

Section 8: Financial Information (Jun 2023)

The Scottish Housing Regulator Regulatory (SHR) Standards of Governance and Financial Management - Standard 3 states:

“The RSL manages its resources to ensure its financial well-being and economic effectiveness, while maintaining rents at a level that tenants can afford to pay.”

In order to comply with this standard, as well as good business management practice, the Association keeps its financial position under regular review. This includes annual budget setting; five year financial projections; 30 year long term projections; quarterly management accounting; annual financial statements and auditing; and quarterly treasury management reporting.

The Association has a financial planning timetable for keeping matters under review as follows:

Month	Area of Work	Reporting Details
Jan	Annual budget and rent review – final	To Jan committee meeting
Jan	Long term projections review	To Jan committee meeting
Feb	Management accounts to 31/12	To Feb committee meeting
Feb	Treasury management reporting to 31/12	To Feb committee meeting
May	Annual Financial Audit	
May	Management accounts to 31/03	To May committee meeting
May	Treasury management reporting to 31/03 and annual review	To May committee meeting
May	Five year financial projections (FYFP) for SHR – due 31/05	To May committee meeting
June	Annual Financial Statements and Audit Reporting	To June committee meeting
June	Loan portfolio return for SHR – due 30/06	Approved from year end Treasury Management Report.
June	Update finance KPIs and finance section of business plan to reflect the above	
Aug	Management accounts to 30/06	To Aug committee meeting
Aug	Treasury management reporting to 30/06	To Aug committee meeting
Aug	SHAPS Financial Assessment	To Aug committee meeting
Sept	Annual Financial Statements for SHR	Completed with approved audited Annual Financial Statements
Sept	Financial Conduct Authority annual return	Completed with approved audited Annual Financial Statements
Sept	OSCR annual return	Completed with approved audited Annual Financial Statements
Nov	Annual budget and rent review – first draft	To Nov committee meeting

The Association’s intention with the above timetable is to aim for continuity between its financial documents, with this section of the plan being updated each June/July.

This section of the Business Plan should be read in conjunction with Section 7: Performance Indicators.

Five Year Financial Projections

This section of the plan will include projections from the submitted five year financial projections. Any changes throughout the year will be reflected in quarterly management account reporting, with the finance section of the business plan only being updated each June/July.

The Association is required to submit five year projections to the SHR each year by 31/05. Due to the timing requirement of this return by SHR, the return is based on outcomes from the quarter 4 management accounts rather than the audited annual financial statements.

The below information is based on the latest five year projections submitted In May 2023.

- ❖ Year 0 is the outcome figures for 31/03/2023 from our quarter 4 management accounts.
- ❖ Year 1 is taken from our approved 2023-24 budget and matches Year 1 in our 30 year projections.
- ❖ Year 1 – 5 covers the full FYFP period with key assumptions and TOE promises as follows:

As part of the Transfer of Engagements, the Association made promises that must be delivered to ex-Kendoon Housing Association (KHA) tenants. These promises are outlined below and have been incorporated in this long-term financial projections.

- Investment of £1.25m in KHA stock, split between 90% capital and 10% non-capital, over 3 years from 2022 (no investment in first year post-transfer due to requirement to set up new staff structure and review stock condition requirements and plan works).
- Investment of £10k in wider role activities regarding KHA for first 5 years post-transfer (last year being 2025-26).
- The Association's rent structure being applied, with increases at CPI only.

The key assumptions used in the FYFP are as follows:

- Rent increase at 3% in year 1 as previously approved by Committee, Consumer Price Inflation (CPI) only for years 2 and 5, giving increases of 4% for year 2, 3% for year 3 and 2% for years 4 and 5
- CPI at 10.5% for year 1, dropping to 4% in year 2, before reaching 2% by year 4, remains stable at 2% in year 5
- Staff costs – salary increases in-line with CPI throughout, reflects current staff structure
- Cyclical, planned and reactive maintenance – 0.5% real increases above CPI through years 1-5
- Voids and bad debts – 2.5% in year 2, dropping to 1.2% by year 5, average actual performance over previous 5 years was around 1.15%
- Bank of England Base Rate – 4% for year 1 dropping to 1% by year 4, stable in year 5
- Arrears – 7.9% for year 1, steadily decreasing throughout the projection period before reaching 7.1% in year 5

When the assumptions are entered into the SHR five year financial projections (FYFP) system this produces outcomes with a trend and comparators statement which highlights trends and comparators, as given below.

