BUSINESS PLAN

2014-2019

Approved by Board of Management 27/02/14
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Appendices

| A. Key Performance Indicators for 2014 - 2015 |
| B. 30 year Financial Plan – scenarios and sensitivities |
| C. Board Member and Senior Management Team expertise and service |
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The Plan has been informed by the following additional documents, copies of which can be obtained on request:

» PoLHA - Strengths Weaknesses Opportunities & Strengths (SWOT) analysis – November 2013
» PoLHA - Social Technological Economic/Environmental Political (STEP) analysis – November 2013
» PoLHA - Strategic Housing Investment Plan (SHIP) 2012-2015 – March 2012
» Leith Neighbourhood Community Plan and Forth Neighbourhood Community Plan 2011-14
» Scottish Housing Regulator, “Scottish Social Housing Charter, standards and outcomes”, April 2012
» City of Edinburgh Council “Proposed Edinburgh Local Development Plan”, March 2013
Executive Summary

1. Port of Leith Housing Association (PoLHA) was established as a registered housing association in 1975 and has charitable status operating as an independent Industrial and Provident Society. Its focus of operation is Leith and North Edinburgh and has grown to over 2,700 homes, the largest owner and manager of social and affordable housing in the area.

2. The Association is governed by a Board of Management who are appointed by the shareholders to oversee the strategic direction and provide oversight to the performance of services. Day to day responsibility for service delivery is delegated to the staff through the Chief Executive, delivering a full range of property development, asset management, housing management, customer service, financial management, corporate service support, pre-employment support and wider community initiatives work.

3. The Association established a wholly owned subsidiary company, Persevere Developments Limited, in 2010, which is focussed on supporting the objective to increase and widen the range of affordable housing products and services available for the community. It is now operational having completed its first development of mid market rented housing in 2013.

4. This Business Plan for PoLHA outlines the strategy for the next five years. It has been prepared for Board approval within the current context of a very challenging and uncertain operating environment. It is a Plan which maintains the ambition to continue to grow and contribute towards the ongoing regeneration of our communities and meeting the growing need and demand for additional affordable housing in the City. The Association will be investing over £38m in new development, delivering a further 340 new affordable homes, and spending a further £8m on improving the quality of its existing homes over the plan period.

5. Public financing pressures continue to require an increased reliance on private financing and managing the associated risks. This is set alongside the ongoing uncertainties arising from the impact of Welfare Reform changes and introduction of the new Universal Credit regime at some point over the next few years. Ensuring a sustainable strategy for growth requires maintaining a rent rise assumption of RPI +1% per annum which is also necessary to maintain high standards of property care and housing support services over the next 30 years.

6. This Plan highlights our key aims and priority actions, including key performance indicators for the coming year, and one which includes reporting on the new Social Housing Charter for the first time. It demonstrates the resources we will have over the next five years to deliver our aims and the approach to managing our key financial and business risks. The controls we have in place are intended to minimise the exposure of these risks to moderate and low levels in all cases.
OVERVIEW 1
THE ORGANISATION - PAST, PRESENT & FUTURE
1 Overview - The Organisation : Past, Present, Future

Port of Leith Housing Association (PoLHA) was formed in 1975. Registered under the Industrial and Provident Societies Act of 1965, the Housing (Scotland) Act of 2001 and as a registered Scottish Charity, we operate to generate a profit/surplus, all of which is reinvested into our property and community and not distributed to any shareholder. We are an accredited “Investor in People” organisation.

Control of the Association is vested with a voluntary Board of Management which is elected by Members at the Annual General Meeting. Membership is open to anyone over 18 interested in “improving housing conditions in Leith / North Edinburgh”. Tenants, who can apply for membership from age 16, are particularly encouraged to become Members. No dividend is payable on shares and no Member receives a personal benefit for their services. The Board of Management normally meets monthly. It delegates detailed risk and financial scrutiny matters to a sub committee, the Audit Committee. Lead Board Members are allocated to the main business areas, discuss key issues for the future within a Strategy Group and work closely with the Senior Management Team on strategic direction.

In order for the Association to undertake a wider range of housing products and services in support of the ongoing regeneration of the community, a wholly owned subsidiary company called Persevere Developments Limited (PDL) was established in 2010. PoLHA is the sole shareholder, and the relationship between this subsidiary and its parent body, PoLHA, is managed through an Independence Agreement. The day to day management arrangements are operated in accordance with a service level agreement established between both organisations.

Our purpose is to provide a range of high quality affordable homes, creating neighbourhoods which people consider are great places in which to live. Initially focusing on refurbishing the older semi derelict Victorian tenements of Leith, many of which would otherwise have been demolished without our activity, since 1989 the development programme has focussed primarily on building new homes in Leith and North Edinburgh, including within the new Waterfront regeneration areas in Leith, Newhaven and Granton. In all, we have invested over £190m to date in our property.

Parts of Leith used to be regarded as unattractive where people stayed often through lack of choice. Through our efforts and from the substantial investment by the public and private sectors in Leith, the area is now regarded as a desirable location. There remain, however, existing pockets of deprivation and poor quality, including substantial areas of derelict land to redevelop and which present significant challenges and opportunities for us.
Current position

As the largest social landlord in Leith, the Association currently owns and manages over 2,700 homes, of which 2,500 are for social rent, 140 for purchase under the Shared Ownership scheme, and, through PDL, nearly 100 for mid market rent.

The Association operates a fair and objective allocations policy which prioritises people in greatest housing need. Working with the City Council and other housing associations through EDINDEX, Edinburgh’s single access point for affordable housing, homes are allocated using a choice-based letting process. Through Persevere Developments we are now offering mid market rent accommodation which supports the objective to widen access and choice for high quality affordable housing in the City.

Edinburgh has an acute need and demand for affordable housing now and over the next generation. The housing list has more than 26,000 registered applicants and the average number of bids we receive for our vacant property consistently received high levels of bids per property at over 200 throughout the past year, against a City wide average for all social landlords of 137. Approximately 16,600 more affordable homes are needed over the next 10 years for individuals and families who cannot afford to rent or buy in the open market, ie an average of 1,600 additional new affordable homes are needed each and every year. We are, however, in a period of changing Government subsidy and private financing arrangements for affordable housing. The current and projected financial capacity of social landlords in the city looks like being able to deliver less than one half of this level over the foreseeable number of years. Having examined, over the past two years, new ways to finance development with less reliance on public subsidy, we have come to the conclusion that there are no easy alternatives. Indeed the Scottish Government has recognised this and recently increased the grant level per unit. However, it remains unclear as yet whether this revised level and volume of subsidy available to the City will enable the delivery of the number of new additional social homes needing built. The newly emerging growth in demand for mid market rent housing also presents both opportunity and challenge for us to deliver with low or minimal subsidy in future.
Over the past year there have been a number of significant changes to our operating environment, which have informed our future strategy. These are as follows:

