PAISLEY HOUSING ASSOCIATION

BOARD REPORT

MEETING	Board	**DATE**	25th March 2019
AGENDA NO	6	**TITLE OF REPORT**	5 year Financial Plan 2019/20- 2023/24
AUTHOR	Finance & IT Manager		

Recommendations	The Board: • Approve the 5-year financial plan and the assumptions therein. • Approve the Finance & IT Manager to submit the 5YFP return to SHR using these approved assumptions
Financial implications	This report is a part of the ongoing monitoring of the Associations longer term financial viability.
Equal Opportunities implications	None
Health & Safety implications	None
Risk implications	The Association shows a medium term weakness in its ability to fund unforeseen future events.
Charter implications	Standards 14 & 15 Rents and Services
New Regulatory Framework Implications	Regulatory Standards of Governance and Financial Management: 3. The RSL manages its resources to ensure its financial well-being and economic effectiveness.
Relevance to business plan	4. Viability -Indicates financial ability to fund proposed future plan.

PAISLEY HOUSING ASSOCIATION REPORT

To: **Board**

Date of meeting: **25th March 2019**

Report by: **Finance & IT Manager**

Subject: **5 year Financial Plan 2019/20- 2023/24**

Agenda Item: **6**

1.0 PURPOSE OF REPORT

The purpose of this report is to:

- Set out the Association's projected financial position at the end of the next five year period.
- For the Board to approve the 5 year financial plan and the assumptions therein.
- For the Board to the 5YFP return to Scottish Housing Regulator (SHR).

2.0 CURRENT FINANCIAL ESTIMATES

Summary of Overall Position

The overall financial position per the 5 year financial plan is projected as follows:

	Outturn 18/19 £'000	19/20 £'000	20/21 £'000	21/22 £'000	22/23 £'000	23/24 £'000
Total surplus/(loss)	1,537.6	1,260.7	1,153.0	967.1	1,048.6	1,214.1
Net Worth as at 31 March	17,988.1	19,248.9	20,401.9	21,368.9	22,417.5	23,631.7
Cashflow as at 31 March	4,017.3	2,608.7	2,243.4	2,192.9	2,261.0	2,559.9

The proposed 5 Year Financial Plan is attached (Appendix 1-3).

We will remain financially viable over the next 5 years.

We have been able to remove the medium term requirement to borrow, although we still expect to have to borrow longer term for the planned maintenance programme. We will also require borrowing longer term for the development programme.

We feel that this financial plan presented can be funded from the Association's own cash reserves while ensuring the overall viability of the Association in the medium term, so long as no significant unforeseen events occur which incur a significant to cost the Association. The 30-year financial plan will review the longer-term implications.

3.0 Business Plan

This Plan incorporates the current business objectives as approved by the Board, where they have a financial impact. The only exclusions are the Objectives for the Developments, which will only be included in sensitivity analysis.

4.0 MAIN ASSUMPTIONS

The projections highlight the financial implications of our plans over the next 5 years.

In preparing this, we have based the projections on the following key assumptions:

General Inflation.

As RPI still better reflects the inflationary factors we face for our general costs we propose to continue to use RPI as our base rate. Although it should be noted, CPI is the government's preferred inflationary rate and is increasing in use.

For the Financial Projections we have taken account of the published rates and the Bank of England Quarterly Inflationary Report (November 18) as well as the FLAIR (local HAs) assumptions.

Also due to uncertainties around pricing in light of Brexit, it is considered preferable to retain general inflation slightly higher over the coming year.

The assumed inflation rates are:

Budget Inflation Rate	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Rate	3.2%	3.1%	3.1%	3%	3%

Rents & Service Charges

For Rents, we have assumed the overall rental income will increase as follows, assuming no changes to stock numbers.

- 3.2% (inflation only) average increase for all stock in 19/20, then inflation (as above) plus 0.5% thereafter.

In January 2016, the committee approved a new rent profiling, which will result in some properties on low rents phasing up over various periods, up to a maximum of 10 years. 2019 will be year 4 of the phasing. It has been assumed the overall rental income will remain as noted above however the actual rent rises range from 0% - 6.5%.

When making our assumptions we have taken into account the proposed rent increases from others in our sector and recent guidance published by SHR.

For Service Charges we have generally adjusted income in line with updated estimated costs or inflation.

Void, Bad Debts and Rent Arrears

The following have been assumed.

	2019/20	2020/21	2021/22	2022/23	2023/24
Void	0.56%	0.56%	0.56%	0.56%	0.56%
Bad debts	1.00%	1.00%	1.00%	1.00%	1.00%
Gross Rent Arrears	2.8%	2.8%	2.8%	2.8%	2.8%

It is assumed that the works we have done to date to mitigate the changes to welfare reform will continue to be effective.

