St. Matthew's
Housing Association

St Matthews HA Plan

CONTENTS

SWOT Analysis

Strengths

- Dedicated staff
- Strong community ethos
- Respected by community & peers
- Excellent service
- Excellent local knowledge

Our staff and our local knowledge are strengths in underpinning our local ethos and the key to securing a significant role in the delivery of future social housing within our area.

Weaknesses

- Small and sometimes overstretched
- Limited by our geography
- Board membership may lack key skills

Given the burden of regulation our size has the potential to be a weakness. However a skilled staff and Board is the key to overcoming the potential for this to become a disadvantage. We have added good skills to our Board and will add further during our on-going board renewal process.

Opportunities

- APEX, HA5 – Partnerships
- Regulatory Framework
- Development potential
- Current economic climate

The opportunities are all relevant to the present and are to be pursued. Improving our regulatory standing has improved our business. Work has already begun to be in a position to exploit these opportunities to lead to growth in the medium to long term.

Threats

- Quasi-public body classification
- Regulatory Burden
- Size - Takeover target

A dedicated skilled staff and Board can see off the potential of these threats having a detrimental effect on our business model. Meeting the challenges presented by them will mean they will not restrict the growth and success that is envisaged. Strong community support will embolden us.

Our Business

What we do

St. Matthews Housing Association (SMHA) is based in Belfast and currently has 203 homes in ownership – increasing our units by 27 homes under the tenure of our current Chief Executive and Board since April 2010. We provide housing consisting of general family housing, single adult housing and active elderly housing to our residents mainly in Short Strand and also in Clonard and Poleglass.

The Association is registered with the Department of Social Development – the regulating body from which we receive capital funding for our property development programme. This funding is augmented by private finance to cover the full cost of provision. Our annual revenue funding is obtained from rent and service charges.

The Association has modest but important development aspirations within the Short Strand where we principally operate. There remains the potential for development opportunities in the medium to long term albeit the Association is best placed to share in this through strategic partnerships.

Our Plan

What we will do

Our Plan outlines some strategic themes which will link to business plan objectives of what we will do over the next three years. The plan allows us to focus on what's important for our business and the linking of the measurable objectives of our annual Business Plan will help us ensure we work towards common goals set out in the plan.

Our Plan has been drawn up in consultation with our Board and all staff. Our three year priorities will run through all aspects of business planning, risk planning, staff appraisal and development during this period.

Our Plan is unique to us in our setting but influenced by a wider context in terms of the business environment we operate. We have and will continue to operate flexibly within this wider context to ensure we meet our goals.

Our Plan will help us grow and improve our business. We have achieved good things in the past 6 years under the current SMHA leadership and there is an exciting opportunity to continue to be successful and make a difference in our community.

Our plan details 5 year and longer term financial summaries in latter part of this document. This information will offer assurance that we are strong financially moving forward to grow our size and maintain our stock well into the future. We undertook an extensive and fully costed Stock Condition Survey in 2015 detailing our maintenance priorities well into the future. This information has been very valuable in influencing are longer terms financial assumptions.

Our Vision, Mission and Values

St. Matthews Housing Association Ltd.

Strategic Plan 2016-2019 & Business Plan 2016

Our Vision

Striving for excellence as a community based housing association in Northern Ireland

Mission Statement

Quality, affordable housing locally

Values

Community

Quality

Reliable

Trust

Tenant Focus

Professional

Our Performance

What we have achieved

St. Matthews Housing Association (SMHA) specifically under the current Board and Chief Executive has achieved the following in the last six years:

- The development and delivery of 27 new homes in Short Strand and the prospect of delivering even more

- Increased annual income from £581k to circa £800k and our housing assets from £14.9M to £16.6M

- Invested circa £1.5M in our assets through our housing maintenance programmes

- Achieved over 90% of business plan tasks annually

- Recruited and retained a small but highly knowledgeable and qualified staff base with structured appraisal and training programmes in place

We have achieved this during a period when we had to deal with:-

- Initial negative DSD regulatory ratings which have progressed to "Satisfactory" across the board and on-going growth in regulation affecting every part of our work

- Collapse in housing markets and the difficulties in the banking and financial sectors

- Inability to pursue to development projects ourselves but through strategic partnerships with larger housing associations

Our Environment

Factors influencing Our Plan

Currently the Association operates in a complex environment where the challenges are varied.

Political – there are on-going governmental reviews within the housing sector including in relation to structures (particularly NIHE and HA regulation), tenant participation, procurement and rent policy. As a small community based entity we remain vulnerable to political change in housing policy, particularly moves to rationalise and generate greater efficiency. Welfare reform remains a big issue for the sector and for SMHA. As an efficiently run, low debt housing association with lower rents than many others we remain well placed to deal with the challenges. The Association maintains a vision to have one social landlord for all social housing in Short Strand through possible stock transfers from NIHE. We acknowledge this is a scheme remains in it's infancy but the changing environment for NIHE has the potential for this vision to be realised.

Economic – the current slow economic climate within the housing market presents potential difficulties in obtaining loan finance and availing of deposit interest. However it can present affordable development opportunities and the Association needs to be best placed to avail of these. Housing need remains high and development potential in one or two sites remains viable - therefore continued efficient control of our management and maintenance costs will position us well to preserve a good financial foundation which can take advantage of future opportunities.

