



**Network
Homes**

Because good homes make everything possible

5 YEAR STRATEGY 2018-2023



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Introduction

This new revision of our Five Year Strategy takes into account the dramatic changes in the operating environment for housing associations since Network Homes was formed as a single amalgamated organisation in 2016.

In those two years there has been a change in government from one Conservative administration to another quite different one, radical change in housing policy, and a sense of much greater uncertainty pervading the UK economy. All of this, in one way or another, has resulted from the referendum decision to leave the European Union.

A minority government, Brexit negotiations and the likely transition period mean the country will be living with political and economic uncertainty for several years.

This uncertainty has only increased for housing associations following the Grenfell Tower tragedy in June 2017. We expect the implications of this seminal event to reverberate through regulatory and policy change for years to come.

Less tangible, yet illustrated in many different forums, is the sense of a distinct change in public mood. Social, political and economic discontents have manifested themselves in political votes, in the reaction to Grenfell, and with increasing force through social media. Again, this seems unlikely to change quickly.

Generally, housing associations are benefiting from a better and more collaborative relationship with the Government than was the case two years ago, including positive changes in policy. Yet, overall, the operating environment feels more complex. At the time of writing, a new and comprehensive Social Housing Green Paper is also expected, which may well lead to further policy change.

In this context, dynamic and flexible strategic thinking is required more than ever. Underpinning this must be a Network Homes ethos, principles and values which ensure our direction of travel is clear

to our employees, customers and business partners, despite the range of challenges to be faced.

First and foremost, Network Homes is a housing association. We will always be a housing association and we will always have social purpose at the heart of our business. We are absolutely clear that any profits we make are for reinvestment in the homes we build and services we manage, and that our priority is developing and managing homes for people who cannot afford open market prices and rents.

The Board has reaffirmed four key strategic objectives for the next five years, with a simple, challenging and ambitious target attached to each. Our objectives are:

- > Maximising growth within our resources
- > Delivering first class customer service
- > Increasing financial strength
- > Building a great organisation

We have already benefited enormously from the amalgamation of our operations in 2016. Our governance is stronger, our decision-making quicker, there is clearer accountability, and we are more forward-thinking and outward-looking. However, as this strategy makes clear, there is more to do to satisfy our customers, tackle the continuing affordable housing crisis, and improve our financial and organisational resilience in the face of complex external change and uncertainty.

This latest iteration of our Five Year Strategy aims to build on the positive changes we have made in recent years and ensure that, in an uncertain world, our customers and partners feel Network Homes delivers an effective mix of stability, expertise and flexibility through our homes and services to help us all achieve our goals.

Helen Evans
Chief Executive



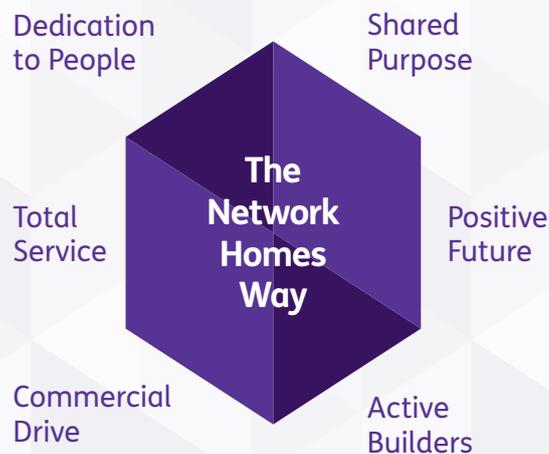
Our purpose

To open up possibilities for as many people as we can, by continuing to grow a forward-thinking, service driven and financially strong organisation that builds, sells, rents and manages good homes in thriving communities.

Why we do it



How we do it



What we do



Our four strategic objectives

- > Maximising growth within our resources
- > Delivering first class customer service
- > Increasing financial strength
- > Building a great organisation

Key challenges

The main external and internal issues liable to affect Network Homes' business over the next five years are noted within later sections on each of our four strategic objectives and in a PESTLE analysis at the end of this document. There are a number of over-riding challenges for our business which flow from this.

Broad-based Brexit impacts

The UK will leave the European Union in March 2019 and the most likely scenario beyond this is a 'transition deal' of around two years before the UK entirely exits from EU rules and procedures. Trade deals with the EU and non-EU countries will continue to be negotiated well beyond this timeframe. Economic uncertainty will therefore probably continue throughout the five years of this strategy and beyond. There are multiple potential consequences of this for housing associations including around construction labour and materials costs; for the housing market; customers' living standards; distraction for the Government from other key areas of policy including housing; and economic growth.

Key implications: financial resilience, risk management, development appraisal, targeted customer support.

The impacts of welfare reform

The Government is continuing to implement welfare reform measures well into the 2020s. Universal Credit is being rolled out in Network's main areas of operation during 2018/19 for new claimants, with existing Housing Benefit claimants likely to be moved onto UC in the early 2020s. While the Government has made some modifications to the scheme, all of the evidence so far indicates that residents find it difficult to manage the move onto UC and rents arrears will go up, even if we manage the process well. The working age benefits freeze remains in place until at least 2020 and other benefit changes are coming into effect. The social housing rent reduction will end in 2020, which will support our ability to develop more, but negatively impact many residents' incomes. Respected economic commentators, such as the Institute for Fiscal Studies, estimate that living standards in 2025 will on average still be below those of 2008 in real terms.

Key implications: financial resilience, risk management, customer profiling and targeted support.



