

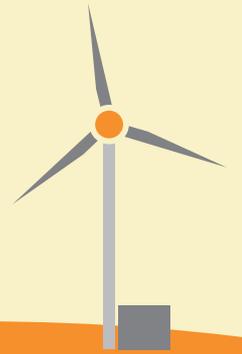


**southwestern  
housing  
society**

**Delivering More**

# **BUSINESS PLAN**

**2018 - 2023**



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OUR VISION

**DELIVERING  
MORE**

OUR MISSION STATEMENT

**TO PROVIDE QUALITY  
AFFORDABLE HOMES  
AND SERVICES THAT  
DELIVER VALUE FOR  
MONEY**

## **OUR VALUES**

We recognise that to deliver effectively all staff, directors and residents need to hold a set of shared principles that determine the way we behave towards and with one another. Our values are:

### **R**ESPONSIBLE

We will take ownership for ourselves and the work we do.

### **E**THICAL

We will deal honestly with everyone that we do business with.

### **S**UPPORT

We will support one another to achieve our goals.

### **P**ROFESSIONAL

We will act professionally in every interaction.

### **E**QUALITY

We will always behave fairly and respectfully.

### **C**HALLENGING

We will challenge ourselves to deliver more every day.

### **T**RANSSPARENT

We will act openly and be clear with ourselves and others.

We have clear goals and aspirations and are aiming to be a successful company where our customers are pleased to receive our services, our staff want to work for us and our partners choose to work with us.

## 2. EXECUTIVE SUMMARY

### INTRODUCTION

South Western Housing Society is a not for profit organisation that builds homes and provides services for people who are unable to access the market. To achieve this we access grant and other subsidy where available. The Board has opted to build a De Minimis number of homes for open market sale, where it is reasonable and appropriate to do so, and to further the core aims and charitable objects of the Society. Our vision sets out to deliver more: to build homes, maintain our assets, employ skilled and motivated people, to be efficient, effective and to add value.

### THE ORGANISATION

The Society was founded in 1944, and owns and manages homes for rent and homes for shared ownership in the counties of North Somerset, Somerset, Devon, Dorset, South Gloucestershire and Wiltshire. As at 31 March 2018, the Society's stock amounts to 667 properties, an increase in the last three years of nearly ten percent. In addition, there are 76 units in the pipeline, which reflects the organisation's growth aspirations. An independent Board of Directors governs the Society. The Society operates across a wide geographical area and our focus is on rural and market towns in the South West. The Social Housing Regulator (formerly the Homes and Community Agency), is the Society's regulator. While the organisation owns less than 1000 units, it is governed by light touch regulation and deemed low risk.

### THE MARKET

The Society continues to operate in a market place that is universally accepted, both politically and socially, to be broken. Demand outstrips supply, house prices are beyond the reach of many first time buyers and private renting has become the second form of tenure after home ownership for the first time since the mass construction of council housing took place in the 1950s, with social/affordable renting slipping into third place.

There has been a recognition that government subsidy needs to be flexible in order to meet need, which offers opportunities for the Society to seek additional funding for schemes that would otherwise be unviable.

The market is a crowded space in respect of attracting first time buyers or those on the threshold of affordability. Large housing associations are building more for open market sale, with particular offers aimed at the same client group that the government is targeting for Help to Buy, which is potentially the same client group that may access shared ownership or products that the Society may offer. Close attention is paid to the range of offers that compete with what the Society is looking to deliver, in order to avoid vulnerability in a pro-cyclical environment that could adversely affect reserves and revenue forecasts in the short term.

The Society is committed to achieving a level of cross-subsidy from within its own activity that will enable it to remain building some homes for a subsidised rent whilst increasing our shared ownership offer to prospective purchasers. Current trends show house prices levelling out, with some dropping in parts of London and the South East. This often has a trickle effect on the South West and therefore the Society's Board adopt a prudent approach to the building of open market units for cross-subsidy, to ensure it continues to operate on a robust financial footing. We will continue to position ourselves as a specialist provider of rural and market town homes, offering smaller developments that ensure sustainability and community integration. This enables us to operate alongside large housing associations that build for scale as opposed to in competition with them.

## SERVICES

The Society provides a full range of property management services to tenants and residents living in our properties. This includes providing a responsive service for repairs and maintenance, cyclical programmes of maintenance to future proof our assets and implementing planned programmes of work to replace major components.