Staffing

We have assumed the current permanent staff structure plus:

- the inclusion of the permanent estates team.
- some amendments to staff roles and grades.

In particular, we have assumed:
* the WET project ends in Feb 20 and associated temporary posts are not continued.
* the temporary Clerical Junior will not be replaces after 19/20.
* the Estates Team posts continue.
* 1 grade upgrade for IT team in order to attract and retain the staff with the necessary skills.

We have assumed general salary increases reflect the ceiling % in the EVH Wage Ballot proposal for the next 3 years (to be approved at the meeting), extended to year 5.

	2019/20	2020/21	2021/22	2022/23	2023/24
Salary Inflation	2.3%	2.5%	2.5%	2.5%	2.5%

Automatic enrolment of all staff in the pension scheme is now in place.

For pensions we have assumed all staff currently within the FS 60^{th} Scheme continues for the 5 years at 12.6% (rising to 15.1% in 2021 due to expected 1% rise in pension contributions generally plus 1.5% for loss of current open scheme discount) and all other staff being auto-enrolled in to a PQM plus scheme at 10% (1 temporary staff member is in CARE 70^{th} at 10.2%.)

It has been assumed based on expectations coming for SHAPS presentations that the pension deficit contribution continues for the full 5 years, beyond the current target of February 2022 and assumed it will continue to increase by 3%-3.5%, as per pension scheme assumptions. (Currently the association is paying £151k p.a.).

Routine Repairs

We have assumed:

- No increase in general reactive repairs costs other than inflationary.
- Increase in void costs reflecting the increased number of voids expected over the five years.
- Repair inflation will be 0.5% higher than general inflation.

Planned & Cyclical Maintenance Programme

The programme is as per the Planned & Cyclical Maintenance Programme.

The programme is split between capital items in the balance sheet, as Housing Properties Costs, and expenditure charged directly to the housing management account, charged as Planned Maintenance.

We have assumed Maintenance inflation will be 0.5% higher than general inflation.

Environmental Project

The spend profile is per the revised 10 year plan and includes for the coming year the WET (West End) project part funded by the Aspiring Peoples Grant.

The summary plan for the environment projects for the following 5 years is as follows:

Year	19/20	20/21	21/22	22/23	23/24
Project Area	West	Rivers 1	Town Centre	Rivers 2	Foxbar 3
Value	£88,628	£297,500	£265,000	£115,000	£280,000

Lending

No additional borrowing has been assumed, other than for the developments (Orchard Street/Westerfield/Glenburn).

It has been assumed LIBOR rates for all variable rate loans will continue to rise, as follows:

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Variable Rate	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%

Development Programme

We are currently assuming no new development programme in this basic plan. The proposals for the developments have been added as sensitivity options.

The 3 projects currently being developed are:

* Orchard St tenement improvement
* Glenburn 2 New Build
* Westerfield New Build

See Appendix 4 for scheme summaries.

Please note requirement of Section 8 SHR's 5YFP Return.

New Office

The budget for additional works and fit out to be done to the new office has been increased to £1.250M, mainly to be spent 2019/20.

IT Project

The budget includes £200,000 for the purchase of the new Housing IT system, now to be spread over 2019/20 and 2020/21.

Other key assumptions

- The figures in the 5 Year Plan are all shown with inflation.

5.0 BANK COVENANTS

The in house testing of the financial covenants, suggests no predicted failures. There is therefore no issue of concern.

6.0 SENSITIVITY ANALYSIS.

	19/20 £'000	20/21 £'000	21/22 £'000	22/23 £'000	23/24 £'000
Cashflow as at 31 March – Basic	£2,608.70	£2,243.40	£2,192.90	£2,261.00	£2,559.90
Cashflow as at 31 March – Rents reduced by 1% (to CPI =0.5%)	£2,453.20	£1,928.60	£1,661.60	£1,450.90	£1,412.40
Inflation – maintenance increases by 1%	£2,523.50	£2,061.40	£1,884.10	£1,794.70	£1,906.60
Inflation – RPI & CPI increase by 1%	£2,612.20	£2,263.30	£2,244.60	£2,348.80	£2,703.60
Rent Inflation increase by 1%	£2,764.20	£2,558.10	£2,724.30	£3,068.30	£3,704.40
Variable Interest Increase by 1%	£2,574.70	£2,192.20	£2,124.40	£2,174.60	£2,455.50
Void & Bad Debt Increase by 1%	£2,499.80	£2,077.00	£1,966.90	£1,973.10	£2,207.70
Inflation Rates – salaries increase (RPI plus 0.5%)	£2,568.50	£2,160.80	£2,051.90	£2,036.60	£2,232.20
Inflation – RPI & CPI decrease by 1%	£2,605.20	£2,224.00	£2,143.00	£2,176.70	£2,422.70
Glenburn Development	£2,608.70	£2,207.20	£2,295.00	£2,363.80	£2,665.00
Westerfield Development	£2,608.70	£2,236.80	£2,239.20	£2,299.80	£2,591.50
Orchard St Development	£2,608.70	£2,243.40	£2,192.90	£2,261.00	£2,553.60

7.0 30 YEAR FINANCIAL PLAN

The 30 Year Financial Plan will be presented to the Board in the Spring 2019, following approval of the 5 year financial plan.

