

## **Section 8: Financial Information (Jun 2021)**

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 (some of these dates have been changed for 2021 due to audit timing or SHR changes):

<b>Month</b>	<b>Area of Work</b>	<b>Reporting Details</b>
May (2021 – June)	Annual Financial Audit	
May	Management accounts to 31/03	To committee meeting
May	Treasury management reporting to 31/03 and annual review	To committee meeting
May (2021 – June)	Five year financial projections (FYFP) for SHR	To committee meeting
May (2021 – June)	Long term projections review – for FYFP	To committee meeting
Aug	Update finance KPIs and finance section of business plan to reflect the above	
June (2021 – Aug)	Annual Financial Statements and Audit Reporting	To committee meeting
June (2021 – Aug)	Loan portfolio return for SHR	Approved from year end Treasury Management Report.
Sept	Annual Financial Statements for SHR	
Aug	Annual budget – restated to take account of 31/03 actual closing balances	
Aug	30 year financial projections – restated to take account of 31/03 actual closing balances	
Aug	Management accounts to 30/06	To committee meeting
Aug	Treasury management reporting to 30/06	To committee meeting
Aug	SHAPS Financial Assessment	To committee meeting
Sept	Financial Conduct Authority annual return	
Sept	OSCR annual return	
Nov	Annual budget – first draft	To committee meeting
Jan	Annual budget – final draft	To committee meeting
Feb	Management accounts to 31/12	To committee meeting
Feb	Treasury management reporting to 31/12	To 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 Monitoring.

## **Five Year Financial Projection KPIs**

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. The below financial targets are based on the projections submitted June 2021 and as updated internally.

- Year 0 is the outcome figures from the 31/03/2021 annual financial statements.
- Year 1 is the updated annual budget for 2021/22, as matches 30 year projections.
- Year 2 – 5 is taken from the 30 year financial projections, as updated using the following assumptions:
  - Delivery of transfer of engagements promises (spend of £ 1.25m 2022 – 2026; £10k per annum wider role 2021 – 2026; CPI only rent increases for 3 years).
  - General Inflation assumed at 2.0%.
  - Base reference rate for borrowing – 0.5% rising to 4% by year 5.
  - A rental/service charge increase assumed at CPI inflation only throughout.
  - Voids and bad debts – 3% in short-term then dropping to 1.7% (average actual performance over previous 5 years 0.94%).
  - Arrears – 6% per annual budget 2021/22, 8% year 2 & 3, reducing to 4% by year 7.
  - Cyclical, reactive, and planned repairs – 0.5% real increase above inflation.
  - Cyclical maintenance and planned renewals costs are based on the long term projections life cycle costings work.
  - The projections assume the 1 April 2021 staffing structure for the 5 year period.
  - Includes existing pension scheme arrangements.

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 KPI ratios, as given in the following tables.

PHA actuals show FYFP result for most recent year end and then FYFP forecasts for projected years 1 to 5.

Due to the transfer of engagements that took place on 1 February 2021, many of the previous years figures are not directly comparable with those out comes as at 31/03/2021 and those forecast.

**Five Year Forecasts** - From SHR submitted five year financial projections 2021.

**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.

Financial Capacity	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Interest Cover</b> High % Good	1191.6%	1,088.8%	1,552.1%	2,996.1%	3,179.7%	3,481.6%	3,447.6%	3,881.7%

**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. There are no plans to increase long term loans therefore the outstanding debt will reduce each year as repayments are made. Less than 0 (%) results are shown where the Association will have more cash than loans if all projections and assumptions are achieved.

Financial Capacity	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Gearing</b> Low % Good	(6.3%)	(9.6%)	(4.7%)	(4.8%)	(8.5%)	(13.7%)	(15.5%)	(21.6%)

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

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

The Association performs well in this area and continues to do so by ensuring quick turnaround of void properties.

