B3 LIVING

Value for Money **2022-23**

Better
Homes
Communities
Business

Better
Futures

Contents

"...we make decisions that are not aimed at generating unsustainable short-term gains but will ensure our homes can be enjoyed by our current customers and future generations."

Value for money highlights

Surplus
£8.6m

Reinvestment
9.92%
£26m in new homes
£4.5m in existing homes

New homes delivered
258

Framework agreements
56
£2.9m savings

VAT Savings
£170k

Tax savings
£331k

Rent arrears
1%

Overall customer satisfaction
85%

Customers who felt their rent offered value for money
88%

Foreword from our Chief Executive

Like many housing associations up and down the country, we have spent the last year recasting business plans and stress tests as we tried to understand what impact the double-digit inflation, rising interest rates and rent caps will have on the delivery of our corporate strategy, our financial resilience and investment capacity.

In all discussions, it was clear that the need to deliver value for money across the business had not been this important since the announcement of the four years of rent cuts in 2015.

For B3Living a guiding ambition of our value for money strategy was to improve services for our customers, improve the quality of their homes, and to help tackle the local housing crisis by delivering as many new affordable homes we can - all while managing our costs at sector median levels and protecting our financial resilience.

This is a very difficult balancing act to achieve. Our current environment has made it even harder as the economic pressures driving up costs are now matched by political and public calls upon the sector to do more. To maintain our value for money approach, we are aware that some trade-offs will be necessary as we push to maintain customer satisfaction and expand investment in key strategic priorities, such as achieving net-zero carbon goals.

I am proud of the value for money achievements contained within this report, especially our delivery of 258 new affordable homes in the year, which represents a record out turn for the organisation and a 5% increase in our portfolio. Many of these projects represent true additionality to local housing supply and would not have been delivered without B3Living's investment.
Strengthening our procurement function continues to yield results. We are seeing this not just in immediate material savings but also in how our procurement approach has given us extra resilience against current market forces and is helping us to live our values as a business. Equally, we have been able to maintain customer satisfaction levels at 85% despite the challenges we and the sector have endured through the pandemic, supply chain failures and the more recent negative press, all of which have contributed towards a steady decline in the sector's average satisfaction rates. Stacked against these challenges and in this context, I must praise the efforts the B3Living team has made to maintain a consistently high quality of service.

That said, this report highlights the challenges we face in achieving our ideal balance. Our operating costs have increased by 34% in just two years which, coupled with the sharp rise in interest rates, is putting a strain on interest coverage performance, our surplus and, by upshot, our investment capacity. Moreover, the rise in interest rates is adversely impacting the viability of new affordable home investments, which could result in low reinvestment and new affordable housing supply in the future.

Yet I trust we have also been able to showcase several examples of B3Living's resourcefulness. Focusing on building safety, customer experience and back-office efficiency in previous years has placed us in a stronger position ahead of upcoming regulatory changes and may help costs to stabilise in future years.
Similarly, we have embraced collaboration within the sector to help us maximise our resources or access funding opportunities in order to achieve more for our customers.

As a long-term business we will seek to overcome these challenges with an eye to the future by ensuring we make decisions that are not aimed at generating unsustainable short-term gains but will ensure our homes can be enjoyed by our current customers and future generations.

Reinvestment

New homes completed 2022-23

"The need to deliver value for money across the business has not been this important since 2015. But we will seek to overcome these challenges with an eye to the future."

Oaklands

Cheshunt Lakeside

High Leigh

Bengeo Nurseries

Braughing

Our approach

- > VFM Strategy
- > Procurement
- > Governance and oversight
- > Measuring our performance

> For B3Living, value for money (VFM) is best achieved by striving to realise the optimum balance between cost, quality and performance across all the services we provide. We believe we can achieve this by ensuring the business's finite resources are utilised as effectively as possible and its financial resilience is protected.

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

Therefore, our approach to value for money is centred on achieving the optimum balance between cost, quality and performance in every aspect of the business to 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 key stakeholders. Our 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 expenditure, and identifying new investment opportunities and ways of working.

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

We, like all housing associations, have limited resources at our disposal. So, when additional efforts and funds are allocated to meet a key priority, such as cutting carbon, there is a subsequent trade-off to keep our value for money commitments in balance.

VFM 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 but also embedding a value for money culture within the business.

Our strategy outlines a nuanced approach 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 targets.

The Value for Money Strategy supports the achievement of our Better Futures Strategy by challenging us to achieve a cost, quality and performance balance within every area of the business. Delivery of our strategy is supported by our 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 align with the sector's upper quartile.

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Procurement

In 2020-21 we introduced a specialist procurement resource into the business with the aim of maximising value for money gains through the tendering process, increasing procurement consistency across the business and to deliver the cashable savings assumed within our financial plan.

Since the launch of the procurement function, we have taken significant steps to improve our processes, upskill budget holders/managers and ultimately maximise value for money gains for our customers and the business. In 2023 the Board approved a new procurement strategy, outlined on page 9, which combines our value for money drivers with our social values.

To date, we have identified 74 spend areas of over £50k per annum that need procuring over our four-year procurement period, using, where possible, our principle for one supplier per spend area. This excludes our development activities, which typically benefit from the use of third-party frameworks, but accounts for a total expected spend of £50m over four years.

To ensure procurement is embedded within our culture we have regular procurement meetings with budget holders across the business. The aim of these is 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 to promote our value for money principles.

Governance and oversight

The Executive team work closely with the Board to ensure our resources are allocated in accordance with their shared priorities: for example, in response to the rent cap announced in November 2022 and rising interest rates, the Board undertook a "dials exercise" which allowed each individual Board member to score potential responses to the tightening of our investment capacity.

The results of this process helped shape the key assumptions in our approved 2023-24 business plan, which will see us continue a high investment in existing homes and carbon reduction, but also a lower level of investment in new homes and an increased focus on reducing ineffective spends within our current cost base.

The Board fully understands the importance of our business and the services we provide within our community and to our customers. As we are a locally focused housing association, we play a critical role within our community through providing much-needed affordable 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; and by co-ordinating and/or 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.

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.

Measuring our performance

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' performance, the sector median, and the highest performing sector quartile for each metric (Global Accounts of private registered providers, 2022).

