BUSINESS PLAN
2014-2019

Approved by PoLHA Board of Management 27/02/14

Limited Company: SC388989

PERSEVERE DEVELOPMENTS

Windsor Place

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Front cover: Magdalene Drive

Executive Summary

Persevere Developments Limited (PDL) is a company limited by guarantee and a wholly owned subsidiary of Port of Leith Housing Association (PoLHA).

PDL is governed by a Board of Directors and contracts with the parent company (PoLHA) for property development, housing management, asset management, financial management and corporate services support.

This Business Plan for PDL is prepared for approval by the PDL Board of Directors and the parent company PoLHA. It should not be viewed in isolation but as a contributing component to assist in the delivery of the strategic objectives of the parent.

PDL was formed in 2010 to enable PoLHA to widen and vary its range of affordable housing products and services, undertaking activities which the parent, as a charitable body, is restricted from doing, and in the first instance to bring expertise in order to grow a portfolio of "mid market rent" properties.

This Business Plan outlines the overall strategy for PDL over the next five years setting out what it aims to do, developing further its products and services and highlighting the key business priorities and actions for 2014/15.

Lindsay Road

Mission and Aims

Mission Statement

PDL exists to work with PoLHA to provide a range of quality homes within neighbourhoods that are great places in which to live.

Aims

PoLHA Aims

- To deliver valued services to customers.
- To provide a wider choice of affordable housing.
- To build and maintain the wellbeing of the community we serve.
- To develop highly skilled and engaged staff and Board Members.
- To be a highly effective organisation.

PDL Aims

- To be flexible in providing accommodation using innovative means or funding sources not available to PoLHA.
- To provide good quality landlord services which offer value for money to customers.
- To provide high quality accommodation and provide for those who have difficulty accessing open market rented or home ownership accommodation.
- To undertake commercial development where opportunities arise to complement the mission and objectives of the company.

Great Junction Street

Past, Present and Future

Past

The housing market in Edinburgh and the Lothians has, over the past 15 years, continued to present as being very pressurised for those on low and modest household incomes. There has been an acute undersupply of affordable housing over this period and which is currently estimated to be c.16,000 homes, of which 12,000 are needed for social rent and 4,000 for other low cost tenures. House prices in both the open market for owner occupation and for rent have, over this period, increased much faster than average household incomes, resulting in a growing section of the population finding it ever harder to access and afford.

The ambition of PoLHA is to provide a range of housing services in support of the regeneration of its neighbourhoods, providing increased choice for people to access and enjoy a wider variety of affordable housing. As a charitable body, PoLHA took a decision in 2009 to establish its own wholly owned subsidiary which would be able to offer this increased choice and access to those being "squeezed" out of the open market and social rented housing. This would be done to complement its existing social rented and shared ownership housing thereby providing the foundation for a more sustainable housing market and community. In 2010 PDL was formed, being incorporated under the Companies Act 2006, as a Private Limited Company, with one shareholder, PoLHA.

Since incorporation PDL has undergone an initial preparation period ensuring the governance arrangements, legal agreements, and operational requirements are all in place. Within the framework of an agreed Independence Agreement between PoLHA and PDL, the company became operational with its first new development of mid market rented housing in Lindsay Road, Newhaven, being handed over and let in April 2013.

Since then and over its first year of operation PDL has take handover of 88 new mid market rented flats in three developments in Lindsay Road, Windsor Place (Portobello) and in Great Junction Street.

Present

Through an operational framework of a leaseback arrangement between PDL and PoLHA, there are currently 88 flats being managed on behalf of PDL by PoLHA through a service level agreement. These are all newly built flats, completed in 2013 to high standards of design and construction.

This provides the most advantageous tax and risk management structure for both PoLHA and PDL, and includes the lease arrangement which provides for a commercial return to the parent body.

All PDL properties are let on Short Assured Tenancies and offered to families and individuals on low incomes.

Due to proposed changes to Scottish Government guidance on subsidy, opening rents (net of service charges) will be set at 100% of Local Housing Allowance (LHA) or 15% lower than equivalent local open market properties, whichever is the lowest. This general policy will be flexible to account for specific market conditions, to be reviewed on an individual project basis.

Future

The demand for affordable housing and market for rented market is considered to remain very high in the City in particular over the coming years. PDL will therefore continue to expand either through further leasing arrangements or through direct ownership subject to the availability of affordable finance.

In the financial years 2014-2019 PDL will, (subject to securing all necessary planning approvals and funding), lease a further 200 properties from PoLHA in new developments in Newhaven, Albion Road, Leith Fort, Granton Harbour, Constitution Street and other developments within the pipeline.