- While the economic recession may officially be over, the housing market remains sluggish, with few developers taking new risks and instead looking to housing associations like us to take the lead on developments if we can.
- The UK Government has introduced new measures to “Help to Buy”. However, there is concern that this may fuel house prices and not serve to increase new supply which is broadly considered to be the key reason for housing price rises and lack of affordability in both privately owned and privately rented market housing.
- The need and demand for social housing remains very high and particularly in Edinburgh, where the Council maintains its position that the City needs 16,000 new affordable homes over the next 10 years, two-thirds of which should be for social rent.
- The demand for mid market rent housing is growing at a very significant rate in the City as average income households cannot access social rent or afford to own or rent on open market. One independent survey undertaken recently concludes that up to 30,000 households (ie 15% of the population) would find mid market rent housing attractive to them but this number will vary as the affordability and cost of accessing private housing will fluctuate.
- The financial capacity of social housing providers remains constrained and particularly so to develop new social housing at grant subsidy levels which mean doing it at “a loss” and only if some form of cross subsidy from other, more profitable, new development can also be undertaken.
- Having reduced subsidy levels down to a low of £40k per unit, the Scottish Government has increased these up to c.£58k per unit for social housing and added further sums to the national new supply programme in support of their ambition to deliver c.30,000 new homes over the five years of their administration, ie 2012-2017. It remains unclear whether this target will be delivered and particularly the level of new social rented housing which requires substantial subsidy per unit to be viable and affordable.
- Our current financial capacity will enable the Association to develop a further 340 units by 2019, and having a stock of over 3,000 homes. If rental growth is maintained at RPI +1% we will be able to develop c.50 new homes a year thereafter – roughly half for social rent and half for mid market rent. Our financial covenants with existing funders make it hard for us to do much more than this with the current subsidy and rent levels assumed over the next five years.
- Our wider role, community initiatives including employability work through TOiL, is very dependent on grants sought and awarded mainly on an annual basis, and therefore is very unpredictable and hard to plan over the long term.
- The search for new / alternative financial models (which would deliver new supply of affordable housing in a sustainable way, ie over at least a 10 year period to deliver what the City needs) remains elusive. The City Council is continuing to set out the "Business Case for New Supply". Costing c.£2 billion to deliver c.16,000 new homes, there remains a significant funding gap and constraint with the current financial capacity of existing housing providers.
- The City Council and Edinburgh Partnership (the overarching body overseeing the 12 Neighbourhood Partnerships in the City), has recently completed a new “Community Plan 2013-2018” setting the vision for the city, being, “Edinburgh is a thriving, successful and sustainable capital city in which all forms of deprivation and inequality are reduced”. This Plan raises the prospect of public bodies setting out new ways to deliver public services in a more joined up way and which support the effort to reduce demand and thereby reduce cost (and particularly for expensive acute health services). While there is no blueprint on how to do this, it does provide us with an opportunity to discuss further with our local partners how the Association can best contribute to this change, supporting our vision and objectives within the community.
• The Scottish Government has launched new Bills which they are seeking to become law this year, and before the September Independence referendum. The Community Empowerment and Renewal Bill aims to strengthen the significance of community planning partnerships and support the transfer of surplus assets from public to “community” led bodies such as housing associations or development trusts. The Housing (Scotland) Bill is ending the right to buy and seeking new measures to improve the access to and quality of the private rented sector. The Procurement Bill is seeking to make it easier for social enterprise agencies to bid for and secure public procurement contracts and reduce thresholds to comply with EU procurement rules. The Public Bodies (Joint Working) Bill is seeking new ways to bring health and social care services together which will require radical change in supporting more preventative work, including the involvement of housing associations and supporting independent living in the community.

• The impact of new Welfare Reform changes are beginning to be known – all housing providers are experiencing an increase with rent arrears and the effort to contain these will require more intensive and personal contact with increasingly vulnerable people. This is a new and growing pressure on our overhead costs. While the bedroom tax / spare room subsidy remains a highly contentious change, all housing providers are expecting the direct payment of a new Universal Credit regime will introduce a new relationship with customers and additional risks of non payment. The exact timing of this being introduced, however, remains somewhat uncertain.

• A new Leith Trust has recently been formed, with the ambition as a charitable body to act as an umbrella to promote the economic and community development of Leith. While newly formed and developing its focus and priorities, it currently has no staff to take specific actions forward and so will be looking to existing agencies to support its vision for the area. There will be potential opportunities for us to contribute as this body becomes more firmly established.

The future

The target set three years ago was to deliver at least 500 new additional homes by 2015 thereby aiming for capital growth of around £80m. We are on course to deliver that and anticipate further growth by having over 2700 homes in ownership and management by 2018/19. Indeed, this updated Business Plan reinforces our desire to maintain growth through the new development of an additional 340 units over the next five years, reaching a stock number in ownership of over 3,057 by 2019. In addition we are on track to deliver the required Scottish Housing Quality Standard (SHQS) on our stock by 2015 and will be updating our investment requirements to ensure delivery of the new Energy Efficiency Standard targets for 2020 which we anticipate will be announced shortly.

Ensuring we make the best use of new techniques in building design and procurement, we will seek to use the most advantageous modern methods of construction and will take forward discussions with specialist manufacturers on products which maximise energy efficiency and minimise carbon emission. We have an established framework for consultants and contractors in conjunction with other housing associations. We have recently completed a comprehensive independent survey of our property assets and have an up to date asset management plan to guide our future investment decisions. We are committed to following best practice of sustainability in all that we do, having reviewed all our standards and the way we manage and maintain our property assets and in delivering our services. We therefore seek to maximise the use of sustainable materials in our properties and incorporate the best energy efficient solutions in order to reduce energy requirements and costs for residents.

Our location, within the largest regeneration area in Edinburgh in Leith, Newhaven and Granton, provides the opportunity to continue to be part of the major new Waterfront extension to the City. While the pace of development has slowed due to the recession over the past six years and Leith Docks may remain as
an operating port and renewables manufacturing hub for the foreseeable future, the ambition of the new Edinburgh Local Development Plan (as outlined in October 2013) to create new high quality mixed use neighbourhoods remains for Granton and Western Harbour areas in particular. It is expected that, subject to funding, the Association will continue to play an active part in ensuring affordable housing and high quality management services forms an essential part of creating these new communities. This will require new developments which comprise a mix of properties for rent at both affordable social and mid market rent levels, and for low cost home ownership options. At the same time, the difficult economic climate has led to sites becoming available in North Edinburgh at more affordable prices than in recent years. This also allows us to continue our traditional regeneration role of gap site infill within Leith and Granton, and in adjoining neighbourhoods throughout North Edinburgh, which includes ongoing regeneration of former Council housing areas including Leith Fort.

In summary, the strategy is to maintain the focus on the continued regeneration of Leith and North Edinburgh. This involves being ambitious to grow and extend landlord services providing additional affordable housing for social and mid market rent, and being directly involved with related activities supporting the general wellbeing of these communities. It includes the employability project (TOIL), and a range of other initiatives to promote the wider economic and social wellbeing of people within the community. It will involve exploring new ways to generate additional cross subsidy from mixed tenure development which can support new social rented housing. Having re-examined our financial capacity, including the ability to take on more of the development cost and risks upfront, this Business Plan has been developed to reflect these new, more challenging conditions and assessment of additional risk. This will involve exploring new regeneration opportunities within the area and initiatives to support independent, active and connected living conditions for the most vulnerable people in the community. The Business Plan also includes the key actions needed in order to manage and mitigate the effects of the welfare reform changes to the best of our ability. It includes additional resources to sustain tenancies and support people in their homes providing budgeting, energy and employability advice services. Any significant increase in arrears, however, will not only have a major impact on the households affected but also undermine the Association’s ability to access funding, resulting in fewer new homes being built.
2 Our Strategy and Priorities for 2014-2019

2.1 Our Mission
To create a range of quality homes within neighbourhoods that are great places in which to live.

2.2 What We Value
We will listen, respect, encourage, challenge, learn and improve to achieve excellence.

2.3 Our Aims

2.3.1 To deliver valued services to customers
a. How will this be achieved?
   • We will regularly profile our customers’ needs to ensure we align our services with their expressed requirements.
   • We will set ourselves clearly specified high standards by which to measure the excellence of our service delivery and monitor these regularly to ensure they are met or exceeded, tackling any issues quickly and effectively.
   • We will review our services and seek to deliver continual improvement.
   • We will engage with our customers to ensure we are delivering services that they value.
   • We will ensure our staff are equipped with the knowledge, skills and resources to deliver service excellence.
   • We will deliver our current Asset Management Strategy and Action Plan to ensure our property assets are of the best achievable standard.
   • We will develop and implement a PoLHA Housing Standard which will reflect the highest standards for the conditions of the homes we are renting to our customers.
   • We will update our responsive maintenance, void property and gas servicing arrangements to provide a better service to customers.

b. Criteria for measuring success
   • The key performance standards set for service delivery are set out in Appendix 1. These will be monitored at all levels across the organisation governance and management structure and made transparent for our customers and key external stakeholders to scrutinise.
   • All PoLHA social rental properties meet or exceed the Scottish Housing Quality Standard by 2015.
2.3.2 To provide a wider choice of affordable housing

a. How will this be achieved?

- We will continue to build new affordable homes available to a range of different customers through our various product types in Leith and North Edinburgh.
- We will seek out and implement ways to create additional stock in order to make affordable housing available to different sectors of the housing market.
- We will continue to present our case to local government and the Scottish Government to increase investment in new affordable housing and explore new mechanisms for obtaining funding to build new affordable homes.
- Where the Association is a minority owner and there are significant major repairs outstanding preventing letting, we will seek to dispose of the properties or consider alternative uses such as Mid Market Rent or Open Market Rent in accordance with PoLHA’s Disposal Policy.

b. Criteria for measuring success

- Completion of 340 units by the end of the plan period with approximately 40% being made available for social rent.

2.3.3 To build and maintain the wellbeing of the communities we serve

a. How will this be achieved?