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 housing service exposure. The peer group includes:

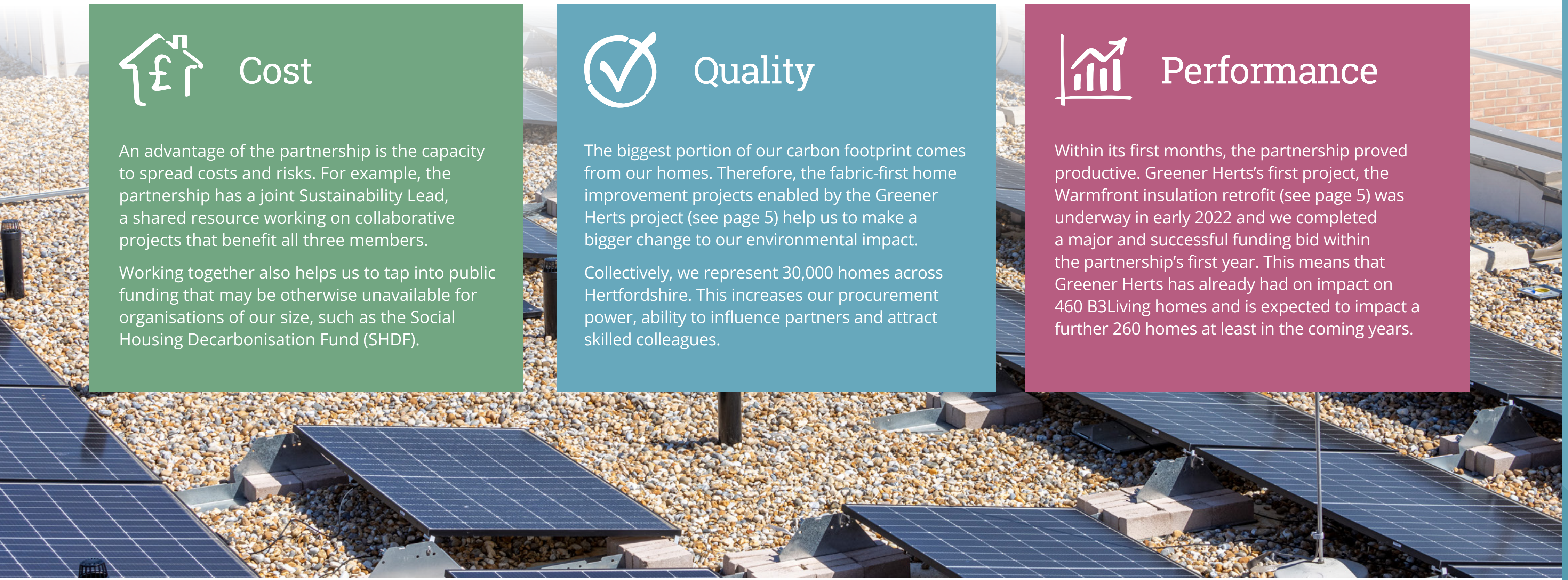
- Chelmer Housing Partnership Limited
- Cross Keys Homes Limited
- Eastlight Community Homes Limited
- Thrive Homes Limited
- Watford Community Housing Trust

Our Board approved Value for Money strategy sets business performance targets in relation to the sector, i.e. sector upper quartile or sector median. These targets are ambitious, pushing us to aim for upper quartile performance in several areas. But they also balance against core strategic objectives: for example, in cost per unit our board-set target is for median performance, in recognition of their wish to support our communities and enhance our customers' quality of life by investing in building safety, reducing our environmental impact, and upgrading homes more generally.

CASE STUDY:

Greener Herts, value through collaboration

At B3Living we are committed to reducing our carbon footprint. In 2022 we formed a collaborative partnership called Greener Herts with neighbouring Hertfordshire landlords, settle and Watford Community Housing. We recognised a shared ambition to drive towards net-zero carbon and came together to share resources and achieve more.



Cost

An advantage of the partnership is the capacity to spread costs and risks. For example, the partnership has a joint Sustainability Lead, a shared resource working on collaborative projects that benefit all three members.

Working together also helps us to tap into public funding that may be otherwise unavailable for organisations of our size, such as the Social Housing Decarbonisation Fund (SHDF).

Quality

The biggest portion of our carbon footprint comes from our homes. Therefore, the fabric-first home improvement projects enabled by the Greener Herts project (see page 5) help us to make a bigger change to our environmental impact.

Collectively, we represent 30,000 homes across Hertfordshire. This increases our procurement power, ability to influence partners and attract skilled colleagues.

Performance

Within its first months, the partnership proved productive. Greener Herts's first project, the Warmfront insulation retrofit (see page 5) was underway in early 2022 and we completed a major and successful funding bid within the partnership's first year. This means that Greener Herts has already had on impact on 460 B3Living homes and is expected to impact a further 260 homes at least in the coming years.

Our performance in 2022-23

Our performance in 2022-23

The table below shows our Board's value for money targets positioned against performance across the sector and among peers.

The values listed for our sector align with our Board's target for each metric. For example, our Board aims for sector upper quartile levels of reinvestment; therefore, the table presents the sector's upper quartile performance in 2021-22 (8.64%) whereas our target for EBITDA MRI interest cover is sector median (143.58%) so the figure presented is the median score. These benchmarks can be compared with our peers' metrics (for the 2021-22 year) and B3Living's performance in the financial year just closed (2022-23).

It is important to note that our 2022-23 data is being compared to the sector's median and peers' performance from 2021-22, therefore, these do not include the effects of the UK's recent double-digit inflation environment on costs.

Therefore, we are expecting our 2022-23 performance to show a much stronger position when compared to the sector's and peers' performance for the equivalent period.

To provide greater context and to help see through one-year peaks and troughs, for each metric we also include five-year average performance for the sector, our peers and B3Living.

	Sector			Peers*		B3Living	
	Board set VFM targets	Five year average		Five year average		Five year average	
		2018-22	2021-22	2018-22	2021-22	2019-23	2022-23
Value For Money Metrics							
Reinvestment	Upper quartile	8.38%	8.64%	10.92%	10.07%	12.15%	9.92%
New supply (social)	Upper quartile	2.23%	2.14%	2.54%	2.87%	2.85%	4.98%
New supply (non-social)	Lower quartile	0.00%	0.00%	0.00%	0.00%	0.01%	0.04%
Gearing**	Upper quartile	53.57%	53.13%	55.26%	57.54%	68.31%	62.51%
EBITDA MRI Interest Rate Cover**	Median	178.41%	143.58%	186.15%	152.43%	206.88%	166.85%
Headline social housing cost per unit (£k)	Median	3.73	4.18	3.62	4.03	3.99	4.61
Operating margin (SHL)	Upper quartile	32.31%	28.57%	30.44%	25.73%	44.25%	40.10%
Operating margin (overall)	Upper quartile	28.51%	25.32%	29.63%	25.99%	40.30%	33.90%
ROCE	Upper quartile	4.51%	3.91%	3.81%	3.38%	6.02%	4.51%

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

Our mission is to make a positive impact on the housing crisis locally and delivering new affordable homes has a key role to play in this, reducing pressure on limited housing stocks in our area and allowing families to move off waiting lists.

This aspiration is clearly seen in our reinvestment performance during 2022-23 (9.92%), which is much greater than the sector upper quartile (8.64%), albeit slightly lower than our peers' average (10.07%). However, our performance over the five-year period is marginally greater than our peers.

We aim to ensure this investment is sustainable by generating sector upper quartile operating margins and managing 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 62.51%, albeit it has improved substantially over recent years (from 79.40% in 2018). While we are pleased to see this improvement, we have made a conscious decision to continue to do all we can to tackle the housing crisis locally by using our financial strength to invest in new and, increasingly, in maintaining or improving our existing homes. Therefore, we expect our gearing to continue to be between 60-65% into the mid to long term.

However, to support our current levels of investment, we will aim to generate surpluses of c. £8-10m per annum to ensure our debt growth is sustainable and financial resilience is maintained. Our funder gearing covenant is based on security value and our performance is 50% (2022: 48%) against a covenant limit of 80% and our internal Financial Golden Rule limit of 65%.

