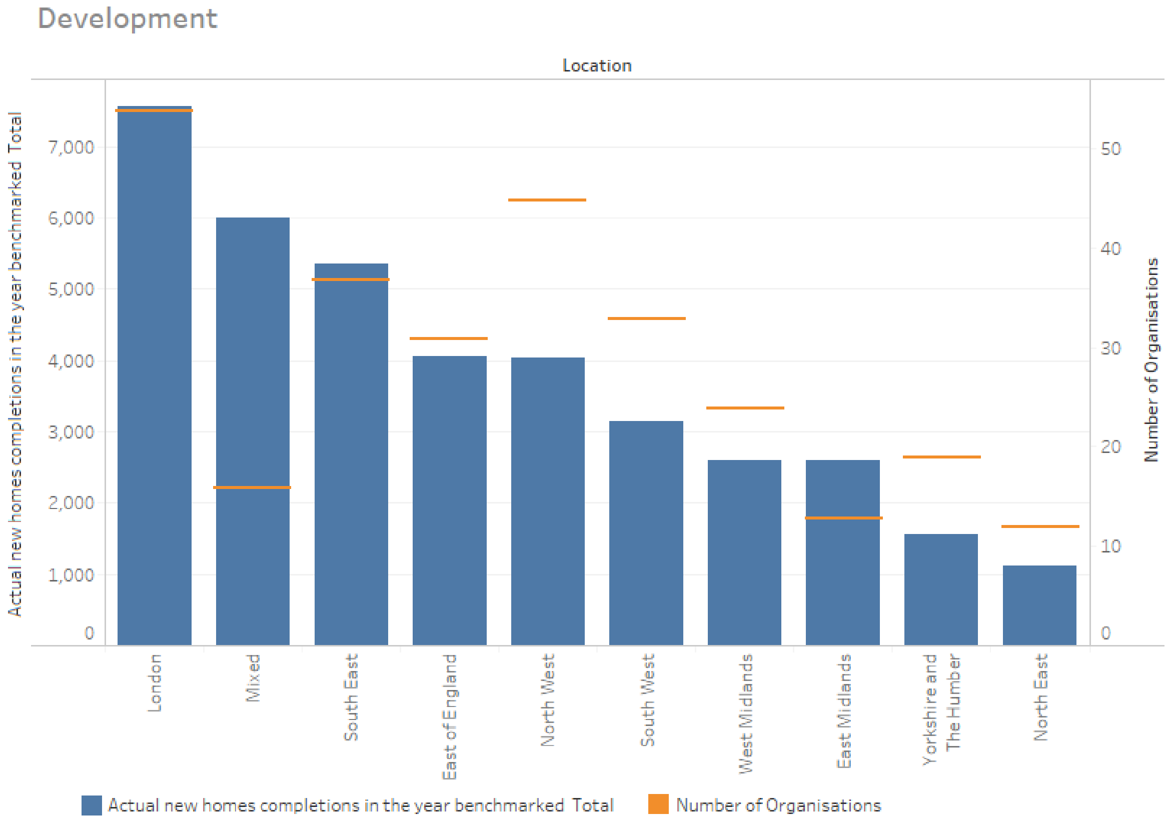
In total, 241 participants recorded some new build completions in 2016/17. The largest developer completed 2,266 homes in 2016/17, with a further five associations delivering over 1,000 properties each. This level of output has been achieved by businesses that are much smaller in scale than volume housebuilders.

In 2016, Barratt Homes completed over 17,319 new homes, with a total revenue of £4.2bn[30]. In the same year Bovis Homes completed 3,977 homes with a revenue of £1.1bn[31]. By contrast, one Sector Scorecard participant delivered over 1,000 properties into the same UK market with a turnover of just over £100m[32]. And this is in addition to the core business of managing and maintaining social housing lettings. This shows that housing associations are making a impactful contribution to meeting demand for new housing supply.

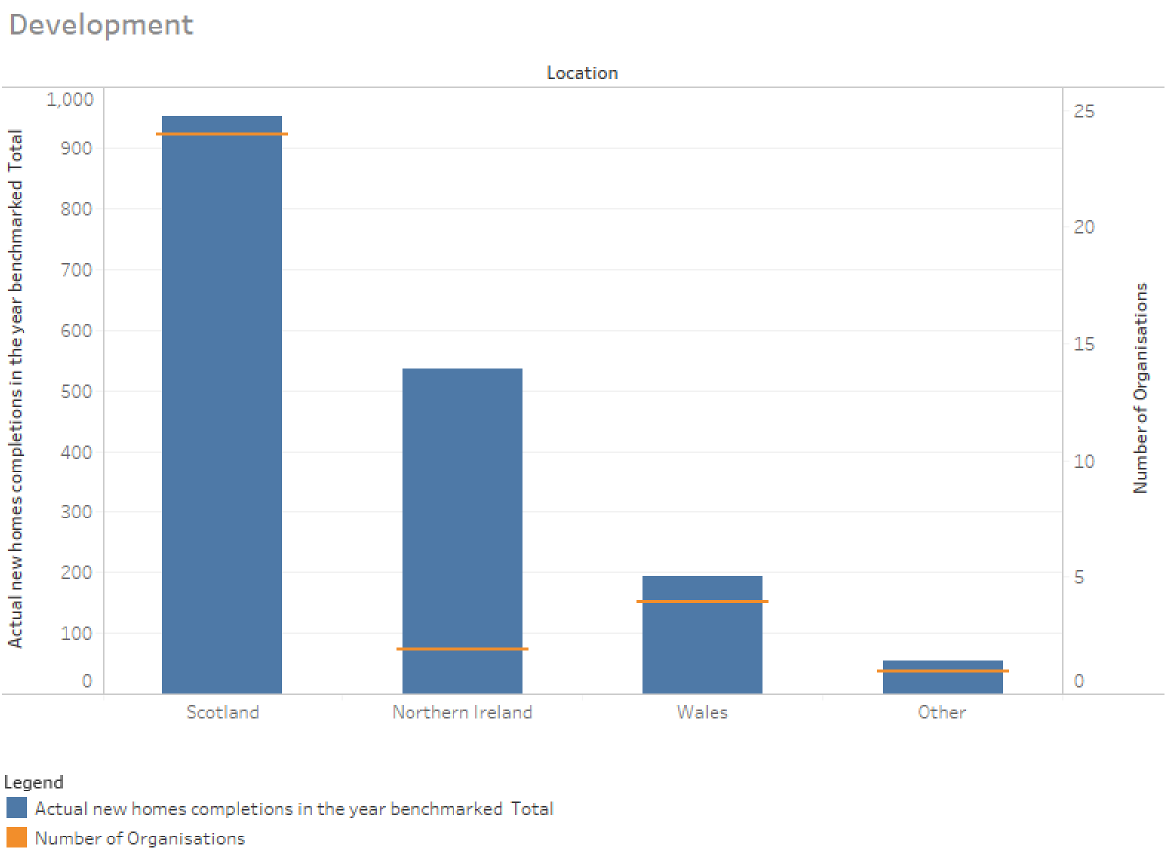
The charts below outline how many new properties were completed by the location of the participant. The secondary axis shows the number of participants based in each location.

[30] Barratt Annual Report and Accounts 2016
[31] Bovis Homes Group plc
[32] English Regulator Global Accounts 2016

This chart outlines completions by English region.



This chart shows completions by organisations based outside England.

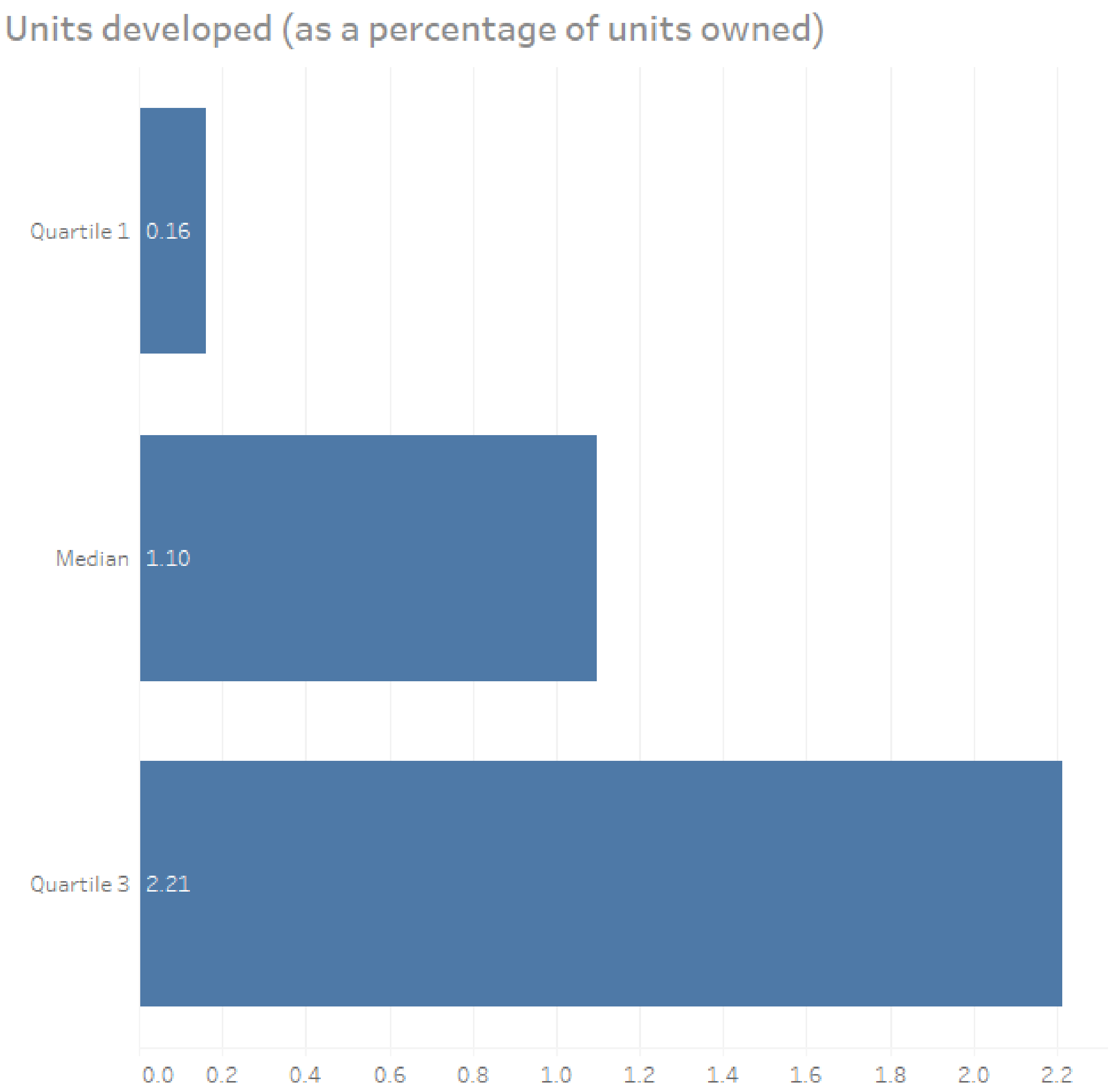


The charts show that spread of development is affected by location and how many participating associations are based in a geographical area. While London organisations recorded the highest number, East Midlands associations recorded a higher ratio of units developed per organisation. One point that stands out is that volume is being delivered by associations operating across multiple regions – with 6,001 properties completed by 16 organisations.

