PORT OF LEITH
HOUSING ASSOCIATION
Scottish Charity Number SCO 27945

PERSEVERE
DEVELOPMENTS
Company Registration Number SC388989

QUAY
COMMUNITY
IMPROVEMENTS
Company Registration Number SC538129

energy services
T. B. Mackay (Est.1936)

Company Registration Number SC202640

POLHA GROUP STRATEGIC PLAN 2020 – 2025
Appendix 4B - 30 YEAR FINANCIAL PROJECTIONS

Approved by: PoLHA Group Board – 05/03/2020

APPENDIX 4B - THE ASSOCIATION'S 30 YEAR FINANCIAL PROJECTIONS – KEY SCENARIOS AND SENSITIVITIES

4.8 SCENARIO PLANNING AND SENSITIVITY ANALYSIS

In this appendix to the Business Plan, we will look at scenario planning. 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 viability and development capacity. The underlying calculations have been prepared using a 30 year model using Brixx financial modelling software.

The key financial strategic risks that have been identified for POLHA in Section 4 are around bad debts and arrears, rental growth, interest rates payable on loans, increases in development costs, and an increase in the defined benefit pension scheme deficit. We have therefore modelled scenarios around these risks in order to assess the level of sensitivity.

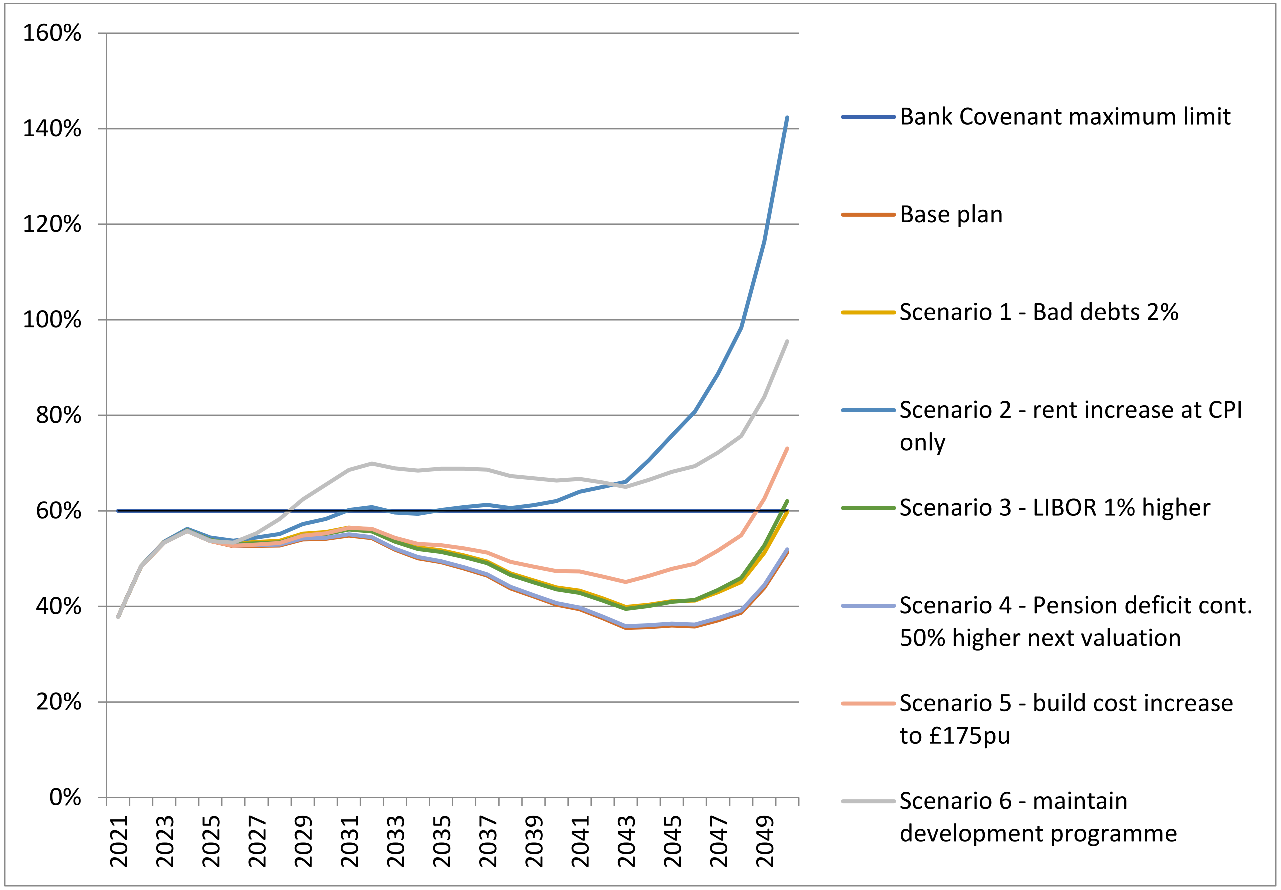
- **Base Plan**: this includes all the assumptions for the next five years detailed in Section 5. The current development programme is continued beyond March 2024 to include 30 per annum for 15 years until 2039; then 35 per annum for 3 years until 2038; then 35 per annum for 4 years until 2042, then 40 per annum thereafter. Beyond the five year plan 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 £155k subject to inflationary assumptions detailed in Section 5.
- **Scenario 1**: all assumptions are per the base plan except that from Year 2 bad debts will be 2%.
- **Scenario 2**: all assumptions are per the base plan except that rental growth from Year 2 onwards will be CPI only.
- **Scenario 3**: all assumptions are per the base plan except that LIBOR from Year 2 onwards will be 1% higher than Capita's assumptions throughout the plan.