Key achievements

It has not been an easy year to trim costs, but the economic climate has made cost-consciousness and a balanced approach even more important. Throughout 2022-23 we have continued to promote and embed our Value for Money Strategy with the help of our team of Value for Money ambassadors and our procurement function.

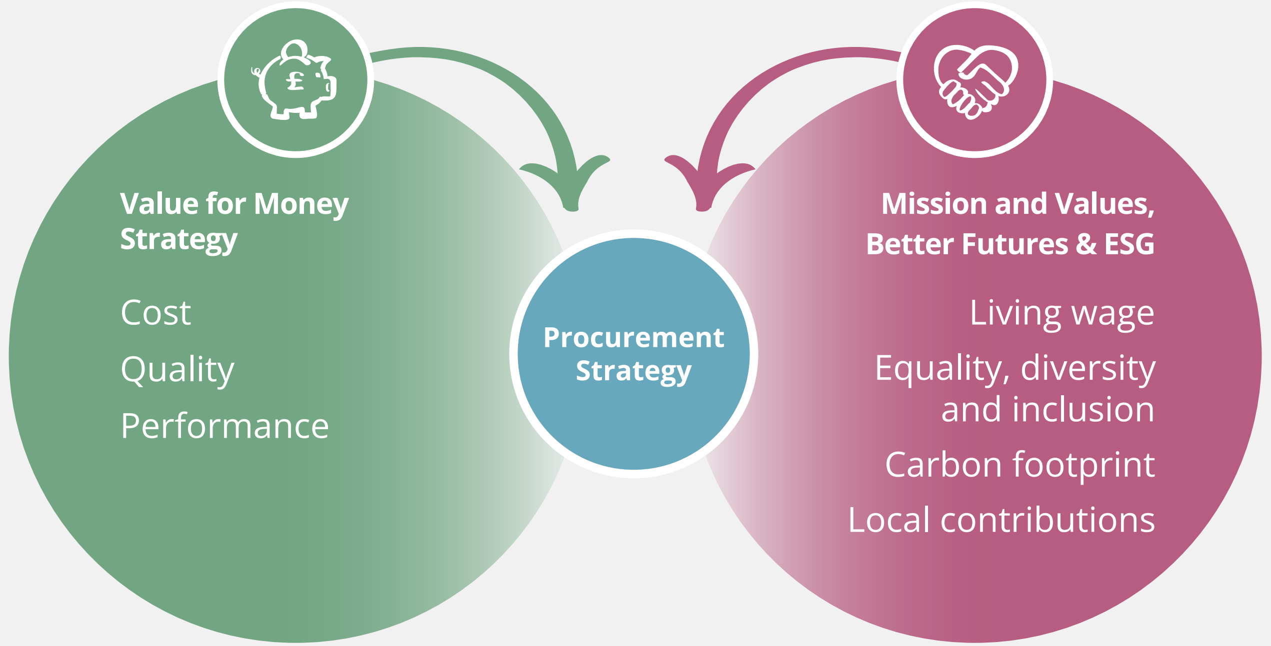
Our value for money ambassadors represent every area of the organisation. They identify and investigate value for money opportunities across the business and embed our value for money principles through training colleagues, promoting the value for money principles, and improving intra-organisational communication.

During the year we approved a new Procurement Strategy which doubles down on our commitment to realise the optimum balance of cost, quality and performance via the procurement process.

This has driven us to explore new framework agreements with our core suppliers assessing them against our three guiding value for money principles to ensure each offers the right balance for the business and for our customers.

But the strategy also sets a clear direction which we hope will promote opportunities for those suppliers who share our values and vision, for example, suppliers who pay the living wage and align with our equality, diversity and inclusion position, are pro-actively seeking to reduce their environmental impact, or are contributing to the economies of the communities we serve.

In 2022-23 we have already begun to feel the squeeze on our resources as the operating climate becomes more challenging and inflationary pressures hit. However, the outcomes of this procurement strategy and the work of our ambassadors are having a material impact on our organisational culture and value for money performance. Moreover, decisions from previous financial years are continuing to contribute cashable savings in 2022-23.



Below are some examples of B3Living's value-for-money culture delivering in practice this year:

Long-term thinking and accumulated savings

Borrowing – In 2021-22 we raised £65m of fixed debt via two loans at all-in cost of 1.53% (£30m) and 2.59% (£35m). With the sharp increase in interest rates during 2022-23, these loans are generating material savings against current market rates, which is boosting investment capacity and financial resilience and performance. As at 31 March 2023, the £30m loan has a mark-to-market value of +ve £13.8m and the £35m loan of +ve £11.5m. Furthermore, we are continuing to fully utilise our group structure to save VAT on our development activities (£170k in 2022-23) and tax (£331k in 2022-23).

Procurement – since introducing a procurement resource into B3Living in November 2020, teams across the organisation have worked together to help B3Living enter into 56 new framework agreements. Based on our expected costs, these new framework agreements are forecast to deliver £2m of cashable savings for the Group. Moreover, our agreements typically only include one CPI increase over the typical four-year life rather than the standard annual uplift. In this period of high inflation, it is estimated that this term alone could save a further £2.1m over the life of these agreements.

Sourcing funding to deliver more

Warmer homes – in the year we completed our programme to improve the energy efficiency of over 460 homes and upgrade their EPC rating to C. The Warmfront project was entirely funded by the Government's Energy Company Obligation scheme (ECO3) which meant we were able to deliver more for our customers without diverting limited resources from other areas of the business.

Social Housing Decarbonisation Fund – We have also secured funding through the Government's Social Housing Decarbonisation Fund (SHDF) to deliver energy-saving upgrades to more than 260 homes, which are expected to boost each home's EPC rating to C or above. On completion of the programme, over 98% of the homes we provide will be EPC rated C or over, which is set to place us among the sector leaders in this area.

New home delivery – In 2022-23 we completed more new homes than any other year in our history. In recent years we have built a positive working relationship with Homes England, and this year our three largest developments were supported by £xxm in grant funding. Not only does this enable us to deliver more homes, but it also helps us to fulfil our purpose by giving us the capacity to achieve true additionality and tailor schemes to local needs. For example, Homes England funding enabled us to purchase further homes at our Newgatestreet Road site over and above the Section 106 allocation, making the site 60% affordable. Similarly, at our flagship Cheshunt Lakeside scheme, funding allowed us to convert market rent tenures into affordable rent to further assist the housing crisis in our borough.

Future technologies – We have partnered with SCCI Alphatrack to install fibre-optic broadband at 20 B3Living estates, covering more than 500 homes. The '4Fibre' project will give customers access to four internet providers offering ultra-fast connection speeds. The installation is fully funded and involves no costs for customers nor for B3Living.

Sustaining strong performance

Customer satisfaction – For three years (2020-23) we have managed to maintain customer satisfaction scores at around 85%. B3Living's consistency runs contrary to a general downward trend reported across the sector, potentially a result of pandemic challenges and the return of annual rent increases. We were also pleased to see our customer satisfaction improve in several key areas, such as with our repairs service and listening to customers' views.

Great Starts – Across 2021-23 we have invested £2.3m in our Great Start project. We now offer an enhanced re-let standard, including carpets, cleaning and redecorating, which has enabled us to maintain average satisfaction levels of 95% consistently, an increase of 20 percentage points compared with average scores before the project.