Due to the transfer of engagements that took place on 1 February 2021, many of the 2020/21 (year -2) outcome figures are not directly comparable.

FYFP Year Identification:

Year -2	2020/21 – year end 31/03/21 outcome
Year -1	2021/22 – year end 31/03/22 outcome
Year 0	2022/23 – year end 31/03/23 outcome (from quarter 4 management accounts)
Year 1	2023/24 – year end 31/03/24 forecast (from long term financial projections)
Year 2	2024/25 – year end 31/03/25 forecast (from long term financial projections)
Year 3	2025/26 – year end 31/03/26 forecast (from long term financial projections)
Year 4	2026/27 – year end 31/03/27 forecast (from long term financial projections)
Year 5	2027/28 – year end 31/03/28 forecast (from long term financial projections)

Trend and Comparators Definitions:

> Financial Capacity Ratios:

Interest Cover % - (Net Cash from Operating Activities + Interest Received) / Interest Paid.

This ratio indicates the extent to which the interest payable on loans is covered by cash generated from operations. This KPI can change radically due to the timing of expenditure over the 5 year projections period.

Gearing % - Net debt / Total capital & reserves.

This ratio considers the proportion of debt to total reserves. The higher the gearing % the riskier the Association would be viewed by lenders and other organisations.

> Efficiency Ratios:

Voids % - Rent loss from voids / gross rents and service charges receivable.

This indicator shows the percentage of income lost as a result of properties being void.

Arrears % - Net rental receivables / (net rents and service charges receivable).

This ratio shows the level of rent arrears being carried after deducting potential bad debts. SHR requests the arrears figure net of the bad debt provision.

Bad Debts % - Bad debts written off or back / (net rents and service charges receivable).

This ratio shows the percentage of gross rental & service charge income lost from bad debts.

Staff Costs / Turnover % - total staff costs (including NI and pension) / turnover

This ratio shows staff costs incurred to generate income.

Turnover Per Unit £ - Turnover / Number of Units Owned.

This ratio shows the turnover generated by each unit owned.

Responsive Repairs to Planned Maintenance – (Planned maintenance (direct costs) + improvement of housing) / total reactive & void maintenance (direct costs).

This ratio indicates how much is being spent on planned maintenance against responsive maintenance. This ratio can change radically due to the timing of expenditure over the 5 year projections period.

> Liquidity Ratio:

Current Ratio - Current assets / current liabilities

This ratio is to monitor solvency, and the ability to pay liabilities as they fall due. FYFP and AFS definitions vary.

> Profitability Ratios:

Gross Surplus/Deficit % - Operating surplus / turnover.

This ratio monitors operating performance, before funding commitments. This ratio will fluctuate with committed operating cost expenditure.

Net Surplus/Deficit % - Net surplus / turnover. This ratio monitors operating performance, after funding commitments. This ratio will fluctuate with committed operating cost expenditure.

EBITDA/Revenue % - (Operating surplus (deficit) + housing depreciation + improvement of housing) / turnover. This ratio monitors operating performance.

> Financing Ratios:

Debt Burden - Debt / Turnover. This ratio indicates the time for turnover to repay debt (years).

Net Debt Per Unit £ - Net debt / number of units owned. This ratio shows the average amount borrowed, less cash and near cash, to finance each unit owned.

Debt Per Unit £ - Debt / number of units owned. This ratio shows the average amount borrowed to finance each unit owned.

> Diversification:

Income from non-rental activities % - turnover – net rent and service charges / turnover

This ratio shows the proportion of income derived from non-rental activities.

