Investment Strategy

July 2024

Section 1
Introduction and Summary

Introduction

Through the Investment Strategy we aim to demonstrate how by 2050 we can both grow and improve the condition of SNG's estate of homes, so all are of a standard fit for the future. It looks at the practical steps to achieve this and provides a guide to how the capital we employ can be used most effectively to meet our social purpose and safeguard our financial strength.

Tom Titherington
Chief Investment and Development Officer

This means our approach to asset management needs to be strategic; recognising that decisions made now will drive the scale, shape and success of the future organisation. This is particularly true given the context in which we operate.

For a long-time affordable housing has not been seen as part of the economic infrastructure of the nation but as a form of safety net for those most in need. State funding has not been used to grow or even maintain levels of social housing as a base for families and individuals to prosper but rather to maintain minimal levels of an increasingly residual tenure. At the same time funding for social housing has enabled and underwritten larger Real Estate transactions, reducing developer risk and maintaining overall production levels.

This may be changing. Housing production, the role of affordable housing and its economic contribution is increasingly recognised, particularly by a new government. Yet this is at a time when there is a growing realisation of how poor much of our existing housing is and how poor the quality of construction has been. The tragedies that have drawn attention to this have unsurprisingly led to increased regulation in terms of both the built form and the operational focus of housing associations.

Despite this apparent change in sentiment there remains a danger that government and industry will once again fall into the trap of believing that increased housing production supported by increased grant will solve the problems of the housing market.

The problems are much deeper than this, often summarised as being on the one hand problems of affordability and on the other the cost of production and the ability to deliver at scale. While this is broadly true this hides as much as it explains in terms of the complexity of land ownership, local markets, local need and demand and the profound depth of these problems.

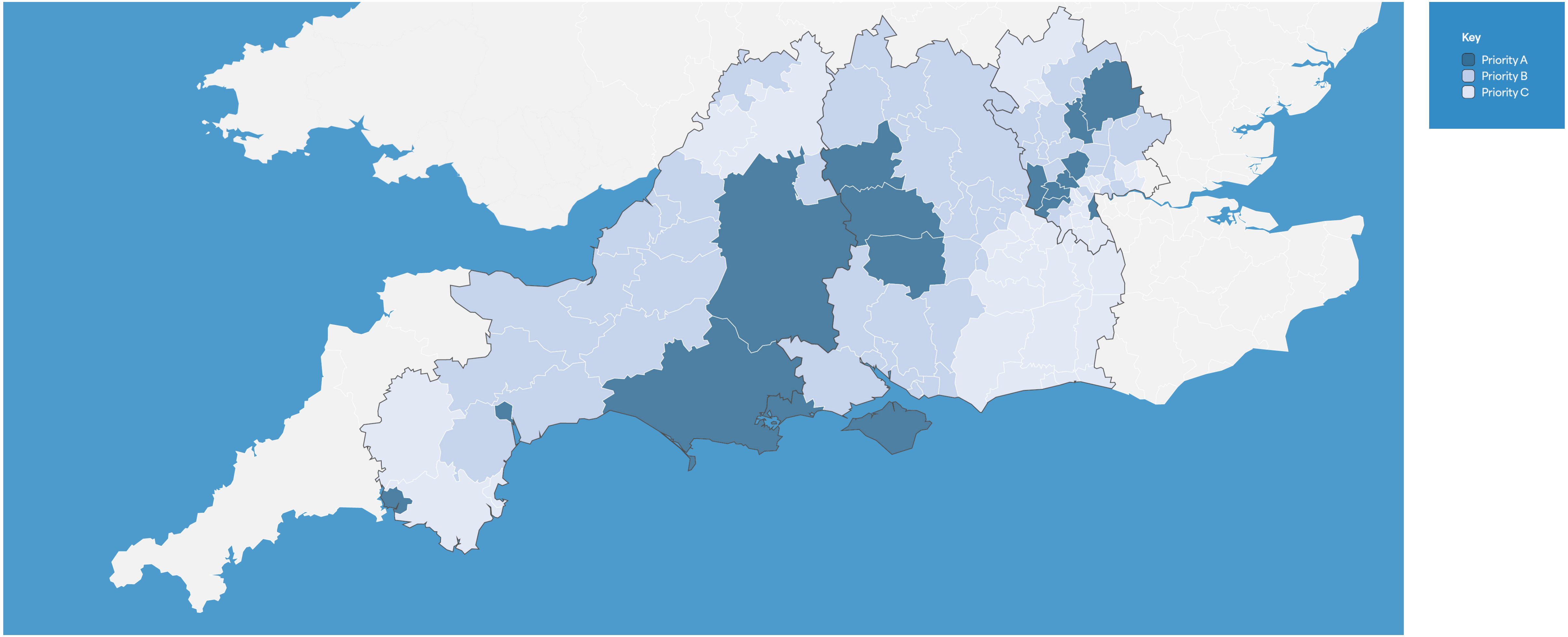
As a major housing association, we have the duty and the ability to help address the housing problems in our areas of operation. Not only to deliver government programmes of the day but to use the fact we are a social business able to act as patient capital and begin to think long-term. Growing expectations, a variety of issues of housing and place, the reduction in income through rent control and declining grant rates make it even more important that we think hard about how to maximise our impact into the future.

This inevitably means looking at our purpose and task. We need to review our overall estate of homes and asking what should our new homes be like? What settlements do we want to create? How well do our existing homes and places work now and how well will they work in the future? Will our estate meet future housing need, be popular, be desirable? How much would it cost to bring these homes up to standard and can we ever bring these up to a standard that will meet expectations of our customers and changing regulation?

Introduction (continued)

As we work to address these challenges the operating climate remains volatile at a time when some of the fundamentals necessary for the development and improvement of new homes are absent or weak. The recent spate of insolvencies in construction compounds the absence of people and skills in construction and related professions such as planning, creating an unprecedented fragility that means it will be increasingly difficult to achieve plans on time and on cost. Whatever our intentions we will need to ensure we do what we can to control identified risks, be agile in our thinking and actions and be aware that this strategy will need to change in response to pressures and risks not yet apparent.

Our Operating Area with Authority Areas by Priority



Executive Summary

The objective of the investment strategy is to guide our steps over the next 5 years to enable SNG by 2050 to have both grown and improved the condition of our estate of homes, so all are of a standard fit for the future. It looks at the practical steps to achieve this, what we need to do now and provides a guide to how the capital we employ can be used most effectively to meet our social purpose and safeguard our financial strength.