Cost of living – We continue to invest in supporting customers to sustain their tenancies, ringfencing £200k to offer a dedicated Customer Coach, back local support services and offer our own support fund. As a result of this and our Rent team's "collecting with care" approach, we have seen sector-leading arrears performance for the past three consecutive years.

CASE STUDY:

Spending wisely on procurement

In the year, we delivered year two of our four-year procurement programme. Each tender is individually assessed in terms of the weighting of our three value for money principles. The optimum balance of cost, quality and performance is tailored to the service/goods: for example, the delivery of customer and building health and safety works may carry a greater quality weighting than procuring a new energy provider. To date, we have secured 52 of 74 spend areas onto new framework agreements or contracts, many with a two-plus-two pricing term.

Cost

Across the 52 spend areas already reviewed, we have a total expected spend of more than £35m (71% of total expected spend to be procured), which is expected to generate a cost saving of just over 8% (£2.9m). Additionally, there may be further savings of £2.1m against these projections. As per Bank of England projections that inflation will fall back to 2-3%, many of our framework agreements will not experience an inflationary increase until after the current peak has passed. We will tender a further 9 spend areas with an expected value of over £9m (19%) in 2023-24 and another 12 in 2024-25 with a forecast value of around £5m (10%), and through these expect to generate further savings of just over 8%. These savings allow us to do more in each area or give us capacity to do more elsewhere.

Quality

Our procurement process has helped us to align our operations with our values and drive towards upper quartile customer satisfaction. For example, we are an accredited Living Wage Employer, and therefore, in line with our strategy, our procurement documents have been updated to ensure that supplier's staff who work on behalf of us are paid at a level of, or greater than, the Real Living Wage. During Q4 of 2022-23, an audit of our supply base who are contracted on our terms and conditions, showed full compliance with this requirement.

Performance

We have significantly heightened the business's understanding of the importance of developing robust tender specifications and performance metrics. This improvement helps new suppliers understand our expectations as well as providing a meaningful framework to assess their performance. Moreover, better specifications allow us to capitalise on new technological efficiencies to enable our staff to work smarter not harder, for example, the use of mobile phone technology to capture images of repair jobs prior to work starting, and again after they are complete, to reduce the need for quality control surveys.

How we compare: Detailed review of performance

> Reinvestment
> New supply of social housing units
> Gearing
> EBITDA MRI interest coverage
> Social housing operating margin
> Return on capital employed
> Cost per unit
> B3Living's value for money metrics

How we compare: Detailed review of performance

The following charts compare our historic and forecast performance against our peers, the sector median, and upper quartile from the 2022 global accounts of social housing providers.

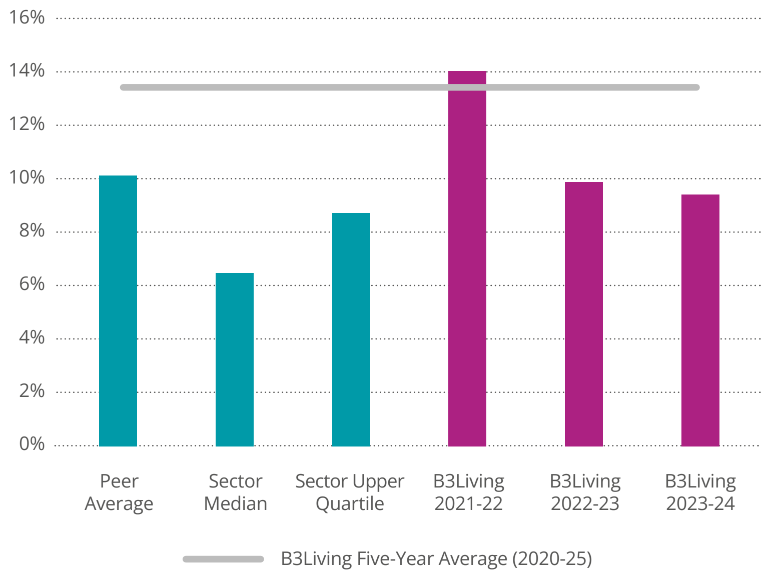
Each chart also includes B3Living's rolling and predicted five-year average, which covers the period of April 2020-March 2025. This guideline aims to provide greater context by blending historic and forecast performance while lessening the impact of annual fluctuations on performance, which is generally caused by the ebbs and flows of the development programme.

Reinvestment %

Our commitment to deliver more affordable homes within our local geography is reflected in recent and forecast reinvestment performance. The Board have set a sector upper quartile target (8.64%), and over the five-year period between 2020-2025, our average reinvestment performance at 12.15% will be around three and a half percentage points greater than our target.

Our five-year average performance is helped by our recent decision to build out our land-bank sites and the delivery of our largest affordable housing scheme in Cheshunt, Broxbourne (195 homes). However, with the sharp rise in interest rates coupled with operating cost pressures, building affordable housing at the same rate sustainably will be more challenging. Therefore, we expect to see a slight downward trend in reinvestment to align more with the Board's set target of sector upper quartile performance, namely, 8-9% per annum.

To support further sustainable investment in new and existing homes the Executive and Board are working with the business to maintain surpluses at £8-10m per annum. In 2022-23 the Group invested over £26.0m (£20.0m fixed assets) in the provision of new homes and over £4.5m in existing properties.



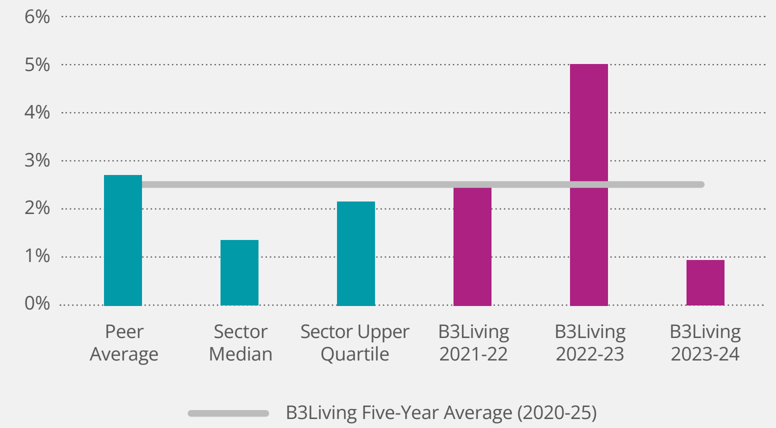
New supply of social housing units

Our reinvestment performance strongly correlates to our supply of new affordable housing. In 2022-23 we delivered a record number of new homes, as our largest scheme to date, Cheshunt Lakeside (195 homes), was completed.

That said, this has also been a very challenging year in terms of new starts; therefore we are expecting handover performance to drop significantly in 2023-24 but settle in thereafter at the Board's set VFM target of sector upper quartile, i.e. around 2%.

While we expect our completion of new affordable housing performance to fall towards the current sector upper quartile level (2.1%), we also expect our peers to follow a similar trend as the impact of higher interest costs and inflation suppresses investment capacity.

In 2022-23 we completed 258 new homes, of which 163 were rented and 95 shared ownership. Furthermore, more than 90% of these homes were built within our heartland of Broxbourne, exceeding strategic targets for local delivery. These new homes we have built will not only make a significant contribution to tackling the housing crisis locally, but the investment also provided a major economic boost within our communities.