- We will participate in, build and support networks with local organisations who aim to improve employability, health outcomes and environmental conditions and align with our stated vision and mission.
- We will actively seek mechanisms for funding and delivering projects which will improve employability, health outcomes and environmental conditions for our customers and the community in which they live.
- We will maximise our relationship with suppliers and contractors to support work experience placements, apprenticeships and jobs by using community benefit clauses in our contracts. We will fundraise to enable TOiL to maximise the number of work placements every year.

b. Criteria for measuring success

- 60 trainees go through TOiL with at least 70% achieving a positive outcome per annum.
- A minimum of £100,000 grant income generated per annum for additional services.

2.3.4 To develop highly skilled and engaged Staff and Board members

a. How will this be achieved?

- We will identify gaps in skills and knowledge and ensure these are filled through appropriate training and development activity.
- We will review of the effectiveness of the Port of Leith HA Board and, through this process, identify development needs of the Board as a whole and of individual members, and implement plans to address these.
- We will create an organisational culture which promotes staff engagement.
2 Our Strategy and Priorities for 2014-2019

b. Criteria for measuring success
   • Attain and then sustain a minimum level of 90% of PoLHA staff with service length greater than three years achieving contribution ratings of CRS or above.
   • Positive feedback from employees.
   • Maintain a sickness absence level of no greater than 3% of working days lost on average.
   • Achievement of recognition through appropriate independent nationally and internationally recognised Quality Standard Frameworks.

2.3.5 To be a highly effective organisation

a. How will this be achieved?
   • We will monitor our performance, identifying areas for improvement, developing and implementing improvement plans.
   • We will review our service delivery and business management processes, seek and implement opportunities for improvement.

b. Criteria for measuring success
   • Benchmarking shows us to be upper quartile performers against our peers in key areas of service delivery.
   • Key performance indicators standards are consistently achieved and exceeded.
   • Achievement of recognition through appropriate independent nationally and internationally recognised Quality Standard Frameworks.
2 Our Strategy and Priorities for 2014-2019

2.4 Linked strategy and action plan documentation

The overall strategy outlined in the section above is supported by a range of specific topic area Strategy and Action Plan documents which should be referenced for further detail of the organisation’s scheduled activities and deliverables.

These are:

- Customer Engagement Strategy and Action Plan
- Customer Profiling Action Plan
- Asset Management Strategy and Action Plan
- Sustainability Action Plan
- Public Relations & External Communication Strategy and Action Plan
- Equalities & Diversity Management Strategy and Action Plan
- Staff Training & Development Strategy and Action Plan
- Community Initiative Strategy
- Financial Inclusion Strategy and Action Plan
- Health & Safety Management Action Plan
- Welfare Reform Management Action Plan
- Treasury Strategy
- Tenancy Sustainment Action Plan
PORT OF LEITH HOUSING ASSOCIATION

PRIORITIES, ACTIVITIES AND TARGETS FOR 2014-2015
3 Priorities, Activities and Targets for 2014-2015

3.1 Business Drivers

There are currently a range of drivers which are having significant impact on PoLHA’s business priorities during the 2014 – 2015 financial year.

These emanate from both external and internal sources and are outlined below:

EXTERNAL DRIVERS
1. The continuing implementation of Welfare Rights Reforms, specifically:
   i. Addressing needs of tenants on benefits who are subject to under-occupation reductions in benefits.
   ii. Responding to the change to the “direct payment” system which has increased the risk of higher arrears leading to lost income to PoLHA.
2. The requirement to achieve the Scottish Housing Quality Standard in all our properties by 2015;
3. The statutory repairs position requiring PoLHA staff to directly manage common repairs in liaison with tenants and shared owners;
4. The need and demand for significant additional supply of affordable housing for social and mid market rent remains very high within the City and current assessment highlights need for additional 16,000 affordable homes over the next 10 years;

INTERNAL DRIVERS
1. The requirement to manage the first full year of trading by Persevere Developments Ltd and the need for PoLHA resources to service this business delivering new products;
2. The continued commitment to grow and develop new units to let moving PoLHA towards 3,000 units and more;
3. The need to continue developing the QL system to maximise benefits in our business processes;
4. The requirement to establish new arrangements to deliver Reactive Repairs during 2014 through either procurement of a new contract or set up of a cost sharing group;
5. The need to restructure the Property and New Business services in light of changes brought about by 4 above.

3.2 Priorities, Activities and Deliverables for 2014-2015

The desire to meet the organisation’s strategic goals in tandem with the above business drivers for 2014/15 determines the key priorities for staff over this period. A number of workstreams, initiatives and projects have been identified, some of which are under way and others planned to start and be delivered over 2014/15, as follows:
### Priorities, Activities and Targets for 2014-2015

#### 1. To Deliver Valued Services to Customers

<table>
<thead>
<tr>
<th>Priority</th>
<th>Key Activities</th>
<th>Deliverable(s)</th>
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<tbody>
<tr>
<td>1.</td>
<td>To maintain, and where possible improve, current service delivery standards for our tenants</td>
<td>Delivery of day housing management services</td>
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<td>2.</td>
<td>To achieve the Scottish Housing Quality Standard in all properties under our management</td>
<td>Complete planned maintenance programme for 2014/15</td>
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<td>3.</td>
<td>To develop an Older Persons Strategy</td>
<td>Develop an Older Persons strategy</td>
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<td>6.</td>
<td>To ensure the effective delivery of the new reactive repairs service for 2014 and beyond</td>
<td>Appoint new service provider/contractor in 2013/14</td>
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<td>7.</td>
<td>To continue to respond to the impact of welfare reform</td>
<td>Complete actions in the Welfare Reform Action Plan</td>
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<tr>
<td>8.</td>
<td>To develop an open space and play strategy</td>
<td>Develop an open space and play strategy</td>
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</tbody>
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### 2. To Provide a Wider Choice of Affordable Housing

<table>
<thead>
<tr>
<th>Priority</th>
<th>Key Activities</th>
<th>Deliverable(s)</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>To maintain our new build development programme</td>
<td>Identify and consider new opportunities</td>
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<td></td>
<td></td>
<td>Deliver Albion Road Project</td>
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<td></td>
<td></td>
<td>Delivery of Newhaven Road Phase 2</td>
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<td></td>
<td></td>
<td>Leith Fort Project</td>
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<tr>
<td>2</td>
<td>To develop and implement a Disposal Strategy and Action Plan</td>
<td>Develop and implement a Disposal Strategy and Action Plan</td>
</tr>
<tr>
<td>3</td>
<td>To develop a Growth Strategy for PDL</td>
<td>Agree priorities for PDL in terms of products and consider new forms of funding to support growth</td>
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### 3. To Build and Maintain the Wellbeing of the Communities We Serve

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<thead>
<tr>
<th>Priority</th>
<th>Key Activities</th>
<th>Deliverable(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>To continue with temporary greening project</td>
<td>To identify a new site for temporary greening / growing plots</td>
</tr>
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</table>

### 4. To Develop Highly Skilled and Engaged Staff and Board Members

<table>
<thead>
<tr>
<th>Priority</th>
<th>Key Activities</th>
<th>Deliverable(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>To further develop the skills of the organisation’s managers, leaders, staff and Board Members</td>
<td>Plan and Implement a 2014/15 Leaders Development Programme</td>
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<tr>
<td></td>
<td></td>
<td>Design and deliver managers development programme</td>
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<td></td>
<td></td>
<td>Deliver 2014/15 Staff Training &amp; Development Action Plan</td>
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<td></td>
<td></td>
<td>Undertake and implement Board Member effectiveness</td>
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</table>
### 5. To be a Highly Effective Organisation