The strategy outlines that we will have an **ambitious development programme and a programme of retrofit** additional to building-safety works and the Forward Maintenance Plan that means we will **improve the condition of, and decarbonise** our housing stock as quickly as is possible. The assumptions we make in this strategy largely drive the business plan.

Our approach recognises that in-the-main our existing properties may be of comparatively good quality now, but many were originally poorly built and designed in settlements where the urban design is exacerbating wider social issues. These homes and places will not meet the standards or the needs and expectations of customers without **large scale reinvestment, replacement or regeneration.**

This approach also makes clear that the properties we develop now need to be at the best possible standard going forward to obviate the problems of performance and condition. We have developed our own standard to assess the quality of new and existing homes and neighbourhoods; **The Homes and Place Standard**. This has sustainability (physical, environmental, social, economic, aesthetic etc) and the health and well-being of our customers at its heart.

All new homes are assessed against this standard and we have a target score for what each should achieve. We have graded our existing homes against this standard using our **Asset Grading Model,** assessing the results against front-line service colleagues' perceptions.

The grading informs **an approach that involves asset disposals and replacement, significant retrofit programmes at scale and pace, and regeneration of identified neighbourhoods.** Our knowledge of our assets is further informed by ongoing stock condition surveys in advance of retrofit, regeneration and planned maintenance. This is essential in order to achieve one of the key elements of our sustainability strategy – **the decarbonisation of our homes.** We have undertaken a number of retrofit pilots to inform the best ways to address issues within the key property architypes.

Using the information we have we apply a **"Building passport"** approach. We ensure that we have a clear view of what works need to be done to ensure a home meets our standard and then layer investment to initially address the most pressing problems and then return to improve properties further.

This can lead, where practicable, to the divestment of non-core homes and poor condition core homes with the proceeds used to provide more core homes. We do this on a balanced score-card approach, and we will replace every disposed rented property with a new property of the same tenure type, I.e. We will replace social rented homes with social rented homes.

Our development numbers and prioritisation reflect our understanding of where we may dispose of properties. We cover a wide geography and the approach to local issues and need and our development strategies are reflected in **three distinct Regional Strategies for London and East, South and West.**

These strategies are presented in discrete sections on;

- **Developing New Homes**
- **Approach to Strategic Asset Management; including Homes and Place**
- **Town Based Regeneration**
- **Capability, Process and Risk**

The Regional Strategies are contained in Appendix 1.

Fundamental to the success of our long-term strategy is a change in the method, quality and quantum of the information we collect and hold on our homes to create a detailed understanding of condition and performance.

Investing in a **Single Asset View (SAVi),** remains a key part of the strategy as it has for the last 3 years. This will allow us to move from separate Future Maintenance Programme (FMP) and Strategic Asset Management approaches to **one investment approach** based on a single digital understanding of our properties. The ability to do this relies on wider corporate support.

Investment Plan in Numbers

The Investment plan financials are aligned to the 2024 Business plan:

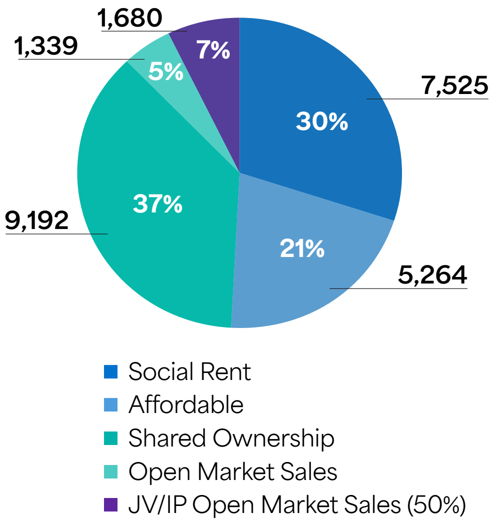
- Investing £7bn into new and existing assets over ten years which will be funded by Sales & Disposals proceeds, Grant, and additional debt funding.
- Activity growing by 2028 to deliver c.2,600 new homes and dispose of 550 core units per year.
- This will generate £145m of proceeds and £80m of surplus per year to reinvest in our portfolio.
- The development programme will be delivered through a mix of SNG-led and Developer-led projects (assumed to reach c.70% SNG-led to manage both deliverability and risk levels).
- The plan includes secured SHDF funding only so any additional funding would potentially allow us to accelerate retrofit investment activity.
- Regeneration activity is composed of 20 micro regen sites and Basingstoke West (which has been reduced in scale).
- By 2028/29, 65% of developments will be SNG-led on our own land, or through a development arrangement with partners.
- Through the strategy we will have delivered 6,690 new homes with Homes England & GLA Funding through our Strategic Partnerships.
- By 2034, SNG will grow in scale to approaching 100,000 homes.
- Further detail on the Investment plan numbers can be found in appendix 3 and detail on our capital allocation framework can be found in appendix 4.

The business plan outlined a number of scenarios and sensitivities. There has been additional work around possible mitigations for any of these stress testing scenarios with a particular focus on a short term liquidity, managing interest cover in the short term and managing gearing over the medium to long term. Potential mitigations explored in relation to investment activity include: cutting back or stopping all uncommitted development, delaying Retrofit spend, increasing the level of strategic disposals, disposing of our land bank of sites and looking at tenure conversions.

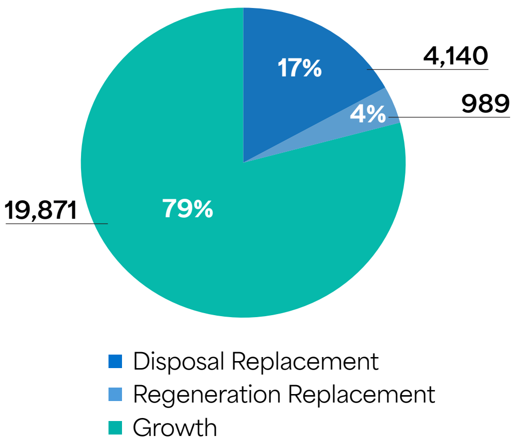
Activity	
New Homes Delivered	25,000
Retrofitted Homes	15,073
Core Disposals	4,784
Non-Core Disposal	1,399

Investment	
Development Capex	£6.3bn
Retrofitted Capex	£0.5bn
Disposal Proceeds	£1.3bn
Staircasing	£0.2bn
Sales	£1.4bn
Grant	£1.1bn
Debt/Other surplus	£2.8bn

Tenure Mix



Replacement & Growth Mix



Note - 1. Forecast excludes inflation. 2. Future grant programmes assumed to be in line with existing grant levels.

