Value for Money
2023-24

Better futures

Better Homes

Better Communities

Better Business

Value for Money
2023-24

Better futures

Contents

Highlights

Value for money highlights

£4,992
Social housing cost per unit
(£4,567 2022-23)

5.1%
Return on capital employed
(4.5% 2022-23)

44%
Operating margin (social letting)
(40.5% 2022-23)

84%
Customers who think their rent is value for money
(88% 2022-23)

TOP 6
Landlord for investing in existing homes

-£1m
2023-24 budget spend compared to previous year

Chief Executive's foreword

The last year has seen a period of severe volatility in the economy. From outside the world of housing we, like many other associations, we have been navigating the impact of double-digit inflation and interest rates rising to their highest in over a decade.

Internally, the introduction of new regulations including the Building Safety Act, Awaab's Law, the Social Housing Act and the Regulator's new Consumer Regulations have created unforeseen challenges within our sector's operating environment. Under these circumstances, the need to deliver value for money across our business has become more pressing than ever.

At B3Living, value for money is a key pillar supporting our budgetary and financial processes and shaping our relationship with our customers and partners. For this reason, our Value for Money Strategy has been designed and reviewed to channel our determination to deliver new affordable homes while still improving the quality of our existing homes, both of which we must achieve alongside managing our costs and remaining financially resilient.

Finding the balance to achieve this within the unsteady economy in which we find ourselves has been particularly demanding this year, especially as we worked towards spending more effectively and aligning our costs with our planned budgets. Despite the great need for new affordable homes in our geography, high levels of cost uncertainty have led us to taking a cautious approach towards investing in development which was reflected in a reduced programme for 2023-24.

Nevertheless, I am proud of the adaptability and perseverance we have demonstrated as a business this year and the successes this report will elaborate upon. In particular, we celebrate the continued high-quality service delivered by our teams, which has allowed B3Living to achieve an overall customer satisfaction rate of 85% - significantly higher than the expected sector average (c. 69%). We are happy to report that sector challenges, though an obstacle, do not limit our resourcefulness nor our ability to provide the best possible experience for our customers.

Future-proofing our homes became a key focus of our operations in 2023-24. The past year has seen our biggest investment to date into decarbonising our homes due to the success of our Social Housing Decarbonisation Fund bid. Running over a two-year period, the project has begun to improve the energy efficiency of 263 homes which will place us in a favourable position to achieve an EPC rating of C or higher in all our homes by 2028. This, alongside the introduction of our sector leading voids standard and our investment into building safety works, showcases our strong commitment to providing good quality, safe and energy efficient homes for our customers. Through our improved procurement function and collaboration with partners, we have sought to make the most of our resources and to ensure that our contractors meet our business and customers' needs in the long term.

As we navigate through difficult times, we will keep in sight our goal of making a sustainable, positive impact to housing in the communities we serve. Doing so will ensure that we offer value for money both now, and in years to come.

Steve Woodcock
Chief Executive Officer

Our approach

Our approach

Statement

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 Value for Money Strategy

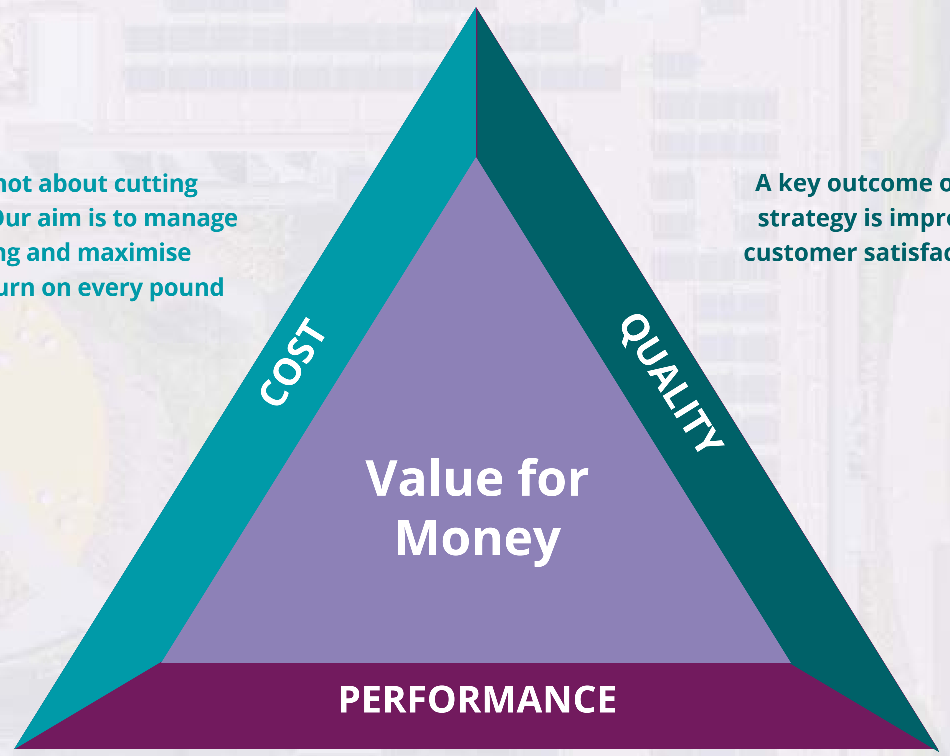
With the recent economic and operating challenges, VFM has become a central consideration in how we run the business. Not only does VFM inform and underpin our planning processes, but it also shapes our relationship with our customers, suppliers, and other stakeholders. A high-level summary of our VFM approach is to deliver upper-quartile sector levels of customer satisfaction, above sector average investment in new and existing homes while 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.

In 2023, the Board approved a revised Value for Money Strategy which was not only designed to meet our compliance obligations with the Regulator of Social Housing's Value for Money Standard but to continue to embed value for money within the culture of the business.

Our Value for Money Strategy outlines a nuanced approach to VFM which is designed to:

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

This is not about cutting costs. Our aim is to manage spending and maximise the return on every pound spent.



A key outcome of our strategy is improving customer satisfaction.

In our decision-making, we assess the impact of any investments across a range of performance areas.

The Value for Money Strategy supports the achievement of our Corporate Strategy by challenging us to achieve a cost, quality, and performance balance across every area of the business. The delivery of the Value for Money Strategy is supported by our Customer and Asset Management Strategies, which provide comprehensive frameworks to enable us to best understand, from a customer's perspective, what the optimal balance looks like and how best to deliver it in their homes.

Better understanding our customers makes us able to deliver upon the Value for Money Strategy's objective around encouraging a better customer journey and experience, which we hope will improve customer satisfaction levels and keep us aligned with the sector's upper quartile.

Governance and oversight

The Executive team work closely with our Board to ensure our resources are allocated in accordance with their shared priorities. The Board fully understands the importance of our business and the services we provide within our community and to our customers.

We believe our Value for Money Strategy reflects this understanding. 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's 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 – current and new.
- Support our customers to sustain their tenancies.
- Take a significant step towards becoming carbon neutral.
- Provide new homes to our local community.
- 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 of Social Housing, 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 2023).

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.

Setting ambitious VFM targets increases our capacity to deliver on our strategic objectives. But our Board also seek to balance those objectives; for example, for cost per unit our board-set target is for median performance, in recognition of their wish to support our customers' quality of life, invest in building safety, sustainability, and upgrading homes more generally.