<table>
<thead>
<tr>
<th>Priority</th>
<th>Key Activities</th>
<th>Deliverable(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>To continue to obtain greater functionality from the QL system Implement the Asset Management Module and undertake training for users. Ensure all new stock is on the system and rolling updates are initiated</td>
<td>• Functional Asset Management Module</td>
</tr>
<tr>
<td>2</td>
<td>To complete process mapping and process improvements across all PoLHA service delivery and business management processes Continue delivery of PoLHA Excellence Project</td>
<td>• See project PID and project file docs</td>
</tr>
<tr>
<td>3</td>
<td>To ensure PoLHA is meeting good practice sustainability standards Continue delivery of Sustainability Action Plan</td>
<td>• See Sustainability Action Plan</td>
</tr>
<tr>
<td>4</td>
<td>To ensure PoLHA’s approach to performance and pay management is delivering required business benefits Review and improve where necessary performance management and contribution pay systems</td>
<td>• Refreshed Performance Management System • Refreshed Pay Management System</td>
</tr>
<tr>
<td>5</td>
<td>To maintain and improve the organisation internal communications processes and tools Review internal communications mechanisms and develop improvement plan</td>
<td>• Internal Communications Improvement Plan Other deliverables will be dependent on content of plan</td>
</tr>
<tr>
<td>6</td>
<td>To ensure compliance with pensions auto enrolment legislation Implement pension auto enrolment scheme</td>
<td>• Compliance with pension legislation</td>
</tr>
<tr>
<td>7</td>
<td>To ensure compliance with Scottish Government’s Procurement Legislation requirements Review Procurement Policy in line with new legislation</td>
<td>• Agreed new Procurement Policy and procedures</td>
</tr>
<tr>
<td>8</td>
<td>To obtain re-accreditation of PoLHA under Investors in People Scheme Coordinate re-assessment of organisation against IiP standards</td>
<td>• IiP re-accreditation</td>
</tr>
<tr>
<td>9</td>
<td>To ensure PoLHA has a full suite of up to date Governance Policies and Procedures Review Code of Conduct for Governing Board Members in the light of new model Code and agree new Payments and Benefits Policy</td>
<td>• Updated Payments and Benefits policy • Updated Code of Conduct for Governing Board Members if required</td>
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<tr>
<td>10</td>
<td>To implement an electronic document management system in PoLHA Deliver EDM Implementation Project</td>
<td>• See PID document</td>
</tr>
<tr>
<td>11</td>
<td>To investigate the use of new technology in delivering PoLHA’s services Research options for PoLHA to use Social Media as communication tool Research options into mobile technological solutions</td>
<td>• Decision on PoLHA’s approach to using Social Media • Decision on PoLHA’s approach to mobile technology solutions</td>
</tr>
<tr>
<td>12</td>
<td>To evaluate the effectiveness PoLHA’s current Finance IT system for fitness for purpose and decide to retain or replace Carry out review of effectiveness of current Finance system, research alternatives and report</td>
<td>• Options paper and recommendation on future approach to SMT</td>
</tr>
<tr>
<td>13</td>
<td>To review and improve recruitment and selection procedures of Staff and Board Members Research options, agree on approach and implement any changes to current Recruitment and Selection Policy and Procedures</td>
<td>• Refreshed Recruitment &amp; Selection Policy and Procedure • Trained Recruiters • Refreshed Board Succession Plan</td>
</tr>
</tbody>
</table>
### 5. To be a Highly Effective Organisation

<table>
<thead>
<tr>
<th>Priority</th>
<th>Key Activities</th>
<th>Deliverable(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>To establish a PoLHA Land Asset Register</td>
<td>Develop a Land Asset Register</td>
</tr>
<tr>
<td>15</td>
<td>To maintain PoLHA's External &amp; Public Relations Strategy</td>
<td>See PoLHA External &amp; Public Relations Action Plan</td>
</tr>
<tr>
<td>16</td>
<td>To develop and implement a Social Value Measurement system</td>
<td>Develop a Social Value Measurement System</td>
</tr>
<tr>
<td>17</td>
<td>Review Contract and Consultant Framework Agreement</td>
<td>Undertake new EU compliant procurement exercise</td>
</tr>
</tbody>
</table>

Magdalene Drive
4 Resources

4.1 Financial projections and key assumptions

4.1.1 Five Year Financial Forecast

• The first five years of the plan are characterised by the pipeline development programme.1 There will be 340 new units developed over five years. There is a capital spend of £38m on new development including £6.4m of public grant, £19m of new private loan funding and a reduction in cash balances from £13m to £2m. The loan facility with Santander Bank was fully drawn on 2 October 2013 and as a consequence the Association expects an opening cash balance of £13m. Cash balances will become exhausted in 2015-16 when there is a projected spend of £12m for Leith Fort and Shrubhill (although Shrubhill is not certain to happen) and will require additional loan facilities of £3m with a further requirement of £12m in 2016-17. In 2017-18 there will be a £10m refinancing requirement in respect of the RBS five year facility.

• The Association will continue to report net surpluses during the period averaging 6% of turnover. This position is less robust than in the last approved Business Plan. This is largely attributable to increases in the cost of pension provision with the large increase in the payment to reduce the scheme deficit and with the introduction of pension auto-enrolment. Over the five year period we also see a deterioration in the banks’ loan covenants with an increase in levels of financial gearing2 and a reduction in levels of loan interest cover.3 The forecast shows a breach of the Lloyds Bank interest cover in 2016-2018. This would be managed by repaying the residual balance on the loan before any breach occurred.

• It is assumed that we increase our stock by 340 units. There is no further increase in staffing requirements incorporated as we increase the number of properties from 2,627 to 3,057, of which 266 will be for mid market rent and managed by our subsidiary company Persevere Developments. It is assumed that we will be able to become more efficient and manage 3,057 units with the same number of staff included in this plan. It is assumed that we will be able to fully fund the new staff contribution pay system by 2015. There is a provision of 3% of salary in 2014/15 to allow for convergence between current pay levels and the ‘fully competent’ salary levels. It is assumed that this will be fully funded at 100% of market rate by 2015.

4.1.2 Income and Expenditure

<table>
<thead>
<tr>
<th>Income and Expenditure</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>11,545</td>
<td>11,998</td>
<td>12,679</td>
<td>13,915</td>
<td>14,702</td>
<td>64,838</td>
<td></td>
</tr>
<tr>
<td>Operating costs</td>
<td>9,724</td>
<td>9,877</td>
<td>10,658</td>
<td>10,688</td>
<td>11,168</td>
<td>52,088</td>
</tr>
<tr>
<td>Operating surplus</td>
<td>1,821</td>
<td>2,122</td>
<td>2,020</td>
<td>3,227</td>
<td>3,533</td>
<td>12,750</td>
</tr>
<tr>
<td>Interest charge</td>
<td>1,290</td>
<td>1,331</td>
<td>1,554</td>
<td>2,440</td>
<td>2,804</td>
<td>9,416</td>
</tr>
<tr>
<td>Net surplus</td>
<td>666</td>
<td>882</td>
<td>509</td>
<td>832</td>
<td>776</td>
<td>3,693</td>
</tr>
<tr>
<td>Capitalised interest</td>
<td>77</td>
<td>340</td>
<td>625</td>
<td>271</td>
<td>38</td>
<td>1,350</td>
</tr>
</tbody>
</table>

---

1 This is identified schemes with identified and specific costs. Some of these will be currently under development and some still to be approved.
2 Broadly speaking this is the ratio of loans to reserves plus housing grant
3 Broadly speaking this is the ratio of loan interest to the Association’s operating profit (before charging interest)
4 Resources

- Over the five years covered by this plan there are large increases in turnover, operating surplus and interest charges. The net surplus is lower as a % of turnover in Year 5 (5.3%) than in Year 1 (5.8%). This should be seen in the context of a large increase in borrowing and interest charges. This will be funded by increasing the level of operating surplus both in aggregate and % terms. The total interest charge will rise from c.£1.3m in Year 1 to c.£2.8m in Year 5. This is driven by a number of factors including the large increase in private borrowing from c.£33m to c.£47m over the period and an assumption that variable rates will rise from current low levels.

4.1.3 Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Property</td>
<td>187,816</td>
<td>195,272</td>
<td>209,690</td>
<td>227,355</td>
<td>234,353</td>
<td>235,913</td>
</tr>
<tr>
<td>Grant</td>
<td>121,589</td>
<td>127,610</td>
<td>128,608</td>
<td>131,632</td>
<td>132,112</td>
<td>132,031</td>
</tr>
<tr>
<td>Net property</td>
<td>56,008</td>
<td>51,090</td>
<td>62,280</td>
<td>74,525</td>
<td>78,373</td>
<td>77,168</td>
</tr>
<tr>
<td>Cash</td>
<td>13,245</td>
<td>9,917</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Loans</td>
<td>33,136</td>
<td>32,714</td>
<td>35,043</td>
<td>46,827</td>
<td>49,845</td>
<td>47,842</td>
</tr>
<tr>
<td>Reserves</td>
<td>28,076</td>
<td>28,743</td>
<td>29,624</td>
<td>30,133</td>
<td>30,965</td>
<td>31,741</td>
</tr>
</tbody>
</table>

- The balance sheet extracts simply confirm what we would expect during a period of continued growth with large increases in gross and net property and loans.
### 4.1.4 Cashflow