Sovereign Network Group

Our Investment Strategy helps the organisation navigate a period of major change

Volatility →	Vision →	All homes up to a standard by 2050 & fit for the future
Uncertainty →	Understanding →	Good for our customers health, wellbeing & affordability. Know our assets inside & out
Complexity →	Clarity →	No stand-alone development strategy, overarching cohesive Investment strategy
Ambiguity →	Agility →	Business plan scenarios, to give different options depending on environment

Section 2
Developing New Homes

Chapter 1: Developing in a changed Housing Market

We are in a period of major change in the housing sector that leads to a reduced capacity and desire to deliver new homes. The economic & political environment is in significant flux but underneath everything is the profound dysfunctionality of the systems governing housing production that in turn affect the housing market. We have entered a period of low housing production with house prices maintained through the scarcity of product.

The current “model” of housing production is no longer workable. Though the key economic constraint for consumers (the cost of borrowing) will ease without policy change, there will be continued absence of new home delivery due to ineffective planning, production cost increases and the growing construction complexity following regulatory change.

Under a new government there will be some policy change that will alleviate under-production, but this will take time. In the meantime, housing production will primarily be through a reduced and restricted number of housebuilders as major PLC’s merge and smaller developers and developer /contractors go into administration. See Appendix 2 for market analysis.

Across our geographies there are a number of key issues:

- Demand has reduced as borrowing costs increase with a sharp fall in first time buyers. This in-turn has led to a drop in sales rates, with a consequential reduction of construction as developers adapt to a reduced market.
- The majority of housing land is owned by the major PLC’s and our strategy of production will be threatened if they reduce the level of homes produced.
- Competition for S106 in many areas has fallen away; in part because of the quality of home and place on offer and in part because Housing Associations prioritise grant spend and have limited capital to employ.
- The number of tier 1 contractors has reduced, and there have been a number of insolvencies across our geographies that have led to delays and significant impairment.
- Our own SNG-led developments are facing viability issues, particularly where we have looked to develop at density and height. These are also the type of development where the majority of insolvencies have occurred.

In London these pressures are particularly acute making us more reliant on a small group of large (but good quality) expensive constructors.

Despite these factors there are a number of reasons to believe we can continue to develop as per our strategy. Some of these are internal. We have the capacity to work in a counter-cyclical manner in part because of our underlying financial strength and the low levels of sales exposure we carry. Our starting point is different from others; a low percentage of our programme is for sales and the vast majority of our sales exposure is for Shared Ownership. Other Housing Associations have stepped away from the market so in certain key areas competition has reduced. While there is a drop in demand from first time buyers for outright purchase, demand for Shared Ownership homes remains high.

Most of our supply chain is well known to us and outside of London has been subject to significant due diligence to be taken onto our contractor framework.

Within the majority of our operating areas land is owned or optioned by housebuilders. Though better capitalised than in the last major housing downturn in 2007-9 and therefore happier to release slowly to a depressed market if this maintains value, they still need turnover and activity to maintain operational integrity. Increasingly they will be prepared to accept a level of scheme margin reduction if they can maintain their level of Return on Capital Employed (ROCE). This is why “partnership” is the most used word by the expanding PLC’s; Joint Ventures with us shares risk, halves the capital and means that while they can accept a reduction in margin, they can protect ROCE. Through the section 106 and additional sales for affordable housing means a forward sale equivalent to around 50%. What this means in terms of broad activity is that we do the following:

Continue our strategy of “SNG-led” development. This will involve straight forward purchase and build, and package deals with trusted suppliers.

Section 106 and the purchase of additional homes developed by others will remain a key part of what we do. This will be where we have assessed the quality of these developer-led schemes.

The re-purposing of commercial estates is a key part of town centre and neighbourhood renewal. Our strategic activity involves thinking longer term at brown land and generating new land opportunities through the re-purposing of office, retail and other commercial estates in decline.

Working in partnership. There are a number of reasons why continued partnership working is key to delivering our target outcomes. It is difficult for us to compete-for and deliver sites of 400+ homes as a stand-alone developer as the level of outright sales would exceed our risk appetite and in a tightening labour market we have limited capacity/experience to attract and manage a supply chain. Alternatively, proactive partnership allows us to leverage partners' supply chains, using partners' skills and expertise, and combining our investment strength to unlock and deliver opportunities.

Three geographical regions give us the focus to align activity to meet the needs and challenges within specific authorities. Currently our South region is driven by the need to identify land for new homes, to replace poor condition stock. In the West development is driven by a rapidly growing population and need for affordable housing. For London & East the establishment of a longer term, sustainable investment programme ensuring that high quality new affordable homes can continue to be delivered in one of the least affordable regions of the country.

We will work closely with **Homes England, The GLA (Greater London Authority) and Local Authority partners.** This will enable us to complete 1,940 new affordable homes by March 2028, as strategic partner of Homes England. 35% of these utilising Modern Methods of Construction (MMC). As a partner of the GLA we will deliver 835 new homes. Our overall investment of £3.3 billion over the next 5 years involves £700 million of development grant. This equates to approximately £84k per home in the South and West where our average production cost of a new dwelling is £275k and in London £165k where cost of production is approximately £365k per home.

Besides this we will work with Local Authorities and our development partners and others to access infrastructure and land-reclamation funding, as a method of progressing regeneration and other difficult sites.

Section 3
Approach to Strategic Asset Management; including Homes and Place

Chapter 1: Strategic Asset Management (SAM)

Our Strategic Asset Management (SAM) approach ensures we will both grow the number of properties we offer to meet need and address the issues of quality with our existing assets.

This involves understanding the condition of the homes and places they are located so we are able to make decisions of reinvestment and disposal. This means analysing the social value of individual homes and our portfolios of homes and how this could be increased through the effective release and investment of capital.

We are looking to evolve our asset base over the next 30 years so it will become younger, less costly to maintain, zero carbon and universally attractive and desirable, whilst continuing to grow and provide more much-needed social rented homes.

There are 4 concepts important to understand in terms of our approach to Asset Management

Social Value

Social Value is something that changes over time. Cross functional operational staff who know and understand our stock and our customers develop this concept and its application through our Asset Grading Model. When assessing social value we consider both the Home and the Place, these measures - reflected in our Homes and Place standard - drive our asset grading model: Places which - have a mix of income & tenure; are attractive, desirable, popular, safe; have a good quality external areas; allow easy management & maintenance. Homes which - are affordable; have low living costs; are environmentally sustainable; have a low cost in use.