Social – general population growth and an increase in smaller households present particular problems going forward in our area of limited development capacity and high demand. The greater complexity and degree of problems within society present a unique challenge to any social housing provider, particularly one that has worked for many years with housing on sectarian interfaces and with deprivation and disadvantage. Expectations of tenants are high and are changing and it is critical the Association secures and retains a skilled and dedicated staff.

Technological – the Association's response to opportunities afforded by technological advancement remains important to our success. Continuing investment in IT and as well maximising the usage of our Omniledger software will help facilitate success.

Business Improvement – The Association is committed to continuous improvement of our business model. The Association focus continues on improving our business model to ensure full compliance with the DSD audit standards to improve beyond the satisfactory/acceptable level.

Internal Capacity – the Association will continue to examine and improve our internal capacity to align our structure to put us in the best place to deliver our business objectives.

Our Future

How we go forward

Over the last six years the current Board and Chief Executive have invested a lot of time and effort to improve our governance and make stronger our business model. We have progressed positively through regulation and perform as well any other small housing association.

We have invested greatly in our housing stock and our recent stock condition survey confirmed our stock base is in good condition and long-term stock plans are affordable. We have grown modestly and there is a strong potential to increase the size of our stock assets by upwards of 50% in the medium to longer term. We can do this with strong strategic partnerships and by tapping into the favourable loan finance available to prudent models such as us.

Beyond aspirations to grow and meet the strong need within the Short Strand our focus remains on providing our tenants with a responsive service, staffed by a knowledgeable and experienced staff base and continually improving our business model and results.

Thus this plan is developed by seeking to achieve measurable results within the following strategic areas.

Objectives for the next 3 years from April 2016 (*with 2016/17 Business Plan objectives in bullet points*).

1. Finance

1.1 Secure appropriate funding and consolidate income streams to maintain and expand services

- Increase stock numbers (current 203) by further 13 units in 2016/17
- Maximise income collection – Collect >99% of all charges due annually
- Secure housing association grant and private finance to deliver our social housing development aspirations (*it is hoped around 100 additional units from 2016 baseline in management or on-site by March 2021*)

1.2 Achieve and demonstrate value for money

- Maintain affordable rents demonstrated by equitably benchmarking against other housing associations on an annual basis
- >85% of tenants to rate landlord service as value for money as tested in our biennial tenant satisfaction survey
- Maintain effective response maintenance service through appropriate contractual arrangements and maintain best value in maintenance generally
- Work with HA5 partners to procure best value maintenance contractor and consultant options to deliver objectives from 2015 stock condition annually

1.3 Effective and efficient management of financial resources

- Compliance with regulatory requirements by ensuring that at least a "Satisfactory" rating is obtained through any DSD Audit Inspection
- Effective arrears management processes – achieve and regularly maintain arrears performance at less than 5% of total rent receivable
- Continue effective control of costs of managing housing service
- Effective treasury management to obtain best value for monies invested

2. Governance

2.1 Effective Board

- Complete 100% Board appraisal process
- Conduct Board members survey annually
- Achieving 100% Board renewal by recruiting key skills to augment Board's overall experience by advertising and possibly targeting professional bodies for suitably skilled potential members

3. Service

3.1 Deliver quality, responsive and effective services

- Facilitate participation of key stakeholders in the development and delivery of services
- Maintain and develop effective partnerships with local resident groups, statutory agencies and voluntary agencies
- To continue to monitor and deliver on our Equality Scheme action plan and complete the an annual Equality Return

3.2 Effective management of Association's core functions of Housing Management, Maintenance, Development, Governance and Finance

- Manage risk effectively through proper risk assessment and maintaining the Association's Risk Plan by twice yearly review by Board
- Promote effective management information systems to monitor performance and ensure effective continuous improvement
- Promote effective and inclusive internal and external communication ensuring at least 1 annual report is circulated to all stakeholders each year
- Ensure all policies are reviewed prior to recorded review dates (100%)

3.3 Skilled staff

- Manage and retain appropriately skilled staff ensuring 100% retention of staff over the next 3 years
- Motivate, value and challenge staff and evidence through annual staff appraisal process for all staff – 100%
- Resource effective training opportunities linked to attaining key performance indicators – meet 100% of annual staff training plan objectives
- To ensure each leaving staff member is given the opportunity to offer their opinions via an exit interview
- To offer all new staff a comprehensive induction at time of employment

3.4 Support our communities and tenant financial inclusion

- Commit to devoting 1% of annual turnover to measures supporting community activity and tenant financial inclusion
- Introduce a budget to support appropriate community activities with grants or bursaries
- Address financial exclusion in savings/loans services by publicising and taking forward matched savings credit union scheme for all SMHA tenants not currently a credit union member
- Address financial exclusion in insurance services by introducing a free annual contents insurance policy for all SMHA tenants

4. Property Development and Management

4.1 Expand existing social housing base

- Attain annual growth in property base of 13 units and to achieve 50% increase in 2016 baseline stock levels by March 2021
- Make best of use of key partnerships (e.g. APEX, HA5) to achieve quality product and efficient delivery in order the achieve efficiencies required by DSD in the delivery of social housing
- Ensure all new social housing provision is HA Guide compliant and achieves at least an "satisfactory" rating during the DSD Audit Inspection
- Progress vision for one social landlord locally for all social housing in Short Strand through potential stock transfer schemes

