Value for Money Report 2020

Making a Difference
To local lives

Phil, Rent Officer. Starting as an apprentice over six years ago, Phil now supports hundreds of customers to manage their rent accounts.

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Foreword from the Chief Executive

While the close of the financial year was overshadowed by the COVID-19 pandemic, with its economic and social repercussions not yet fully realised, 2019-20 saw continued improvements in our Value for Money (VFM) performance.

Since the government-imposed rent cuts, we have promoted a cost awareness in all we do across the business. However, following the Grenfell tragedy, we realise that the impact of what we do on our customers was every bit as important as managing costs and that we needed to rebalance our decision-making process.

In this context, we chose to review our approach to value for money and determined that our new VFM Strategy should be more nuanced so we can balance the importance of cost management with the need to deliver improved quality and performance for our customers. Our VFM approach will aim to achieve the optimum relationship between these key principles to improve performance and to keep the customer at the heart of everything we do.

Not only do we measure our performance against the metrics set out by the Regulator of Social Housing in its VFM Standard, we also have our own VFM metrics which focus more on the customer and performance. I am pleased that we continue to generate strong operating margins, healthy interest coverage and a significant improvement in customer satisfaction.

We have met our VFM targets, with the exception of reinvestment and new supply (social) which were impeded by challenges to our stream of new business opportunities prompted by Brexit uncertainties. That said, we fully expect to return to upper quartile performance in this area in 2020-21. Our performance in the provision of new homes is more significant for our local community as we remain the only provider building social housing in Broxbourne, and our development activities represent an economic and social stimulus.

Our surpluses have increased across four consecutive years, so we have chosen to reinvest in the business, in areas such as new technology, frontline services, and customer and building safety works. Moreover, in 2019-20, we reinvested £3m in our existing homes. This increased level of investment has already yielded an increase in customer satisfaction by 3.5 percentage points to 87.5%, but we want to continue to push this above 90%.

> "We delivered upper quartile operating margins, healthy interest coverage and a significant improvement in customer satisfaction.

B3Living staff donating furniture to customers across the county.

We now have a well-established Executive team and, in the year to come, we expect to conclude our research into the nature and impact of the housing crisis in our borough. These insights, along with a strong desire to contribute toward tenancy sustainment and the carbon-neutral agenda will shape our new corporate strategy.

I feel confident in B3Living's ability to adapt to the unforeseen macro-economic changes. It is more imperative than ever that we continue to play an active role in supporting our customers and our local community through the challenges ahead.

Steve Woodcock
Chief Executive

What value for money means to us

The Group holds value for money at its core, following a simple principle of making every pound count. This is reflected in our corporate objectives, decision-making processes and business plan.

The Board understands the importance of B3Living and the services it provides within our community and to its customers. The Group plays a key role in its local community: building much needed new homes; maintaining its existing homes so they are safe, warm and dry; enabling customers to sustain their tenancies; as well as leading and supporting many community-based initiatives. Delivering value for money will help the Group maximise its potential and its impact for its customers and the wider community.

Board ownership

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

- Setting stretching key performance targets.
- Setting the annual budget and business plan which include value for money targets.
- Setting a robust investment policy and asset management strategy.
- Including value for money in all decision-making processes.
- Monitoring performance.

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

- Delivering 800 new homes over seven years.
- Investing in new technology to improve performance and customer engagement.
- Developing a robust asset management strategy to ensure the long-term safety and viability of our stock.
- Strengthening financial resilience.