Social Capital

Social capital is SNG’s assessment of financial performance - it takes account of the feasibility and cost of bringing our homes up to the required standard, as well as the opportunity to reinvest the cash generated through sale. The measure that we use is:

“Social Capital = *MVVP ‘minus’ Value in Use ‘minus’ Grant”

This measure informs decisions on whether to retain and invest, regenerate, or dispose and replace. A positive social capital value represents the untapped asset value that could be released on disposal to reinvest in new or existing social housing. We then identify homes for retrofit, regeneration or disposal and replacement, and by replacing old homes with new is key to driving improvement across our portfolio of homes. The programme of disposal and replacement means an increased development programme to ensure that we replace every rented property we sell in the same geography.

Core assets

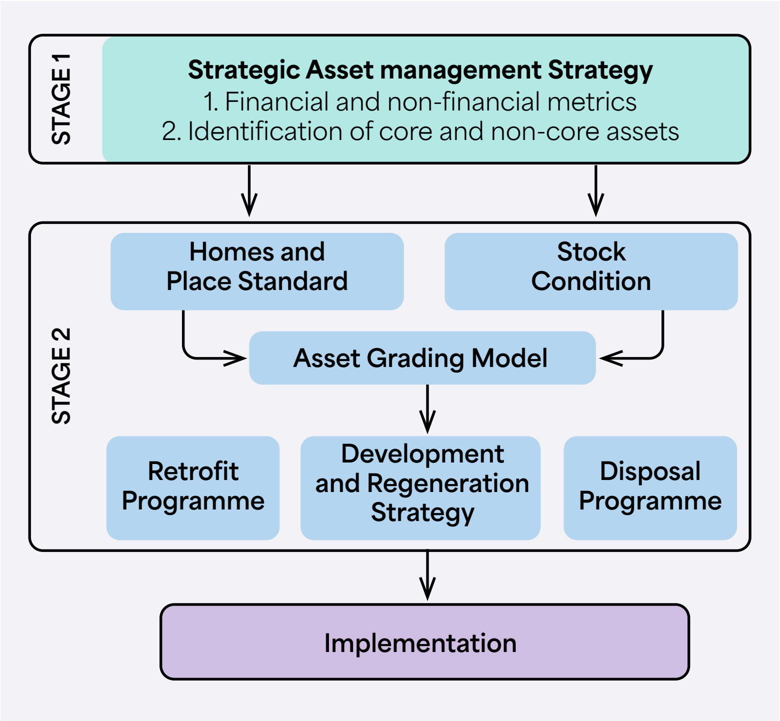
Core assets are those which are core to SNG’s social purpose, more specifically defined as sub-market rented homes. These should have a high level of social value and SNG would retain and invest in this portfolio where feasible in order to ensure that the entire portfolio achieves a Homes and Place ‘GOOD’ Standard. However, this is not always feasible or advisable because of the ability or cost of bringing these homes up to a standard fit for the future or popularity or not being in an area of priority for social housing. This means that these homes will be considered for regeneration or for sale where the sums generated are used to develop a new socially rented home.

Non-Core assets

Non-core assets, primarily Shared Ownership, market rent and discounted market rent are important activities in themselves and to many of the communities in which we operate. However, there are no other agencies, besides charitable housing associations, which provide deeply discounted rented homes or traditional social housing at-scale and therefore this needs to be our priority. Non-core properties will continue to be a part of our development activity, particularly shared-ownership, and will be part of our asset base in 2050 and beyond, but we will actively consider disposals as and when appropriate in order to help fund the investment required in our core rented homes. Decisions to dispose depend on an understanding of the performance of individual portfolios financially, in terms of the balance of capital gain versus revenue contributions and must take account of local social impact. This means it is unlikely that we will make a shared ownership portfolio sale during the next period and well performing key worker schemes will not be disposed of.

***MVVP** – Market Value Vacant Possession

Chapter 2: Implementing our Strategic Asset Management Strategy



Asset Grading

We use an Asset Grading Model to assess the performance of our core rented properties. As far as possible we use Homes and Place methodology to assess homes. This links the condition of the property to factors such as popularity, cost in use and complaints and repair profiles; it gives us an assessment of the social value of properties and neighbourhoods and the extent to which they support the health and wellbeing of customers. A key part of this assessment is how far from achieving an acceptable reduction in operational carbon and consequential reduction in the cost in use a property is. We also incorporate a social capital score in this assessment in terms of what level of expenditure would be needed to achieve this acceptable standard.

The Asset Grading Model indicates those properties that are priorities for more detailed assessment to finally decide a course of action - **Retrofit** (improving the fabric of the home), **redevelopment** as part of wider regeneration of a neighbourhood or **disposal**.

In carrying out this assessment

- We will not invest to decarbonise where despite this investment properties would remain poor in terms of location, size, outdoor space, connectivity etc.
- We see Regeneration as key part of our placemaking ambition. It enables us to re-purpose our own land to provide more, better homes.
- Homes which are not fit for purpose will be sold on the open market and at full market value when void in order to fund an enhanced development programme that ensures we replace each home sold with a property in the same local authority area.
- We also consider community investment and social cohesion: disposals are calibrated with wider neighbourhood plans and consideration is given to who acquires the properties, with the aim being to maximise sales to owner occupiers.
- We will seek to ensure that all replacement properties are unencumbered by any s106 or other legal restriction on use, in order to ensure that replacement properties are truly like-for-like and that future asset management flexibility is retained.

In some areas we will need to do more granular work on assets where the grading would lead to a level of disposal and replacement that is impractical. In these areas we will need to create a “mini-asset management approach” or a rolling regeneration programme of area redevelopment including development and sale of new homes. The asset grading outcomes for SNG can be found in appendix 5.

Chapter 3: An approach to Estate Regeneration

Background

Our Strategic Asset Management plan aims to ensure that all of our homes are good quality, able to make the transition to be net zero ready and are located in attractive functional places. They should be socially, economically, environmentally and aesthetically sustainable where our customers, family and neighbours are able to thrive.

To achieve this, SNG has a 30-year strategic programme with a balanced approach including retrofit, new development and regeneration. As a landlord and long-term custodian of place, SNG is of the view that regeneration is critical to replacing poor quality stock, reviving places, and increasing supply of new homes.

Our approach to regeneration is two-fold; the first being a multi-layered approach to housing regeneration, the second being more holistic town and town-centre regeneration.

Multi-layered housing regeneration

Having completed a Homes & Place assessment of our stock, we have a clear understanding of where our existing homes are of poor quality, unable to be retrofitted and in places which are not supporting our customers to live well. Our investment response will be different in different locations, but in summary will fall into one of three approaches:

Total place transformation – in a very few locations, where we are a dominant landowner, we will be looking at a total place transformation. This approach starts with a clear socio-economic analysis and intensive dialogue with customers/residents, including training local people to undertake the necessary research, in order to arrive at a broad and comprehensive strategy for change.