4.2 Improve existing stock condition

- Complete Year 1 of current planned maintenance objectives and improvement works as outlined in 5-year Stock Condition Survey condition by March 2017
- Develop future planned maintenance objectives through stock investment strategy to ensure continued compliance with Decent Homes Standard
- Annually produce five year rolling costed life cycle replacement plans
- Maintain properly procured and efficiently managed term contract arrangements for planned, cyclical and response maintenance needs

4.3 Achieve and demonstrate effective housing management

- Complete 90% of adaptations within agreed timescales and ensure 100% of properties have Energy Performance Assessments in place
- 85% of tenants to rate overall housing service as either good or very good in our biennial tenant satisfaction survey
- Effective management of voids (less than 0.5% annually)
- Effective allocations and lettings from Common Waiting List source (maintain 17 days average relet time)
- Effective management of anti-social behaviour (100% of all ASB complaints recorded on register and resolved)

- Effective management of complaints over service (100% of complaints recorded on register and resolved)
- 100% of properties to have 5 yearly PIR electrical certification in place and annual gas safety certificate in place

FINANCIAL SUMMARIES

Included in the appendices are summaries of the financial projections for the longer term. By way of a long term Balance Sheet, Cashflow and Profit & Loss we make provision for long term budgeting of the traditional elements of our accounts. They include:-

1. Balance sheets
2. Income and expenditure accounts
3. Administration cost apportionment schedules
4. Cashflow projections
5. Key performance indicators
6. Sensitivity Analysis
7. Long-term forecasts

These are explored in detail below.

BALANCE SHEETS

The balance sheets of any organisation show the overall financial position, listing out assets and liabilities, at any one point in time. The major asset of housing associations is its investment in its properties. This is shown under fixed assets and shows what the historic cost of the association's investment in its properties is from day one of its existence. To emphasise the point: the figure in the balance sheet is **not** a valuation.

From the projections we can see the anticipated Fixed Asset spend by year ended 31 March 2021 to be almost £28.50 million, up from an opening position of £17 million. This figure is the asset cost, including component replacements and enhancements. This reflects the Association's major repair works programme and the acquisition of new units through new build and ESP/ Rehab purchases. Depreciation is forecast to rise to £5.6 million. The net cost by 2020 is expected to be £22.7 million, to which we add other fixed assets. This is the net cost to the association of all its fixed assets. In simple terms the association has both invested its own reserves along with bank and DSD loans to fund this net cost. .

Grant income is projected to increase to almost £12.8 million and is now included within long term creditors.

Over the period the association's debtors gradually increase, reflecting the increase in turnover and the knock-on effect this will have on rent arrears. Other debtors and prepayments remain consistent throughout.

Bank and cash balances move steadily upwards during the period, although in the earlier years this increase is minimal. This is due to the anticipated spend on the on-going major repair programmes. Expenditure on new schemes is planned to be matched by grant and new loans, with no internal funding planned. Existing funds will be used to part-fund component replacements and secure the future financial viability of our association.

The creditor's figures increase over the period. The reason for this is due to the anticipated increase in loans and their impact on what is payable within one year.

Total assets less current liabilities increase from £14.3 million to £24.3 million over the 5 years due to predicted surpluses going into increased bank balances and investment in our property.

The pension liability has been kept a constant over the period due to the unpredictability of the deficit, and indeed the relevance, at this stage, to the financial position of the association. This could change if the pension position were to change drastically for the worse.

Overall, the balance sheet remains strong from a liquidity and gearing point of view.

BALANCE SHEET

FIVE YEARS ENDING 31 MARCH

	2017	2018	2019	2020	2021
	£	£	£	£	£
Fixed assets					
Housing properties	17,248,516	18,545,111	20,976,463	23,412,674	25,853,848
Depreciation	(3,739,144)	(4,051,738)	(4,393,666)	(4,764,927)	(5,165,520)
Net cost	13,509,373	14,493,373	16,582,797	18,647,748	20,688,328
Other fixed assets	15,850	17,908	19,978	22,059	24,150
	13,525,223	14,511,281	16,602,775	18,669,807	20,712,478
Current assets					
Debtors	63,641	67,642	79,597	84,892	107,605
Bank	950,264	1,032,010	1,202,504	1,439,251	1,562,027
	1,013,906	1,099,652	1,282,101	1,524,144	1,669,632
Current liabilities					
Creditors	(197,112)	(170,626)	(140,451)	(144,451)	(162,851)
Net current assets	816,794	929,026	1,141,650	1,379,692	1,506,781
	14,342,017	15,440,307	17,744,425	20,049,499	22,219,259
Creditors >1 year					
Grant	9,428,744	9,703,921	10,474,399	11,231,677	11,975,754
Loans	559,441	1,047,639	2,204,320	3,313,224	4,419,607
Pension liability	162,000	162,000	162,000	162,000	162,000
	10,150,185	10,913,560	12,840,719	14,706,901	16,557,361
Share capital	358	358	358	358	358
Reserves	4,191,474	4,526,389	4,903,348	5,342,240	5,661,540
	4,191,832	4,526,747	4,903,706	5,342,598	5,661,898
	14,342,017	15,440,307	17,744,425	20,049,499	22,219,259

INCOME & EXPENDITURE ACCOUNTS

This schedule summarises the results of the association into the overall income and expenditure account.

We can see that turnover increases steadily over the period due to the annual rent increases (taken at 2%) and the new units anticipated. So that by 2021 turnover has increased to £1.27 million, up from £804k in 2017.

