



Doing what matters most to customers  
Investing in homes and our community  
Making us stronger for the future

## Ardenglen Business Plan 2016 - 2021



Incorporating our 30 Year  
Financial Projections

Plan Updated December 2016

Update Approved by the Management

Committee 06/12/16

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**Appendix A – Staff and Governance Structure**

*\*All Quotes used in the Business Plan are by Peter F Drucker (1909 – 2005)*

## **1. EXECUTIVE SUMMARY**

***"Unless commitment is made, there are only promises and hopes; but no plans."***

Established in 1990 as a charitable housing association, Ardenglen owns around 1,000 homes and operates in East Castlemilk, Glasgow.

Ardenglen is governed by an elected Management Committee appointed by shareholders to oversee strategic direction and performance outcomes. Day to day responsibility for services is delegated to staff through the CEO, delivering a full range of housing management, maintenance, regeneration and financial services.

This Business Plan confirms that these remain challenging and uncertain times for Ardenglen. There is no escaping the changed economic, political and social environment in which we now operate and the risks and demands which have resulted. On the other hand, the direct consequences of the UK government's measures to tackle the country's fiscal difficulties have meant the need for affordable housing and the services we provide have rarely been greater.

In particular, the ongoing presence and impact of the Welfare Reform agenda still represents a "game changing" event for Ardenglen and the social housing movement.

This Business Plan outlines the strategy for the next five years. It is a plan which concentrates on service quality and maintains our ambition to manage and mitigate the continued effects of welfare reform by directing resources to money, debt and energy advice and exploring how fuel poverty can be reduced. Ardenglen's regeneration activity will focus on our partnership work aimed at reducing inequalities and working closely with our community to prepare them for work and developing constructive local activities in our area.

These ambitions however, are set alongside the uncertainties arising from the introduction of Universal Credit, Brexit and the ongoing debate about the affordability of above inflation rent rise assumptions and the drive for value for money.

This is the challenge we face. A strong social ethos has been the backbone of our success; however, this must be linked to a commitment to commercial efficiency, without which we would not have the resources to deliver those objectives.

This plan looks at where we fit in relation to the outside world and sets out our Purpose, Goals, Operational Objectives and the key performance indicators we will use to measure success. It demonstrates the resources we will require to deliver them and how we will manage, control and moderate our exposure to key financial and business risks.

In terms of Governance, the role of our Management Committee is to set direction and monitor performance. Our Business Planning framework is the tool to set our strategic direction. The performance management framework is the means to measure our success.

In recognition of a changing and volatile economic and political situation, we have also taken the opportunity to completely review the long term financial operation of the business. This Plan therefore provides detailed information on the Association's 30 Year Financial Projections as well as in depth risk and sensitivity analysis.

## 2. WHY ARE WE HERE?

*"Objectives are not fate; they are direction. They are not commands; they are commitments. They do not determine the future; they are means to mobilise the resources and energies of the business for the making of the future."*

We must never forget that we are a business and, like every business, we are only here because of our customers be they current, future or aspiring.

To be a great business we recognise that we need to get two things right. Firstly, we need to keep our finances strong. If we don't, we can't achieve our vision and goals. Secondly and directly related to the first, we need to deliver the things our customers want, at the first time of asking and at an acceptable price.

There is no doubt our operating environment will remain difficult and challenging, but we are confident there will also be opportunities for strong organisations with a clear vision and determination to succeed.

Moving forward, this plan is therefore about successfully navigating the future by ensuring we have excellent governance and leadership, clarity of vision, a very strong financial base and a culture committed to exceptional customer service.

### 2.1 Our Purpose and Strategic Goals

Clarity of purpose is crucial to every organisation. Everything we do flows from our purpose. Our focus and everybody's efforts are on delivering high quality services and the regeneration of our community.



## 2.2 Our Operational Objectives

To achieve these three Strategic Goals, we have developed the following Operational Objectives:

### "Doing what matters most to customers"

- Respond to the priorities identified by the Tenant Satisfaction Survey
- Deliver continuous improvement in our Scottish Housing Charter outcomes
- Work to mitigate the impact of Welfare Reform on our customers

### "Investing in homes and our community"

- Commit resources to ensure the delivery of a high quality repairs and maintenance service
- Commit resources to improve the health, safety, life chances and vibrancy of our community
- Commit resources to assess the viability of building more homes

### "Making us stronger for the future"

- Sustain a vibrant, viable business through effective governance and sound financial and risk management
- Continually review business processes to ensure best value and efficiency
- Invest in all our people to achieve our objectives

## 2.3 Living Our Values

Living our company values creates the context in which we work and define the behaviours we adopt towards colleagues and customers. We expect every person working or volunteering with Ardenglen to exhibit an absolute commitment to our values:

**Respect:** "We treat others the way we would wish to be treated ourselves"

**Integrity:** "We deliver on our promises"

**Above and Beyond:** "Continuous improvement is part of everyone's job and customer satisfaction is everyone's responsibility"

We have one core organisational Rule for our Staff, Committee and Volunteers:

**"Use your good judgement in all situations"**

There are no other Rules.

"A customer is the most important visitor on our premises. He is not dependant on us. We are dependant on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so"

Mahatma Gandhi





Our  
Strategic  
Approach

3



### 3. OUR STRATEGIC APPROACH

*"The aim of strategic planning is simple – action now"*

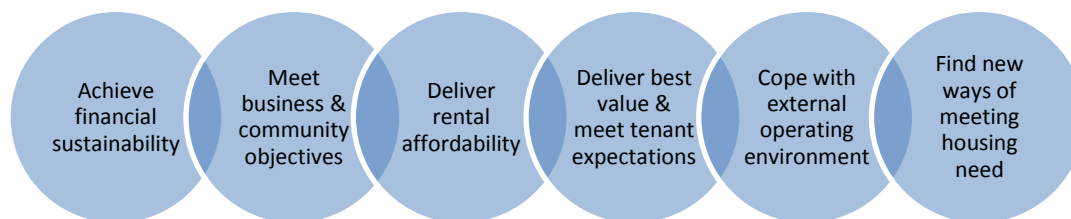
#### 3.1 Introduction

As the housing sector and wider world changes, the need for quality strategic planning becomes even more important. Our approach must be based on accurate information and logical assumptions and must sustain change through supporting quality scenario planning and risk assessment.

Reporting and monitoring systems must be designed to support both management and the governing body to gauge if strategic aims and objectives are being met and most importantly, to allow timely adjustment if they are not.

#### 3.2 Key Strategic Outcomes

The Business Plan is our main strategic instrument to communicate our vision and objectives and detail how we will achieve the following key strategic outcomes:



#### 3.3 Key Strategic Questions

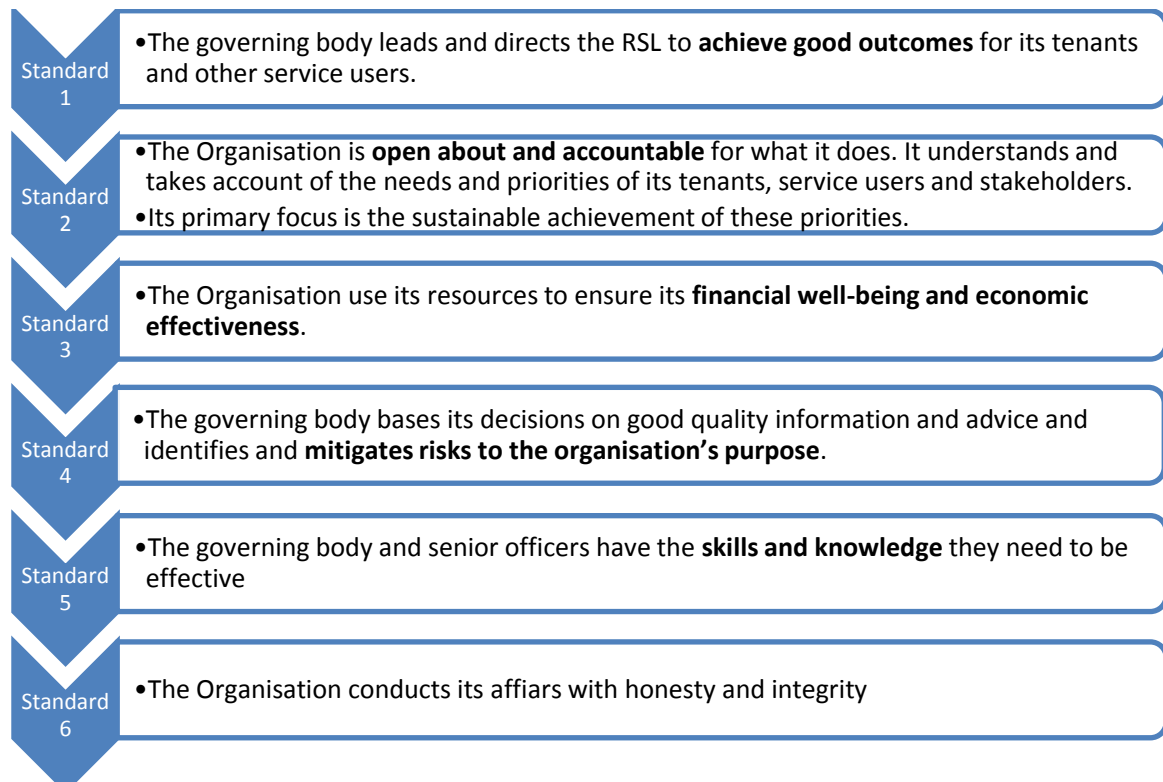
In developing our Business Plan we aim to answer the following key strategic questions:

Financial Viability	<ul style="list-style-type: none"><li>•Is the baseline plan sustainable in short, medium &amp; long term?</li><li>•Are there adequate cash reserves throughout the life of the plan?</li></ul>
Rent Affordability	<ul style="list-style-type: none"><li>•Can the level of income generated support business activities?</li><li>•Are rents affordable now and in the future?</li></ul>
Debt Affordability	<ul style="list-style-type: none"><li>•Can borrowing be financed now and in the future?</li><li>•Is the borrowing affordable, sustainable and prudent?</li></ul>
Investment	<ul style="list-style-type: none"><li>•Are there sufficient levels of investment in the stock?</li><li>•Does AHA take an integrated approach to asset management?</li></ul>
Service Delivery	<ul style="list-style-type: none"><li>•Can service delivery be maintained at required levels?</li><li>•How does AHA compare to its peers?</li></ul>
Performance & Efficiency Review	<ul style="list-style-type: none"><li>•What aspects of the business work well?</li><li>•How does AHA compare with other Associations?</li></ul>
Core Activity v Other Services	<ul style="list-style-type: none"><li>•How is each activity strand contributing to the business?</li><li>•What activities cost the organisation money?</li></ul>
Key Business Risks	<ul style="list-style-type: none"><li>•What are the key risks which face the business?</li><li>•Is there sufficient contingency and capacity within the plan to withstand these risks?</li></ul>

### 3.4 Regulatory Standards

All RSL's in Scotland must comply with the standards and guidance set by the Scottish Housing Regulator in order to demonstrate effective governance, sound financial management and the delivery of good outcomes for tenants and customers.

The Business Plan is therefore an essential instrument to ensure compliance with the published Framework of Regulatory Standards:



### 3.5 Value for Money

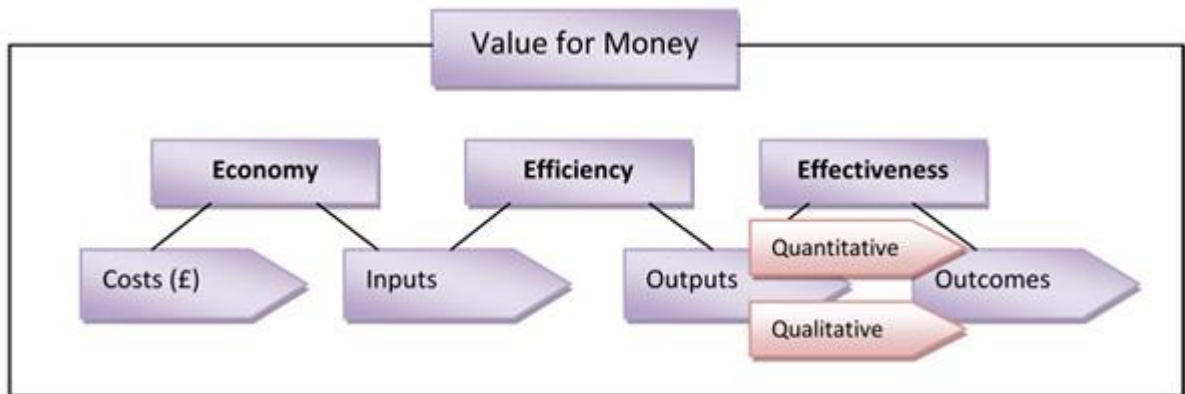
***"If you want something new – you have to stop doing something old"***

Ardenglen believe that Value for Money (VfM) is about achieving the right balance between the three 'E's' – Economy, Efficiency and Effectiveness. This means doing the right things, in the right way, at the right cost.

- **Economy** is the price paid for what goes into providing a service
- **Efficiency** is a measure of productivity or how much is gained from what is put in
- **Effectiveness** is a measure of the impact achieved and can be both qualitative and quantitative

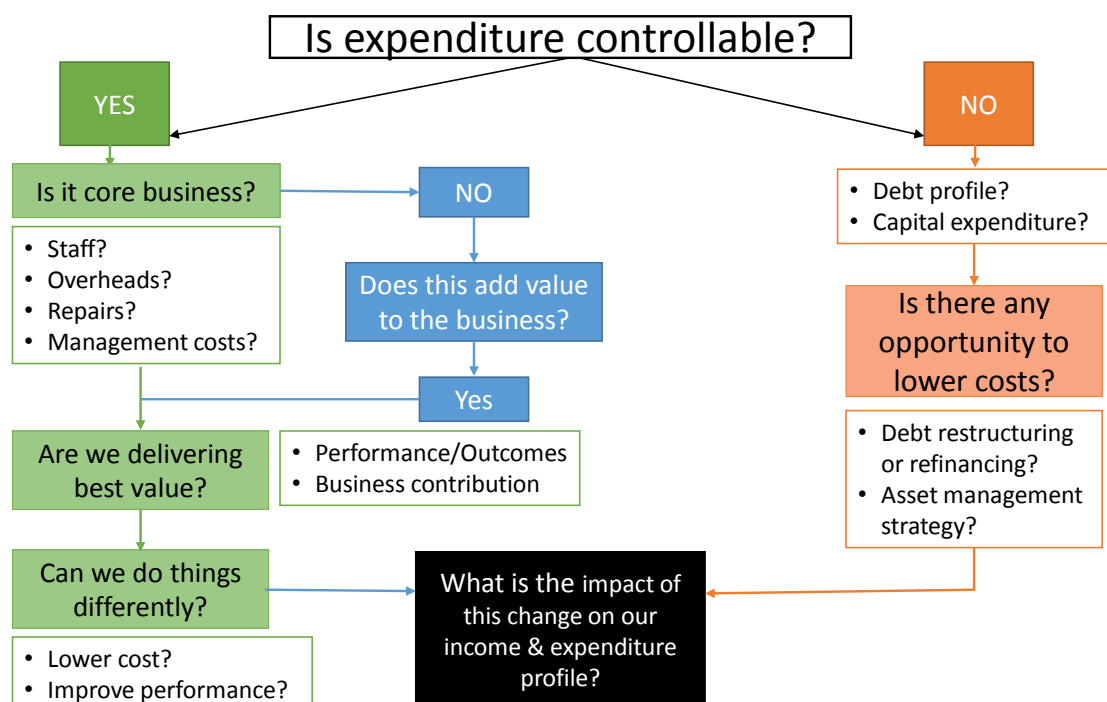
Delivering VfM requires a range of activities including: the involvement of customers in shaping services and scrutinising how their rent is spent, performance management and benchmarking, effective financial management and information dissemination, efficiency targets in budgeting and effective procurement.