Key challenges

Poor housing affordability

While house prices and rents are not expected to continue rising at the same pace as in recent years, especially in London, housing cost inflation is still expected to outpace income growth over the next five years. Affordability will continue to worsen, despite an expected increase in new homes output to around 250,000 homes a year (Source: Office of Budget Responsibility). The onus on housing associations to deliver more, in spite of likely increased construction cost pressures and a less solid sales market, is strong. The Government's reversion to a rent regime of CPI + 1% from 2020, together with additional funding for new social housing, increases this pressure. We owe it to those locked out of the housing market and to our Government and local authority stakeholders to seek to maximise our contribution to meeting housing needs. This will include exploring innovative ways to build our financial capacity to enable higher levels of development. At the same time, we will need to ensure our rents remain affordable, as far as possible, to people on lower incomes.

Key implications: financial capacity and resilience, risk management, development appraisal, product development, reputation management.

Regulatory and policy change linked to Grenfell Tower tragedy

The Grenfell Tower tragedy has had a profound impact on social housing and its consequences will be far-reaching and long lasting. A light has been shone on complex and sometimes contradictory regulations and guidance which will soon be amended; it has highlighted the potential dangers of over-zealous cost reduction in refurbishment and new build projects; it has encouraged residents to assert their rights and voice their opinions more forcefully; and it has focused attention on the need for more high quality social housing for people on low incomes. The Government will publish a Social Housing Green Paper in 2018 with a view to change within the sector. Scrutiny and regulation of consumer standards in housing is likely to intensify. There will also be considerable increased costs for housing associations in ensuring all existing homes and new homes are compliant with revised standards expected.

Key implications: financial capacity and resilience, governance and compliance, risk management, resident voice and influence, technical skills and expertise, reputation management.



Key challenges

Technological change and data management

The pace of technological change continues unabated and it has become obvious both that housing associations have fallen behind many others parts of the economy in harnessing it and that excellent customer service and satisfaction will not be possible soon without a high quality digital service offer. Social media has also started to change the way some customers wish to engage with us. While Network Homes has started down the road of digital transformation, significant change is critical over the next five years to ensure we have an effective digital customer service platform, an integrated mobile working solution, a fully modernised customer service centre, strong data quality to enable effective service development and performance monitoring, and properly trained staff. This is an expensive but vital investment in the future of our business.

Key implications: financial capacity and resilience, technical skills and expertise, risk management, compliance (data protection), reputation management.

Simplification and performance management

One of the most effective buffers in a complicated and rapidly changing world is a business which is structurally and procedurally simple. This provides the agility, flexibility, transparency and accountability to meet organisational objectives even as the operating environment evolves. Over this strategy period we will complete the transformation of Network's business, tackling the remaining legacy issues from our previous federated structure to ensure we can deliver our service to customers and partners to best effect yet with excellent value for money. This will include implementation of a simplified and modernised service offer, suited to an increasingly diverse customer base and customers and partners whose expectations of us are constantly rising. In turn, this will support improved transparency and simplify the executive's and Board's ability to monitor and manage performance in attaining our goals.

Key implications: organisational structure, governance and compliance, risk management, reputation management, value for money.

Taken together, these challenges highlight certain business critical functions to our success over the next five years. These include financial capacity and resilience, risk management (including compliance and performance), the centrality of the customer and service to how we organise our business; and improvements in technical skills, expertise and systems.

During this strategy period, we expect other wider trends already in evidence to grow in importance and loom larger for our business as we move through the 2020s. These include the risks of volatile public opinion, labour shortages for both unskilled and some skilled jobs, and a gathering crisis in older people's social care and housing.

Our strategic objectives

Network Homes has four key strategic objectives for the next five years:

1

**MAXIMISING
GROWTH WITHIN
OUR RESOURCES**



2

**DELIVERING FIRST
CLASS CUSTOMER
SERVICE**



3

**INCREASING
FINANCIAL
STRENGTH**



4

**BUILDING
A GREAT
ORGANISATION**



These strategic objectives remain unchanged from the previous 2016-2021 iteration of our strategy.

We chose these four objectives because we believe that by achieving them we can best deliver on our purpose of opening up possibilities for as many people as we can, including existing customers and the communities where we work. While our operating environment continues to change, these objectives provide the solid grounding necessary for us to respond to the challenges we face in an effective and principled way.

Attached to each of these objectives is a clear ambition. As the word suggests, these are aspirational and challenging targets designed to spur us to achieve as much as possible and in the best way possible.



Achieving our objectives

1 Maximising growth within our resources

Ambition



5,000 new homes
in 5 years

We will achieve this by:

- > Meeting our 1,752 new homes target as a Greater London Authority (GLA) Strategic Partner
- > Ensuring at least 60% of all new homes are for social and affordable tenures
- > Identifying and entering into more joint venture and strategic development partnerships
- > Identifying and being open to new delivery models and market innovation, including leveraging institutional investment
- > Supporting other housing associations to use their capacity and develop more homes
- > Considering merger & acquisition opportunities which represent a good strategic fit and will benefit customers
- > Understanding our markets better and promoting our offer more effectively through our recognised brand

Our ambition is challenging. But the overall market context means we must do everything we can to maximise our contribution to dealing with the housing crisis and providing homes for the very many people unable to meet their needs through the expensive open markets. This includes being less prescriptive about ultimate ownership of homes and being more open to increasing development volumes by supporting other partners to use their capacity.