- **Scenario 4:** all assumptions are per the base plan except that from Year 2, there will be an increase of 50% in the pension deficit contributions.
- **Scenario 5**: all assumptions are per the base plan except the unidentified developments assumed in the plan beyond those currently in the pipeline will have a build cost of £175k per unit (instead of £155k).

A final scenario has been modelled to test the capacity of the Association to maintain its current level of planned developments over the remainder of the plan.

- **Scenario 6**: all assumptions are per the base plan except that from Year 6, the average number of new developments over the first five years of the plan will be continued at a rate of 64 social and 59 mid market per annum.

We will analyse POLHA's key financial ratios for the base case and for each of the scenarios, gearing, interest cover, and operating surplus as a % of turnover each year.



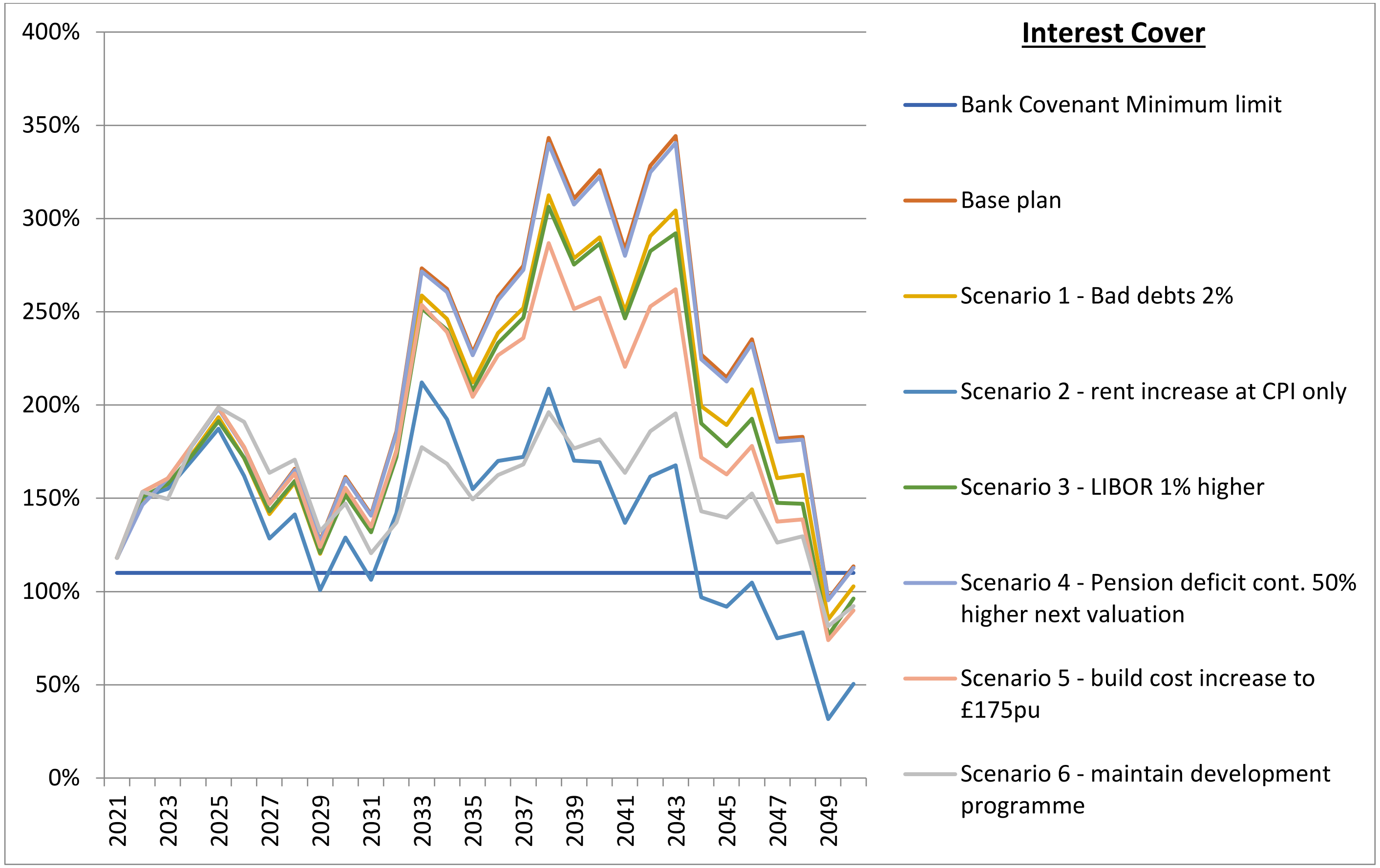
Gearing

It can be observed that in the base scenario, gearing rises in the early years due to the development programme over the next five years from 2021-2025, then as the development programme slows down it falls.

The gearing ratio is most sensitive to assumptions around rental growth and maintaining the development programme. If the rents are not increased in line with the assumption used to inflate costs (RPI), the cash inflows will be reduced thus requiring higher levels of private financing.

The impact of the other scenarios are minimal and don't cause any breaches until the tail end of the 30 year period.