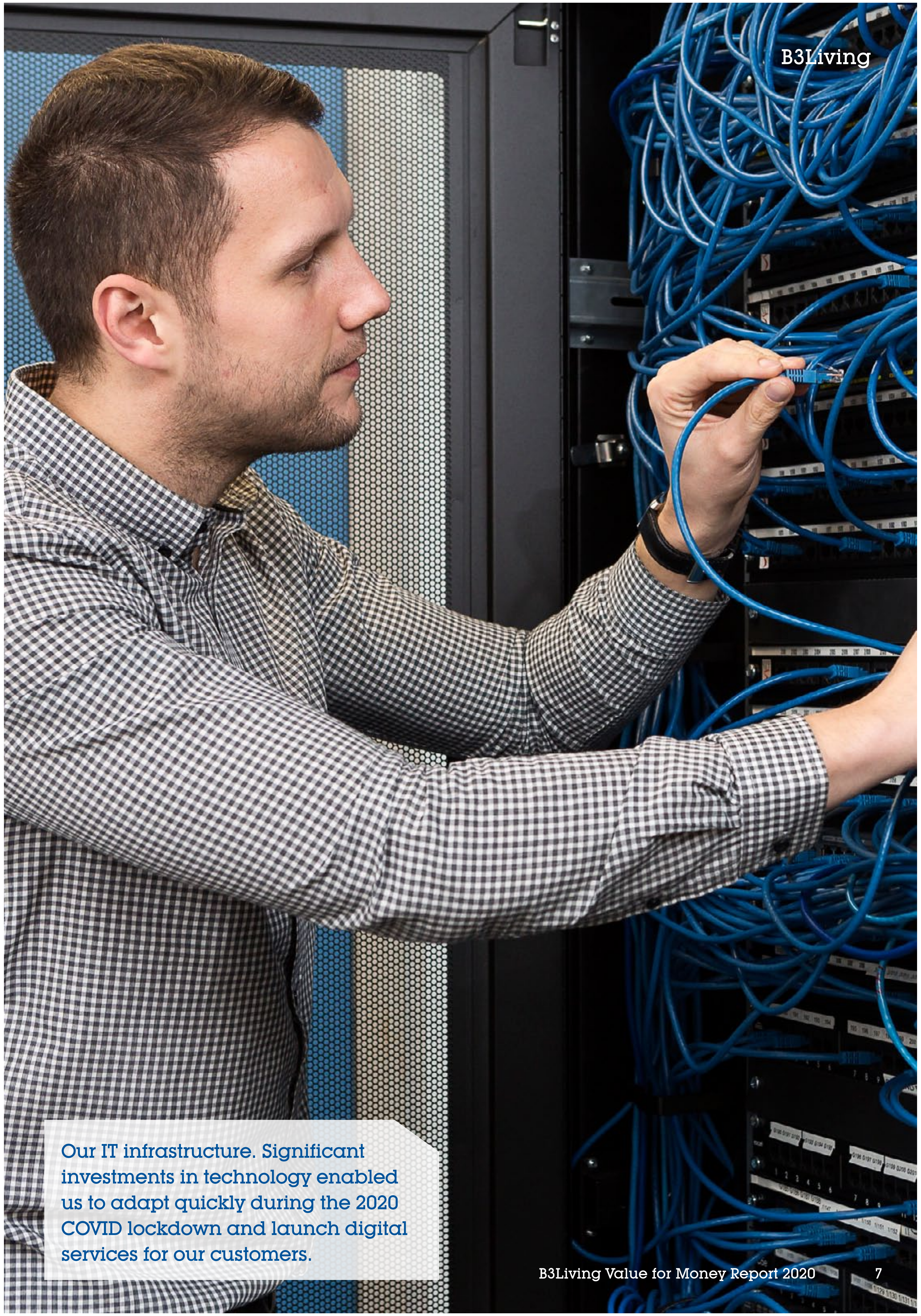
In 2019 the Board reviewed its approach to value for money. The previous value for money agenda was created against the backdrop of the four years of government-imposed rent cuts, which reduced the rent roll by c. £1m. The Value for Money Strategy was primarily focussed on reducing costs and increasing income in order to generate the financial capacity to build 800 new homes over seven years and to invest in new IT systems. This strategy, whilst delivering additional investment capacity, has potentially contributed to a fall in customer satisfaction and a reduction in some areas of stock investment.

With the Government's new five-year rent settlement, which will allow rents to increase by CPI+1%, the Board took the opportunity to reset its Value for Money Strategy. The new strategy takes a more nuanced approach to value for money and is designed to:

- Improve customer satisfaction.
- Improve the quality of our existing homes and secure their long-term viability.
- Promote a cost-aware culture.
- Maintain our financial strength and growth capacity.
- Deliver performance in line with Board expectations.

The strategy outlines a core belief that value for money is achieved when the optimum balance between low cost, high quality and good performance is realised in every area of our business.

To achieve this balance, the strategy promotes the importance of considering quality and performance in our day-to-day working and any procurement exercises. The Board recognises that this approach is likely to increase the Group's operating cost base, which will reduce performance in some key value for money metrics: such as operating margins, return on capital employed and interest coverage. However, the increased focus on quality and performance should generate enhanced customer satisfaction, improve the standard of our existing homes, and ensure the new homes we deliver address the demand within our locality.



Our IT infrastructure. Significant investments in technology enabled us to adapt quickly during the 2020 COVID lockdown and launch digital services for our customers.

Our Value for Money Strategy

The Group's Value for Money Strategy sets out a nuanced approach where value for money is realised when we have generated optimum balance between cost, quality and performance. Below are some examples of how the Group uses the cost, quality and performance model:

Cost

As a small housing association, we must carefully manage our expenditure and always maximise the return on every pound spent. We believe that simply cutting costs without understanding the impact on our buildings and customers will result in poor decisions; therefore, the Group seeks to manage costs whilst delivering upon our Board's and our customers' expectations.

To achieve this we:

- Are market testing all salaries to ensure they are set to the sector median allowing us to recruit the right staff into the business to deliver quality services to our customers without increasing the social housing costs per unit.
- Have developed a robust procurement strategy that aims to maximise savings during the procurement process. Working in partnership with our external advisors, Procurement for Housing, we have improved processes, increased procurement training/ engagement and carried out a detailed analytical review on our expenditure.
- Will be investigating the use of modern methods of construction to deliver new homes at a lower cost as part of our purpose project, including off-site construction and printed homes, and having partnering agreements with contractors.
- Are embedding value for money within our decision-making e.g. in scheme appraisals and business cases and day-to-day operations of the business.
- Have invested in technology where it helps us to become more efficient, for example a new procurement-to-pay system and mobile technology.

Quality

A key outcome of the Group's Value for Money Strategy is to improve customer satisfaction, therefore generating savings that adversely impact on services or reduce the quality of our replacement components would be counterintuitive to us. The Board understands this approach is likely to increase our cost base and weaken our performance against some of the Regulator's value for money metrics, e.g. operating margins, ROCE, interest coverage, etc.