Operating costs also increase steadily. It is worth pointing out the level of cyclical maintenance in 2021 is much higher than in earlier years due to the work coming out of the stock condition survey. There is a predicted operating surplus each year, increasing year on year with the exception of 2021. This translates into a retained surplus each year, once the impact of interest payable and receivable has been accounted for.

Included on the page opposite is an estimate of how much cash is generated through operations. This figure is arrived at by adding back depreciation (a non-cash cost) and deducting the loans actually paid back in the year. We can see cash generation is strong, particularly when we see the figure on a per unit basis.

These reserves generated will be invested by the Association into our housing stock by going towards funding the major repairs programme.

INCOME & EXPENDITURE ACCOUNT

FIVE YEARS ENDING 31 MARCH

	2017	2018	2019	2020	2021
	£	£	£	£	£
Turnover					
Rents and charges receivable	804,369	868,921	999,098	1,131,878	1,273,148
Operating costs	483,201	489,612	552,136	558,520	755,822
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Operating surplus	321,168	379,309	446,962	573,358	517,326
Interest earned	4,145	4,276	4,644	5,411	6,477
Interest payable	39,859	48,670	74,647	139,877	204,503
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Total surplus (deficit)	285,455	334,915	376,959	438,892	319,300
	=======	=======	=======	=======	=======
Cash generated from above:					
Surplus as reported	285,455	334,915	376,959	438,892	319,300
Add back depreciation	301,184	315,537	344,958	374,382	403,809
Deduct loan repayments	(122,548)	(126,789)	(90,054)	(95,575)	(99,596)
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Cash generated	464,091	523,663	631,863	717,699	623,512
	=======	=======	=======	=======	=======
Per unit	2,344	2,645	3,191	3,450	2,873
	=======	=======	=======	=======	=======

PROPERTY REVENUE ACCOUNTS

The property revenue account is the major income and expenditure account of the Association, giving more detail to the revenues and expenses in managing, maintaining and financing the properties of the Association.

As stated earlier income increases over the period due to a combination of annual increases and also additional units being added, the plan includes 100 additional units being added by the end of 2021.

Costs also increase across the board due to inflationary increases and also an increase in number of units. The one major exception is within cyclical maintenance, with 2021 having a much higher cost than earlier years. The area that can be most difficult to predict accurately is within the maintenance section. However, due to the substantial activity planned for component replacements it is anticipated maintenance costs will be manageable and can be kept to inflationary increases or linked to increases in rents.

Surpluses increase over the period with larger surpluses predicted for the latter years when the new units come into management.

Rent inflation and cost inflation have both been taken at 2%. The exceptions are rates, voids and repairs which have been linked to the rent and rates receivable figures.

PROPERTY REVENUE ACCOUNT

FIVE YEARS ENDING 31 MARCH

	2017	2018	2019	2020	2021
	£	£	£	£	£
Income					
Rent and rates receivable	937,165	1,022,260	1,175,409	1,331,621	1,497,821
Less :					
Rates	(123,424)	(143,116)	(164,557)	(186,427)	(209,695)
Voids	(9,372)	(10,223)	(11,754)	(13,316)	(14,978)
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	804,369	868,921	999,098	1,131,878	1,273,148
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Management					
Administration costs	98,089	99,933	101,813	103,727	105,678
Service costs	14,350	14,637	14,930	15,229	15,534
Rent collection charges	1,124	1,146	1,169	1,192	1,216
Insurance	27,588	28,140	28,703	29,277	29,863
Bad debt provision	6,000	6,120	6,242	6,367	6,494
Rates discount	(12,342)	(14,312)	(16,456)	(18,643)	(20,970)
Maintenance					
Administration costs	98,088	99,934	101,813	103,727	105,678
Repairs	86,476	71,558	82,279	93,213	104,847
Cyclical repairs	33,936	44,088	76,500	52,500	218,750
Employee costs	31,467	32,096	32,738	33,393	34,061
Financing					
Property depreciation	298,328	312,595	341,928	371,261	400,594
Amortisation	(199,902)	(206,322)	(219,522)	(232,722)	(245,922)
Loan interest	39,859	48,310	74,287	139,517	204,143
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	523,059	537,922	626,423	698,037	959,965
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Surplus before transfers	281,310	330,999	372,675	433,841	313,183
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ADMINISTRATION COSTS

This schedule lists out all those costs the association incurs in carrying out all its various activities.

The total costs rise consistently from an opening position of £218k to £236k by 2021. This is largely accounted for by inflationary increases in costs.

The major administration cost is of course salaries and employee related costs. As a percentage of total administration costs this hovers around the 60% mark during the cycle.

Total costs are then re-charged out to the various activities of the association based on the time spent by staff on those various activities.

PROPERTY DEVELOPMENT ACCOUNT

The other revenue account is the property development account which is a reflection of the development activity an association has. A small allowance has been made for early development works, continuing adaptations and the major repair works programme. This is shown as a deduction in the schedule which is a change from previous formats. This method is now considered to be the best way of accounting for in-house development costs.