5.2 Units developed (as a percentage of units owned)

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.

The chart below outlines the quartile points for the 300 organisations submitting data for this measure. Generally, larger development programmes are seen as better, but this has to be set in the context of what the association can afford as well as manage once the properties are handed over to operational teams.



The three organisations recording the highest rates of development were all smaller housing associations – two of which manage fewer than 1,000 units. Out of 300 participants, 65 recorded 0% for this measure. The overwhelming majority of these non-developing associations managed fewer than 5,000 units.

In England, the areas with the highest results were in the Midlands, South and East regions, with median rates of 1.4% - 1.5% of stock developed in the period. Yorkshire and the Humber recorded a median rate of 1.3%, while the North West region recorded a median rate of 0.6%. London-based organisations recorded a median of 0.7%. In spite of delivering large volumes, organisations operating across multiple regions recorded a median rate of 1.0%. Scottish organisations recorded a median of 0.8% for this measure.

By stock size banding, there is a pattern between larger and smaller organisations. Organisations in the size bands of 5,000 – 10,000 and 10,000+ units recorded higher median rates than those in the stock bandings below 5,000 units. However, there is no correlation between this measure and the number of properties managed. This means that some smaller associations are delivering large amounts of new homes in relation to their size. It is not clear from the data whether fewer, bigger associations would deliver more homes than having a large number of smaller developing associations.

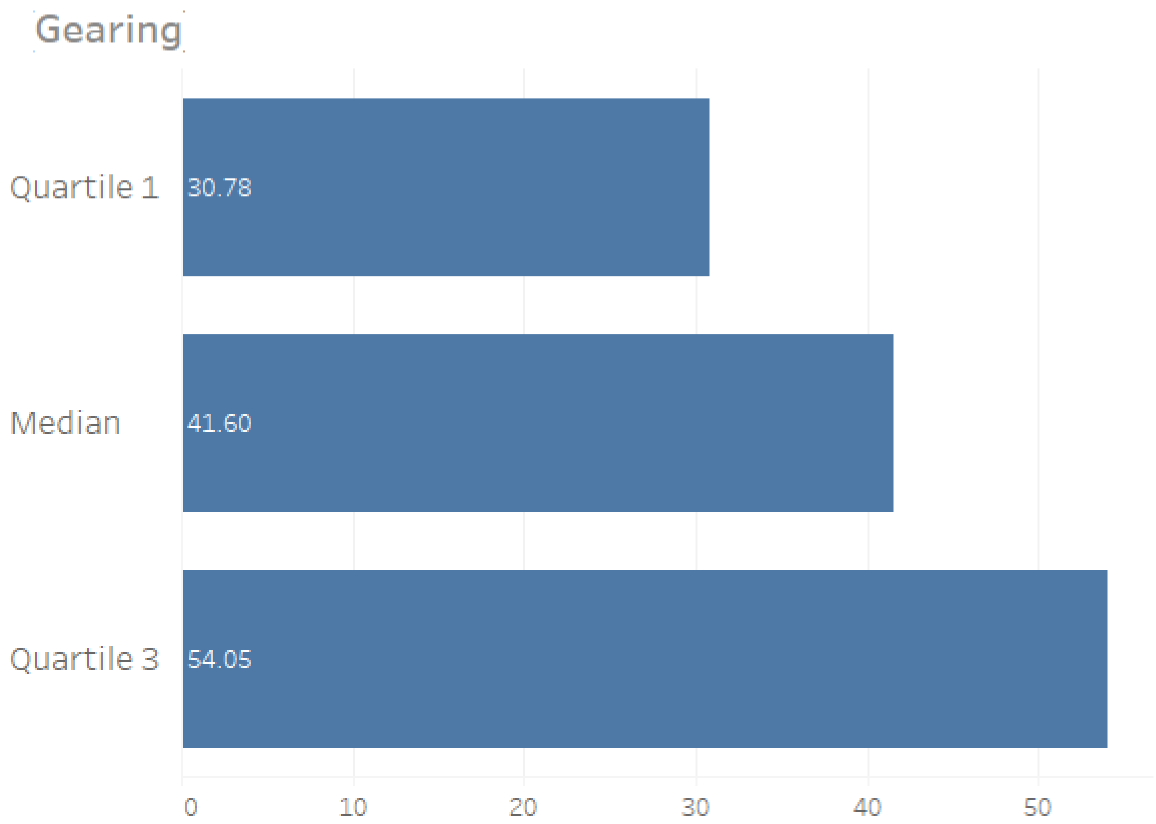
Looking at different types of organisation, housing associations with a large proportion of supported stock recorded an identical median rate of new properties developed to the national median of 1.1%. However, organisations with a high proportion of Housing for Older People stock recorded a median rate of 0.25% for this measure. Following a change in classification of Housing for Older People stock in England, there is likely to be some movement in this figure going forward[33].

5.3 Gearing

There are several ways to measure gearing, the Sector Scorecard uses a ratio showing the proportion of borrowing in relation to the size of a participant's asset base. If the ratio is low, this could indicate that a provider has capacity to leverage its existing assets to provide funds for development or new services. However, a high ratio could indicate that a provider 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.

The chart below show the national quartile points for the 300 organisations submitting data for this measure. This measure has no polarity.

[33] The Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016



There are some organisations with highly geared portfolios above 60%, and some whose business models do not include borrowing against assets, but the majority of landlords appear to use this facility prudently. Two-thirds of participants recorded a ratio between 25% and 60%.

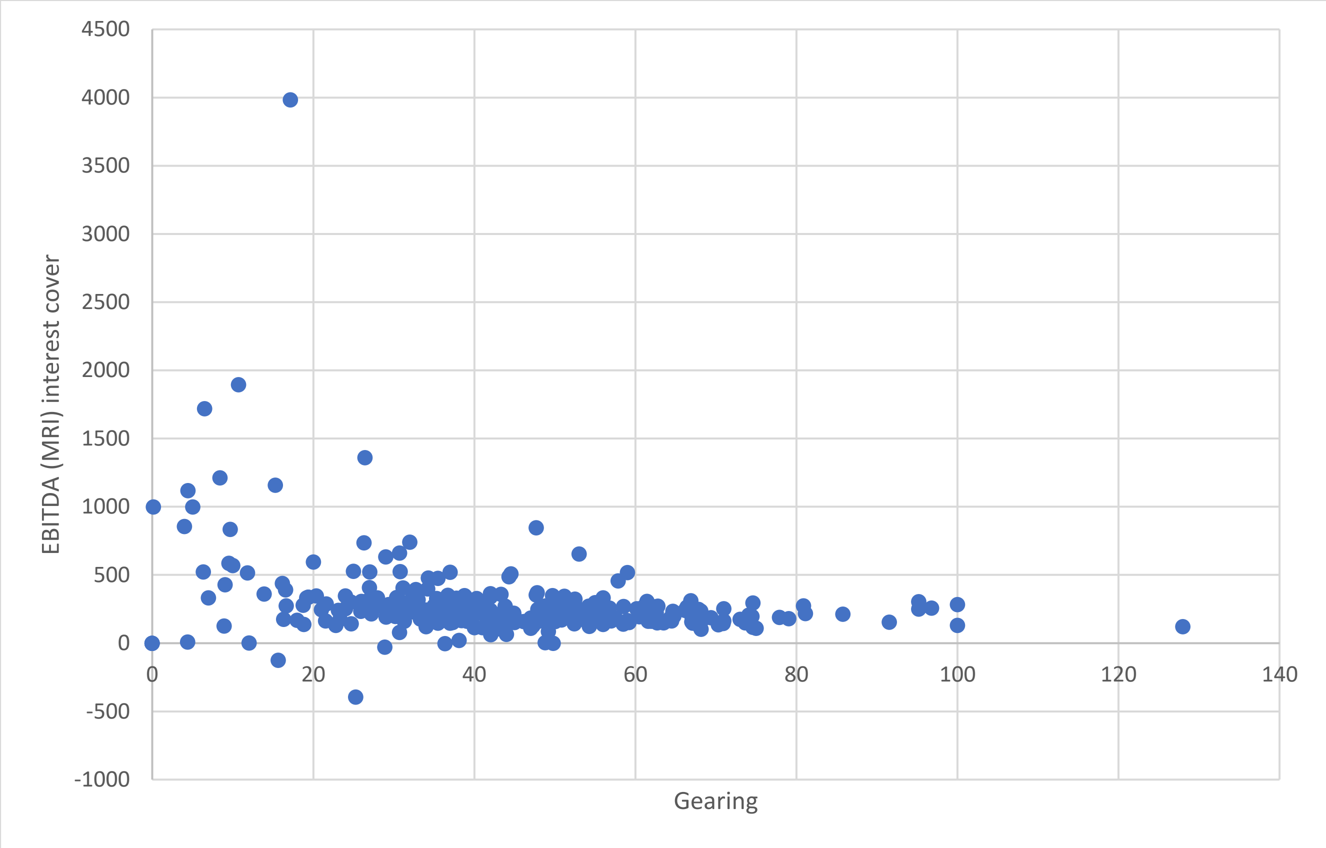
By location, organisations based in the East region of England recorded the highest median gearing ratio of 52.3%, with organisations in Scotland recording the lowest median rate for this measure at 28.6%. There was no regional pattern to gearing ratios, median rates in the North East were higher than London. The East Midlands median rate was nine points higher than the West Midlands.

By size, there was a demarcation between organisations managing fewer than 5,000 properties and those managing more. Larger organisations tended to be more highly geared than smaller, there is a weak to moderate correlation between gearing and stock size[34].

Developing landlords are more highly geared than those that are not developing. Landlords with a development programme, recorded a median gearing ratios of 42-48.0%[35], compared to the group with no development programme, with a median gearing ratio of 28.0%.

There was a weak to moderate negative correlation between gearing ratios and the EBITDA (MRI) interest cover measure[36]. The chart below outlines the relationship between the two measures for 290 participants.

[34] Pearson correlation coefficient of 0.29
[35] The median for comparatively large development programmes 45%, medium 42%, small 48%.
[36] Correlation coefficient of -0.29



The scatter of results shows that, to some extent, associations with higher gearing ratios are likely to report lower levels of interest cover. If an association borrows more against its assets, it will have higher interest payments to cover with its income.

