



Value for
Money
Report

2019



Making a
Difference
To local lives



Message from
the Chair

The last 12 months has brought about a lot of economic and political uncertainty and change.

The economy and the housing market is showing itself to be remarkably resilient in the face of the uncertainty caused by the Brexit process. At B3Living, we seek to understand risk and manage it, rather than avoid it. We have achieved this by thoroughly stress testing our business plan, introducing new robust 'financial golden rules' and by developing a number of mitigating strategies.

In this period of uncertainty, it is important for us not to regress and cut back on our commitment to deliver more homes. We are in the middle of a housing and homelessness crisis; it would go against our core values for us not to do everything we can to address this.

We are pleased that housing is near the top of the Government's agenda again and we are committed to work with Homes England, local authorities, including Broxbourne

Council and Hertfordshire County Council, other housing associations and local developers, to deliver more much-needed homes.

This year has been a period of change. Our longstanding Chair, Sandra Royer, retired last year and we also said goodbye to our Chief Executive Joe Chambers and Development Director, Steven Tarry. All three were instrumental in enabling us to become a financially strong, independent housing association that is more able to address the housing crisis affecting Broxbourne.



We will look at not just delivering more homes locally to Broxbourne, but making sure we are delivering the right types of homes for our community.

The Executive team has changed and strengthened over the last year. We now have a five strong executive team led by Steve Woodcock. The new executive team are tasked, with help from key stakeholders and the Board, to develop our purpose. This will see us not only deliver more homes to the local area, but also ensure we are delivering the right types of homes for our community. This could be, for example, more homes for the elderly, more starter homes for the young, more family homes or more temporary housing for the homeless.

We will also be looking at the services we provide for our customers, how we invest in our community and the investment requirements of our existing homes. We will aim to keep the business as simple as possible by maintaining an ethos of doing fewer things, better.

I feel confident that we have a great team of Board members, Executive and staff and a sound platform from which to further build on our strategy; we are passionately committed to making a difference despite the uncertain environment.

Anne Shearman
B3Living Chair

We aim to generate value for money savings by following the three Es model. Below are a few examples of how we apply this model within B3Living:

Economy

Economy is the cost of providing our services, for example, salaries, material costs of repairs and fees paid to contractors and consultants without affecting the quality of services we provide. We achieve this by:

- 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
- Having a robust procurement policy to ensure all transactions of more than £5,000 are market-tested and allows us to benefit from economies of scale.
- Investigating the use of modern methods of construction to deliver new homes at a lower cost, including off-site construction and printed homes and having partnering agreements with contractors
- Embedding value for money within our decision-making e.g. in scheme appraisals and business cases and day to day operations of the business.

Efficiency

Efficiency is a measure of productivity – how much you get out in relation to what you put in. It is the efficiency of converting resources (inputs) into results (outputs).

B3Living's efficiency objectives achieve more outputs with less resources e.g. achieving high customer satisfaction from use of fewer resources.

We achieve this by:

- Setting challenging productivity targets for our staff, including our Direct Labour Organisation
- Promoting staff empowerment to streamline decision-making
- Review of costs such as maintenance including reviewing and understanding the cost drivers
- Investment in ICT including bringing under one system called Project Fusion the housing management, repairs and asset management system.

Effective

Effectiveness is a measure of the impact achieved and can be quantitative or qualitative. It is primarily associated with the outcomes for customers and the business from the strategic decisions we take. We achieve this by:

- Narrowing our geographic growth focus so we offer a consistent customer service standard for all our residents
- Increased focus on customer feedback to ensure we are spending their rent on services that best meets their needs
- Reviewing the types of homes we build to ensure 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 our to focus on the services we are best at providing.

Value
for Money

What value for money means to B3Living

B3Living holds value for money at its core, by following a simple principle of making every pound count. This is reflected in our corporate objectives, decision-making and business plan.

We are proud to be part of the local community and passionate about making a real difference to people's lives. We achieve this by building more affordable homes to help combat the housing crisis in Broxbourne and by providing the support our customers need.

Value for money is achieved by realising economy, efficiency and effectiveness in every area of our business and is delivered when an optimum balance between all three have been achieved. To this end, we are focused on delivering those services that are important to our customers, as efficiently as we can and at the best possible cost.

While customers are at the heart of everything we do, we recognise the need for commerciality in all aspects of our work enabling us to be financially strong, agile and innovative and to realise further efficiencies in our operations.

