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Strategy for Magna Housing Group 2016 – 2021

**Helping people meet their
housing needs**

STRATEGY FOR MAGNA 2016-2021

MAGNA AT 1ST APRIL 2017

1. Magna Housing Ltd is a charitable housing association with four dormant non-housing association subsidiaries. It owns about 9000 homes, with 99% of them in its core area within Dorset and Somerset as a result of a programme of stock rationalisation. It achieves top quartile or near top quartile performance in most of its key performance areas. It has tenant satisfaction ratings of between 88 - 92%. It maintains its houses well but some still have, for example, inadequate heating systems. It is due to build 600 new homes between 2018 and 2021. Its ratings from the Regulator are V1 and G1.

MAGNA'S PURPOSE AND STRATEGIC OBJECTIVES

2. The Purpose which Magna has adopted for this strategy is 'To help people meet their housing needs'. Magna's Purpose will be at the heart of our thinking, planning and acting. Everything else will take its cue from it.
3. To help us to fulfil our Purpose, this strategy adopts a number of Strategic Objectives. They represent the areas in which we must achieve and improve to enable us to achieve our Purpose. None is an absolute in itself, over-riding all others. They must be weighed against each other to achieve comprehensive and balanced performance. In doing so, we take account of risk at all times. The Strategic Objectives are:
 4. **Strategic Objective 1** - To provide high quality housing and services.
 5. **Strategic Objective 2** - To have good leadership and governance.
 6. **Strategic Objective 3** - To achieve VfM in the use of our resources.
 7. **Strategic Objective 4** - To develop, motivate and reward staff to achieve, innovate and take responsibility.
 8. **Strategic Objective 5** - To achieve the best mix of risk, prudence, flexibility and cost-effectiveness in our finances.

STRATEGIC TARGETS

9. We describe as 'Strategic Targets' the clear and measurable actions we plan to carry out in order to achieve our Strategic Objectives. We

set out the Strategic Targets below, after a brief commentary on each Strategic Objective.

10. Strategic Objective 1 - To provide high quality housing and services

10.1 The nature of this, our No. 1 Strategic Objective, focuses Magna on what is most important to both our customers and Magna's Board: the volume and quality of the houses we provide and the services we deliver. Our strategic targets therefore concern the standard to which we maintain our houses, the resumption of a new build programme during this Strategy and the standards we aim for in our full range of services.

Maintaining our homes

10.2 In adopting this Strategy, the Board is proud to reaffirm its commitment to the Magna Standard. This sets out the standard to which Magna will maintain and, where necessary, improve its housing. It ensures that the housing which we have in order to achieve our Purpose will be well-maintained and up-to-date. It sets time-bound targets for the achievement of all work planned. It is part of the bedrock of Magna.

10.3 A specific notable target in the Standard is to replace all old and inefficient electric storage heating systems by 31 December 2018 and hence improve our average SAP rating to 68. We also plan that by the end of the strategy we will have refurbished 1460 kitchens and 1260 bathrooms, replaced 1800 boilers and 1580 external doors, upgraded 3840 electrical installations and carried out 7460 external re-decorations.

10.4 Magna will provide a caring and efficient service to its customers. Magna will provide extra support to vulnerable tenants e.g. through a money advice service. Magna recognises the particular importance to tenants of an efficient and responsive repairs service. The Board agrees annually its Key Performance Indicators and what level of performance to aim for e.g. 90% overall tenant satisfaction for 2017/18.

New build programme

10.5 Under this strategy, Magna will recommence the construction of new homes. Its plan for a balanced programme of rent and shared ownership units reflects the Government's policy announced in January 2017 of considering bids for both rented

and shared ownership units. Government permits affordable rents to be set up to 80% of the market rate. Magna will take full advantage of this flexibility whenever possible to charge the social rent equivalent, or as near to it as we can. Our initial programme is for 2018-2021, but our business plan shows us continuing to undertake new build for the rest of the plan's 30-year term.

- 10.6 Magna does recognise that some people in housing need both aspire to home ownership and could afford it via shared ownership. Accordingly, while Magna will devote the bulk of its own available resources to building for rent, it will also seek to participate in the HCA's programme for shared ownership. Magna has committed itself to participating in the Voluntary Right to Buy (VRTB) scheme, and expects to replace all dwellings sold under VRTB via new build.

Our service standards

- 10.7 Every year, the Board agrees its key performance areas and performance targets for each. It does so in the light of current performance, HouseMark data and other information.

Strategic Targets

- 10.8 Adhere to the Magna Standard.
- 10.9 Achieve the KPI targets set out by the Board each year.
- 10.10 100 new build completions for social rent in each of the years 2018-2019, 2019-2020, 2020-21, or the equivalent, whilst starting earlier if possible.
- 10.11 100 new build completions for shared ownership (subject to the availability of Government grant) in each of the years 2018-2019, 2019-2020, 2020-21.
- 10.12 RTB replacements will be in addition to the above targets.
- 10.13 In 2018/19 devise and implement a plan to reduce materially the extent of under-occupation of Magna's homes.
- 10.14 In 2018/19 examine and decide on the long-term future of Magna's sheltered housing.