The Board have been clear that being the cheapest housing association isn't a strategic ambition, but the Group has to be cost aware whilst delivering upon the expectations of our customers. Therefore, we have value for money targets which align our costs to the sector's median and customer satisfaction to the sectors upper quartile.

We realise this ambition by:

- Setting challenging productivity targets for our staff, including our Direct Labour Organisation.
- Detailed research qualitative and quantitative to help support the Group's new purpose and corporate strategy.
- Detailed procurement planning for key component items, e.g. roofs, heating, doors & windows, etc, to ensure we achieve the optimum balance between cost and quality.
- Investment in ICT to promote agile working and to automate processes.
- Actively seeking customer feedback to measure the effort and ease in which we operate.
- Closely monitoring complaints and compliments to understand themes and areas of improvement.
- Investing in Customer Ethos training for all staff.

Performance

The Group's Value for Money Strategy contains the Regulator's value for money metrics as well as another eight metrics that are important to the Board. During the value for money decision making process we assess the impact of any investments on our value for money metrics. We understand that each decision may improve performance against some metrics whilst weakening others. The Board feel it is important that we have a balanced approach to assessing performance where financial and investment performance is viewed alongside customer impact – this approach stops the Group focusing on one area, say financial performance, to the detriment of another, say customer satisfaction.

We achieve this by:

- Regular reporting of key performance indicators.
- Embedding the value for money ethos within the procurement process.
- Narrowing our geographic growth focus so we can offer a consistent customer service standard for all our customers.
- Increased focus on customer feedback to ensure we are utilising our resources in the most effective way.
- Reviewing the types of home we build to ensure they best suit the housing need in our geography.
- Creating partnerships with local agencies and developers to understand how we best work together to serve our community. A partnership approach allows us to focus on the services we are best at providing.

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Value for money overview

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 2019).

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, local to our area and which have a low supported housing exposure (less than 1% of their stock).

The peer group includes:

- Chelmer Housing Partnership Limited
- Cross Keys Homes Limited
- Greenfields Community Housing Association
- Thrive Homes Limited
- Watford Community Housing Trust

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

Value For Money Metrics*	Peer Average	Sector Median	Sector Upper Quartile	B3Living 18/19	B3Living 19/20	B3Living 20/21 (forecast)	Board VFM Target
Reinvestment	10.7%	6.2%	8.7%	11.7%	8.0%	15.1%	**Upper Quartile**
New Supply (Social)	2.4%	1.4%	2.5%	3.4%	1.4%	2.8%	**Upper Quartile**
New Supply (Non-Social)	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%	**Lower Quartile**
Gearing*	52.9%	43.4%	53.9%	76.5%	67.2%	61.8%	**Upper Quartile**
EBITDA MRI Interest Rate Cover	196.3%	184.2%	238.4%	226.8%	235.1%	214.1%	**Median**
Headline Social Housing Cost per unit (£k)	3.39	3.69	3.18	3.47	3.51	3.94	**Median**
Operating Margin (SHL)	32.7%	29.2%	34.6%	48.6%	42.5%	42.3%	**Upper Quartile**
Operating Margin (Overall)	31.5%	25.8%	30.8%	44.8%	39.8%	42.3%	**Upper Quartile**
ROCE	3.9%	3.8%	4.7%	6.9%	8.9%	5.5%	**Upper Quartile**

*Sector scores based on 2019-20 results.

The Group continues to prioritise opportunities to deliver much-needed homes within our geographic heartland of Broxbourne borough. We did not achieve the reinvestment levels in 2019-20 that we hoped due to planning delays on key sites and a reduced number of new business opportunities, in part, due to Brexit. However, we have developed a network of potential partners and are well placed, financially and in terms of capabilities, to capitalise upon any new opportunities that arise. It is the Board's ambition to deliver more new homes in our local borough; therefore, we expect the Group's reinvestment performance to continue to outperform the sector's upper quartile and most peers.

The Group's gearing position has improved significantly in the past 12 months as it delivers a surplus of c. £17.4m. This trend is set to continue as the Group continues to generate operating surpluses of c. £9m p.a. and invest c. £100m in the next three years on the provision of much-needed homes within our geographic heartland. The Association's gearing covenant is based on security value and our performance is 50% (2019: 53%) against a covenant limit of 80%.