Performance and achievements

Our performance and achievements

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

The values listed for our sector align with our Board's elected target for each metric. For example, our Board aims for at least sector median levels of reinvestment: therefore, the table presents the sector's median performance in 2022-23 (6.53%) whereas our target for social housing lettings operating margin is the sector's upper quartile (26%); so, the figure presented is the sector's upper quartile score.

These benchmarks can be compared with our peers' metrics (for the 2022-23 year) and B3Living's own performance in the financial year just closed (2023-24).

It is important to note that our 2023-24 data is being compared to the sector's median and our peers' performance from 2022-23, which means they do not include the full effects of the turbulent economic and operating environment. Therefore, we are expecting our 2023-24 performance to show a much stronger position when compared to the sector's and our 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.

	Board-set VFM targets	Sector Five-year average 2019-2023	Sector 2022-23	Peers* Five-year average 2019-2023	Peers* 2022-23	B3Living Five-year average 2019-2023	B3Living 2023-24
Value for Money Metrics							
Reinvestment	**Median**	6.53%	6.75%	10.65%	10.85%	11.80%	**5.63%**
New supply (social)	**Median**	1.60%	1.29%	2.43%	1.93%	2.85%	**1.01%**
New supply (non-social)	**Lower quartile**	0.00%	0.00%	0.00%	0.00%	0.00%	**0.02%**
Gearing**	**Upper quartile**	53.65%	53.89%	56.27%	57.61%	68.46%	**59.30%**
EBITDA MRI Interest Rate Cover**	**Median**	167.81%	128.54%	179.18%	144.33%	206.50%	**176.20%**
Headline social housing cost per unit (£k)	**Median**	3.98	4.62	3.79	4.35	3.99	**4.99**
Operating margin (SHL)	**Upper quartile**	29.95%	26.00%	28.51%	24.76%	44.34%	**43.99%**
Operating margin (overall)	**Upper quartile**	26.65%	22.98%	28.23%	25.52%	40.38%	**37.46%**
Return on Capital Employed (ROCE)	**Upper quartile**	4.22%	3.61%	3.57%	3.33%	6.02%	**5.07%**

*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 deliver a positive, sustainable change to housing provision for our customers and communities. We believe we can make the biggest impact in tackling the housing crisis within our communities by building more much-needed affordable homes and improving the quality of the homes under our management and the estates in which they are situated.

This aspiration has been adversely impacted during 2023-24 due to the sharp rise in interest rates which severely undermined the financial viability of new development opportunities, as well as the level of uncertainty within our cost base, weighing on our risk appetite. Our cautious approach has sheltered us from the worst effects felt by some housing associations over the last 18 months, be it from rising material costs, labour shortages or housebuilder failures.

As many other housing associations divert resource away from development to invest in existing homes, with the recent change in Local Housing Allowance coupled with improvements in our cost management, we believe that we are well placed to capitalise on the opportunities to tackle the housing crisis in our geography.

This prudent approach to delivering new homes has resulted in our reinvestment and new supply (social) performance falling to 5.63% and 1.01% in 2023-24 respectively. This is in stark contrast to our performance for these metrics during 2019-2023 of 11.83% (reinvestment) and 2.85% (new supply), which were sector upper decile levels of performance.

Yet the Board have been clear that they want B3Living to continue to play its part in alleviating the effects of the housing crisis in our geography, so we expect performance on these two metrics to rise in coming years as we deliver on our aim to start 400 new affordable homes between 2024-27.

To ensure this investment is sustainable, the Board have set sector upper-quartile VFM targets for operating margins and to manage our cost-per-unit to sector median levels. These objectives will allow us to produce strong interest coverage and Return on Capital Employed (ROCE) performance.

Another key control we utilise to ensure all the decisions we take are sustainable and will not impinge on long-term viability and financial resilience of the Group is our Financial Golden Rules (FGRs). These rules are designed to complement our VFM targets and provide a set of parameters to operate within. Performance against these rules is included within each set of managements accounts, budget setting and business planning reports, and, importantly, within our stress testing assessment. The use of the FGRs alongside the VFM targets ensures that the decisions taken today will not limit our ambitions for the future.

Our gearing position continues to be one of the highest in the sector at 59.30%, albeit it has dropped substantially over recent years (2019: 75.60%). While our gearing has improved, we have made a conscious decision to leverage our financial strength in order to keep doing all we can to tackle the housing crisis locally. Therefore we expect our gearing to continue to be between 55-65% into the mid to long-term. However, to support the levels of investment we are currently making in new and existing homes, we will aim to generate surpluses of around £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 43% (2023: 44%) against a covenant limit of 80% and our internal Financial Golden Rule limit of 65%.

Overcoming the Board's challenge

In 2023-24, the Board challenged the business to strengthen its approach to value for money, with a clear expectation that every pound needs to be spent effectively and that our costs had to be within the set budget, without any unsustainable short-term cuts being implemented. The achievement of this objective would provide the Board with a more solid foundation to increase their risk appetite towards investing more in the delivery of new much needed affordable homes and to improve the quality, safety, and energy efficiency of the homes we provide to our communities.

Between 2020-21 to 2022-23, our operating costs increased from £16m to £19.3m - a 21% increase. However, over the same period, rents increased by 8.5%, which resulted in falling surpluses rather than the increases forecast within our business plans. A key driver for the increases in our operating cost was the amount we had to spend on repairs and maintenance as we responded to significant changes within regulatory and legislative landscape, double-digit inflation levels, as well as the sector-leading voids standard we have introduced.

After two years of material overspends against the set budgets, the Board issued a clear directive that they wanted the 2023-24 spend to align with the set budget. In response, the business created a Finance and Property Services Working Group which was designed to promote a better understanding of how each team worked; for example, Finance learning about cost drivers and the Property Services team understanding which information the Finance team needed and why.

Through these open conversations, we developed an understanding of the weaknesses we had and what solutions we could implement to improve things. As we sought to rationalise workstreams and bring in additional performance monitoring tools, the group worked to improve commitment accounting visibility for property managers to enable them to better understand their team's efficiency and effectiveness.

All these themes were addressed in the year, reinforcing the value cross-organisational working can add, especially in respect to generating good quality data to enable greater performance or when looking to share the inherent skill sets within each department.

The working group, including the Chief Executive, Executive Director (Finance) and the Executive Director (Operations), met every month, and a project accountant was appointed to deliver the majority of the improvement works. Through enhanced budget management and monitoring, coupled with VFM analysis on certain aspects of spend, the repair and maintenance spend for 2023-24 was delivered in line with the set budget of £8.2m, which was c. £1m lower than the 2022-23 spend.

With the enhanced levels of assurance this has given the Board, investment budgets have increased significantly in the 2024 Business Plan. This boost in investment in improving the quality, safety and energy efficiency of our properties is expected to push our cost per unit performance away from our VFM target of sector median in the mid-term.

However, against the backdrop of the recent rent increases in 2023-24 and 2024-25, the Board were keen to demonstrate to our customers that we were committed to investing in their homes and demonstrate that we were listening to the priorities they expressed in our rent consultations. Furthermore, with more solid foundations, the Board approved a business plan that allowed for 400 new homes to be started on site over the next three years – this level of investment should see B3Living comfortably exceed our sector median target for reinvestment and supply of new affordable homes.