As a housing association, our priority remains provision of homes at below market levels. At least 60% of the homes we develop through our Strategic Partnership with the GLA will be for sub-market rent or sale, and across our pipeline we will maintain a minimum of 25% of all new homes for ‘genuinely affordable’ rent, based on the GLA’s terminology. However, in the existing funding context we will also need to build more open market homes for rent and sale to deliver the profits that will continue to cross-subsidise affordable development.

Financially, delivering an average of 1,000 new homes a year means we will need to be innovative in our arrangements. We will explore different methods to create the capacity and manage the risks that achieving our ambition entails, including strategic deals and joint ventures with investors, private developers, local authorities and other housing associations. This may include mergers and/or acquisitions and off-balance sheet vehicles if we believe the conditions are right.

With development costs likely to rise in coming years as a result of Brexit and Grenfell Tower impacts, we will look to be innovative in containing our costs, while continuing to build to high quality designs and specifications.

We are learning the positive lessons from our first developments using Modern Methods of Construction, Construction Management, and Building Information Management, and will apply these in new projects. In the light of Grenfell and other concerns about new build quality, we will ensure we have appropriate technical expertise in-house to manage our projects and to maintain our reputation for building well-designed, award-winning, modern developments.

We believe our strongest prospects for success will come by focusing on markets we know. Our existing operating areas contain some key areas of growth and opportunity, including a number of the new Housing Zones and Crossrail regeneration areas. We are not intending to expand our geography significantly, but in a context where more people working in London are being forced out of the capital by housing costs, we will target any expansion into key commuter belt areas close to our existing operations. Maintaining a relatively concentrated geography also helps ensure we can run our management services effectively and efficiently.

In all of this we recognise that meeting our objective involves accepting greater financial risk. However, we will only take on risks which we are clear we can manage. The regulator has acknowledged both our development ambition and our effective governance of the risks this involves. The Board has re-assessed its overall risk appetite, we have stress-tested our plans and all proposed developments are carefully assessed for risk.



Achieving our objectives

2 Delivering first class customer service

Ambition



90%

overall customer satisfaction

We will achieve this by:

- > Redefining our offer to ensure we provide an effective, high quality service
- > Transforming our digital service offer and the quality and integration of our business systems
- > Completing the transformation of our repairs and maintenance service
- > Ensuring compliance with all health and safety requirements and other housing consumer standards
- > Communicating better and more consistently with our customers
- > Experimenting with new ways of working and improved targeting of services
- > Ensuring the resident voice is influential in the future development of our business
- > Recruiting and retaining high calibre people, working within an enabling, performance-oriented culture
- > Improving performance and cost management, including effective benchmarking and learning from industry best practice

Our Customer Services Strategy, agreed in 2017, sets out the five guiding principles for our service – the right culture; an accessible service; a more personalised service; a high quality service; and an added value service. In 2017/18 we achieved overall customer satisfaction of 87%, a 14% increase in five years. We have made big improvements in our services, but we still have too many instances of service failure and we are conscious that we are behind the curve on developing a strong digital service offer.

We have started making the necessary investments in our IT systems and our culture to deliver a better, modernised service and we will complete this transformation by 2019/20. We intend to focus strongly on the basics of housing management, delivering the key services most important to customers as well as we can.

The move to a digital service has impacts on traditional ways of working. We will implement a redefined service offer in response to this and the growing diversity of our customer base. We are seeing increases in leasehold customers who own at least part of their Network home, in those who market rent from us, and in people coming into our social rented homes on very low incomes and with some level of support needs. We also know that some customers use our services far more than others – a quarter of customers account for close to 80% of repairs and 20% of customers account for 80% of rent arrears, for example.

Further welfare reform will increase the financial pressure on many of our core customers. All of this demands a more targeted response, including tailored interventions, experimenting to identify ‘what works’, smart community investment, and effectively managing customer expectations of the landlord service. IT business transformation will support this by enabling a fully integrated mobile housing service and improved response and analytics at our award-winning customer service centre.

Through a concerted effort over three years, our repairs and maintenance service has seen substantial improvements. Satisfaction with repairs at the end of 2017/18 was 82%. However,

there is more to do to ensure repairs are done right first time and to improve contractual management so all contractors are delivering effectively to our standards. We will reduce waste and unnecessary cost within the service without compromising quality.

Following the various inquiries into the Grenfell Tower tragedy there will be more pressure from politicians, regulators and customers around the ongoing quality of our homes and we will respond appropriately. It is clear that we need, as a sector, to find different ways to make sure residents’ views are heard by executives and Board’s and count in the shaping of services. We will invest in our recently-established, resident-led Panels to ensure the connections between our decision-makers and residents are sound. But we will also look to be more innovative and find new mechanisms for listening to the people we exist for, including using digital platforms more to engage a wider range of residents.

Different ways of operating will mean adaptation for our staff. We will continue to provide high quality training as we change the way we work and continue to expect year on year improvements in the service from our people. We want to see better engagement and communication with residents and more consistent quality of service. This is even more important as we redefine the service offer and customers use social media to engage with us in an immediate and public way.

With a view to continuous improvement, we have extended our benchmarking to include a second peer group based on a ‘similarity score’ with Network Homes’ operations. We now have multiple ways of measuring our performance and costs, including the new Sector Scorecard and the Social Housing Regulator’s annual cost per unit comparisons. A key task during this strategy period will be to improve our housing management value for money, to deliver a more streamlined, effective, quality service at lower cost.