<table>
<thead>
<tr>
<th>Cashflow</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Development spend (total)</td>
<td>5,049</td>
<td>11,815</td>
<td>15,290</td>
<td>5,564</td>
<td>324</td>
<td>38,041</td>
</tr>
<tr>
<td>Grant subsidy (HAG)</td>
<td>-1,662</td>
<td>-1,079</td>
<td>-3,104</td>
<td>-560</td>
<td>-</td>
<td>-6,405</td>
</tr>
<tr>
<td>Net development spend</td>
<td>3,387</td>
<td>10,736</td>
<td>12,186</td>
<td>5,004</td>
<td>324</td>
<td>31,636</td>
</tr>
<tr>
<td>Capitalised repairs</td>
<td>2,067</td>
<td>2,185</td>
<td>1,674</td>
<td>989</td>
<td>1,013</td>
<td>7,928</td>
</tr>
<tr>
<td>Loan drawdown</td>
<td>-</td>
<td>-2,725</td>
<td>-12,196</td>
<td>-13,538</td>
<td>-403</td>
<td>-28,862</td>
</tr>
<tr>
<td>Loan repayments</td>
<td>422</td>
<td>396</td>
<td>412</td>
<td>10,521</td>
<td>2,405</td>
<td>14,156</td>
</tr>
<tr>
<td>Total major repair spend</td>
<td>2,947</td>
<td>2,967</td>
<td>2,808</td>
<td>2,778</td>
<td>1,771</td>
<td>13,271</td>
</tr>
</tbody>
</table>

- The net development expenditure over the five year period is c.£31m. The capitalised repairs spend is £8m. This will be funded by borrowing of c.£19m with the balance funded from the Association’s cash resources. £nil m can be met by existing facilities with an additional £19m required.

### 4.1.5 Loan Covenants

<table>
<thead>
<tr>
<th>Loan Covenants</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RBS and Santander</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gearing</td>
<td>17%</td>
<td>24%</td>
<td>30%</td>
<td>32%</td>
<td>31%</td>
</tr>
<tr>
<td>Maximum</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Interest cover</td>
<td>132%</td>
<td>184%</td>
<td>152%</td>
<td>177%</td>
<td>194%</td>
</tr>
<tr>
<td>Minimum</td>
<td>110%</td>
<td>110%</td>
<td>110%</td>
<td>110%</td>
<td>110%</td>
</tr>
<tr>
<td><strong>Lloyds Banking Group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gearing</td>
<td>24%</td>
<td>25%</td>
<td>32%</td>
<td>33%</td>
<td>32%</td>
</tr>
<tr>
<td>Maximum</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Interest cover</td>
<td>142%</td>
<td>130%</td>
<td>93%</td>
<td>120%</td>
<td>125%</td>
</tr>
<tr>
<td>Minimum</td>
<td>125%</td>
<td>125%</td>
<td>125%</td>
<td>125%</td>
<td>125%</td>
</tr>
</tbody>
</table>

- The increase in borrowing and the high level of investment in major repairs have combined to put pressure on our interest cover loan covenant. It is projected that we will breach our Lloyds interest cover in 2016/18; however, if interest rates stay low this may not happen. A prudent approach has been adopted and variable rates are projected to be 2% higher from Year 2 onwards. If it seemed likely that this covenant was going to be breached, the outstanding balance on this loan could be repaid. Compliance with the ‘gearing’ covenant is comfortably maintained throughout the five years.

---

1. The total major repairs spend is £13m included in this table for information.
2. The cashflow total of £29.5m includes £10m to refinance the existing RBS facility.
4.1.6 Other Financial Ratios

<table>
<thead>
<tr>
<th>Other Financials</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating surplus %</td>
<td>15.8%</td>
<td>17.7%</td>
<td>15.9%</td>
<td>23.2%</td>
<td>24.0%</td>
</tr>
<tr>
<td>Net surplus %</td>
<td>5.8%</td>
<td>7.3%</td>
<td>4.0%</td>
<td>6.0%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Min. target net surplus %</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Debt per unit £</td>
<td>12,368</td>
<td>13,061</td>
<td>16,541</td>
<td>17,029</td>
<td>16,125</td>
</tr>
</tbody>
</table>

- The level of ‘net surplus’ comfortably exceeds the minimum requirement of 3%. The debt per unit is projected to rise from around £12k per unit to c. £16k per unit in Year 5.

4.1.7 Unit Costs

<table>
<thead>
<tr>
<th>Unit Costs</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Rent per unit per week</td>
<td>80.02</td>
<td>82.83</td>
<td>83.63</td>
<td>88.43</td>
<td>92.05</td>
</tr>
<tr>
<td>Reactive maintenance</td>
<td>501</td>
<td>514</td>
<td>513</td>
<td>525</td>
<td>554</td>
</tr>
<tr>
<td>Cyclical maintenance</td>
<td>314</td>
<td>323</td>
<td>322</td>
<td>330</td>
<td>350</td>
</tr>
<tr>
<td>Major repairs inc. capitalised</td>
<td>1178</td>
<td>1113</td>
<td>1066</td>
<td>655</td>
<td>667</td>
</tr>
<tr>
<td>Management costs per unit</td>
<td>1025</td>
<td>1056</td>
<td>1023</td>
<td>1011</td>
<td>1030</td>
</tr>
</tbody>
</table>

- Most of the increases in cost are consistent with the rate of inflation and the changes in the number of units. The major repairs spend is high in Years 1 to 3 and then there is a substantial drop from Year 4. This is based on stock condition survey information. Management costs are fairly stable over the period but after discounting the effect of inflation this is equivalent to a reduction of 9% in real terms. This reflects the business assumption that we can grow from 2,725 units (owned) to 3,057 units without incurring additional management costs.
4 Resources

4.1.8 Completions

<table>
<thead>
<tr>
<th>Completions</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social rent</td>
<td>0</td>
<td>7</td>
<td>88</td>
<td>46</td>
<td>21</td>
<td>162</td>
</tr>
<tr>
<td>Intermediate rent</td>
<td>8</td>
<td>35</td>
<td>62</td>
<td>52</td>
<td>21</td>
<td>178</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>42</td>
<td>150</td>
<td>98</td>
<td>42</td>
<td>340</td>
</tr>
</tbody>
</table>

4.1.9 Key Assumptions

<table>
<thead>
<tr>
<th>Key Assumptions</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>RPI inflation</td>
<td></td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Libor (interest rate benchmark)</td>
<td>2%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Increases above RPI inflation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>0%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Salary costs</td>
<td>0.0%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Maintenance costs</td>
<td>0.0%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Building costs</td>
<td>0.0%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Voids</td>
<td>1.0%</td>
<td>1.1%</td>
<td>1.1%</td>
<td>1.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Bad debt</td>
<td>0.8%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

4.1.10 Persevere Developments

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income and Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>567</td>
<td>688</td>
<td>1,055</td>
<td>1,676</td>
<td>2,020</td>
</tr>
<tr>
<td>Operating costs</td>
<td>577</td>
<td>685</td>
<td>930</td>
<td>1,395</td>
<td>1,703</td>
</tr>
<tr>
<td>Operating surplus</td>
<td>-9</td>
<td>3</td>
<td>124</td>
<td>281</td>
<td>317</td>
</tr>
<tr>
<td>Net surplus</td>
<td>-8</td>
<td>4</td>
<td>101</td>
<td>227</td>
<td>257</td>
</tr>
<tr>
<td>Operating surplus %</td>
<td>-2%</td>
<td>0%</td>
<td>12%</td>
<td>17%</td>
<td>16%</td>
</tr>
<tr>
<td>Net surplus %</td>
<td>-1%</td>
<td>1%</td>
<td>10%</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance Sheet</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>212</td>
<td>216</td>
<td>318</td>
<td>545</td>
<td>802</td>
</tr>
<tr>
<td>Reserves</td>
<td>212</td>
<td>216</td>
<td>318</td>
<td>545</td>
<td>802</td>
</tr>
</tbody>
</table>
4.2 Key Financial Risks

4.2.1 Rental Growth

- The first risk to be considered is that rental growth may be less than projected. The standard assumption of RPI +1% is adopted for rental growth. This presents some risk given that the UK Government has announced that any future increases in benefit payments will be linked to the Consumer Price Index in the long term. If there is significant divergence between these indices, some tenants may have difficulty paying their rent. In the sensitivity analysis this is revised to RPI only from Year 6 onwards. This has a serious adverse impact on the plan.
- Scenario planning was carried out to understand this risk and the conclusion was that any reduction in rental growth would impact on financial and development capacity, and that the risk could be managed by scaling down the development programme. Were the Association to stop developing after completion of pipeline developments, then large cash balances would build up. This indicates that whilst a reduction in rental growth reduces capacity, there would still be scope for a smaller scale development programme.