10.15 In 2018/19 begin the implementation phase of the IT Service Transformation Project.

11. Strategic Objective 2 - To have good leadership and governance

11.1 Good leadership and governance improve Magna's ability to make the good decisions upon which its future depends.

Strategic Target

11.2 In 2018/19 recruit a new chief executive and have the appointee pass their probationary period.

12. Strategic Objective 3 – To achieve VfM in the use of our resources

12.1 Magna's charitable status makes it all the more important that we achieve maximum impact for every pound we spend. It is equally important to maximise the number of pounds available to us in the first place. We have long since moved away from viewing VfM as being the mere paring of costs. For some time, we have concentrated on removing structural, constitutional and other barriers to the achievement of economy, efficiency and effectiveness and reaping the rewards of doing so. For example, we have disposed of housing too distant to serve economically and streamlined our governance. Our strategic targets continue that work.

12.2 Magna will take further its concentration of stock within its core area of operation, as this enables us to operate more efficiently and effectively. Accordingly Magna will seek to dispose of its remaining stock outside its core area wherever it represents good value for money to do so. We will dispose of about thirty dwellings each year, from within and outside the core area, with the twin aims of enhancing our effectiveness as a social landlord and of generating resources to support our new build programme.

12.3 Magna's choice is to devote its resources to improving even further its performance as a medium-sized, independent, housing association, which works with local communities and is dedicated to providing high quality housing and services to a distinct and coherent geographical area. Magna has defined that area as consisting of the local authority areas of West Dorset, North Dorset, Weymouth and Portland, West Somerset, South Somerset, Taunton Deane and Sedgemoor.

Mergers

- 12.4 Magna would give serious consideration to a proposed merger in which the merged entity would share Magna's purpose and commitment to social rented housing and would serve a geographically coherent area of the South West. The acid test is whether Magna's Board is satisfied that the forecast advantages of a merger clearly outweigh the drawbacks, including the short-term disruption, by materially improving Magna's ability to achieve its Purpose and Strategic Objectives.
- 12.5 In assessing this, the Board will take into account the probable cost of obtaining lenders' consent to a merger. We expect our lenders would require an increase in the current margin on our loans which would increase our annual interest charges by up to £1.5m until we refinanced anyway, say, in 2022.
- 12.6 Meeting loan break costs would be a further problem. Cash payments would almost certainly harm our ability to sustain our 2018-2021 development programme. Embedding the costs in new variable rate loans instead would increase significantly our exposure to the risk of base rate increases from the current low of 0.5%.

VfM

- 12.7 VfM is a measure of the relationship between what an organisation wants to achieve and the resources it uses to do so. It is the result of the constant and successful operation of many relevant policies and procedures. These, their connections to each other, and how all are harnessed together, are described in a single, comprehensive VfM policy which sets EBITDA as the best single measure of overall efficiency, but which also focuses on containing unit management costs.

Strategic Target

- 12.8 To achieve an average EBITDA of 50% over the life of the Strategy.

13. Strategic Objective 4 - To develop, motivate and reward staff to achieve, innovate and take responsibility

13.1 A comprehensive review of all aspects of HR is all but complete. We want to test how far we are achieving our Objective. We will re-consider seeking external accreditation during the Strategy.

13.2 The following are the behaviours which Magna expects from its people because it thinks they are necessary to achieve its Strategic Objectives. They describe how we go about our work. They are 'Committed to Magna and its customers', 'Passionate about performance', and 'Lead by example'.

Strategic Targets

13.3 Achieve outstanding HR Plan objectives by March 2018.

13.4 To have 75% of staff agree by March 2018, and 80% by March 2020, that Magna develops, motivates and rewards staff to achieve, innovate and take responsibility.

14. Strategic Objective 5 - To achieve the best mix of risk, prudence, flexibility and cost-effectiveness in our finances

14.1 There is no formula for how our finances, especially our capital funding, should be structured. The ideal mix will vary according to circumstances and what we want to achieve. We think the factors highlighted in this Strategic Objective are the most important, but the blend between them is more important still. Our main task during the Strategy is to fund a new building programme in a way consistent with this Objective.

14.2 We are not attracted by the option of taking commercial risk to try to make profits with which to subsidise non-market new build. The risk of failure is significant, and its consequences worsened if, as is likely, the risk capital necessary is provided by loans secured on non-market housing. We will consider all forms of funding compatible with other relevant Magna policies.

14.3 The Board is confident that its risk management policy and practices enable it to identify and manage the risks associated with this strategic objective in particular and the strategy in general. As a result, it expects to obtain a compliant viability rating from the

regulator. Magna's preference for a V1 rating is a risk management measure in itself as it provides the maximum cushion against a non-compliant rating.

- 14.4 Magna has long-term loan agreements in place which require substantial capital repayments in each year of this Strategy. Magna does not intend to refinance during the lifetime of this Strategy as to do so would be uneconomic. However Magna does not intend to reduce its indebtedness by more than the minimum required by its loan agreements, and will make full use of remaining headroom within the agreements, as well as its annual surplus, to maximise its new build programme. Further, the default use of uncommitted resources will be to increase the sum available to the Board to support new build.

