Almond Housing Association

Business Plan

2019 - 2020

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EXECUTIVE SUMMARY

Brexit – where to begin? How will it end? Deal or No Deal? We hear stories on a daily basis of companies closing down and moving operations out of Britain, fears of food shortages, worries about the economy 'flatlining'. These are challenging times and the outlook is uncertain.
These challenges and uncertainties are reflected in our own sector. The Office for National Statistics (ONS) last year classified Social Housing Providers as Public Bodies, the results of which are yet to be fully realised but already it is clear that this reclassification will have an impact on how we manage our resources, our ability to source funding, and will mean increased regulation in an already highly regulated sector.

As a result, governance will be a key focus for us in 2019. The Scottish Housing Regulator (SHR) has introduced a Self-Assurance Statement for Boards of all Registered Social Landlords (RSLs) to sign off on, ensuring that Boards are clear on the information they are receiving and the levels of compliance being achieved by the Associations they lead. We fully support this important work and believe it will ensure a greater consistency across the sector leading to more transparent and improved services for customers, but there is no doubt that this, and other measures, will place increasing pressures on existing resources.

The reclassification will also see RSLs subject to the Freedom of Information Act (FOI). Whilst we have not previously been subject to this, we have always tried to ensure that we respond promptly to requests for information and that we are accountable and transparent in the ways in which we conduct our business.

The challenges also continue for those who receive our services. The introduction of wide ranging welfare reforms have had a detrimental impact on our customers and the roll out of the Universal Credit Full Service across West Lothian means there is no respite.

As the demands on customers and providers in the Social Housing sector continue to increase at a pace, we remain flexible in our approach; improving and developing our services to meet the expectations of our customers; connecting with them in ways that suit their needs.

We have a strong brand. Our people are engaged and our infrastructure is robust, enabling us to deliver quality services to our customers.

We remain just as focused as ever before.

We are Positively Almond.

OUR ORGANISATION – FOCUSSING ON THE FUTURE

This year marks year five of our current five year strategic plan 'Positively Almond', and so our focus will be on achieving all that we set out to when we drafted the original plan, ensuring that we deliver on the commitments we made, and that we position ourselves well in preparation for the challenges and changes ahead.
2019 sees us celebrate our 25th birthday. And whilst we are faced with a period of significant change within the Social Housing sector, we also believe in celebrating our successes over the years.

Since winning the tenant ballot and becoming the first home grown Housing Association in Livingston we've tried hard to establish ourselves as so much more than 'just' a landlord. We've supported our communities to grow and propser and we've played our part by contributing in as many ways as we can to enriching the lives of all of our customers.

As a result of our improved partnership working with local community groups we've been able to really develop our non-traditional housing support services, setting a new standard for what our customers can expect from a Social Landlord who understands the challenges our customers face and is prepared to respond with empathy as well as practical and realistic solutions.

As part of this work we were thrilled to be able to partner with the Rock Trust in the innovative and ground breaking Housing First for Youth project, which has so far seen five young care leavers housed independently whilst receiving much needed day-to-day support from the Rock Trust. 2019 will see us double the pilot to accommodate a total of ten young care leavers within our stock. The project is the first of its kind in Europe and we're hopeful of being able to support others to adopt the model once the pilot has been evaluated.

2018 also saw us establish a Community Fridge at the newly refurbished Riverside Community Wing – a first for West Lothian, and for Scotland as far as we know! The Community Fridge has been well received and has led to a number of community cooking initiatives being run. These will continue throughout 2019 as we do our bit to reduce food poverty within West Lothian, and to promote life-skills.

We'll also continue with our rent restructuring exercise. This began in 2015, and with the introduction of the Cap, means that the majority of our customers will achieve harmonisation in 2019/20. This ensures that our rents are simplified, consistent and easy to understand.

Throughout 2019 we'll continue to invest in our properties, budgeting £2.79million to ensure our houses are warm, secure and safe homes for all of our customers. We'll maintain a key focus on improving the energy efficiency of our homes, ensuring EESSH compliance by 2020.

We know that everyone deserves the very best service we can offer and we strive to improve on what we deliver each and every day. At the same time we believe in being a fair and responsible business, doing the right thing – for our customers, our people and our communities.

Our Customers

The demands on the Social Housing sector continue to increase at a rapid pace. Customers expectations, preferences and behaviours are changing, as is the world of work.

We know that our customers want the best experience whenever they interact with us and giving them excellent customer service remains at the very heart of what we do.