VfM is therefore high when there is an optimum balance between all three 'E's'; relatively low costs, high productivity and successful outcomes. This can be seen in the VfM flow chart below:



### 3.6 Value for Money Efficiency Review

Our main areas of expenditure are regularly cost tested to ensure they provide VfM. We aim for continuous improvement by examining the services we provide, in terms of cost, process, customer expectations and demands, customer satisfaction and performance. We regularly compare our costs to other social housing providers to see how we are doing and how we can improve.



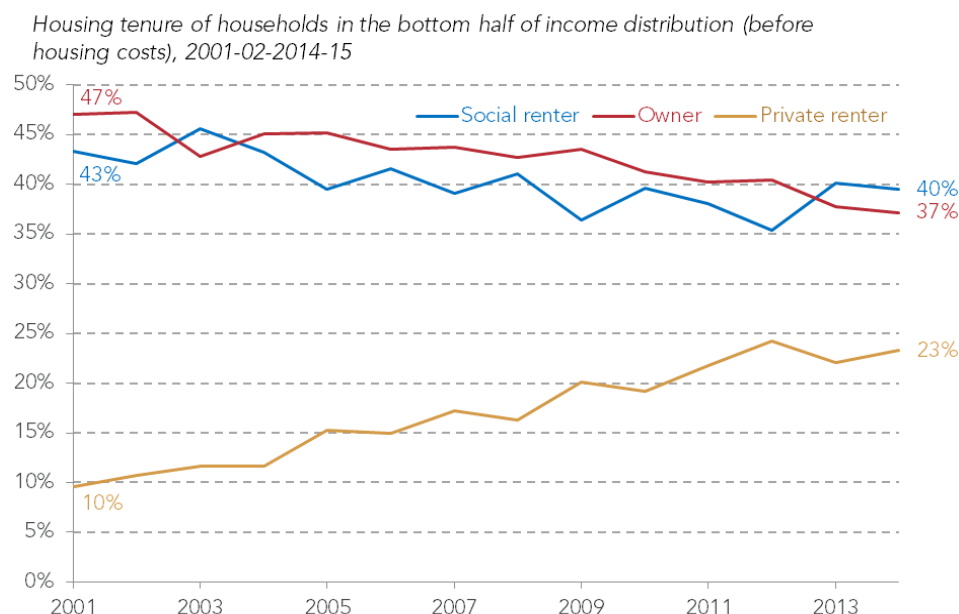
(Table courtesy of Arneil Johnston)

### 3.7 Rent Affordability – An Approaching Crisis?

While Scotland has traditionally benefited from lower housing costs than the rest of the UK, housing costs as a percentage of income have risen quickly since 1994.



While a significant element of this will be linked to the rise in private renting in Scotland, it is important to note that for people in the bottom half of income distribution in Scotland, 40% of this population is living in Social Rented property, compared to 30% in the wider UK.



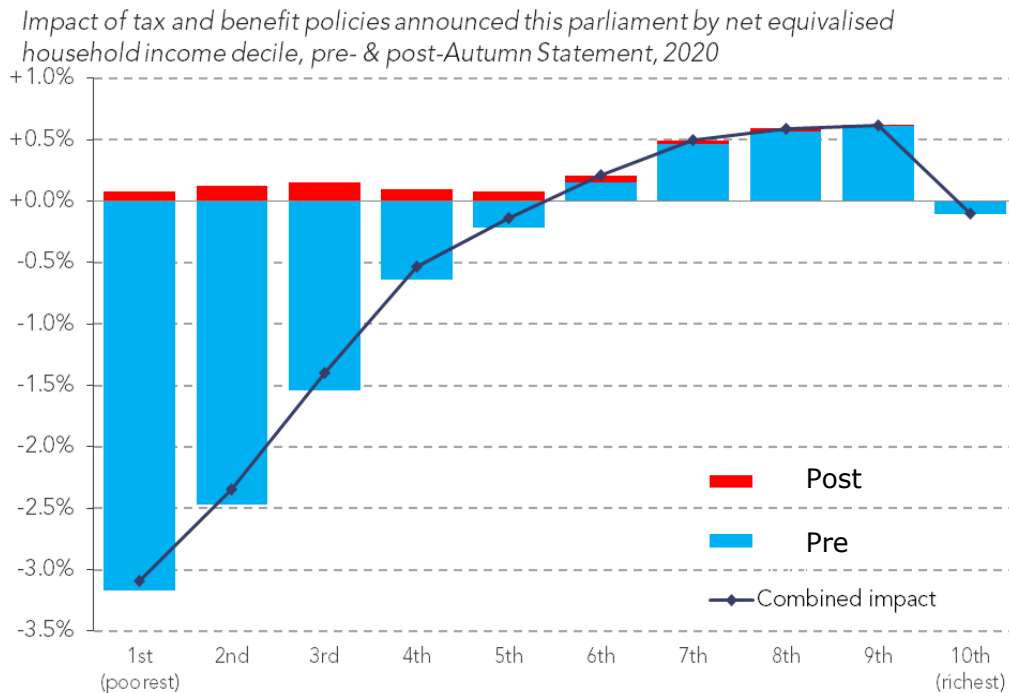
It is also clear that the growth in private renting, is directly linked to the decrease in owner occupation, which itself is linked to increased house prices and most importantly reducing real incomes.

For all tenures however, it is this decrease in real incomes, well documented as growing at its lowest rate since the 1700's, which represents the most significant challenge to people in the bottom half of income distribution, a situation which could become a real crisis for the Social Rented sector in Scotland.



Linked to this, is the element of government “income support” for the poorest households, designed to protect lower income growth by the use of tax and benefit policies. It can be seen that in actual fact the impact of tax and benefit policies is now having a significant negative impact on the very groups it was designed to support.

Given Ardenglen’s client group, this is of fundamental strategic importance, as we cannot rely on income growth matching previous assumptions for rental growth.



To put this into an individual context, taking account of income gains from tax cuts, the National Living Wage and additional free childcare hours, working families entitled to Universal Credit will be, on average:

- a net **£1,200 worse off a year** from work allowance cuts and the benefit freeze
- a net **£1,400 worse off a year** among those with children

And that’s without accounting for loss of family element (up to £545) and limiting support to two children (up to £2,800 per child).

The implication cannot be clearer, that after a difficult few years for most across the income spectrum, the rest of the decade looks particularly tough for those in the bottom half, notwithstanding the huge uncertainty with all such predictions: and in particular how Brexit will play out. It against this strategic context of reducing real incomes that Ardenglen must design a rental and financial planning strategy that takes account of these factors.

The other significant strategic change which needs to be taken into account, is the introduction of the National Living Wage. While this can be viewed as a race to the bottom, it at least sets a government minimum standard of income, which can then be used as standard to gauge the affordability of rents. This is the position Ardenglen has therefore adopted.

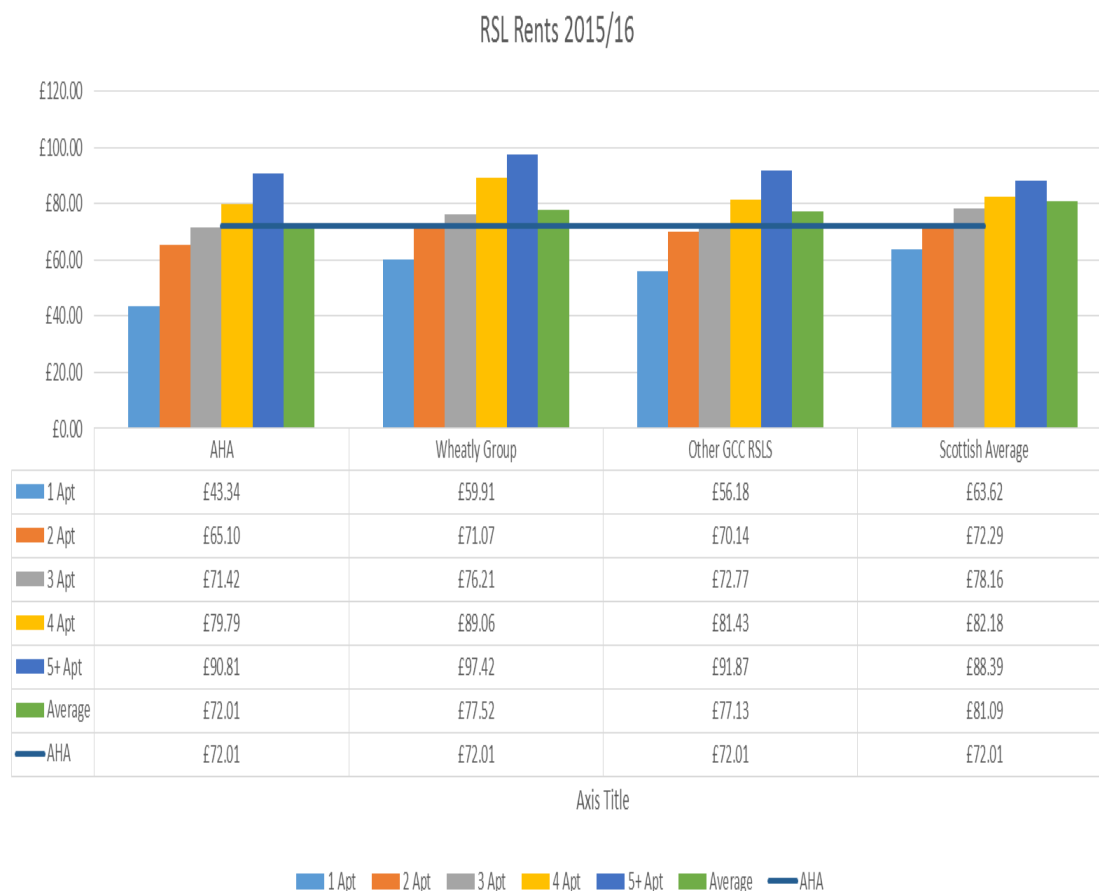
### 3.8 Rent Affordability – Our Approach

As well as a clear link with asset management and Vfm, there is an ongoing tension between rent levels, affordability and the future devolution of the welfare budget (in particular housing benefit). The impact of affordability must therefore be considered from the perspective of both the individual tenant and the Scottish and UK Governments.

95% of Ardenglen's income comes from rent payments, with over 75% of our tenants receiving support through housing benefit. The correlation and strategic risk of future rent affordability cannot therefore be ignored and Ardenglen believe reliance on the "old" standard financial model assumption of RPI + 1% annual rent increases is not sustainable. As RPI is no longer considered a measure of inflation that meets international standards, we have moved to CPI which is more easily explained and transparent. We have also amended our modelling toward a CPI + 0.5% basis, moving in Year 10 to a CPI only position.

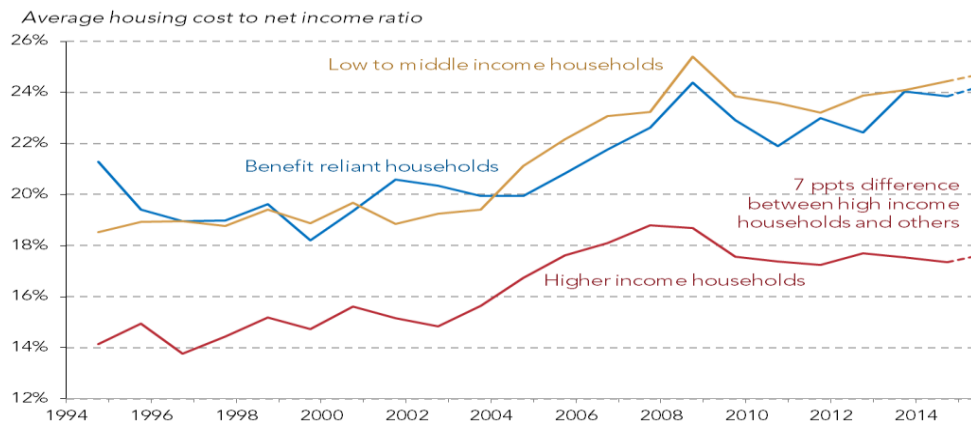
While there is no current indication of the Scottish Government implementing rent controls or capping (at least within the social rented sector), the impact of future devolution of the housing benefit budget must remain a concern. At this stage, Ardenglen can only gauge "state" affordability by benchmarking our average rent with comparable RSL's and the Scottish Average.

It can be seen from the table below, that in general terms, Ardenglen is performing well in comparison against both local and national rent averages.

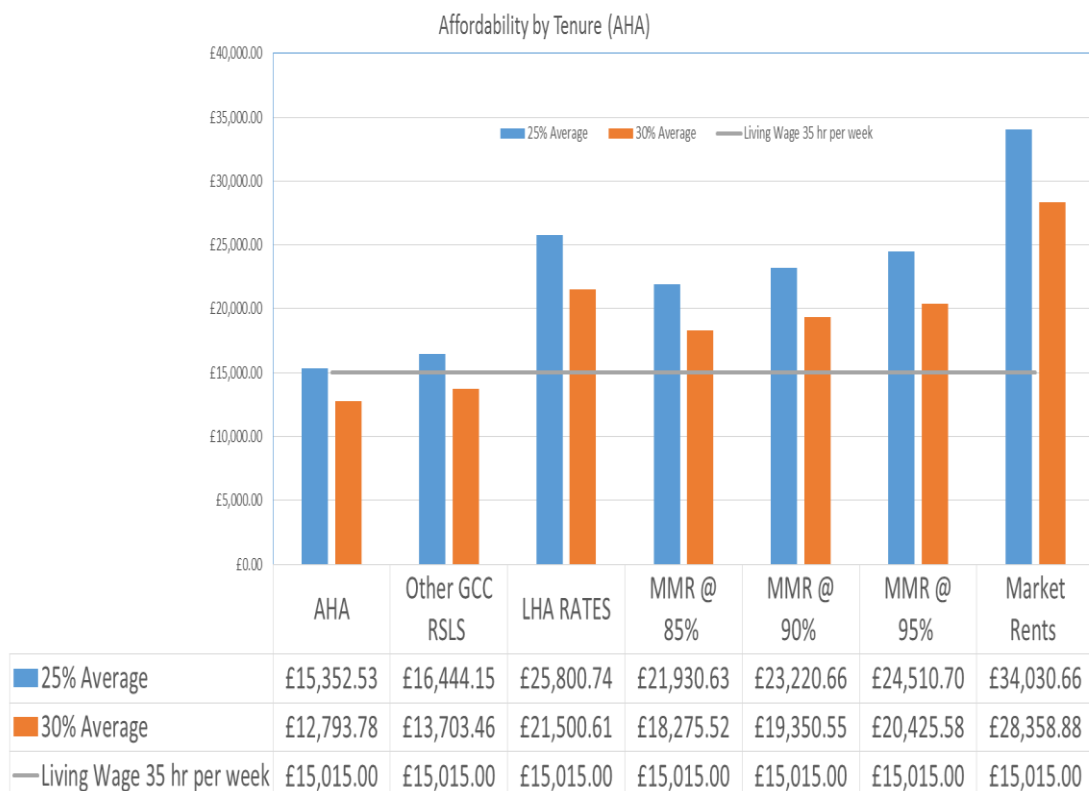


(Table courtesy of Arneil Johnston)

In terms of the affordability of our rents to individual tenants, rents are generally considered affordable within academic research if the household pays no more than 25% of their income on household costs.



In reality, most households in lower or benefit reliant incomes will spend around 25% to 30% and we have therefore modelled on the basis of an income to rent ratio of 25% to 30%. Given our community profile, we have used the Scottish Living Wage at £8.25 per hour as a measure of likely full time income.