6. Outcomes delivered

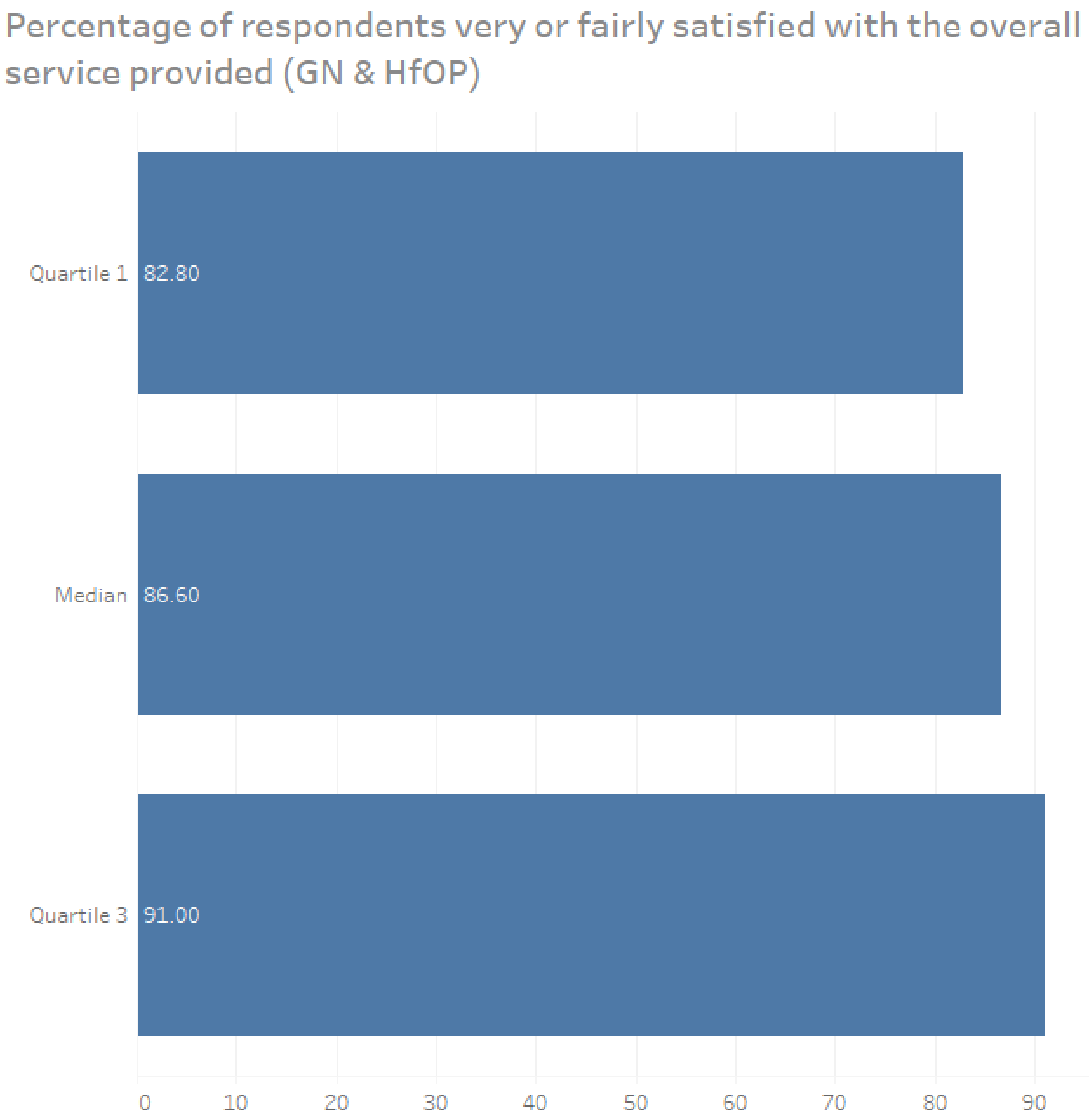
Housing associations need to achieve a balance between building homes and delivering services to existing residents. The Sector Scorecard measures some of the outcomes delivered for the millions of people who live in homes they manage.

6.1 Customers satisfied with the service provided by their social housing provider

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 209 participants, who entered their results for tenants living in General Needs and Housing for Older People housing 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.

This compares favourably to the UK average of 78.2 per cent.[37] Other analysis has found that at the median point tenant satisfaction with the quality of their home is in excess of 85%[38].

There are some notable patterns in satisfaction, depending on the location of participants. Housing associations based in Scotland and the North East of England recorded the highest median rates of satisfaction, each with scores of 91%. Landlords based in London recorded the lowest median rate of satisfaction, with a score of 78.3%. This is consistent with the 'London effect' found previously, where tenants report lower satisfaction rates in London[39].

[37] UK Customer Satisfaction Index 2017
[38] Housing association operational efficiency 2008/09 to 2014/15, NHF and HouseMark
[39] STAR benchmarking service: analysis of findings 2011/12 HouseMark:2013

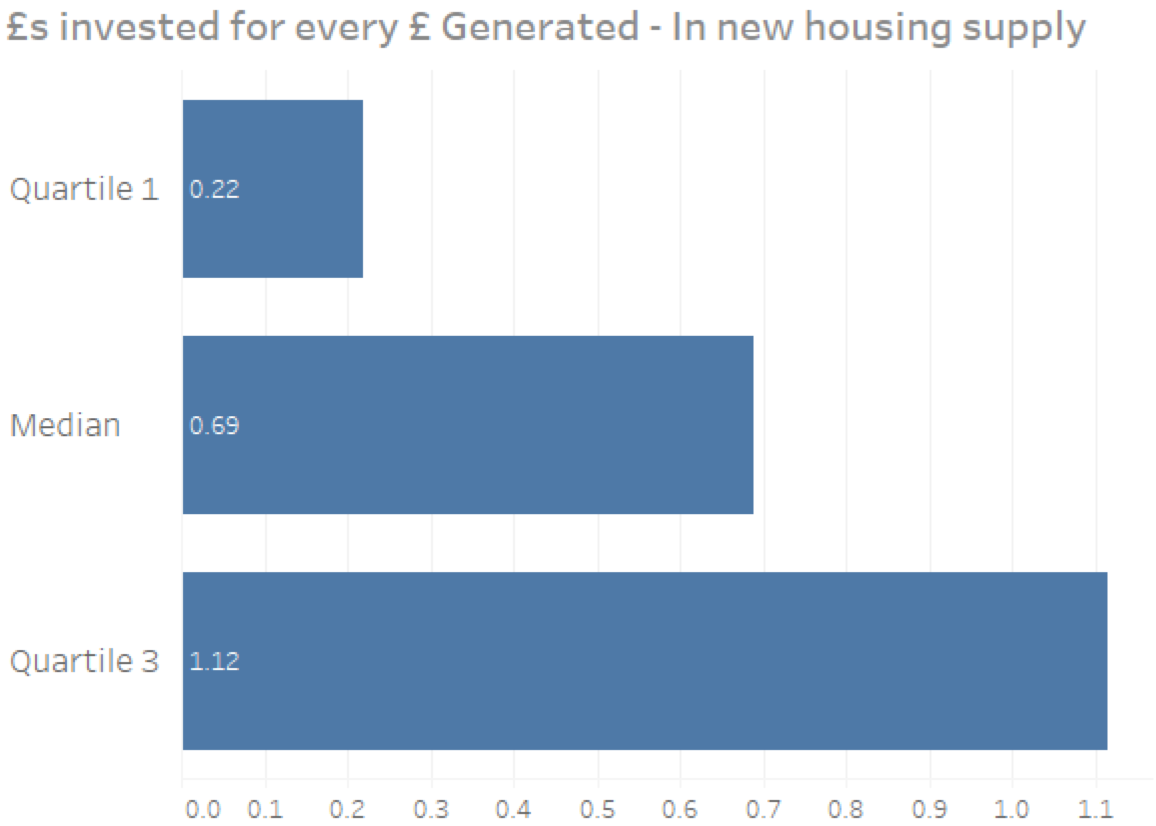
By stock size, organisations in size bands Under 1,000 units and 1,000 to 5,000 units recorded medians of 87.5% whereas landlords in the 10,000 + size band recorded a median of 84.8% - a difference of nearly 3 percentage points. This suggests that smaller landlords tend to record higher satisfaction rates.

These customer satisfaction results point to the potential for greater sector collaboration and sharing of good practice. It is widely recognised that larger housing associations tend to have more resources to invest in the supply of new homes, but it appears that there may be lessons to be learned from smaller associations when it comes to customer satisfaction with services. Overall, it is clear that associations across the sector have a positive story to tell when it comes to customer satisfaction.

6.2 £s invested for every £ generated from operations in new housing supply and in communities

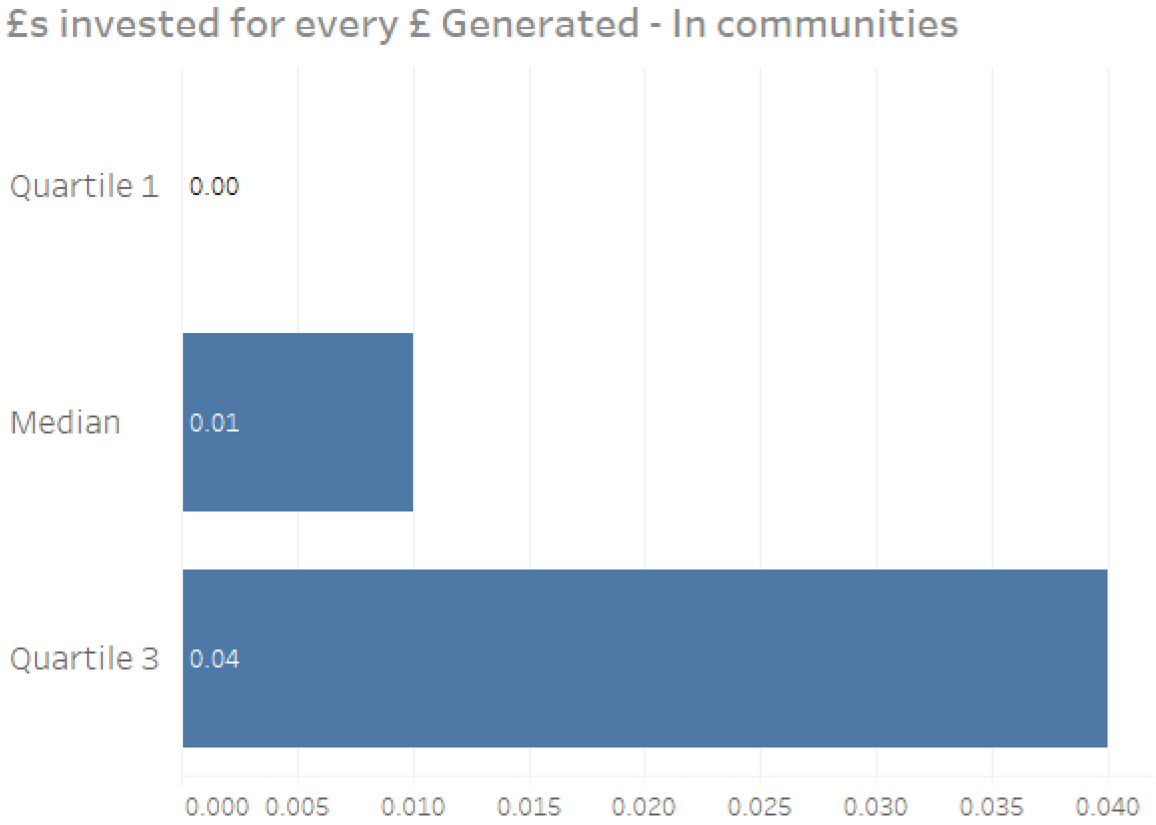
These measures demonstrate the extent to which providers are investing their own money in new supply or in communities. This is calculated by dividing the expenditure on the new supply or communities by the net cash generated from operating activities. Rather than being expressed as a percentage, the units in these measures are pounds and pence.

