Value for money report
2021-22

Better Futures

Better
Homes
Communities
Business

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Contents

Foreword

I am pleased to present a report which can summarise all our team has achieved in relation to value for money.

Our Better Futures strategy and Value for Money strategy are now well established, and both reaffirm our commitment to being a well-run effective social business. We see this as essential to deliver positive and sustainable change for our customers and communities.

As the 2021-22 year closes, the future still holds a lot of economic uncertainty. Post-pandemic and post-Brexit, we are still yet to see the full impact of the conflict in Ukraine and the cost-of-living crisis. But we anticipate strain coming through our supply chains or felt among our customer base. Social landlords, like B3Living, may come under pressure on multiple fronts.

Although significant cost savings may become increasingly difficult to achieve in the year ahead, especially for an organisation of our size, this report demonstrates the resilience we've shown in response to challenges thus far and a strong performance against our peers.

We have maintained sector upper-quartile operating margins alongside high levels of reinvestment. We are also seeing positive outcomes from our Value for Money Strategy, now in its second year, and from our new specialist procurement function: for example, in the £3m forecast savings we expect to make by utilising our group structure for VAT.

A value for money focus enables us to play a key role within our community. For us, efficiencies are about releasing resources to allow us to do more of the things that our customers value and our local area needs.

Through our stock, we offer homes for more than 12,000 people but we also provide wraparound services, which support our customers as and when their lives change and will be increasingly important during the cost-of-living squeeze. We are also the only housing association actively building affordable housing in our local area; therefore, we understand the importance of our surplus in giving us the ability to invest in new and existing homes, as well as in safeguarding our operations against unfavourable circumstances.

Every penny counts, but our approach is much broader. Striving for the optimum balance between cost, quality and performance has served us well across the previous two years, so we intend to maintain this principle going ahead. Our value for money focus will also draw upon our new Customer Strategy, through which we hope to better understand, from a customer's perspective, what the optimal balance looks like.

We have already made some inroads on this, such as in our 'Great Start' project and our procurement of new alarm systems in our independent living schemes. We hope to continue this cross-organisational, customer-centric approach to drive improved customer satisfaction and performance.

We remain committed to a value for money strategy that reflects our role locally and our values. There will always be more that can be achieved, but in all we do we will continue to push for the best outcomes for our customers.

Steve Woodcock
Chief Executive

For B3Living, value for money (VFM) is best achieved by aiming to realise the optimum balance between cost, quality, and performance across all the services we provide, whilst ensuring the business's finite resources are being utilised as effectively as possible and protecting our financial resilience. We, like all housing associations, have limited resources at our disposal. So, when additional resources are allocated to meet a key priority, such as carbon reduction, there is a subsequent trade-off, such as a reduction in the investment in new homes.

The Executive team works closely with the Board to ensure our resources are allocated in accordance with their shared priorities; for example, recently the Board undertook a "dials exercise" which allowed each individual Board member to score each of the key demands on the business between 1 (low) to 5 (high), the results of this process helped shape the Better Futures strategy and the assumptions within the long-term financial plan.

Our approach

> The Board fully understands the importance of our business and the services we provide within our community and to our customers

What value for money means to us

As we are a locally focused housing association, we play a key role within our community through building much-needed new homes which help to tackle the housing crisis locally; maintaining our existing homes to a good quality so they are safe, warm and secure; enabling customers to sustain their tenancies; along with leading and supporting community-based initiatives. We believe our Value for Money Strategy reflects this understanding, and its delivery will help maximise our impact for existing and future customers as well as the wider community.

As we have stated, our approach to value for money is centred on achieving the optimum balance between cost, quality, and performance in every aspect of the business. We believe this will enable us to deliver more for our community and improve our offering to our customers.

Value for money is a focal consideration in how we run the business. It informs and underpins our budgetary and financial planning processes, and it shapes our relationship with our customers, suppliers, and other stakeholders. B3Living's strategic approach is to improve our customer experience and invest in new and existing homes at sector upper-quartile levels whilst trying to manage our costs to sector median levels. We focus on efficient cost management, improving performance, challenging our spending, and identifying new investment opportunities and ways of working.

- Customer experience ✓
- Sector upper-quartile investment ✓
- Managing costs ✓
- Cost management ✓
- Investment opportunities ✓
- New ways of working ✓
- Challenge spending ✓

Our strategy

In 2020, we implemented our current Value for Money Strategy with the intention of not only meeting our compliance obligation with the Regulator of Social Housing to achieve value for money, but to embed value for money within the culture of the business. The Value for Money Strategy outlines a nuanced approach to value for money which is designed to:

- **Improve customer satisfaction.**
- **Improve the quality of our existing homes and secure their long-term viability.**
- **Promote a cost aware culture across the business.**
- **Maintain our financial strength and growth capacity.**
- **Deliver against the Strategy's value for money metrics.**

The Value for Money Strategy supports the achievement of our new Better Futures Strategy by challenging us to achieve a cost/quality/performance balance across every area of the business. The delivery of the Value for Money Strategy will be supported by our new Customer Strategy, which provides a comprehensive framework to enable us to best understand, from a customer's perspective, what the optimal balance looks like. By better understanding our customers we can deliver upon the Value for Money Strategy's objective to encourage a better customer journey and experience and thus improve customer satisfaction levels to sector upper-quartile levels.

Board ownership

The Board takes ownership of the Value for Money Strategy by:

- **Setting the business' risk appetite and Financial Golden Rules to provide operating parameters.**
- **Setting objectives and targets via the corporate plan.**
- **Approving the annual budget and business plan which aims to deliver the Value for Money Strategy.**
- **Setting a robust Investment Policy, Asset Management Strategy and Value for Money Strategy.**
- **Incorporating value for money into all decision-making processes.**
- **Monitoring performance and results.**

Setting challenging value for money targets increases our capacity to deliver on our strategic objectives, namely to:

- **Ensure that our customers receive an excellent service.**
- **Prioritise investment in our homes.**
- **Support our customers to sustain their tenancies.**
- **Take a significant step towards becoming carbon neutral.**
- **Provide new homes to our customers.**
- **Use our values and culture as a foundation for our commitment to corporate responsibility.**

As outlined in the April 2018 Value for Money Standard and subsequent technical guidance issued by the Regulator, we have measured our performance against the Regulator's value for money metrics, our peers, the sector median and the highest performing sector quartile for each metric (Global Accounts 2021).