**AHA - £320  
PCM**

**RSLs - £342  
PCM**

**MMR 85% -  
£456 PCM**

**LHA £537  
PCM**

**Market Rent  
£708 PCM**

(Table courtesy of Arneil Johnston)

This is then benchmarked against other Glasgow RSL's, the Local Housing Allowance (LHA), Mid Market Rents (MMR) and Market Rents using the Scottish Living Wage 35 hour full time, equivalent to £15,015 pa.

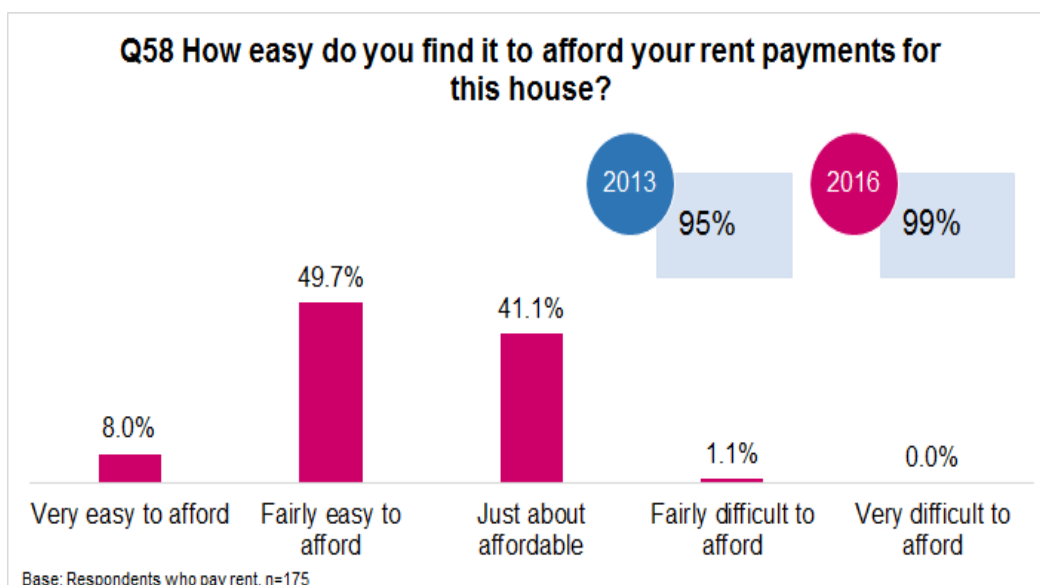
Again it can be seen that Ardenglen is generally performing well in terms of individual affordability and also when measured against the Local Housing Allowance (a maximum limit for housing benefit payments) and other rental options.

Full scenario testing of rental assumptions is contained within the financial and risk modelling attachments in Chapter 12.

### **3.9 Rent Affordability - Customer Feedback**

A less academic, but clearly legitimate measure of gauging affordability for an individual tenant, is to simply ask our residents who pay full rent (with no support through housing benefit) how easy or difficult they found it to afford the rent payments for their home.

The Association's 2016 satisfaction survey confirmed that almost all tenants (99%) said they found it very easy, fairly easy or just about affordable which is slightly more than was the case in 2013 (95%).



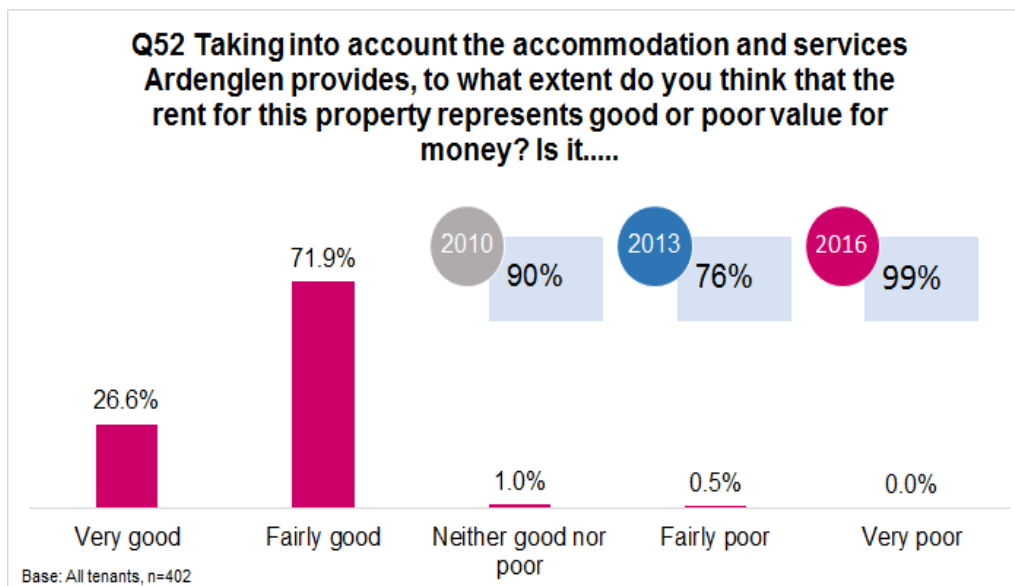
We are aware that "just about affordable" is a significant percentage and requires further research to gauge how close this group is to future rent increases pushing them into "difficult to afford". This is work we are currently undertaking, in terms of trying to model the impact of future rent increases against known information such as the freezing of Local Housing Allowances and impact on the under 35's single people.

We recognise that rent affordability is difficult to define and will always be different depending on household composition, income and the interplay with the tax and benefits system. With the information presently to hand, we believe our current rents remain within the general affordable spectrum, however we plan to carry out some more detailed independent analysis with Arneil Johnston during 2017.



### **3.10 Rent Affordability - Customer Value**

Any measure of rent affordability also requires a suitable measure of service satisfaction and seeking customer views if the rent represents good value.



We were concerned that in our 2013 Tenant Survey, the gap between rent affordability (95%) and the rent representing value for money (76%) was wider than we would wish or expect to see.

As a result, we drilled down on our data, spoke to customer's and recognised that our customer's view of rent representing value is split 50/50 between rent affordability and other reasons, primarily how well a property is being maintained and improved.

We subsequently amended our asset management strategy to focus investment priorities on issues raised by customers and developed an individual investment plan which is sent to every tenant.

The individual investment plan sets out in monetary terms the following information:

- The 5 Year future Replacement Programme by type and value
- The previous 3 Year Investment by type and value
- Cyclical Painter work by type and value
- Other investment such as close cleaning, gas maintenance, landscaping
- Stock condition information and tenant investment priorities

Investment information is no longer given on a general development phase basis, but is broken right down to the individual house level, with the aim of ensuring every tenant is aware of the individual spend on their own particular home and can better gauge value for rent.

We have had extremely positive feedback on this approach with 99% of tenants now reporting their rent as representing value for money, an increase of 23% since 2013.

### **3.11 Rent Affordability – Inflation**

The shock of Brexit and the subsequent devaluation of the pound have had an unsurprising impact on inflation, which is now predicted to grow significantly compared with previous Bank of England forecasts.



While Housing Associations are still seen as unique with a traditionally strong counter-cyclical business model (relying on rental income rather than sales) – the assumption that social rents can or will always keep pace with inflation is now open to question.

While Housing Benefit acts as a buffer, absorbing at least some increased housing costs, rising inflation will have a negative impact on low income tenants who pay a much greater percentage of their income on food, fuel, childcare and other basics. It is also clear that despite the welcome move to a national minimum wage, lower incomes in particular are not keeping pace with inflation.

Social rent in Scotland is probably still some way from hitting the affordability ceiling; however rent affordability is rapidly becoming a world wide problem, driven not simply by rent inflation, but by income deflation. We therefore need to remain aware; that without income growth, inflation could represent a clear danger to our affordability assumptions and mean even social rents could slip beyond the grasp of low income families.

### **3.12 Rent Affordability – The Critical Balance**

Rent Affordability cannot of course be looked at in isolation from the business plan, as the biggest long term risk to Ardenglen is not to increase, or at least balance rents in line with costs. It is therefore important to look at balancing affordability and limiting risk.

This comes down to knowing our customers, knowing our business and knowing what level of rent is required to maintain a stable business plan. This can then be compared to affordability levels and if there is a gap; increasing rents can be weighed against reducing costs and services.

Balance is the key: decisions on affordability cannot be made in a vacuum. Investment and rent strategies are heavily influenced by cost issues, but must also be informed by evidence of income profiles, housing costs and consumer choice across our local area.

Current legislation requires annual tenant consultation and annual rent setting. This is both inefficient and lacks transparency. Given the critical nature of maintaining the long term rent/expenditure balance, we believe in having future dialogue with our tenants regarding their views on setting 3 year index linked rent formulas. We have made this commitment so that both parties have long-term clarity and stability and are able to benefit from this in terms of planning for future investment, accessing funding and achieving value for money. A three year proposal will also provide financial certainty to tenants in that it will permit households to be able to anticipate future expenditure. In an uncertain economic climate we believe this will be welcomed

Equally, we do not believe the annual rent setting process should be used to fund short term one off investment. For example, adding an additional rent percentage to fund a one off project is poor long term planning as the compounded financial impact of that decision will be felt by every tenant, for ever.

Customer engagement and informed dialogue on priorities and investment choices is therefore essential and a further reason for our ongoing interest in the opportunities offered by the growth of Participatory Budgeting in Scotland. This is discussed further in Section 6.6

### **3.13 Strategic Planning Cycle**

Ardenglen has developed a rolling programme of strategic and business planning which is supported by standard reporting formats to the governing body.

<b>3 Yearly</b>	•Comprehensive review and update of strategic direction, goals and objectives
<b>Annual</b>	•Update Business Plan & 30 Year Financial projections. Linked to budget, rent setting & asset management
<b>Quarterly</b>	•Report progress on operational and financial plans and KPI's
<b>Monthly</b>	•Management accounts and finance reports

### **3.14 Governance Consent & Internal Challenge**

The strategic and business planning processes are approved by the Management Committee within a whole organisation approach involving management, customers and stakeholders.

In order to ensure informed consent, governance reporting and decision making information must be of a quality that is clearly understood and clearly linked to other strategies and plans.

Following a Governance Review in 2013, we have directly linked the Management Committee agenda and reporting structure to the three Strategic Goals of;

- “Doing what matters most to customers”
- “Investing in homes and the community”
- “Making us stronger for the future”

This ensures a clear and consistent approach to planning and reporting, day to day decision making and financial planning.

Ardenglen encourage a culture where staff, managers, Management Committee members and other volunteers can provide constructive challenge to the business plan and associated assumptions.

In terms of Risk Management, we consider the financial assumptions (and in particular assumptions on long term rental income) which support the business plan as the most significant risk facing Ardenglen. If these are wrong, the outcome can be catastrophic.

The Institute of Internal Auditors define internal auditing as:

*“An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”*

Given its criticality, we believe the integrity, robustness and in particular the financial assumptions of the 30 Year Financial Plan should be independently tested and subsequently independently reported to the Management Committee on at least a 3 Year cycle.





The Past,  
Present &  
Future

4

## 4. ARDENGLLEN: PAST, PRESENT AND FUTURE

*"Don't spend your energy defending yesterday. Instead, spend your energy exploiting today and the future"*

### 4.1 The Past

Ardenglen was formed in 1990, thanks to the dedicated efforts of local tenants who were determined to bring change to their local area and to be in control of the improvement and management of their homes.

Recognising our mutual strengths, Ardenglen merged with another local housing provider in 1996 as well carrying out a successful stock transfer of a further 200 properties from Glasgow City Council that same year.

In 2009, Ardenglen completed the successful Second Stage Transfer of 285 properties from the GHA.

From humble beginnings, Ardenglen has therefore grown to an organisation with annual turnover in excess of £3.6m, owning and managing nearly 1,000 properties in East Castlemilk costing in excess of £50m to build or improve.

Ardenglen owns its modern office premises, has substantial cash backed reserves, over 25 years of experience working in the local area and has a stable and experienced staff team with an average 13 years service with the organisation.

We also provide commercial and shop accommodation, offer factoring services to local house owners and deliver a variety of regeneration activities.

A high level of satisfaction with our services has accompanied growth, with our most recent survey in 2016 confirming 96% of tenants satisfied with Ardenglen as their landlord (Scottish Average 89%).

We pride ourselves on being an innovative market leader. For example, Ardenglen were the first Community Based Housing Association in Scotland to be awarded Investor in People (IIP) status.

Ardenglen therefore has a stable and long established infrastructure geared to the delivery of high quality services, putting customer service and community control to the fore.

### 4.2 The Present

*"A service is not quality because it is difficult to deliver or costs a lot of money. This is incompetence. Customers pay only for what is of use to them and gives them value. Nothing else constitutes quality."*

As an organisation, we are fully aware of "our place in the world" and how our strengths are very much linked to continuous improvement in performance, a focus on customer service and an intense commitment and local knowledge of our area.

We are committed to our local area and the people we serve through focusing on local issues and concerns and developing quality homes and services. In particular we;

- Deliver all we promise
- Are open, honest and forward thinking
- Put customers at the centre of our work
- Strive to continually improve the quality and value of services to tenants
- Listen to and support tenants and staff, actively involving them in shaping the future of our area
- Work in partnership to achieve a safe, active and positive community

Since our formation, Ardenglen has built over 400 quality homes. We have transformed the local environment and created a fantastic variety of house types and sizes, including many properties adapted for disabled tenants or their family members.

As a not-for-profit charitable Housing Association, all of our surpluses are retained for the long term benefit of existing or future tenants. We strive to keep our rents affordable and have a viable financial plan to ensure we continue to maintain our properties to the highest possible standard.

We also recognise, that although incredible progress has been made to complete the physical regeneration in the East of Castlemilk, the 2016 Scottish Index of Multiple Deprivation confirm our area of operation is still ranked in the top 5% most deprived in Scotland. Most of our residents have limited incomes and nearly 75% of our community remain dependant on benefits of some kind.

As the only organisation working exclusively in the local area, the challenge to Ardenglen is how to attract and connect those agencies with the skills and resources to ensure physical renewal is mirrored by social renewal.

In recognition of this, in 2012 we carried out some substantial restructuring of Ardenglen to reflect this changed agenda. We believe this additional focus on regeneration activities is supported by our tenants and other stakeholders and is a positive reaction to the unprecedented economic pressures being applied to our local community.

While our long term aim is to contribute to the wider social objectives of sustainable communities, delivering this against the uncertainties created by the UK government's radical welfare reform agenda and the current economic climate, will continue to be a difficult balance.

### **4.3 Ardenglen for the Future**

***"There is nothing as useless as doing efficiently that which should not be done at all"***

The Ardenglen of the future is going to be very different from what we know today. It has to be. How else can it meet the challenges of ever rising expectations of service quality and value for money?

For our customers, they will see an Ardenglen that is agile and responsive; able to change to meet changing needs; able to deliver services efficiently and effectively and able to take account of people with disabilities or special needs. They will see



an Ardenglen that engages with them and involves them and most importantly, they will see Ardenglen as “my housing” rather than “the housing”.

Ardenglen’s main asset will be its information, which it manages effectively and makes available seamlessly and securely to any staff member that needs it. Quality information will drive every decision, with traditional departmental barriers broken down as information flows and is available to all throughout the organisation.

The skills of our people will change, moving for example, away from the traditional art of writing papers and reports and conforming to a culture of formal meetings, toward the new skills of writing for new media, blog, wiki, video etc.

It will be much more of a virtual organisation, engaging with customers and partners more closely through the Web; services may be largely self-serve delivered at a fraction of today’s costs with traditional functions re-examined to reflect the changes towards electronic access.

There are likely to be enormous changes, but nothing is really new – examples of every element can be found in housing associations and the service sector in general – the only difference is bringing it all together.

Achieving these changes will need strong leadership, to let employees become innovators, challenge the way we do things, taking risks and being rewarded for success. It will also require Leadership with vision to take that success and apply it throughout Ardenglen and then to demand more.