The chart below outlines the quartile points for the 267 housing associations that submitted data for investment in new housing supply. While more investment in new supply is arguably better, too much investment in new supply could be to the detriment of other parts of the business.



This shows that there is some variation in the amount invested in building new homes relative to the cash generated from operating activities. At the median, the figures suggest that for every pound in net cash generated from operating activities, associations are investing 69p in new housing supply. Seventy-three participants recorded results showing that more than £1 was invested for every £1 generated. This indicates the commitment of the housing association sector to solving the housing crisis through stretching their resources and building new homes.

This chart shows the quartile points for 222 organisations that submitted data for investment in communities. Investment in communities is defined as neighbourhood activities such as employment skills training, money advice, community groups etc. It does not include capitalised spend, or spend on estates which are recovered through service charges.



Compared to new supply, the results suggest that there is less investment in community based activities, this is to be expected as development activity is more capital intensive. Whilst there are a couple of outliers, 153 organisations recorded results of between 1p and £1. Sixty-seven participants recorded £0 for this measure and 93 participants submitted no data.

This is a new measure for the sector, which may require refinement going forward so that measurement can be incorporated into associations' day-to-day operations. This measure produced the highest variability result, which is backed up by initial feedback gathered by the Sector Scorecard Working Group suggesting that participants found this measure comparatively difficult to calculate.

7. Effective asset management

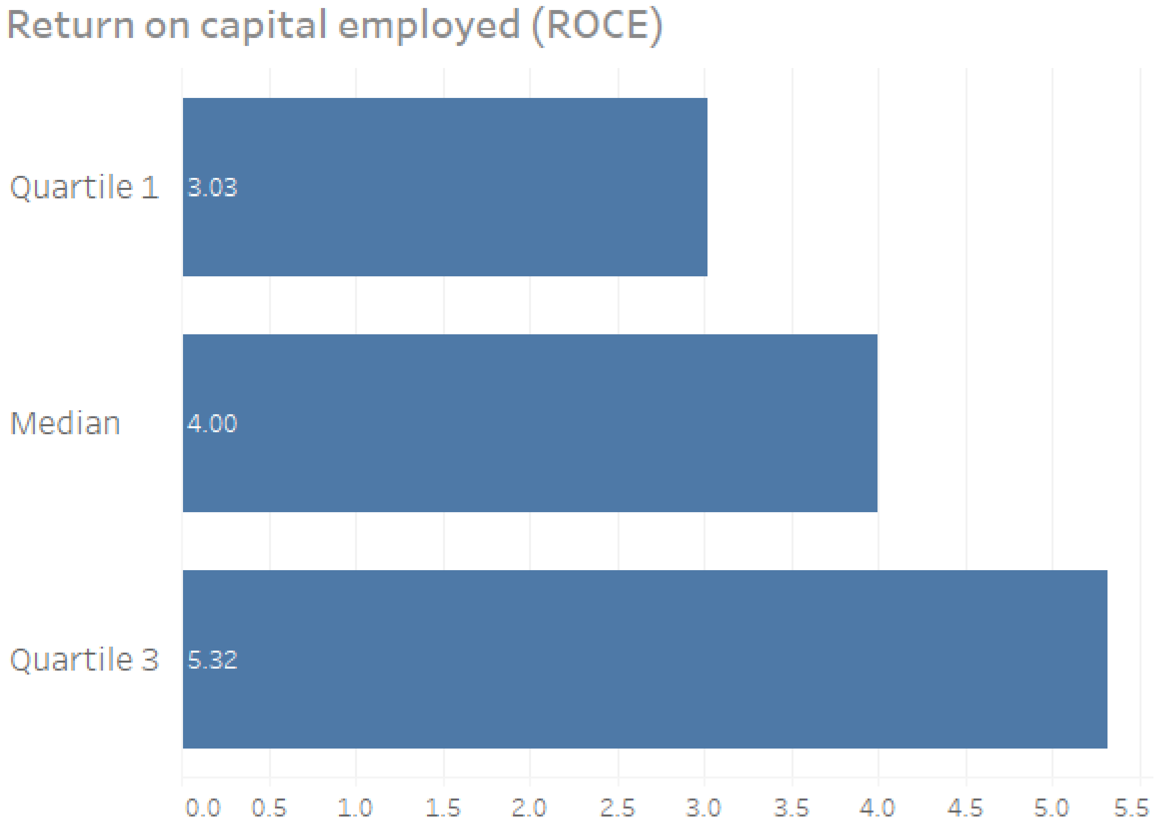
The report has already shown that housing associations are running healthy business, adding considerable numbers to new supply and providing good services that satisfy a significant majority of customers. Another important role that housing associations play, is looking after the assets they manage, ensuring they provide good quality homes that people want to live in, now and into the future.

Any business maintaining fixed assets needs to make strategic investments to renew and improve components and continue to see a sustained financial return in the long term.

7.1 Return on capital employed (ROCE)

This measure shows how well a provider is using both its capital and debt to generate a financial return. It is a commonly used ratio to compare the efficiency of capital usage of different businesses in the same sector. This measure can be influenced by the nature of the organisation's property portfolio (which includes items such as the balance between market and social rent, age of stock, historic debt, basis of valuation etc.)

The chart below outlines the quartile points for the 296 landlords that submitted data for this measure. Generally, higher returns are perceived as better.



At the median point, participants recorded a return of 4% on their capital employed, which includes fixed assets and current assets less creditors where the amount is due within one year.

Compared to many companies in the commercial private sector, these rates are comparatively low[40]. Housing developers Bovis Homes and Barratt's accounts show rates of 17% and 27% respectively in 2016. In a different sector, supermarkets are well-known brands that operate with considerable portfolios of fixed assets. For example, Tesco and J Sainsbury's 2016 rates were higher than the housing association sector's higher quartile position at 5.8% and 8.8% respectively. While this is a small selection, it indicates a distinct difference between the commercial private sector and housing association businesses in terms of earnings and asset values.

Part of the explanation for this could relate to differences in capital structures and the level of return expected from debt funding in comparison to equity funding. However, in practice, the earnings of housing associations are regulated in the form of sub-market rents, which effectively places a cap on returns. Housing associations are unable to maximise their financial return, but they are strongly motivated by the delivery of a social return, which is not captured in this measure. Consideration of social and environmental returns will undoubtedly have an impact on investment decisions and expected financial returns.

By location, associations based in London and Scotland recorded the lowest rates respectively at 3.2% and 2.9%. In London, this is likely to relate to the earnings from sub-market rents compared to high property values. In Scotland, it is likely to stem from lower social rents than English associations producing lower returns. Organisations in the North East region of England recorded the highest median rates of 5.3%.

Similar to other measures, by size the dividing line seems to be around managing 5,000 properties. Landlords managing more than this number recorded median ROCE rates of above 4%, while organisations with fewer than 5,000 properties recorded median rates of below 4%.

There appears to be some relationship between ROCE and gearing, which suggests that higher returns are achieved with more leverage. Highly geared housing associations, recorded a median ROCE rate of 4.6%, whereas associations with comparatively low gearing recorded a median ROCE rate of 3.7%. In spite of this, there is only a weak correlation between the two measures[41], which means that several organisations recorded a comparatively high result for one measure and comparatively low result for the other.

Sector Scorecard participants submitted their 'Accounting policy for property' as a context measure with the rest of their data. This records whether properties are held at historic cost, deemed cost or valuation. Sector Scorecard guidance states that, 'the accounting policy applied to housing properties will also impact ROCE, with properties held at valuation or deemed cost resulting in a lower ROCE than those held at historic cost[42]'. Analysis by these characteristics did not show any clear pattern.

7.2 Occupancy

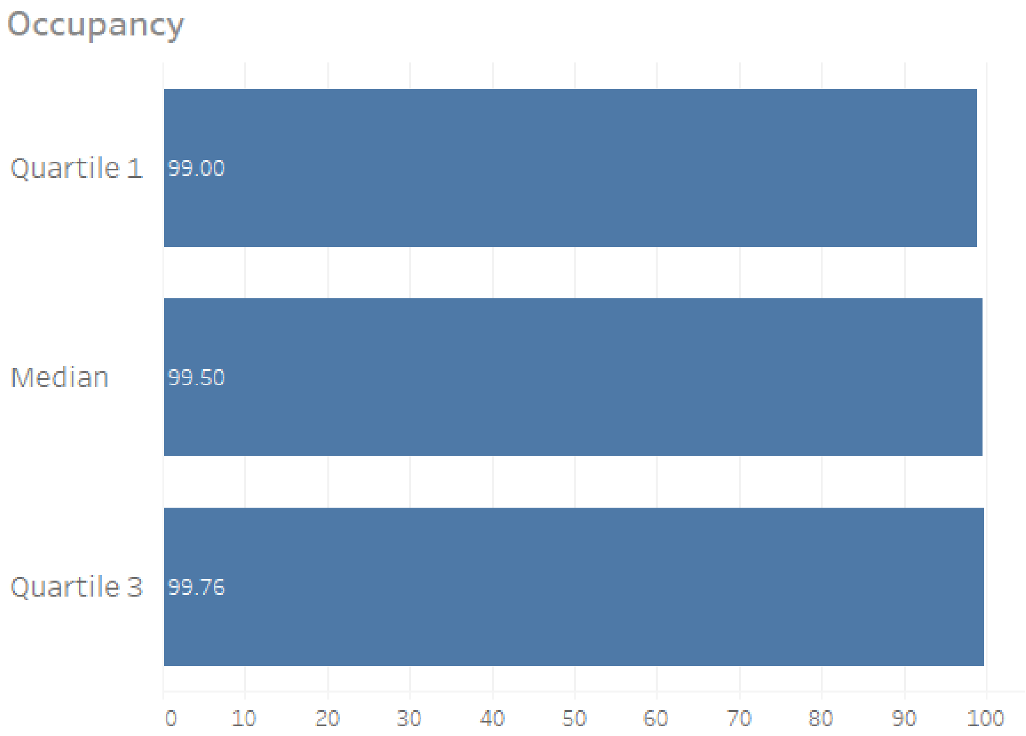
Keeping tenants in properties is a crucial part of every housing association's business. Occupancy rates demonstrate how efficient providers are at turning around void (untenanted) properties. Traditionally, regulators have measured this activity through vacancy rates and void rent loss. This measure provides a more positive perspective;

**

[40] Source: Tesco plc Annual Report and Accounts 2016, J Sainsbury plc Financial KPIs 2017, Barratt Developments plc 5-year financial record 2016, Bovis Homes Group PLC Annual report and accounts 2016
[41] Pearson correlation coefficient of 0.14
[42] See Appendix 2 Effective Asset Management

looking at the number of people housed, as opposed to what is empty.