The value for money metrics and definitions have been provided by the Regulator and, therefore, sometimes differ from measures and covenants stated elsewhere in the Financial Statements.

To ensure our peer group offers a good comparison, we selected large scale voluntary transfer (LSVT) housing associations of a similar size, local to our area, which have a low supported service exposure. The peer group includes:

- **Chelmer Housing Partnership Limited**
- **Cross Keys Homes Limited**
- **Eastlight Community Homes Limited**
- **Thrive Homes Limited**
- **Watford Community Housing Trust.**

Our performance

Our mission is to deliver a positive, sustainable change to the housing crisis for our customers and communities.

Performance in 2021-22

The table below summarises our performance against our peers and the sector's median and upper quartile for each metric:

	Peers* 2020-21 Actual	B3Living 2020-21 Actual	B3Living 2021-22 Actual	B3Living 2022-23 Forecast	B3Living 2023-24 Forecast	Sector Median 2020-21	Upper Quartile 2020-21	Board VFM Target
Value For Money Metrics								
Reinvestment	10.2%	17.1%	**14.1%**	11.3%	11.5%	5.8%	**8.2%**	**Upper quartile**
New supply (social)	2.2%	2.0%	**2.4%**	3.9%	2.7%	1.3%	**2.0%**	**Upper quartile**
New supply (non-social)	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.1%	**Lower quartile**
Gearing**	57.3%	69.7%	**67.4%**	64.2%	63.3%	43.9%	**53.3%**	**Upper quartile**
EBITDA MRI Interest Rate Cover**	182.8%	223.0%	**183.5%**	206.7%	201.8%	**182.5%**	248.0%	**Median**
Headline social housing cost per unit (£k)	3.68	3.98	**4.19**	4.16	4.39	**3.73**	4.76	**Median**
Operating margin (SHL)	28.7%	44.9%	**45.2%**	41.7%	41.5%	26.3%	**32.6%**	**Upper quartile**
Operating margin (overall)	28.2%	42.1%	**40.9%**	35.0%	36.3%	23.9%	**28.2%**	**Upper quartile**
ROCE	3.5%	5.2%	**4.6%**	4.7%	4.6%	3.3%	**4.2%**	**Upper quartile**

*The average performance of our peers
**The Regulator's gearing and EBITDA MRI interest covers calculations are different to B3Living's loan covenant.

We are committed to tackling the housing crisis within our communities by building more much-needed affordable homes, which is clearly seen in our reinvestment performance (14.1%), which is much greater than the sector upper quartile (8.2%) and our peers average (10.2%). We aim to ensure this investment is sustainable by generating sector upper quartile operating margins and to manage our cost per unit to sector median levels. These objectives will allow us to produce strong interest coverage and Return on Capital Employed (ROCE) performance.

Our gearing position continues to be one of the highest in the sector at 67.4%, albeit it has improved substantially over recent years (77% in 2019). This is, however, a conscious decision that we continue to do all we can to tackle the housing crisis locally by using our financial strength.

The table shows that we expect our gearing performance to stabilise at around 65% over the coming years. Into the mid- to long-term, B3Living will continue to target surpluses of around £10m to help manage our gearing whilst making significant investments in new and existing homes. Our funder gearing covenant is based on security value and our performance is 48% (2021:52%) against a covenant limit of 80% and our internal Financial Golden Rule limit of 65%.

Achievements

Throughout 2021-22 we have continued to promote and embed our Value for Money Strategy with the help of our Value for Money ambassadors and our procurement function. We also sought to utilise our group structure to save VAT (£250k in 2021-22) and tax (£160k in 2021-22) and ensure that value for money is a key consideration within our governance and decision-making processes.

Our Value for Money ambassadors group represent all areas of the organisation. They serve to identify and investigate value for money opportunities across the business and to provide a service which looks to embed our value for money values through training colleagues, promotion and communication. During the year, the Value for Money ambassadors carried out deep dive value for money investigations, which included:

Heating charges

the Value for Money group initiated a study to find out why some of our customers have high heating charges and what could be done to resolve any issues.

Empty properties

the ambassadors looked at the rental income lost through void homes and on why repair costs associated with them are high. Investigative work was delegated to colleagues in Finance, IT, Business Improvement and Asset Management who worked collaboratively to glean an understanding of the key cost drivers, which can then be targeted to achieve value for money.

Estates and grounds maintenance

the Value for Money group investigated the reasons for customer dissatisfaction regarding our estate services and concluded that the core issues relate to the performance of our ground's maintenance contractor. This service will be reprocured in 2022-23 with higher standards included.

Case study

The Great Start project: changing our void standard

This year we reviewed our standards for re-let properties to see how we could help our customers to have a great start in their new homes. We followed a flexible co-production model, consulting our involved customer network at the outset of the project (pre-pilot) and engaging with customers in our pilot and control groups as we went along.

We found that expanding our offer to include flooring, full redecoration, and a sparkle clean and offering choice at the viewing stage brought satisfaction up to 90% and gave a big boost to team morale. Those experiencing furniture poverty were better supported, as many new customers moving into their first home of their own struggle to afford flooring and decorating.

Although these changes naturally incurred an increase in cost, we did not see a significant impact on turnaround times with our relet time still comfortably below the sector median (52 days). However, we were also able to use customer insights to achieve a cost/quality/performance balance, as per our Value for Money Strategy. Through the project, we were also able to identify which upgrades were having less of an impact on customer satisfaction.