We recognise the importance of providing quality services that our customers want, in the ways they want them, at times when they want to access them. This year will see us carry out a full Tenant Satisfaction Survey and we will be working hard to encourage all of our customers to get involved. Throughout 2019/20 we will be step changing our customer service, focusing on strengthening our inhouse capabilities and improving our systems to better monitor our performance and evidence our results. But the responses that we receive from our customers as part of the Tenant Satisfaction Survey will direct our customer service priorities well beyond 2020.

Our new core IT system went live in October 2017 and we continue to review and develop its functionality, embracing data and agile working initiatives to keep making customer interactions simpler and quicker. Launching Contractor Portals and investigating the appetite for a Customer Portal are just two examples of initiatives we'll be exploring in 2019. We hope that improvements like these will be recognised through our Tenant Satisfaction Survey results as well as delivering further efficiencies within our business.

The development of our social media channels means that we have more ways than ever before to reach our customers, but more importantly, for them to reach us. And we'll keep our focus on 'getting it right' for them – from our communications, to our service delivery, and across all areas of our business.

We believe in providing our customers with the very best housing experience that we can. That means offering them:

- Services which are responsive to their needs
- A range of non-traditional housing support initiatives
- Skilled and experienced people who they can turn to for advice and support
- A strong presence in their local communities
- Transparency and openness in their dealings with us

…and offering these experiences across a range of platforms and services.

2019 will also see us conclude the pilot of our Tenancy Sustainment Service. The success of this pilot, and the feedback from those it helped, meant that it was crucial for us to find a way to continue with it. As a result 2019 will see us enter year one of a three year arrangement to deliver this service in conjunction with one of our trusted partners.

We'll also continue to work with our partners to deliver our Money Advice and Budgeting project throughout 2019/22. We remain committed to this project in these times of continuing challenges and uncertainty for our customers.

Our People

As we celebrate our 25th year, we are more than aware that we could not have reached this very special milestone without the hard work and dedication of the people that supported us at the very outset and the many others who have contributed to our work along the way.

We invest in our people because we recognise that their talent and commitment are critical to our continued success. We aim to foster a culture which encourages our people to fulfil their potential and strive for continual improvement in all that they do, enabling us to achieve more, together.

As part of this, 2019 will see us actively review our recruitment practices to ensure that we continue to attract those who support our goals. We'll also be looking at our onboarding processes so that when new people join the team, they get the very best access to all the learning, knowledge and information they need.

Our frontline services have experienced a consistent turnover recently as our people look to further develop and grow their careers in the housing sector. We're proud to be able to contribute to the wider Social Housing movement in this way, providing well-qualified and knowledgeable people. And we welcome the new faces that have joined us. We'll roll out a series of significant learning events to ensure that they are competent and confident in delivering our wide range of services to those who need them.

We continue to enourage our people to focus on 'getting it right' for our customers. As part of that aim, throughout 2019 we'll have a clear emphasis on ensuring our people understand their roles and responsibilities and that our systems and processes are fit for purpose, supporting us to deliver the very best services we can.

We'll aim to improve communications both internally and externally, ensuring that all of our people are informed, empowered and feel encouraged to be delivering much needed services on our behalf.

This important work will see us review our mechanisms for engaging with our people – focussing on our 1:1 processes to ensure that all of our people have the opportunity to have their say, and are encouraged to do so.

We'll be focussed on reviewing our complaints, evaluating lessons learned and incorporating this learning into our drive for continuous improvement in all areas of our service delivery.

It's important that our people know that their contributions are valued. We appreciate their support and recognise that our achievements are their achievements.

Our Communities

Our contribution to the communities we serve continues to go from strength to strength. We are a business that plays its part in making a difference and bringing about change in areas our customers tell us they care about.

Our amibitious Community Benefits clauses mean that we are able to make an ever-growing contribution to the communities in which we operate. To date these have included apprenticeships, work placements, careers fairs, renovations to community clubs and venues, as well as financial and non-financial contributions to many of our Wider Role initiatives.

Throughout 2019 we'll continue to focus on our partnership working with local community groups to deliver support and services which will benefit our tenant population as well as the communities we serve.

Spring 2019 saw us run a 'Community Soup' event at which local groups and charities had the opportunity to pitch for much needed funding for their projects. We understand the 'Soup' to be the first of its kind in West Lothian and will look to repeat the event again in 2019/20.

Our partnership with the West Lothian Foodbank will continue into 2019/20, ensuring that those who need it have access to food and essential personal hygiene items. This work is further supported by our partnership with Dignity Boxes, which means that visitors to our offices and to the Community Fridge can pick up much needed personal hygience and toiletry products.

And the Community Fridge, which has proven to be very popular, will continue to receive support from us. During 2018/19 we started to roll out a number of projects aimed at eliminating food poverty in West Lothian. These have proven to be very popular and so we'll continue with this important work in 2019/20, delivering more Food Fridays and Cook With Us courses at the Riverside Community Wing.