Case study: Efficient savings, effective reinvestment

Identifying areas where we can improve our efficiency and generate cash savings is a key feature of our value for money approach. In 2023-24, our Property Services team was targeted around monitoring inefficiencies and focusing on improvement areas which led to an increase in first-time fixes. Procuring suppliers that provided services at competitive rates was an important element of the identifying saving areas exercise. Additionally, our new Finance and Property Services Working Group became a key component in our efforts to better understand our cost drivers and reduce the causes of cost variances.

COST

Savings of £3m across Property Services meant that we were able to spend in other capital programmes. Out of that amount, c. £400,000 was allocated to bring forward our cyclical external painting programme, c. £1m to accelerate boiler replacements and c. £1.6m to replace roofs. Through this, we were able to maximise the services we offer while remaining within our budgets.

QUALITY

Though repairs make up a large percentage of our spending, proactively maintaining and repairing our properties has contributed to our upper quartile levels of customer satisfaction. We have been able to maintain customer perception results for our repairs service above the sector upper quartile for a number of years, which reiterates our consistency and commitment to providing quality homes.

PERFORMANCE

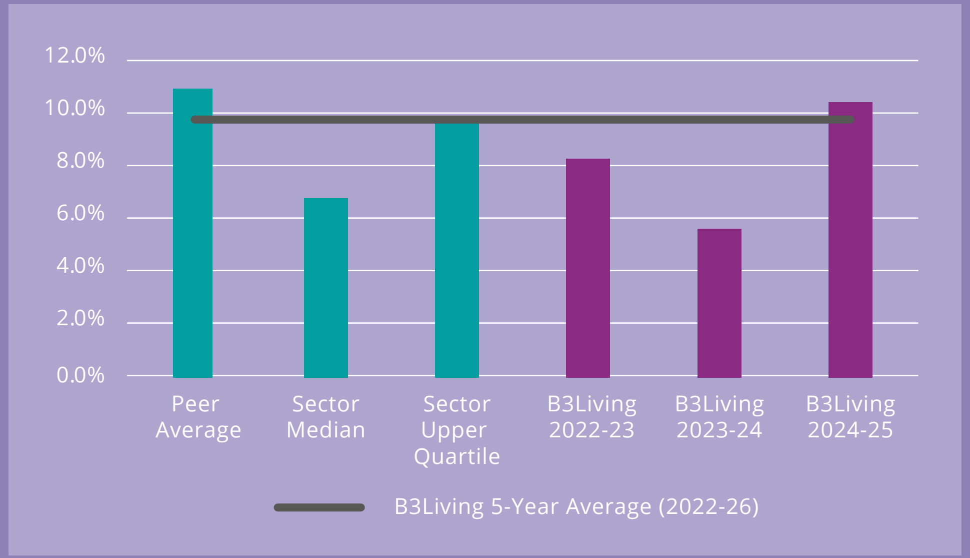
Investing into the fabric of our properties has a direct impact on their energy efficiency and overall longevity. Our goal is to ensure that our homes offer customers a good quality of life today. But we also want properties to be future proof and durable. Customers typically live in the same property for many years, so we want them to be able to enjoy their home in the years to come, despite the potential effects of extreme weather conditions. A well-performing housing stock will contribute to our sustainability targets and generate further savings in the long term.

How we compare

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 2023 Global Accounts. Each chart also includes B3Living's rolling and predicted five-year average, which covers the period of April 2021-March 2026.

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.



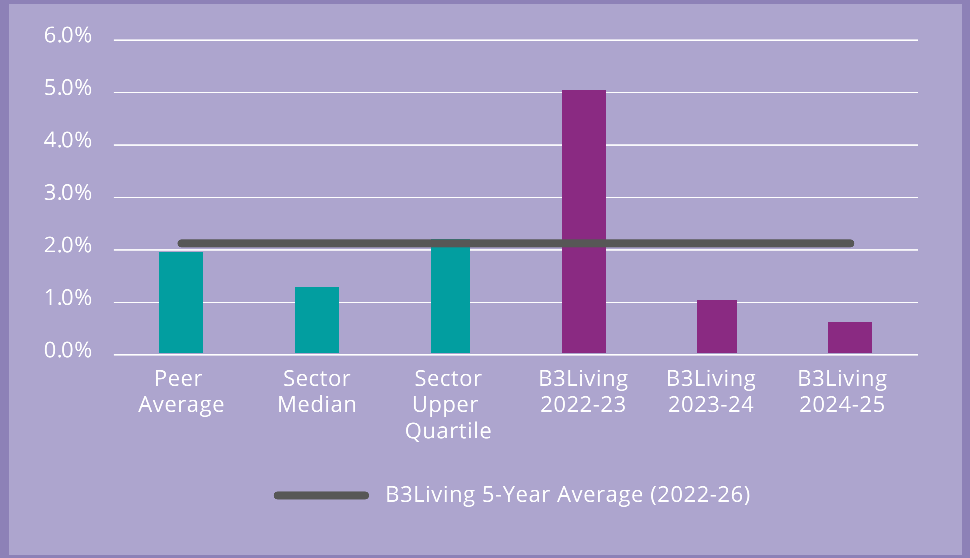
Reinvestment %

Our commitment to delivering more affordable homes within our local geography is reflected in our five-year average performance.

However, with the recent volatility in the housebuilder contractor market, the high interest rates that are adversely impacting on development viability, and uncertainty within our cost base, the Board revised its VFM target from sector upper quartile to sector median.

With the successes realised in our cost base management during 2023-24, our latest business plan has made provisions to take our reinvestment levels towards our peers' performance in 2022-23 of around 10% per annum. That said, our ability to ramp up investment in new homes is predicated on the right number of good development opportunities coming forward.

To ensure this increased level of investment in new and existing homes is sustainable, the Executive and Board are working with the business to maintain the housing association's surplus at around £10m per annum. In 2023-24, the Group only invested around £11.4m in the provision of new homes and over £7.1m in existing properties. This is expected to rise sharply in 2024-25 to £27m in new homes and £11m in existing homes.

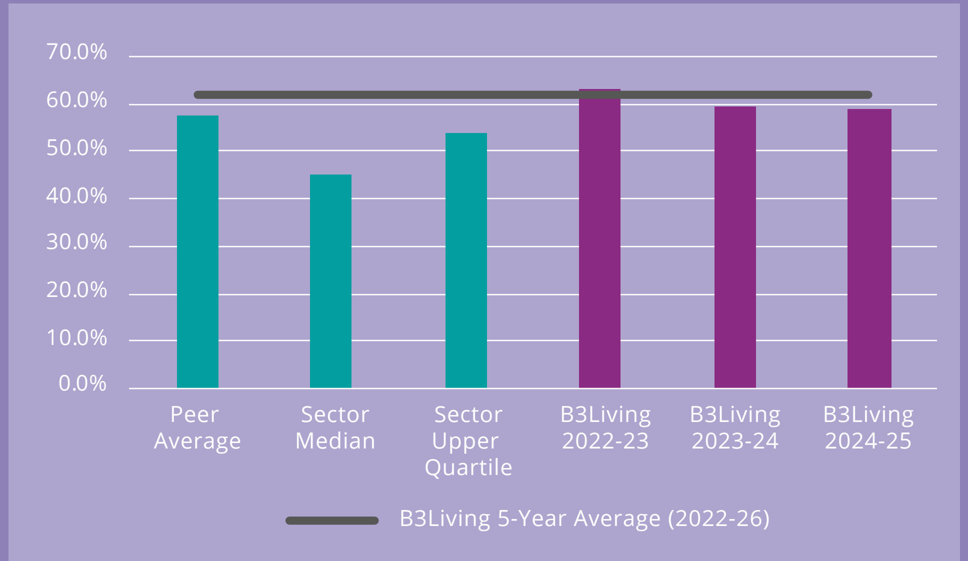


New supply of social housing units

The drop off in reinvestment levels during 2022-23 and 2023-24 is reflected in our supply of new social homes performance during 2023-24 and 2024-25. In 2022-23, we delivered a record number of new homes (256), as our largest scheme to date, Cheshunt Lakeside (195 homes) completed. This performance has lifted our five-year average above our peers, and this is important context when reviewing our outturn for 2023-24 (1%) and our forecast for 2024-25 (0.6%).