While the geographical focus of operation is in Leith and North Edinburgh, supporting the development of neighbourhoods where PoLHA provides its services, there may be development and service delivery opportunities arising outwith this area which are considered appropriate for PDL to become involved in.

As access to affordable finance is key to future growth there will need to be further detailed exploration and assessment of new partnerships with potential investors and other agencies in support of this.

The primary focus of PDL is to develop new forms, and increased supply, of affordable housing. There may be occasions where commercial development forms part of a specific project and which would be advantageous for PDL to develop thereby maximising the economic return from the development.

Surpluses generated each year will either be retained by the company or gift aided to PoLHA in whole or in part, subject to an annual assessment of which approach would best support the strategic objectives of the whole organisation.

Windsor Place

Operating Environment and Market

In the last Business Plan (2012-2017, approved by the Board in November 2012), there was little evidence of any sustained economic recovery with the housing market being stifled by a lack of funding for first time buyers, developers not being able to access finance at appropriate terms and a reduction in subsidy levels making social housing non economic to develop.

Since then, the Government (UK and Scottish) have put in place schemes to stimulate demand by providing guarantees to lenders for the provision of 95% mortgages and also the provision of a shared equity product to assist in the purchase of new build properties. By stimulating demand it is hoped that supply will be encouraged resulting in increased activity for the construction sector.

As a result of lobbying from the housing and construction sectors, subsidy rates for social housing have increased, with funding being brought forward to accelerate delivery in Scotland.

In 2014 there is evidence that the Scottish economy is beginning to improve with Scottish GDP growing by 0.6% in the second quarter of 2013. Growth forecast for 2014 suggests a level of 1.8%.

It appears the housing market has turned a corner in 2013 with a 13% increase in transaction numbers and average prices remaining stable. However, full recovery remains a slow process and a fully functioning and sustainable housing market remains some way off from achieving.

Analyses of Citylets figures by Retties have demonstrated the rise in demand and supply in the rental market in Edinburgh since 2007. Renting was an increasing preference even before the downturn, as many people were simply priced out of the buying market.

Since 2008/9 when Time To Let (TTL) times actually increased due to take up of excess supply, TTL in all areas has consistently fallen due to strong levels of demand.

Correspondingly, average monthly rents in Edinburgh have also increased since 2009 from around £760 per month to approximately £810 per month in second quarter of 2013.

Average mix adjusted rents in Scotland increased modestly by 1.5% on last year and average TTL fell by four days.

In Edinburgh Q3 2013 figures compared with Q3 in 2012, show that for a one bed property, rent increased by 2.9%, a two bed property by 3% and a three bed property by 2.1%. The average rental growth for Edinburgh over the same period was 3.4%. TTL fell by five days. The Retties Scottish Housing Market Bulletin suggests that rental growth is slowing outside of Aberdeen with only a small increase envisaged for Edinburgh over 2014.

The most recent analysis of the Edinburgh Mid Market Rent market undertaken by Anna Evans for the City Council and presented in 2013 demonstrates the demand for intermediate rent products in Edinburgh. This suggests that a target market of households with an income of between £18,000 to £25,000 equates to between 25,000 and 30,000 households or approximately 11 to 15% of the total household population of the city.

A concern arising from this study is that the growth in Mid Market Rent accommodation may simply shift demand from the open rented market and not necessarily meet current need or improve affordability. Careful targeting is therefore important. If the net result is an improvement in the quality of the Private Rented stock then questions will arise as to whether a subsidy can be justified.

Further thought is being given within the Council and Scottish Government regarding the ongoing affordability of Mid Market Rent. Some guidance has been published in Scottish Government circulars, which sets out the parameters for rental growth where projects have been subsidised or form part of Affordable Housing provision within a planning consent. This has generally linked rental growth to the Local Housing Allowance (LHA) or indices relating to private rental growth. An update to Scottish Government guidance will be provided early in 2014 and may impact on business plan rental growth assumptions. Currently this has been assumed at RPI plus 1%.

Looking at the trends relating to the LHA for Edinburgh and the Lothians, we can see that it remains unpredictable and varies depending on property size.

Analysis of LHA 2011-2013 (weekly rent)

	April 11	April 12	% increase	April 13	% increase
1 bed	£109.62	£114.23	4	£114.23	0
2 bed	£137.31	£143.08	4	£138.46	-3
3 bed	£173.08	£183.46	6	£184.62	0.6

Great Junction Strret

Products and Services

PDL's core purpose is to undertake housing and related activities which will maximise commercial return and for the benefit of supporting the wider objectives of PoLHA. It is currently focussed on letting properties on mid market rents to applicants with low or modest incomes.