Interest cover



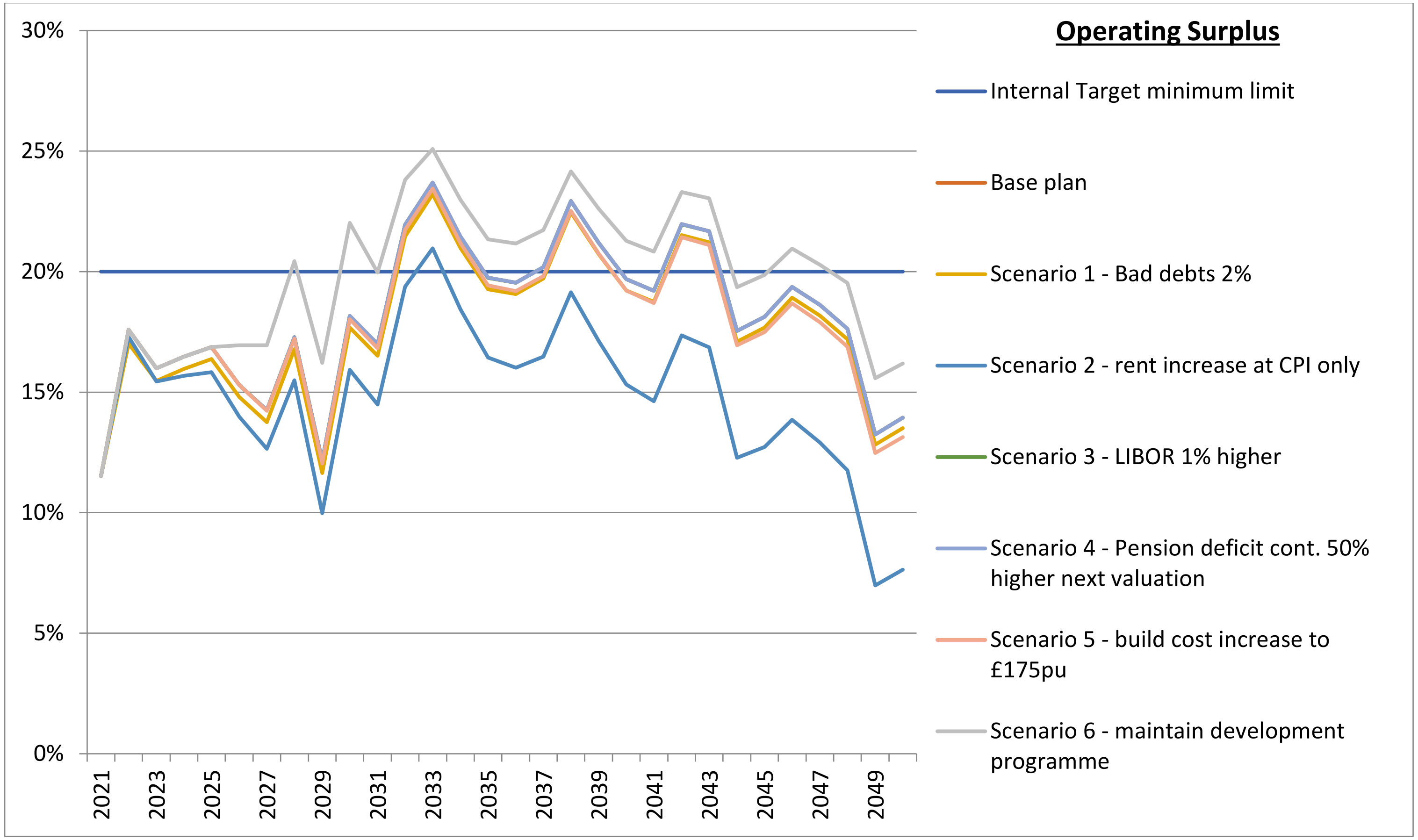
It can be observed that in the base scenario, interest cover fluctuates both in line with the funding requirements (and subsequent increases in interest payable) of the development programme and the fluctuations in major repairs due to the cyclical nature of the planned works which is based on stock condition survey information.

In line with the gearing ratio, in the other scenarios the interest cover ratio is most sensitive to assumptions around rental growth where the rents are not increased in line with the assumption used to inflate costs (RPI) and maintaining the development programme.

In 2016 and in 2020 the Association secured £35m and £40m respectively for the development programme at a fixed rate over 30 years. PoLHA's position is well-protected against interest rate increases. Of the total committed loans of £95 million, £89 million (94%) is on fixed interest rates. The policy is for a minimum of 50% to be on fixed interest rates. This makes the plan less sensitive that it had previously been to Scenario 3 where the LIBOR rate is higher than in the base plan; however, with a large development programme and associated borrowing, this is a risk that will need to continue to be managed.

The interest cover bank covenant is the biggest restriction for the Association and is the one that requires the most attention when budgeting and planning, meaning that large items of revenue expenditure such as cyclical maintenance or major repairs must be spread out over a number of years and not necessarily take place in the year in which they are due without finding savings elsewhere.

Operating surplus as a % of turnover



Observation

The plan is most sensitive to changes in the most sensitive to assumptions around rental growth where the rents are not increased in line with the assumption used to inflate costs (RPI), maintaining the development programme and increasing costs of developing.

The Association has the capacity to continue developing further at current levels for a further 8 years.

In reality, the variables in these scenarios don't change in isolation. This scenario planning and sensitive analysis therefore merely indicates the severity and impact of each variable. This exercise will be updated every year to take account of all the movements in the variables and updated knowledge on which to base our assumptions and we will amend the timing of large items of revenue expenditure such as cyclical maintenance or major repairs accordingly.