We want to empower our employees at every level to say *“I think there’s a better way of doing what we are trying to do”* and support them to deliver their ideas. We must be bold enough to acknowledge there are lessons to be learned and recognise and utilise the abilities of our people and technology.

However, in our increasingly virtual, global and fast-paced world, perhaps the most exciting fact is that localism still matters. Arguably, it matters more than ever. Ardenglen is a vital community anchor and enjoys the greatest of challenges, from housing an individual who has been involved in a life changing industrial accident, right through to managing and maintaining housing for generations to come, and providing opportunities to inspire the next generation of “Ardenglen citizens”.

Every industry is changing, some more radically than others and the housing association sector is no different. We must understand the challenges and opportunities that are borne out from societies and government demands and most importantly of changing organisational structures and systems brought about by new technology.

We must also acknowledge that our previous insulation from economic uncertainty has been largely stripped away and the supportive political climate we have enjoyed over many decades is altering, as government dictate an agenda to reduce public sector spending.

Whether we like it or not, we are part of the Scottish and UK government’s value for money and welfare reform agenda and we will be under pressure to do more with less, to be more efficient, to eliminate waste. We can either choose to do this through the traditional methods of simple cost cutting or making service “tweaks” or alternatively embrace a more radical long term agenda and have a complete rethink of our housing systems and how we deliver services.

Good service will always results in lower costs. Services will therefore require to be re-designed around what matters to customers and management's attention will change away from simply looking at "costs" and instead focus on the cause of costs. It involves taking a fresh look through the eyes of our customer's at our services as a system and designing policies and procedures to deliver that system in the most efficient way.

We must also consider the global growth of Participatory Budgeting, which has the potential to empower and energise communities and to transform and strengthen opportunities for Ardenglen "citizens" to democratically participate in local decision making.

Our 5 year change plan acknowledges that simply put, we cannot expect to keep doing the same things that were done last year and the year before that, but expect different results!

The task is therefore to merge the opportunities presented, while preserving our unique local status and values which have made Ardenglen so successful over the past 28 years.

This will not be easy!

#### **4.4 A Going Concern**

The Financial Reporting Council, Practice Note 14 (Housing Association Audit) states that:

*"The Board of a Housing Association is responsible for assessing the ability of the Housing Association to continue as a going concern. The Board's assessment should be documented and rigorous in nature. The Board's process supporting its assessment should be proportionate in nature and depth depending upon the size, level of financial risk and complexity of the Housing Association and its operations"*

Our Management Committee have considered the short, medium and long term financial plans with both our Auditor and Financial Advisor and have reasonable expectations that Ardenglen has adequate resources to continue in operational existence for the foreseeable future. These are documented in our Annual Audit, 5 Year Financial Returns and 30 Year Financial Plan.

With regard to non-financial assessments: our Scottish Social Housing Charter outcomes, Governance criteria, Tenant Satisfaction and national benchmarking data are all extremely positive, along with constructive lender and other stakeholder relationships.

Our Management Committee and Senior Officers recognise they are only temporary guardians of Ardenglen and must always consider how best to sustain the delivery of our business purpose, manage risk and protect the interests of current and future beneficiaries.

This may include future consideration of options such as:

- Mergers, amalgamations or transfer of engagements
- Service or cost sharing groups, strategic alliances
- Further group structures

We have had no approaches, nor sought any discussions with local, Glasgow or national Housing Association's with regard to mergers or amalgamations. We do however, continue to work closely with local and wider partners to seek value through service or cost sharing in areas such as procurement or development and believe this has real opportunities to further reduce costs.

Such considerations must always be linked around how best to achieve our objectives and deliver value, efficiency and quality services for current and future tenants. We acknowledge Ardenglen is part of a changing environment and key to this is effective risk management, which must itself be linked to strategic outcomes and consider both current and future risk.

In particular and because we are aware it will happen in the short term, we recognise the risks associated with a Senior Officer, leader or experienced Committee members leaving Ardenglen, but believe we have robust plans and procedures to deal with such eventualities.

Change happens in every business and we strongly believe that leadership, either professional or voluntary, is firmly linked to organisational values, which in Ardenglen's case have been built over 30 years of operating in a challenging national and local environment. Values do not leave an organisation with leadership change and indeed can often be refreshed and invigorated.

Ardenglen has experienced significant organisational and operational change over many years, which have always been focussed on the objectives of achieving better tenant outcomes and being as efficient as effective as possible. We have no fear of change, but will always assess this against these objectives.

The justification for any merger or amalgamations is simple; the creation of a larger but leaner and more efficient business that is able to deliver high levels of customer service to tenants at a lower cost and develop a greater number of new homes.

Our situation is different. We have already embraced lean and systems thinking, we have a commitment to the VfM agenda and our high quality services and customer satisfaction levels are being delivered well within the financial benchmarks of larger organisations. A crucial mitigating risk factor is that we have run out of land and despite a desire to construct and assist national house building objectives, as things stand, we simply cannot build new homes.

Having assessed Ardenglen's risk maps, our current and future financial position, as well as our non-financial outcomes, reputation and stakeholder comments, the Management Committee and Senior Staff believe our future aspirations and the safeguarding of tenant's interests are currently best met by Ardenglen continuing as an independent organisation.

While acknowledging the risk of leadership change, we do not believe this is structurally significant enough to merit the major costs involved in reviewing our position as an independent organisation, particularly as the Association has invested considerable resources in producing an independently assessed 30 Year Financial Plan.

Indeed we believe Ardenglen is a success story that demonstrates smaller community controlled landlords can outperform other social landlords and that being local, we can achieve more efficient services and better outcomes for tenants.





Operational Environment	5
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## 5. OPERATIONAL ENVIRONMENT

*"The only thing we know about the future is that it will be different."*

### 5.1 The Challenge

It is vital we understand our current operating environment and be clear and focussed on the changes to that environment going forward.

Our analysis confirms the environment remains challenging and we believe this will continue for the life of this plan. In particular, many tenants are facing increasing hardship as benefit reductions and higher daily living costs erode incomes. This may have a subsequent negative effect on our traditional high levels of rent collection.

### 5.2 SWOT Analysis

The SWOT diagram below shows the strengths, weaknesses, opportunities and threats faced by Ardenglen over the period of the plan.



### **5.3 PEST Analysis**

As part of the exercise to analyse our operating environment, we involved and consulted our board members, managers and customers. This has helped us to identify the key political, economic, sociological and technological factors affecting Ardenglen.



### **5.4 Our Strengths in Challenging Times**

***"Put the customer first by recognising that a single pound spent on achieving the right things is worth far more than a pound saved on delivering the wrong ones"***

The key threats identified through SWOT and PEST revolves around economic uncertainty and the increasing impact of Welfare Reform. Staff, Committee and customers have faced up to this unprecedented economic climate and there is little doubt there is more of the same to come.

We acknowledged early on that simply doing the old things slightly better is no longer an option and this is recognised in our planning process. Innovative and

efficient ways of working, incorporating ideas such as Systems and Lean Thinking are the way forward if Ardenglen is to continue with its long and successful journey.

The Management Committee and Senior Management Team have carried out a detailed assessment of the impact on the business of this environment and are taking robust steps to manage and mitigate risks.

In particular, in 2012 Ardenglen commissioned Arneil Johnston Consultants to deliver a joint Asset Management Strategy and Business Planning Model. This has allowed the Management Committee to be confident that future decisions are based on hard evidence and that previous financial assumption have been updated and critically modelled. The ability for detailed scenario planning has also allowed Ardenglen to model funding solutions to support future housing developments and the risks associated with the Cathkin Braes Activity Centre as detailed in Chapter 7.

This work included additional stock condition and resident surveys. Based on this feedback and other analysis, we completed a thorough review of our business and financial strategy to sustain and improve the Association's long-term viability, operational performance and value for money.

A long term change plan, "*Ardenglen for the Future*" was developed to recognise that substantial structural, cultural and innovative change was required to meet the current and emerging political, environmental and social changes which were sweeping our sector.

We have also worked hard to direct resources to front counter, customer value services and to re-focus on the delivery of the wider, community regeneration agenda.

## **5.5 Our Competitive Advantage**

Despite the current difficult operational climate, Ardenglen is strongly positioned to make the most of opportunities as they arise. We have:

A strong track record of successful service delivery, with excellent local knowledge and well established, strong relationships and partnerships with Glasgow City Council, funders, developers and other stakeholders

A high value asset base with nearly 45% of the housing stock constructed within the last 15 years

Substantial unmortgaged property assets

SHQS requirements have been met

An innovative, committed and resourceful team of staff and Committee members

A growing partnership with residents to make sure our resources focus on doing what matters to them and that our activities produce the right outcomes

An evolving approach to continuous improvement and leadership, based on Systems and Lean Thinking principles of listening to customer demand, getting it right first time and giving the staff closest to customers the skills and powers to change our systems



## **5.6 Demand for our Services**

Demand for affordable housing in our operational area remains stable, with Ardenglen continuing to see strong waiting list applications, including a significant increase in ethnic minority applicants. At 1<sup>st</sup> April 2016 the waiting list was as follows:

<b>Property Size</b>	<b>Waiting List Numbers</b>
2 Apt	164
3 Apt	165
4 Apt	108
5 Apt	52
6 Apt+	9

In 2016 Ardenglen adopted a Housing Options approach to allocations which helps people make informed choices and helps prevent homelessness. Housing Options involves a face-to-face interview, which gives applicants a proper chance to have all relevant information recorded and avoids the completion of a lengthy housing application form. Staff then give advice about all the local housing opportunities available, based on individual applicant's personal circumstances and may include advice about other social landlords, private landlords; landlords that offer mid market rented tenancies and even owner-occupation.

During the 1 hour interview, we also offer to help sort out any current non housing related difficulties, including financial or personal support advice. Applicants are then issued a written Action Plan which records the options available and any specific actions the applicant may need to take.

While overall waiting list numbers have dropped slightly, Housing Options has led to "targeted" letting, with fewer refused offers and improved sustainability of tenancies.

Although Ardenglen has historically high annual turnover rates (average 8%), exit interviews confirm this is predominantly linked to social issues (including mortality rates) rather than property, neighbourhood or service concerns. This is confirmed by the low lost rent void rate (0.15% against the Scottish average of 1.3%).

Ardenglen has seen an increase in Mortgage to Rent Applications and will continue to support this initiative, where this represents a positive addition to our Business Plan.

The effects of the economic situation and welfare reform agenda have resulted in a significant increase in demand for welfare rights and debt services. Ardenglen have long considered this a "core" service and this is fully funded within the Business Plan without grant support.

The impact of the Bedroom Tax and Universal Credit, including the possibility of direct payment to households, will require additional resources to be directed towards the collection of income and the provision of advice services.

Ardenglen continue to have high demand for disabled adaptations which we believe should be supported given the positive cost benefit of an individual remaining in their home rather than hospital or supported accommodation.

The closure of many important community projects has left a significant gap which Ardenglen is attempting to fill. There is little doubt that the role and demands of being a Community Anchor will continue to expand and we will continue to work with partners to find resources to support this non housing, but vital community service.

## **5.7 Our Community**

The 2016 Scottish Indicators of Social Deprivation (SIMD 16) indicate that approximately 3,000 people live within our area of operation. SIMD 16 also confirms that all of Ardenglen's stock falls under the most deprived 5% in Scotland.

There is high dependence on benefit support and indeed 70% of our stock lies within 3 Data Zones ranked 103, 115 and 171 in terms of the Scottish Governments revised deprivation indicators, where the least deprived data zone is ranked 6,976.

<b>SIMD Data Zone</b>	<b>SIMD Reference</b>	<b>Overall SIMD Rank</b>	<b>Population</b>
Glenwood South (part)	SO1009978	171	1020
Glenwood South (part)	SO1009979	221	534
Glenwood North (part)	SO1009983	115	669
Glenwood North (part)	SO1009985	103	624

"Deprived" does not just mean "poor" or "low income". It can also mean people have fewer opportunities, for example in health or education.



The Welfare Reform Agenda has resulted in the most radical shake up of welfare in over a generation and has had a clear impact on our community. The overall effect of Universal Credit will continue to further reduce the stretched incomes of the least well off households and may also have a significant negative impact on the income of Ardenglen and on our operating costs.

Far from being an area of despair and desolation, our community, however, is one with a strong and solid sense of purpose. There is a high level of voluntary working



and the community has generally welcomed, supported and integrated well with a significant increase in the number of residents from different ethnic backgrounds.

Ardenglen's purpose is "*Investing in our Community*". This means we are not only concerned with providing and managing housing, but also supporting and developing our local community.

Our Key Objectives therefore focus on community investment in terms of building community skills and knowledge, the untapping of local assets, building community capacity and developing a sense of coherence.

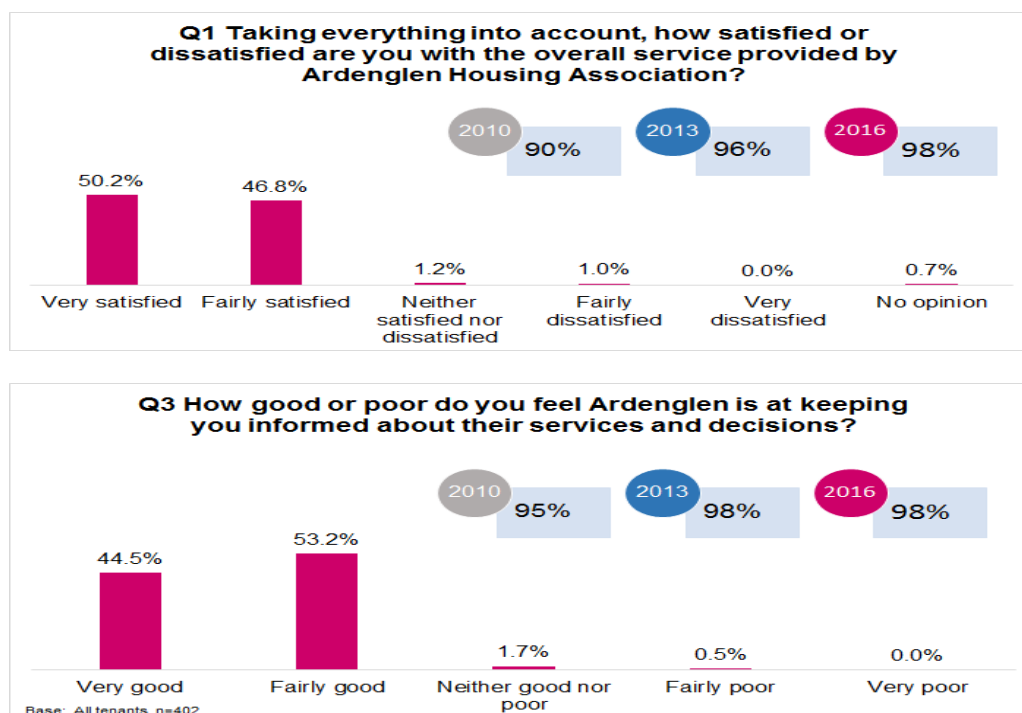
We are working hard to support the community to become more involved in addressing neighbourhood issues and to influence decisions and working to develop partnerships to create greater engagement in initiatives such as positive health and behaviour change.

## 5.8 Our Customers

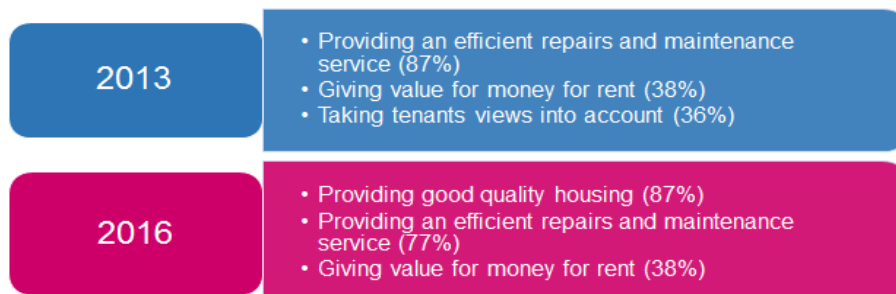
Our customers are why we exist and are our most important stakeholder group. In all we do, we remain absolutely dedicated to the customers we serve, recognising that they too are living in a changing world.