Value for money savings over five years

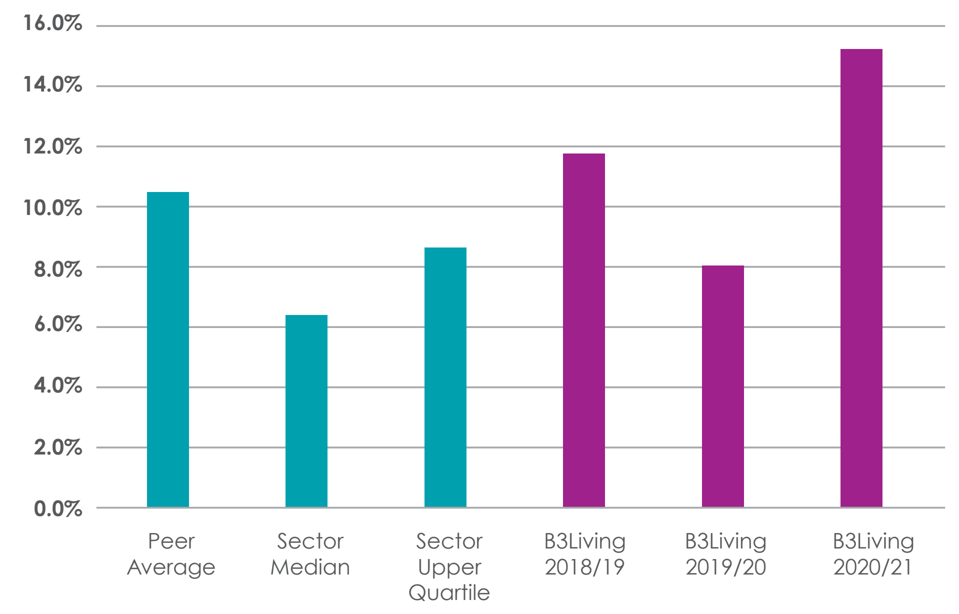
The Group has concentrated its money saving initiatives on increasing the productivity and effectiveness of its back office, to reduce our overheads and to give a greater level of resource to support the front line service and to improve customer and building safety.

The table below shows that over the last five years, we have continued to deliver meaningful and cashable value for money savings, albeit the ability to generate savings is becoming increasingly difficult. In 2019-20 these savings were reinvested back into the business, especially to support the customer and building safety works. This discipline has allowed the Group to continue to invest in new and existing homes whilst generating strong operating margins and returns on capital employed.

Service area	2020 Cost £'000	Per home £	2019 Cost £'000	Per home £	2018 Cost £'000	Per home £	2017 Cost £'000	Per home £	2016 Cost £'000	Per home £
Overheads	123	25	94	19	15	3	230	47	261	53
In house repairs service	-	-	17	3	56	11	18	4	15	3
Housing Management & services	-	-	144	29	173	35	277	57	160	33
Total operational VFM	123	25	255	51	244	49	525	108	436	89
Major works	78	16	-	-	-	-	46	9	3	0
Treasury & legal fees	-	-	-	-	-	-	-	-	791	170
Total VFM savings	**201**	**41**	**255**	**51**	**244**	**49**	**571**	**117**	**1230**	**259**

A detailed review of value for money performance

Reinvestment %

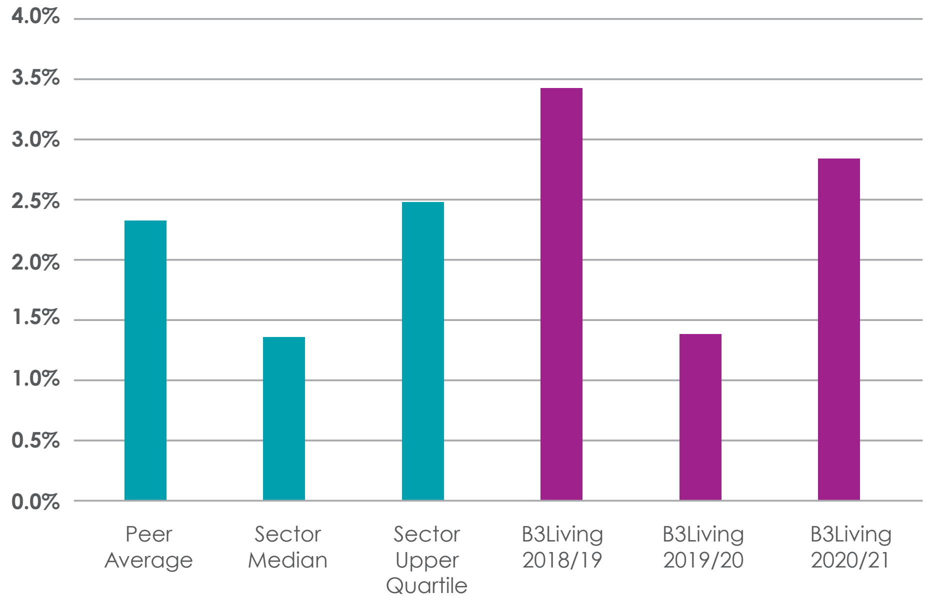


The Group's commitment to increasing the supply of urgently-needed new homes within our local borough is reflected in recent and forecast reinvestment performance. In 2019-20 our performance was in line with the sector's upper quartile but below our peers. Performance in the year was hampered by Brexit and planning delays on key land-led sites. We expect our investment in new homes to increase significantly in 2020-21.

Generating efficiency savings in our general operations has created the capacity to build more homes without adversely impacting on financial resilience. In 2019-20 the Group invested £13.6m (£14m fixed assets) in new and £3m in existing homes, slightly down on the combined spend of £24m in 2018-19.

The Group has delivered, and plans to continue delivering upper-sector performance in accordance with the Board's ambition. The Group's reinvestment performance directly impacts upon development outputs. In 2019-20, we experienced a slight dip in performance due to development timings. However, like we did in 2018-19, we expect to be outperforming the upper quartile and most of our peers in 2020-21.