ADMINISTRATION COSTS

FIVE YEARS ENDING 31 MARCH

	2017	2018	2019	2020	2021
	£	£	£	£	£
Salaries	131,716	134,350	137,037	139,778	142,574
Motor and travel	1,500	1,530	1,561	1,592	1,624
Stationery and postage	9,039	9,220	9,404	9,592	9,784
Office insurance	9,894	10,092	10,294	10,500	10,710
Advertising	600	612	624	636	649
Telephone	1,453	1,482	1,512	1,542	1,573
Heat and light	3,071	3,132	3,195	3,259	3,324
Audit and accountancy	9,400	9,588	9,780	9,976	10,176
Internal audit	4,200	4,284	4,370	4,457	4,546
Miscellaneous	7,555	7,706	7,860	8,017	8,177
Subscriptions	4,510	4,600	4,692	4,786	4,882
Office repairs and upkeep	1,550	1,581	1,613	1,645	1,678
Computer expenses	9,426	9,615	9,807	10,003	10,203
Training and Conference	8,096	8,258	8,423	8,591	8,763
Legal and professional fees	12,004	12,244	12,489	12,739	12,994
Loan interest	1,104	1,082	1,060	1,039	1,018
Depreciation, office f&f	2,856	2,942	3,030	3,121	3,215
	217,974	222,318	226,751	231,273	235,890
Charged to development	21,797	22,451	23,125	23,819	24,534
	196,177	199,867	203,626	207,454	211,356
Apportioned as follows:					
Management	98,089	99,933	101,813	103,727	105,678
Maintenance	98,088	99,934	101,813	103,727	105,678
	196,177	199,867	203,626	207,454	211,356

CASHFLOW PROJECTIONS

This schedule summarises the predicted cashflows of the association over the 5 years. The various types of moneys in are summarised and set off against the various outgoings.

Over the 5 year cycle the association sees the bank balances rise, slowly at first but then gathering momentum. The maintenance programme envisaged together with the acquisition of the additional units influence these levels during the cycle. The Association maintains healthy cash balances throughout the period. We can see this is achieved while at the same time investing over £200k in planned maintenance in 4 of the 5 years of the forecast.

With cashflow forecasts it is the monthly positions that are important. The Association needs to know what the maximum overdraft or funding level is and this can only be determined by monthly movements rather than summarised year end positions. The Association does not need an overdraft facility throughout this period.

The development activity included in the forecast is identified best in this statement. We can see the impact on the income side in grant receipts and loan drawdowns and on the expenditure side in projected development expenditure.

CASHFLOW PROJECTIONS

FIVE YEARS ENDING 31 MARCH

	2017	2018	2019	2020	2021
	£	£	£	£	£
INCOME					
Rents,rates and charges	923,155	1,001,917	1,152,018	1,305,122	1,468,015
Interest earned	4,145	4,276	4,644	5,411	6,477
HAG tranches received	90,000	481,500	990,000	990,000	990,000
Housing loans received	-	588,500	1,210,000	1,210,000	1,210,000
	1,017,300	2,076,193	3,356,662	3,510,533	3,674,492
EXPENDITURE					
Administration expenses	202,612	218,294	222,661	227,113	231,657
Rates	123,424	128,804	148,101	167,784	188,725
Management expenses	27,478	15,783	16,099	16,421	16,750
Insurance	27,592	28,140	28,703	29,277	29,863
Property maintenance	151,879	147,742	191,517	179,106	357,658
Loans	129,065	141,734	130,954	201,684	295,426
Loans DSD	34,446	34,446	34,446	34,446	9,331
Development expenditure	311,940	1,070,000	2,200,000	2,200,000	2,200,000
Planned maintenance	-	204,144	208,227	212,392	216,640
Other capital purchases	-	5,000	5,100	5,202	5,306
Bank charges	2,400	360	360	360	360
	1,010,836	1,994,447	3,186,168	3,273,785	3,551,716
NET CASH FLOW	6,464	81,746	170,494	236,748	122,776
OPENING BALANCE	943,800	950,264	1,032,010	1,202,504	1,439,251
CLOSING BALANCE	950,264	1,032,010	1,202,504	1,439,251	1,562,027

KEY PERFORMANCE INDICATORS

This schedule summarises the key ratios of the association.

Immediate Solvency

These ratios centre on the ability of the association to meet its short-term creditors from its current assets as reflected in the current asset ratio. Normally, acceptable ratios are over 1.4. The Association is comfortably above this level.

Short-term Viability

These ratios look at the level of debt an association has and its ability to service that debt.

The interest cover ratio states the ratio of an association's operating surplus to its interest cost. Most banks like to see this figure at 1.4 times and above. This has traditionally been achieved quite comfortably by the Association and is well in excess of this bank covenant, hitting a peak of 14.28 times and a trough of 3.63 times. It is important this indicator stays above that required by the bank as this is one of the important financial covenants contained within the terms and conditions attached to bank loans.

Other ratios reflect the level of external debt to various balance sheet figures. These ratios are all very low reflecting the relative low level of external debt the Association has. Gearing valuation (including HAG) hits a peak at 31%, with bank covenants typically requiring to be below 50%.

Performance

The effective interest rate gives the average cost of the association's long-term loans and reflects the greater influence of fixed rates over variable rates. The effective interest rate hovers around the 4 to 5%. The timing of the drawdown of the loans in the intervening years can cause fluctuations in this figure.

Key Performance Indicators

	2017	2018	2019	2020	2021
Current Asset Ratio	6.44	9.13	10.55	10.25	9.30
Interest cover	14.28	10.61	6.78	4.50	3.63
Gearing ratio	8%	16%	22%	27%	31%
Average cost of debt	4.14%	3.25%	4.10%	4.53%	4.82%

LOANS

The Association has successfully drawn down loan finance in recent years. The Association is planning on further loan finance to meet our growth objectives in the coming five years. This will be just under £5.50 million and will all be used to fund new developments.