PDL's current policy is to allocate the residential units at a rental of 15% below the Local Housing Allowance or the open market equivalent for the area, whichever is lower. As there is emerging guidance from the Scottish Government on the appropriate benchmarks to use for MMR rent assumptions in future at first let and for annual increases, once this is published it will be necessary to review this policy. It is anticipated that this review will be undertaken as part of the mid year financial viability projections undertaken by PoLHA. Information on open market and mid market rents is gathered on a regular basis and ongoing comparisons are made including having access to a substantial database provided by Citylets. All properties are let on the basis of Short Assured Tenancies.

PDL properties are let to people who are normally in work having the independent means to enable them to pay rent/occupancy charge without the assistance of Housing Benefit and where gross household incomes do not normally exceed £36,000 pa (figure set by City of Edinburgh Council in 2012 as condition of any subsidy awarded to the project). Where no subsidy is awarded, PDL may consider varying the maximum household income target level.

During this formative period in the history of PDL it has been agreed that all services delivered in the name of PDL will be provided through a Service Level Agreement by PoLHA. The Board of PDL has responsibility to ensure all key governance and operational service policies are legally compliant and up to date incorporating best practice. For operational matters this currently includes its own Allocations Policy, Rent/Service Charge Policy, Short Assured Tenancy Agreement, Service Level Agreement between PDL and PoLHA, Complaint Handling Policy, Antisocial Behaviour Policy and Marketing Policy.

The following products and services are considered as core business in future development activity, namely:

- mid market rent as currently undertaken,
- open market rent where market conditions would allow,
- shared ownership (albeit that PoLHA can undertake this under its existing rules and subject to funding),
- shared equity for sale (albeit that PoLHA can undertake this under its existing rules and in view of the specific market risks associated may sit better within PDL),
- open market sale where market conditions would allow, and
- commercial development where it is considered this would improve the long term viability of a residential development, and undertaken either directly or with a commercial partner.
- managing / letting and development agency services for other private landlords.

Windsor Place

Development Programme and Asset Management Strategy

New development programme

Mid Market Rent (in context of complementary social rent programme):

	Social Rent	MMR	MMR Private Finance	MMR HAG	Start on site (est.)	Completion (est.)	Total Devt costs for MMR element
Project	No Units	No Units	£m	£m			£m
Albion Road	7	35	3.074	1.050	Nov 2013	Nov 2015	4.124
Newhaven Road (Phase 2)	0	8	0.743	0.240	April 2014	Mar 2015	0.983
Leith Fort	0	62	5.925	1.905	Dec 2014	Nov 2016	7.830
Plot 3, Granton Harbour (Ph. 1)	21	21	2.072	0.727	Dec 2015	May 2018	2.799
Plot 3, Granton Harbour (Ph. 2)	21	21	2.072	0.727	Dec 2016	May 2018	2.799
Constitution Street	25	31	2.794	1.054	April 2016	Sept 2017	3.849
TOTAL	74	178	16.680	5.703			22.384

Asset management strategy

All property subject to Mid Market Rent is leased from Port of Leith Housing Association on a 30 year basis.

The properties currently under management are as follows:

	1 Bed	2 Bed	3 Bed	Total
Lindsay Road, Newhaven	22	31	0	53
Windsor Place, Portobello	10	13	0	23
Great Junction Street, Leith	4	8	0	12
Total	36	52	0	88

Each development is subject to a lease that includes an Asset Management Agreement which sets out the obligations for each party and includes a definition and schedule of planned maintenance over the term of the lease.

PoLHA as parent company owns all of the MMR property and as such these developments are subject to the Asset Management Strategy adopted by the PoLHA Board in September 2012.

Financial Projections

Key Assumptions

- Units in management over next 5 years = 178 additions
- Rent increase = RPI+1%
- Leasing charge - 6% of net cost (cost less grant) per annum
- Inter-company management charge for yr1 = £56,018 plus VAT
- Voids assumed = 1% and bad debts assumed = 0.9%
- Inflationary increase of 2.5%
- Planned maintenance and repairs in year 1 £115 per unit

Income and Expenditure

	2015	2016	2017	2018	2019
Income and Expenditure	£'000	£'000	£'000	£'000	£'000
Turnover	567	688	1,055	1,676	2,020
Operating Costs	577	685	930	1,395	1,703
Operating Surplus	-9	3	124	281	317
Net Surplus	-8	4	101	227	257
Operating Surplus %	-2%	0%	12%	17%	16%
Net Surplus %	-1%	1%	10%	14%	13%

Balance Sheet

	2014	2015	2016	2017	2018	2019
Balance Sheet	£'000	£'000	£'000	£'000	£'000	£'000
Cash	220	212	216	318	545	802
Reserves	220	212	216	318	545	802

Business Risk Management

Introduction

The company follows the same Risk Control Policy as the parent body, which specifies a robust framework and procedure for identifying, analysing, controlling and monitoring risk in the business.

