

## **Section 8: Financial Information (June 2024)**

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:

<b>Month</b>	<b>Area of Work</b>	<b>Reporting Details</b>
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 FYFP 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 2024.

- ❖ Year 0 is the anticipated outcome figures for 31/03/2024 from our quarter 4 management accounts.
- ❖ Year 1 is taken from our approved 2024-25 budget and matches Year 1 in our FYFP and 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 key assumptions used in the FYFP are as follows:

- Rent rise - general needs and shared ownership - 5% in year 1 and inflation only every other year;
- Rent rise - supported accommodation - 0% in year 1, in-line with general needs and shared ownership rent rise thereafter;
- Voids assumed to be 1% in year 1 falling to 0.2% per annum by year 5;
- Cost inflation set at 3.9% in year 1, 3.5% in year 2, 3% in year 3 and 2% per annum from year 4;
- Real cost increases have been applied to maintenance from years 2-5 at 0.5% per annum;
- Gross salary rise of 4.6% in year 1 with an inflation rise every year thereafter;
- Bad debt write-offs assumed to be 1% throughout the full 5-year projection period;
- Insurance costs increased by 22% in year 1 with above inflation rises for years 2-5;
- Energy costs are fixed for year 1, above inflation increases have been applied following the end of the fixed price contracts;
- Bank of England Base rate is assumed to be 5.25% at the start of year 1 before reducing to 3% by year 5; and
- Gross arrears assumed to be 7.7% at the end of year 1 and 7.2% by the end of 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.

### FYFP Year Identification:

Year -2	2021/22 – year end 31/03/22 outcome
Year -1	2022/23 – year end 31/03/23 outcome
Year 0	2023/24 – year end 31/03/24 outcome (from quarter 4 management accounts)
Year 1	2024/25 – year end 31/03/25 forecast (from long term financial projections)
Year 2	2025/26 – year end 31/03/26 forecast (from long term financial projections)
Year 3	2026/27 – year end 31/03/27 forecast (from long term financial projections)
Year 4	2027/28 – year end 31/03/28 forecast (from long term financial projections)
Year 5	2028/29 – year end 31/03/29 forecast (from long term financial projections)

### Trend and Comparators Definitions:

#### > Financial Capacity Ratios:

Interest Cover % - (Net Cash from Operating Activities + shares cancelled – SHAPS past service deficit contribution + 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.

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

This ratio shows the level of gross rent arrears being carried after deducting potential bad debts.

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

This ratio shows the level of net rent arrears being carried after deducting potential bad debts.

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

This ratio shows the percentage of net 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.

Key Management Personnel / Staff Costs % - total key management personnel costs (including NI and pension) / total staff costs (including NI and pension)

This ratio shows key management personnel costs incurred as a proportion of total staff costs.

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.

> 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.

EBITDA/Revenue excluding deferent grant % - (Operating surplus (deficit) + housing depreciation + improvement of housing – amortised grant) / 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

2024

### 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
	Actual	Actual	Outturn	Forecast	Forecast	Forecast	Forecast	Forecast	Median
<b>Ratios</b>									
<b>Financial capacity</b>									
Interest cover	3,141.800	7,821.200	3,997.483	2,325.239	3,310.291	4,096.296	5,647.584	8,639.487	425.2
Gearing	(10.600)	(14.800)	(20.176)	(18.310)	(23.681)	(28.142)	(32.292)	(36.626)	44.8
<b>Efficiency</b>									
Voids	0.300	0.300	0.170	0.992	0.792	0.594	0.396	0.198	0.8
Arrears	1.200	3.600	3.108	3.091	2.985	2.895	2.837	2.778	1.9
Bad debts	0.900	(1.000)	0.584	1.060	0.990	0.990	0.989	0.991	0.5
Staff costs / turnover	20.700	19.400	17.248	18.965	17.635	17.821	17.866	17.909	21.0
Turnover per unit	5,308	5,466	5,665	5,753	5,925	6,079	6,189	6,301	5,571
Responsive repairs to planned maintenance ratio	1.8	2.1	2.2	2.3	1.6	1.9	1.8	1.5	1.6
<b>Liquidity</b>									
Current ratio	2.3	2.7	7.1	6.0	7.3	8.1	8.9	10.1	1.9
<b>Profitability</b>									
Gross surplus / Deficit	19.000	23.400	22.687	7.291	12.610	11.708	13.399	16.136	16.2
Net surplus / Deficit	17.900	23.700	25.055	8.807	13.763	12.830	14.312	17.023	11.1
EBITDA / revenue	43.100	39.800	41.438	24.496	37.664	35.064	35.454	37.747	28.8
<b>Financing</b>									
Debt Burden ratio	0.6	0.5	0.4	0.4	0.3	0.2	0.2	0.1	1.7
Net debt per unit	(1,781)	(2,637)	(3,834)	(3,502)	(4,723)	(5,832)	(6,978)	(8,308)	7,062
Debt per unit	3,099	2,703	2,365	2,030	1,728	1,447	1,161	872	10,191
<b>Diversification</b>									
Income from non-rental activities	22.300	22.600	22.918	20.983	20.435	19.968	19.655	19.345	17.4
<b>Indicators</b>									
Turnover	4,644.7	4,783.1	4,951.2	5,027.8	5,178.4	5,313.4	5,409.3	5,507.4	
Operating costs	2,003.3	2,063.0	2,229.3	3,015.6	2,870.2	3,027.9	3,011.6	2,936.5	
Net housing assets	39,408.6	38,622.6	37,655.4	36,871.5	35,574.1	34,333.1	33,140.1	31,949.9	
Cash & current investments	4,270.5	4,672.4	5,417.3	4,835.3	5,638.2	6,361.8	7,113.9	8,023.2	
Debt	2,712.0	2,365.0	2,066.7	1,774.2	1,510.3	1,264.4	1,014.9	762.2	
Net assets / capital & reserves	14,727.9	15,634.6	16,607.2	16,718.6	17,431.4	18,113.0	18,887.3	19,824.7	