With our expected increase in new home investment during 2024-25 and 2025-26, we expect our future performance to exceed the Board's sector median target (1.3%) and align us with our peers. This rise in development output should be considered against a backdrop where many housing associations are reducing their investments in new homes to divert resources to existing homes.

We have been able to continue following a balanced approach towards investing in new and existing homes, due to a long history of investing in our existing homes at upper sector levels, and this commitment will continue.



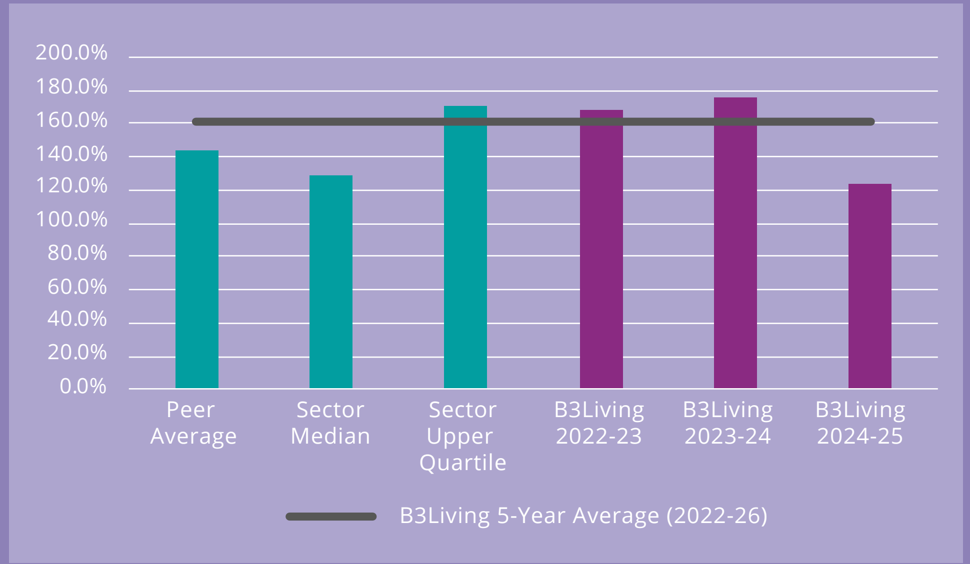
Gearing %

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

In the year, our debt decreased marginally from £210m to £205m. This fall in our debt position is reflective of our reduced level of investment in the provision of new homes during 2023-24, but also is due to the successful delivery of our c. £9m sales programme and our cost management improvements.

The Board understands that we are operating near 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. Therefore, it is our intention to invest in new and existing homes at sector median levels, and over, if capacity allows.

To deliver this level of investment and manage our gearing position within a range of around 55-65%, we will need to keep generating surpluses of around £10m a year as well as working with Homes England and other government agencies to secure grant funding.

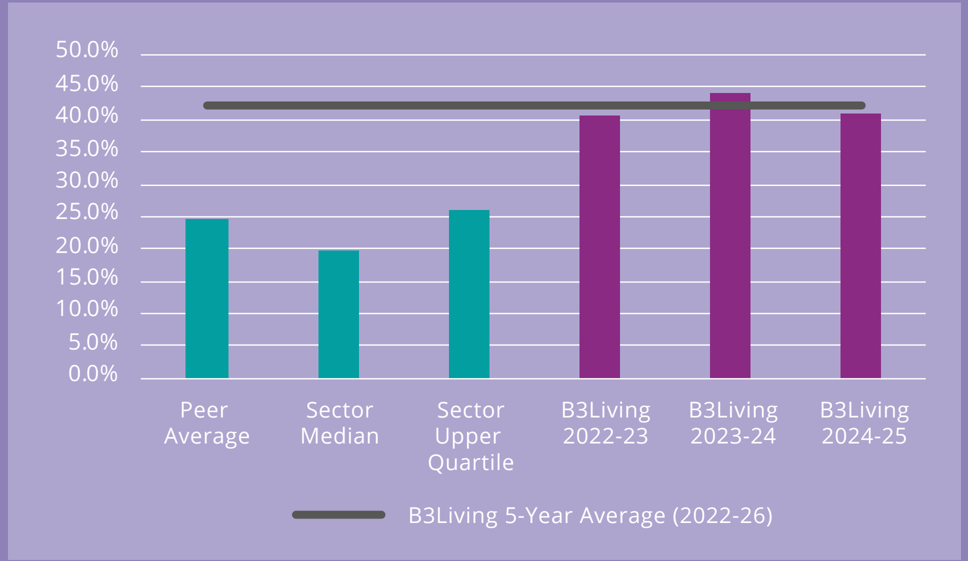


EBITDA MRI interest coverage

EBITDA MRI (Earnings Before Interest Tax Depreciation and Amortisation with Major Repairs Included) is a measure of the Group's ability to cover interest commitments from the cash flows generated by the core business. EBITDA MRI in 2023-24 was 176%, which is markedly stronger than our peers' performance in 2022-23 (144%).

As reported in our VFM assessment last year, we had expected our EBITDA MRI performance to fall sharply during 2023-24 to 2024-25, to around 140% and 130% respectively, caused by the delivery of our £5.9m Social Housing Decarbonisation Fund (SHDF) programme which aims to improve the energy efficiency of 263 homes. However, in 2023-24 we delivered around £1.5m of decarbonisation spend against a budget of £2.4m, and this is partly driving the better-than-expected interest cover performance.

With an expectation that this programme would cause interest coverage performance weakness, we have agreed with funders to carve this investment out of our covenants. Therefore, this programme will not cause any compliance issues.

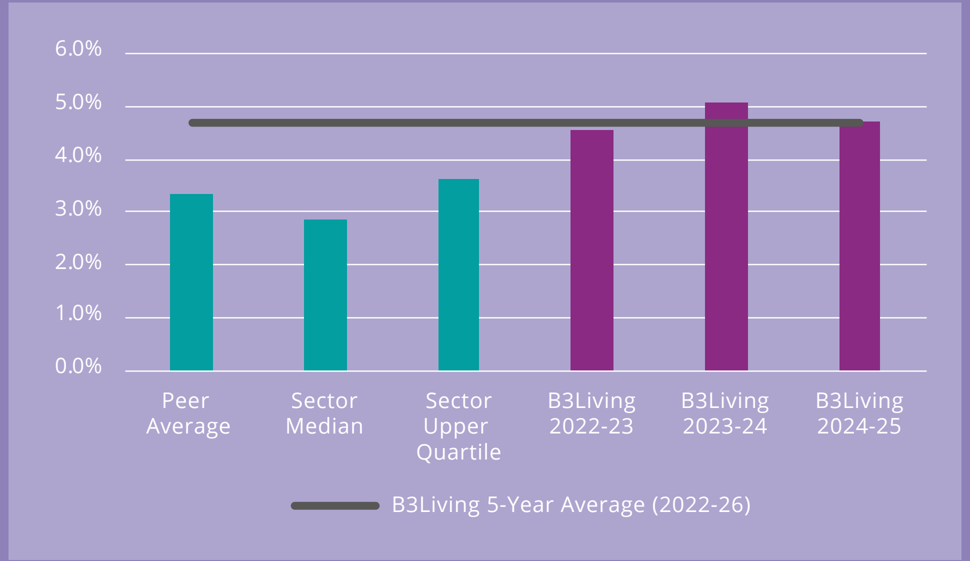


Social housing operating margin %

After the five-percentage point drop in social housing operating margins between 2021-22 (45%) and 2022-23 (40%), margins have stabilised during 2023-24, due to, in part, the successful cost management work in the year.