Achieving our objectives

3 Increasing financial strength

Ambition



35%

operating margin on core social housing business

We will achieve this by:

- > Ensuring costs per unit and value for money measures are in line or better compared to peer group averages
- > Effectively managing risks to maintain lender and regulatory confidence
- > Attracting new funding from capital markets and institutional investors
- > Growing borrowing capacity by £380m to deliver our development ambitions
- > Using strategic asset management to improve the financial performance of our portfolio and release new capacity, learning from industry best practice

Our investment needs over the 2018-23 period are considerable, to deliver on our ambitious growth plans, to fund improvements in our infrastructure and resources to achieve our customer service objective, and to meet increased costs within existing stock in response to the concerns raised by the Grenfell Tower tragedy. At the same time, we are operating in a more unpredictable political and economic climate than ever before. Alongside necessarily higher levels of market development, this increases our financial risk and makes it imperative we improve our financial resilience further and effectively control and manage cost and risk.

Network Homes is already a financially strong business. By 2023 we expect to be managing property assets of circa £2.4 billion, with interest cover comfortably above covenant requirements, and reserves of around £500 million. Our modelling and stress-testing indicates that, despite policies such as the four year rent reduction and welfare reform stretching into the 2020s, we are in a good position to finance our plans. We will maintain a surplus before sales throughout this strategy period.

However, we want to release additional capacity to invest in services and more new homes. Our operating costs are higher than our peer group average and our core social housing lettings margins are lower. Having examined the reasons for this in detail, we believe there is scope for bringing our costs per unit down and growing our social housing margin. We will have a strong focus on value for money cost savings, service planning and budgetary discipline throughout this strategy period to support our ability to meet our ambitions.

Through the Asset Management Strategy, Network Homes will use a range of interventions, including redevelopment/remodelling, site intensification, tenure conversion, and disposal/swap, to 'churn' assets that fail to provide an acceptable return on investment or where there are sound reasons to reconsider asset use.

Strategic asset management has a role to play in supporting financial capacity for continued business growth. We will also seek further efficiency gains within our programme of investments in the existing stock.

Financial resilience becomes even more important with lenders focusing more strongly on individual housing association performance in an era of deregulation and where government-backing is less assured. While this will tend towards an increase in the cost of capital, competition in the lending sector tends the other way, and interest rates seem likely to stay low by historic standards throughout the strategy period.

In addition to traditional sources, we will seek finance from the capital markets and institutional investors. In 2017/18 we secured our first institutional investment from MUFG and the British Aerospace pension fund and we intend to approach the bond markets from 2018/19. More lenders are coming into the housing association market as knowledge and experience of our business model improves, including insurance companies and pension funds. The overall strength of our financial position means we remain confident about accessing new sources of funding at reasonable cost as we require.

We have already taken considerable steps to improve risk management within the context of simplifying our structure and governance. We have recruited greater risk management expertise onto our Audit and Risk Committee and Board oversight of risk is strong. The Scheme Risk Assessment Panel acts as the primary assessor of development risk, with Board decisions required for financial risks above the agreed delegated level. While we cannot eliminate risk, we have the controls in place that enable us to manage it effectively. Our full risk management framework is reviewed on an annual basis.



Achieving our objectives

4 Building a great organisation

Ambition



100

A Sunday Times Best 100 Company to work for

We will achieve this by:

- > Moving to new offices in Wembley and Hertford to improve the working environment
- > Investing in our leadership and management capability
- > Embedding genuine employee engagement
- > Establishing a more robust approach to performance management
- > Improving strategic planning
- > Further developing the brand and improve stakeholder engagement

Since our amalgamation in 2016, we have made significant progress in building engagement and improving perceptions amongst stakeholders. Our latest perceptions survey showed improvements across almost every aspect of our business, with 82% of our partners saying they would recommend us as a development partner and 73% recommending us as a housing services organisation – a big jump from our previous results. Our last staff survey showed 94% of employees engaged and a further improvement in our overall results. The large majority of staff and key stakeholders have bought into our corporate objectives and brand vision, and our internal and external reputation is in a much better place than two years ago.

We need to not only sustain these gains, but take the next steps towards becoming a great organisation and one of the best performers within the housing association sector. Over the early part of this strategy we will manage through the final legacy issues from our previous federated structure. This will help cement the structural and cultural changes we have made.

We will create a stronger focus on employee development and management quality, including looking to develop future leaders. In 2018/19 we will seek Investors in People Gold accreditation and to enter the Sunday Times Best 100 Companies to Work For, looking to maintain a high profile employer brand from then on. In 2020 we will move to new, high quality offices in Wembley and Hertford, improving the working environment and giving us the chance to modernise our working practices. All of this will support our ability to attract and retain talented staff in a competitive employment market and our ability to implement our customer services strategy successfully.

We have improved our strategic planning, but there is more to do to improve the integration between strategy and operational service planning, so there is a clear 'golden thread' guiding how we work at all levels. We will continue to use the new strategy & research team to support better evidence-based decision making, highlight options for improving our service to customers, and enhance our market

intelligence. With data becoming ever more important to future business success we will create a strong focus on improving data quality to support effective performance monitoring and ensure we understand our customers and their needs better.

We have had considerable success in promoting our new brand, notably by winning several prestigious national awards, and we have started to build our sectoral influence, leading or working on major national research and policy projects, taking up speaking opportunities and taking a more prominent role in key forums. We will continue to develop the Network Homes brand. In particular, there is considerably more we can do to build excellent stakeholder relationships and achieve greater influence at national, regional and local levels.