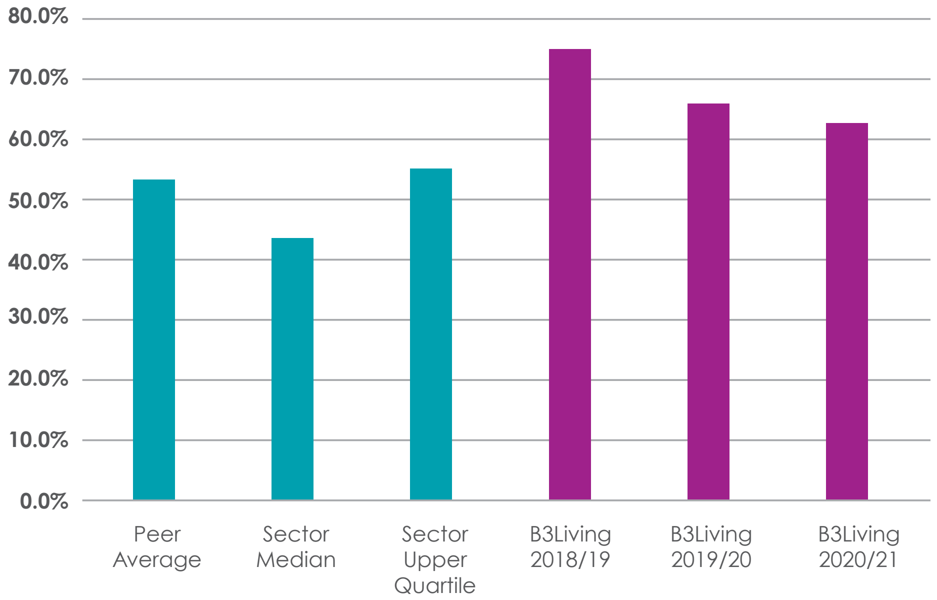
New supply of social housing units %



In 2019-20 we completed 67 new affordable homes, of which 36 were rented and 31 shared ownership. As we continue to be the only housing association building properties in our borough, our development activities represent a crucial supplement to the local supply of affordable housing.

While the Group did not deliver upper-sector performance in 2019-20, we believe this is a timing issue. The average performance across 2018-19, 2019-20 and the forecast performance of 2020-21 is in line with the upper quartile.

Gearing %



During the year, the gearing ratio (the relationship between debt and social housing assets) was down to 67.2%, from 76.5% in the previous year. This is the result of using most of our free cashflows from our operations to support the growth in our social housing base along with the maturity of two of our commercial joint venture arrangements.

Our gearing ratio is relatively high compared with the wider sector and our peers because:

1. Historically, we have not fully capitalised as much of the Decent Home works completed after transfer.
2. We restructured our debt portfolio in the 2014-15 financial year to remove loans with high interest costs and restrictive covenants from our capital structure.

This cost the business about £15m, adding about 7% to the gearing ratio. With strong surpluses and reinvestment plans, our gearing is forecast to improve to a more comparable level in the coming years.

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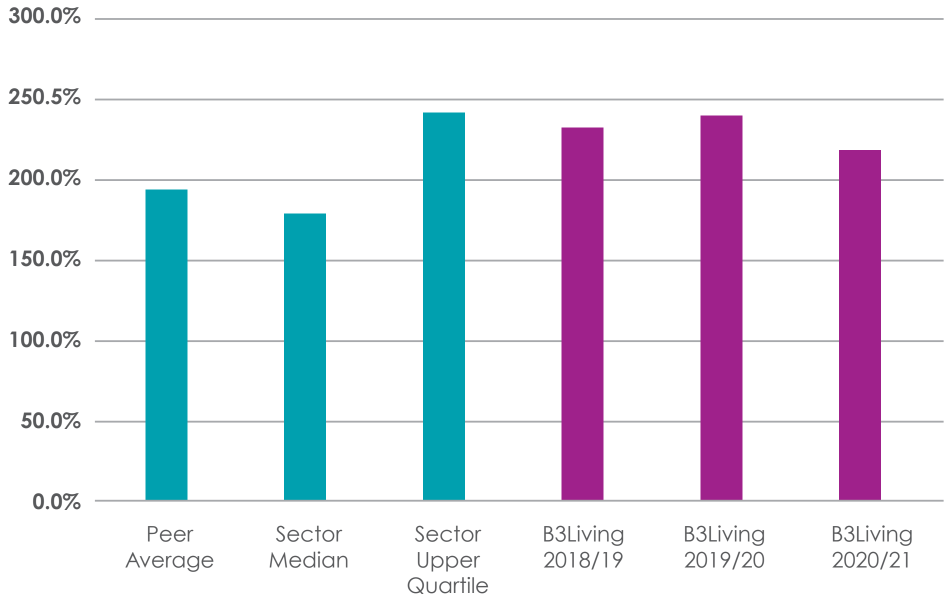
EBITDA MRI interest coverage %