We promote a value for money culture across the organisation to ensure it is inherent in every activity, whether it be appraising a new development scheme, entering into a new contractual arrangement, assessing the performance of our stock, investing in new IT systems or creating a new job vacancy.

Value for money achievements also form part of employee objectives and targets, where appropriate, and are monitored during regular one-to-ones and annual appraisals.

Board Ownership

The Board takes ownership of our 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.

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 2018).

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:

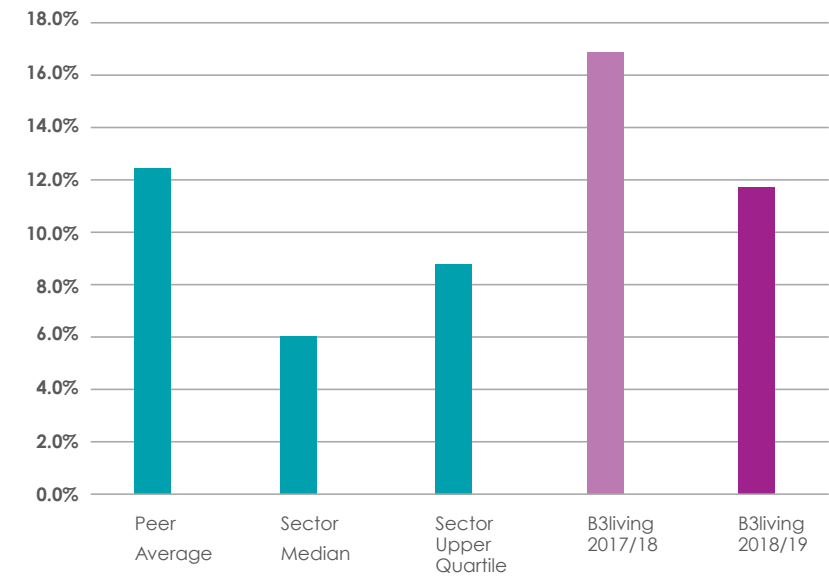
Value For Money Metrics	Chelmer Housing Partnership	Cross Keys Homes	Greenfields Community Housing	Thrive Homes	Watford Community Housing	Peer Average	Sector Median	Sector Upper Quartile	B3Living 2017/18	B3Living 2018/19
Reinvestment	10.4%	11.3%	10.8%	17.1%	11.5%	12.2%	6.0%	8.7%	16.9%	11.7%
New Supply (Social)	3.1%	3.9%	2.4%	1.2%	1.6%	2.5%	1.2%	2.3%	1.%	3.4%
New Supply (Non-Social)	0.3%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%
Gearing	64.0%	48.7%	49.5%	59.7%	40.9%	52.5%	42.9%	33.1%	79.4%	76.5%
EBITDA MRI	168.6%	208.1%	274.3%	152.8%	246.1%	210.0%	205.7%	262.5%	202.9%	226.1%
Interest Rate Cover										
Headline Social Housing Cost per unit (£k)	3.39	2.88	3.01	4.34	3.78	3.48	3.40	3.01	3.36	3.47
Operating Margin (SHL)	31.0%	33.2%	37.5%	34.5%	36.0%	34.4%	32.1%	37.1%	47.2%	48.6%
Operating Margin (Overall)	26.5%	33.0%	37.2%	31.2%	34.6%	32.5%	28.9%	34.1%	45.6%	44.8%
ROCE	3.2%	4.6%	5.2%	6.1%	3.6%	4.5%	4.1%	5.4%	7.8%	6.9%

Our value for money ethos, and our recognition that we must reinvest our surpluses in new and existing homes, resulted in us performing well against our peers, the sector's upper quartile and significantly above the sector median.

Our gearing position is forecast to improve significantly as we invest in new homes and generate surpluses greater than £10m p.a. and, as a result, we forecast that our performance should be more comparable to our peers within the next three years. Our gearing covenant is based on security value and our performance is 53% (2018: 53%) against a covenant limit of 80%.