4.2.2 Interest Rates

- The second risk to be considered is that interest rates incurred would be higher than projected. The plan assumes a long term Libor\(^1\) of 4% from Year 2 onwards and a funder’s margin of 2.5%, giving a combined rate of 6.5% for new borrowing. This is a fairly prudent assumption. The market is expecting rates to stay very low for a long time. This is reflected in five year SWAP\(^2\) rates at 2.04% and 10 year rates at 2.87%\(^3\). However, the fact that the market expects low rates for some considerable time doesn’t actually mean that this is what will happen and interest rates can move very unexpectedly and very quickly. The Scottish Housing Regulator has an expectation that we would manage interest rate risk through the use of fixed rates. Currently £18m of the Association’s £33m loan book is on fixed rates of between five and 20 years. This is slightly less than the suggested figure of around 57% derived from the formula in our treasury policy. If we were to fix the £10m five year facility with RBS, this would increase the proportion to 84%. However, it is possible we would want to refinance this facility before the end of the five year loan period in which case we could potentially incur breakage costs\(^4\). We are also holding large cash balances (projected to be £13m at 1/4/2014) which acts as a hedge\(^5\). After consulting our treasury advisors we were advised that, on balance, it is better not to fix this loan.
- An increase of 1% in variable interest rates is modelled as part of the sensitivity analysis at Appendix B and this has an adverse impact on the plan and the critical financial ratios.

4.2.3 Welfare Reform

- This risk is around the impact of welfare reform on the rental collection and the uncertainty around the impact on evictions, voids and bad debt. It is related to the first risk re rental growth. As an organisation, we have been proactive and made increased provision for welfare and money advice for tenants and have promoted management transfers for those tenants who may be affected by the bedroom tax.
- In the sensitivity analysis we have modelled a five fold increase in bad debt levels from the current level of 0.8% to 4%. This had a modest impact on the plan.

---

1 London Interbank Borrowing Rate which is the basis for most loan interest costs
2 A swap is the market name for a fixed interest rate
3 As at 28 January 2014
4 Breakage costs represent compensation to a lender where a loan is repaid before the end of the fixed rate period
5 A hedge is a method of offsetting a risk and in this case it is assumed that any increase in borrowing rates would see an increase in deposit rates. If the scale of the movement was identical £13m of cash balance would offset the increase on £13m of borrowing.
4.3 People and Systems

4.3.1 Asset Management

- Our Asset Management Plan programmes all activity required to maintain the external fabric and interior of the property in good condition. This must allow for replacing components which are at the end of their useful life, ensuring compliance in the first instance with the Scottish Housing Quality Standard (SHQS) by 2015 and protecting the fabric from disrepair by regular cyclical works.

- We are coming towards the end of the process of undertaking a detailed and comprehensive update and review following the independent survey of the condition of our stock. This has informed a new Asset Management Strategy, including updating our standards in consultation with tenants and revising the ongoing investment requirements to incorporate into our delivery plan for future years.

4.3.2 Other Systems and Processes

- At the same time we are actively reconsidering our responsive repairs procurement delivery processes having undertaken a thorough procurement exercise. Our aim is to improve the customer service achieving further efficiencies in contract prices and entering into new contracts with our partners and over longer duration periods.

- We have a skilled and experienced Board of Management comprising a full complement of 15 voluntary members, who comprise a wide range of experience and skills. The Board of Management will carry out a further assessment of their own development requirements to identify any existing gaps, to ensure the appropriate balance and mix of skills and experience is in place and to inform succession planning.

- Following a detailed review of the staff operating structure in 2010, a Senior Management Team and Operational Managers Team is in place, meeting on a regular basis to plan, deliver and monitor performance of all the Association business.

- The details of the Board of Management and CEO/Directors are summarised in Appendix C. Recruitment to the Board of the subsidiary company, Persevere Developments Limited, is an ongoing requirement and practice. Individual Board meetings are held throughout the year and two joint Board events are scheduled to support strategic planning.

- Improvements in our business systems and processes are expected to enable us to grow to c.3,000 units without a proportional increase in staff.

- Towards the end of 2009 we invested in a new performance information and management system, Clearview. This enables our strategic planning, providing an effective project management discipline to complex tasks and business processes and delivers an efficient capture of data and reporting of performance.

- The link from our objectives to key project work is already more clearly seen. There will be further improved links between the Business Plan and staff work plans as managers further develop the use of Clearview to support individual team member activity.

- During 2011-12 we replaced all our core ICT systems with modern up to date ones, integrating all aspects of business delivery including Finance and Property.

- The combination of this and ongoing reviews of our key processes for efficiency means we are expecting to deliver stock growth and an improved customer service maintaining operating management costs per unit in line with inflation.
5 Business Risk Management

The Association has a Risk Control Policy which specifies a robust framework and procedure for identifying, analysing, controlling and monitoring risk in the business.

Five Top Strategic Risks

The management of the Association has identified five key strategic risks which have been specifically tackled as part of the business planning process. These are detailed below:

<table>
<thead>
<tr>
<th>Issue</th>
<th>Risk Description</th>
<th>Owner(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Funding constraints on development programme</td>
<td>That any further reductions and rescheduling of public subsidy combined with less favourable terms for private finance would lead to a reduction in financial and development capacity</td>
<td>Director of Property &amp; New Business and Director of Finance &amp; ICT</td>
</tr>
<tr>
<td>2 Ability to sustain assumptions re rental growth and collection rates</td>
<td>The UK wide Welfare Benefit Reforms and the real cut to customers on benefits and income, from the cap on benefit uplifts to 1% per annum for the next two years, may cause an increase in both arrears and bad debt.</td>
<td>Director of Customer Services</td>
</tr>
<tr>
<td>3 Management and investment in our property assets</td>
<td>Failure to control this process adequately may lead to failure to achieve statutory standards such as SHQS. It could also result in inappropriate or inefficient investment decisions creating difficult to let or unsustainable housing</td>
<td>Director of Property &amp; New Business</td>
</tr>
<tr>
<td>4 Service Excellence</td>
<td>Failure to achieve regulatory standards, key performance indicators, investors in people accreditation could lead to a poor standard of customer service</td>
<td>Chief Executive</td>
</tr>
<tr>
<td>5 Cost control and budgeted efficiencies</td>
<td>Failure to achieve effective ways of working will lead to increasing costs</td>
<td>Director of Finance &amp; ICT</td>
</tr>
</tbody>
</table>
5 Business Risk Management

Absolute Risk

The “Absolute Risk” refers to the analysis of a risk using the assumption that there are no current controls to manage it.

This is a theoretical starting point to enable the identification of risks which have potentially high exposure levels for the business.

This analysis is used to assess the adequacy of existing control for each of the five key risks highlighted below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Likelihood</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Additional funding constraints on development programme</td>
<td>Moderate</td>
<td>Major</td>
</tr>
<tr>
<td>2. Ability to sustain assumptions re rental growth and collection rates</td>
<td>Almost certain</td>
<td>Catastrophic</td>
</tr>
<tr>
<td>3. Management and investment in our property assets</td>
<td>Moderate</td>
<td>Catastrophic</td>
</tr>
<tr>
<td>4. Service excellence</td>
<td>Almost certain</td>
<td>Catastrophic</td>
</tr>
<tr>
<td>5. Cost control and budgeted efficiencies</td>
<td>Almost certain</td>
<td>Major</td>
</tr>
</tbody>
</table>

## Likelihood

- **Almost Certain**
- **Likely**
- **Moderate**
- **Unlikely**
- **Rare**

## Absolute Risk

- **Low**
- **Moderate**
- **Significant**
- **Major**
- **Catastrophic**

**Grid Key**

- **High Exposure**
- **Moderate Exposure**
- **Low Exposure**
Risk Management

Controlled risk analysis acknowledges the effect that existing controls have on reducing the likelihood and impact of the risks specified.

The exposure level shown represents the current position in terms of the need for any further management of these risks.