Before

After

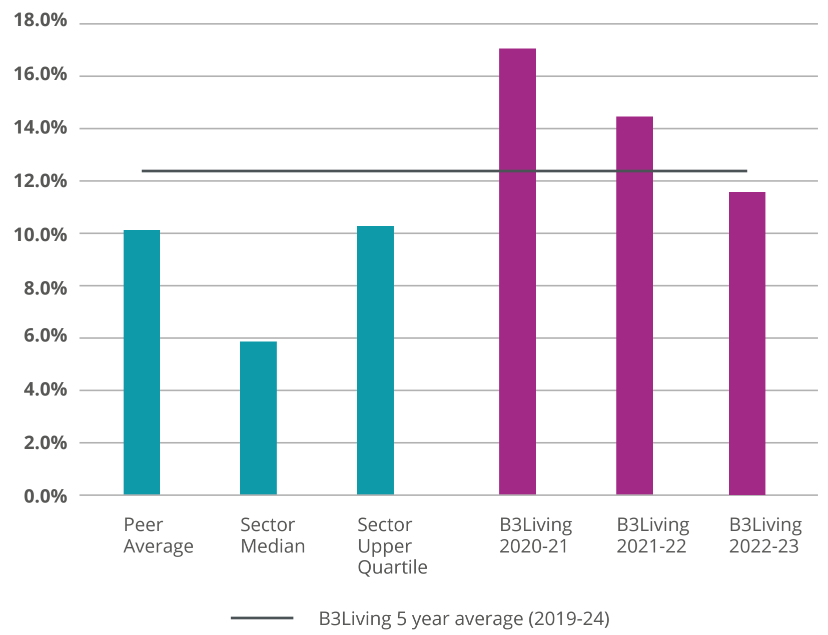
“It feels like a brand-new property

– B3Living customer in the pilot group

Detailed review of value for money performance

The charts below compare historic and future performance against our peers, the sector median, and upper quartile from the 2021 global accounts. Each chart also includes B3Living's rolling five-year average, which covers the period April 2019-March 2024 to provide greater context by blending historic and forecast performance, and lessens the impact of annual fluctuations on performance, which is generally caused by the ebbs and flows of the development programme.

Reinvestment %

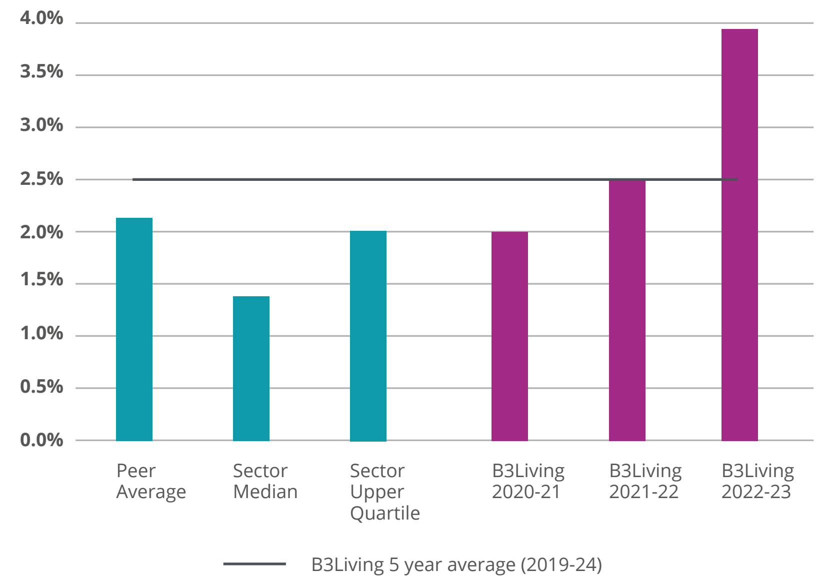


B3Living's commitment to delivering more affordable homes within our local geography is reflected in recent and forecast reinvestment performance. The Board have set an sector upper quartile value for money target (8.2%). Over the five-year period between 2019-2024, our average reinvestment performance will be four percentage points greater than this target at 12.5%. Our performance is helped by the decision to build out our land-bank sites and the delivery of our largest affordable housing scheme in Cheshunt, Broxbourne (195 homes).

Generating efficiency savings in our general operations and the treasury refinancing in 2015 have created the capacity to build more homes whilst maintaining financial resilience. In 2021-22 the Group invested over £41.0m (£38.6m fixed assets) in new and over £4.8m in existing homes.

The Group has delivered, and plans to continue delivering, sector upper quartile performance as per our Board's ambition.

New supply of Social Housing Units %

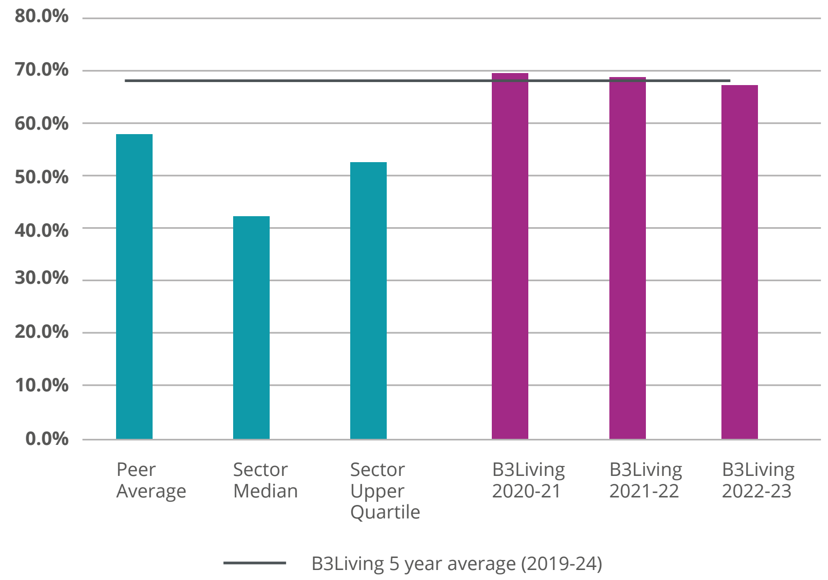


B3Living's reinvestment performance directly impacts on development outputs. In 2021-22 we did not complete as many homes as we planned due to construction delays caused by material and labour shortages. These delays are expected to generate a bow wave effect in 2022-23 as growth is expected to reach nearly 4%. With a vast majority of these homes set to be delivered in our heartland of Broxbourne, this delivery will make a significant contribution to tackling the housing crisis locally.

In 2021-22 we completed 119 new homes, of which 76 were rented and 43 shared ownership. Currently, we are the only housing association actively building homes in our local area, which means it is essential that we continue to build new homes to alleviate the impact of Broxbourne's housing shortage and meet our objective of making a difference to our community.

With the impact of the anticipated 2022-23 bow wave on handovers, we expect to deliver an average increase in the supply of new affordable homes of c. 2.5% per annum between 2019-24, which is greater than our Board's value for money target and more than our peers.