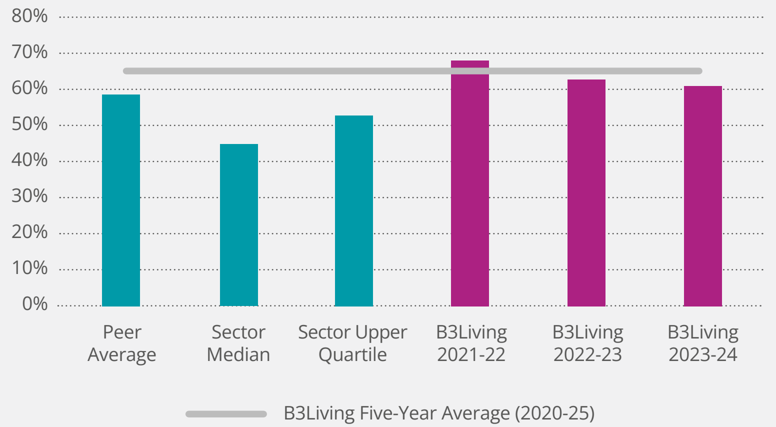
Gearing %

During the year, our gearing ratio (the relationship between debt and social housing assets) has continued its recent downward trajectory and is beginning to align with our peers' average gearing position.

Our debt increased marginally from £205m to £210m (2.5%) as we invested c. £26.0m in the provision of new homes and c. £4.5m, or over £1,000 per home, in the improvement of our existing homes.

The Board understands that we are operating in the sector's highest decile for gearing, but as a social housing provider, it is important that we continue to play our part in the delivery of new affordable homes and to be a responsible provider in the upkeep of the homes we already manage. Therefore, we will continue to invest in new and existing homes at sector upper quartile levels to tackle the housing crisis in our area.

To deliver this level of investment and manage our gearing position within a range of around 60-65% we will need to keep generating surpluses of around £8-£10m a year as well as working with Homes England and other government bodies to secure grant funding.



EBITDA MRI interest coverage %

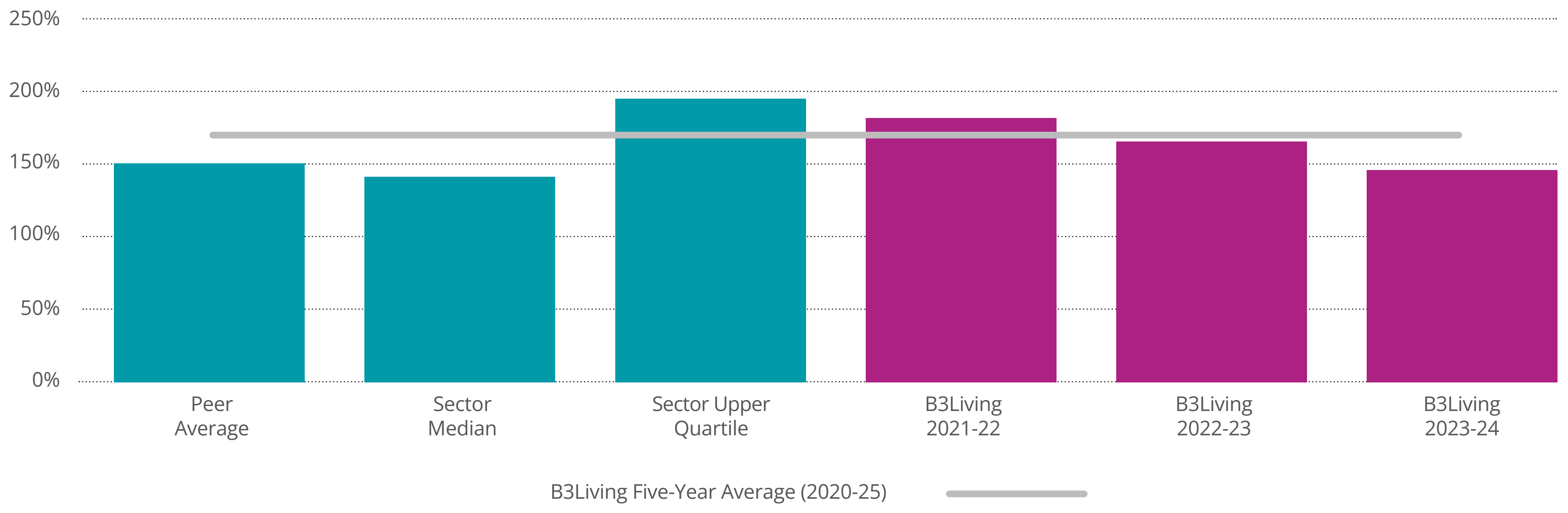
EBITDA MRI (Earnings Before Interest Tax Depreciation and Amortisation with Major Repairs Included) is a measure of the Group's ability to cover its interest commitments from the cash flows generated by the core business.

B3Living's interest coverage performance is declining due to a sharp increase in operating costs which have risen by over a third since 2020-21. This increase is driven by a decision to improve the quality of our re-lets homes, deliver a more comprehensive building and customer health and safety programme, as well as being impacted by the high inflationary environment.

Aside from the cost pressures, the sharp increase in interest rates is beginning to impact performance. We benefit from having 90% of our current debt portfolio secured at fixed rates of interest but this benefit will lessen as our debt grows over time.

With all of these pressures, the Board have requested that the Executive reviews our cost base to maximise savings, noting that we are a long-term business therefore all savings need to be sustainable and impact assessed before implemented.

In 2023-24 and 2024-25, we expect our EBITDA MRI interest cover performance to fall further, to around 145% and 135% respectively. This sharp fall in interest cover is caused by the delivery of our £5.9m Social Housing Decarbonisation Fund (SHDF) programme which aims to improve the energy efficiency of 263 homes. With the expectation that this programme would cause interest coverage performance weakness, we have agreed with funders to carve this investment out of our covenants, so the delivery of this programme will not cause covenant compliance issues.