Controlling Risk
The Association has a range of policies, processes and systems in place which provide mitigation against the identified risks. These are detailed below:

1. Additional funding constraints on development programme

Existing Controls
- Business Planning
- Scenario planning and sensitivity analysis
- Treasury management strategy and policy
- Financial capacity
- Tenders for new funding
- Risk management
- Specialist treasury management advisors
- Long term funding
- Subsidiary to enable additional products and tax efficiency

2. Ability to sustain rental growth and collection assumptions

Existing Controls
- High demand for social and mid market rent.
- Annual review of affordability of rents to those both on benefits and in work influence the business plan and if necessary the pace of the development programme can be reconsidered.
- Strong rent collection and rent arrears control policy and procedures including arrears prevention activity. Good historic performance against targets.
- Dedicated welfare rights, money, energy advice and tenancy support services.
- Management transfers budgeted for and some financial assistance to move for tenants to help address the issue of under occupation and minimise associated arrears.
- Assessment of impact of changes on bad debt and void repair costs built into financial projections each year based on best information available.
- Customer Profiling research to allow targeted advice.
- Even earlier preventative intervention and advice prior to tenancy sign up.
- Monitoring of pilots on removal of rent direct.
- Research into alternative bank account options.
3. Fail to effectively manage and invest in our property assets

**Existing Controls**

- Implementation of planned maintenance programme based on 100% surveys prior to works being undertaken.
- Implementation of OJEU compliant contractor framework for planned works based on quality and cost evaluation process advised by consultants.
- Updated Asset Management Strategy.
- Updated Planned Maintenance Plan and SHQS Delivery Plan.
- Implementation of new IT system which features comprehensive stock database with automated update feature following programmed improvement works.
- Continuous updating of stock condition.
- Currently developing development of a disposal strategy for uneconomic assets.

4. Service excellence

**Existing Controls**

- Have IIP Bronze accreditation from 2011 for three years.
- Have introduced new performance information and management system from 2010, Clearview, and report on KPIs against objectives on regular cycle to Board and Management Team.
- Have adopted EFQM / HAME quality assurance framework and embarked on process of self assessment.
- Member of Housing Best Value Quality Network to assist benchmarking and comparator assessment of key performance indicators.
- Keep under review the staff organisation structure introducing new Customer Services team incorporating all key customer interfacing functions of housing and property management together, appointment of Performance Improvement Officer and focus of business improvement within management team.
- Use of mystery shoppers.
- Ensure new published regulatory standards for social housing providers are widely understood by staff and Board, including new Customer Charter expectations.
- Undertake external validation of results of self assessment.
- Embed customer focus and effective responses within the Customer Services Team supported with new IT systems and processes introduced during 2011.
- Undertake further examination of business process improvements including consideration of best practice application of systems thinking within similar operating environments eg Vanguard.

5. Failure to control cost and achieve budgeted efficiencies

**Existing Controls**

- Budgets
- Business plan
- Performance management
- Financial reporting
- Engagement with budget holders
- Procurement policies
- Leadership development
- Effective project management
- Business excellence and systems review
- Asset management strategy
5 Business Risk Management

**Controlled Risk Analysis**

Risks have been reanalysed for likelihood and impact taking into consideration the controls currently in place with the following results for each of the five key risks highlighted below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Likelihood</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding constraints on development programme</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Ability to sustain assumptions re rental growth and</td>
<td>Likely</td>
<td>Moderate</td>
</tr>
<tr>
<td>collection rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management and investment in our property assets</td>
<td>Rare</td>
<td>Major</td>
</tr>
<tr>
<td>Service Excellence</td>
<td>Unlikely</td>
<td>Moderate</td>
</tr>
<tr>
<td>Cost control and budgeted efficiencies</td>
<td>Unlikely</td>
<td>Significant</td>
</tr>
</tbody>
</table>

**Likelihood**

- Almost Certain
- Likely
- Moderate
- Unlikely
- Rare

**Absolute Risk**

- Low
- Moderate
- Significant
- Major
- Catastrophic

**Impact**

Grid Key: High Exposure, Moderate Exposure, Low Exposure

Risks 1, 3, 4 and 5 have now dropped into the “low exposure” level and therefore under the PoLHA Risk Control Policy are considered to be controlled and acceptable.

Risks 2 still sits in the “moderate exposure” level. This is primarily because of the likelihood score over which we have no control. The controls in place have mitigated the impact and it is recommended that we accept this risk.
Appendix A:  Key Performance Indicators for 2014-2015

Customer Satisfaction Levels
- Overall satisfaction with our services – at least 90%
- Satisfaction with the repair service – at least 90%
- Satisfaction with the way in which we handle service complaints – at least 70%
- Satisfaction with the way in which we deal with antisocial behaviour complaints – at least 65%
- Satisfaction with the condition of the allocated property - at least 80%
- Satisfaction with the stair cleaning service – at least 70%
- Rent represents value for money – at least 80%

Rent Collection
- Minimum of 98% of forecast rental income collected

Void Relet Time
- An average relet time of 35 days for all voids

Reactive Repairs Completion Time
- Minimum of 96.75% of all repairs completed on time

Complaints Handling
- 100% of all complaints are responded to in time

TOiL Employability Support Services
- Minimum of 60 work placements made available through the year
- Minimum of 70% positive outcomes achieved by programme participants
- Early leavers from the TOiL programme – less than 25%
PORT OF LEITH
HOUSING ASSOCIATION

APPENDIX B

30 Year Financial Projections
Key Scenarios and Sensitivities
Appendix B

Appendix B: The Association’s 30 Year Financial Projections

Key Scenarios and Sensitivities

Scenario Planning and Sensitivity Analysis

In this appendix to the Business Plan we will look at scenario planning and sensitivity analysis. This will be reviewed over a 30 year horizon in line with regulatory guidance, to assess the impact of risks with which to assess our long term financial and development capacity. The underlying calculations have been prepared using a 30 year model using Brixx financial modelling software.

1. Scenario Planning

The first scenario which has been examined and described as the base plan, is substantially the same as last year’s version of the plan and incorporates the pipeline development over Years 1 to 5. From Year 6 onwards, future development would be at a lower level of 50 units per annum until Year 20, then 80 units pa for Years 21-25 and 100 units pa from Years 25-30. The rate of rental growth is RPI plus 1% which, based on inflation of 2.5%, gives rent increases of 3.5%. From Year 6 onwards where schemes have not been specifically identified, we make general assumptions about the cost, grant and rental income for “future” development. It has been assumed that the total cost of a new unit will be £120k and that the programme shall consist of equal volumes of affordable and intermediate rent. The grant rate would be 48% for affordable which have a weekly rent of £80 per week and that there would be 25% grant for mid market rent which would have a weekly rental of £125 per week.

It has been identified that rental growth of RPI plus 1% is essential if Port of Leith HA is to continue developing at the planned level in the future. This was tested as part of the sensitivity analysis. This raises concerns about rent affordability especially since from October 2013 welfare benefit reforms restrict increases in benefits to CPI. We have modelled an alternative scenario which is described as Scenario 1, and which assumes development ceases after the pipeline is complete and that rental growth from Year 6 onwards will be RPI only.

We will compare “gearing”, interest cover, debt per unit and margins (net and operating) % for the base case and for Scenario 1.

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1 Consumer price index which excludes housing costs
It can be observed that in the base scenario, gearing rises steeply initially then plateaus from Year 5 onwards at around 30% and after 20 years this then starts to reduce. This indicates that, with the change in the grant assumptions for future development, there is capacity available to develop at a higher level from Year 6 onwards. In Scenario 1 gearing spikes over the initial period of pipeline development but then as development ceases, there is a steady downward trend and from Year 20 this levels out and starts to become negative as the cash balances start to accumulate and exceed the value of outstanding loans. This tells us that when development ceases, large cash balances start to accumulate and debt is repaid.
With both options interest cover remains above the level specified by our main lenders in the loan covenant. In the base scenario interest cover jogs along at around the 150/200% mark for the first 15 years then as loans are repaid and interest earned on cash balances starts to exceed the value of interest charged on loans, this shows a much steeper increase.

The pattern for Scenario 1 is for interest cover to rise steeply as cash balances increase and loans reduce. Then at the point where interest receivable exceeds the interest payable, this ratio goes from a very high positive figure to a very high negative figure.

---

1 Broadly speaking this is the ratio of cash from operations (operating surplus with depreciation and non cash items added back) divided by the net interest charge. Funders will usually specify a minimum level in loan covenants which, in our case, is 110% with RBS and Santander and 125% with Lloyds.
Debt Per Unit

With the base case, debt per unit rises to £20k per unit which in real terms\(^1\) peaks at £16k per unit and then tapers off. In Scenario 1 debt rises steeply during the pipeline programme and then is fully repaid before the end of the 30 year plan.

\(^1\) Discounting the effect of inflation
Operating and Net Surplus as % of Turnover

In the base case there is a steadily rising trend for both operating margin\(^1\) and net surplus with a fairly constant gap between the two numbers. With Scenario 1 the margins both rise steeply with the net surplus exceeding the operating surplus at the point when interest earned on cash balances exceeds the interest charged on loans.