Efficiency	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Voids</b> Low % Good	0.0% 0.04%	0.0%	0.2%	1%	1%	1%	0.2%	0.2%

**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. Projected to rise with roll out of universal credit.

Efficiency	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Arrears</b> Low % Good	1.0%	0.8%	1.4%	1.2%	1.6%	1.6%	1.2%	1.2%

**Bad Debts % - Bad debts written off / (gross rents and service charges receivable).**

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

Efficiency	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Bad Debts</b> Low % Good	0.9%	1.6%	0.9%	2%	2%	2%	2%	2%

**Staff Costs / Turnover %.**

This Ratio shows staff costs incurred to generate income. Estimated increase in costs due to budgeted finance manager post and contingency.

Efficiency	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Staff Cost/Turnover</b> Low % Good	17.9%	21.9%	20.6%	17.3%	18.6%	19.0%	19.4%	19.6%

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

This ratio shows the turnover generated by each unit owned.

Efficiency	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Turnover per unit</b>	£5,276	£5,249.3	£3,713	£5,324	£5,351	£5,394	£5,437	£5,496

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

This ratio indicates the 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.

Efficiency	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Responsive repairs to planned maintenance</b>	3.5	3.2	1.4	4.6	3.1	2.3	4.2	2.2

**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.

Liquidity	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Current Ratio</b> Higher Good	6.5 3.1 AFS	6.5 FYFP 3.2 AFS	4.5 FYFP	4.0 FYFP	4.5 FYFP	5.3 FYFP	5.6 FYFP	6.8 FYFP

**Gross Surplus/Deficit % - Operating surplus / turnover.**

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

Profitability	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Gross Surplus / Deficit</b> High % Good	26.1%	14.0%	23.4%	17.1%	18.0%	18.9%	13.5%	15.4%

**Net Surplus/Deficit % - Net surplus / turnover.**

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

Profitability	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Net Surplus %</b> High % Good	16.2%	12.5%	22%	16.3%	17.5%	18.5%	13.1%	15.0%

**EBITDA/Revenue % - (Operating surplus (deficit) – depreciation & amortisation – improvement of housing) / turnover.**

This ratio monitors operating performance.

Profitability	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>EBITDA/Revenue</b>	20.6%	37.9%	53.4%	27.2%	35.7%	41.8%	26.3%	41.9%

**Debt Burden - Debt / Turnover.**

This ratio indicates the time for turnover to repay debt (years).

Financing	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Debt burden</b>	1.2	1.1	0.9	0.6	0.5	0.4	0.4	0.3

### 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.

KPI	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Net debt per unit</b>	(£912)	(£1,514.9)	(£723)	(£791)	(£1,474)	(£2,508)	(£2,961)	(£4,303)

### Debt Per Unit £ - Debt / number of units owned.

This ratio shows the average amount borrowed to finance each unit owned.

KPI	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21	Projected 31/03/22	Projected 31/03/23	Projected 31/03/24	Projected 31/03/25	Projected 31/03/26
<b>Debt per unit</b>	£6,338	£5,817.8	£3,473	£3,099	£2,723	£2,379	£2,050	£1,754

### Lenders Covenants

The Association also has obligations in respect of loans it has, known as lender covenants. The Association requires to ensure that all lenders covenants are complied with and not breached. The covenants require strict monitoring and future costs planned accordingly to avoid technical or potential breaches. The Association has loans with the Clydesdale Bank (CB) and the Nationwide Building Society (NW). There are no financial covenants with the Nationwide, although there are information covenants. The financial covenant requirements are as detailed below, information covenants are detailed in the returns due table in Section 5 of the Business Plan:

KPI	Requirement	Actual 31/03/18	Actual 31/03/19	Actual 31/03/20	Actual 31/03/21 <sup>1</sup>
<b>CB - Security value to loans &gt;110%</b>	>110%	292%	358%	401%	461.9%
<b>CB - Rental Income/Loans (capital repayment &amp; Interest) &gt;145%</b>	>145%	618%	614%	624%	897.4%
<b>CB - Rental Income/Loans (capital repayment &amp; Interest) &gt;145% (CB stock only)</b>	>145%	392%	370%	380%	
<b>CB - Operating surplus + depreciation – amortised HAG – pension deficit payment, as % of interest payable &gt;130%</b>	>130%	1158%	1235%	887%	1293.8%

<sup>1</sup> From 31/03/2021 quarter 4 management accounts – to be updated once annual financial statements finalised and audited.