Detailed Review of Value for Money Performance

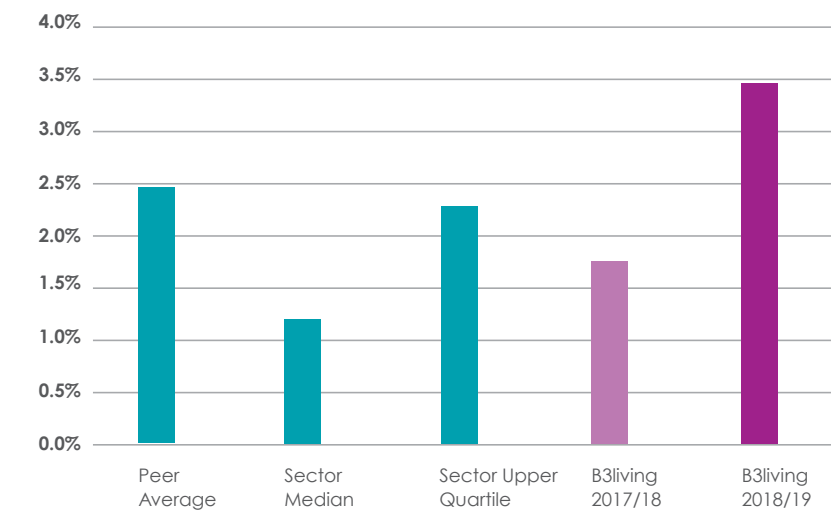
Reinvestment %



Our commitment to delivering more much needed homes within our local area is reflected in our reinvestment performance, as we have outperformed the sector's upper quartile and most of our peers.

Generating efficiency savings in our general operations has created the capacity to build more homes without adversely impacting on financial resilience. In 2019 we invested £24.5m (£18.5m fixed assets) in new and £4.1m existing homes, slightly down on the £31.2m spend in 2018.

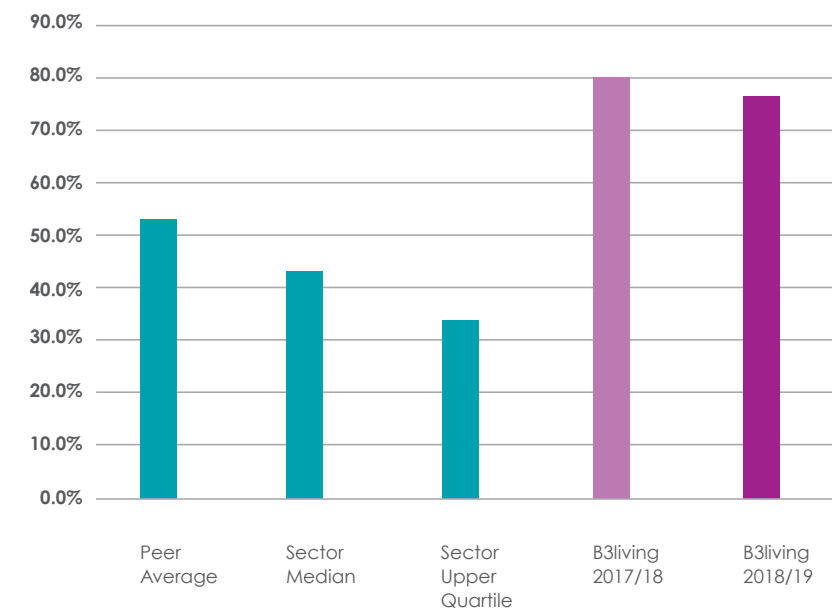
New supply of Social Housing Units %



Our reinvestment performance is reflected in our development outputs. Again we are comfortably outperforming the sector's upper quartile and most of our peers.

In 2019 we completed 165 new homes, of which 102 were rented and 63 shared ownership. We are the only housing association building homes in our local area which means it is essential we continue to deliver new homes to alleviate the impact of Broxbourne's housing shortage.

Gearing %



During the year, the gearing ratio – the relationship between debt and social housing assets - was down to 76.5%, from 79.7% in the previous year. This is the result of using most of our free cash flows from operations to support the growth in our social housing base.

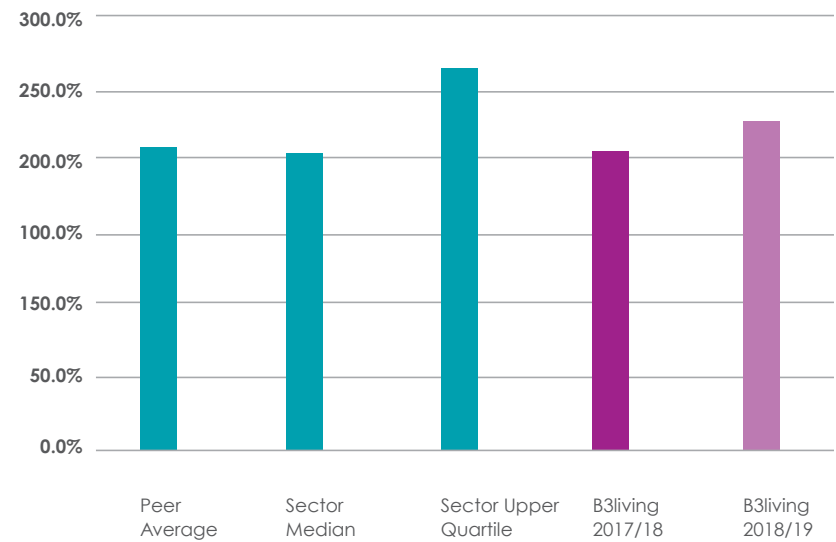
Our gearing ratio is relatively high compared with the rest of the sector and our peers, because:

1. Historically, we have not capitalised as much of the decent home works completed after transfer as we could have done.

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 next three years.

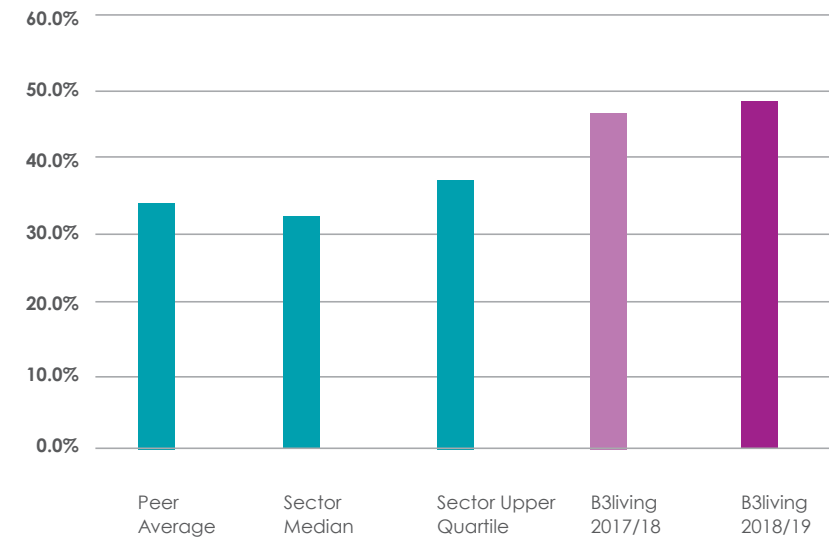
EBITDA MRI Interest Coverage %



EBITDA-MRI (Earnings before Interest Tax Depreciation and Amortisation with Major Repairs Included) is a measure of our ability to cover our interest commitments from the cashflows generated by our core business. At the reporting date we had an EBITDA-MRI of 231.3% (2018: 202.9%).

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

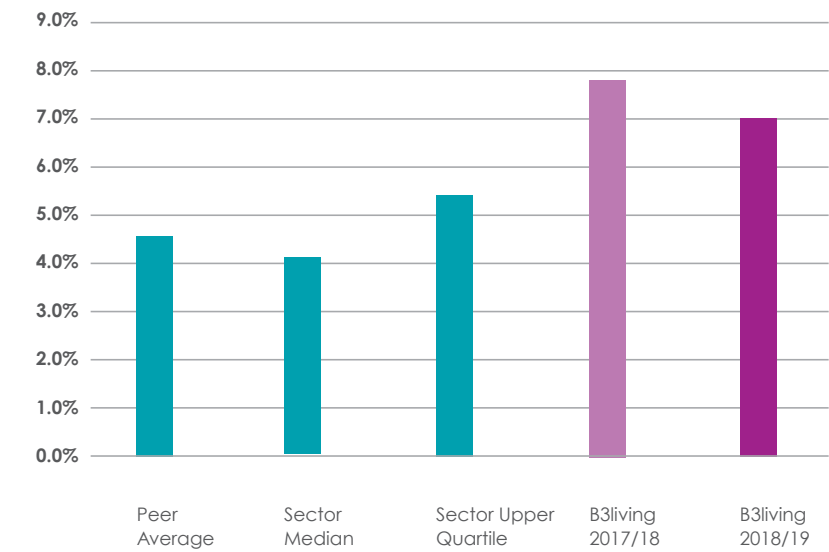
Social Housing Operating Margin %



Social Housing letting operating margins increased slightly from 47.2% in 2018 to 48.6%, which is positive, considering the compounding effect of the rent cuts.

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.