8.0 5 YEAR FINANCIAL PLAN RETURN TO THE REGULATOR

The finalised 5 Year Financial Plan will be used to complete the 5 Year Financial Plan Return (5YFP) required by the Scottish Housing Regulator in June 2019.

For the SHR return we will require to include the projections for the 3 developments Orchard St, Glenburn and Westerfield as they have been included in the SHIP.

9.0 RECOMMENDATIONS

That Board:

- Approve the 5-year financial plan and the assumptions therein.
- Approve the Finance & IT Manager to submit the 5YFP return to SHR using these approved assumptions.

Consolidated Statement of Cash Flow | 5 Year Budget 19.20-23.24 Final | Plan

APPENDIX 1

Period: 01 April 2018 - 31 March 2048	2019	2020	2021	2022	2023	2024
	£000's	£000's	£000's	£000's	£000's	£000's
Total Receipts	5,492.20	5,583.70	5,783.50	5,991.80	6,200.20	6,415.60
Total Payments	-1,905.30	-2,048.60	-2,237.80	-2,489.60	-2,191.60	-2,251.30
Cash Paid To Employees	-1,305.20	-1,363.50	-1,416.00	-1,459.60	-1,659.80	-1,701.30
Cash flow from Operating Activities	**2,281.60**	**2,171.60**	**2,129.70**	**2,042.60**	**2,348.80**	**2,463.00**
Provisions for tax						
Surplus for the year	**2,281.60**	**2,171.60**	**2,129.70**	**2,042.60**	**2,348.80**	**2,463.00**
Net cash generated from operating activities	2,281.60	2,171.60	2,129.70	2,042.60	2,348.80	2,463.00
Cash flow from investing activities						
Purchase of tangible fixed assets	-1,920.80	-3,000.90	-1,919.80	-1,525.50	-1,725.30	-1,613.10
Proceeds from sale of tangible fixed assets						
Grants received						
Interest Received (cash)	8.3	7.8	3.6	4.7	3.3	5.8
Total Cash flow from investing activities	**-1,912.50**	**-2,993.20**	**-1,916.20**	**-1,520.80**	**-1,721.90**	**-1,607.40**
Cash flow from financing activities						
Interest paid	-165.2	-168.7	-163.6	-157.2	-176	-161
New secured loans						
Repayment of borrowings	-448.6	-418.4	-415.3	-415.1	-382.8	-395.8
Total Cash flow from financing activities	-613.8	-587	-578.9	-572.2	-558.7	-556.8
Cash & cash equivalents at the beginning of year	**4,262.00**	**4,017.30**	**2,608.70**	**2,243.40**	**2,192.90**	**2,261.00**
Net Change in Cash & cash equivalents	-244.7	-1,408.60	-365.3	-50.4	**68.1**	**298.8**
Cash & cash equivalents at the end of year	**4,017.30**	**2,608.70**	**2,243.40**	**2,192.90**	**2,261.00**	**2,559.90**

Consolidated Statement of Financial Position | 5 Year Budget 19.20-23.24 Final | Plan

APPENDIX 2

Period: 01 April 2018 - 31 March 2048	2019	2020	2021	2022	2023	2024
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Fixed Assets						
Intangible assets and goodwill						
Tangible fixed assets	**49,393.80**	**50,466.70**	**50,396.90**	**49,846.60**	**49,452.10**	**48,991.60**
Investments in associates						
Fixed Assets Total	**49,393.80**	**50,466.70**	**50,396.90**	**49,846.60**	**49,452.10**	**48,991.60**
Current Assets						
Trade and other debtors	196.2	202.1	207.7	213.4	219	224.7
Cash and cash equivalents	4,017.30	2,608.70	2,243.40	2,192.90	2,261.00	2,559.90
Current Assets Total	**4,213.50**	**2,810.70**	**2,451.10**	**2,406.40**	**2,480.10**	**2,784.60**
Less - Creditors - amounts due within 1 year	-871.1	-899	-926.9	-955.6	-984.3	-1,013.80
Net current assets/liabilities	**3,342.40**	**1,911.80**	**1,524.20**	**1,450.80**	**1,495.80**	**1,770.80**
Assets less current liabilities Total	**52,736.20**	**52,378.40**	**51,921.10**	**51,297.40**	**50,947.90**	**50,762.40**
Creditors - amounts due after more than 1 year	-34,307.80	-32,836.20	-31,375.70	-29,928.40	-28,530.40	-27,130.70
Provisions for liabilities						
Pension provisions	-440.3	-293.3	-143.5			
Other provisions						
Net assets Total	**17,988.10**	**19,248.90**	**20,401.90**	**21,368.90**	**22,417.50**	**23,631.70**
Reserves						
Income and Expenditure Reserve	18,947.10	20,207.90	21,360.90	22,327.90	23,376.50	24,590.70
Total reserves	**17,988.10**	**19,248.90**	**20,401.90**	**21,368.90**	**22,417.50**	**23,631.70**