It is expected that margins will remain around 40% into the mid-term, which bucks the recent sector trend of tighter margins. This is due to heightened levels of repairs and maintenance spend, on such things as fire safety, damp and mould, etc. The stabilisation of our margins has been helped by the development programme delivering around 260 new homes during 2022-23, which is a 5% increase in our stock.

We are comfortably outperforming our peers and the sector's upper quartile, which not only reflects our strong operating cost control but the fact that we have a high percentage of affordable rented tenure homes within our stock and our proximity to London. Performance is in line with board expectations and, despite current headwinds, margins are forecast to remain strong.

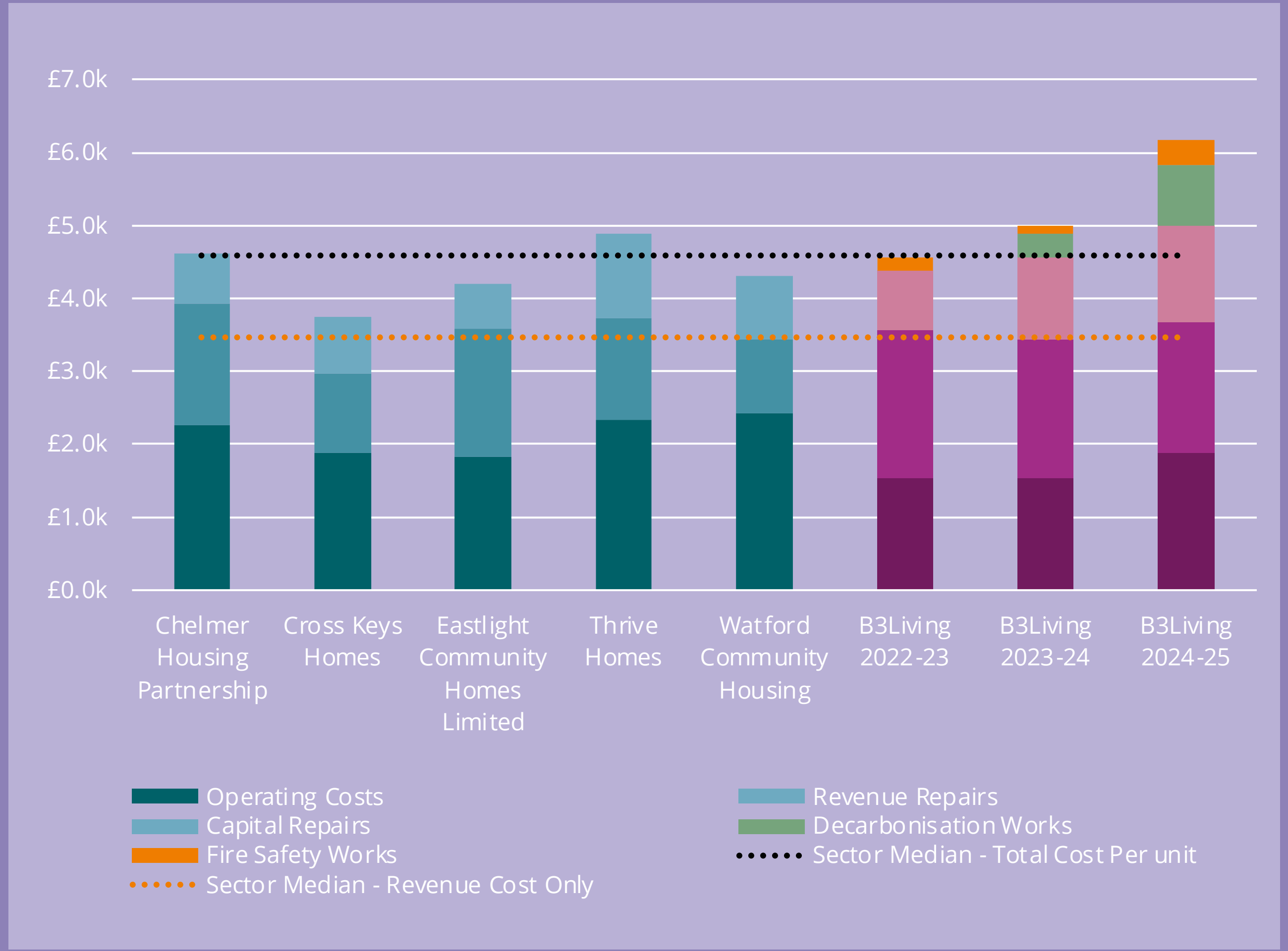


Return on capital employed %

We are currently outperforming our peers and the sector's upper quartile. As a housing association with a gearing position that is near 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 level.

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 we are willing 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 a solid cost-per-unit performance, hitting our VFM target of sector median (£4.57k) in 2022-23, albeit this was slightly more than our peers' average (£4.35k). Our operating costs are forecast to remain comparable to the best of our peers at c. £1,880 per unit by 2024-25.

Our low operating costs are a legacy benefit from the decision the Board took in response to the four-year period of rent cuts (2016-20). During this period, we made significant operational cost savings by reducing our head count and investing in new IT 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 on overall performance.

The Board's commitment to providing good quality, safe and energy efficient homes means that we spend around £500-£600 per unit more on revenue repairs than our peers, and a further £200-£300 per unit more on capital repairs. A majority of this additional revenue spend has been caused by two key drivers: firstly, the amount we have needed to spend on customer and building safety works; and secondly, the introduction of our sector-leading voids standard, which involves decorating and carpeting each property before letting. Aside from the fire safety works, which are predominantly fire door replacements, we believe that these costs have peaked and will fall in future years.

Case study: Restructuring our repairs service

As a business, we made the strategic choice of sourcing the majority of our repairs work from our own Direct Labour Organisation (DLO) as opposed to an appointed third-party supplier. In the last year, our DLO was restructured to improve its responsiveness to customer needs. A key part of the restructure involved moving existing DLO operatives from our voids team to our day-to-day repairs team to increase the number of multi-skilled trade operatives available for reactive repairs.

COST

Our medium to long term objective is to lower the average cost of a repair job while improving both the quality of the service we offer, as well as our performance as a team and business. Having multi-skilled operative roles is more cost-effective than employing multiple operatives to carry out specific roles. At a larger scale, the DLO saves the business money by removing the profit margin and VAT third parties will charge. Savings from a more efficient management of DLO activities allow for spending in different areas of the business.