All loans are expected to be with fixed rates. This will ensure certainty for the Association as far as interest costs and repayments are concerned. The loans for the new developments have been budgeted over 25 years at 6%.

SENSITIVITY ANALYSIS

It is useful to see the impact on results if the original assumptions of the forecast are changed. The main assumptions we will change are as follows:

- Development programme
- Inflation rates, and
- Interest rates

Development Programme

If we assumed there to be no development programme, then the impact on reported surpluses would be as follows:

INCOME & EXPENDITURE ACCOUNT

	2017	2018	2019	2020	2021
	£	£	£	£	£
Original surpluses	285,455	334,915	376,959	438,892	319,300
Revised surpluses	285,455	290,078	276,910	317,882	168,289
Reduction	-	(44,837)	(100,049)	(121,010)	(151,011)
Total reduction	(416,907)				

Over the five years of the plan we can see the impact is material but not dangerously so, from an operational point of view, with total surpluses for the five year period falling by almost £417k, or in percentage terms of the total for the period 24.0%.

As far as the balance sheet is concerned we can see the impact of a reduced development programme from the summarised balance sheet on the next page.

BALANCE SHEET
FIVE YEARS ENDING 31 MARCH

	Original 2021 £	Revised 2021 £	Difference £
Fixed assets	20,712,478	13,275,544	(7,436,934)
Current assets			
Debtors	107,605	96,842	(10,763)
Bank	1,562,027	1,129,330	(432,697)
	1,669,632	1,226,172	(443,460)
Current liabilities			
Creditors	(162,851)	(105,368)	57,483
Net current assets	1,506,781	1,120,804	(385,977)
	22,219,259	14,396,348	(7,822,911)
Creditors >1 year			
Grant	11,975,754	8,629,134	(3,346,620)
Loans	4,419,607	360,222	(4,059,384)
Pension liability	162,000	162,000	0
	16,557,361	9,151,356	(7,406,004)
Share capital	358	358	0
Reserves	5,661,540	5,244,633	(416,907)
	5,661,898	5,244,991	(416,907)
	22,219,259	14,396,348	(7,822,911)

The major movement is as we would expect within the net cost of assets and long term liabilities. Both of these reduce reflecting the reduced programme and the fact it is proposed to fund the development programme completely by grant and external finance. The bank position is down roughly by the fall in surpluses but remains at a healthy level.

Having no development programme has no real worrying financial impact on the Association's balance sheet over the five years of the plan.

Inflation Rates

We have assumed both rent and cost inflation to be 2% in the original model. We will look at what might happen if cost inflation increases up to 10%.

At 10% the impact on the operating results for the five years are as follows:

INCOME & EXPENDITURE ACCOUNT

	2017	2018	2019	2020	2021
	£	£	£	£	£
Original surpluses	285,455	334,915	376,959	438,892	319,300
Revised surpluses	285,455	283,376	296,766	331,624	161,943
Reduction	-	(51,540)	(80,193)	(107,268)	(157,357)
Total reduction	(396,358)				

We can see there is an overall reduction in reported surpluses of £396k, or 23% of the total surpluses for the five years. So while it is a statistically significant movement, the Association could cope with this scenario.

The impact on the balance sheet is a straight-forward one, that of a reduction in bank and cash balances of £396k, from £1.562 million to £1.166.

Interest Rates

We have assumed interest rates to be 6% in the original model. We will look at what might happen if rates increase up to 10%.

The impact on the operating results of an increase in rates up to 10% would be as follows:

INCOME & EXPENDITURE ACCOUNT

	2017	2018	2019	2020	2021
	£	£	£	£	£
Original surpluses	285,455	334,915	376,959	438,892	319,300
Revised surpluses	285,455	309,844	331,263	346,280	178,325
Reduction	-	(25,071)	(45,696)	(92,612)	(140,975)
Total reduction	(304,353)				

We can see there is an overall reduction in reported surpluses of £304k, or 17% of the total surpluses for the five years. So while it may be a statistically significant movement, the Association could cope with this scenario.

The impact on the balance sheet is that of a reduction in bank and cash balances of £227k.

LONG-TERM FORECASTS

Included within the appendices are 25-year forecasts for the Income & Expenditure Account, Balance Sheet and Cashflow Forecast.

They have been prepared on the basis of no further new developments. They are based on the most recent stock condition survey information and include estimated planned maintenance costs deriving from these surveys. Inflation for both income and costs has been taken at 2%, with the exception of those items such as planned maintenance costs which have originated from a separate plan.

The relevance of forecasts over such a long period is rightly questioned, as circumstances can change, sometimes dramatically. However, if anything they do show trends, which can be important. This is particularly true if the longer period forecasts show cashflow problems. If this was to be the case then it does give the association an opportunity to rectify any potential problems.

Typically these type of forecasts show increasing bank and cash balances being built up over the period. This is simply down to the fact there is an initial gap between income and expenditure, the annual surplus, which then increases over time due to inflation. If there was no change in circumstances then this is exactly what we would expect. The only factor that would change this is the condition of the housing stock, the worse it is the higher level of expenditure required and the lower the end bank balance. But, as has been explained, these forecasts have been prepared on the basis of information contained within recent stock condition surveys. Taking this into account, the long range forecasts show the Association to be financially viable.