Detailed Consolidated Statement of Comprehensive Income | 5 Year Budget 19.20-23.24 Final | Plan

APPENDIX 3

Period: 01 April 2018 - 31 March 2048	2019	2020	2021	2022	2023	2024
	£000's	£000's	£000's	£000's	£000's	£000's
TURNOVER						
Gross Rental Income						
Rent Receivable	5,193.00	5,359.20	5,552.10	5,752.00	5,953.30	6,161.70
Service Charge Income	196.5	210.4	216.9	225.2	231.9	238.9
Charges For Support Services						
Gross Rental Income	5,389.50	5,569.60	5,769.00	5,977.20	6,185.30	6,400.60
Less Voids	-24.5	-30.3	-31.4	-32.5	-33.7	-34.8
Net Rental Income	5,364.90	5,539.30	5,737.60	5,944.70	6,151.60	6,365.80
Other Revenue Grants	61	51.6	53.2	54.8	56.5	58.2
Other Income	15.4	15.9	16.4	16.9	17.4	17.9
Total Turnover From Social Housing Lettings	5,441.30	5,606.70	5,807.20	6,016.40	6,225.50	6,441.90
Grant Amortisation	1,062.80	1,053.20	1,045.20	1,032.20	1,015.30	1,003.90
Other Capital Grant Amortised						
Total Turnover	**6,504.10**	**6,659.90**	**6,852.40**	**7,048.60**	**7,240.80**	**7,445.70**
OPERATING EXPENDITURE						
Operating Costs Social Housing						
Management Costs Total	-1,722.10	-2,011.70	-2,019.30	-2,066.30	-2,317.60	-2,329.90
Service Costs	-273.2	-283.5	-278.9	-286.9	-296.9	-307.7
Routine Maintenance	-572.3	-614.6	-638	-660.2	-681.3	-702.4
Planned Maintenance	-368.5	-357.8	-381.1	-372	-525.6	-400.7
Major Repairs	-166.4	-206.9	-409.4	-643.9	-241	-417.3
Bad Debts	-40.1	-55.2	-57.2	-59.2	-61.3	-63.4
Depreciation of Housing Properties	-1,667.10	-1,708.50	-1,755.70	-1,840.50	-1,895.80	-1,854.90
Impairment Of Housing Properties						
Other Costs						
Operating Costs Social Housing	-4,809.60	-5,238.30	-5,539.50	-5,929.10	-6,019.50	-6,076.40
Other Activities Expenditure Total						
Other Items						
Gift Aid						
Other Activities Expenditure Total						
Operating Expenditure Total	**4,809.60**	**5,238.30**	**5,539.50**	**5,929.10**	**6,019.50**	**6,076.40**
Other income						
Operating Surplus/(deficit)	**1,694.50**	**1,421.60**	**1,312.90**	**1,119.50**	**1,221.30**	**1,369.40**
Gain/(loss) on disposal of fixed asset						
Interest Receivable	8.3	7.8	3.6	4.7	3.3	5.8
Interest and financing costs	-165.2	-168.7	-163.6	-157.2	-176	-161
Surplus before tax	**1,537.60**	**1,260.70**	**1,153.00**	**967.1**	**1,048.60**	**1,214.10**
Taxation						
Comprehensive Income for the year	**1,537.60**	**1,260.70**	**1,153.00**	**967.1**	**1,048.60**	**1,214.10**

Appendix 4

Development Plan Assumptions

	Orchard St Tenement Improvement	**Westerfield Newbuild**	**Glenburn Phase 2**
Housing Mix	4* 2apt 2 person (living room/ kitchen) 26 * 2apt 2 person 88* 3 apt 3 person 9 * 3apt 4 person Total = 47 Units	12 *3 apt 4 person Total = 12 Units	19 * 3 apt 4 person 11 * 4 apt 5 person Total = 30 Units
Total Scheme Costs	£6,648,681 .	£1,800,000	£2,430,604
Total Grants	£4,648,681	£940,800	£437,607
Total Private Finance	£2,000,000	£859,200	£1,968,197
Estimated Site Start	January 2022	January 2020	January 2020
Estimated Site Completion	June 2023	June 2020	March 2021