Strategic Targets

- 14.5 By the end of the Strategy period Magna targets that it will have developed at least 600 new homes and reduced its level of debt per unit from £15,680 to £13,400, thereby enabling it to adhere to its covenants, and its total net debt from £124m to £108.65m.
- 14.6 To maintain a compliant viability rating, preferably a V1.

KEY EXTERNAL FACTORS

15. Magna will adhere to the course represented by these choices unless its Board is satisfied that the forecast advantages of a different course clearly outweigh the drawbacks, including the short-term disruption, by materially improving Magna's ability to achieve its Purpose and Strategic Objectives. Significant changes to the following key factors may justify a review of this Strategy.

Welfare Reform

- 15.1 The implementation of the under-occupancy charge and Universal Credit has given us firm evidence of the impact of welfare reform and of our ability to manage it. Rent cuts and other changes have also shown that welfare reform can come in several guises. We will therefore continue to make appropriate assumptions in our Business Plans about its impact.

Current Risk Climate

- 15.2 Government announcements in autumn 2017 concerning rents and the local housing allowance reduce the risk to us from welfare reform. We will continue to monitor the risk and act accordingly.
- 15.3 Magna works closely with local authorities. To a degree, our ability to do our job is dependent on them. All are facing severe financial pressures. Their solutions could affect Magna's ability to achieve its Strategy.

Demand

- 15.4 Population projections for our areas of operation are favourable for us. The population of Somerset is forecast to grow from 535,000 in 2012 to 612,000 in 2037. Within West Somerset, total population is forecast to increase from 34,600 in 2012 to 37,600 in 2037. Forecast decreases in the 40-69 age range are immaterial over 25 years. The 70-90+ age range is due to increase by 4,700 by 2037.
- 15.5 The picture is similar in Dorset (including Bournemouth and Poole). Total population is forecast to increase from 750,200 in 2012 to 859,000 in 2037. West Dorset is no different. The 2012 estimated population of 99,500 is forecast to rise to 110,100 in 2037. Strong growth is forecast in the 65-90+ age ranges and modest decreases in the 25-64 age ranges.
- 15.6 We work in a region which remains largely prosperous. Unemployment is relatively low, and likely to remain so. Average home prices are second only to those in the London/South East region. The 'affordability gap' is worst in the South West. Strong demand from outside the region helps produce house prices higher than local income levels alone can generate, hence pricing local people out of markets.
- 15.7 These factors and population estimates result in the Strategy saying little on our competitors. Our assumptions are that demand will continue to outstrip supply during the Strategy.
- 15.8 Our continuous supply of properties to re-let is an important way of enabling Magna to achieve its Purpose.

MAGNA AT THE END OF THIS STRATEGY

16. We expect that at the end of this Strategy, Magna will be a single charitable housing association. It will have approaching 10,000 homes, of which 99% will be in its core area. It will be achieving top quartile performance in all its key performance areas. Its houses will be in good condition, have reasonably modern and effective heating and be well maintained. Sound financial management will have enabled it both to build more houses and reduce its total debt and debt per unit. It will have a G1 rating and the highest possible compliant viability rating, preferably a V1.
17. This is a 5-year Strategy, but one which is continuously updated. An important task for Magna in 2020-2021 is to work on a new Strategy. 2020-21 is a watershed year for Magna as it also sees the end of the 2018-21 new build programme, and is the optimum year in which to begin negotiations over the scheduled ending of its Lloyds Group loans in 2023.

CONCLUSION

18. These are challenging times for housing associations. But Magna sees a bright future as a medium-sized, independent, but open-minded, housing association, which works with local communities and is dedicated to providing high quality housing and services to a distinct and coherent geographical area within Dorset and Somerset.

STRATEGIC TARGETS ACHIEVED

19. These targets have been achieved and hence removed from the main body of the strategy to keep it current.

19.1 To regain Magna's G1 rating by February 2017.

(Achieved in January 2017)

19.2 Subject to SGM approval and the results of consultation, to amalgamate the housing associations in the Magna Group by 1 April 2017, and identify the cost reductions which will subsequently be achieved, while avoiding disruption in service to residents.

(Amalgamation was achieved on 31 March 2017 with no discernible disruption in service to residents and with forecast savings included in the 2017/18 budget approved by February 2017 Board.)

19.3 To have a minimum of one-third female Board membership immediately after the 2019 AGMs at the latest.

(Achieved by September 2017 Board)

19.4 Amalgamation and reorganisation to be completed by April 2017 generating annual efficiency savings compared to the 2016/17 Business Plans and budgets.

(Achieved by 31 March 2017, with forecast savings included in the 2017/18 budget approved by February 2017 Board.)

19.5 By March 2021, a minimum of 99% of Magna's stock will be within its core area.

(Achieved in March 2017.)

19.6 To complete the current HR Plan by March 2017.

(Achieved by March 2017 bar work suspended due to amalgamation.)