The Society also constructs and develops homes for rent or ownership that are subsidised to enable people to access a secure and safe home where open market options are not available to them. This is achieved through working with Local Authority partners, the government regulator, and local communities to identify suitable sites and funding to deliver such schemes.

Among plans for the future are; an aspiration to continue to develop additional homes, to seek a like-minded merger partner, and to undertake a review of our existing operating systems to achieve optimum efficiency and with a view to driving down operating costs wherever possible

### 2.1 OBJECTIVES

Our key strategic objectives are:

- We will invest in, maintain and review our existing assets to ensure they work for us
- We will grow our housing stock where there is demand both now and in the future
- We will invest in our staff and board to secure positive outcomes for our residents
- We will develop partnerships that support our approach to sustaining communities

### 2.2 KEY TO SUCCESS

Our success of the past 74 years lies in our consistent approach to quality service, our commitment to recruiting and retaining qualified and committed staff, and our governing body having a clear vision for the future that puts people first and sound financial management at its core.

## 3 INTERNAL ENVIRONMENT

### 3.1 CONTEXT

The Society is a Community Benefit Society, registered as an exempt charity, regulated by the Social Housing Regulator and the Financial Conduct Authority. We are in a strong financial position and retain a capacity to develop new homes. We are members of the Partnership South West consortium, a group of housing associations co-ordinated by Livery and have a social housing grant allocation up to 2021 for 35 shared ownership homes. The Society has a strong appetite for growth, though not at the expense of a sound financial base. A combination of stress testing and risk appetite assessment ensures appropriate controls are in place to maintain the balance between aspiration and good business operations. The Society secured £10m of funding for additional development in 2017 and has in place a strong treasury management strategy that supports our focus on growth.

The planned and major works programme delivery ensures assets are maintained to a high standard. In 2017, the Society completed a wholesale stock condition survey of its properties and is currently reviewing the thirty -year component replacement programme to ensure best fit with the financial business plan. Year on year the organisation invests upwards of 12% of turnover on planned and major works. This reflects the commitment to maintaining existing assets and ensuring tenants have quality accommodation to live in. We are particularly proud of our track -record in replacing outdated heating systems with renewable forms of energy that will benefit both the environment and reduce tenant's fuel bills at the same time. This remains a key commitment on the part of the Society.

Tenant satisfaction with the service remains high, and additional resource has been invested that gives extra time to tenants who may be struggling because of welfare reform and recent increases in cost inflation, that has led to higher living costs not reflecting wage increases. All key performance targets set for rent collection and rent lost through empty homes were achieved, and at a time when welfare reform and inflationary increases are beginning to be felt by all.

Recent changes in the current government approach to the social housing sector has seen a renewed commitment on rent increases from 2021 of CPI plus 1%, a release of additional grant funding for social rented housing, and a revocation of the commitment to cap social housing rents at the Local Housing Allowance rate. The lifting of these restrictions builds capacity back into the business and improves opportunities for development. The Society will take advantage of these changes, whilst being mindful not to set rents at a level that is unaffordable to our target market, which would be contra to our charitable objects.

The outlook for the future looks promising and the Society will take advantage of this to continue to fulfil our vision and mission aims.

## 3.2 BOARD AND GOVERNANCE

The Board of Directors meet quarterly to oversee the performance and management of the Society by the Executive team. In addition, they undertake two special away days annually to review strategic direction, scan the external horizon and review effectiveness.

Two committees support the Board, alongside a sub group that offers additional oversight in key business areas. This structure offers additional assurance to the Board that it is strategically effective. These groups are:

- Audit and Risk Committee - oversee internal controls, internal and external audit and risk
- Remuneration and Nominations Committee - oversees Director appointments, staff and Director pay and succession planning
- Development sub group - oversees technical aspects of development, a high risk activity

The Board has adopted the National Housing Federation (NHF) Code of Governance 2015 and annually confirms compliance with all aspects of governance and leadership set out in the code.

The Board is populated with individuals that meet the required skill set deemed essential to good governance of the Society.

## 3.3 STAFF

The Society employs 14 people, approximately two per one hundred homes in management. The ratio of staff pay as a percentage of overall turnover is c.13%, which compares favourably to a peer group average of 18%. It is led by an Executive Team made up of the CEO, Finance Director and Operations Director who are responsible for delivering the business plan objectives and maintaining high levels of performance.