Top strategic risks

The management of the Association have identified three key strategic risks which have been specifically tackled as part of the business planning process. These are detailed below:

Issue	Risk Description	Owner(s)
Rental growth may be less than forecast	Rental growth predictions linked to the Local Housing Allowance (LHA) do not continue to increase as initially forecasted or are limited by Scottish Government guidelines.	Director of Property and New Business, Director of Customer Services
Demand may reduce for intermediate tenure	The housing market conditions change and it becomes easier to access the owner occupation sector therefore demand for MMR reduces	Director of Customer Services
That PDL as a start up company without reserves may run out of cash	The business plan for PDL is based on making cash surpluses. If in the early year it were to encounter difficult trading circumstances this would be very difficult as it would have no accumulated cash reserves to address this.	Director of Finance and ICT

Windsor Place

Risk Analysis & Management

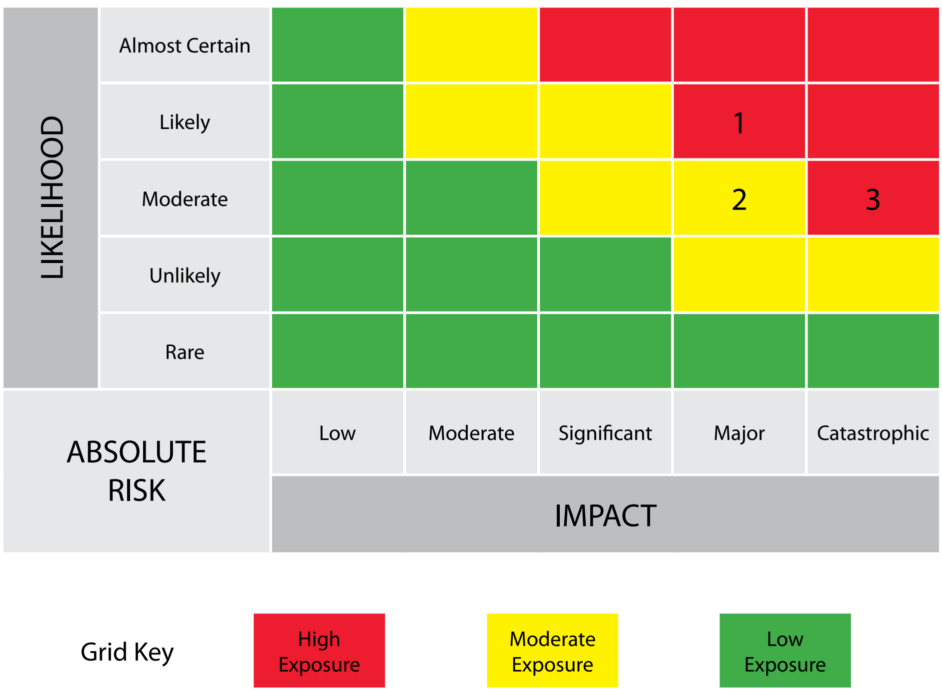
Absolute Risk

The 'Absolute Risk' refers to the analysis of a risk using the assumption that there are no current controls to manage it.

This is a theoretical starting point to enable the identification of risks which have potentially high exposure levels for the business.

This analysis is used to assess the adequacy of existing control.

	Name	Likelihood	Impact
1	Rental growth may be less than forecasted	Likely	Major
2	Demand may reduce for intermediate tenure	Moderate	Major
3	That PDL as a start up company without reserves may run out of cash	Moderate	Catastrophic



Risk Management

Controlled risk analysis acknowledges the effect that existing controls have on reducing the likelihood and impact of the risks specified.

The exposure level shown represents the current position in terms of the need for any further management of these risks.