The socio-economic strategy then informs both a spatial strategy for investment in the physical environment (which would likely include both retrofit and demolition/new build), together with a programme of 'soft' interventions to bring immediate and ongoing change to the issues being faced by that particular community.

The spatial strategy will be one which is housing led but will take particular care over the non-residential components of place, services, amenity, retail and spaces where communities can come together. The programme of 'soft' interventions sees us aligning the community investment and other services we offer with other local partners, evolving into a longer-term set of meanwhile interventions such that we change the nature of the place and not just its physical fabric.

Finally, our approach involves a deliberate and strategic approach to managing the estate through transition, with a clear and differentiated customer offer, given the long-term nature of the project and disruption to their lives, together with a logical and coherent approach to maintenance of the asset.

At this stage the only area identified for this approach is Basingstoke West. It may be that we would consider one or maximum two other locations for this level of intense activity.

Neighbourhood reinvigoration - our second approach is one of neighbourhood reinvigoration, this is where we look at smaller areas or estates where we own significant stock. The approach will not be dissimilar to total place work, but at a much smaller scale. An initial starting point will include a socio-economic understanding of place, but the interventions will be focused on a coordinated programme of retrofit, infill and some discrete demolition/rebuild, together with some investment in the public realm. Community reinvigoration will likely be focused on securing sustainable community facilities. At this stage, further work is underway to flesh out more details around this second approach, with three areas provisionally having been identified as Abingdon, the Somerford Estate (BCP), and Newbury.

Targeted redevelopment - our third approach is one of targeted redevelopment, this will target locations where there are particular challenges with the quality of smaller areas of existing homes, usually where there is the opportunity to re-provide a greater number of homes through spot demolition and rebuild. While this scale of intervention is still important to the delivery of the overall strategy, it is not a level of intervention which will have a significant impact on place, or the socio-economic opportunities for our customers.

At this stage, an initial pipeline of 15 - 20 sites have been identified for further work.

Chapter 4: Implementing Retrofit

We intend to spend a minimum of £570 million over the next 5 years retrofitting 15,000 SNG homes. Some 10,000 of these will be across the South and West regions and another 5,000 will be within London and East. We have estimated that we will spend an average of approximately £38k per home across the three regions. Additionally, we have allowed £20m for complementary investment in place.

Our retrofit ambitions derive from the commitment to improve the condition and performance of our portfolio of homes in use to a level that, with the anticipated improvements to the electricity production and the national grid, will mean our homes are effectively operationally zero carbon. At the same time this investment will increase the comfort of our customers, reduce problems such as damp and mould and importantly the cost of living in one of our homes.

To enable us to do this we have planned for significant investment in existing homes additional to our forward maintenance programme and will actively pursue additional funding through government initiatives such as the Social Housing Decarbonisation Fund (SHDF).

The asset grading exercise indicates the properties where investment is needed and to what level. However, this cannot give us the detail we need to specify works, and so, before work begins, we carry out detailed stock condition inspections. Using the information, we apply a “Building passport” approach. This ensures that we have a clear view of what works need to be done to ensure a home meets our standard and then layer investment to initially address the most pressing problems and then return to improve properties further.

To ensure that we are clear about what investment is the most effective for both achieving carbon reduction and for the ease and convenience of the customer we have developed an innovative approach to sustainability creating a partnership with Sero, a sustainable energy solutions provider.

Every home has its own unique energy demands and consumption patterns dependent on house type, building form, fabric, heating system, occupants, and preferences. Each home therefore needs an individual PAS 2035 assessment by Sero or similar to identify its existing and potential performance. That assessment will create the home’s own benchmark against which retrofit works and changes to the home can be evaluated.

We have embarked on a carbon assessment project across 200 existing homes where differing sets of energy-efficiency equipment will be installed alongside carbon-tracking equipment. This initiative will generate essential data on carbon emissions, informing future building designs and enhancing our sustainability strategy. This pilot project highlights our commitment to leveraging cutting-edge technology to evolve and improve our housing stock.

Using the information from the asset grading and these assessment pilots we have created “carbon pathways” for our existing stock across SNG to show what we need to do to be ready for government net zero targets well before 2050. The data gathered will provide crucial insights that inform decision-making, in-turn supporting the Investment Strategy. By analysing this data, we can refine our designs, construction practices and maintenance strategies to ensure maximum efficiency and sustainability.

We have also undertaken a series of retrofit pilot projects to understand and evaluate the performance, usability and value for money of low carbon/renewable technology within our existing housing portfolio. The purpose of these Retrofit Pilot Projects - running in parallel with SNG's SHDF Wave 2.1 works - is to explore alternate heating, hot water and ventilation technologies for differing architypes that further-aid our understanding of cost, comfort and carbon benefits as we look to decarbonise our wider portfolio of 84,000 homes by 2050, as defined by the strategic objectives of SNG's Homes and Place Standard.

To measure Health and Wellbeing benefits for our customers, SNG will set a series of Key Performance Indicators to provide clarity of purpose to the outcomes of the pilot projects. Comfort includes health, warmth, and wellbeing. The impact of heating system choice on resident comfort can be measured by combined air temperature, humidity, and CO2 measurements. Comfort feedback includes ease of use of heating controls, retrofit disruption, and handovers.

For the pilot projects we will focus primarily on homes that are a conventional wall construction, such as cavity wall with an EPC rating of C or D and where the heating systems are primarily electric, as these represent most of our core stock construction now.

Chapter 5: Homes & Place Standard

Our Homes and Place (H&P) Standard forms the bedrock of our strategic framework, guiding our commitment to building and maintaining good quality homes and better places to live. The Standard provides a platform for our investment strategy, enabling better decisions which ensure business sustainability while future-proofing our operations and housing stock.