The Society believes strongly in the development of its staff and in future proofing the organisation. It recognises that its generic approach to housing management runs counter to current sector practice of specialist functional roles. The staff team benefit from gaining skills across a variety of disciplines, which enhances enjoyment of their roles. The Society's strategy includes offering candidates an opportunity to learn during a probationary period, which widens the pool of labour available to include those with a commitment to the Society's values and an appetite to enhance their skills and knowledge while at work. The organisation has grown without recruiting to additional posts to date. The increase in portfolio, along with a pipeline that will see a further 10% increase in the next year requires the addition of a management role to support the current executive structure. The budget for 2018 allows for the recruitment of an Operations Manager that will enhance performance management in general and provide a talent management opportunity for staff development over time by bridging a gap between the Operations Director and frontline staff that currently exists.

Learning and development opportunities are regularly assessed. Mandatory training and refreshers are undertaken in respect of health and safety, equality and diversity, cyber fraud and customer service. This ensures the Society remains up to date with current thinking and legislation and staff remain adequately skilled to provide the service expected.

The Society believes that a knowledgeable, well-equipped staff team boosts productivity and puts in place annually a plan for wellbeing and training that involves staff input and continuously improves the working environment.

### 3.4 MEETING THE STANDARDS

As an organisation of less than 1000 units, the Society is governed by 'light touch' regulation regarding the regulatory standards and is considered low risk. Our strategic approach is to operate in line with larger organisations as a benchmark for good performance and to position ourselves well for any future changes in terms of in-depth scrutiny.

The Society is required to meet the regulatory economic standards of Governance and Viability, Value for Money and Rent. These are incorporated into our strategic objectives and we hold an effective audit trail of compliance in these areas.

The Society is committed to supporting the communities within which we work. We have awarded cash by way of our community fund budget and have made presentations in the past year to schools and community groups that have enabled them to sustain activities in areas where services are at greater risk. We will continue to do so as part of our core value of meeting our charitable objectives.

We continue to review how we engage with our tenants and expect to increase our digital offer to them to make our services more accessible around the clock whilst at the same time making savings on operating costs that can be redistributed to support effective management practices. This will free up more officer time to spend directly with tenants who are struggling to make ends meet or sustain their tenancy.

## 4 CURRENT OPERATIONS

### 4.1 STOCK PROFILE

The Society's stock consists mainly of family housing in rural and market towns. The organisation owns a diverse portfolio that ranges over 12 local authority areas. The development focus is on Devon and Somerset, though the Society expects to add units in Yate, South Gloucestershire in the forthcoming year. This is due to land already owned by the Society becoming available and because the business already has a substantial presence in this area relative to its size. During 2017, the Society conducted a review of underperforming assets. This resulted in planned sales of small garage sites and an opportunity to develop on its own land, reflecting a key strategic objective of making assets work for the business.

General Stock Overview					
Property Type		Tenure Type		Age	
1 bed flat	48	Assured affordable rent	166	1950s	164
2 bed flat	36	Assured social rent	345	1960s	20
1 bed house	5	Secure social rent	39	1970s	0
2 bed house	207	Older people secure	2	1980s	11
3 bed house	306	Older people assured social	59	1990s	176
4 bed house	13	Shared ownership	56	2000s	46
2 bed bungalow	49			2010s	250
3 bed bungalow	3				
<b>Total</b>	<b>667</b>		<b>667</b>		<b>667</b>

We have a small number of flats and manage nine communal areas. We will develop more due to the demographic changes forecast for Devon and Somerset. These will design out service charges by removing communal spaces, which will improve affordability for residents and minimise management costs. We have 56 shared ownership properties with a further 18 planned within our development pipeline. The Society is considering the construction of seven homes for market sale, which will subsidise the development of the proposed 52 affordable rent properties. We will carry development out sustainably, ensuring we operate within the risk appetite set by the Board. We will seek to achieve comfortable margins on our gearing and interest cover covenants. We also own 61 properties designated specifically for older people. The majority of our properties were built after 1990, but there are a sizeable number of 1950s constructions spread across our portfolio. A number of these older properties have benefitted in recent years from a rain cladding programme that has significantly added to their lifespan expectation.