Controlling Risk

The Company has a range of policies, processes and systems in place which provide mitigation against the identified risks. These are detailed below:

1 Rental growth may be less than forecasted

Existing Controls

- Annual review of affordability of rents
- Analysis of current local rental market
- Independent rental assessments for all new developments
- Lobby Scottish Government on guidelines for rent setting

2 Demand may reduce for intermediate tenure

Existing controls

- High demand for MMR properties
- Analysis of current local market
- Risk assessment on new developments including housing need analysis, all of which is independently verified
- Potential to convert to another tenure

3 That PDL as a start up company without reserves may run out of cash

Existing controls

- Annual budget
- Five year business plan
- Regular financial reporting to the Board
- PDL is not liable for leasing and management charges for properties until 1 April following date of acquisition

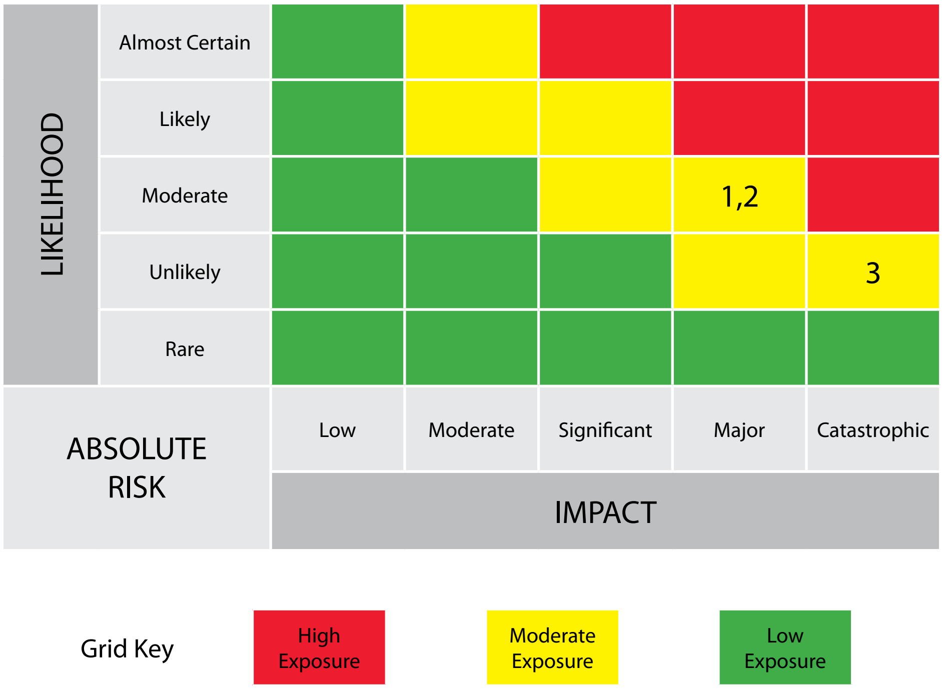
Windsor Place

Controlled Risk Analysis

Risks have been reanalysed for likelihood and impact taking into consideration the controls currently in place with the following results.

	Name	Likelihood	Impact
1	Rental growth may be less than forecasted	Moderate	Major
2	Demand may reduce for intermediate tenure	Moderate	Major
3	That PDL as a start up company without reserves may run out of cash	Unlikely	Catastrophic

The grid below shows the new positions of risks when new likelihood and impact ratings are applied.



After treatment the risks remain in the moderate or high exposure zones. It is recommended that the Board accepts these risks but with the proviso that if serious problems were encountered either with rental growth assumptions and or demand for properties then the Board would need to discuss options for resolution with the parent company. It also highlights the importance of PDL building sufficient reserves to diversify the business and avoid having all its eggs in one basket.

PERSEVERE
DEVELOPMENTS

APPENDIX A

Main Business Priorities for
2014-2015

Appendix A – Main Business Priorities for 2014/15

The main priorities for PDL over the next year are grouped under each of the objectives of the company in order to demonstrate how these will contribute towards their delivery and with those of PoLHA.

1. To be flexible in providing accommodation using innovative means or funding sources not available to PoLHA

- Maintain active engagement with the City Council and prospective developers/investors regarding new funding models and with the "Strategic Case for Affordable Housing".
- Develop own "case" and "terms" for additional investment in PDL and seek out new investor/funder backing for this in support of longer term sustainable growth of the company.

2. To provide good quality landlord services which offer value for money to customers

- Review rent setting policy in the light of new benchmark Guidance issued by the Scottish Government.
- Introduce new mechanism to evidence the level of customer satisfaction achieved.

3. To provide high quality accommodation for "mid market rent" and provide for those who have difficulty accessing open market rented or home ownership accommodation

- Maintain focus on delivering current development programme delivering high quality new housing at Albion Road, Newhaven Road, Leith Fort, Granton Harbour and Constitution Street.
- Ensure obligations of leasing agreements, under the terms of existing Asset Management Agreements, are being met.
- Review the operation of the Service Level Agreement between PoLHA and PDL.

4. To undertake commercial development where opportunities arise to complement the mission and objectives of the company

- To be aware of potential new commercial opportunities as they arise within residential developments.

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Great Junction Street