Monitoring and evaluation

To ensure this strategy remains a ‘live’ working document and reference point for Network Homes, it will be reviewed and refreshed regularly by the executive directors and Board’s in line with our annual planning framework.

The Five Year Strategy will be supplemented with a ‘Roadmap’ outlining progress milestones towards delivering the ambitions and key actions within the strategy.

In combination, these documents will sit at the apex of the organisational ‘golden thread’. They will form the strategic basis for the corporate annual plan, annual directorate plans, team plans and for individual objective setting. Budget setting and overall business planning will link into this annual planning framework.

In this way we will link the work which every one of our people does day to day with the key strategic objectives and ambitions of the organisation as a whole.

The annual review of the Five Year Strategy will include a broad re-assessment of the external operating environment and the impacts of any new or anticipated changes, including updating of the PESTLE analysis.

The Board will receive an annual report on progress against the Five Year Strategy and Roadmap.



Appendices

Network Homes in 2018 – Key facts

Formed in 1974 as Brent People's HA, with a strong track record over 44 years

Over 20,000 homes in management, in 36 local authority areas, mainly in London and Hertfordshire

A member of the g15 group of London's largest housing associations

One of just eight London strategic development partners with the GLA

Concentrated portfolio, with 90% of homes in 12 local authority areas

Financially strong, with reserves of over £372 million

Customer satisfaction of 87%

Multi-award winning, including Housing Association of the Year (2016) and Social Landlord of the Year (2017)

Experts in large scale, complex regeneration

Experts in shared ownership development and marketing

Over £1 million invested each year in economic and social development of local communities

PESTLE analysis



Governing framework

- > Political uncertainty due to having a hung parliament will continue. Theresa May or any subsequent leader of the Conservative Party will face challenges in passing legislation and policy changes
- > A medium term snap election is possible, although with Labour polling higher than in recent years it is unclear that any party is likely to achieve an overall majority
- > Brexit negotiations between the Government and EU will be protracted creating political tension and economic uncertainty for a number of years
- > Focus on Brexit will distract from other policy areas including housing and welfare, and will stretch resources within Whitehall
- > The GLA could gain additional powers, and may look to increase its influence whilst central government is relatively weakened and distracted
- > The impacts of the Grenfell Tower tragedy will be wide reaching, keeping it at the top of the policy agenda for some time

Housing policy

- > The Mayor will introduce new London Plan and Housing Strategy, aiming for a minimum of 35% affordable housing completions on all sites through the viability threshold and fast track planning route, with 50% on public land
- > Sadiq Khan will implement both the London Living Rent and London Affordable Rent products through the 2016-21 funding regime. Conversions of social rented homes to affordable rent will end under the funding conditions
- > The London Plan will set more progressive supply targets and will aim to increase delivery in outer boroughs, on small sites, and near transport hubs
- > The Mayor will introduce mandatory estate ballots for regeneration where homes are to be demolished, alongside policy expectations around refurbishment in favour of demolition, stronger rights for leaseholders, and clear right of return
- > Future housing policy will be shaped by Social Housing Green Paper and/or Labour Party's Social Housing Review, both due for publication in mid 2018
- > The GLA have introduced restrictions on sales of new build homes in London worth less than £350k, with marketing initially limited to UK buyers
- > Government scrutiny of RPs will focus on 'supply and efficiency'

- > Local authority services will continue to be under intense pressure from budget cuts, including around fire safety following Grenfell. Different local authorities will react differently, requiring awareness and flexibility from housing association partners
- > Attempts to speed up planning will continue in 2018, with consultations on local plans, build out rates, urban land use, and developer contributions taking place alongside a government review of unused planning permissions
- > In 2020 the social rent cut will end with the rent regime returning to CPI+1%
- > There will be increased competition between housing associations and private developers around sub-market home ownership initiatives. There could be more competition with councils if they start to build via housing companies following changes to the Housing Revenue Account cap
- > The extension of Right to Buy remains a possibility with pilots until 2019 at least and any wider implementation unlikely until at least 2020
- > Changes to the National Planning Policy Framework will introduce a housing delivery test for councils and measures to 'hold developers to account' such as a national threshold for affordable housing
- > The GLA will increase its level of focus on Build to Rent and the Private Rented Sector (PRS)

Welfare reform

- > 'Conditionality' (the expectation of work in return for benefits) is at the heart of policy. Supporting residents to become work ready as well as financial inclusion activity will be important for housing associations' income streams
- > Welfare benefits will be frozen to 2020, reducing real incomes of benefit dependent households, particularly in the context of rising inflation. Further welfare cuts beyond those already announced are less likely
- > Uncertainty around the new sheltered rent product or supported housing funding regime will impact on delivery of new schemes
- > In the event of a future Labour or coalition government, many welfare changes may not be reversed
- > Universal Credit roll out will continue, increasingly affecting our customers from 2018