The chart below outlines the quartile points for the 287 participants that submitted occupancy figures as a snapshot at the end of the financial year. Higher occupancy rates are seen as better.



The figures show that landlords are effective at this key business activity, with most associations keeping tenants in 99 out of every 100 properties. Thirty-eight landlords recorded occupancy rates of 100%. The lowest occupancy rate recorded was 94%.

By size, landlords managing fewer than 1,000 properties tended to record higher Occupancy rates than those with larger stock sizes, but there is no correlation between the two measures[43]. 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.

HouseMark has published an interactive analysis of voids and lettings figures in the five years up to 2015. Its findings broadly correspond with the patterns shown by the Sector Scorecard, for example landlords in North East and East Midlands had higher rates of empty properties[44].

7.3 Ratio of responsive repairs to planned maintenance spend

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

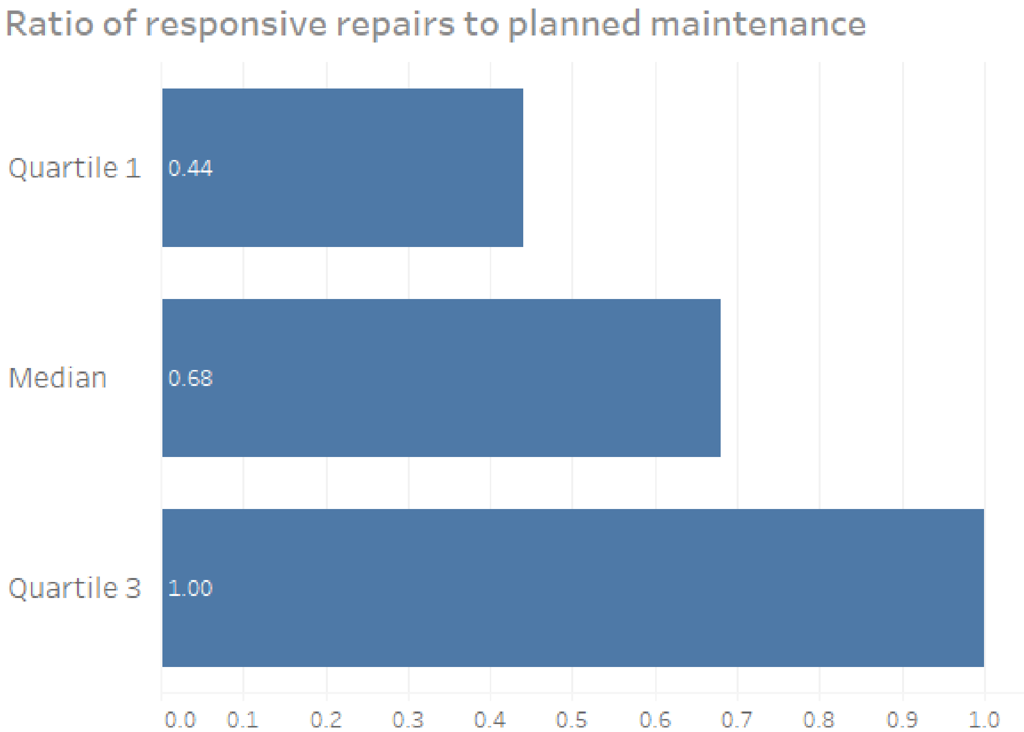
This measure looks at the ratio of an association's expenditure on routine maintenance to spend on planned maintenance, major repairs and capitalised major repairs. It is calculated

[43] Pearson correlation coefficient of 0.02
[44] https://www.housemark.co.uk/subscriber-tools/data-and-analysis/voids-and-lettings-analysis-2010-15

by dividing routine maintenance expenditure by the sum of planned maintenance, major repairs and capitalised major repairs.

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 can be affected by cyclical fluctuations in expenditure, which will become clearer as more data is collected over time.

The chart below outlines the quartile points for the 295 organisations that submitted data for the ratio of responsive repairs to planned maintenance.

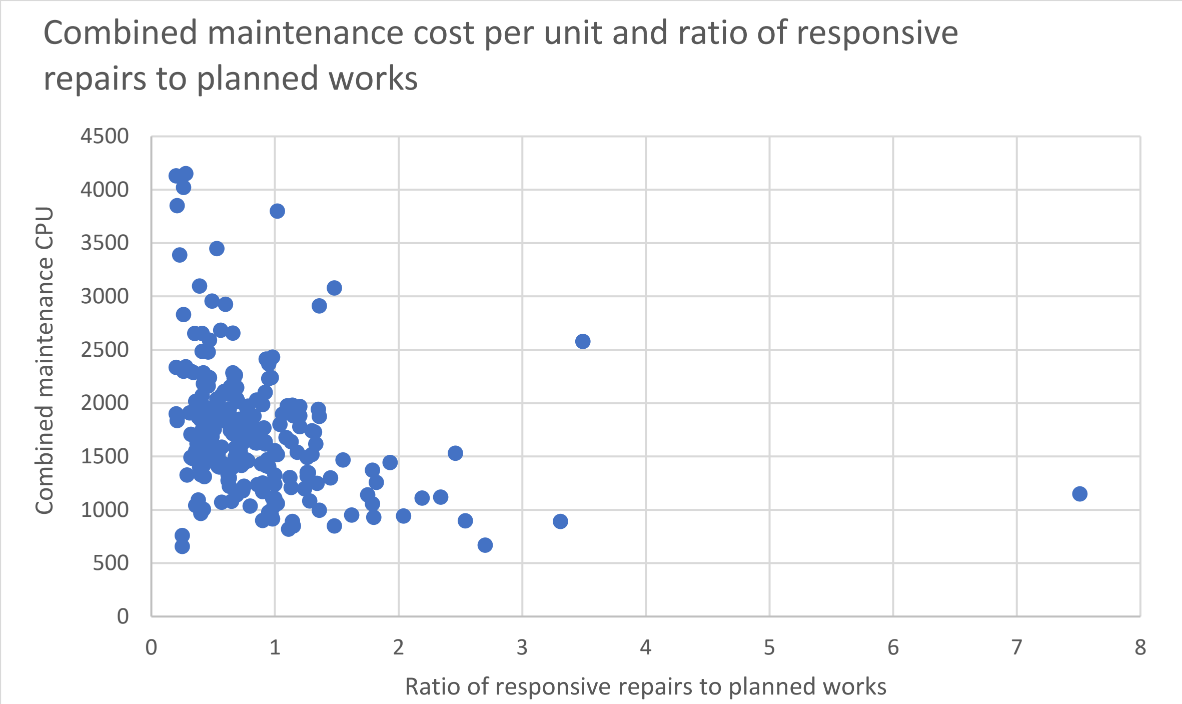


This shows that most landlords' expenditure on routine maintenance is less than the amount spent on planned works. Seventy landlords recorded higher expenditure on responsive repairs than planned works.

Asset management has been a key priority for the sector over recent years, and this data suggests that operational and efficiency improvements are starting to feed through as a result of investment decisions taken.

Associations with a comparatively high proportion of Housing for Older People stock tended to record a low ratio of responsive repairs to planned maintenance spend, with a median of 0.43.

This scatter plot shows the relationship between the ratio of responsive to planned maintenance spend for 231 associations that submitted data for this measure.



There is a weak to moderate negative correlation between the two measures[45]. This suggests that an association recording higher combined maintenance costs is quite likely to have a lower ratio of responsive repairs to planned works. This means that a higher cost per unit on maintenance and major repairs could well relate to extra investment in existing properties, as opposed to inefficient use of resources.

[45] Pearson correlation coefficient of -0.28

8. Operating efficiencies

Housing associations have a regulatory duty to demonstrate how they are delivering 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, income collection rates and proportionate expenditure on overheads.

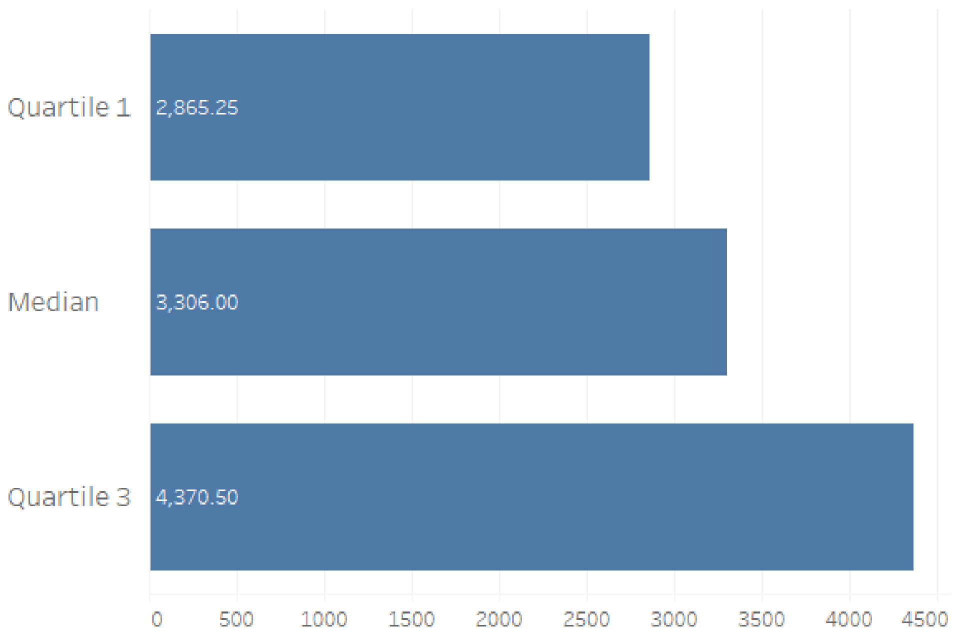
8.1 Headline social housing cost per unit

The Sector Scorecard has adopted this measure from the English Regulator. It uses components from the FVA (Financial Viability Assessment) submitted by English housing associations managing over 1,000 units as part of their regulatory obligations. These components are available in most associations' financial statements.

As the Sector Scorecard includes figures from housing associations managing fewer than 1,000 units as well as those based outside England, the results cannot be easily cross-referenced with the analysis of the English Regulator.

The measure is calculated by dividing the cost of providing social housing (e.g. management and maintenance) by the number of social housing units managed. The chart below outlines the quartile points for the 288 organisations that submitted data for the headline cost per unit measure. Generally, lower costs are seen as better.