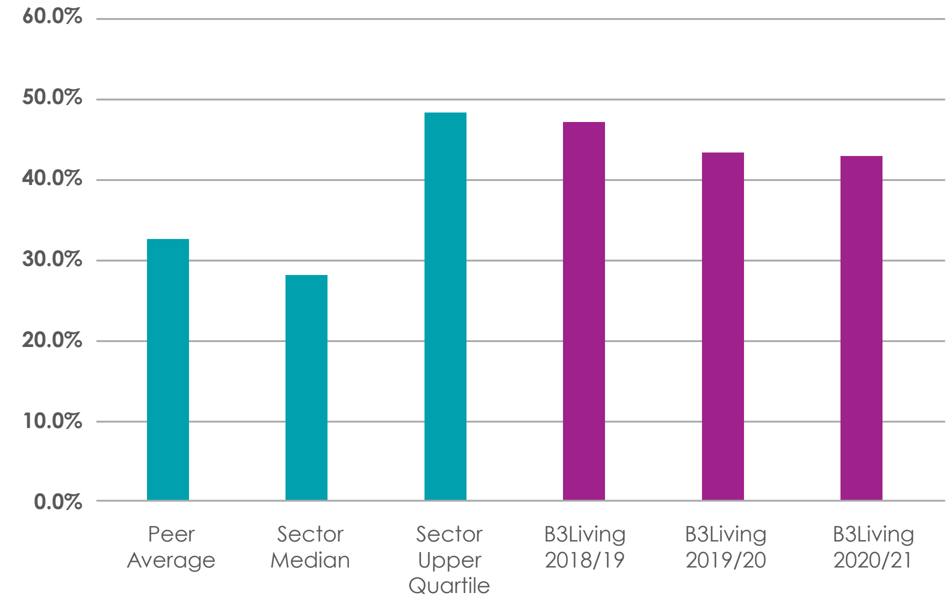


EBITDA-MRI (Earnings before Interest Tax Depreciation and Amortisation with Major Repairs Included) is a measure of the Group's ability to cover interest commitments from the cashflows generated by the core business. EBITDA-MRI in 2019-20 was 235.1% which is marginally up from 2018-19 (226.8%).

Our performance is comparable to the upper quartile and our peers. This shows strong performance considering our commitment to reinvestment. The Board have set a median target to allow the Group to increase debt, thus to increase our investment in new and existing homes.

Our strong EBITDA-MRI coverage reflects our excellent operating margins. These are driven by effective and efficient management of our housing stock, along with our decision to restructure our debt portfolio in 2015, which replaced expensive and restrictive loans with low cost debt.

Social housing operating margin %



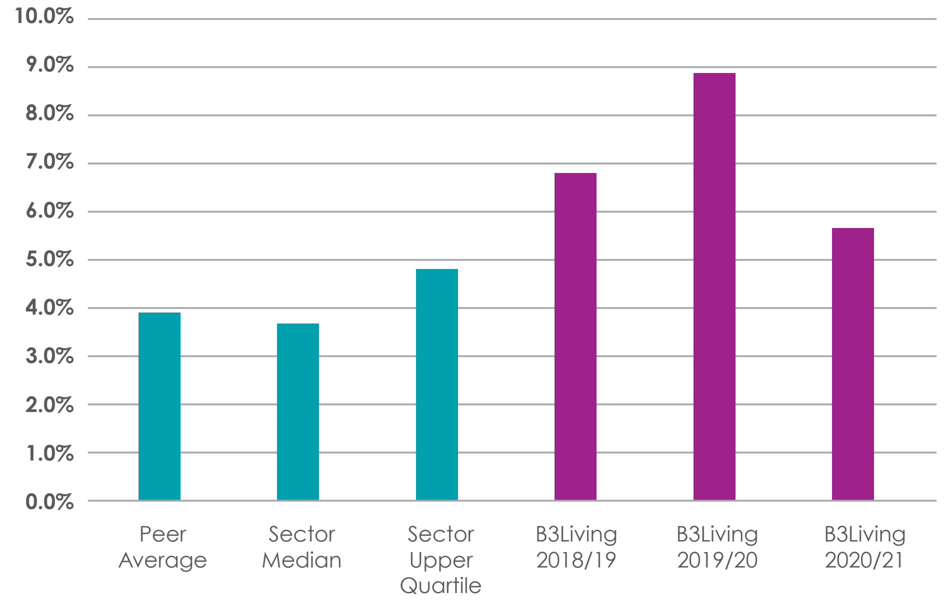
Social housing operating margins decreased slightly from 48.6% in 2018-19 to 42.5% in 2019-20.

The fall in the margin was due to the compounding effect of the rent cuts, a sharp increase in customer and building safety works, and the substantial provision for bad debts made in the period.