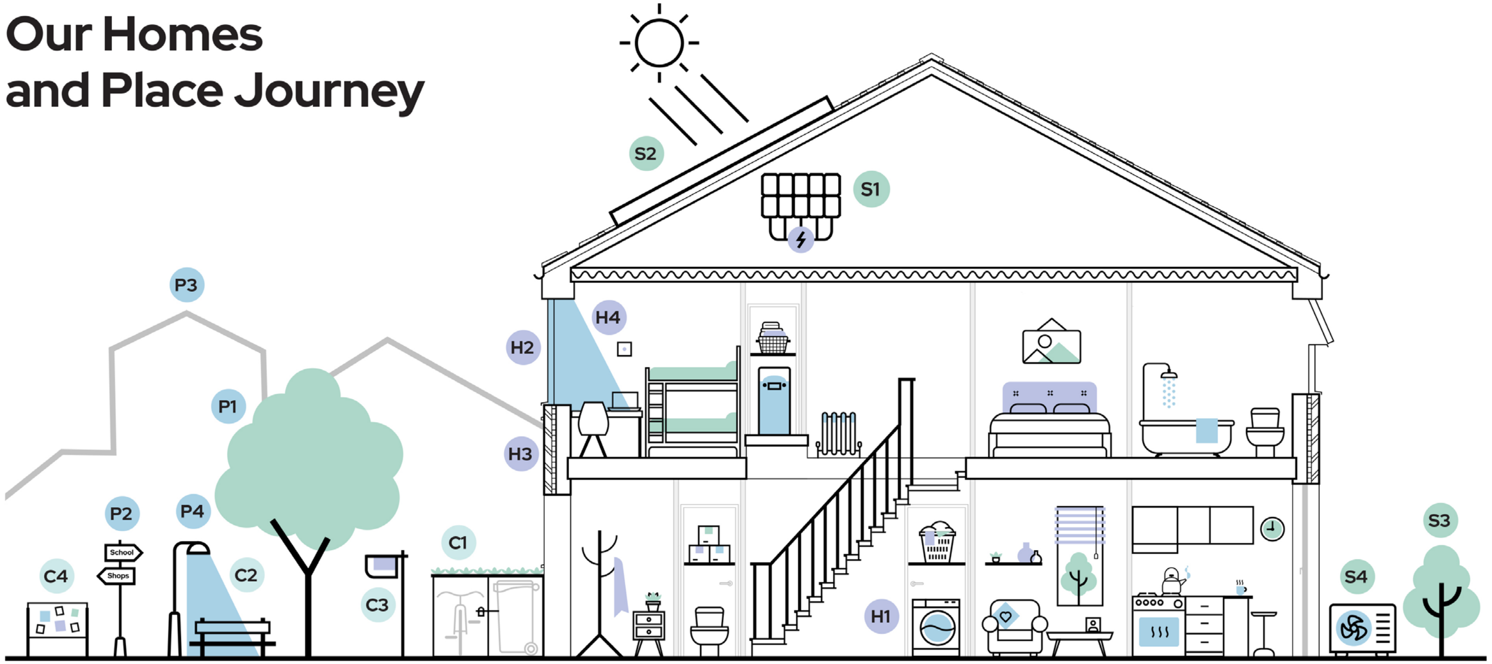
Driving agenda and futureproofing, the standard applies to every SNG home, both now and in the future. It provides the foundation for the types of homes we build, encompassing infrastructure, energy and carbon reduction. It is also the basis on which we assess existing homes, allowing us to prioritise capital investment in upgrades.

By adhering to this comprehensive standard, our leadership team can ensure that all homes are designed and maintained to be energy-efficient, environmentally friendly, and conducive to the health and happiness of our residents. This approach not only enhances the living conditions of current residents but also positions us as a leader in sustainable housing, securing the organisation's long-term viability.

Investment and Asset Management

Our financial plan has allocated £8.6 billion over the next 30 years to improve SNG's existing stock and build new homes that meet or exceed the standard. The H&P Standard supports our ongoing Investment Strategy for Asset Management, guiding substantial financial commitments towards upgrading existing homes and

Our Homes and Place Journey



Customers
- C1 Encourage long-term health and wellbeing
- C2 Be safe, secure and inclusive
- C3 Provide an excellent customer experience
- C4 Foster pride in homes and communities

Homes
- H1 Usable and adaptable
- H2 Enjoyable to live in
- H3 Cost effective
- H4 Digitally connected

Place
- P1 Have character and delight
- P2 Be well-integrated
- P3 Be inclusive
- P4 Be safe

Sustainable future
- S1 Be comfortable for the future
- S2 Have a simple approach to moving towards zero carbon
- S3 Promote a healthy environment
- S4 Empower customers through technology

developing new schemes. Properties are assessed yearly against the standard and graded based on their condition, sustainability, and alignment with net-zero carbon goals. This evaluation identifies which homes are fit for purpose, which can be upgraded to meet EPC B+, and which we should consider for disposal.

This process ensures that the investment strategy we put in place is focused on maintaining a high-quality, sustainable residential portfolio which continually enhances the overall value and efficiency of SNG housing stock.

Continuous improvement and adaptability

The Homes and Place Standard is a living document that we continuously review and improve to remain relevant and effective. Initially developed before the merger with Network Homes, the standard has been adapted to encompass diverse housing types, including high-rise blocks in London and upweighting the importance of "place" in the methodology.

This adaptability is crucial for ensuring the standard's applicability across all areas of operation, allowing us to respond to evolving housing needs and regulatory requirements effectively.

Placemaking and community focus is key to our standard and we recognise this through our organisational design in the creation of a Design Director. Outlining our dedication to creating vibrant, inclusive communities, this role focuses on making strategic decisions that enhance the quality of life for residents, ensuring that new developments are well integrated into their surroundings and provide ample opportunities for social interaction and economic activity. By prioritising placemaking, we aim to foster communities where residents feel connected and supported, contributing to overall social well-being.

Our commitment to evolution and investment ensures that our operations, standards, and investments remain relevant and effective. The ongoing review and adaptation of the H&P Standard, coupled with significant financial commitments, demonstrates our proactive approach to addressing future challenges. By investing in sustainable housing and community development, we not only meet current demands but also prepare for future growth and environmental goals. This commitment to evolution is crucial in ensuring the ambitions of the investment strategy can be met and bring about long-term success.

Section 4
Town Based Regeneration

Chapter 1: Town Centre and Neighbourhood regeneration

At one level the drivers for town-based regeneration can be seen as similar to those behind our housing regeneration programme, a key corporate objective being to create communities in which our customers can thrive. While this means ensuring that all our estates and neighbourhoods are sustainable and robust into the future this is hard if even once regenerated, they sit within failing towns and cities. This creates a social driver to undertake this work.

At another level town-centre regeneration is quite different as this is a method of releasing "brown" land to undertake mixed use, mixed tenure development. It is a way of increasing overall housing supply not simply competing for the current supply.

Additionally, town-centre regeneration is likely to be an area of growing political concern. This is an area where we can develop a clear practice, a narrative and a set of recommendations to make the case for and accelerate delivery of town-based regeneration.

This is therefore important to enable SNG to deliver on its own corporate objectives, help government secure greater regional economic growth, deliver against its 1.5m new homes target, mobilise private funding, and make government investment go further.