Gearing %



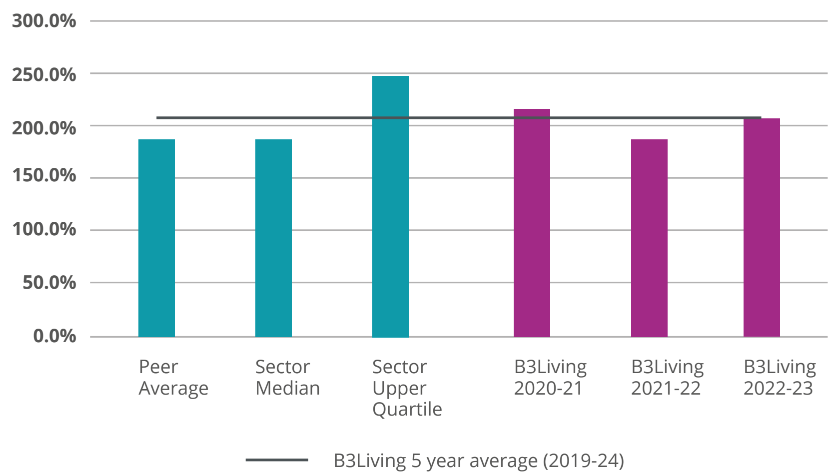
During the year, the gearing ratio (the relationship between debt and social housing assets) stabilised at just under 70%. The pressure on our gearing is directly related to our corporate objective of building more affordable homes within our local area.

In the year our debt increased from £185m to £205m (10.8%) as we invested c. £41.0m in the provision of new homes and c. £4.8m, or over £1,100 per home, in the improvement of our existing homes.

The Board understands that we are operating in the highest sector decile of gearing, but as a social housing provider, it is important that we continue to play our part in the delivery of new affordable homes. We will continue to manage our gearing position and investment capacity by ensuring that we keep generating surpluses of around £10m a year as well as working with Homes England to secure grant funding.

Moreover, in the year we began investigating all available routes help increase investment in new affordable homes in Broxbourne, whilst ensuring our gearing stays stable between 60%-65%.

EBITDA MRI interest coverage %

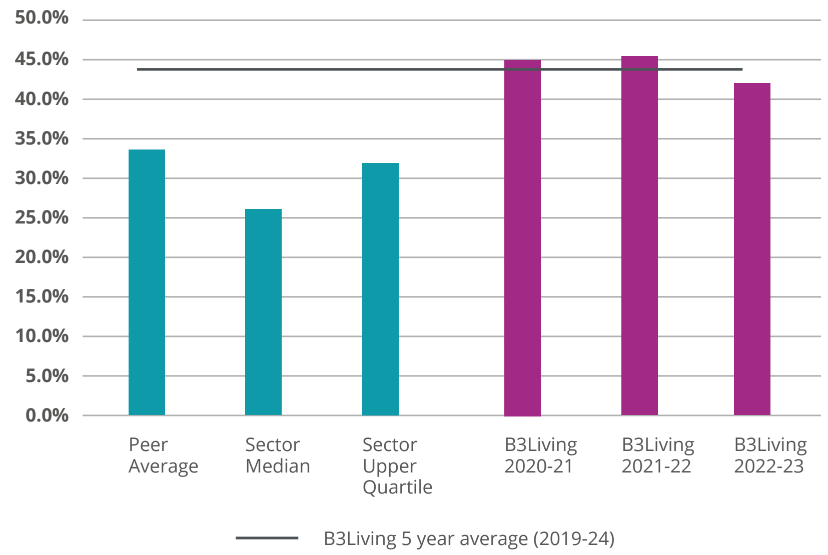


EBITDA MRI (Earnings Before Interest Tax Depreciation and Amortisation with Major Repairs Included) is a measure of the Group's ability to cover interest commitments from the cash flows generated by the core business. EBITDA MRI in 2021-22 was 184%, which is down from 2020-21 (223%) as we have:

- Increased our revenue costs, especially around building and customer safety.
- Increased capital costs by investing more in the improvement of our existing homes, which is up to £4.9m from £4.2m in 2020-21, equating to a c. 12% rise.
- Increased our debt servicing costs, as our borrowing increased by a further £20m in 2021-22 to £205m.

Even with these pressures on our EBITDA MRI, our performance is in line with our Board's value for money target of sector median and is comparable to our peers. Our performance is driven predominately by two key factors. Firstly, in 2015 we took the decision to restructure our debt portfolio, which removed our expensive and restrictive loans from the treasury portfolio. Secondly, we have a larger proportion of affordable rented homes within our stock than most housing associations and all of our peers.

Social housing operating margin %



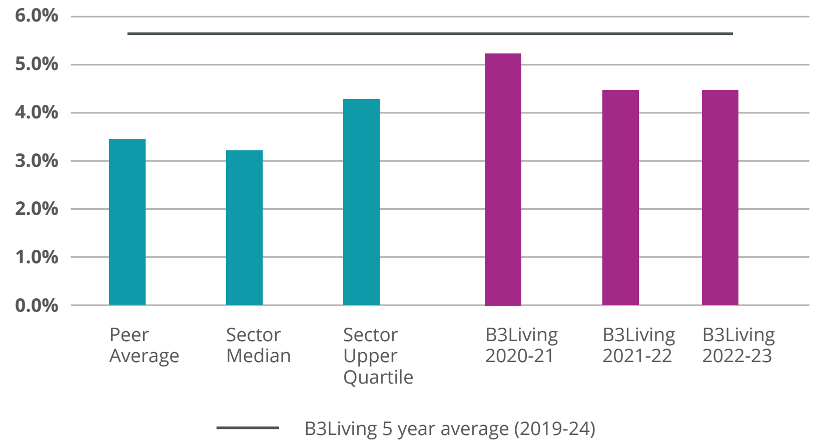
Social Housing operating margins increased slightly from 44.9% in 2020-21 to 45.2% in 2021-22. This is despite an increase (c. 13%) in our revenue repairs and maintenance costs.

The significant increase in repairs and maintenance costs was driven by two key factors. Firstly, we experienced a sharp increase in the cost of materials for our direct labour organisation (DLO). Secondly, we have seen another increase in our building and customer safety costs, for example in fire risk assessments; albeit, we feel these costs have now peaked.

We are comfortably outperforming our peers and the sector's upper quartile, which reflects our strong operating cost control but also the amount of affordable rented homes in our stock.

Performance is in line with Board expectations and margins are forecast to remain strong.