We acknowledge that our customers want superior services, faster responses and real value for money. Continuously improving customer service is critical to delivering higher levels of satisfaction and this plan outlines our methods for achieving this. In doing so, we will build on the wealth of knowledge we have about our customers.

The 2016 satisfaction survey confirmed that 98% of tenants were satisfied with our overall service and over 98% with how Ardenglen communicated with them. There was also very high satisfaction with our management of neighbourhood and support for Ardenglen's regeneration aims.



We asked customers to highlight their key priorities and as a result will continue to build services and outcomes focussed around providing quality housing, efficient repairs and maintenance and continuing to give value for money.



The provision of decent, affordable homes appropriate to the needs of residents is at the core of Ardenglen's purpose, but we must remain aware that customers' demands for increased choice, coupled with ever more flexible services personally tailored to individual needs and aspirations, also present us with operational and logistical challenges. All of these issues are built into our plans and financial projections.

Our customers are the essential part of the community we serve and we will continue to support their wider needs through our regeneration activities, aimed particularly at reducing inequalities, preparing them for work and developing constructive local activities in our area.

## **5.9 Other Key Stakeholders**

Stakeholders are those who affect or can be affected by Ardenglen's actions and it is therefore vital that we are confident that our strategic direction will be suitable, feasible and acceptable to them.

- **Volunteers:** Many of our primary customers are also secondary customers in terms of the support they offer the Association and their local community through voluntary activities.
- **Staff:** The Staff team have gone through significant structural change over the past few years and it is to their credit that service satisfaction has been maintained. The introduction of revised Personal Appraisal Plans and Competency Framework has further helped direct skills and training with a priority on customer service. Communication is vital and staff are given every opportunity to contribute towards strategic planning and desired outcomes
- **Lenders:** Ardenglen maintains good relationships with lenders. For example, we were able to arrange a £3.4m loan with RBS for the SST Acquisition, right in the middle of the banking crisis. This was agreed without significant covenants. The Association has a strong cash flow and does not envisage requiring additional long term borrowing in the near future.
- **Scottish Housing Regulator:** Ardenglen fully supports the objectives identified under the Scottish Social Housing Charter and believe our strategic direction and key objectives fully reflect this agenda.
- **Scottish Government:** Ardenglen recognise the efforts required to meet the national funding crisis. There is a danger however, of this becoming the sole

driver for the entire housing agenda and we have real concerns that the current housing crisis will rapidly increase over the next few years. Again the Scottish Government's growing emphasis on self improvement and customer service is reflected in our key objectives as is community engagement and regeneration.

- **Glasgow City Council:** Again we recognise the funding crisis has resulted in many services being scaled back. Unfortunately many of these are vital to our community and have had to be picked up by the Association. We see little likelihood of this situation improving in the short to medium term. Generally however, Ardenglen's relationship with Glasgow City Council is positive and our objectives fully supported.
- **Regeneration Partners:** We work with a huge number of partners to deliver our regeneration programmes including: Glasgow Life, NHS, Glasgow Science Centre, Clyde College, Jelly Piece, Kelvin College, One Parent Families Scotland, Urban Roots, Jobs Business Glasgow, WEA, Local Schools, Job Centre+, and GHA.
- **Suppliers:** The Association has made every effort to develop partnering agreements and have many long term suppliers who have worked with Ardenglen for many years. We believe such arrangements develop clarity and a clear expectation of the standards expected.  
The Procurement Act (Scotland) 2014 has however required a review of maintenance delivery and we are currently preparing tendering documentation to appoint a single reactive repair contractor.
- **Fair Deal:** Ardenglen have a key strategic partner in Fair Deal who provides support services for people with learning difficulties. Ardenglen previously provided Fair Deal with Financial Services as well as housing a number of Fair Deal clients.
- **Police Scotland:** Joint working and intelligence exchange has proved vital and has resulted in an award for a recent joint project.

## **5.10 Future Flexibility**

The Business Plan is prepared against the dynamics of an ever-changing and always challenging business environment and sets out Ardenglen's strategic direction, guiding principles and ambitions for the next 5 years and our financial position over the next 30 years.

We recognise that in a fast moving world, it is vital to keep the infrastructure of our businesses, as well as processes, protocols and controls, under constant review. We are confident that our planning, management and performance processes have the agility and flexibility to respond to a volatile and uncertain environment, which is likely to continue throughout the Plan period.





Operational  
Infrastructure

6

## **6. OPERATIONAL INFRASTRUCTURE**

### **6.1 Office Premises**

Ardenglen deliver services from our custom built premises at 355 Tormusk Road. Located right in the heart of the community we serve, this modern office delivers a high quality customer experience and first class working environment. The office is also used by a number of partner agencies to deliver training, wider role and community development opportunities.

### **6.2 ICT Systems and Development**

The Staff team is supported by modern ICT systems and a proven housing software platform. This was further enhanced in 2012 with the full integration of finance and asset planning onto the same platform.

We recognise that the development of ICT and associated performance information and management systems is the key to the future development of services and the wider efficiency agenda. "*Ardenglen for the Future*" was a 5 Year Change Plan which embraced a radical long term agenda to re-think our housing systems and how we deliver services. This has included how information is managed, stored and made available seamlessly within and outside the organisation, as well as developing Lean (System Thinking) working practices.

ICT, data storage and information sharing are directly linked to service delivery and continuous improvement and will remain a priority for ongoing and future investment.

### **6.3 Our People**

Ardenglen influences many lives through the quality of homes and related services we provide. Investing in homes and our community leaves a legacy to subsequent generations.

Our staff and volunteers have significant power in the work that they do; providing a home or a related service often enables customers to build or rebuild their lives. This power carries a responsibility to do the best possible job for current and future generations. We want all of our people to show curiosity and innovation, to be creative when dealing with complex issues and to take ownership of problems so that the customer experience is always a positive one.

We provide every person with clear job competencies and a set of values and behaviours which create the context of how we work. These values define how we interact with each other and the attitudes we adopt towards our customers. We strive to make Ardenglen a good place to work, but in return expect an absolute commitment to the values of the organisation.

Our staff team has been re-organised to support improved service delivery and to ensure maximum resources are targeted at customer facing "front counter" services. In particular, our customers tell us that Repairs/Maintenance is the key driver of tenant satisfaction.

We subsequently "merged" our core services of maintenance, front counter and housing management into one overarching Housing Services department, under the strategic control of the Head of Housing. This has further improved joined up

working, and provides a strategic reporting framework, linked directly to continuously improving our Charter and customer service outcomes.

Our experienced Senior Management Team has an average of 16 years service with the Association and is well placed to take on the challenges of the changing environment we are now working in.

The Staff Structure Plan is detailed in Appendix A.

## **6.4 Our Governance**

Our Management Committee takes the lead on setting the values and strategic direction of Ardenglen. This is done within a framework of sound governance, continuous improvement and prudent and effective control which enables risks to be properly assessed and managed.

In 2013 we completed a comprehensive review of our governance arrangements to improve the efficiency of decision making and to streamline our reporting structures to focus on customer outcomes, finance and risk.

Individual Committee members are appraised and the effectiveness of the committee as a whole evaluated on an on-going basis. Appropriate learning and development opportunities are provided for members to update their skills.

We recognise that we need a wide range of skills and experience to be able to maintain effective governance. Some strengthening of the Committee with regard to commercial acumen would assist, as we move forward with our regeneration agenda. We have also implemented a robust succession plan to refresh skills and ensure a continuity of leadership for the future

## **6.5 People Development**

***"Knowledge has to be improved, challenged, and increased constantly, or it vanishes"***

Ardenglen was the first Community Based Housing Association in Scotland to be awarded Investor in People status, which we continue to retain. The Association has a well developed Employee Personal Development format which ensures staff development and training are directly linked to the delivery of strategic and operational objectives.

A Competency Framework forms the basis of a Personal Appraisal Plan (PAP) process which is linked to develop career progression and advancement within the organisation.

## **6.6 Equality and Diversity**

We are committed to achieving a working environment which provides equality of opportunity and freedom from unlawful discrimination on the grounds of race, sex, pregnancy and marital status, gender reassignment, disability, religion or beliefs, age or sexual orientation.

We also aim to provide a service that does not discriminate in the means by which our customers access our services. We aim to remove unfair and discriminatory practices and encourage a full contribution from our diverse community.



## 6.7 Our Housing Stock

At 1<sup>st</sup> April 2016 the Association's rented housing stock totalled 956 dwellings. The stock consists of predominantly house and flatted property archetypes. We do not have any non-traditional properties.

<b>RENTED HOUSING STOCK BY APARTMENT SIZE (as at 1<sup>ST</sup> April 2016)</b>						
<b>Size</b>	<b>House</b>	<b>Tenement</b>	<b>4 in a Block</b>	<b>Other Flat</b>	<b>Total</b>	<b>Average Weekly Rent £</b>
<b>1 Apt</b>	<b>0</b>	<b>40</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>43.34</b>
<b>2 Apt</b>	<b>0</b>	<b>76</b>	<b>0</b>	<b>69</b>	<b>145</b>	<b>65.10</b>
<b>3 Apt</b>	<b>91</b>	<b>342</b>	<b>6</b>	<b>79</b>	<b>518</b>	<b>71.42</b>
<b>4 Apt</b>	<b>79</b>	<b>124</b>	<b>0</b>	<b>6</b>	<b>209</b>	<b>79.79</b>
<b>5 Apt+</b>	<b>42</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>44</b>	<b>90.81</b>
<b>Total</b>	<b>212</b>	<b>584</b>	<b>6</b>	<b>154</b>	<b>956</b>	<b>72.01</b>

406 (42%) of the total stock is new build, constructed through the Association's development programme between 1994 and 2012.

The remaining stock is fully improved and refurbished former Glasgow City Council properties, most of which were constructed in 1956 – 1958. There are also a small number of older 1940's properties acquired through the Mortgage to Rent Scheme.

<b>RENTED HOUSING STOCK BY AGE (as at 1<sup>ST</sup> April 2016)</b>						
	<b>Pre 1919</b>	<b>1919-1944</b>	<b>1945-1964</b>	<b>1965-1982</b>	<b>1983-2002</b>	<b>Post 2002</b>
<b>Total</b>	<b>0</b>	<b>6</b>	<b>544</b>	<b>0</b>	<b>237</b>	<b>169</b>

The Association has a wide variety of apartment sizes, including some large properties built specifically for large extended families, some of which also include significant alterations for disabled family members.

## 6.8 Shared Ownership and Factoring

Ardenglen remain part owners in 10 shared ownership properties, a residual number from three larger shared ownership projects, where these remaining shared owners have been unable to afford to tranche up to full ownership.

Ardenglen currently factor 13 properties. These were primarily part of the SST from the GHA. Ardenglen has no plans to expand our factoring services to other owners in the area.

## **6.9 Commercial Properties**

Ardenglen owns six commercial shop units within a recognised “village centre” next to our office. These well used local facilities deliver a variety of services including a post office, solicitors, grocers and other retail outlets. These have been fully let since 2001 and currently generate approximately £36,000 of annual rent.

Through our subsidiary Ardenglen Developments, Ardenglen sub lets office space to Fair Deal, a locally based care provider. This generates approximately £27,000 of annual rent.

## **6.10 Community Engagement & Participatory Budgeting**

***"The most important thing in communication is to hear what isn't being said."***

We are committed to being open and transparent about the activities we undertake, how they are planned and funded, the policies and strategies that guide our work and the governance and decision making arrangements that support this.

We recognise the importance of Value for Money to our customers and will continue to develop innovative ways to show that in delivering our strategic objectives we make the best use of our assets in a cost effective, customer focussed and efficient way.

We are therefore particularly interested in the evolvement of Participatory Budgeting (PB) in Scotland which has the potential to empower and energise communities and to transform and strengthen the relationship between citizens and all levels of government and public services, including Housing Associations.

Started in Brazil in the late 1980's, at its core PB is about allocating money to support and shape services that matter to citizens. PB clearly links to the Scottish Governments National Standards for Community Engagement and we believe offers real opportunities for local people to have a direct say in how and where Ardenglen spends its funds to address local requirements.

PB is one method which can be used alongside other models of community engagement and empowerment as part of a wider strategic approach to advancing participatory democracy. A participatory democracy is a healthy democracy, in which people have influence over what happens to them, their families and their communities. When people are engaged in community life, they are more likely to experience positive health and life outcomes. Community empowerment and a deepening of participatory democracy are essential in redressing the inequalities that exist within our society

We therefore intend to examine PB within a wider review of community engagement and regeneration activities, with the aim of further improving democratic participation, better services and better outcomes for our community.







## 7. REGENERATION

*"The "non-profit" institution neither supplies goods or services not controls. Its "product" is neither a pair of shoes nor an effective regulation. Its product is a changed human being. The non-profit institutions are human-change agents. Their "product" is a cured patient, a child that learns, a young man or woman grown into a self-respecting adult; a changed human life altogether."*

### 7.1 Our Regeneration Strategy

Over recent years, the policy debate around regenerating communities has focused on the importance of engaging communities in the decisions that affect them. The Christie Commission in 2011, called for building services around people and communities – and a focus on prevention and early intervention.

The Scottish Government's 2011 Regeneration Strategy set out plans for a stronger focus on community-led regeneration; empowering local residents; and supporting community organisations that can anchor long term sustainable change.

At the GWSF Conference 'More than Bricks and Mortar' in May 2013, the Minister for Local Government and Planning, Derek McKay MSP said:

*"The Scottish Government recognises the critical role that community controlled housing associations can play in delivering a wide range of better outcomes in our neighbourhoods."*

The Castlemilk population has fallen dramatically from a peak of around 37,000 people in the late 1970s, to a projected range of between just 12-14,000 people. With this steady population decline, Castlemilk has also lost a host of integrated services from an extensive range of providers.

Ardenglen now finds itself the only organisation operating "exclusively" in our area; we have become a community "anchor" organisation and are committed to addressing vital "non-housing" issues. We also recognise that although we have contributed successfully to the physical regeneration of the East of Castlemilk, our entire area of operation is still ranked in the top 5% "most deprived" in Scotland (SIMD 2016).

Ardenglen's mission statement is *"Investing in our Community"*. This means we are not only concerned with providing and managing housing, but also supporting and developing our local community.

Our Regeneration work now forms a core part of the business, aimed at filling gaps in service provision and address issues identified by the community. In particular, our activities build upon an already strong sense of community, encourage participation and integration and so help to sustain tenancies.

Our Regeneration work therefore helps us achieve the following Strategic Goal and Operational Objectives:

"Investing in homes and our community"

- Commit resources to improve the health, safety, life chances and vibrancy of our community
- Commit resources to assess the viability of building more homes

The Scottish Government issued an information paper in November 2010 which identified key learning points amongst regeneration practitioners. Ardenglen adopted these for the purposes of developing and reviewing our own regeneration initiatives and believe they are still relevant today:

1. **Strategic Planning** involves setting clear objectives, gathering evidence to support taking action and building in an on-going review process.
2. **Partnership Working** is built on the recognition that working in isolation is not an option.
3. **Measuring Impact** is about establishing a baseline position against which to measure progress (or "return") and justifying investment through clearly delivered outcomes.
4. **Funding and Sustainability** highlights that RSL's must become better informed to exploit funding from a wide range of sources (including in-house commercial expertise).
5. **Learning from Others** is about networking which can add credibility to the strategic planning stage and is an increasing focus of funders.

Using this methodology, the Association develops an annual **Regeneration Action Plan** and associated budget, which is the working tool through which our proposals are prioritised and against which progress will be monitored.