> Indicators:

Turnover – gross rents + service charges – rent loss from voids + grants released from deferred income + grants from Scottish Ministers + other grants + other income

This indicator shows the total amount of income generated by the Association.

Operating costs – housing depreciation + management costs + service costs + planned maintenance (direct costs) + reactive and void maintenance + maintenance overhead costs + bad debts written off/back + other activity costs + other costs

This indicator shows the total amount of operating costs incurred by the Association.

Net housing assets – housing properties (gross cost) – housing depreciation

This indicator shows the net housing property cost net of depreciation.

Cash & current investments – investments (non-cash) + cash at bank and in hand

This indicator shows the current cash and cash equivalents.

Debt – loans due within one year + overdrafts due within one year + loans due within one year

This indicator shows short and long-term debt.

Net assets / capital reserves.

This indicator shows assets excluding liabilities and provisions.

Trends & Comparators

2023

Pineview Housing Association Ltd

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	Year -2	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	National Median
	Actual	Actual	Outturn	Forecast	Forecast	Forecast	Forecast	Forecast	
Ratios									
Financial capacity									
Interest cover	1,552.214	3,141.779	7,821.182	2,802.407	3,029.841	4,432.209	5,927.848	7,619.898	532.3
Gearing	(4.672)	(10.582)	(14.758)	(13.629)	(18.025)	(23.038)	(27.287)	(31.319)	48.0
Efficiency									
Voids	0.238	0.265	0.261	0.991	0.792	0.595	0.397	0.197	0.9
Arrears	1.449	1.161	3.561	3.202	3.076	2.985	2.924	2.865	1.9
Bad debts	0.952	0.853	(0.883)	1.204	0.988	0.989	0.990	0.990	0.4
Staff costs / turnover	20.149	20.725	18.162	18.805	18.358	18.582	18.632	18.680	21.0
Turnover per unit	3,713	5,308	5,466	5,523	5,709	5,856	5,961	6,068	5,458
Responsive repairs to planned maintenance ratio	1.4	1.8	2.9	1.5	2.2	1.8	2.1	2.0	1.8
Liquidity									
Current ratio	2.4	2.3	5.7	6.0	7.0	8.1	9.0	9.9	2.1
Profitability									
Gross surplus / Deficit	163.525	19.004	23.358	16.630	12.424	14.382	13.432	14.599	18.5
Net surplus / Deficit	162.088	17.866	23.703	16.281	12.298	14.480	13.706	15.036	12.7
EBITDA / revenue	193.555	43.127	39.791	41.385	35.379	38.245	36.221	36.264	29.3
Financing									
Debt Burden ratio	0.9	0.6	0.5	0.4	0.4	0.3	0.2	0.2	1.9
Net debt per unit	(723)	(1,781)	(2,637)	(2,546)	(3,493)	(4,660)	(5,743)	(6,877)	7,102
Debt per unit	3,473	3,099	2,703	2,377	2,041	1,740	1,459	1,174	10,687
Diversification									
Income from non-rental activities	22.439	22.301	22.565	21.619	20.987	20.512	20.192	19.874	17.6
Indicators									
Turnover	3,248.8	4,644.7	4,783.0	4,832.7	4,995.0	5,124.3	5,216.0	5,309.9	
Operating costs	1,417.3	2,003.3	2,063.0	2,443.7	2,776.1	2,778.6	2,898.3	2,908.5	
Net housing assets	40,529.0	39,408.6	38,622.6	38,149.6	37,003.1	35,780.2	34,591.6	33,441.0	
Cash & current investments	3,672.0	4,270.5	4,672.4	4,307.5	4,842.5	5,599.9	6,301.4	7,044.7	
Debt	3,039.1	2,712.0	2,365.0	2,080.0	1,785.7	1,522.1	1,276.3	1,027.1	
Net assets / capital & reserves	13,547.2	14,727.9	15,634.6	16,344.3	16,958.6	17,700.6	18,415.8	19,214.2	