Return On Capital Employed %

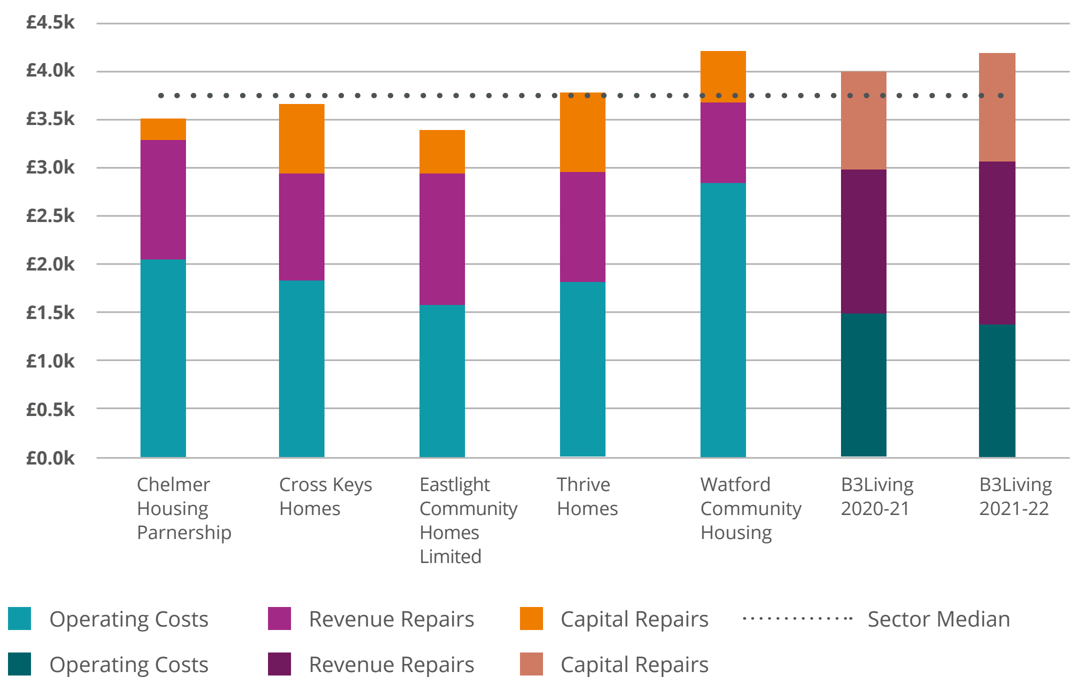


We are currently outperforming our peers and the sector's upper quartile.

The five-year average has been significantly skewed by our performance in 2019-20, where two of our commercial joint ventures - especially a land promotion joint venture which generated c. £11m of profits for the Group – matured.

With our strong operating margins we expect performance to continue between 4%-5%, which aligns with the Board's value for money target of sector upper quartile level.

Cost per unit



Our approach to cost control and our value for money ethos have resulted in solid cost per unit performance, albeit slightly more than our peers. Operating costs are forecast to continue to remain comparable to the best of our peers at c. £1,500 per unit. As a result of the rent cuts, we made significant operational cost savings by reducing our head count and investing in new IT to increase productivity; savings in these back-office have allowed the business to protect our core repairs service.

The Board's commitment to providing safe, secure and warm homes means that we spend around £300-£400 per unit more on revenue repairs than our peers, and £400-£500 per unit on capital repairs. A majority of this additional revenue spend has been driven by expenditure on customer and building safety over the last two years. Whilst we feel that this unforeseen expenditure has now peaked and will start to fall, we expect these annual cost savings along with additional funding will be needed in future years to help us deliver on our cutting carbon ambitions.

Capital repairs spend in 2021-22 was around £1,100 per home, which is in line with our priority around investing in the improvement of our homes over sector upper quartile levels (£700 per home). Our capital investment programme is informed by our stock condition data, our Asset Management Strategy and our mid- to long-term objective to tackle our carbon footprint.

Our total social housing operating cost per unit is currently greater than the sector median and our peers. However, we will continue to review how we spend our money to ensure we are maximising the impact of every pound spent. We will also, via our new Sustainability Lead, investigate ways to access government, local authority and/or third-party grants to deliver our carbon ambitions.

We will explore the possibility of working with for-profit registered providers or local authorities to manage homes on their behalf, to help spread our fixed costs across a greater number of homes. We will also continue to increase our stock by delivering new much-needed affordable homes at sector upper quartile levels, and we will work with registered providers with stock in our heartland of Broxbourne to try to generate some inorganic growth to help improve cost efficiency.

Overall, as a relatively small housing association, we ultimately have fewer homes to spread our fixed costs across than most of our peers, and as we are committed to investing heavily in providing good quality homes for our customers, it will be challenging, but not impossible, for us align our cost per unit with our peers and the sector's median.

Case study

Cost of living crisis

It is impossible to predict the extent to which the cost-of-living crisis will hit our customers, but we are expecting this to be a key priority for B3Living across 2022-23. One of the themes of our Better Futures strategy is “support when life changes”. This came in response to our local research which identified that our borough has higher levels of deprivation and lower average wages compared with other areas in Hertfordshire.

Since the start of the pandemic, we have invested internally and our external network so that we are better equipped to support customers “when life changes”.

We have...

1. **Recruited a Customer Coach to work with customers intensively over a 12-week period and help them access support.**
2. **Set aside a Support Fund to help those in financial hardship. This was driven by customer feedback from our rent increase consultation.**
3. **Secured and given out £17,000 in fuel vouchers for customers struggling with their energy bills (2021-22).**
4. **Established fast-track services for our customers with financial support agencies / charities, including Money Advice Unit, StepChange and Citizens Advice.**

So far, this approach has brought dividends. We carried out no evictions in 2021-22 and our arrears performance sector leading.

Our approach in action

Our value for money metrics

Along with the Regulator's metrics, our Board also monitors its own value for money performance indicators (see the table below). The metrics are designed to ensure the Group is delivering upon its customers' expectations, using its assets effectively, and employing its finite resources in the right areas. The forecast value for money metrics were reviewed and agreed by our Board in March 2022 as part of our budget setting and business planning process.