This is approved annually by the Management Committee, with quarterly reports on the individual progress and outcomes of the various projects

There is an underlying presumption that external funding and partners will be sought in respect of most projects. However, to justify and secure repeat funding of our activities, we must continue to demonstrate that the projects we support have a measurable impact and that they have been developed and reviewed through on-going consultation with the local community.

## **7.2 The Maureen Cope Community Hall (MCCH)**

Our Regeneration activities are currently delivered from the Maureen Cope Community Hall (MCCH) the former church hall of St Martin's Church. It is let from the Archdiocese of Glasgow at a peppercorn rent of £200 per month. While repairs have made the building safe and welcoming, due to its age it does not have a long term sustainable future.

The MCCH which is adjacent to the proposed CBAC site on Arden Craig Road is currently managed by the Ardenglen HA Social Committee who manages the

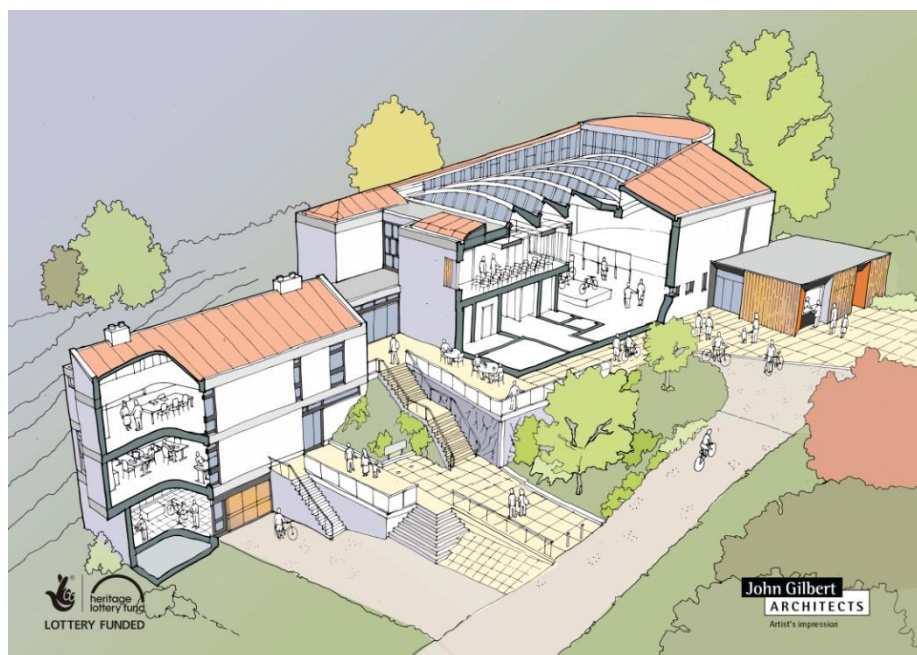
facility on a voluntary basis. This committee is supported by Ardenglen's Community Regeneration Team.

The facility comprises an event hall, an ICT suite and a kitchen. The hall is open 7 days a week from 9am to 9pm; however it can be open to midnight if the hall is booked for events or functions.

There are currently a large number of community and commercial activities which are held in the hall and for the purposes of business plan development, the assumption has been made that these activities will be transferred to and delivered from the CBAC when up and running.

### **7.3 The Cathkin Braes Activity Centre (CBAC): Introduction**

The former St Martin's Church was built in 1959-61 for the Archdiocese of Glasgow on a sloping site at the foot of Cathkin Braes in Glasgow. The building was designed by Gillespie, Kidd and Coia and is Category B listed, belonging to the post-war modern movement. It is a rare survivor of its type. The Church is now closed and has been deconsecrated and is currently redundant. It is on the Buildings at Risk Register and is owned by the Archdiocese of Glasgow.



In summer 2015, Arneil Johnston was commissioned by Ardenglen to develop a financial business plan to assess the viability of a community proposal to transform a number of disused local assets into the Cathkin Braes Activity Centre (CBAC). To support this, a financial modelling platform was developed to provide 10-year cash-flow projections of the business model associated with CBAC.

The aim of the project is to transform the former St Martin's Church, the large derelict site of five former multi stories (the locally iconic Mitchellhill flats) and the 2014 Commonwealth Games mountain bike track (located in Cathkin Braes Country Park) into a multi-purpose activity centre. This will involve the systematic repair and adaptation of the building to create a social, cultural and economic hub which



incorporates a café, community and cycling facilities and multi-purpose event space.

## **7.4 CBAC: The Project**

As well as Ardenglen, who commissioned the business plan study, the partners involved in the development of the CBAC include:



The Cathkin Braes Country Park has long been an under-used asset lacking a “gateway” building to connect the Park with its surroundings. The Mitchellhill Community Group was established with the support of Ardenglen. Its aim is to specifically consider the potential of the 2014 Commonwealth Games mountain bike venue (formed within Cathkin Braes along a route which passes adjacent to the proposed CBAC) as a catalyst for the ongoing regeneration of Castlemilk.

Since 2011, the dilapidated former church hall (renamed the Maureen Cope Community Hall) has acted as an incubator for the development of extensive local services managed by Ardenglen’s regeneration staff and volunteers. Its success (currently registering in excess of 1,000 visitors per month) has proven the need for larger, flexible space for the delivery of local community regeneration services.

Ardenglen engaged the Glasgow Building Preservation Trust to manage the specialist conservation process involved in delivery of the CBAC. It will acquire the listed building from the Archdiocese of Glasgow and undertake the conservation repairs and adaptations to convert the building. Upon completion, the building will pass to Ardenglen, who will manage it as a core tenant for the delivery of its regeneration services and work with key stakeholders to support the development and delivery of a variety of other strategic functions.

Glasgow City Council, as owner of the Cathkin Braes Country Park, will operate and maintain the associated car park and a new bike facility comprising a skills loops and extended tracks on the adjacent site of the former Mitchellhill flats. Glasgow Life (an arms-length external organisation of GCC), is responsible for securing funding for the delivery of the mountain bike trails and facilities.

The partnership, therefore, seeks to enable successful delivery of the CBAC in order to secure a range of community and strategic benefits ranging from:

- The redevelopment and transformation of a Category B listed asset on the Buildings at Risk Register;
- The further development and sustainment of a range of community regeneration services from a multi-purpose community Hub;
- The delivery of a diverse business model offering employment, volunteering and capacity building opportunities to local people; and
- The development of cycling infrastructure capable of delivering the recreation, tourism and health outcomes outlined in the Scottish Cycling Facilities Strategy and Glasgow’s Strategic Plan for Cycling.

## **7.5 CBAC: Capital Funding & Programme**

The capital works of the wider project comprise the conversion of the former St Martins Church into the Cathkin Braes Activity Centre; the formation of a car park in support of the use of the CBAC and Country Park; and the installation of mountain bike skills areas and additional trails in the Country Park.

The current cost estimate of the whole Cathkin Braes Activity Centre project is **£4,095,179**

The project will be funded by a number of organisations. A second-round HLF application has been submitted for £875,000 with the remaining funding coming from Glasgow City Council, Scottish Government, Ardenglen, Historic Environment Scotland and other Trusts and Foundations.

The Glasgow Building Preservation Trust (GBPT) is responsible for identifying and sourcing funding associated with the capital works for the conversion of the former St Martins Church and the installation of the Car Park by Glasgow City Council. Glasgow Life (an arms-length external organisation of GCC) is responsible for securing funding for the delivery of the mountain bike trails and facilities.

The anticipated Project Funding for the CBAC project is set out below:

<b>Anticipated Project Costs</b>	
<b>Scottish Government Regeneration Capital Grant Fund</b>	£1,000,000
<b>Glasgow City Council</b>	£980,000
<b>Historic Scotland</b>	£375,000
<b>Ardenglen</b>	£165,000
<b>William Grant Foundation</b>	£50,000
<b>Secure Funding</b>	<b>£2,570,000</b>
<b>HLF Grant</b>	£875,000
<b>The Robertson Trust</b>	£90,000
<b>Other Charitable Trusts</b>	£252,738
<b>Landfill</b>	£171,330
<b>Public Appeal</b>	£50,000
<b>Other Project Costs</b>	<b>£1,525,179</b>
<b>TOTAL PROJECT FUNDING</b>	<b>£4,095,179</b>

Development risk for the project will rest with the GBPT who will be the developer and client. Development risk for Ardenglen is therefore limited to the previously agreed purchase price along with the cost of furnishing the building.

Timescales for the project are dependant on successful funding from HLF, with an anticipated site start in September 2017 and completion in September 2018. The critical path is noted below:

Capital Programme Outline	2016					2017								
Item	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP
HLF Rd 2 Submission														
HLF Decision														
GCC Appoint ext consultants														
Permission to Start														
GCC Design Sign Off														
Stage E														
GCC Contractor Mobilisation														
Stage F														
Tender														
Site Start														

## 7.6 CBAC: The Business Plan

The primary aim of the CBAC business plan process was to engage with partners to produce a robust and credible business model and financial plan for the ongoing delivery of the CBAC. The project requirements set by Ardenglen to Arneil Johnston were as follows:

- Carry out consultation with the local community, mountain bike enthusiasts and other potential users to validate business plan assumptions around proposed services, design options and centre facilities;
- Liaise with the design teams working on the conversion of St Martin's Church and future development of additional bike tracks;
- Establish a service specification and outline scope of what the activity centre could deliver as a business;
- Establish a set of operating assumptions associated with centre usage and capacity levels;
- Build business case inputs and assumptions plus potential scenarios;
- Provide a business planning tool for the project and perform sensitivity and risk analysis to test scenarios which may impact on the risk profile of the project; and
- Present the business plan to the local community and project partners.

Business plan consultation came from predominately 3 sources: (i) cycling organisations, (ii) organisations who deliver facilities management or event spaces (both on a commercial and community basis); and (iii) potential partners and/or tenants that could potentially make a contribution to the management and maintenance of the centre.

The CBAC Business Plan is a highly detailed Financial Model, including risk analysis, and accompanying narrative, which also considers appropriate legal structures for the venture and is available as a stand alone Appendix.

Financial scenarios flowing from the CBAC Business Plan, assume that Ardenglen owns and manages the CBAC through a wholly owned subsidiary and that this means there will be a financial impact on Ardenglen's 30 Year Financial Plan. The financial assumptions of the CBAC Business Plan are therefore tested against Ardenglen's 30 Year Financial Plan and the outcomes are detailed in Chapter 12.

## **7.7 CBAC: Conclusions**

**Business plan scenario analysis concludes that the refurbishment costs of the building will require being fully grant funded, as the CBAC business plan cannot support revenue contributions to net capital shortfalls (e.g. repayments associated with borrowing to meet capital costs).**

Based on current business plan assumptions, the average annual income for the CBAC (over the first 5 years) is estimated at £159k, with average running costs of £151k per annum over the same period. Put simply, these cash flow projections indicate that the revenue costs associated with borrowing for a significant capital shortfall could simply not be afforded by CBAC.

In terms of risk, meeting additional borrowing costs as the result of a capital shortfall could jeopardise the viability of the Ardenglen business plan and its ability to withstand risks placed on the Association's core business.

On this basis, it is very unlikely that the Scottish Housing Regulator would support a proposal which (a) is not income generating in terms of a core Housing Association business; and (b) enhances the risk to a currently fundable Ardenglen 30-year business plan.

Therefore, having weighed up all considerations, Ardenglen's Management Committee agreed to proceed as lead agency for the CBAC only if the following conditions are met:

- That all capital costs for the project are confirmed;
- That the proposed additional mountain bike facilities are delivered;
- That the CBAC Business Plan assumptions are updated as changes arise; and
- Risk to Ardenglen's Business Plan are deemed acceptable
- That no legal commitments are to be entered into without formal SHR approval.

## **7.8 New Build Opportunities**

The Association is currently well advanced in the development of a 22 Unit new build for social rent project at Cathkin Braes Phase 7.



The site is the former football pitch of the demolished St Martin's School on Ardencraig Road. Although flat, the site has subsequently been discovered to have challenging geo-technical features and site capacity has subsequently been reduced from an original 36 unit development to the current design for 22 flats and houses.

The development will also include 3 wheelchair units for identified Ardenglen tenants requiring specialist re-housing.

The Association will require an element of private finance (estimated at around £1.8m) and the scenarios have been costed into the 30 Year Financial Plan and detailed in Chapter 12.

Unfortunately there are currently no further opportunities identified for future housing development.





Asset  
Management

8

## 8. ASSET MANAGEMENT

*"The most valuable assets of a 20th-century company were its production equipment. The most valuable assets of a 21st-century institution, will be its knowledge, workers, and their productivity"*

### 8.1 Asset Management: Approach

For Ardenglen, Asset Management is about ensuring that our homes are affordable and attractive to current and future tenants and are financially viable in the medium to long term. Managing Assets is therefore about investing in, maintaining and upgrading our properties and understanding the needs and aspirations of our customers.

The quality of decision depends on the quality of the evidence base. Knowledge is key and Ardenglen clearly cannot manage its assets effectively without extensive understanding of its characteristics and performance e.g. location, condition and demand.

In order to make informed decisions on investments and service development, the Association must identify the extent to which:

- Assets meet current and future housing need
- Shortfalls or surpluses in demand are evident
- Financial implications of management and investment are established

This approach requires a full understanding of the long-term financial value and performance of assets, and the use of quality information from a wide variety of sources to make strategic decisions about their future. In effect decisions must be evidenced based.



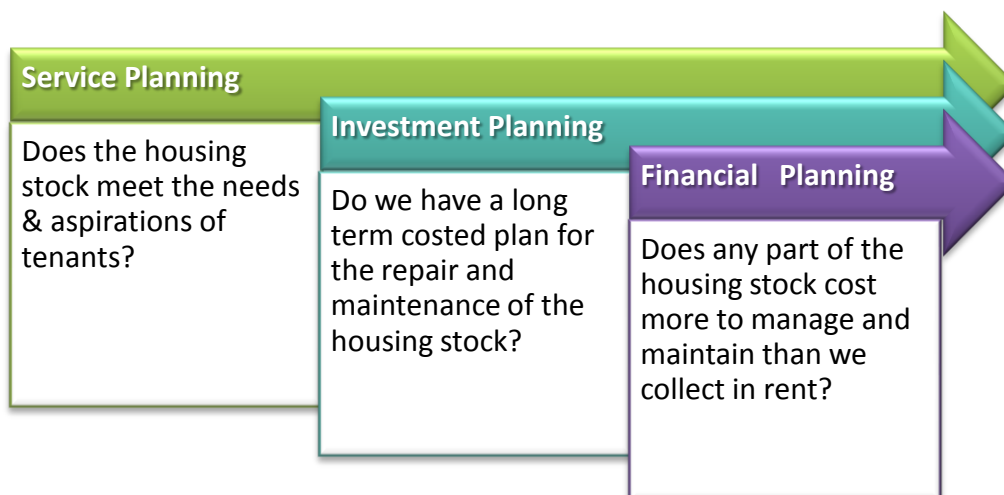
## **8.2 Asset Management: Planning**

Other assets, such as IT and staff resources, are covered by other strategic documents. Our Asset Management Plan therefore focuses primarily on stock assets.