APPENDIX 1 – LONG TERM FORECASTS

INCOME & EXPENDITURE ACCOUNT

TWENTY FIVE YEARS ENDING 31 MARCH

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover																									
Rents and charges receivable	1,446	1,475	1,504	1,534	1,565	1,596	1,628	1,661	1,694	1,728	1,762	1,797	1,833	1,870	1,907	1,946	1,984	2,024	2,065	2,106	2,148	2,191	2,235	2,280	2,325
Operating costs	881	895	909	924	939	954	969	985	1,001	839	852	865	879	893	907	921	936	951	966	982	998	1,014	1,030	1,047	1,064
Operating surplus	564	579	595	610	626	642	659	676	693	889	910	932	954	977	1,000	1,024	1,048	1,073	1,098	1,124	1,151	1,177	1,205	1,233	1,261
Interest earned	7	7	7	7	8	8	8	8	9	9	11	12	14	15	17	19	21	23	25	27	29	32	34	37	41
Interest payable	337	328	319	309	299	288	279	268	258	246	234	221	208	194	179	163	146	129	111	92	72	51	29	5	0
Total surplus (deficit)	235	258	283	308	335	362	388	416	444	652	687	723	760	799	839	880	923	967	1,012	1,059	1,108	1,158	1,210	1,265	1,302
Cash generated from above:																									
Surplus as reported	235	258	283	308	335	362	388	416	444	652	687	723	760	799	839	880	923	967	1,012	1,059	1,108	1,158	1,210	1,265	1,302
Add back depreciation	433	433	434	434	434	434	434	434	434	434	435	435	435	435	435	435	435	436	436	436	436	436	436	437	437
Deduct loan repayments	(146)	(154)	(162)	(171)	(176)	(162)	(171)	(181)	(191)	(201)	(212)	(224)	(237)	(250)	(264)	(279)	(289)	(296)	(314)	(333)	(353)	(374)	(396)	(73)	0
Cash generated	522	538	554	571	592	633	651	669	688	885	909	934	958	984	1,010	1,037	1,069	1,106	1,134	1,162	1,191	1,220	1,250	1,628	1,739
Per unit	1.74	1.79	1.85	1.90	1.97	2.11	2.17	2.23	2.29	2.95	3.03	3.11	3.19	3.28	3.37	3.46	3.56	3.69	3.78	3.87	3.97	4.07	4.17	5.43	5.80

BALANCE SHEET

TWENTY FIVE YEARS ENDING 31 MARCH

	2021 £'000	2022 £'000	2023 £'000	2024 £'000	2025 £'000	2026 £'000	2027 £'000	2028 £'000	2029 £'000	2030 £'000	2031 £'000	2032 £'000	2033 £'000
Fixed assets													
Housing properties	28,552	28,808	29,070	29,338	29,611	29,890	30,175	30,466	30,763	31,066	31,376	31,692	32,015
Less : Depreciation	(6,025)	(6,455)	(6,885)	(7,315)	(7,745)	(8,175)	(8,605)	(9,035)	(9,465)	(9,895)	(10,325)	(10,755)	(11,184)
Net cost	22,526	22,353	22,185	22,023	21,866	21,715	21,570	21,431	21,298	21,172	21,052	20,938	20,831
Other fixed assets	48	49	51	52	54	56	57	59	61	63	65	67	69
	22,574	22,402	22,236	22,075	21,920	21,771	21,628	21,490	21,359	21,235	21,116	21,005	20,900
Current assets													
Debtors	116	127	138	145	137	170	173	185	196	208	221	233	246
Bank	1,618	1,625	1,642	1,670	1,713	1,791	1,881	1,983	2,096	2,401	2,722	3,061	3,418
	1,734	1,752	1,780	1,815	1,850	1,962	2,054	2,167	2,293	2,609	2,943	3,294	3,664
Current liabilities													
Creditors	(198)	(206)	(215)	(220)	(206)	(215)	(215)	(224)	(234)	(245)	(256)	(268)	(280)
Net current assets	1,536	1,545	1,565	1,594	1,644	1,747	1,839	1,943	2,058	2,364	2,687	3,026	3,383
	24,110	23,948	23,801	23,670	23,564	23,518	23,467	23,433	23,418	23,599	23,803	24,031	24,283
Creditors >1 year													
Loans	5,319	5,157	4,986	4,806	4,624	4,476	4,296	4,106	3,905	3,694	3,470	3,235	2,985
Grant	12,448	12,188	11,929	11,670	11,411	11,152	10,893	10,634	10,375	10,115	9,856	9,597	9,338
Pension liability	162	162	162	162	162	162	162	162	162	162	162	162	162
	17,928	17,507	17,077	16,638	16,197	15,790	15,351	14,902	14,442	13,971	13,489	12,994	12,485
Reserves	6,182	6,440	6,723	7,031	7,366	7,727	8,116	8,531	8,975	9,627	10,314	11,037	11,797
	6,182	6,440	6,723	7,032	7,366	7,728	8,116	8,532	8,976	9,628	10,315	11,037	11,798
	24,110	23,948	23,801	23,670	23,564	23,518	23,467	23,433	23,418	23,599	23,803	24,031	24,283