Headline social housing cost per unit



At the median point, housing associations spend £3,306 each year managing and maintaining each social housing property. Underneath this, there is some variation. One organisation recorded a unit cost less than £1,000 per unit and seven recorded cost per unit figures of over £10,000.

The location of a housing association appears to have some effect on the unit costs. London-based associations recorded the highest median cost per unit at £4,995. Outside London, there was no pattern to show costs reduced the further north an organisation is based. Participants based in the East Midlands recorded the lowest headline costs, with a median of £2,605 per unit. The median cost per unit for Scottish housing associations was close to the national median at £3,181.

There is some relationship between the size of an organisation and the headline cost. Housing associations managing fewer than 1,000 properties tended to have higher costs than larger size bands – with a median of £4,347 per unit. In spite of this, there is only a weak negative correlation between the two measures[46], which means that lower stock size does not necessarily result in higher costs.

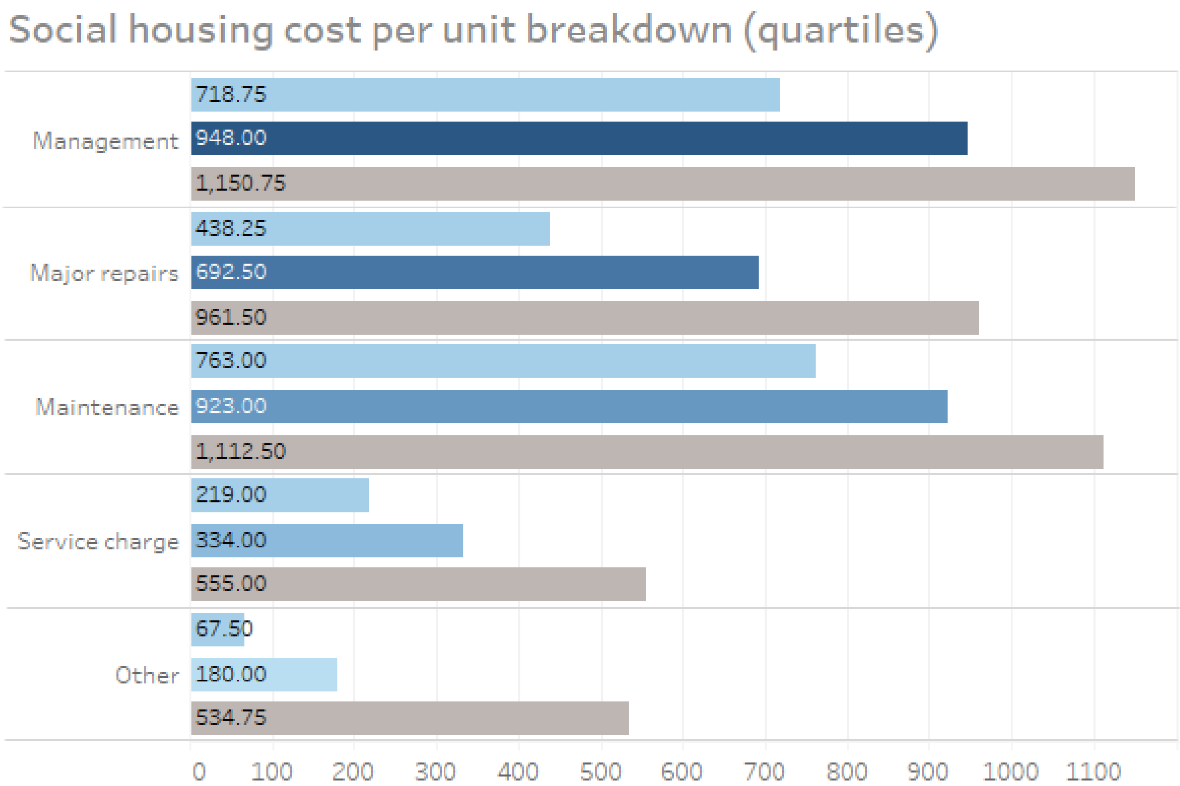
Associations managing a large proportion of Supported Housing properties recorded a median cost per unit of £5,154, while those managing a comparatively large proportion of Housing for Older People recorded a median cost of £4,994 per unit – both much higher than the national median. This corresponds with findings in the English Regulator's regression analysis[47] from 2016.

By type of organisation, the age of an LSVT has an effect. The median cost per unit of LSVTs less than 7 years old was £4,302, compared to a median of £3,161 for LSVTs over 12 years old. This indicates the higher operating costs of LSVTs in the years following transfer. This also corresponds with a finding in the English Regulator's regression analysis[48].

Sector Scorecard participants that submitted data through HouseMark also supplied the breakdown of Headline social housing cost per unit into its component parts. These were collected as a supplement to the Scorecard.

The chart below outlines the quartile points for these measures. Around 230 associations submitted data for each breakdown measure.

[46] Pearson's correlation coefficient of -0.12
[47] Delivering better value for money: understanding differences in unit costs - technical regression report English Regulator:2016
[48] Ibid.



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. 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.

The apparent wide variation in interpretation means that there are few discernible patterns to identify by organisation profile characteristics.

8.2 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 through benefits. 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[49].

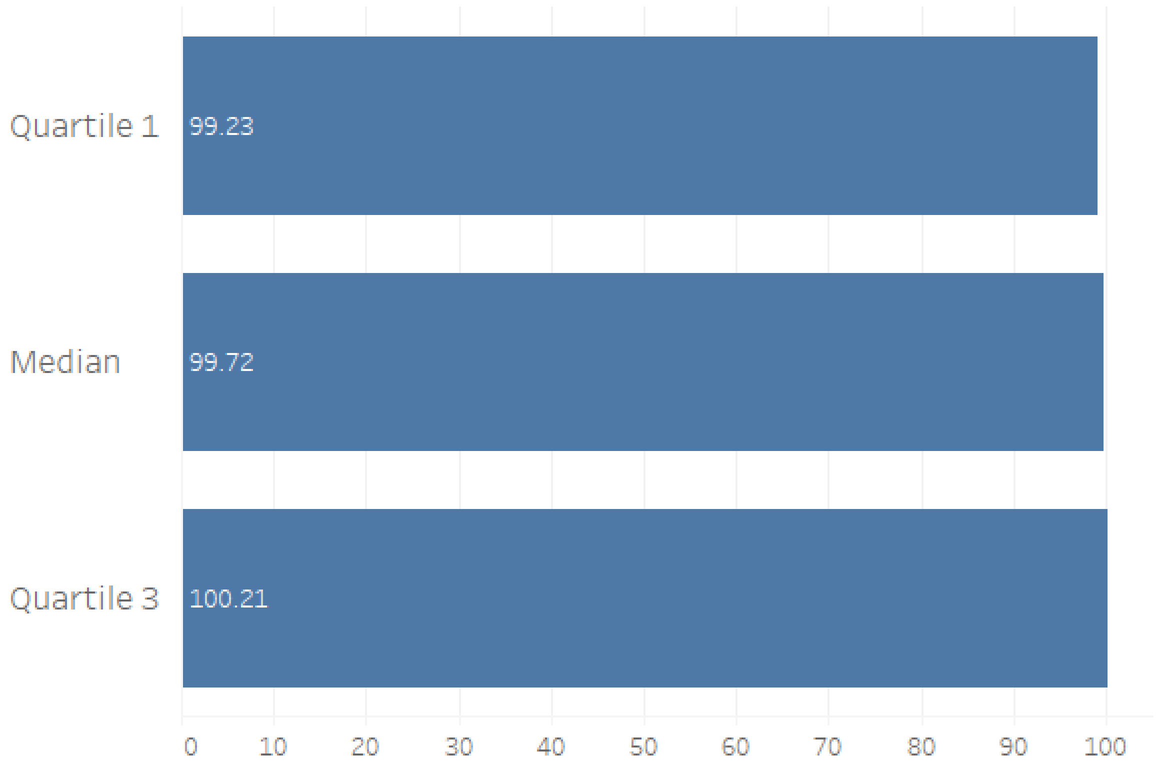
The transition from Housing Benefit paid by the local authority to Universal Credit paid by the tenant poses considerable risks to housing associations as income will not arrive in four-weekly block payments and individuals will need to be approached for rent payments. Evidence gathered from HouseMark members has indicated that income levels fall as tenants move onto Universal Credit[50]. Rent collection rates will be a crucial measure of

[49] Welfare Reform Impact report HouseMark:2016
[50] Ibid.

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 from General Needs and Housing for Older People tenants. Generally, higher collection rates are seen as better.

Rent collected from current and former tenants as a percentage of the rent due (excluding arrears b/f)



The chart shows that, nationally, housing associations are efficient at collecting rent. Around 8 in 10 landlords recorded collection rates of 99% or more, with 103 recording rates of 100% or more, which means they reduced arrears as well as collecting all the rent charged. These results continue a pattern of steady improvement indicated in HouseMark's five-year trend analysis published in 2016[51].

While the differences between each quartile are small in percentage terms, the amounts they represent are large. An association with 10,000 units could have an annual rent roll of £50m, so 0.1% of this figure represents £50,000 of rent.

By location, there was no pattern to note for rent collection levels. Sector Scorecard results alone are not detailed enough to assess, for example, the effect of Universal Credit on rent collection levels.

By size, smaller organisations tended to record higher rent collection rates, with associations managing fewer than 1,000 properties recording a median collection rate of 99.88%, while those managing more than 10,000 units recorded a median rate of 99.60%. In spite of these results, the differences in the middle two size bands means there is no correlation between the number of units managed and the proportion of rent collected[52].