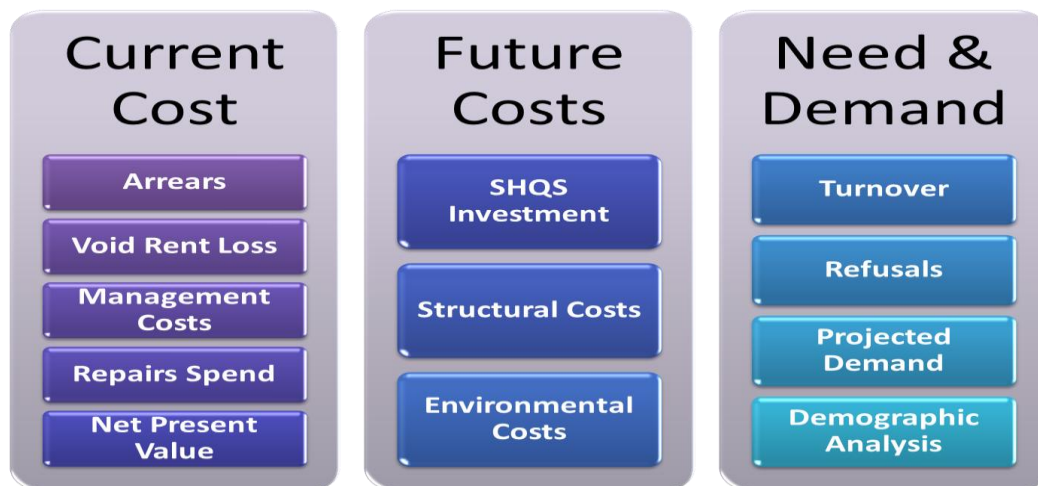
In 2011 the Association commissioned Arneil Johnston to develop a SMART Asset Management Model which would:

- Provide a comprehensive asset management data base in a standardised platform that can be regularly updated.
- Develop an asset management planning tool that will clearly identify the relationship between current and future demand, projected income and future investment requirements.
- Provide outcomes that able us to make future decisions on housing investment that can fed directly into our business planning assumptions and financial projections.
- Help ensure Value for Money in the management of assets both now and in the future.

The Asset Plan is therefore focused on all areas of asset performance and integrates into our 3 key areas of planning:



Each property is looked at both individually and by development phase, against 60 performance indicators assimilated and grouped into 3 main categories (plus a separate void analysis):



To assess asset performance, the Model then uses a scoring matrix system to indicate a fit for purpose score:

- A Five point traffic light scoring system:
  - 1-2 = Green
  - 3 = Amber
  - 4-5 = Red
- Benchmark scores for each indicator:
  - Average (of AHA performance)
  - Scottish housing sector performance

Using an evidence backed scoring process allows Ardenglen to:

- Use evidence of financial, service and management performance of stock to inform decisions on:
  - investment programme
  - performance management actions
- More effective management of housing assets
  - minimise resource costs
  - maximise value of positive assets

By using a scoring system we can ensure consistency between our business plan and asset management strategy which help ensure resources are used effectively and reduce the risk of longer term inefficiencies occurring.

### **8.3 Asset Management: Outcomes**

By presenting the data in traffic light colourings, it is possible to easily identify and visualise where significant issues exist and fast track strategic interventions to maximise the effectiveness of the resources available.

The process is aimed at assessing whether the existing asset profile is capable of enabling Ardenglen to deliver its strategic objectives both now and in the future. This also allows a focus on wider strategic issues such as regeneration master planning or community development initiatives to be targeted on specific areas.



<b>Overall Asset Management Outcomes – Base (2012)</b>	<b>% of Stock</b>
Requires High future capital investment, will <b>NOT</b> contribute to future housing need and High current costs	<b>3%</b>
Requires High future capital investment, <b>will</b> contribute to future housing need and High current costs	<b>0%</b>
Requires High future capital investment, <b>will</b> contribute to future housing need and Low current costs	<b>14%</b>
Requires High future capital investment, will <b>NOT</b> contribute to future housing need and Low current costs	<b>6%</b>
Requires Low future capital investment, <b>will</b> contribute to future housing need and Low current costs	<b>43%</b>
Requires Low future capital investment, will <b>NOT</b> contribute to future housing need and provides positive income resources	<b>19%</b>
Requires Low future capital investment, will <b>NOT</b> contribute to future housing need and High current costs	<b>9%</b>
Requires Low future capital investment, <b>will</b> contribute to future housing need and High current costs	<b>6%</b>
Demonstrable surplus or obsolete stock	<b>0%</b>
	<b>100%</b>

The base line study (2012) produced a generally positive outcome, with only 18% of the stock (**red**) requiring immediate intervention. While 38% (**amber**) indicated some form of risk, further investigation confirmed intervention requirements were minimal and had been already costed into the 30 year investment plan. 43% of the stock (**green**) was a net surplus generator.

The Association subsequently amended our investment programme to focus on stock which was not performing as expected. This was predominately properties acquired through the SST process from the GHA where investment and stock profile information at time of transfer was poor. It was also recognised that considerable savings could be made by making use of the “VAT Tax Shelter” envelope which enclosed all of the acquired SST stock.

By bringing forward programmed investment in kitchens, toilets and windows demand for the stock increased as did tenancy sustainment.

Further investigation also identified a historical anomaly (inherited from the GHA) in which the rents for 40 smaller 1apt properties did not reflect costs and current benchmarks for similar property types. The simple rent amendment moved these properties from **red** to **green**.

## **8.4 Asset Management: Goals & Objectives**

While the environment in which we operate is changing significantly and quickly, few things affect our customers’ lives as much as the homes we provide and the investment we make in those homes and in our community. Therefore effective, efficient management of our assets is crucial for us to meet both our business objectives and our tenants’ expectations.



Asset Management is a key part of our strategic approach towards delivering the following Goals and Operational Objectives:

"Doing what matters most to customers"

- Respond to the priorities identified by the Tenant Satisfaction Survey
- Deliver continuous improvement in our Scottish Housing Charter outcomes

"Investing in homes and our community"

- Commit resources to ensure the delivery of a high quality repairs and maintenance service
- Commit resources to improve the health, safety, life chances and vibrancy of our community

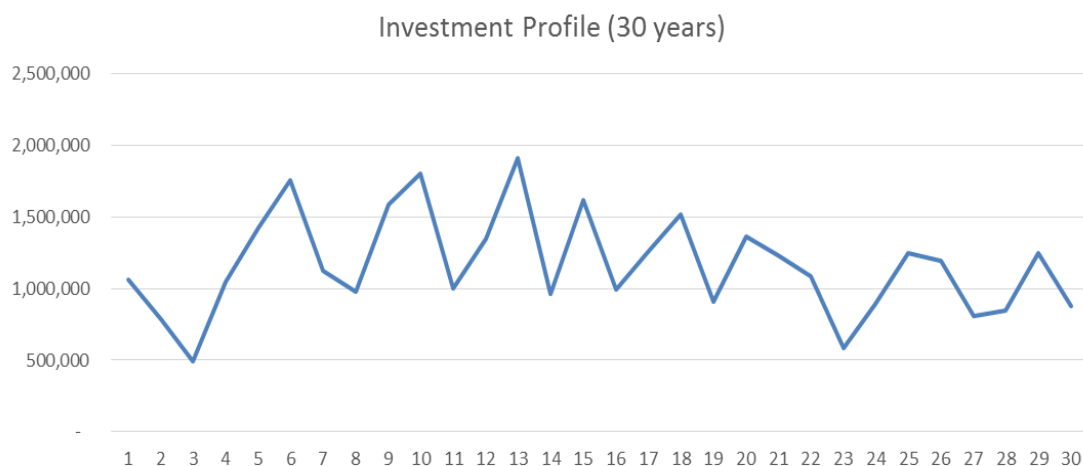
"Making us stronger for the future"

- Sustain a vibrant, viable business through effective governance and sound financial and risk management
- Continually review business processes to ensure best value and efficiency

The Association has an outline 30 Year Investment Plan of over £46m (nearly £49k per unit) and we recognise the need to have the best understanding of the long-term financial value and performance of our property assets. This information is also needed to support our strategic decision-making and future direction and will make a huge contribution in terms of our approach to value for money.

## 8.5 Asset Management: Capital Funding

Our Detailed Financial Investment Plans are contained in Chapter 11 however the Association has an outline 30 Year Investment Plan of over £46m (nearly £49k per unit).



CPU Investment (30 Years) : £25k

CPU Repairs (30 Years) : £24k

£49k per unit

## 8.6 Asset Management: Risk

Following a Risk review in 2015, we identified the most significant risk to the long term viability of Ardenglen as being a *"failure to balance rents and operating costs leading to negative cash flow"*.

The importance of Asset Management to the reduction of this risk is critical as it impacts on expenditure (through investment) and income (through rental income).

While our various property Investment Plans flow from our Asset Management Plan, these cannot become financial commitments without the following questions being considered:

Financial Fundability	• Is there positive cash balances throughout the life of the plan?	YES
Rent Affordability	• How much Rental Income is required to fund investment expenditure? • Is it affordable?	YES
Debt Affordability	• Do we need to borrow to fund investment?	NO
Risk Management	• Can the plan withstand investment risk?	YES

As previously noted, detailed financial risk analysis is contained in Chapter 11. We believe the current asset management plan is affordable, in terms of the impact on individual rents and also maintains a high quality stock base, a failure of which would impact on demand and subsequently on rental income.

## 8.7 Asset Management: Participatory Budgeting

*"It is easier to decide alone with a couple of others in a closed cabinet but this is not a good solution in the twenty first century. We need to find solutions to win back the confidence of people in their representatives. We need to inform and educate people in order to take part in the decision making processes."*  
(Pauline Véron- Depute Mayor of Paris)

As noted in Section 6.6, we believe PB (sometimes called Community Choices) offers real opportunities for local people to have a direct say in how and where Ardenglen spends its funds to address local requirements.

Given the impact of Asset Management decisions on the lives of our community, PB in this area could yield important social benefits (confidence, aspiration, empowerment and increased sense of control, knowledge and awareness).

Asset Management is by its very nature apportioning scarce resources and links well with the drive for citizens to democratically participate in local decision making and the allocation of portions of mainstream public budgets.

Recent political, governmental and legislative developments have launched PB into the mainstream of Scottish policy and politics. While PB within asset management will flag up strategic and implementation challenges, we believe the opportunities to develop PB are worth exploring over the period of this plan.

## **8.8 Asset Management: Conclusion**

Asset management goes beyond investing in good repair and improvements. Asset management is about reviewing the asset base to end up with the right accommodation in the right location supported by excellent flexible services for our customers. It must consider quality and value for money, particularly the whole life of a home and how future running costs will affect customers.

By applying an effective asset management strategy the benefits will include:

- Assets aligned with corporate aspirations and customer needs;
- Homes which will be more affordable to customers in terms of running costs and rents
- A more environmentally sustainable asset base;
- The right mix of homes to meet local and demographic needs;
- Lower “whole life” running costs;
- Identified long term capital investment requirements
- Opportunities to improve Value for money through procurement
- Clear understanding of maintenance needs

We must be mindful that we are a property business and it is therefore vital for us to understand the performance of our assets. Property assets are the essential foundation for the long term viability of Ardenglen. Far more than simply “bricks and mortar”, they play a key role in shaping the social, environmental and economic wellbeing of our community, influencing the quality of life for local people.

The key to quality asset management is therefore clearly linked to the quality, accuracy and use of the information and data collect by the Association. We are increasingly improving our data to drive our understanding of our homes and our current and future customers. It is anticipated that by March 2018, 100% of stock condition surveys will be complete and we will have no cloned or transferred data. All assets, including communal areas and spaces, will be surveyed and the information collated will be used to project short, medium and longer term investment.

We will use this information to apportion the necessary expenditure and utilise our resources more effectively by making informed decisions on bringing replacement programmes forward into the more lean years, in effect smoothing out the spikes. This ensures continuity in replacements and procurement but also mitigates the risks associated with higher budgetary requirements in other years.

Going forward, we recognise there will be significant issues of rent affordability and that the national austerity agenda will continue to put pressure on both tenant incomes and the possibility of rising maintenance and material costs resulting from Brexit.

While we must be aware of these national issues, it is at a local level where we can make the biggest impact on the challenges ahead. By understanding our demand for housing locally, by analysing our data at a property and neighbourhood level, we can ensure the correct levels of investment in our assets.



<p>Risk Management</p>	<p>9</p>
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## 9. RISK MANAGEMENT

*"The best way to predict your future is to create it"*

### 9.1 Our Risk Management Approach

Our detailed financial Risk and Sensitivity analysis are contained in Chapter 12.

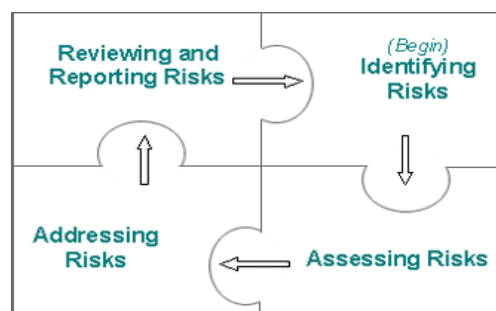
Our approach to risk management is objective driven, defining *risk* as something, which may have an impact on the achievement of our objectives. It may come from outside (for example, as a result of legislative change) or inside (for example, as a result of initiative overload).

Risks are assessed in terms of how likely they are and the magnitude of the consequences if they were to occur. The modern view of business risk, and one that we want to encourage, views many risks as opportunities to be embraced, not just threats to be avoided

It is important not to overly focus on the short-term or what is close at hand. We also need to identify longer-term risks or risks that are currently 'over the horizon'. We need to be alive to the general type of external or foresight risk which could affect much of the Association's business.

We expect the current financial and political uncertainty to last the life time of this plan. While this insecurity in itself creates risk, the management of this situation for Ardenglen is all about managing our threats and opportunities and creating an environment of 'No Surprises.'

By managing our threats effectively we will be in a stronger position to deliver our business objectives. By managing our opportunities well, we will be in a better position to provide improved services and better value for money.



### 9.2 Assessing Risk

Our goal is to be effective risk managers and to do this we need to be good at assessing those risks that we have identified. We also need a consistent approach to compare our risks, so that we can concentrate our efforts on addressing those that are most important.

We have therefore adopted detailed risk mapping which sets out a matrix of risk based on:

- Measure of Consequence



- Measure of Likelihood
- Measure of Impact

Our Risk Matrix is then used to collate the Measures of Likelihood and Impact into a graphic format to allow a "traffic light" approach to Risk Assessment and Risk Reporting.

### **9.3 Addressing Risk**

When responding to a risk, our goal will be to ensure that it does not develop into an issue, where the potential threat is realised. To do this we will build on HM Treasury's guidance in their 'Orange Book'. Having properly identified and assessed our risks, we will select one of the following general approaches ('The Four Ts'):

- *Transfer the risk*: this might be done through such things as conventional insurance or by asking a third party to take on the risk in another way.
- *Tolerate the risk*: our ability to take effective action against some risks may be limited, or the cost of taking action may be disproportionate to the potential benefit gained. In this instance, the only management action required is to 'watch' the risk to ensure that its likelihood or impact does not change.
- *Treat the risk*: by far the greater number of risks will be in this category. The purpose of treatment is not necessarily to terminate the risk but, more likely, to set in train a planned series of mitigation actions to contain the risk to an acceptable level.
- *Terminate the risk*: this is a variation of the 'treat' approach, and involves quick and decisive action to eliminate a risk altogether. For example, the health or environmental impacts of using a particular product may be such that the appropriate action is for the Association to ban its use.

In addressing risks, we will seek to adopt a proportionate response – reducing risks to 'As Low a level as is Reasonably Practicable' in the particular circumstances (the ALARP approach). In deciding on the preferred course of action, we will consider the use of a range of available risk mitigation tools and techniques, including options appraisal.

In completing the risk register, our risk owners will describe existing and additional activities to address the risk, as well as outlining what action should be taken if the risk becomes an issue (i.e. contingency planning).

### **9.4 Reviewing and Reporting Risk**

Appropriate and effective review and reporting arrangements reinforce and support our risk management activities. This is the fourth piece of the jigsaw and allows up-to-date and accurate performance information to be passed to risk owners and the Management Committee along with information on other performance measures

Risk management is a dynamic process – new risks will be identified, some will be terminated, contingency plans and countermeasures need to be updated in response to changing internal and external events, and our assessment of likelihood and impact will also need to be reviewed, particularly in the light of our own management actions.