Through this, the number of work orders passed to third–party suppliers were reduced - particularly jobs involving plumbing and carpentry. Employing a DLO manager to oversee and tighten the focus of the DLO's operations was also a significant component of the restructure in addition to clearer designation between the supervisor and operative roles. On top of cost, quality and performance benefits, an advantage of having full control of the DLO operations is that we can focus on creating social value locally by providing training and employing people from the area.

QUALITY

Choosing to have our repairs service in-house has meant that we are able to control the standard to which works in our customers' homes are carried out. Though we now complete a higher volume of works, since the restructure we have achieved consistently high customer satisfaction rates and positive feedback on the speed and quality of our operatives' service. This is supported by our new requirement for supervisors to post-inspect jobs to ensure they meet our standards.

PERFORMANCE

Our performance around repairs has become more efficient due to the changes in management structure implemented. Having a DLO manager has allowed for clearer expectations for supervisors and operatives which, in turn, has resulted in higher rates of first-time fixes and fewer follow-on-jobs. Addressing issues in our properties in a more proactive manner means that we can reduce the probability of requirements becoming bigger, increasingly expensive and more difficult to manage. That way, we are able to care for and preserve our homes for future generations.

Moreover, to manage our cost base, the Board has asked the business to review its voids standard to ensure maximum VFM is achieved and we aren't diverting too much of our finite resources away from other key areas of the business, such as tackling our carbon footprint.

Comparison against our peers clearly shows how our decarbonisation ambitions are pushing up our cost per unit. The main driver for this expenditure is the delivery of our Social Housing Decarbonisation Fund (SHDF) programme. This two-year programme is expected to increase the energy efficiency of around 263 homes following a fabric first approach. After the SHDF programme is delivered, we will only have around 100 homes rated EPC D or lower; it is the Board's ambition to bring these up to EPC C by the end of 2028.

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 sectors median and our peers.

It is important to note that our 2023-24 data is being compared to the sector's median and peers' performance from 2022-23 therefore, these do not include the full effects of the UK's recent high inflationary environment and the sector's push to invest more in existing homes and improving customer experiences. So, we are expecting our 2023-24 performance to show a much stronger position when compared to the sector's and peer's equivalent period performance. Having robust revenue cost controls allows for stronger operating margins and interest coverage, along with greater surpluses and investment capacity, which means we can sustainably invest in new and existing homes over sector median levels.

VFM metrics

B3Living's value for money metrics

Along with the Regulator's metrics, our Board also monitors its own VFM 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. In December 2023, the Board modified our VFM metrics to ensure they are more focused on customer experiences and perceptions of us. In addition to establishing the metrics, the Board have set challenging sector-leading targets. The achievement of these targets underpin our Better Futures Strategy, our budget setting and our business planning processes.

	B3Living 2021-22 Actual	B3Living 2022-23 Actual	B3Living 2023-24 Actual	B3Living 2024-25 Forecast	Sector Median	Upper Quartile	Board VFM Target
Value for money metrics							
Customer Perception - B3Living Services	86.3%	85.4%	84.6%	82.0%	75.0%	80.0%	Upper Quartile
Customer Perception - Repairs Service	83.0%	84.0%	84.9%	82.0%	76.0%	81.0%	Upper Quartile
Customer Perception - Trust in B3Living	n/a	n/a	75.4%	72.0%	n/a	n/a	Upper Quartile
Customer Perception - Quality of Home	86.6%	88.1%	82.4%	79.0%	71.0%	78.0%	Upper Quartile
Customer Perception - Safe	n/a	n/a	83.2%	84.0%	78.0%	83.0%	Upper Quartile
Customer Perception - Communal Areas	n/a	n/a	70.9%	72.0%	66.0%	72.0%	Upper Quartile
Customer Perception - Rent Level	88.1%	87.7%	84.3%	85.0%	82.0%	86.0%	Median
Overheads as a % of turnover	13.2%	11.1%	16.4%	14.5%	14.9%	12.0%	Median
% Spend from Framework agreements	n/a	63.0%	74.0%	85.0%	n/a	n/a	85.0%

Key

Board VFM target

Customer satisfaction in context

We strive to generate genuine cash savings across the business so we can do more for our customers. We seek to generate these cashable savings by tackling ineffective expenditure, increasing productivity by improving processes and/or better utilising technology, and maximising procurement gains. These principles are central to how we strive to achieve the optimum balance between cost, quality, and performance across the business.

Since 2020, we have embarked on a journey to better understand our customers and their expectations of us as a landlord and the services we provide. This learning has enabled us to evolve our thinking, our services, policies, and strategies, to ensure we put the customer first in everything we do. We believe our customer focus coupled with the upper sector levels of investment to improve the quality, safety, and energy efficiency of the homes we provide have allowed us to realise sector-leading levels of customer satisfaction.

The B3Living VVFM metrics table shows that, since 2021-22, our overall customer satisfaction performance has been very consistent at between 85-86%. This consistency shouldn't be seen as stagnant performance, especially when we consider the headwinds B3Living and our customers have faced over that period, be that: the recent negative press towards the sector; the effects of the pandemic on our service delivery; the sea change in our operating environment (for example, the heightened role of the Ombudsman, the requirements from the Building Safety Act, Awaab's Law, the Social Housing Act, the new Consumer Regulations, etc); plus an economic environment which pushed inflation into double digits and rents up by 7%.

With all these headwinds, it is not surprising that many housing associations have seen their customer satisfaction levels fall. For example, in 2020-21, the sector upper quartile performance for overall customer satisfaction was 91%, in 2022-23, this fell to 85%, and in 2023-24 this fell again to 82%.

To achieve a performance of around 85% is excellent. That said, the Board have made it clear that we have not finished with our customer journey, and we still need to continue to do more. They have demonstrated this by putting "excellent customer experiences" as a central theme of the 2024-27 strategy.

Excellent customer experiences

To improve our services, we recognise that we need a strong and transparent relationship with our customers. We have developed a network of over 260 engaged customers, and we continue to improve our complaints and continuous improvement processes. For example, we have invested in our customer insight capabilities, including additional transactional surveys and the co-production of key strategies and policies with customers, and in 2024-25 we will bring in two complaints resolutions officers into the business.

These examples demonstrate that we are committed to:

- Understanding our customers better.
- Ensuring our services meet expected standards.
- Responding efficiently to complaints.
- Utilising technology to improve communications.
- Tackling any negative stereotypes in our community around social housing.

With these actions, along with embedding our Customer Strategy and Customer Ethos, we aim to continue to meet our customer satisfaction target of sector upper-quartile into the future.

Investing into safe, quality homes

We are pleased to see that over 84% of our customers believe their rent level represents value for money, especially considering that around 25% of our rented homes pay affordable rent, which is generally more expensive than social rented, and in 2023-24 all rents increased by 7%.

During the rent consultation with customers regarding the 2024-25 rent increase of 7.7%, our customers were clear that if they had to pay more that they wanted us to invest more in their homes. The Board were keen to reflect these expectations in the 2024-25 budget to ensure our rents continue to offer value for money. Therefore, the 2024-25 budget includes an £11m provision for the improvement of the quality, safety, and energy efficiency of our homes. This investment equates to £2.5k per home; according to the 2023 Global Accounts, only five out of 199 housing associations invested more than this in their existing homes.

While the Board want to invest more in our existing homes, they are still keen for us to get VFM for every pound we spend. To achieve this, the Board felt it was important for the business to fully utilise its procurement function. Tendering can be an excellent opportunity to assess what the business and our customers want from our contractors, helping us to find the optimum balance between cost, quality, and performance across the business.