PESTLE analysis

Economic

Economic conditions

- > The UK's exit from the EU, political uncertainty and the prospect of several years of negotiations/transition will create an uncertain economic climate for the foreseeable future
- > Confidence in the UK could be low and lead to falling levels of domestic and international investment, at least while negotiations last
- > The strength of sterling has reduced since the outcome of the referendum, affecting the price of imports and resulting in higher inflation rates
- > In the long term it is unclear what the impact of Brexit and EU instability will be on UK growth rates. In the short term growth rates are slow due to low productivity and uncertainty, but supported by global recovery
- > Continuing volatility across the EU remains a challenge to global economic recovery
- > Interest rates have risen slightly but will remain below the long run average for several years. Around 2.5-3% may be the 'new norm'
- > A protectionist US trade policy under the Trump administration may have an impact on overall economic growth and global trade relationships
- > The China debt bubble is a significant risk to the health of the global economy

Housing association capacity

- > The costs of borrowing will be low for financially strong housing associations, and opportunities for borrowing should remain strong, although this could be somewhat affected by Grenfell
- > Investor awareness and understanding of the social housing sector is improving and driving increased competition
- > Housing associations will need to strengthen income generating activity and further improve efficiency to maintain or enhance capacity
- > Some associations will merge because of growing balance sheet pressures, and competition may get tougher as a result of new and larger merged housing associations
- > More banks are entering or re-entering the housing association lending market, increasing competition further
- > Grenfell consequences will raise development and maintenance costs for housing associations, impacting on capacity
- > Welfare reform and possible Right to Buy extension are seen as 'credit negative' by ratings agencies
- > In the long term, European funds may focus on other markets, away from UK

Housing market

- > House price growth forecasts are uncertain following the vote to leave the EU and outstripping of incomes over a long period, particularly in London
- > Rents in London fell in 2017, and although there is variation in local markets, this does not appear to be limited to central areas
- > Higher stamp duty on Buy to Let and second home purchases, and changes to tax relief for landlords, will become more established and continue the trend of dampened investor demand
- > A drag on house prices and numbers of sales transactions will continue, particularly in but not limited to central London and the luxury market, due to uncertainty around Brexit, and limited affordability
- > Mortgage availability and affordability issues, including deposit requirements, will continue to hold back buying by younger (under 40) households
- > Costs of development will increase following the Grenfell Fire, impacting viability and market pricing
- > Sector disruptors such as Sage and Blackstone could have an impact on the market for housing associations

Living standards

- > Living standards will be affected by rising inflation with very limited increase in real disposable incomes for next 5 years (OBR)
- > Residents of housing associations who do not claim any welfare support will benefit from the annual cut in social rents until 2020
- > Job security for many in lower wage occupations will remain poor (zero hours contracts, National Living Wage), with growing likelihood of a 'revolving door' on benefit claims
- > Pensioner incomes protection and 'triple lock' may come under threat from a government keen to tackle generational inequalities
- > Incomes may continue failing to keep pace even with slower growth in house prices and market rents, straining budgets
- > There is a possibility that poorer economic performance could push the Government to start to wind back from the austerity agenda



PESTLE analysis



Impacts of austerity

- > The pace of welfare reform will slow, but the impact of existing changes and cuts in public services on customers' living standards and support options will continue to bite
- > Labour market volatility is making incomes and employment opportunities uncertain, although headline unemployment rates may remain low
- > Household debt levels are rising again, reducing ability to absorb new economic and financial shocks
- > Wellbeing and mental health are affected by greater levels of financial pressure
- > Demands on housing associations and service expectations are likely to increase further as alternative sources of help decline
- > Cuts in lower and mid level social care provision are having increasing effects on older people's wellbeing
- > The Government is increasing early years childcare provision and requiring lone parents to look for work
- > Rough sleeping rates will remain high and will continue to be an issue of public concern

Demographic change

- > A growing older population includes the rapid rise in 'frail elderly' bringing increasing social and support needs
- > Immigration can have an impact over time on the nature and culture of some communities
- > Immigration patterns will change while free movement policies are uncertain and Brexit negotiations continue
- > The construction skills shortage may be exacerbated by changes to immigration patterns
- > There is a rapidly growing number of adults under 30 staying in or returning to the family home
- > The increasing pressure on housing, schools, health services etc from rising population is not matched by government investment in those services



Alienation

- > Increasing alienation from political process and mainstream parties has longer term unpredictable consequences, however...
- > ...the voting turnout rate and level of youth vote at the 2017 election give tentative indications that this may be starting to change
- > The Grenfell Tower tragedy will have long lasting consequences in terms of attitudes towards government, local authorities and social housing
- > Poor housing market affordability has cumulative knock on effects on many households' ability to meet aspirations, start families, and on belief in the 'social contract' between state and individual
- > Growing inequalities between richer and poorer sections of society (particularly in London) are creating increasing polarisation and risks damaging community cohesion
- > Growing intergenerational inequality is producing disillusion and discontent amongst many younger (under 40) households
- > There may be a backlash against mergers by residents if they are not perceived to improve service standards, or to result in changing stock profile and disposals
- > Public mood in general will be volatile due to policy & economic concerns, weaker government, social media effect

NIMBYism

- > The housing crisis is now more prominent politically, polling as a top 10 issue (number 1 in London). There may be a greater acceptance among some of the need to accept development in their local area
- > There will be some ongoing difficulties in persuading other well-housed people to accept the need for more affordable housing, particularly outside London
- > The Government may offer more local community incentives to increase receptiveness to development, as it attempts to reach 300,000 homes a year
- > Protection of green fields and the Green Belt is distorting planning and housing delivery but remains a tenet of policy
- > Low housing supply levels are increasing shortfalls and exacerbating economic and social impacts on households
- > The Government is bringing greater pressure to bear on councils to adopt Local Plans, and meet local housing requirements