	B3Living 2019-20 Actual	B3Living 2020-21 Actual	B3Living 2021-22 Actual	B3Living 2022-23 Forecast	Sector median	Upper quartile	Board VFM target
Value For money Metrics							
Customer satisfaction - B3Living Services	87.5%	86.0%	86.3%	90.0%	86.0%	90.8%	**Upper quartile**
Customer satisfaction - quality of home	85.6%	81.5%	83.0%	84.0%	83.0%	88.0%	**Upper quartile**
Customer satisfaction - repairs service	89.9%	81.5%	81.8%	82.0%	78.0%	83.0%	**Upper quartile**
Customer satisfaction with their rent	87.4%	86.6%	88.1%	88.0%	85.0%	89.0%	**Upper quartile**
Occupancy	99.7%	99.3%	99.1%	99.7%	97.3%	99.1%	**Upper quartile**
Rent collected as a % rent due	100.4%	98.3%	102.0%	99.9%	100.0%	100.6%	**Median**
Overheads as % of turnover	13.1%	15.2%	13.2%	12.4%	13.4%	10.5%	**Median**
Responsive to planned repairs ratio	0.64	0.82	0.77	0.65	0.71	0.51	**Median**

We strive to generate genuine cash savings across the business whilst providing an excellent service for our customers. The cashable savings generated by tackling ineffective expenditure, increasing productivity, and maximising procurement gains are reinvested into activities that directly improve our frontline services and/or on new and existing homes. These principles are central to our Value for Money Strategy.

New Customer Strategy

Since 2019-20 we have embarked on a journey to better understand our customers and their expectations of us as a landlord and the services we provide. This learning has enabled us to evolve our thinking, which in turn helped to reshape and launch our new Customer Strategy in 2021-22.

The changes made in our approach in 2019-20 made an immediate impact with customer satisfaction with our services increasing by 3.5 percentage points from 2018-19 to 87.5%. During the pandemic when services were limited, we were happy to have maintained performance around 86%, but we know that we need to push on over the last two years of the Better Futures strategy to achieve our value for money target of sector upper-quartile performance.

To help us achieve upper quartile performance, our Board put "excellent customer experiences" as a central theme of the Better Futures strategy. We have taken a number of steps to ensure that our customers' voices are being heard and that they are central to our decision-making process such as developing a network of engaged customers, improving our complaints handling process, and investing in our customer insight capabilities. We are committed to understanding our customers better, ensuring our services meet expected standards, responding efficiently to complaints, utilising technology to improve communications, and tackling any negative stereotypes in our community around social housing. With these actions, along with embedding our Customer Strategy and Customer Ethos we aim to meet our customer satisfaction target of 91% by March 2024 – a very challenging target.

Cost base / support for customers

In the 2019-20 budget our Board approved a step increase in our investment in frontline services, customer and building safety, and the maintenance of our existing homes – and this has continued in 2020-21 and 2021-22.

This strategy has increased our cost base and adversely impacted on some of our value for money metrics, such as operating margins, cost per unit, interest coverage and return on capital employed. However, the increase in our cost base has been viewed by the Board as an acceptable trade off in the pursuit of enhanced customer satisfaction.

The Board understands the importance of the business and its social assets to our community. Therefore, we were pleased to maintain our occupancy performance at over 99% for the third year in a row, aligning ourselves with the sector's upper quartile. Rent collection performance has also been exceptional with 100.2% of rent due collected in the year, which is marginally exceeding our value for money target of sector median. Tenancy sustainment is an important theme within the Better Futures strategy with over £100k per anum ring-fenced to help our customers maintain their rent accounts, this investment has supported the recruitment of a customer coach and the introduction of new technology to help us identify struggling customers early. As at March 2022, our rent arrears were at sector-leading levels at 1.27%.

Investment in existing and new homes

Our approach of reinvesting our savings into frontline services, coupled with the continued growth of business has helped us align our overheads as a percentage of turnover to our value for money target of sector median. As a small housing association, it is difficult for us to outperform our sector median target as we do not have as many homes to spread our fixed costs over. The Board's ambition of delivering over 500 new much-needed affordable homes over the next three years will boost turnover and performance, we are also looking at opportunities to either work with, or buy homes from, other associations in our community to increase the number of homes we manage and our income.

Responsive : planned works ratio continues to be marginally over the Board's target, although performance is progressively getting better since the peak in 2021-22. The increased number of compliance checks and fire risk assessments has resulted in more responsive repairs. However, once we have completed a few more cycles of our improved and thorough approach to customer and building compliance the amount of responsive works arising from this workstream should fall and move us towards our sector median target.

Procurement focus

In November 2020 we introduced a specialist procurement resource into the business with the aim of maximising value for money gains through the tendering process, increasing consistency across the business and delivering the cashable savings assumed within our financial plan.

Since the launch of the procurement function within the business, we have introduced and embedded new procurement strategy, policy and procedures and have updated our financial regulations to reflect the UK's procurement legislation since leaving the European Union.

We also undertook a comprehensive review of our spend for the period January 2019 - December 2020 to help us prioritise our procurement activity, better understand our supplier base and rationalise our list of approved contractors.

Controlling our costs

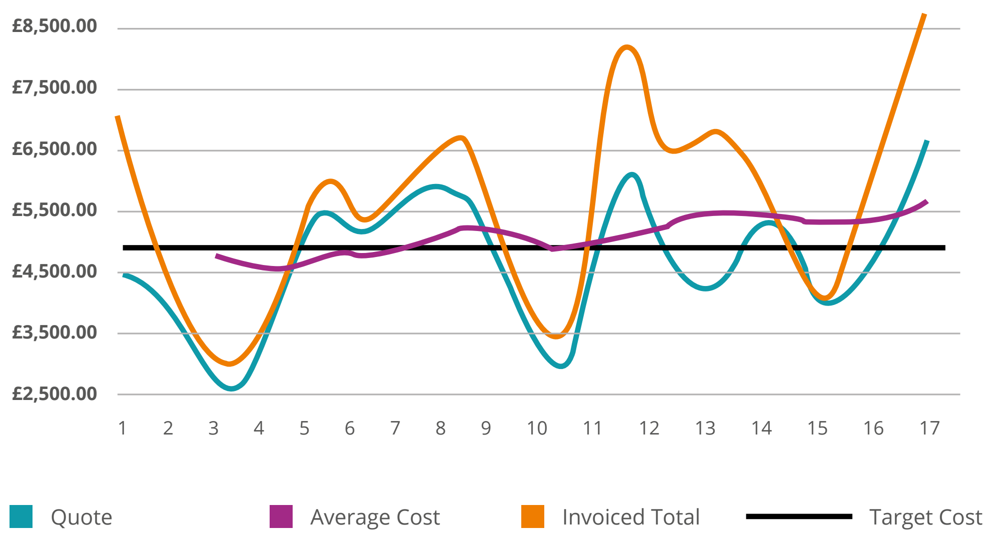
Cost areas that require contracts have been programmed into a comprehensive four-year procurement plan and, as at 31 March 2022, around 88% or £154m of our future spend is covered by contracts.