The business created a procurement function in 2021 and, since then, we have significantly increased the amount we spend through contracts or framework agreements, be it in our own name or via a third party. Therefore, the Board have set a VFM target for 85% of our expenditure to be made via a contract or framework agreement.

We're investing
£11m
into improving homes

over 84%
of our customers believe their rent level **represents value for money**

Investment equates to
£2.5k
per home

Case study: New alarm systems pass savings back

Engaging with our suppliers is often a good space to identify saving opportunities. Upon developing a clear understanding of laws and regulations around VAT, we negotiated with our digital telecare and Technology Enabled Care provider, Appello, to agree that works to aid our disabled customers would qualify for zero rating of VAT. We were able to apply this VAT exemption to four of our Independent Living schemes which generated savings that trickled down to our customers' pockets. As well as savings, the new alarm systems resulted in great improvements into the quality of service we can offer our customers by giving them functionalities that ease their security concerns and allow them to receive faster assistance in case of an emergency. Though they are a new technology for B3Living, exploring the wide range of functions the alarm systems can perform has allowed for greater efficiency within our Independent Living team.

COST

The new alarm installation in our Independent Living schemes cost c.£200,000 at 0% VAT, which meant that we generated c. £40,000 in savings. These could be passed directly onto our customers through decreased service charges. Moreover, we were able to negotiate a fixed rate for 10 years which means that customers will not have to pay increased charges for the entire lifespan of the alarm system. Savings that trickle down to customers allow us to cultivate a stronger relationship with them and reinforce that, as a social business, we prioritise affordability without compromising on the quality of our services.

QUALITY

Updating our alarm systems offers customers a higher standard of safety. With the new features customers now have visual access to their front doors, can hold video or audio calls with other residents, have access a 24-hr emergency call centre and more. It also comes with a pendant that can be worn around the neck or wrist to call for assistance and has an option to detect falls. We know that safety is an important component of a customer's wellbeing in their home, and thus their overall satisfaction with our service, but these features also enable individuals who may otherwise feel vulnerable or disempowered. So, we were glad that this new system offers has been welcomed with positive feedback from our customers.

PERFORMANCE

The new alarm system's comprehensive functionality contribute to improved communication between our colleagues and customers. Its cloud-based format allows for speech broadcasting, off-site communication with customers, reporting on usage, etc. By automating tasks that were previously done manually, the system allows our Independent Living team to better allocate time and resources across all their schemes. Moreover, its online features allow for us to be prepared for external events or unpredictable challenges (such as another national lockdown) without a total compromise of our service delivery.

VFM into the future

Value for money into the future

£90m
investment in **new homes**
(2024-27)

2.4%
supply of new **social homes**
(by 2027)

£26m+
investment in **existing homes**
(2024-27)

100%
homes **EPC C+**
(by 2028)

With notable examples in our core operating margins over 40% and healthy interest coverage, our 2023-24 financial results include several highlights that reflect our commitment to VFM. Our Better Futures Strategy recognises that cost management is key to us protecting financial resilience while doing more for our existing and future customers.

Our Board understand that reducing spend in certain areas could adversely impact customer experiences. Therefore, we aim to achieve our cost forecasts by tweaking or reallocating our expenditure to ensure that it is as effective as possible and that it contributes proactively to our strategic objectives.

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

How we're saving

We expect to deliver savings through:

- Challenging how we work to **improve performance** and **reduce wastage**.
- Utilising IT to **improve services, data quality** and **communication**.
- The delivery of our **new Asset Management Strategy**, including potential disposals.
- The delivery of our **improved approach to procurement**.
- The **provision of new homes** and **seeking to manage homes for others**.

	Peer average 2022-23	Sector median 2022-23	Sector upper quartile 2022-23	Board VFM target	B3Living Actual 2022-23	B3Living Actual 2023-24	B3Living Forecast 2024-25	B3Living Forecast 2025-26	B3Living Forecast 2026-27
Value for money metrics									
Reinvestment	10.85%	6.75%	9.49%	Sector Median	8.15%	5.63%	10.37%	10.07%	8.08%
New supply (social)	1.93%	1.29%	2.23%	Sector Median	4.98%	1.01%	0.58%	1.66%	2.41%
Gearing	57.61%	45.18%	53.89%	Upper Quartile	63.28%	59.30%	58.74%	60.63%	60.79%
EBITDA MRI Interest Rate Cover	144.33%	128.54%	170.88%	Sector Median	168.57%	176.20%	124.10%	151.78%	162.09%
Headline social housing cost per unit (£k)	4.35	4.62	5.94	Sector Median	4.57	4.99	6.17	5.50	5.40
Operating margin (SHL)	24.76%	19.89%	26.00%	Upper Quartile	40.55%	43.99%	41.04%	40.66%	42.03%
Operating margin (overall)	25.52%	18.20%	22.98%	Upper Quartile	34.32%	37.46%	37.53%	41.01%	40.55%
Return on Capital Employed (ROCE)	3.33%	2.84%	3.61%	Upper Quartile	4.54%	5.07%	4.71%	4.46%	4.73%

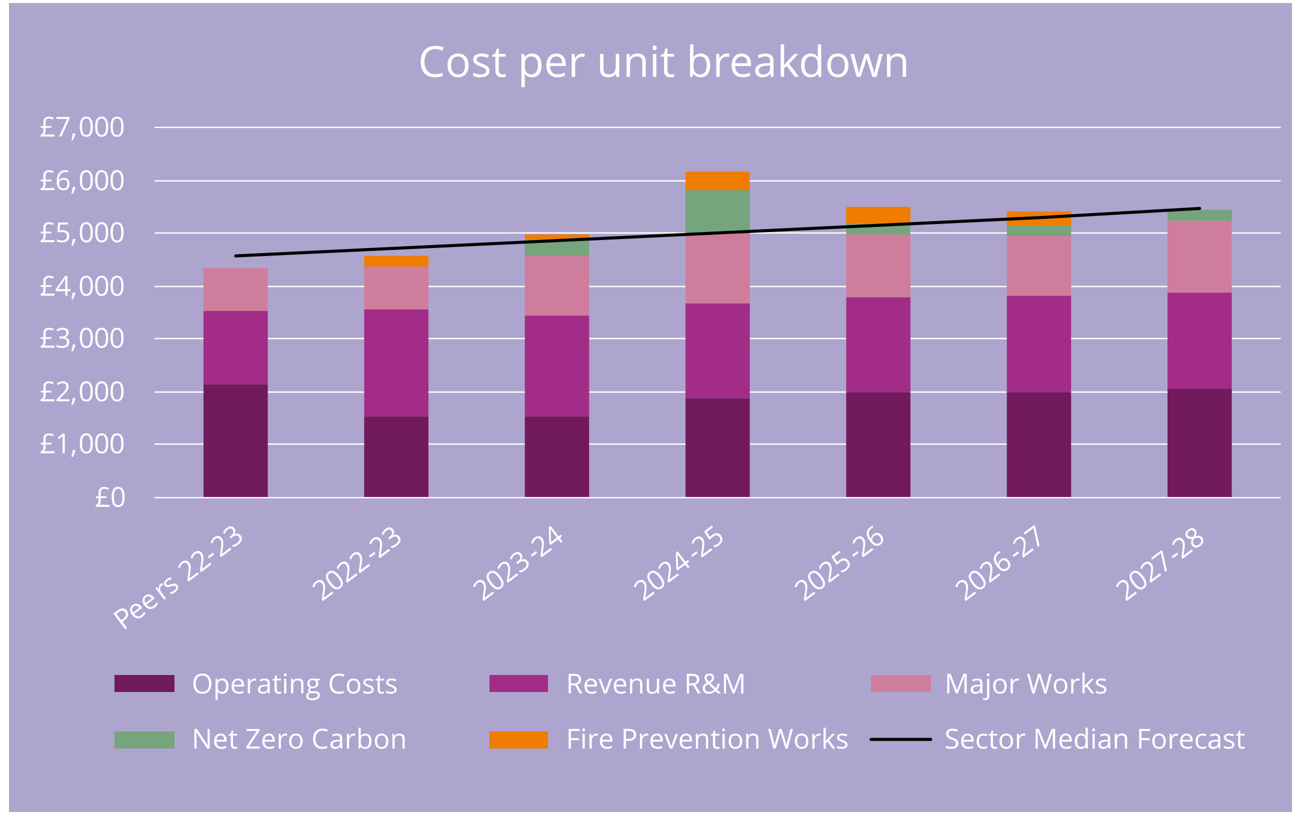
The table above shows our performance against the Regulator's value for money metrics with a comparison with our peers. It shows that our reinvestment levels have been lower than expected in 2022-23 and 2023-24. However, with a challenging market for housebuilders and the high interest rates adversely impacting on development viability, the business took a cautious approach towards the provision of new homes, especially with the level of cost uncertainty we were experiencing.