PESTLE analysis

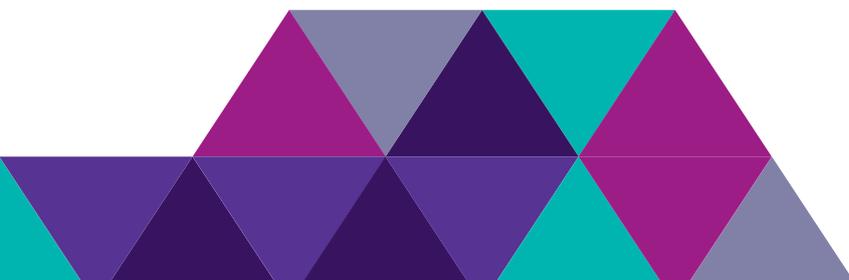


Technology environment

- > Computer power will continue to double every two years, creating problems of rapid obsolescence, but opportunities to provide greatly enhanced operational and automated systems. This requires regular substantial injections of resources
- > Innovation in building technologies bring potential to improve construction practices and efficiency, (e.g. offsite construction is gaining momentum), as well as maintenance practices
- > The Grenfell Tower tragedy will have implications for future construction costs and ways of working to ensure quality and building information audit trails
- > The growing 'amplified intelligence' environment, with employee thinking augmented by computer run insights (e.g. Big Data), offers the opportunity to change working practices and services
- > Secure systems environment requires consistent updating as hacking practices become more sophisticated and frequent
- > Around 25% of UK adults upgrade their smartphones each year
- > Broadband is now a '4th utility' with consequent change in customer service expectations

Service access

- > Growing need for social housing tenants to have internet access, particularly to access welfare benefits as they become 'digital by default', requiring a response from landlords. Some customers will need help to acquire digital skills, or be resistant to the idea of getting online
- > Other customers will have an increasing expectation of self-serving online as they can with other regulated service providers e.g. banks or utility companies
- > Increasing expectation of service immediacy through mobile technology from both customers and housing staff (61% of web traffic now through mobile devices)
- > Growth in smart appliances, smart homes, 'internet of things' development and use
- > Social media is a mainstream communication channel between customers and service providers, demanding a modulated but rapid response
- > Social media activity requires resource and careful strategy implementation that avoids potential legal pitfalls
- > 'Short form' video has very quickly become a standard marketing and communications tool



Data quality and protection

- > Complexity of service provision in large organisations makes data difficult to control and keep up to date, however there are substantial regulatory and legal consequences if data is not effectively managed
- > Services will be pushed to become increasingly driven by data
- > Use of personal data to improve individual services has potential tensions with requirements of the Data Protection Act
- > General Data Protection Regulations (GDPR) from May 2018 will lead to increasing safeguards and regulation on customer profiling activity
- > There is an increased risk of cyber attacks through ransomware and activity will grow in sophistication and complexity, requiring awareness from staff

The workplace

- > Growing ability for staff to work effectively from home or mobile due to technological advances, offering the opportunity for changes in office strategy and working practices
- > Smart offices can enable improved energy efficiency and value for money, but require upfront investment. Opportunities for change in working practices with new offices from 2020
- > Growing use of the cloud to host and manage services. Service migration, use and integration will require coherent strategy
- > Fast changing growth and commercial usage of technologies such as drones, 3D printing, artificial intelligence



PESTLE analysis

Legal / Regulatory

Regulatory framework

- > Regulatory framework for housing subject to further change as the Government may look to further deregulation, although this may receive less public support than anticipated in the wake of Grenfell
- > Principle of co-regulation will be maintained, with housing associations paying for the service
- > Robust business plan stress testing and asset and liabilities register requirements will continue
- > Ongoing and increasing pressure to demonstrate robust value for money annually, increasingly through measurable indicators and targets. Sector Scorecard will be adopted and the new Value for Money Standard comes into effect in 2018
- > Financial constraints on housing associations, slower economy and housing market, plus uncertainty will increase the number of V2 assessments from the regulator
- > Robust internal procedures are needed to manage serious detriment risk areas. Focus on serious detriment will increase following the Grenfell Tower Fire
- > Hackitt Review of Building Regulations and Fire Safety will report in May 2018 with some changes likely
- > The new Homes England investment function will look to establish itself during 2018, with rebranded social housing regulator also coming on stream
- > Homes England will take a more activist approach to intervention in the housing market
- > Proposals are being consulted on for the creation of a new housing ombudsman with responsibility for social and private landlords and developers of new build homes, with the aim of removing gaps and improving standards

- > Strong scrutiny of risks, core efficiency, and internal control frameworks through in depth assessments
- > General Data Protection Regulations (GDPR) will come into effect in May 2018

Legal

- > Reversal of classification of housing associations as public sector will have an impact on government policy towards social landlords
- > Risk of increased legal action, evictions, and costs as residents struggle with welfare cuts and austerity
- > The Government will review practices in the leasehold sector and will make changes to leasehold tenure and ground rents policy
- > Direction of travel on PRS policy from the Government should limit poorer practices by letting agents and landlords, and may reduce competitive advantage of housing association private rental businesses

Financial regulation

- > The 2012 Mortgage Market Review created long term change in mortgage supply, restricting credit availability to 'better risks'
- > The Bank of England has increased liquidity requirements for banks, resulting in a tougher environment for lending
- > The Basel III regulatory framework will come into effect in March 2019, affecting liquidity and credit availability
- > There will be increasing scrutiny on a growing consumer debt bubble involving credit cards and products bought on credit such as cars
- > Shared ownership regulation is likely to continue, restricting the number of lenders in the markets