[51] Ibid.
[52] Pearson correlation coefficient of 0.03

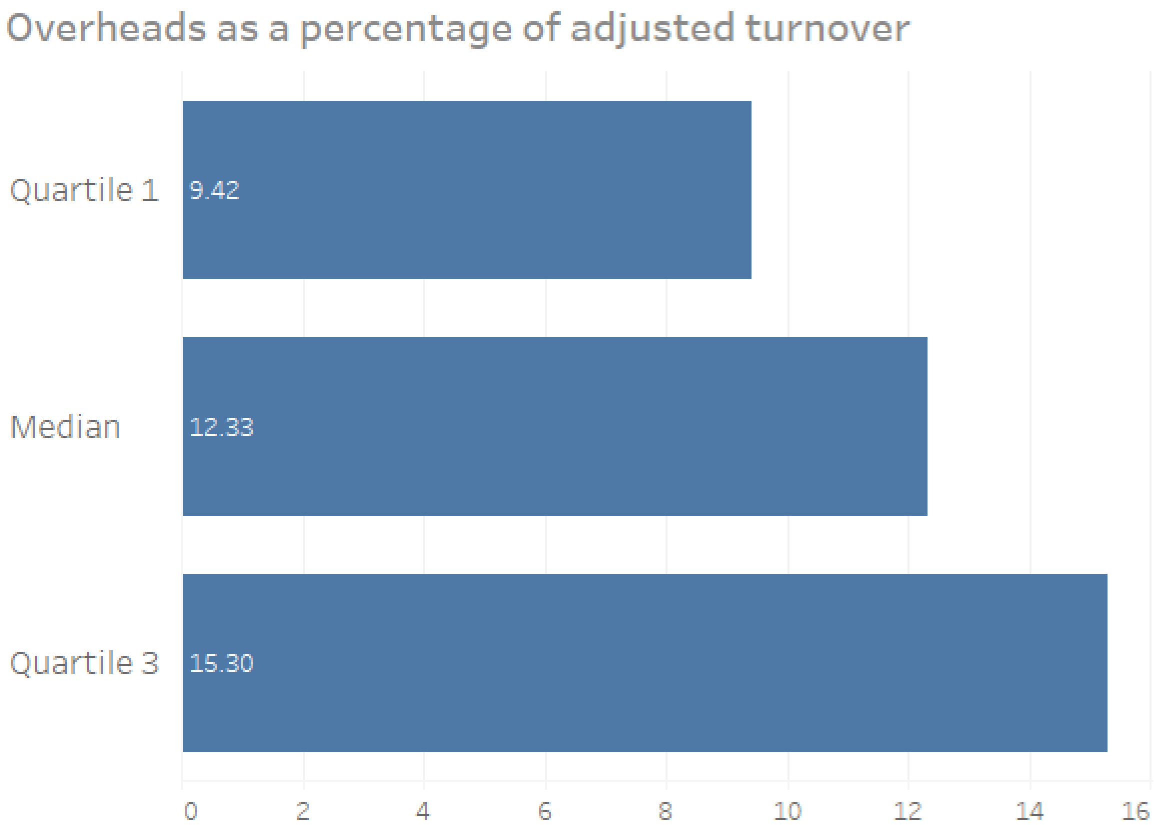
Landlords with a comparatively large proportion of Supported Housing stock recorded lower median rent collection rates on their general needs stock than other landlords, with a median of 99.40%. By contrast, landlords with comparatively large proportions of Housing for Older People stock recorded a median collection rate from their general needs stock that was slightly higher than the national figure, at 99.83%.

8.3 Overheads as a percentage of 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 turnover relating to activities not managed. Overheads are calculated by mapping employee time and costs as well as revenue expenditure to activities identified as overheads. Overheads costs are part of the headline social housing cost per unit measure, but are not separated out.

The chart below outlines the quartile positions for the 220 organisations submitting data for the overheads measure. While lower figures are generally considered to be 'better', there may equally be justifiable reasons for higher figures.



The chart shows that, at the median, housing associations spend one eighth of their adjusted turnover on back office functions.

By location, landlords based in the East Midlands recorded the lowest median rate, spending 9.8% of adjusted turnover on overheads. Landlords based in London spent the highest proportion on overheads, with a median rate of 14.4%, followed closely by Scottish landlords with a rate of 14.1%. This is likely to be related to the stock; these locations had the highest proportion of participants with fewer than 5,000 units.

There is some relationship between the size of an organisation and the proportion of adjusted turnover spent on overheads. The median rate for landlords managing fewer than 1,000 units was 15.1%, which contrasts with the rate for landlords managing more than 10,000 units of 10.1%. Similar to other observations about size, there is only a weak negative correlation[53], suggesting that a large organisation does not always deliver a lower overheads ratio.

[53] Pearson correlation coefficient -0.26

9. Conclusions

The Sector Scorecard has been designed by members of the housing association sector to compare and assess performance against a standardised set of measures. By and large, the evidence in this report demonstrates that housing associations are meeting the demands of their customers, the market and the English Regulator by increasing supply and operating profitably while meeting their social objectives of providing good quality homes for people in housing need.

This pilot exercise has also shown the diversity that exists in the housing association sector. There is diversity in size – the turnover of the largest participant was around 4,500 times higher than the smallest. There is diversity relating to location – with associations across the British Isles. And there is diversity in the type and age of participants, with traditional housing associations formed by 19th century philanthropists alongside 21st century associations created after a stock transfer from a local authority.

While all these organisations are essentially in the same business, the diversity in these characteristics does make for some differences in results. For example, landlords in Scotland charge lower rents than their English counterparts, which affects financial measures that take income into account. Recent stock transfer associations are likely to have higher costs, as a result of improvement works promised to residents as part of the transfer agreement.

Comparing the results of the whole sector to some PLCs has revealed that, in many cases, operating margins are higher for the social housing sector, but that the Return on Capital Employed is lower. Differences in product, priorities and practice can explain these results, but as the sector continues to innovate and adapt to a changing external environment, such comparisons will remain interesting and informative.

Sector Scorecard results can demonstrate where an association is performing well – by leveraging its assets, investing in developing properties and communities, keeping costs down and looking after the interests of existing residents. All of these factors can help associations tell their story, evidence their value and demonstrate compliance with regulatory standards when reporting back to their regulator.

The measures used in the Sector Scorecard were agreed by a group of housing associations that understand the business and the wider operating environment. The report shows that each measure provides evidence of the performance of associations across a wide range of business activities, which taken together start to provide an overall view of value for money. While there might be barriers to collecting and calculating individual measures, the concept of using a set of 15 measures to cover the work of associations in the sector, appears to be well-founded. This shows in the number and variety of the 315 participants, who manage around 80% of UK housing association homes

The results can also provide boards, executive teams, tenants and other stakeholders with the data and evidence with which to challenge and question performance. If the results are surprising or difficult to explain, they should encourage further investigation with a view to improving understanding and potentially performance in the future.

Inevitably this pilot exercise will stimulate further debate and consideration by individual participants who seek to understand the results in the context of their own organisation's objectives.

The overall view that associations and their stakeholders can take away from this exercise is that the Sector Scorecard provides a well-rounded top-level comparison against the backdrop of a vibrant and diverse sector, united by the provision of affordable accommodation. Through participating in the pilot, housing associations have demonstrated their commitment to continuous improvement and transparency. This first cut of the data is a snapshot or baseline of where the sector is now, the exciting and crucial next stage is to report on this data year-on-year to identify trends, monitor improvement and focus in on areas of challenge.

9.1 Next steps

It is crucial that individual organisations use the Sector Scorecard results to understand their comparative positions and decide how this is affected by their own circumstances. In addition to this report, participating associations have access to a set of online analysis tools to view their own results in context.

Following this pilot exercise, the Sector Scorecard Working Group will evaluate the results and feedback from participants, and consider any changes that need to be made going forward. As the trade body for the majority of participants, the National Housing Federation will develop governance arrangements to establish the Scorecard as part of the co-regulatory environment in England. Further discussions will inevitably take place across Scotland, Wales and Northern Ireland as to how associations based in these countries might take forward the Sector Scorecard exercise.

Following this, arrangements will be put in place to standardise collection and reporting mechanisms for all participants.

10. Appendices

10.1 Appendix 1: Regulation across the UK

This appendix outlines some key points about regulation in each UK country with links to source information.

10.1.1 England

In England, housing associations are regulated by the Homes and Communities Agency (called English Regulator in this report), which has set requirements for associations to comply with. This regulatory framework covers a series of expected standards that associations must achieve in terms of economic and consumer-facing operations.

Part of the English Regulator's overall approach to monitoring housing association businesses is its commitment to co-regulation. Part of this means operating as an assurance-based regulator, seeking assurance from providers as to compliance with the standards. The onus is on providers to demonstrate their compliance to the regulator.

Providers with fewer than 1,000 social housing units are deemed to be less exposed to risk and therefore subject to a lower level of regulatory engagement. In practice, this means they do not have to submit as much data and are not subjected to the same checks and assessments as larger associations.

More information
https://www.gov.uk/government/publications/social-housing-regulation-regulating-the-standards

10.1.2 Scotland

Scottish housing providers are regulated by the Scottish Housing Regulator (SHR). Its statutory objective is to safeguard and promote the interests of current and future tenants, homeless people and other people who use services provided by social landlords.

The SHR monitors, assesses, compares and reports on social landlords' performance of housing activities and registered social landlords' (housing associations') financial well-being and standards of governance. It will intervene, where appropriate, to secure improvement and protect the interests of tenants and other service users. There is no commitment to a co-regulatory approach.

Like the English Regulator, the SHR also takes a risk-based approach to regulation, with higher levels of engagement for some landlords, but this is not only size based.

More information
https://www.scottishhousingregulator.gov.uk/sites/default/files/publications/Our%20Regulatory%20Framework.pdf

10.1.3 Wales

Welsh housing associations are regulated by the Welsh Government. Its regulatory framework seeks to ensure that Housing Associations provide good quality homes and high quality and improving services to tenants and others who use their services.

Welsh Ministers regulate by ensuring that each Association is well governed, delivering high quality services and financially viable using a co-regulatory approach. This is predicated on housing associations being open and honest about risks, issues and challenges they face.

Housing association regulation in Wales is underpinned by self-evaluation. Housing Associations must accurately evaluate their own performance against the ten delivery outcomes set out in the Regulatory Framework for Housing Associations Registered in Wales 2011. An Association's evaluation of its own effectiveness is the core evidence used in regulatory assessment.

More information
http://gov.wales/topics/housing-and-regeneration/publications/regframeworkhousingassoc/?lang=en

10.1.4 Northern Ireland

The Department for Communities is the Regulatory Authority for Registered Social Housing Providers (RSHPs) in Northern Ireland. Its risk-based approach is focused on providers identify and manage risk where the emphasis is on outcomes rather than compliance. It recognises the primacy of Boards in managing their organisations and acknowledges their responsibility to Stakeholders, including tenants, to meet the standards.

More information
https://www.communities-ni.gov.uk/articles/housing-regulation

10.2 Appendix 2: Sector Scorecard indicators

A document detailing how to calculate each of these measures is available for Sector Scorecard participants from http://www.sectorscorecard.org.uk/.

10.2.1 Business Health

Indicator	Measure	Narrative
1. Operating margin (overall) 2. Operating margin (social housing lettings)	Measures the amount of surplus generated from turnover on a provider's day-to-day activities; indicator of operating efficiency and business health.	Narrative could include the operating margin split by different activities, to show the extent to which different business streams impact the overall margin.
3. EBITDA MRI (as a percentage of interest)	EBITDA MRI is an approximation of cash generated, and presenting it as a percentage of interest shows the level of headroom on meeting interest payments on outstanding debt.	Trend over recent years could be presented along with context; for example increasing debt levels to fund development could cause this ratio to decrease, but this does not necessarily reflect a decline in financial health.
Gearing	*Included within section B as a measure of development capacity, but could equally be used as an indicator of business health.*	

10.2.2 Development – capacity and supply

Indicator	Measure	Narrative
1. Units developed (absolute) 2. Units developed (as a percentage of units owned)	Demonstrates contribution of the sector to the supply of new homes (all tenures).	It should be recognised that the phasing of development programmes may result in peaks and troughs, particularly for smaller providers. This can be put into context by presenting a trend or average over recent years.