Of the 47 direct contracts/frameworks agreed since the introduction of the procurement resource (20% or £35m of future spend via contracts) we are forecasting cost savings of c. £3m over the next four years. This is significantly more than the assumption in the financial plan of c. £250k pa. Around £11m (7%) of spend is scheduled to be procured in 2022-23 and the remaining c. £9m (5%) in 2023-24, which will cover 20 and 34 areas of spend respectively.

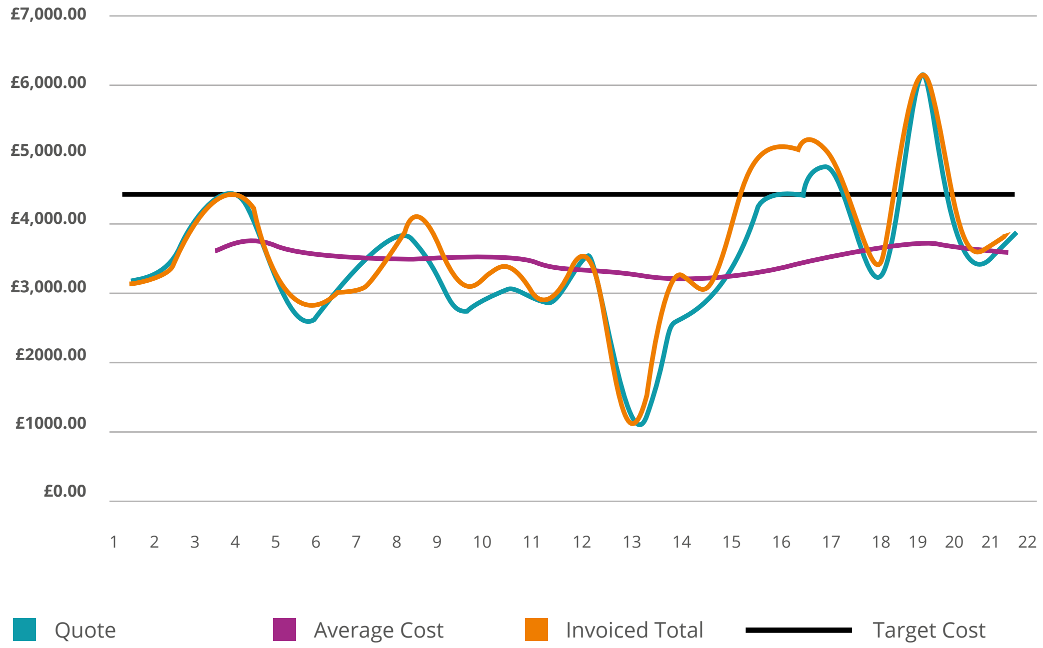
Below is an example of how we monitor and manage our contractors. The charts below show how we track the quotes and invoices we receive from our framework agreements. All quotes and invoices significantly over our target costs are challenged with the contractor with a view of understanding the cost drivers and, where possible, renegotiating contracts to bring the costs down to achieve efficiency.

The charts below track the cumulative average cost against our target cost. This allows us to understand if we are realising the cost savings forecast at the start of the framework.

Kitchens Quote v Invoiced v Average Cost



Bathrooms Quote v Invoiced v Average Cost



To ensure procurement is embedded within our culture we have regular procurement meetings with budget holders across the business. The aim of these it to share the information gained through our spend analysis review and to train colleagues so they understand their obligations under the UK Government's procurement legislation, how to best utilise the procurement guidelines, and how to promote our value for money principles of cost, quality and performance.

Creating value and investment capacity

As we have finite resources it is essential that we maximise the value from every pound we spend. A major area of spend for us is on the upkeep of our homes, for example, replacing kitchens, bathrooms, heating systems, roofs, doors and windows. By fully utilising the procurement process we can access the quality we need for our customers at the best possible price, the more cost savings we can generate the more we can do.

In order to ensure that any potential cost savings are realised, the procurement function is working with various operational teams to manage suppliers from a cost perspective.
In relation to bathrooms, kitchens, and replacement heating and hot water systems, a total value of £9m was tendered with advised cost savings of £1.37m (15.2% of tender value). To date these cost savings have been gained, but with the continuing work it is hoped that these savings will be increased to £1.5m, or 16.7% of the amount tendered.

Balancing quality and performance

Through our new procurement function, we use the procurement process to take stock of what we need from our contractors, looking at both the quality of our services as well as the performance of the business. Tender/contract specifications are crafted to reflect the needs of the business as well as the expectations of our customers and, where appropriate, we are involving our customers within the process so their opinions can guide in selecting the right contractor.

In line with our cost, quality and performance principles, we vary the balance of weighting for cost and quality within our tenders to ensure we achieve the optimum balance on each tender. To promote performance, we specify clear and measurable performance indicators as well as having regular contractor performance meetings. We also tailor our tenders to favour businesses who are local to our community, who share our social values, e.g. employ apprentices, invest in our community or local charities, and those who are proactively reducing their carbon footprint.

By selecting the right contractors and accessing the highest quality of service available with the most cost-effective supply base, we can increase customer satisfaction levels, a key Value for Money Strategy outcome. Moreover, we can also maximise internal efficiency by effectively managing the performance levels of our contractors to ensure they are working in the way that reduces our own resource requirements. This is best achieved by being clear on expectations at the onset.

Case study

Procurement in action: putting the customer first

This year we procured a new alarm call system for our eight independent living schemes. The tender project brought customer-facing colleagues and procurement specialists together, but customer input was also key to this work.

After visiting our schemes to canvas customer needs, to accurately reflect these in the tender specification, customers were invited to two live demonstrations from shortlisted suppliers. Customers voted for the system that they found to be the most intuitive to use and best the fit for their requirements. What mattered to our customers was having a product with a design which did not reinforce the stigmas associated with aids or adaptations and which helped them to feel secure in their home.

The winning product can be tailored around the customer, which can link into mobile phones, smart doorbells or other telecare equipment or not, as the individual chooses. As an organisation we will also benefit from a system that is future proofed for the digital switchover in 2025 and that empowers our customers.

This is not a one-off approach; we are planning to work closely with our customers when we procure our grounds maintenance service in mid-2022 onwards. Working with customers to procure this service is very important as this a driver for customer dissatisfaction, moreover many of our customers will pay directly for the service via their service charges, so value for money is very important.