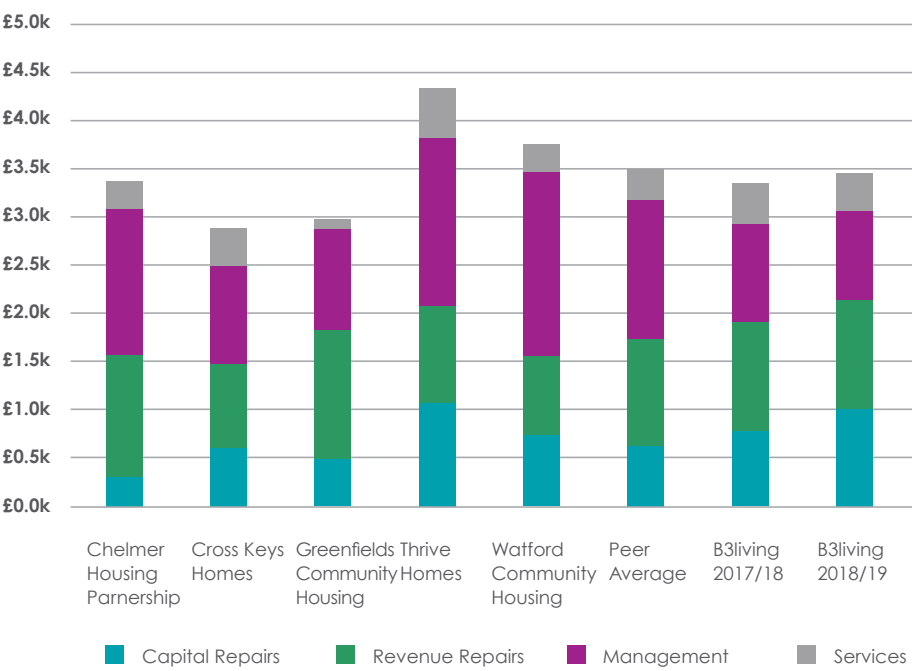
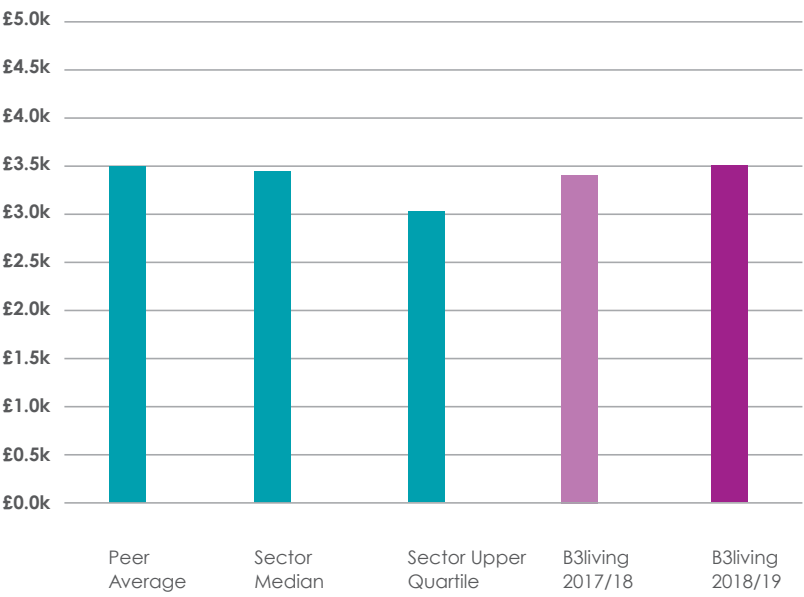
Return On Capital Employed %



With our strong operating margins and undervalued balance sheet – as demonstrated by our gearing ratio – we are outperforming our peers and the sector's upper quartile significantly.

Our investment policy and cost focus will ensure this performance will continue to be comparable, if not better, than our peers and the sector's upper quartile.

Cost Per Unit



B3Living's cost control and value for money ethos has resulted in solid cost per unit performance, we are comparable to the sector's upper quartile and outperforming all our peers except for Cross Keys and Greenfields who invest marginally less than B3Living on capitalised repairs.

B3Living has managed to reduce its management cost below £1,000 per unit which is where we feel the efficiency savings needed to come from rather than cutting back on our repairs service because providing safe, warm and dry homes for our customers is at the centre of what we do.

How We Deliver Value For Money

We have concentrated our money saving initiatives on increasing the efficiency and effectiveness of our back office and housing management and service operations.

The table below shows that over the last four years, we have continued to deliver meaningful and cashable value for money savings. These savings have allowed us to continue to invest in our stock and generate sector-leading operating margins and returns on capital employed.