## 4.2 ASSET MANAGEMENT

The Society's Board continue to view the planned maintenance of our property portfolio as a priority. Our approach is informed by a robust stock condition survey and an option appraisal process that considers best use once a property becomes empty. Our Housing Management System is also updated as and when component replacements are completed to maintain an accurate database of condition.

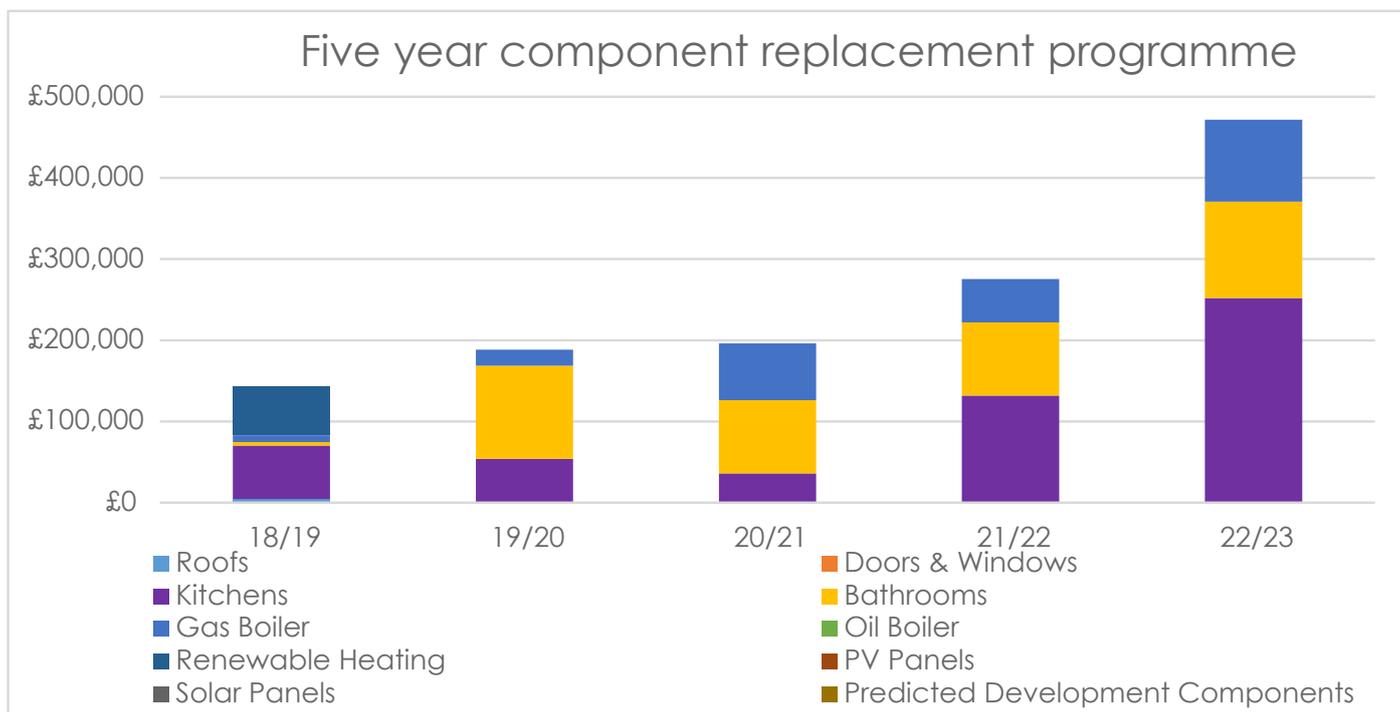
The Society invests a significant percentage of its surplus into asset management and this is evidenced in reduced routine repairs costs and lower costs on void works.

Our key component replacement assumptions are:

roofs	60 years
doors and windows	40 years
bathrooms	30 years
kitchens	20 years
oil boilers	20 years (properties at School Road, Stoke Fleming)
gas boilers	15 years
photo voltaics & solar panels	20 years (this has been increased from 15 years).

Our asset management strategy includes an action plan that is regularly reviewed and we are on track to complete all within the timescales defined

Our projected expenditure for the next five years is:



The Society owns its office premises in Rooksbridge, which has a forecast net book value of £766k (March 2019), depreciated over 50 years.