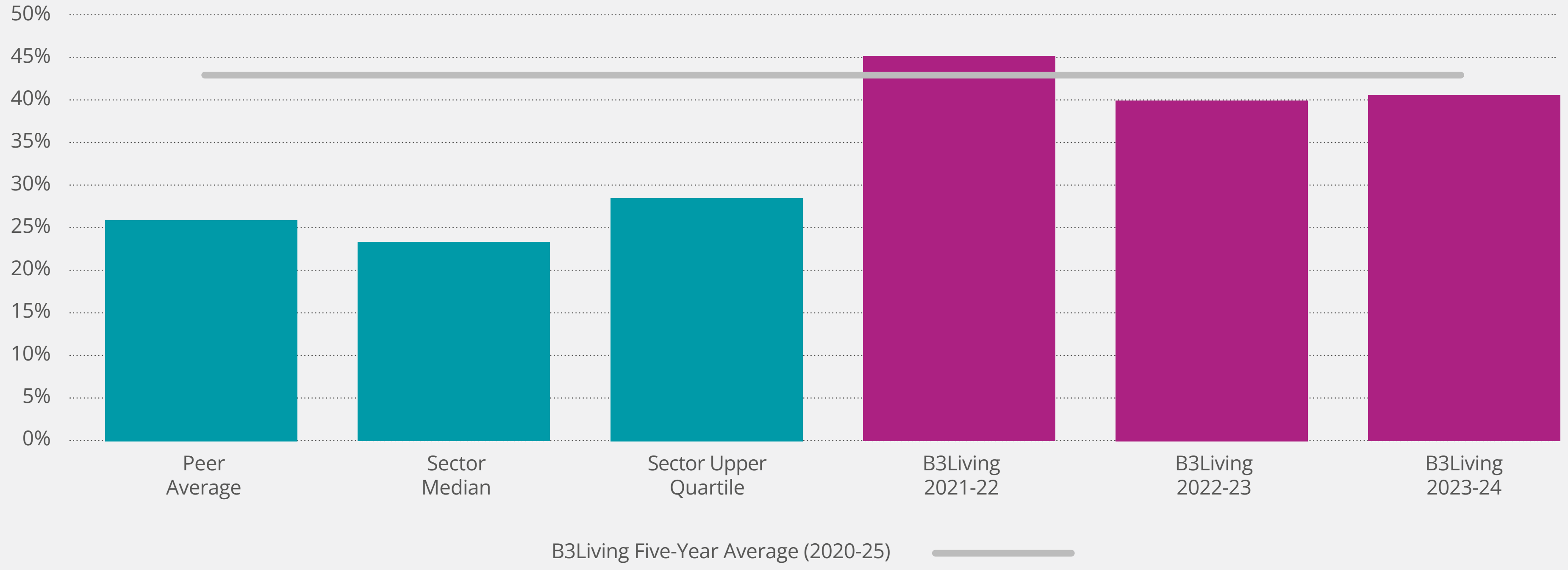


Social housing operating margin %

Social Housing operating margins fell from 45.2% in 2021-22 to 40.1% in 2022-23. The fall in margins would have been sharper hadn't the impact of the c. 17% (£2.8m) increase in operating costs been partly offset by the new revenues from the 258 homes developed in the year, which helped to stabilise margins at 40%.

The significant increase in repairs and maintenance costs is driven by three key factors. Firstly, we experienced a greater spend on customer and building health and safety compliance, secondly, the cost of void properties has increased sharply, this is, in part, due to a board decision to carpet and deep clean all our homes prior to re-let, thirdly, inflation is pushing up the cost of materials and labour for B3Living directly and for our contractors. With our new procurement function decreasing the amount of annual spend on commercial framework agreements, the completion of a DLO review, and a heightened cost focus across the business, we are expecting the acceleration of cost growth to slow in the coming years.

We are comfortably outperforming our peers and the sector's upper quartile, which reflects that while our costs are increasing, they are rising from a relatively low position, also our margins are helped by the amount of affordable rented homes in our stock coupled with our proximity to London. Current performance is in line with Board expectations and despite current headwinds, margins are forecast to remain strong.

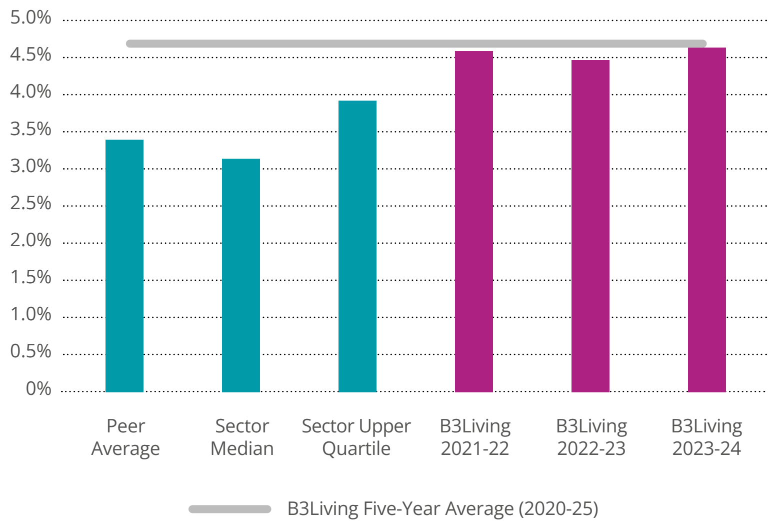


Return on capital employed %

We are currently outperforming our peers and the sector's upper quartile. As a housing association with a gearing position that is in the top decile in the sector, it is important we generate strong surpluses and ROCE performance to allow us to sustainably invest in new and existing homes at sector upper quartile levels.

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 levels.

However, with the sharp increase in the cost of new debt, it will be challenging to continue to bring new affordable homes into management without weakening ROCE performance. Therefore, as a social landlord, who is committed to tackling the housing crisis in our local geography we as a business will have to accept a marginal erosion of performance during these challenging times.



Cost per unit*

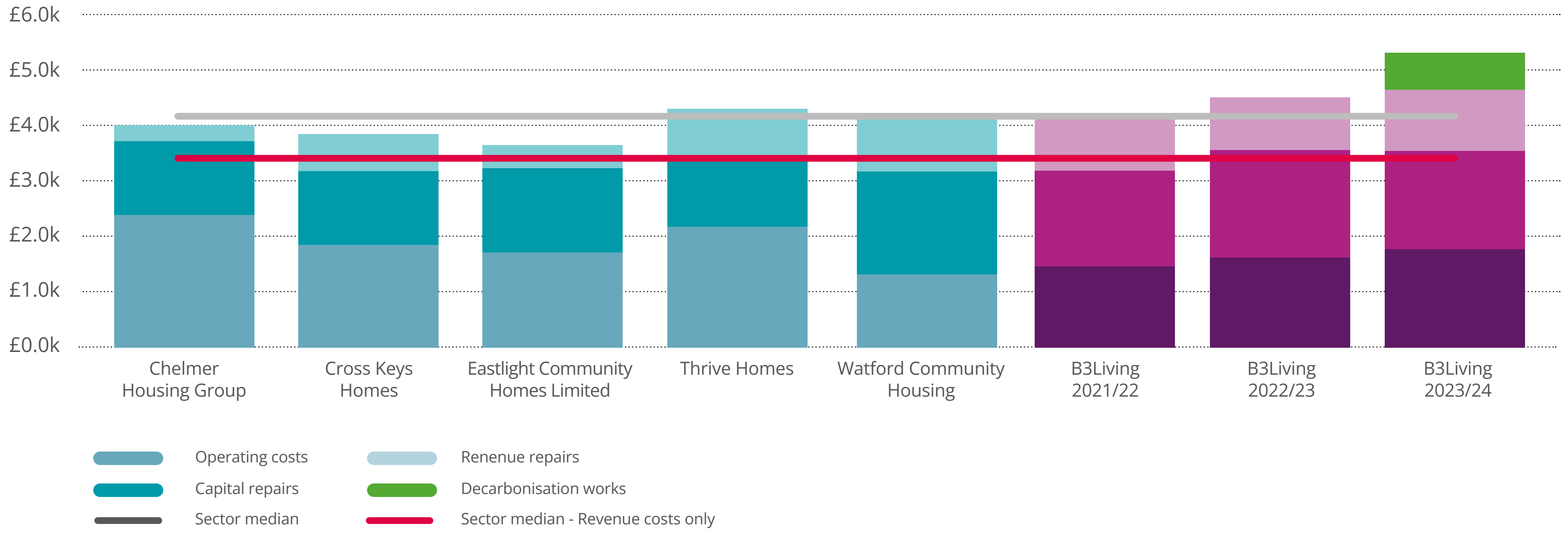
Our approach to cost control and our value for money ethos have resulted in robust cost per unit performance, albeit slightly more than our peers. Operating costs are forecast to remain comparable to the best of our peers at c. £1,500 per unit. As a result of the 2016-2020 period of rent cuts, we made significant operational cost savings by reducing our headcount and investing in technology to increase productivity. Savings in these back-office areas have allowed the business to increase its investment in our core repairs service without materially impacting overall cost per unit performance.