Environmental

Sustainability

- > It is unclear where the Government is headed on sustainable development and climate change.
- > Green issues may struggle to get attention due to general political upheaval and anxiety about the economy, despite 25 year 'environmental plan'
- > However concern in the general population will grow and attitudes continue to shift in favour of environmentally friendly behaviours
- > The presumption in favour of brownfield and against the use of greenfield sites in most areas will continue
- > The possibility of using brownfield sites in the green belt is a useful, if limited, liberalisation
- > There will be the presumption in favour of development in the absence of local plans, providing greater pressure for local authorities to adopt plans within a reasonable timeframe
- > The Government is promoting offsite manufacturing and there will be a presumption in favour of offsite construction from 2019 on MoD land to support growth in modern methods of construction

Fuel poverty

- > Inflation will continue to push household energy costs upwards, putting additional pressure on household budgets
- > A reduction in housing association capacity linked to the 1% rent cut will continue until 2020, and may lead to slower implementation of planned maintenance programmes
- > Momentum will grow towards divestment of fossil fuels and the cost of renewable energy will start to fall
- > Increased maintenance costs resulting from Grenfell likely to reduce available funding for fuel poverty initiatives



Where we work

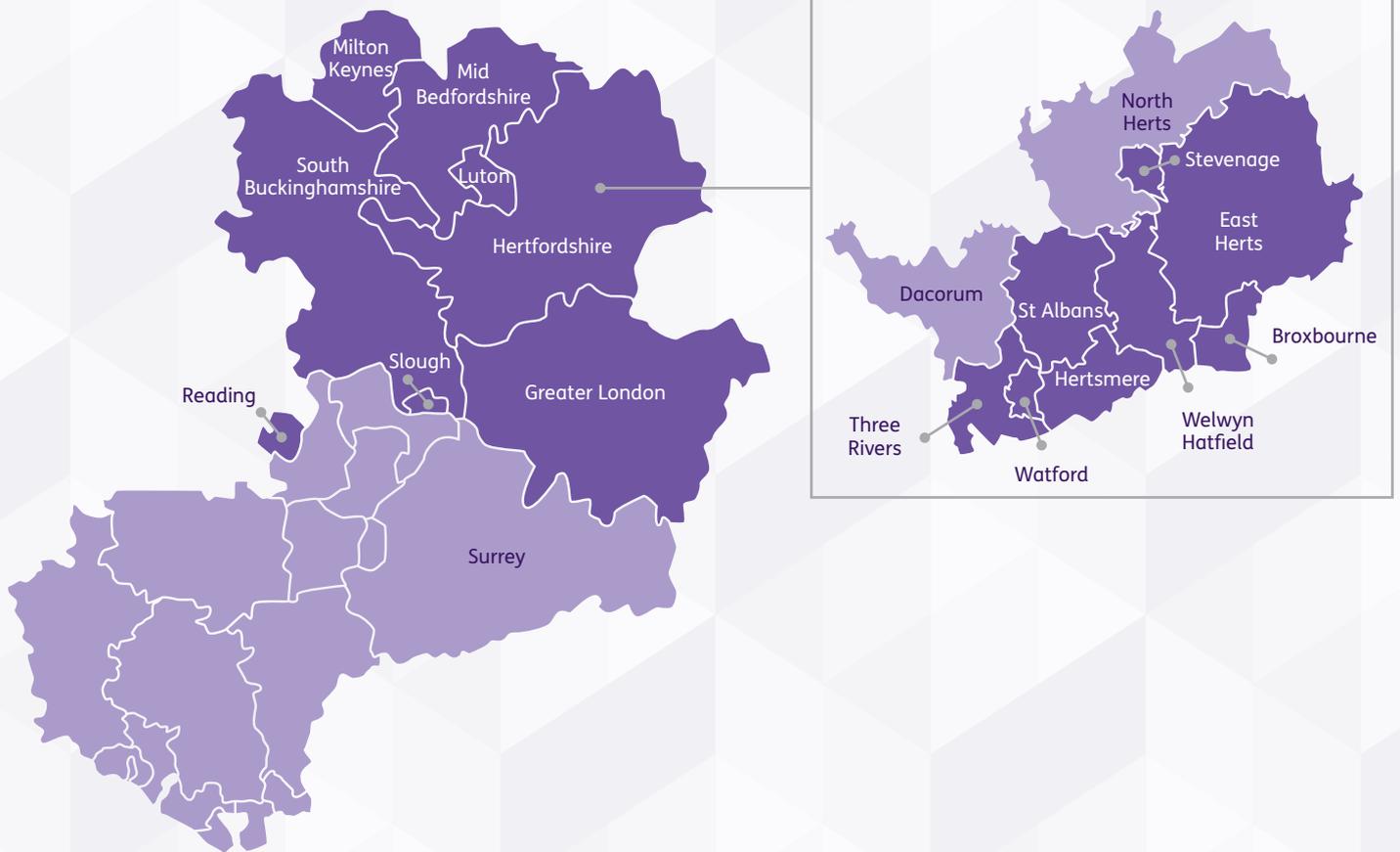
London



■ Network Homes

- 1 City of London
- 2 City of Westminster
- 3 Kensington & Chelsea
- 4 Hammersmith & Fulham

Outside London





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