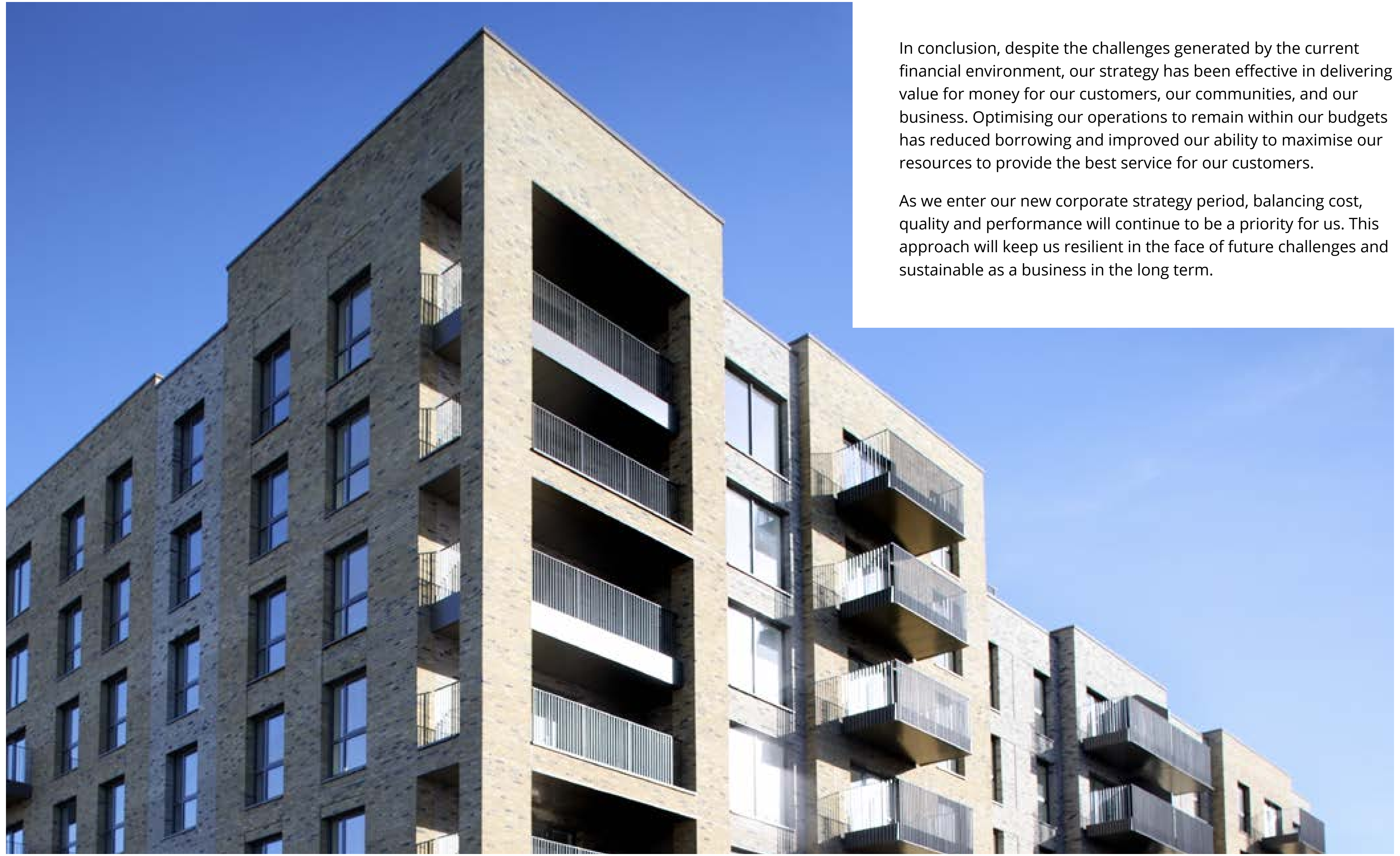
With our costs better under control, the Board feels more emboldened to increase our investment in new and existing homes. Between 2024-27 we plan to invest c. £90m in the provision of new homes and approx.. £27m improving the quality, safety, and energy efficiency of our existing homes, with 2024-25 alone set to see us send c. £11m on home upgrades for our customers.

This level of investment will result in us outperforming our VFM target of sector median for reinvestment and take our supply of new social homes to over 2.4% by 2026-27. But such levels of investment are only sustainable if we continue manage our cost base to generate c. 40% social housing operating margins.

As we deliver our £5.9m decarbonisation programme to improve the energy efficiency of 263 homes, our forecast EBITDA MRI performance is temporarily expected to dip to around 125% in 2024-25. However, once the programme has been delivered, our predicted performance returns to a level well over sector median and our peers' average.

A key efficiency metric is operating cost per unit. The table shows our cost per unit increasing from c. £4,570 per unit in 2022-23 to c. £6,170 per unit in 2024-25. The chart below shows the breakdown of the five key cost per unit components, alongside a comparison of the sector median forecast – based on 2022-23 outturn increasing by 3% per annum – and our peers. The chart shows that during 2023-24 to 2025-26 our cost per unit is likely to be significantly over our sector median target, however, the key cost drivers such as decarbonisation and fire safety are expected to decline into the mid-term once we finish replacing all our fire doors and bring all our homes to EPC C by 2028. The chart below shows that once these costs have receded, we expect to align with our sector median target by 2027-28.





In conclusion, despite the challenges generated by the current financial environment, our strategy has been effective in delivering value for money for our customers, our communities, and our business. Optimising our operations to remain within our budgets has reduced borrowing and improved our ability to maximise our resources to provide the best service for our customers.

As we enter our new corporate strategy period, balancing cost, quality and performance will continue to be a priority for us. This approach will keep us resilient in the face of future challenges and sustainable as a business in the long term.

www.b3living.org.uk

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