The Board's commitment to providing safe, secure and warm homes means that we spend around £600-£700 per unit more on revenue repairs than our peers and a further £200-£300 per unit more on capital repairs. Much of this additional revenue spend has been driven by expenditure on customer and building safety works over the last two years, although some of the differences reported could be accounted for by variances in how different housing associations apportion costs between each heading.

While we feel that this previously unforeseen expenditure has now peaked and will start to fall, we expect our cost per unit to continue to rise in future years as we deliver upon our decarbonisation ambitions, especially in 2023-24 and 2024-25 as we deliver our Social Housing Decarbonisation Fund (SHDF) programme.

Capital repairs spend in 2022-23 was around £1,000 per home, which is in line with our priority of investing in the improvement of our homes at sector upper quartile levels (£880 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. During 2023-24 and 2024-25, as the SHDF programme is delivered, we expect our cost per unit to increase by a further £500 and £750 in these respective years.

While our total social housing cost per unit is currently greater than the sector median and our peers, our 2022-23 revenue costs are comparable to the sector's median (red dotted line) and our peers.*



*The sector's median and peers' performance figures (2021-22) do not include the effects of the UK's recent double-digit inflation. our 2022-23 performance may show a much stronger position when compared to the sector and peers for the equivalent period.

B3Living's 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 the Board in March 2023 as part of our budget setting and business planning process.

	B3Living 2020-21 actual	B3Living 2021-22 actual	B3Living 2022-23 actual	B3Living 2023-24 forecast	Sector median	Upper quartile	Board VFM target
Value For Money Metrics							
Customer satisfaction - B3Living services	86.0%	86.3%	85.4%	91.0%	83.0%	88.0%	Upper Quartile
Customer satisfaction - quality of home	81.5%	83.0%	84.0%	86.0%	81.4%	86.0%	Upper Quartile
Customer satisfaction - repairs service	81.5%	81.8%	86.2%	84.0%	76.3%	83.5%	Upper Quartile
Customer satisfaction with their rent	86.6%	88.1%	87.7%	89.0%	84.5%	89.0%	Upper Quartile
Occupancy	99.3%	99.1%	99.3%	99.7%	99.5%	99.9%	Upper Quartile
Rent collected as a % rent due	98.3%	100.2%	100.3%	100.0%	100.0%	100.7%	Median
Overheads as % of turnover	14.7%	13.2%	11.1%	11.1%	14.9%	12.0%	Median
Responsive to planned repairs ratio	0.82	0.73	0.77	0.70	0.70	0.50	Median

Customer satisfaction in context

In 2020 we 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 shape and launch our Customer Strategy in 2021-22 as well as our overarching 2021-24 Better Futures strategy and the targets within it. When we agreed to work towards improving our customer experience with the aim of aligning our customer satisfaction performance with the sector's upper quartile, we understood that our operating costs would inevitably increase as we improve and widen the services we provide.

The table shows that since 2020-21 our overall customer satisfaction performance has been very consistent at between 85-86%. When considering the effects of the pandemic on service standards coupled with the increased levels of sector scrutiny and negative press, we see this as a good result. Moreover, due to these external forces, the sector's overall customer satisfaction scores are falling generally, with the sector upper quartile falling from 91% in 2020-21 to 88% in 2021-22. In their Tenant Satisfaction Measures (TSM) report in January 2023, HouseMark highlighted that general satisfaction has fallen again to 85% - matching our performance.

Excellent customer experiences

Even though we are technically performing in line with our strategic customer satisfaction target of sector upper quartile, we are still striving to achieve the Better Future target of 91%, which was set when the sector was operating in a different environment. To help us achieve better customer satisfaction, 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, currently at 260 members.
- Improving our complaints handling process in line with the Housing Ombudsman's 2022 Complaints Handling Code.
- Investing in our customer insight capabilities, including additional transactional surveying and coproduction with our customers.

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 still strive to meet our customer satisfaction target of 91% by March 2024 but acknowledge that this is a very challenging target in the current operating environment.

Safe, good quality homes and estates

Our Value for Money Strategy also focuses on other key aspects of our customer experience, such as how they feel about the quality of their homes, the repairs service they receive and the fairness of their rent. Again, with the Board's ambition to put our customers first, they have set very challenging sector upper quartile targets for B3Living for these metrics.

Over the last three years, our customers' satisfaction with the quality of their homes has improved from a sector median performance of 81% up to 84%, just two percentage points under our target. We expect to close the gap with our target through our:

- Continued commitment to investing in our existing homes at sector upper quartile levels.
- Robust approach to customer and building safety.
- Enhanced voids standard (our Great Starts project).
- Ambition to have no homes rated under EPC C by the end of 2028.

We are pleased to have closed the gap against our sector upper quartile target for the repairs service, which has seen our performance increase from 81.5% to 86% over the last three years. The improved perception of our repairs service coupled with our sector upper quartile level of property improvement investments may also be the driver for our increased satisfaction levels in regard to our rent offering value for money. With the amount of affordable rented homes in our portfolio coupled with our proximity to London, we are pleased to be just over one percentage point from our rent satisfaction target of 89%.

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 and been reflected in the recently approved 2023-24 budget. This strategy has increased our cost base and adversely impacted 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, especially in relation to capital repairs, has been viewed by the Board as an acceptable trade-off in the pursuit of enhanced customer satisfaction.

High-level performance

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 three years in a row, aligning ourselves with the sector's upper quartile. Rent collection performance has also been exceptional with 100.3% 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 around £200k per annum 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 2023, our rent arrears were at sector-leading levels at just over 1%, which is a notable achievement considering our economic environment and the cost-of-living crisis.

Our approach of reinvesting our savings into frontline services, coupled with the continued growth of the business has helped us outperform our value for money target for overheads as a percentage of sector median, to a point where we align with sector upper quartile performance. As a small housing association, good performance on this metric is very difficult we do not have as many homes over which to spread our fixed costs; however, the business's focus on investing in frontline services has generated tight back-office controls, leading to low levels of overhead.

Our responsive : planned works ratio continues to be marginally over the Board's target, although performance is getting better progressively since the peak in 2020-21. Increasing the number and frequency of our compliance checks and fire risk assessments has resulted in more responsive repairs, but we see this as a positive step. We anticipate that, once we have completed a few more cycles of our improved and thorough approach, the by-product tasks arising from this workstream should fall and move us towards our sector median target.

> ...the increase in our cost base, especially in relation to capital repairs, has been viewed by the Board as an acceptable trade-off in the pursuit of enhanced customer satisfaction.