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

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

Return on capital employed %

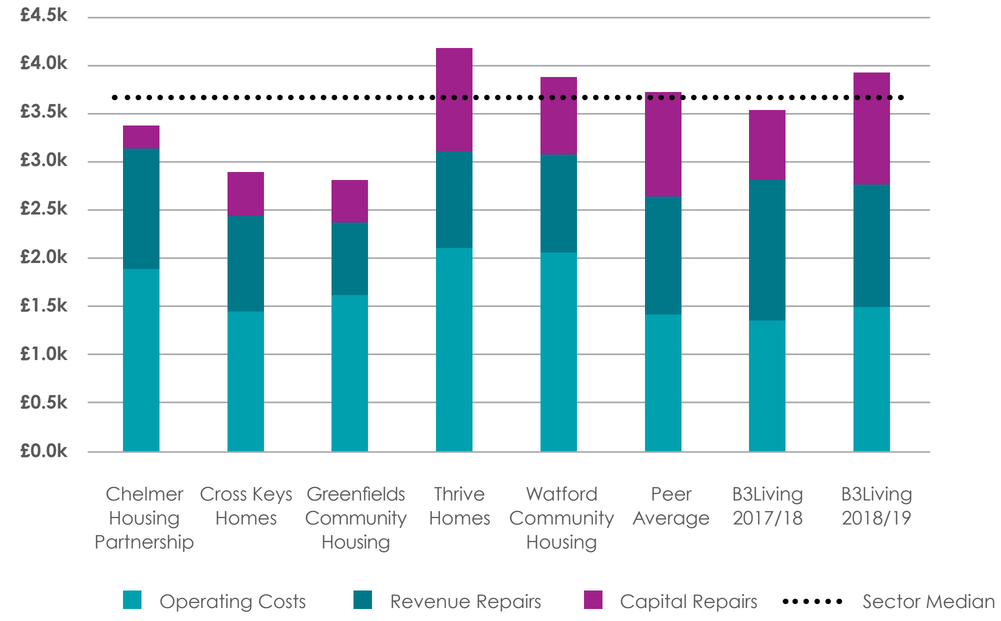


With the Group's strong operating margins and undervalued balance sheet, as demonstrated by our gearing ratio, we have continued to outperform our peers and the sector's upper quartile significantly.

Performance in 2020 has been significantly helped by the maturity of two of our commercial joint ventures.

Our investment policy and cost focus will ensure this performance remains comparable, if not better, than our peers and the sector's upper quartile as per Board expectations.

Cost per unit



The Group's cost control and value for money ethos has resulted in solid cost per unit performance. Operating costs have, and are forecast to remain, comparable to the best of our peers at c. £1.5k per unit. In recent years, we have made significant operational cost savings by reducing our head count and investing in new IT to increase productivity; savings in these areas allowed the business to protect our core repairs service.

The Board's commitment to providing safe, warm and dry homes means that we spend approximately £400-500 per unit more on revenue repairs than our peers and £300 per unit on capital repairs. Capital repairs spend in 2019-20 (£730 per home) was an exceptional year in terms of spend. This was planned and was driven by our desire to reset our asset management strategy and to review our procurement processes, so we issued fewer but larger contracts, to improve cost, quality and performance.

The total social housing operating cost per unit is comparable to the sector median and this where the Board expects us to remain. However, we fully expect the sector median cost per unit to increase in the future as it responds to new regulation/legislation resulting from the Grenfell tragedy. As a relatively small housing association, we have fewer homes to spread our fixed costs across than most of our peers, and we remain very committed to providing good quality homes to our customers. Therefore, we expect to invest more per unit than most of the sector on maintenance and the upkeep of our homes

Our value for money metrics

Along with the Regulator's metrics, the Board also monitor 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 assets effectively and employing its finite resources in the right areas.

Value For Money Metrics*	B3Living 18/19	B3Living 19/20	B3Living 20/21	Sector Median	Upper Quartile	Board VFM Target
Customer Satisfaction - B3Living Services	84.0%	87.5%	88.0%	87.1%	88.3%	Upper Quartile
Customer Satisfaction - Quality of Home	84.9%	85.6%	86.0%	87.0%	89.1%	Upper Quartile
Customer Satisfaction - Repairs Service	80.0%	89.9%	87.0%	80.3%	85.6%	Upper Quartile
Customer Satisfaction with their Rent	85.8%	87.4%	87.0%	88.0%	90.1%	Upper Quartile
Occupancy	99.6%	99.7%	99.7%	99.4%	99.7%	Upper Quartile
Rent collected as a % rent due	99.4%	100.4%	99.9%	100.2%	101.0%	Median
Overheads as % of turnover	11.3%	13.1%	12.8%	11.2%	10.1%	Median
Responsive to planned repairs ratio	0.66	0.64	0.67	0.56	0.45	Median

*Sector scores based on 2019-20 results.

The Group strives 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 invested in activities that directly improve our frontline services and/or on new and existing homes. These principles are central to the Group's recently approved Value for Money Strategy.

In 2019-20 we made key changes to our customer ethos and these changes will culminate in the Group launching its new customer strategy in 2020-21. With the pressures of the government-imposed rent cuts many customer facing services were either discontinued or reduced. We feel that these decisions, taken for the right reasons, may have adversely impacted our customer experience which resulted in our customer satisfaction falling below the sector median.

The changes to our approach in 2019-20 have already made an impact, with customer satisfaction with our services increasing by 3.5 percentage points to 87.5%. In 2020-21 we will work with our customers to understand the reasons behind the large increase as we look to build upon this success to achieve the upper quartile performance target set by the Board. However, we are mindful that we currently do not fully understand what impact Covid-19 has had on our customers and their perception of how we have sought to respond to the situation. This could be a significant factor in future customer satisfaction performance.

In the 2020-21 budget the Board approved an increased investment in frontline services, customer and building safety, and the maintenance of our existing homes. These decisions will increase our cost base and adversely impact on some value for money metrics, such as operating margins, interest coverage and return on capital employed. However, any 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 are pleased to achieve upper quartile performance for occupancy.