	2034 £'000	2035 £'000	2036 £'000	2037 £'000	2038 £'000	2039 £'000	2040 £'000	2041 £'000	2042 £'000	2043 £'000	2044 £'000	2045 £'000
Fixed assets												
Housing properties	32,345	32,682	33,026	33,377	33,736	34,102	34,476	34,858	35,248	35,646	36,053	36,468
Less : Depreciation	(11,614)	(12,044)	(12,474)	(12,904)	(13,334)	(13,764)	(14,194)	(14,624)	(15,054)	(15,484)	(15,914)	(16,344)
Net cost	20,731	20,638	20,552	20,473	20,402	20,338	20,282	20,234	20,194	20,162	20,139	20,125
Other fixed assets	71	73	75	78	80	83	85	88	90	93	96	99
	20,802	20,711	20,627	20,551	20,482	20,420	20,367	20,322	20,284	20,256	20,235	20,224
Current assets												
Debtors	259	272	286	300	314	328	343	358	373	389	405	421
Bank	3,793	4,186	4,598	5,036	5,502	5,988	6,494	7,020	7,567	8,135	9,071	10,109
	4,052	4,458	4,884	5,335	5,816	6,316	6,837	7,378	7,940	8,524	9,476	10,530
Current liabilities												
Creditors	(294)	(308)	(323)	(333)	(340)	(358)	(377)	(397)	(418)	(117)	(44)	(44)
Net current assets	3,758	4,151	4,562	5,002	5,476	5,959	6,460	6,981	7,522	8,406	9,432	10,486
	24,560	24,861	25,189	25,553	25,958	26,379	26,827	27,303	27,807	28,662	29,667	30,710
Creditors >1 year												
Loans	2,722	2,444	2,150	1,851	1,547	1,216	864	491	96	0.00	- 0.00	- 0.00
Grant	9,079	8,820	8,561	8,302	8,042	7,783	7,524	7,265	7,006	6,747	6,488	6,229
Pension liability	162	162	162	162	162	162	162	162	162	162	162	162
	11,963	11,426	10,873	10,314	9,752	9,161	8,550	7,918	7,264	6,909	6,650	6,391
Reserves	12,596	13,435	14,315	15,238	16,206	17,218	18,277	19,384	20,542	21,753	23,017	24,319
	12,597	13,435	14,316	15,239	16,206	17,218	18,277	19,385	20,543	21,753	23,018	24,319
	24,560	24,861	25,189	25,553	25,958	26,379	26,827	27,303	27,807	28,662	29,667	30,710

CASHFLOW PROJECTIONS

TWENTY FIVE YEARS ENDING 31 MARCH

	2021 £'000	2022 £'000	2023 £'000	2024 £'000	2025 £'000	2026 £'000	2027 £'000	2028 £'000	2029 £'000	2030 £'000	2031 £'000	2032 £'000	2033 £'000	2034 £'000	2035 £'000	2036 £'000	2037 £'000	2038 £'000	2039 £'000	2040 £'000	2041 £'000	2042 £'000	2043 £'000	2044 £'000	2045 £'000
INCOME																									
Rents,rates and charges	1,667	1,700	1,734	1,769	1,804	1,840	1,877	1,915	1,953	1,992	2,032	2,073	2,114	2,156	2,199	2,243	2,288	2,334	2,381	2,428	2,477	2,526	2,577	2,628	2,681
Interest earned	7	7	7	7	8	8	8	8	9	9	11	12	14	15	17	19	21	23	25	27	29	32	34	37	41
	1,674	1,707	1,742	1,776	1,812	1,848	1,885	1,923	1,962	2,001	2,043	2,085	2,128	2,172	2,216	2,262	2,309	2,357	2,405	2,455	2,506	2,558	2,611	2,665	2,722
EXPENDITURE																									
Administration expenses	241	246	251	256	261	266	271	277	282	288	294	300	306	312	318	324	331	337	344	351	358	365	373	380	388
Rates	214	219	223	227	232	237	241	246	251	256	261	266	272	277	283	288	294	300	306	312	318	325	331	338	345
Property revenue management e	17	18	18	18	19	19	20	20	20	21	21	22	22	23	23	23	24	24	25	25	26	26	27	27	28
Insurance	31	32	32	33	34	34	35	36	36	37	38	39	39	40	41	42	43	44	44	45	46	47	48	49	50
Property maintenance	460	470	479	489	498	508	519	529	540	372	380	387	395	403	411	419	427	436	445	454	463	472	481	491	501
Loans	483	482	481	480	475	450	450	449	448	447	446	445	444	443	442	441	435	425	425	425	425	425	425	78	0
Planned maintenance	225	230	234	239	244	249	254	259	264	269	275	280	286	292	297	303	309	316	322	328	335	342	348	355	363
Other capital purchases	25	5	5	5	5	6	6	6	6	6	7	7	7	7	7	8	8	8	8	9	9	9	9	10	10
	1,698	1,701	1,724	1,748	1,769	1,770	1,795	1,822	1,848	1,697	1,721	1,746	1,771	1,797	1,823	1,850	1,872	1,890	1,919	1,949	1,980	2,011	2,043	1,729	1,684
NET CASH FLOW	(24)	7	17	28	43	78	90	102	114	304	321	339	357	375	393	412	437	467	486	506	526	547	568	936	1,038
OPENING BALANCE	1,642	1,618	1,625	1,642	1,670	1,713	1,791	1,881	1,983	2,096	2,401	2,722	3,061	3,418	3,793	4,186	4,598	5,036	5,502	5,988	6,494	7,020	7,567	8,135	9,071
CLOSING BALANCE	1,618	1,625	1,642	1,670	1,713	1,791	1,881	1,983	2,096	2,401	2,722	3,061	3,418	3,793	4,186	4,598	5,036	5,502	5,988	6,494	7,020	7,567	8,135	9,071	10,109