CASE STUDY:

Reprocuring our grounds maintenance service

Our 2022 procurement of a new grounds maintenance contract is a strong example of our value for money culture in action. After monitoring trends in feedback, we initiated a competitive tender exercise, involving our customers in contractor selection and setting the ongoing scope of work.

Cost

Our new contract has reduced our costs by between 30-50%, depending on the service, savings which can be passed directly to the customer. We also gave customers an opportunity to influence costs by being transparent about the prices of the different services available and allowing customers to vote.

Quality

We enabled customers to design the service around their preferences. Previously customers all received a ‘rough cut’ grass cutting service, but in this project more than 1,400 customers were given the opportunity to vote on the quality and frequency of service they wanted to see on their estate. Customers were also involved in interviewing shortlisted suppliers.

Performance

Although performance will not be known until the contract begins in 2023-24, this project was performance-driven. We initiated the procurement exercise following customer feedback on our previous contractor and as an exercise in learning from complaints.

Value for money into the future

Value for money into the future

The 2022-23 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 service provision, so we are not expecting to make any significant overall cost per unit savings.

That said, we will keep increasing efficiency to yield cost savings, but we expect such savings will be reinvested in improving frontline services and existing homes. Continuing our Value for Money Strategy, we plan 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.

The table below shows B3Living's forecast performance against the Regulator's value for money metrics with a comparison with our sector and peers. We expect to perform well against our peers, especially in terms of reinvestment, supply of new affordable housing, operating margin and ROCE. Between April 2023 to March 2026, we plan to invest c. £90m in the provision of new homes. The sharp uptick in shared ownership sales experienced in 2022-23 and forecast in 2023-24, combined with the strength of our core business means that gearing is expected to improve over the period to under 62% in the mid-term.

	Peer average	Sector median	Sector upper quartile	Board VFM target	B3Living actual	B3Living actual	B3Living forecast	B3Living forecast	B3Living forecast
	2021-22	2021-22	2021-22		2021-22	2022-23	2023-24	2024-25	2025-26
Value For Money Metrics									
Reinvestment	10.1%	6.5%	8.6%	Upper quartile	14.1%	9.9%	9.5%	10.3%	8.4%
New supply (social)	2.9%	1.4%	2.1%	Upper quartile	2.4%	5.0%	0.9%	1.8%	2.0%
Gearing	57.5%	44.1%	53.1%	Upper quartile	67.4%	62.5%	61.2%	61.5%	61.9%
EBITDA MRI Interest Rate Cover	152.4%	145.7%	197.5%	Median	183.5%	166.8%	147.4%	137.5%	163.1%
Headline social housing cost per unit (£k)	4.03	4.15	5.18	Median	4.18	4.61	5.22	5.44	4.83
Operating margin (SHL)	25.7%	23.3%	28.5%	Upper quartile	45.2%	40.1%	40.5%	41.8%	42.6%
Operating margin (overall)	26.0%	20.5%	25.4%	Upper quartile	40.9%	33.9%	35.0%	39.2%	40.1%
ROCE	3.4%	3.2%	3.9%	Upper quartile	4.6%	4.5%	4.6%	4.5%	4.5%

£90m
invested in new homes (2023-26)

60%
Gearing

263 homes
for energy saving upgrades / £5.9m investment

£31m
Upcoming investment in existing homes (2023-26)

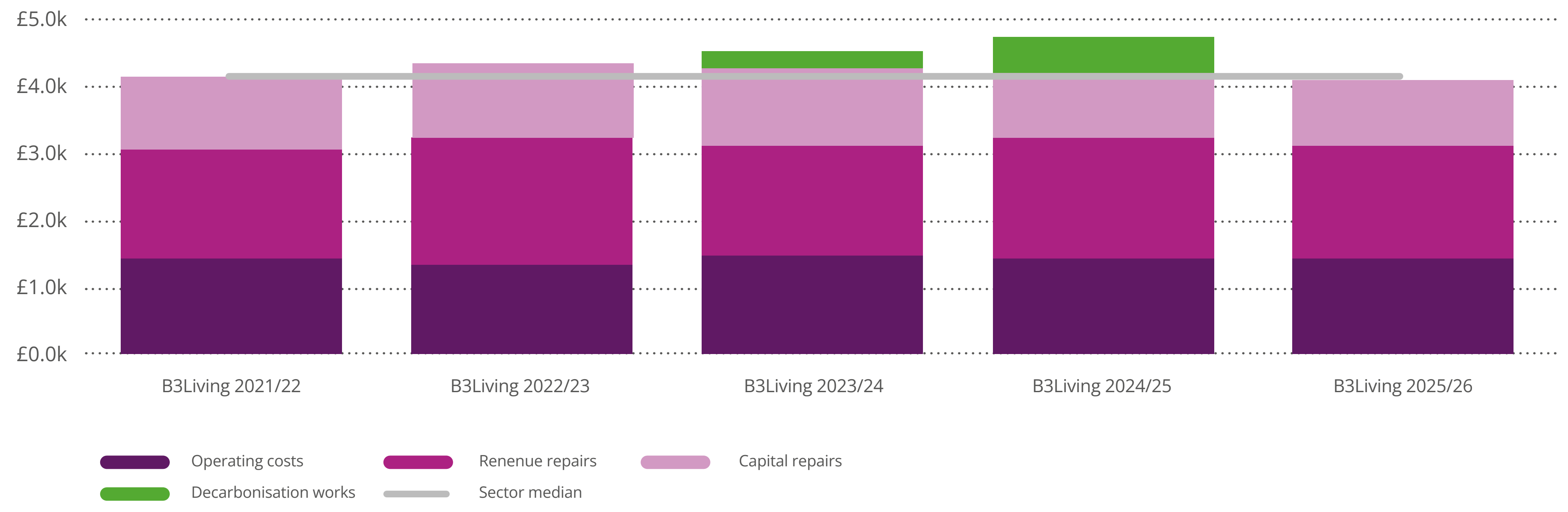
As we deliver our £5.9m SHDF programme to improve the energy efficiency of 263 homes our forecast EBITDA MRI performance is temporarily expected to dip just below 140%. However, once the programme has been delivered performance it returns to a level over the sector median and our peer average. A key efficiency metric is operating cost per unit.

We expect our cost per unit to increase from c. £4,185 per unit in 2021-22 to c £4,605 per unit by 2023-24. The chart below shows the breakdown of the three main cost per unit elements over time when adjusted for annual inflation (7% in 2022-23, 3% in 2023-24, and 2% per annum thereafter).

Our forecast shows that operating costs will remain stable, and revenue and capital repairs cost marginally fall as we spread our costs across the more than 450 new homes we plan to deliver over the four-year period. To improve performance further we will also explore stock acquisitions from other housing associations and local authorities, should they generate value for money and align with our growth ambitions.

In conclusion, we are confident that our value for money strategy will continue to deliver results for our customers and community. While we expect costs to stabilise after a period of investment, we anticipate even savings to be realised as we optimise our operations, procurement and financing.

Our commitment to balancing cost, quality and performance is unwavering. The coming years will be challenging to operate in, but we are confident that our long-term thinking will keep us resilient and position us to deliver true value for money.



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