SNG can see a real potential for greater delivery in small and medium sized towns, particularly in the south of England. This would include places like Farnborough, Swindon, Basingstoke and Slough. While each town has unique circumstances, broadly, SNG sees a series of common characteristics:

- Town centres are no longer thriving retail places and offer opportunities for residential development.
- There are low density poorly built post-war housing estates, including those built as part of the London overspill programme.
- There are edge of town development opportunities which tend to be brought forward at low density, and in some cases looking away from the town, in effect compounding the challenges of the town centres.
- There are very strong existing economic actors, including leading companies and strong universities, but pockets of worsening serious economic deprivation, which are near economic tipping points.
- Existing local delivery and planning capacity is highly challenged, and hollowed-out, with many small teams struggling with complex projects.

As a result, SNG sees a strategic opportunity for a town-focused regeneration model, linking edge-of-town developments in design and financial terms to town centre and estate regeneration, creating a virtuous circle of viability which delivers more homes across both brownfield and greenfield locations, captures value from greenfield developments to secure the vitality of the town centres, unlocks brownfield estate regeneration through targeted rehousing delivery and delivers significant regional economic benefit.

Subject to further analysis, the exact geography could be one that is described as London's Western Belt, or perhaps a Silver Triangle (in a similar vein to the Golden Triangle (Oxford-Cambridge-London) but perhaps could be Southampton-Reading-Swindon/Bristol).

SNG cannot do this alone and clearly any town-centre work will need to fit within wider Local Authority ambitions and to effect development we would need commercial and house-builder partners as well as other investors sitting alongside us.

In considering how a new or revised model and tools might look, we have identified the following key objectives:

- **Maximising housing supply,** though this does not imply hyper density, but human scale 'gentle density'.
- **Integrating planning and delivery** across different types of development, tenure, location, and across different thematic silos (health, transport, housing, employment etc), to allow the towns to 'catch-up' with the economic strength of the rest of the region.
- **Overcoming barriers in local authority capacity,** which is acute given the relative size of the local authorities, and the challenge of resourcing and recruitment.
- **Bringing in financial resources** that would not otherwise be there, from public and private sources, making constrained government resources go further.
- **Appealing to local communities** and winning trust, bringing more immediate benefits for local people alongside long-term outcomes, such that communities support regeneration of their towns.
- **Improving delivery pace** so that communities do not face uncertainty, and investors are encouraged by shorter timescales to value being realised.

Section 5
Capability, Process and Risk

Chapter 1: Capability and Organisational Change

We have become a more complex and ambitious organisation at a difficult period in the country's history. This is reflected in a changing housing market with great disparity in income, the cost of a home, increased regulation in a period where the impoverishment of Local Authorities reduces their capacity to plan and lead at the local level. The housing association "model" of the last 20 years where government urged that balance sheets were "sweated" is under pressure as development levels fall to the lowest since records began. This reflects general delivery pressures, where in some parts of the country the cost of production of a new home is close to or even greater than its value.

The scale and nature of our development, our insistence on developing to the best possible standards and the general operating context brings risk and we have invested in both regional capability to enable us to understand and respond to local circumstance and at the same time ensured that we have strong technical, design, commercial and sales capabilities in the centre.

We have established three strong operating regions in the South, West and London and East. As a result of the risk of an enlarged and complex delivery programme in the pipeline, we are upweighting the regional structures beneath the RMD (Regional Managing Director), removing Assistant Directors and replacing with Directors. We are also recognising the increasing amount of regeneration and major projects in our pipeline and introducing new roles to manage these areas. Commercial & technical oversight is critical in managing risk & complexity on new build but also providing assurance through our governance process. To recognise the increase in workload & influence we are regionalising technical, estimation and commercial roles with strong central leadership, oversight and support introducing a new central "Design" role to lead on enhancing place-making and architectural design quality across SNG.

The central Built Environment team takes on responsibility for the technical and commercial leadership of retrofit and regeneration, continued evolution of Homes and Place and our wider approach to sustainability.

Strategic Asset Management will be implemented across SNG by a central team. Accountability for commercial properties will increase to cover NWH & SHA portfolios. Grant funding will now cover Homes England and the GLA. A new role of Head of Development Lifecycle has been created to manage our Development Gateways System outlined in the next section.

Sales & Marketing take on SNG-wide responsibility for all Marketing, Staircasing & Resales and Disposals. A new "Head of" role has been created to oversee Staircasing & Resales for SNG. The Operations team will split into Disposals and Central Services both led by "Heads of" and Marketing will merge the SHA and SNH teams to cover SNG under the existing "Head of" role.

Success for us will be that all the homes we own are at an agreed standard (Homes and Place 'GOOD') by 2050, and that we are able to achieve our development target of 25,000 new homes over 10 years. As part of a wider Strategic Asset Management (SAM) approach, we will enable the regeneration, retrofit or replacement of existing ageing homes. Importantly we do this with a strong, experienced and skilled team which is able to implement the strategy and navigate the inevitable headwinds we will face along the way.

In summary the proposed Organisation design better addresses three primary risks that we face:

- Planning
- Construction
- Value

Sovereign Network Group

High-level Organisation Design

CIDO

Investment & Asset Strategy

Strategic central function, setting the direction of the Investment & Asset team.

Strategic Asset Management across SNG directing programme of:
Dispose/Replace
Retrofit
Regenerate

Oversees SNGs commercial properties and Grant funding activity with Homes England & GLA.

Regions x 3 West, South, London & East

Each region has a unique identity informed by its distinct market conditions, land supply and opportunities and stratigic asset management base.

Regional strategies articulate target geography and a blueprint for regional growth - providing a regional mandate and informing capital allocation.

Ownership of end-to-end financial performance.

Full accountability for the profitability of all development activity, encouraging a more commercial mindset.

Built Environment

Sets the direction of the Customer journey across all technical, commercial and quality standards.

Drives the decarbonisation ambition of our new and existing assets.

Owns the Homes & Place Standard.

Sales & Marketing

Sets the direction of the Customer journey across all our sales activities.

Manages resales, staircasing and disposals.

Provides market intelligence and insight.

CIDO Finance

Supports CIDO to deliver the Investment strategy - optimise the use of capital whilst balancing risk exposure and drive performance through insightful reporting and analysis.

The Director level structure shown here and expanded upon in Appendix 7 follows an end-to-end design review that showed we were short on place-making, technical, pre-construction, land and planning capacity. This structure enables us to recruit more people with the required skills and creates better alignment with the strategy's regional priorities.

We have increased the level of seniority across our operating regions as a direct response to the threats and risks manifesting on current schemes in NWH and SHA; increasing cost & risk. The increased complexity & risk profile of our pipeline highlights the need for more front-end technical and commercial due diligence. This is key to providing challenge and giving assurance through our governance process.