Indicator	Measure	Narrative
3. Gearing	This ratio shows the proportion of borrowing in relation to the size of a provider's asset base. If the ratio is low, this could indicate that a provider has capacity to leverage its existing assets to provide funds for development or new services. However a high ratio could indicate that a provider has taken on too much borrowing, which could put its assets at risk.	Each provider will have an optimal gearing ratio, informed to some extent by its appetite for risk. Narrative could provide some indication of whether the current gearing level is considered appropriate. Caution should be applied when comparing different providers, as higher debt levels are associated with recent stock transfers. The accounting policy applied to housing properties (historic cost/deemed cost/valuation) can also result in differences in gearing.

10.2.3 Outcomes delivered

Indicator	Measure	Narrative
1. Customers satisfied with the service provided by their social housing provider	Brings in the customer's perspective; to what extent are they satisfied with the service provided?	Providers may wish to provide other customer satisfaction measures.
£s invested for every £ generated from operations 2. in new housing supply 3. in communities	Demonstrates the extent to which providers are investing their own money in new supply, or in other priority areas which generate a social return.	Narrative in this area could indicate what the organisation's priority areas for investment are.

10.2.4 Effective asset management

Indicator	Measure	Narrative
1. 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 compare the efficiency of capital usage of different businesses in the same sector. It should also be recognised that this measure only considers financial return. Narrative could link this measure to indicators of social return.	Caution should be applied when comparing different providers, as recent stock transfers may result in a lower ROCE as there has been less time in which to depreciate the asset base. The accounting policy applied to housing properties will also impact ROCE, with properties held at valuation or deemed cost resulting in a lower ROCE than those held at historic cost. It would also be possible to deliver an improvement due to increasing depreciation unless assets are constantly refreshed by capital spend. In order to demonstrate the effectiveness of the asset management policy, this should be considered together with recent levels of repairs and maintenance spend.
2. Occupancy	Demonstrates how efficient providers are at turning around void stock. Provides a more positive perspective; people housed, as opposed to void loss/empty properties.	This is measured at a point in time, therefore may not be representative of usual levels of performance. Measure could be placed in context by providing more information on average occupancy levels during the year, or improvement in void turnaround times.
3. Ratio of responsive repairs to planned maintenance spend (link this measure to unit cost)	Effective planning based on detailed stock condition surveys should allow the sector to reduce spend on responsive repairs in favour of planned maintenance.	It should be noted that the level of spend may vary from year to year depending on the timing of planned maintenance programmes, and it may be necessary to present a trend or average for context.

10.2.5 Operating efficiency

Indicator	Measure	Narrative
1. Headline social housing cost per unit Split into: -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	This is the measure used by the HCA in the regression analysis; using this rather than a different cost measure will avoid confusion. The regression analysis findings can also be used to inform the narrative.	A split of the headline social cost per unit into components, or adjusted unit costs can be used to support the narrative. Providers with a large supported housing provision may wish to present the headline unit cost split by general needs and supported housing. Explain how costs relate to performance – higher costs may reflect a conscious choice to invest in an area with greater social value.
2. Rent collected	Demonstrates the effectiveness of the income management function in collecting rent due and managing arrears levels.	Narrative can provide context around changing performance; for example if arrears figures are worsening due to the impact of universal credit, and plans for mitigating the impact.
3. Overheads as a percentage of adjusted turnover	Shows the proportion of turnover which is required to pay for overheads. If the ratio is high, this could indicate potential cost savings from improving the efficiency of back office functions (likewise a reduction in the ratio will indicate improvements have already been made).	It would be useful to present a trend over recent years to demonstrate efficiency savings already made. Also useful to link to overall unit cost to demonstrate whether high or low cost overall.

10.3 Appendix 3: Glossary of housing terminology

The table below explains social housing terminology used in this report.

Term	Description
Acuity	Acuity provide Resident Satisfaction & Customer Research, Performance Improvement, Learning & Development and Consultancy to the social housing sector. It collected Sector Scorecard data from housing associations with fewer than 1,000 properties.
ALMO	Arms' Length Management Organisations. Property management companies wholly owned by councils set up in the 2000s. They were set up to allow the government to invest in council housing stock without the money appearing in public sector borrowing.
Audit Commission	A UK government body that inspected the service provided by housing associations in the 2000s.
Benchmarking	System developed to compare cost and performance on a like-for-like basis.
Efficiency Working Group	Now called Sector Scorecard Working Group. The Group contains representatives of the following organisations: PlaceShapers (represented by North Star Housing Group and Shepherds Bush Housing Group), Pickering and Ferens Homes, Affinity Sutton (now Clarion), Moat, Thames Valley Housing, Riverside, Innisfree, Paradigm, DCH, Derwent Living (now part of Places for People Group), L&Q, Westward Housing, Flagship Homes and Home Group. The Sector Scorecard Working Group is chaired by Mark Henderson (CEO, Home Group).
FVA	Financial Viability Assessment is used to gather financial accounting information required by the English Regulator to inform its assessment of associations' compliance with the viability element of the Governance and Viability standard. FVA data is aggregated and published by the English Regulator in its Global Accounts analysis.
General Needs	General needs housing covers the bulk of housing stock for rent. This covers units for people who have no special needs that have to be met by features of the layout, fixtures, fittings, or location of their home. General needs housing is stock that is not designated for specific client groups or investment programmes.
HouseMark	HouseMark is the leading provider of social housing data and insight. It collected Sector Scorecard data from housing association with more than 1,000 properties and those based in Scotland, Wales and Northern Ireland.
Housing for older people / Sheltered	Also known as sheltered housing. In England properties should be described as housing for older people only if they are made available exclusively to older people. Organisations in Wales and Northern Ireland may use this definition: properties should be described as housing for older people / sheltered if they are intended for older people and they either incorporate a range of basic facilities and special design features (over and above lifetime homes adaptations to general needs properties) or are specially designated for older people. In Scotland, sheltered housing is also described as properties where the main form of support is a warden service and/or an emergency call service, connecting each

Term	Description
	house to a warden system.
LSVT	Large Scale Voluntary Transfer housing association created when the ownership of 500 or more units are transferred from a local authority. Sometimes all a local authority's stock is transferred to one association, other times the LSVT is created from a smaller proportion of an authority's stock.
Major repairs	Generally, major repairs involve remedial works that are necessary for the property to remain habitable; they would include structural repairs, site works and service installations. Major repairs may be capitalised, however this is not a deciding factor because organisations' accounting practice may vary.
Mixed Group	A group of housing associations comprising LSVTs and Traditional associations that submits regulatory data as a single entity.
Service charge	Service charges cover the costs of maintaining communal areas for an estate and/or block. They are often shown as separate charges on a rent statement.
Star	Survey of Tenants and Residents is a framework for periodic surveys of customer perception developed by HouseMark. The questions and methods have been rigorously tested allowing participants to measure customer satisfaction and to compare results with each other.
SDR	Statistical Data Return. Online form completed by all English housing associations with stock information, which is sent to the Regulator.
Stock	See Units
Supported Housing	The term 'supported housing' applies to housing that is purpose designed or designated to provide support for a particular client group. The fact that a tenant receives support services in their unit does not automatically make it supported housing. Purpose designed supported housing includes accommodation that has been designed, structurally altered or refurbished in order to enable residents to live independently. Designated supported housing is accommodation that has been designated as being available only to individuals within an identified group with specific support needs.
Traditional	A housing association set up outside the public sector to meet a defined housing need.
Unit	A technical term for a dwelling owned and/or managed by a housing association. Units may also be referred to as stock, properties or homes. They can be any type of self-contained residential accommodation e.g. flats, houses, bungalows, maisonettes.
Universal Credit	Scheme to move all out-of-work benefits into a single monthly payment. This includes housing benefit.
Vacancy rate	The proportion of a landlord's properties that are void at a given point in time.
Void	A property with no current tenant.
Void rent loss	Income that cannot be collected because a property has no current tenant.

10.4 Appendix 4: Calculations used in this report

10.4.1 Aggregation

The figures in this report are based on aggregated data from individual landlords. Sector Scorecard participants can access their own underlying data by using an online reporting tool.

10.4.2 Correlation and scatter plots

Correlation is a technique for investigating the relationship between two variables, for example, age of stock and maintenance costs. These are shown in scatter plots. 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 1.0 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.

10.4.3 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 valuative polarity (though some guidance is given in the commentary). The terms first quartile (lowest 25%) and third quartile (highest 25%) are used consistently throughout.

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

The **first quartile 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	Third quartile – highest 25 per cent
B	97	
C	95	2nd quartile
D	87	
E	83	3rd quartile
F	79	
G	77	First quartile – lowest 25 per cent
H	75	

Third quartile value = 96

Median value = 85

First quartile value = 78

10.4.4 Percentile rank

We used the Excel function 'PERCENTRANK.INC' to evaluate the relative standing of values within the data set. The function calculates a comparative score showing where a result ranks in the dataset from 0 (the lowest result) to 1 (the highest result). This is useful to compare organisations' results across the scorecard.

10.4.5 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.

10.4.6 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

English housing associations record how many properties they own / manage in each local authority area. We used an ONS download to convert LA names into Regions and a pivot table to sum the stock fields above by region for each organisation. We calculated a percentage of stock in each region (using the RP's sum total as the denominator) and added a column with a 'max' formula to identify the largest proportion of stock.

We then used a nested IF statement to identify whether the max proportion was over 50%, and if so, which region the 'max' proportion belonged to (ie if the result in the East Midlands column = the max column then max region = East Midlands). If the max proportion was less than 50%, then max region = mixed. No organisations that had identical max proportions in multiple regions.

Where SDR information was not available, we used data collected by HouseMark, Acuity, Global Accounts or individual organisations' websites to identify location.

Stock size banding

We sourced stock information from the following sources:

- HouseMark: leasehold units managed, shared ownership units managed, supported housing units managed, General Needs units to which a housing management service is provided, Sheltered Housing units to which a housing management service is provided
- Acuity: GN properties, Supported properties, HfOP properties, Leasehold & Shared Ownership, Care
- Global Accounts 2016: Closing social housing units managed
- SDR 2016: Total - Low cost rental accommodation owned and directly managed, Total - Low cost rental accommodation owned but managed by other organisations, Total - Low cost rental accommodation managed for other organisations
- Individual organisations' websites

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

The age of LSVTs is solely derived from Global Accounts: Provider type, LSVT age.

Supported Housing and Housing for Older People % of stock

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

- Global accounts: % social housing owned or managed by type (which is drawn from the SDR)
- 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 and 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 the Supported Housing and Housing for Older People % of stock, we calculated the top 10% (decile). These organisations were described as having a comparatively large proportion of supported or housing for older people stock. Organisations that recorded a figure above zero were recorded as having 'some' supported or housing for older people stock.

This report has been produced by HouseMark.
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