This shows that we are maximising the social return from our assets by housing as many people as we can. With the impact of welfare benefit reform, our income management team is taking a proactive approach to help our customers manage their tenancies and rent accounts better. This has resulted in good rent collection performance and our strategy of helping our customers pay their rent via automated methods is savings us time and money.

The Group's overheads are marginally over the Board's target of sector median. As a small housing association, it is difficult for us to outperform sector median target we do not have as many homes to spread our fixed costs over. The Board's ambition of deliver more much-needed homes 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 to planned works ratio is marginally over the Board's target, the increased number of compliance checks is resulting in more responsive repairs. Once the Group has 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.

Beech Walk, Hoddesdon. Where we are redeveloping under-performing properties to deliver 39 much-needed homes for over 55s.

Value for money into the future

The 2020 financial results reflect our commitment to value for money with our core operating margins over 40% and healthy interest coverage. The latest Financial Plan recognises that further large cuts could adversely impact on service provision therefore we are not expecting to make cost per unit savings.

That said, we will aim to increase efficiency to generate costs savings, however we expect these savings to be reinvested in improving front line service and existing homes. We expect to deliver savings through:

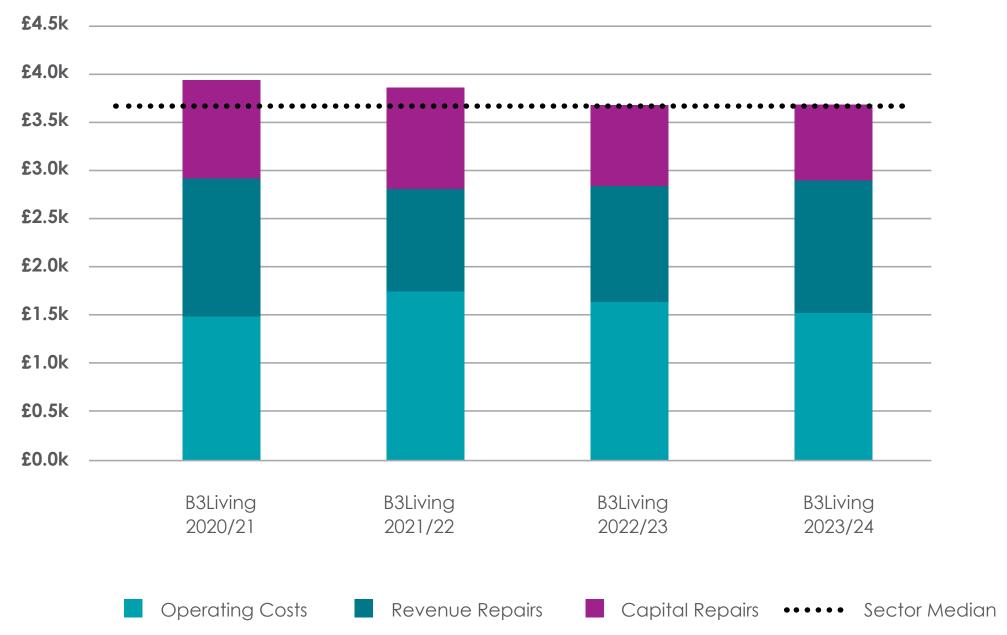
- Better ways of working.
- Increased reliance on IT.
- The delivery of the new asset management strategy.
- Wholesale review of B3Living's procurement process.
- The provision of new homes.

The table below shows the Group's performance against the Regulator's value for money metrics in comparison with our peers. The table shows the Group is forecast to perform well against our peers especially in terms of reinvestment and ROCE. Between, 2020-21 to 2022-23 we plan to invest c. £100m on the provision of new homes. The strength of Group's financial performance means that gearing is expected to improve over the period when compared to the 2018-19 position.

Value For Money Metrics*	Sector Median	Sector Upper Quartile	B3Living 19/20	B3Living 20/21	B3Living 21/22	B3Living 22/23	Board VFM Target
Reinvestment	6.2%	8.7%	8.0%	15.1%	13.3%	9.0%	Upper Quartile
New Supply (Social)	1.4%	2.5%	1.4%	2.8%	2.8%	2.9%	Upper Quartile
New Supply (Non-Social)	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	Lower Quartile
Gearing*	43.4%	53.9%	67.2%	61.8%	62.2%	60.8%	Upper Quartile
EBITDA MRI Interest Rate Cover	184.2%	238.4%	235.1%	214.1%	193.7%	203.9%	Median
Headline Social Housing Cost per unit (£k)	3.69	3.18	3.51	3.94	3.96	3.92	Median
Operating Margin (SHL)	29.2%	34.6%	42.5%	42.3%	41.3%	42.8%	Upper Quartile
Operating Margin (Overall)	25.8%	30.8%	39.8%	42.3%	35.7%	36.8%	Upper Quartile
ROCE	3.8%	4.7%	8.9%	5.5%	4.9%	5.0%	Upper Quartile

*Sector scores based on 2019-20 results.

A key efficiency metric is operating cost per unit. The table shows the cost per unit increasing from c £3.3k per unit to c £3.9k per unit. 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%). The chart shows that operating costs remain stable and revenue and capital repairs cost marginally fall as we deliver 440 new homes 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.



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