Chapter 2: Gateway Ecosystem

A Development Gateway System results in a clearer appraisal of value, greater control and accountability.

Primarily change is about people, but it is also about systems, processes and ways of working. The Gateway system is a framework through which all development is managed. At each stage, it clearly sets-out who needs to be involved, what needs to be completed, and who decides if a project should proceed.

The process-flow illustrates the key elements and deliverables at each stage. Reporting across the process will make it easier to track progress and effectively allocate and manage resources. Team members will have a "playbook", providing a set of tools and templates to help them work in a consistent manner and embed the "SNG Way" for development.

Customer feedback through the completion and aftercare process is key to driving continuous improvement in the way that we work and manage our developments through their lifecycle.

Playbook - The "How to" for Development

Gateways - The Process Lifecycle →

GW1 > GW2 > GW3 > GW4 > GW5 > GW6 > GW7 > GW8

Microsoft PowerApps — **Prequel** - PowerApp Captures early scheme information

SDS — **Sequel SDS** - Captures scheme information, cashflow & programme

Power BI — **Power BI** - Pulls from our data sources and is the "front end" that will visualise reports

Chapter 3: Challenges and Risks

The strategy complies with our agreed corporate risk appetite - but we'll need to manage the impacts of such a large program on the organisation.

- This strategy complies with our corporate risk appetite, as shown in Appendix 6.
- However, we'll need to work differently to achieve our ambition to increase SNG-led development on a significantly larger scale within key geographies.
- Key to this is our ability to attract and retain talent in a competitive market ensuring that our renumeration packages are attractive and we are an employer of choice. We need to ensure that we have sufficient, experienced, skilled resources in place to deliver the ambition of this strategy.
- This will mean competing aggressively to access land directly and through partnership in a hostile and competitive commercial environment.
- Developable land is a scarce but essential raw material that we need to deliver this strategy. If we want to secure enough sites to stay on-track, we must be clear about what it will take for SNG to compete and secure land that is owned or optioned by others.
- We will need to use our financial and commercial strength to create partnerships and unlock developments - accepting that this will come with risks that we must manage.
- We must flex to play a range of roles, including acting as an investor and developer, as well as our core role as a Registered Provider.
- We must be clear on the drivers that make any given arrangement worthwhile. We will act commercially but do so in clear pursuit of our social purpose, providing affordable housing and creating successful neighbourhoods.
- We will need to assess whether risk and complexity will enable more affordable housing, facilitate the implementation of our Homes and Place Standard and support our asset management approach.
- We will continue to invest in optimising our customer experience throughout the sales and service cycle, taking learnings from NWH and creating an "SNG" customer service experience which drives advocacy and engagement.

There are broad risks inherent in our approach that the strategy looks to manage

Risk	Management
• The required level of replacement homes cannot be developed - this slows the disposal program and leaves us with high levels of older stock, which even with investment, won't reach our standard.	• This is a 30-year strategy, and it is likely that over this period we can develop sufficient replacement homes. The issue is timing, and this may have short-term impacts on maintenance costs and therefore surplus.
• The "aggressive" push for land to meet replacement priorities leads us into partnerships that are commercially unwise. Specifically, arrangements where we fund land with differential investment profiles, but without the correct commercial and legal cover and distribution of reward.	• This strategy clearly defines the criteria to consider when assessing the overall value of a development. We'll create equitable investment structures with commercial protection. Each would come with separate legal advice, including vires. We're already experienced in these arrangements which are common practice across the sector. (Feedback indicates that we are more commercial than other providers). We'll also significantly strengthen our resource in this area, including a new Commercial section.
• The focus on embedded carbon will prevent replacement and regeneration as a justification for development - as opposed to refurbishment. This could pose challenges in planning through the application of building regulations.	• This is likely to target very high carbon developments. We would justify our approach by an analysis of condition and our 'whole life' approach to carbon measurement. The strategy assumes an increase in technical capacity to understand condition and progress our 'whole life' carbon approach within the next 12 months.
• Significant numbers of SME contractors are going into administration and larger PLC's are combining as larger more variated land-banks enable them to maintain a level of production.	• A Contractor/Developer Exposure strategy is being developed to inform on the risk of insolvency of the SNG supply chain as well as the mitigation measures being put in place to manage any exposure. We will regularly review our exposure on the development pipeline.
• Expenditure on new homes, regeneration and retrofit moves faster than the disposal of properties - leading to greater levels of debt and gearing issues.	• The strategy will calibrate activity as closely as possible. We are ahead on disposals of both core and non-core stock. There would need to be a significant disconnect for this to result in a gearing problem. This would be visible at an early stage and give time for corrective action.
• Regeneration is lengthy and expensive. It's possible to expend significant monies at risk with little development, leading to significant abortive costs.	• Larger, complex redevelopment projects carry significant up-front cost, and this is reflected in the business plan. We have committed to create a specialist 'Estate Regeneration' section and a new Commercial section to work on development and financial planning. This will enable us to plan and budget effectively for write-offs, as part of our financial planning process.

Immediate in-year risks

While there are a series of broad risks to the strategy that can in the main be managed there is also a set of immediate, in year risks that can affect our overall performance. The manifestation of these risks could put the overall strategy at risk as it would appear not to be working.

Risk	Impact	Management
• Sales of historic assets are not achieved in the numbers predicted because of political objection or absence of available stock. This is particularly the case where this involves the sale of rural housing with the replacement in urban centres.	• In year sales surplus is not achieved, therefore impacting SNG's surplus and consequently its ratings and ability to borrow. This increases maintenance spend as we need to invest in properties previously budgeted for disposal.	• This risk can be managed by not over-budgeting the predicted numbers of sales or the surplus achieved. We will need to manage the politics carefully and the regional structure should allow for deeper and better local relationships. To an extent the wider geographical spread allows for differential sales rates across regions. The asset grading and the understanding of stock at a detailed level will be important to explain the corporate decision.
• Further In-year contractor failure impacts on projected rented income and sales.	• While contractor failure has an impact in terms of cost of delivery its major impact in year is the delay of delivery. Depending on the size and nature of the scheme this could delay delivery for a period of years.	• We have increased the level of pre-construction assessment of contractors and partners and the ongoing monitoring of performance and financial strength. Increasingly our developments are through a number of large established house-builders.
• Commercial property valuations for future development sites are further reduced due to delays in evaluation and planning.	• As we move into the purchase and provision of mixed use sites and developments we become subject to upward and downward valuations. These can be significant.	• Develop further our commercial property expertise and move projects more quickly to development status. Consider onward sale and joint venture with commercial operators.