OUR STRATEGY AND PRIORITIES 2018 - 2019

Bringing better services, homes and neighbourhoods to all of our customers – in ways that they way, when they want, remains at the very heart of what we do. We're committed to providing safe and secure homes for those who need them. But we recognise we have a greater role to play. The environment in which we operate is constantly changing and evolving. Our customers expect more.

We remain committed to acting responsibly in all that we do. That's because we know that to build a successful business over the long term, how we do business is as important as what we do. We also focus on making a positive impact on society. This is our Wider Role.

In 'Positively Almond' we set out our strategic priorities for the period 2015 – 2020. The period 2019 – 2020 will see us conclude this work and look to the development of our next strategic plan for the period 2020 – 2025. Details of what we'll deliver during this plan are provided in the various Operating Plans attached at appendix a.

FINANCIAL REPORTING

Our strong financial performance has been delivered against the backdrop of a challenging Social Housing background, an uncertain and ever-changing political environment, increasingly hostile welfare challenges and, above all, our focus on providing value for money services to all of our customers.

This section provides some background detail to the 2019/2020 budget and the financial forecast for the following four years – 2020/2021 to 2023/24.

Key Assumptions

Developments

During the 5 years of the forecast there are 5 developments projected to be on site, with all completing during the period. This represents 118 new properties to let. The capital spend for all projects is £15.946m with £9.059m of public subsidy and £6.887m of cash/private finance.

Staffing

By the beginning of 2019/20, the Association has anticipated that all existing vacant posts will be filled, and an additional corporate services assistant post will be created

Scottish Housing Quality Standard (SHQS) and Energy Efficiency Standard Social Housing (EESSH) – revenue costs

We are assuming that we will spend £2.788m on maintaining the SHQS standard / component replacements for all stock and will continue to improve our stock in preparation of the Energy Efficiency Target of 2020. The Association will continue to report healthy surpluses during the period of an average 148% interest cover. This level allows an element of headroom over our loan covenant over the period, and provides sufficient funds for future investment in our stock.

Pensions

Within the plan period it is also assumed that the SHAPS past service deficit will increase resulting in an additional payment of £150k per annum increasing at each triennial valuation. No accounting treatment changes have been reflected within our plan for any defined benefit deficit movement over the plan period. These adjustments would be made after surplus and therefore would be changes to retained reserves each year

5 Year Financial Forecast

Statement of Comprehensive Income

Statement of Comprehensive Income	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Turnover	12,343	12,712	13,260	13,741	13,997
Operating costs	10,651	10,829	11,392	12,005	12,092
Operating surplus	1,692	1,883	1,868	1,735	1,905
Interest	986	1,016	1,015	989	934
Net Surplus	751	907	878	765	990

The fluctuations in surplus are due to movements in both the planned maintenance programmes and also the cyclical works programmed to be undertaken. When these variances are removed the Association's operations remain relatively static during the period.

Statement of Financial Position

Statement of Financial Position Extract	2019/2020	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Net Property [net of depreciation]	69,070	72,624	75,694	73,968	72,467
Cash	8,342	7,147	3,532	3,600	3,851
Grant	27,143	30,690	31,151	30,371	29,591
Loans	29,643	27,799	25,941	24,173	22,596
Net Assets	20,961	21,868	22,746	23,511	24,501

The balance sheet extract highlights increased property values with the developments completing. The continued management of stock and the on-going surpluses generated to ensure adequate cover for loan covenants and on-going stock improvements increase our net asset position. No account for Pension movements have been reflected within our financial plans.

Statement of Cashflows

Cashflow extracts [cash outflows are shown in brackets]	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Development Spend	(4,894)	(5,188)	(4,993)	(119)	(106)
Grant	1,501	4,192	1,183	-	-
Sale of developments	-	-	-	-	-
Major works / stock condition	(584)	(686)	(596)	(838)	(1,121)
Loan drawdown net	3,000	-	-	-	-
Loan repayment incl. interest	(2,059)	(2,859)	(2,333)	(2,480)	(2,225)

Over the next 5 years it is anticipated that a new facility will be obtained.