Value for money into the future

Our 2021-22 financial results reflect our commitment to value for money with our core operating margins over 40% and healthy interest coverage. Our Better Futures strategy recognises that further large cuts could adversely impact on service provision; therefore, we are not expecting to make overall cost per unit savings.

That said, we will aim to increase efficiency to generate costs savings, but we expect these savings to be reinvested in improving frontline services and existing homes.

We expect to deliver savings through:

Challenging how we work to improve performance and reduce wastage.

Utilising IT to improve services, data quality and communication.

The delivery of our new Asset Management Strategy, including potential disposals.

The delivery of our improved approach to procurement.

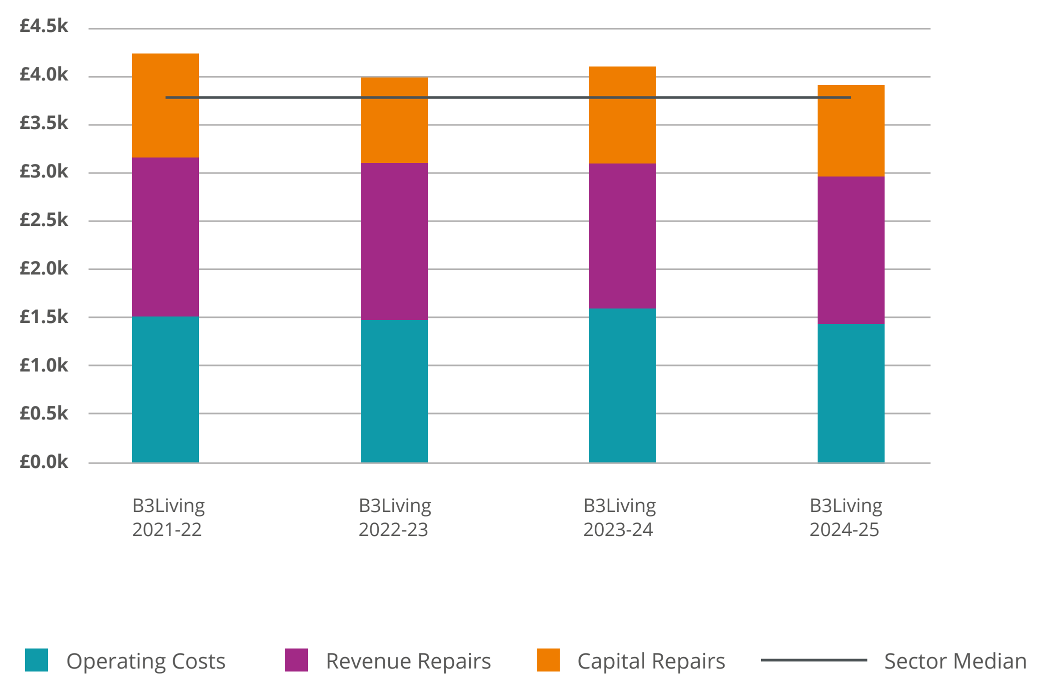
The provision of new homes and seeking to manage homes for others.

Between April 2022 to March 2025, we plan to invest c.£120m on the provision of new homes.

The table below shows B3Living's performance against the Regulator's value for money metrics with a comparison with our peers.
The table shows the Group is forecast to perform well against our peers especially in terms of reinvestment, supply of new affordable housing, operating margin and ROCE. Between April 2022 to March 2025, we plan to invest c. £120m on the provision of new homes. The sharp uptick in shared ownership in the next two years, coupled with the strength of our core business means that gearing is expected improve over the period to under 65% in the mid-term.

	Peer average 2020-21	Sector median 2020-21	Sector upper quartile	Board VFM target	B3Living 2021-22 Actual	B3Living 2022-23 Forecast	B3Living 2023-24 Forecast	B3Living 2024-25 Forecast
Value for money metrics								
Reinvestment	10.2%	5.8%	8.2%	**Upper Quartile**	14.9%	11.3%	11.5%	10.5%
New Supply (Social)	2.2%	1.3%	2.0%	**Upper Quartile**	2.4%	3.9%	2.7%	3.7%
Gearing	57.3%	43.9%	53.3%	**Upper Quartile**	67.4%	64.2%	63.3%	63.7%
EBITDA MRI Interest Rate Cover	182.8%	182.5%	248.0%	**Median**	183.5%	206.7%	201.8%	179.6%
Headline Social Housing Cost per unit (£k)	3.68	3.73	4.76	**Median**	4.19	4.16	4.39	4.41
Operating Margin (SHL)	28.7%	26.3%	32.6%	**Upper Quartile**	45.2%	41.7%	41.5%	42.5%
Operating Margin (Overall)	28.2%	23.9%	28.2%	**Upper Quartile**	40.9%	35.0%	36.3%	37.1%
ROCE	3.5%	3.3%	4.2%	**Upper Quartile**	4.6%	4.7%	4.6%	4.3%

A key efficiency metric is operating cost per unit. The table shows the cost per unit gradually increasing from c. £4,185 per unit in 2021-22 to c £4,410 per unit in 2024-25. The chart below shows the breakdown of the three main cost per unit elements over time when adjusted for the cost growth assumption in the financial plan (CPI+0.5%).



This chart shows that operating costs are expected to remain stable, and revenue and capital repairs cost will fall marginally as we deliver over 650 new homes over the four-year period to spread our costs across. To improve performance further we will also look carefully at existing stock acquisitions from other housing associations and local authorities, should they generate value for money and align with our growth ambitions.

It may not be speculative to go into 2022-23 expecting steep challenges. Our ambitious targets in areas such as building safety compliance and cutting carbon are set to be matched against rising inflation, an increasing need for our services, and a squeeze on our resources. Being among the most disadvantaged in our society, our customer base is likely to feel the cost-of-living squeeze most acutely.

Nevertheless, we remain committed to our strategic approach, which has proven successful across the previous two years, and we remain optimistic that maintaining the optimal cost/quality/performance balance will put us in the right position to offer the best possible support for our customers.

Value for money report

2021-22

For more information about our operations and strategy, please visit our website
www.b3living.org.uk

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Regulator of Social Housing registration no. L4455
Co-operative and Community Benefit Societies Act registration no. 29876R
HM Revenue and Customs (Charities Division number XR92753)

We comply with the National Housing Federation Code of Governance and are regulated by the Regulator of Social Housing.

Better Futures

Better Homes Communities Business

B3living.org.uk