Observation

There is a significant improvement in the base case compared to the previous iteration of the business plan. This can be attributed to the change in the assumptions about grant funding for future development. The analysis shows that we would have increased financial and development capacity from around Year 15 in the plan which is the conclusion to be drawn from the interest cover graph. With Scenario 1, which assumes rental growth of RPI only from Year 6, large cash balances accrue and debt is repaid. This indicates that even with RPI only rent increases, there is some financial capacity and scope for some development. The next step in the modelling process will be to identify a sustainable level of development which is sustainable with this lower level of rental growth.

\(^1\) i.e. before interest received and charged
2. Sensitivity Analysis
Sensitivity was applied to four key variables. Sensitivity 1 reduced the rate of rental growth in the plan to RPI only from Year 6 onwards. Sensitivity 2 applied an additional 1% to the rate of inflation (RPI). Sensitivity 3 applied an additional 1% to the rate of interest. Sensitivity 4 increases the rate of bad debt write off to 4% of rental income.

The results have been evaluated against gearing, interest cover, loans, debt per unit (expressed in real terms) and reserves in the following graphs.

Gearing

The reduction in rental growth has a significant adverse effect on the gearing levels whilst the increase in interest rates and the increase in bad debt provision have smaller but significant impact. The impact of the change in RPI is modest.
The impact of the reduction in the rental growth assumption is significant and would breach the loan covenant. The impact of the increase in RPI and interest rates is also significant but doesn’t breach the covenant. The impact of the increase in bad debt provision is relatively modest.

Some may note the stepped shape of the lines in the graph. This reflects the profiling of major repairs in five year bandings from Year 6 onwards. Where the interest cover drops it is indicative of a higher level of major repair investment.
Debt Per Unit “Real”

The impact of reduction in rate of rental growth increases debt dramatically and the increased interest rates and increase in bad debt to a lesser extent. The increase in the rate of inflation has a modest impact on the overall level of debt but the debt per unit which is expressed in real terms, i.e., after discounting the effect of inflation, shows an improvement compared to the base case. Any increase in total debt due to an increase in the inflation rate will be compensated by increased levels of income.

Reserves

An increase in inflation has a dramatic and favourable impact on reserves. A reduction in rental growth has the opposite effect and an increase in interest rates and an increase in bad debt has an adverse effect. The impact of other variables is relatively modest.

Observation

It can be concluded that a reduction in rental growth would have a serious adverse effect on financial and development capacity.

An increase in interest rates or a large increase in bad debts would have a less serious adverse effect. Changes in RPI have a relatively modest impact on the plan. Whilst we have modelled changes to a single variable whilst holding other variables constant in order to understand which variables have the greatest impact and require greater attention from the Board and executive, in the real world assumptions often change in combination, i.e., high rates of inflation often lead to higher interest rates thus any impact of higher interest charges may be offset by higher rates of inflation and rental growth.
Appendix C

Board of Management at 31 March 2014

Richard Bolton
Local businessman, qualified accountant and communications expert. Board Member since 2012.

Stan Godman
Retired banker, wide experience of business finance, housing association funding and business needs. Board Member since 2003.

Jack Hunter (Chair)
Former Planning and Environmental Consultant. Previously held senior strategic and operational management posts with Scottish Homes. Board Member since 2004. Board Member of Persevere Developments Limited.

Paul Linton
Former Lorne HA Board Member. Self employed Building Consultant. Board Member since 2008. Board Member of Persevere Developments Limited.

Ruth McNeil
Semi retired, sales advisor. Association tenant; Board Member since 2007.

Robert MacPherson
Former Lorne HA Board Member. Board Member since 2005. Retired driver and an Association tenant.

Gordon Munro
City of Edinburgh Councillor for Leith and Board Member since 2003.

Margaret O'Connor
Current Senior Local Government Officer with experience in management, community, arts and leisure. Board Member since 2010 and Vice Chair since September 2011. Board Member of Persevere Developments Limited.

Tim Parker
Former Solicitor with Church of Scotland. Joined Board in April 2004. Board Member of Persevere Developments Limited.

Helen Phillips

Philip Neaves
Property and planning consultant. Board Member since 2011, and Chair of Persevere Developments Limited. Chair of Leith Theatre Trust.
Appendix C

Board of Management at 31 March 2014 cont.

David Spilsbury
Current Director of Finance and Planning with National Museums Scotland and former Head of Finance with East Lothian Council. Co-opted Board Member since November 2013.

Stephen Whitehead
Former Architect and Senior Local Government Officer with experience in housing and property. Board Member since 2010.

The Board of Management normally meets monthly, except December and July. The Audit Committee meets four times a year to review audit, risks and control mechanisms. The Strategy Group meets whenever it is considered appropriate during the year to undertake forward thinking and discuss key policy initiatives under consideration.
Senior Management Team

Keith Anderson (Chief Executive Officer)
Joined the Association in 2009. Formerly Director of Edinburgh Waterfront Partnership and previously Head of Housing Development and Finance with City of Edinburgh Council. 34 years experience in housing and regeneration. Trustee of the Lintel Trust, Board Member and Chair of the Chartered Institute of Housing in Scotland, Board member of the Leith Chamber of Commerce, Member of Royal Institute of Chartered Surveyors, and a Fellow of Royal Society of Arts, Manufacturers and Commerce.

Gordon Cameron (Director of Property and New Business)
Joined the Association in 2007. Formerly Business Development Director for Margaret Blackwood HA. Post graduate Diplomas in Housing Studies and Urban Property Appraisal. Member of Chartered Institute of Housing. 32 years experience in housing.

Claire Ironside (Director of Customer Services)
Joined the Association in 2013. Formerly Housing and Regeneration Manager (City Centre and Leith) with City of Edinburgh Council. Over 20 years experience in housing. A Member of the Chartered Institute of Housing and Common Purpose graduate.

Euan Ramsay (Director of Finance and IT)
Joined the Association in 2010. Formerly independent housing and finance consultant and Head of Finance and IT for Cube HA. Board member of Loretto HA and Impact Arts. Fellow of Chartered Association of Certified Accountants, Member of Chartered Institute of Housing and Common Purpose graduate.

Mike Beniston (Head of Corporate Services)
Joined the Association in 2011. Formerly an experienced Management Consultant specialising in organisational development and human resource management working across a diverse range of public, private and third sector organisations to improve business performance. Chartered member of the Chartered Institute of Personnel & Development and member of the Association for Project Management.

The Chief Executive, Directors and Head of Corporate Services comprise the Senior Management Team, which has delegated authority to manage the day to day operation of the Association. All members of the team contribute to the overall activities of the Association and ensure that their own function is compatible with, and complementary to, the work of other sections. The team makes recommendations to Board and Audit Committee, and executes their decisions also preparing background material, research, and analysis for the Strategy Group.

The Board and Senior Management Team members have formal delegated powers, which are detailed in the Association’s Standing Orders, Financial Regulations and Scheme of Delegation of Powers.
APPENDIX

The Association Business Planning and Delivery Tracking Process
The Association Business Planning and Delivery Tracking Process

Business planning and delivery tracking is a cyclical set of processes undertaken each financial year. It involves Board Members alongside the Senior Management Team setting the strategic direction and Staff at all levels regarding the delivery plan process.

The general schedule for the Business Planning and Delivery Tracking Procedure is as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>Activities</th>
</tr>
</thead>
</table>
| March                | • Final Board sign off of Business Plan content and budget for following year (including for subsidiary company Persevere Developments Limited)  
                        | • Review of January – March 90 Day Delivery Plan                               
                        | • Preparation of April – June 90 Day Delivery Plan                             |
| June                 | • Review April – June 90 Day Delivery Plan                                    
                        | • Preparation of July – September 90 Day Delivery Plan                          |
| June – September     | • Annual review of SWOT analysis                                             
                        | • Annual review of STEP analysis                                              
                        | • Business risk analysis for future years                                     
                        | • Board Awayday event – review business context for parent and subsidiary company for next period |
| September            | • Review of July – September 90 Day Delivery Plan                             
                        | • Preparation of October – December 90 Day Delivery Plan                        |
| September - December | • Financial Planning – preparation of next annual budget proposals, review of financial forecasts and scenario plans  
                        | • Board Awayday Event – refresh vision, strategic goals and priorities for coming year  
                        | • Commence updating of Business Plan document for parent and subsidiary company |
| December             | • Review of October – December 90 Day Delivery Plan                           
                        | • Preparation of January – March 90 Day Delivery Plan                           |
| January - February   | • Complete update of Business Plan content and budget forecast for following year |
| March                | • See above                                                                  |
Original Design & Layout by Bluemungus
Photography by Bluemungus, Hooverfish, Maverick PA and POLHA