### 4.3 DEVELOPMENT

One of the Society's strategic objectives is to achieve growth in areas of demand. The development strategy approved by the Board includes an aspirational target of growing to 1000 units by the end of 2020. This target can be achieved through a combination of organic growth and a merger with a similar sized organisation. The Society's Board is actively pursuing opportunities to grow by way of merger where there is a strategic, financial and cultural fit that suits both organisations that will achieve the overall objective of providing affordable homes for people priced out of the open market.

As a small organisation, the Society aims to complement the volume building developed by large organisations and works with SME builders, developing long lasting and strong working relationships. The Society builds close links with strategic Local Authority partners, to deliver joint development goals. The Society prefers to secure land led deals, which allows it to shape schemes and standards to its own criteria. S106 planning gain opportunities will always be considered where standards match those of the organisation and the locations are strategically relevant. The current development pipeline includes 33 s106 properties.

The current programme is attached at Appendix A. The strategy is reviewed annually and in line with the long-term financial forecast. Realistic assumptions on interest rate risk are built in and each development is cross-referenced with cash flow projections and lending covenants to ensure viability.

The Board manages development risk through a risk management framework, aligned to financial forecasting and appetite. This ensures probity and acts as a check against ambitions to ensure that the business can withstand identified stresses in the future. The exposure to risk will increase as social housing grant is geared to promote homeownership and the Society plans to build a de Minimis number of open market units to subsidise affordable rent provision. This will be closely managed.

### 4.4 SERVICES

Our key service offer is for the provision of housing management and maintenance services to residents and prospective residents who, through a variety of circumstances are unable to access the wider market. The client group consists in the main of people who are financially excluded from the market place through either low wages, ill health or old age and meets with the organisation's charitable objectives. The Society's management approach is one of supporting independence and both staff and board are committed to enabling residents to manage their tenancies effectively.

This targeted approach is effective and reflected in performance data reported to the Board on a quarterly basis. Overall rent loss through voids is consistently less than 0.1% of overall turnover, revenue loss through bad debt is consistently below 3% of overall gross rents receivable and management costs are reducing as growth continues without the provision of significant additional resource.

## 5 EXTERNAL ENVIRONMENT

The Society is operating in an environment that reflects the continued uncertainty of the consequence of the decision to leave the European Union. In addition, cost inflation has begun to increase and the Bank of England increased interest rates in November 2017, though they remain at an historic decade long low. Costs of materials and labour has increased in line with inflation, making debt led development more expensive. The inflation increase has had an impact on house prices and purchasing, seeing growth slow in both areas. The government does not hold a majority; though a cross party consensus on the housing crisis has led to a range of favourable decisions being made in respect of social housing, which has mitigated somewhat the impact of inflationary increases. The new Social Housing Regulator continues to moot the benefits of fewer, larger social housing organisations, though it accepts little impact between small and large on average costs to manage per unit of accommodation. The need is for volume house build delivery, which stokes the rhetoric around large-scale mergers.

The Society is confident that a place still exists for the smaller, community based provider and its business model supports this view. Many rural and smaller developments would not be delivered without small organisations and the Society's ability to be responsive and bold in its approach ensures that the business makes a positive contribution to the sector as a whole. Financial forecasting is robust and is reviewed quarterly by the Board.

One of the Society's strengths lies in its uncomplicated structure, which enables the maintenance of effective oversight in all financial matters. A significant percentage of the property portfolio remains uncharged. Traditional lenders continue to impose restrictive covenants in lending terms that does not always reflect the amount of asset cover available within the asset base. The Society is researching bond funders that specialise in housing that are in the market and offer more favourable terms on long term funding to maximise capacity for growth.

The deregulatory measures on social housing took effect in 2017 and the sector is once again classified as a private entity by the ONS. This has freed up capacity to make changes to property portfolios hitherto unavailable and the Society may opt to take advantage of these in the future, provided that any decisions made do not compromise its rules and objectives.

Welfare reform regulatory amendments have alleviated some of the material risks identified on revenue income, though it remains a factor that contributes to increased management costs and difficulty for residents of the Society. The Society has put measures in place to work more intensively with tenants where this occurs. The Society reviews rent affordability annually and actively seeks not to push tenants into situations where paying rent is increasingly difficult compared with average incomes for the areas they live in.