Service area	2019 Amount £'000	Per home £'000	2018 Amount £'000	Per home £'000	2017 Amount £'000	Per home £'000	2016 Amount £'000	Per home £'000
Overheads	94	19	15	3	230	49	261	56
In house repairs service	17	3	56	12	18	4	15	3
Housing Management & services	144	29	173	37	277	59	160	35
Total operational VFM	255	51	244	52	525	112	436	94
Major works	-	-	-	-	46	10	3	1
Treasury & legal fees	-	-	-	-	-	-	791	170
Total VFM savings	255	51	244	52	571	122	1,230	265

Our Value For Money Metrics

Along with the Regulator's metrics, we also monitor our own value for money performance indicators (see the table below). These are designed to promote genuine cashable savings, while maintaining excellent customer satisfaction.

Value For Money Metrics	Target 2019	Actual 2019	Met/Not met
Revenue spend as a % of budget	< 97.5%	95.2%	✓
Interest coverage	≥ 110%	193%	✓
Rent arrears	≤ 2.5%	2.0%	✓
% of customers paying via automated methods	≥ 63%	72%	✓
Overall customer satisfaction	≥ 90%	84%	✗
Re-let period (days)	≤ 20	19	✓
Average in-house repair cost	≤ £100	£102	✗
Average jobs completed by each tradesman per day	≥ 5.5	5.4	✗
Customer satisfaction with our repairs	≥ 82%	80%	✗

We strive to generate genuine cash savings, while providing an excellent service for our customers. In 2019, we spent just 95.2% of the revenue budget by tackling ineffective expenditure, reducing overheads and making sure every pound is spent effectively. Efficiency savings have increased interest coverage, so we have the capacity to take on more risk and invest in new and existing homes.

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 arrears performance and more customers paying their rent via automated methods, which saves us time and money.

Customer satisfaction has dipped over the last year and we are consulting with customers to find out what we could do better to improve our services. This insight will help us focus our efforts, which may result in

an increase in expenditure or mean we reallocate resources to maximise the impact and effectiveness of our spending. Either way, delivering value for money means providing an excellent service at the best possible cost.

We believe our Direct Labour Organisation (DLO) provides many benefits over and above a great repairs service. However, it must be efficient, effective and economical. We ensure an average job costs less than £100; that each DLO operative must complete an average of at least 5.5 jobs a day and that we achieve customer satisfaction of more than 82%.

Our performance in 2019 was marginally below these three targets, reflecting our approach of setting ourselves challenging targets. A full review of our repair service will be carried out in the latter part of 2020, with the aim of increasing performance and reducing costs.

Our Value For Money into the Future

The 2019 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 however there is a commitment to deliver more efficiency savings. To this end, the Financial Plan includes £0.8m of operating savings between 2020 and 2024; of which £0.3m has been embedded within the 2020 budget. We expect to deliver these savings through:

- Better ways of working
- Increased reliance on IT
- The introduction of a new asset management strategy
- Wholesale review of B3Living's procurement process.

The table below shows B3Living's performance against the Regulator's value for money metrics with a comparison with our peers. The table shows B3Living is forecast to perform well against our peers especially in terms of reinvestment and ROCE. However, it must be acknowledged that our improved gearing and interest coverage from 2022 onwards is driven by the maturity of the Plan's development programme which is shown in the reinvestment metrics.

	2020	2021	2022	2023	2024	Peer average
Reinvestment	16.20%	14.50%	3.20%	1.60%	1.60%	12.20%
New Supply Delivered (SH Units)	2.00%	2.70%	3.30%	0.30%	0.00%	2.50%
Gearing (NBV of Housing Properties)	67.90%	66.80%	55.80%	49.40%	44.90%	52.50%
EBITDA MRI Interest Cover	236.70%	233.70%	255.50%	257.30%	299.90%	210.00%
Headline SH cost per unit	£3,214	£3,613	£3,539	£3,684	£3,712	£3,480
Operating Margin (SH Lettings only)	44.90%	44.60%	45.40%	46.10%	46.90%	34.40%
Operating Margin	41.70%	41.60%	40.90%	44.70%	47.10%	32.50%
Return on capital employed (ROCE)	9.40%	5.70%	7.60%	6.60%	6.10%	4.50%

*SH = Social Housing / NBV = Net Book Value

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Value for Money Report 2019

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HM Revenue and Customs (Charities Division Number XR92753)

We comply with the National Housing Federation Code of Governance
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