Loan Covenants

Loan Covenant	2019/20	2020/21	2021/22	2022/23	2023/24
RBS					
Gearing	39%	35%	31%	30%	28%
Maximum permitted	60%	60%	60%	60%	60%
Asset cover	2.9	3.1	3.4	3.7	4.1
Minimum permitted	1.1 :1	1.1 :1	1.1 :1	1.1 :1	1.1 :1
(operating cash + dep'n)/ borrowing costs	3.7	4.0	4.7	4.4	5.1
Minimum permitted	1.1 :1	1.1 :1	1.1 :1	1.1 :1	1.1 :1
Nationwide /Dunfermline BS					
Surplus / interest payable	143%	170%	221%	162%	216%
Minimum permitted	110%	110%	110%	110%	110%

During the 5 year period there are no covenant issues experienced. From a review of our 30 year plan, using our long term assumptions again there are no issues experienced with the loan covenants in place.

Key Assumptions

Key Assumptions	2019/20	2020/21	2021/22	2022/23	2023/24
Inflation	3.0%	2.98%	2.87%	2.63%	2.52%
Libor (interest rate benchmark) avge.	1.3%	2.0%	2.6%	3.1%	3.2%
Increases above / below inflation					
Rent	-0.5%	-0.9%	-0.9%	-0.9%	-0.9%
Salary earnings	-0.5%	0%	0%	0%	0%
Maintenance costs	0%	0.5%	0.5%	0.5%	0.5%
Voids	0.30%	0.30%	0.30%	0.30%	0.30%
Bad debts	1.13%	3.00%	3.00%	3.00%	3.00%

Unit Costs

Unit costs	2019/20	2020/21	2021/22	2022/23	2023/24
Rent per unit per week	£88	£88	£88	£89	£90
Re-active maintenance	£630	£642	£657	£676	£700
Cyclical / planned maintenance (Major works revenue)	£1,055	£789	£651	£933	£762
Capitalised Major Works	£232	£498	£715	£1,026	£1,450
Management cost per unit*	£1,414	£1,535	£1,496	£1,558	£1,614

* Management costs increase due to the increased costs of bad debts in relation to the introduction of Universal Credit.

Sensitivity Analysis

In preparing both the annual budget and longer term plans the Association has considered a number of sensitivities in both income received by the organisation and expenditure incurred. Key areas reviewed were: rent increase levels, maintenance costs, general running costs, salary costs, loan interest rates, pension scheme deficit movements, levels of bad debts and arrears, property sales.

The review of these sensitivities together with the levels of agreed expenditure to achieve the Business Plan objectives during the short term enabled the Board to agree a level of rent increase for 2019/20 of 2.5% plus the phasing of rent harmonisation, which it is felt will allow our rents to remain affordable for our tenants, whilst ensuring that the Association remains financially viable.

Key Financial Risks and Scenario Planning

Major Repairs expenditure incl. SHQS and Energy Efficiency Standards

The value of major repairs expenditure programmed for the 30 year plan will increase by 2% above inflation over years 2 - 10.

Subject to other factors, the Association would need to manage its spending on other areas to facilitate this level of increase together with increases in rental income above the levels included within the plan (current plan assumes only CPI increases (RPI-0.9%)) without affecting the loan covenants over the planning period.

Interest rates

Interest rates incurred increase each year to 6.5% by year 6 and remain at that level.

The plan assumes a LIBOR rate within the short, medium and long term based upon information obtained from our treasury advisors Aquila Treasury & Finance Solutions . The Association's loans are either at fixed rate or LIBOR plus associated margins applicable to the loans. Subject to other factors the Association could accommodate increases in LIBOR rates above the levels predicted without affecting loan covenants. This is due to the planning assumption that the Association's interest rate exposure is managed by implementing fixed rates during the current year which will be fully converted by 2020.

Rental Growth

The levels of rental growth may be less than projected.

When reviewing our 30 year plan we considered an assumption of rental growth of RPI-0.9% whilst costs were increasing by RPI+1%. This resulted in some loan covenant breaches, therefore we required to re-phase expenditure to manage the levels of surpluses each year. If further costs or changes to the profile significantly were identified by our stock condition surveys then we would require to control costs and revisit our levels of rental growth.

Welfare reform impact on revenue and arrears

Arrears are significantly higher than projected.

In 2019/20 approximately 42% of our tenants are in receipt of housing benefit. With the introduction of Universal Credit in May 2018 we currently (February 2019) have 10.2% of our tenants on Universal Credit. It has been assumed as more tenants move to Universal Credit the level of rent arrears will increase having a significant impact on the operating cash flow and subsequently the levels of bad debt.

Increases in the levels of arrears and bad debts have been incorporated within our budget and long term plans which result in increasing the arrears and bad debts. When reviewing our 30 year plan, should income recovery from those in receipt of Universal Credit drop this would result in a reduction in cash flow. This would reduce the levels of cash held during the planning period, however it is not envisaged that this would result in loan covenant breaches. Increased levels of bad debts have been assessed to establish what can be sustained without resulting in loan covenant breaches.