Access to mortgages across the South West compared with average incomes sits at a ratio of 10:1 and deposit requirements remain out of reach of many. Only 3% of existing social housing tenants are in a position to access homeownership in any form. The Society remains committed to the provision of subsidised rental products that enable people to lead successful lives in a safe, secure and affordable environment.

In Somerset and Devon the demographic is ageing rapidly in rural areas and the increasing rise in house prices is excluding young people and families from remaining in these areas. This group represent the workforce who will care for the elderly and the Society will continue to work to close this gap to support our sustainable community objectives.

The requirement to achieve efficiencies to create higher surpluses remains a central government focus. The Society has an embedded culture of value for money and we review all expenditure in light of this. The advent of digital technology will be harnessed and a review of how we interact with our tenants and residents we expect will achieve greater efficiencies.

## 6 STRATEGY AND IMPLEMENTATION

For the life of this business plan, we will be focusing on the following in order to fulfil our vision and mission.

### 6.1 GROWTH

We will grow our housing stock where there is demand both now and in the future

- ✓ deliver the units for which we have been allocated grant funding in the 2016-21 Affordable housing Framework
- ✓ maximise our latent capacity for development
- ✓ procure and deliver a small mixed-tenure development built without grant and cross-subsidise market sale for affordable rent
- ✓ design and build properties that harness digital technology
- ✓ implement our treasury management strategy
- ✓ explore merger opportunities with like-minded organisations where it benefits the Society to do so
- ✓ explore opportunities for the provisions of management services to third parties

### 6.2 ASSET MANAGEMENT

We will invest in, maintain and review our existing assets to ensure they work for us

- ✓ Review planned and major works to produce a more sustainable long term programme
- ✓ ensure our stock is maintained to a high quality and complies with all health and safety requirements
- ✓ meet or exceed performance ratings set by the Board of Directors
- ✓ deliver planned programmes that focus on assisting with the eradication of fuel poverty

### 6.3 PEOPLE

We will invest in our staff and board to secure positive outcomes for our residents

- ✓ Have a high performing Board that is in control of the business
- ✓ promote a culture of trust and trustworthiness that increases innovation
- ✓ provide an environment that maximises productivity
- ✓ Develop a culture of continuous improvement and ownership of outcomes

### 6.4 COMMUNITY

We will develop partnerships that support our approach to sustaining communities

- ✓ We will develop our web based service offer to tenants and stakeholders
- ✓ We will explore options for innovative build solutions that will achieve energy efficient homes
- ✓ We will work with tenants and prospective residents in a way that suits them
- ✓ We will design mixed schemes that enable people to stay in their communities as their circumstances change

## 7 FINANCIAL SUMMARY

The Society produces a thirty- year financial forecast/business plan to aid strategic planning. The financial business plan offers an insight on the impact of development on the business, when new finance may be needed to fund development plans and the impact of changes in the operating environment.

## **8 RISK**

The Society has focused efforts on risk and risk management in the last three years, in line with the increased importance placed upon it by the regulator and following the imposition of mandatory stress testing by the Bank of England for financial institutions. The Society is risk aware rather than risk averse; this policy feeds through the business plan and is reflected in the appetite for growth. There are some zero tolerances on health and safety and cash management, which act as evidence of the serious approach taken to risk by the organisation. Though the organisation is small and its business model uncomplicated, a rigorous assessment of risk is routinely undertaken.

### **8.1 MANAGEMENT**

The Board delegates management of risk and assurance to an Audit and Risk Committee that deals in detail with all risks identified and reports into the main board details of the top ten. The risk map is reviewed on a monthly basis by the Executive team.

The Society has a risk framework and strategy in place approved by the Board that is reviewed every three years or at such time as the operating environment experiences significant changes.

### **8.2 APPETITE**

The Board has determined appetite for risk in relation to turnover and this is reported to the Audit and risk Committee quarterly. Financial assumptions have been identified for each risk and action is taken if the appetite threshold exceeds the acceptable level set.

## **9 ANNUAL DELIVERY PLAN**

The Society's Board agrees an annual delivery plan that sets out the priority tasks identified to ensure the plan is achieved in line with the Society's key strategic objectives. The focus for 2018 is continued development, investment in staff and succession planning and building effective partnerships with small and medium enterprises to support economic sustainability in the areas in which it operates.