Our Management Committee keep the main risks under regular strategic review. High-level information on risk will be integrated with other key business performance data and presented via the balanced scorecard approach. Information on the 'Top Ten' will be presented in 'traffic light' format, together with summary information on the distribution of **Extreme** (red light), **High** (amber) and **Medium** (green) **Low** (blue) risks across Ardenglen.

## 9.5 The "Top Five" Key Risks

The Ardenglen Risk Dashboard currently highlights 56 Risks across the Associations 3 Strategic Goals. We have identified a "Top Five" which we believe currently represent the most significant operational risks:

The "Top 5" Risk Issues	Likelihood	Impact	Risk Action	Risk Mitigation
Failure to balance rents and operating costs leading to negative cash flow	Possible	Catastrophic	Treat	5 & 30 Year Financial Plan updated annually. Full sensitivity analysis, scenario planning, external verification and benchmarking of sector assumptions. Monthly management review and quarterly Board review of management accounts, including financial KPI's and banking covenants. Annual review of costs in stock condition database. Reserves policy linking reserves to minimum cash balance. Value for Money cost saving exercises. Underlying fall-back option to reduce standard / rate of stock reinvestment programme and development plans.
Diversification risks associated with the proposed Cathkin Braes Activity Centre. New area of operation requiring different skills, competencies and operating methods. Need to protect core business from being adversely affected.	Almost Certain	Major	Treat	Assessment of the strategic fit of the opportunity. Evaluation of the resources required to bid and upfront assessment of the chances of success. Individual risk, financial, resource and operational assessment of the new venture. Sound Independent Business Plan and justification for the venture. Protective Firewalls in place to protect core business. Seek SHR approval

The "Top 5" Risk Issues	Likelihood	Impact	Risk Action	Risk Mitigation
Welfare Reform legislation impacts on financial resources	Certain	Major	Tolerate	Rent policy designed to ensure affordability and effectiveness. Rent Strategy to be linked directly to Business Plan Outcomes. Proper budgetary controls in place. Ongoing reshaping of organisation to fit constraints.
Failure to retain and recruit volunteers to help deliver our regeneration objectives	Possible	Major	Treat	Promote the benefits and range of volunteering opportunities. Word of mouth, media, online. Data base from tenancy sign ups and Events. Persistence and Patience!
Loss of key member of staff	Almost Certain	Major	Tolerate	121's. Maintain good terms and conditions. Salary Benchmark. Regular review of workloads and assessment of capacity and resources. Succession planning. Adequate contracted notice periods. EVH Agency support

## 9.6 Risk Conclusion

We continue to believe that the key long term risk to Ardenglen is the financial impact of failing to balance rents with operating costs and how quickly this can create negative cash flow, leading to a host of ancillary risks such breaches of bank covenants.

This further emphasises the importance of balancing rent affordability, the VfM agenda and how vital asset management will be to long term financial viability.

To further strengthen our resilience to this situation, we have worked with Arneil Johnston to review our asset management profile and long/medium term financial planning assumptions, as this was seen as a critical area of risk.

We have also incorporated financial risks associated with the proposed Cathkin Braes Activity Centre which is a new area of activity.

We believe this Business Plan takes account of all our known risks and positions us to confidently tackle the many unforeseen difficulties which in all likelihood lie ahead.



## **10. OUR LEGAL STUFF**

### **10.1 Constitutional and Legal Arrangements**

Ardenglen has the following constitutional arrangements:-

Registered Scottish Charity	•SCO032542
Registered Scottish Landlord	•HCB 219
Registered under the Co-operative and Community Benefit Societies Act 2014	•2339 R (S)
Registered Property Factor	•PF000168

As a charitable organisation, any surpluses must be used to meet and support Ardenglen's objectives. As a charity, Ardenglen is also restricted in our ability to carry out some "wider action" initiatives to support our objectives of re-invigorating the local economy and sustaining our local community. In 2004 the Association therefore set up a non charitable subsidiary, Ardenglen Developments Ltd (ADL) and created a group structure as a flexible way of delivering these important services.

While Ardenglen supports ADL as its subsidiary, its financial affairs are wholly separate from Ardenglen and there will be no adverse financial implications for Ardenglen should ADL experience trading difficulties.

### **10.2 Membership Policy**

Ardenglen is a membership organisation, and aims to attract people from the groups and communities it serves. Ardenglen seeks to establish a wide and active membership by recruiting individuals with an interest in the work of the organisation and to make effective use of the skills, experience and views of its members.

Members of Ardenglen are those people who hold a share and whose names are entered into a Register of Members. It is a requirement of membership that members are supportive of the aims and objectives of Ardenglen.

Ardenglen seeks to ensure broad representation in its membership of the groups and communities that it serves. To this end, Ardenglen particularly welcomes applications from:

- Tenants of Ardenglen
- Other residents living in East Castlemilk
- Others who can contribute particular community, business or professional experience or skills.



Membership is open to all sections of the community regardless of colour, race, nationality, ethnic or national origins, gender, disability, age or sexuality. To this end Ardenglen particularly welcomes applications from:

- Black and ethnic minority community members
- Individuals who have experience of disability
- Young people

Ardenglen accepts applications from organisations as well as individuals, in accordance with the rules relating to representing an organisation.

### **10.3 Role of the Management Committee**

The Committee is responsible for directing the affairs of Ardenglen and its business and may use all its powers to carry out its duties. Each Committee Member must operate in accordance with Ardenglen's objects and these Rules.

The management committee is elected annually by the membership at the Annual General Meeting and can comprise of a maximum of 15 volunteer members including up to 3 co-opted.

The principle functions of the Management Committee can be summarised as follows:-

- Agree the future strategic direction of Ardenglen
- Agree policies and plans for new build and the management and maintenance of existing properties
- Employ staff and delegate management duties
- Agree the Annual Budget
- Monitor the performance of Ardenglen in accordance with the above
- Approve the Annual Rent Increase

The current Management Committee has a wealth of experience and is generally representative of the community in which we operate.

### **10.4 Committee Structure**

Following a Governance Review in 2014, Ardenglen no longer operates the traditional Scottish Housing Association Governance model of delegated sub-committees across departmental areas.

Instead there is a clear focus on the strategic, with particular emphasis on risk, finance and performance. The Committee focal point is looking forward, not back, with a clear emphasise on being navigators, not historians and with energy directed at what needs to be improved. This is supported by a revised Key Performance Indicator (KPI) reporting format and the complete overhaul of Finance Reporting.

## **10.5 Committee Accountability and Control**

A key requirement is to ensure the Management Committee exercises proper control over Ardenglen's activities and makes decision in the best interests of the organisation and its service users. This is achieved by:

Ardenglen operates within the law and demonstrates compliance with the law in all policies, procedures and practices

Our Membership Policy encourages a broad, representative membership

Applications and selection of Committee Members is carried out in line with our Rules and Committee Membership is representative of the community we serve

Ardenglen conducts its affairs with honesty and integrity. A signed Code of Conduct clearly sets out Committee and Staff responsibilities and expected standards.

A Disclosure of Interest Policy safeguards the reputation of Ardenglen and helps ensure that Committee and Staff do not use their position to gain personal advantage for themselves or friends and relations.

The Remit of Authority for the Management Committee and individual Officers Bearers is clearly set out

Standing Orders set out how the business of the Management Committee is run.

All new Committee Members undertake a specific member induction course and receive a briefing pack. An ongoing series of member briefing sessions keep members up to date with new developments and guidance.

Committee Members are encouraged to participate in external and internal training events. A dedicated committee-training budget is allocated on an annual basis.

The Management Committee carries out a regular SWOT analysis of their skills, composition and collective performance as well as individual annual appraisal.

The Management Committee receive high quality information and reports to support the decision making process

The decision making process is open, transparent and accountable with papers and reports available for public inspection.

## **10.6 Group Structure: Ardenglen Developments Ltd**

Ardenglen Developments was incorporated in 2003 (Company No 257651) and is a non charitable private limited company fully owned by Ardenglen HA.

Ardenglen Developments was incorporated as a vehicle to access approximately £500k of European and other funding to construct office premises for social economy organisations operating in Castlemilk.

The premises are then sub let to Ardenglen HA, who then sub let to Fair Deal (a local care provider) this was to reduce tax and VAT costs. The hope was that this venture would create 15 new jobs in Castlemilk. In fact Fair Deal now employs over 130 mainly local people.

Service and independence agreements are in place with any profits gift aided by Ardenglen Developments to Ardenglen HA. Ardenglen Developments is a single purpose vehicle and is not used to deliver any other wider or regeneration activities.

## **10.7 Group Structure: Cathkin Braes Activity Centre (CBAC)**

The Business Case proposals for the CBAC will be issued as a separate appendix.

In summary the project aims to transform the former St Martin's Church (a Category B listed) building and the Commonwealth Games mountain bike track (located in Cathkin Braes Country Park) into a multi-purpose activity centre incorporating a café, coaching facilities and community space. This will involve the systematic repair and adaptation of the building and the creation of a social, cultural and economic hub which incorporates a café, cycling facilities and multi-purpose event space.

As part of the Business Plan process for CBAC, a SWOT analysis confirmed Ardenglen as the only potential partner who has expressed in-principle approval to become involved in the CBAC as either a trustee or shareholder, it is reasonable to assume that the Ardenglen subsidiary model will form the basis of the business and legal model of the Centre. Whilst this means that business risks are focused 100% on the Ardenglen group structure, this is the only option where:

- Cashflow support for revenue costs (particularly in the short term) is possible. Given the lack of partner commitment to shareholding, AHA is the only partner to fully or partially stand behind the project in financial terms;
- if AHA takes the full risk for cashflow liability, it is reasonable for the Association to resist full control of profits or business benefit becoming diluted through a SCIO model or variant;
- As well as full control of CBAC benefit, this option also gives AHA full control of managing business risk. If the CBAC business plan is loss making, Ardenglen's ability to take decisive remedial action could be diluted by a governance model such as SCIO or variant.

Full details of the subsidiary structure require agreeing, including Independence and Service Agreements, Governance format and financial plan and discussions are ongoing with the Scottish Housing Regulator and our legal advisors.



What Will  
Success  
Look Like?

11

## 11. THE NEXT 5 YEARS – WHAT WILL SUCCESS LOOK LIKE?

*"The Pertinent Question is **NOT** how to do things right - but how to find the right things to do, and to concentrate resources and efforts on them"*

### 11.1 Where we are now?

As a landlord, a developer and a provider of social and economic regeneration, we recognise that our customer expectations are changing and that we have to continuously improve our services. We also recognise that the external environment has changed dramatically with public austerity measures meaning Ardenglen and our partners need to do more with less, demonstrate the value for money of our services and focus on performance.

In recognition of this, we carried out some substantial restructuring of Ardenglen to reflect this changed agenda. We believe this additional focus on regeneration activities is supported by our tenants and other stakeholders and is a positive reaction to the unprecedented economic pressures being applied to our local community.

### 11.2 Our Financial Strategy

Our detailed 30 Year Financial Plan and assumptions are an integral part of our Strategic Business Plan and summaries are contained in Chapter 12 onwards. We have worked hard to develop financial plans which allow us to be confident that future decisions are based on hard evidence and that previous financial assumption have been updated and critically modelled. The ability for detailed scenario planning will also allow us to consider innovative funding solutions to support future housing or regeneration activities.

We need to achieve more with the resources we have available. The effective control of all operating costs and overheads is critical and over the last few years we have become leaner and more effective. We need to continue to drive value for money harder so that a more cost conscious culture is embedded.

Financial strength and strong treasury management is critical to delivering our vision and goals. Our focus is on making the right decisions for the long term and our plans for the future are built on delivering planned efficiencies and taking measured risks in order to achieve our objectives.

Recognising the various financial risks and uncertainties in both the world and domestic economy, we expect to see rises in interest rates. While there is uncertainty in all economic forecasts one thing is clear; interest rates will rise and we must reflect gradual increases over the period of this plan.

We are also aware of the ongoing debate regarding the affordability of annual above inflation rent increases and will review our long term assumptions as a result.

Finally, we will continue to support our residents and mitigate risks associated with welfare reform, ensuring we constantly check that this is not impacting on our rental income. To date this has not had a negative impact, demonstrating that our approaches to date have been effective



### **11.3 Our Strategic Goals**

Moving forward, this plan is about successfully navigating the future by ensuring we have excellent governance and leadership, clarity of vision, a very strong financial base and a culture committed to exceptional customer service.

Our Three Strategic Goals have, therefore, been developed to support, deliver and report on our purpose of *"Investing in our Community"*.

The Business Plan is a strategic document and is supported by our Corporate Plan and various department annual delivery plans.

Success against our key Strategic Goals will be measured as follows:

### **11.4 Strategic Goal 1: "Doing what matters most to customers"**

Goal 1: Doing what matters most to customers	Success for us will mean we have:
<p>Our customers need to be at the centre of everything we do and we want to provide reliable and valued services for them. We regularly ask our customers what is important to them and will respond to their priorities in the development of our services.</p> <p>The Scottish Housing Charter sets out the standards and results we should achieve and we will work to continuously improve the outcomes for customers.</p> <p>We are aware that customers put a high value on being kept informed and involved in decisions that affect them and we need to ensure we offer appropriate opportunities for participation.</p> <p>Our customers have been through a tough few years with austerity cuts and we know this will continue over the next three years. We will continue to campaign for the repeal of the Bedroom Tax and try to mitigate the impact of welfare reform through quality advice services and programmes that support our customers to get into employment.</p>	<ul style="list-style-type: none"> <li>✓ Developed and embed a customer led performance improvement culture</li> <li>✓ Effectively listened to and acted upon customer feedback priorities</li> <li>✓ At least 95% of customers are satisfied with Ardenglen as their landlord</li> <li>✓ At least 95% of tenants expressing their rent as good value for money</li> <li>✓ Achieved year on year improvements to our Scottish Housing Charter outcomes</li> <li>✓ Developed easy use digitalised systems, that offer customers multiple ways to access our services, enabling and encouraging self service and customer participation</li> <li>✓ At least 95% of customers satisfied with the quality of our welfare and debt management advice service</li> </ul>

## **11.5 Strategic Goal 2: "Investing in homes and our community"**

Goal 2: Investing in homes and our community	Success for us will mean we have:
<p>We recognise that repairs are the service most valued by customers and we will keep working with our partners to continuously improve the service we deliver and ensure our homes are well maintained.</p> <p>We know fuel poverty is a real concern for our customers. We will therefore continue to improve the energy efficiency of our homes, to ensure we meet the Energy Efficiency Standard for Social Housing (EESH) which will become mandatory in 2020.</p> <p>National austerity measures have put our customers under unprecedented economic and social pressure. We are now the "anchor" organisation for our community and our regeneration work is aimed at building partnerships to address vital "non housing" issues such as health, work, learning and engagement.</p> <p>We have a good reputation for delivering new homes and services and want this to continue. We must ensure however that we do this within prudent financial limits and do not put our existing assets at risk.</p>	<ul style="list-style-type: none"> <li>✓ Maintained all our properties to the highest standard through effective routine, major and cyclical repair programmes</li> <li>✓ At least 95% of customers satisfied with the quality of our repairs service</li> <li>✓ 100% of our homes meeting the EESH standard by 2018</li> <li>✓ Programmes in place that support our customers to get into employment, deal effectively with welfare reform and encourage aspirations and opportunities for our younger customers</li> <li>✓ Maximise and publish the social return on investment of our regeneration work</li> <li>✓ Acquire and manage the Cathkin Braes Activity Centre by 2018</li> <li>✓ Recruited additional volunteers to help deliver our regeneration objectives</li> <li>✓ Completed 22 new homes by 2018</li> </ul>

## **11.6 Strategic Goal 3: "Making us stronger for the future"**

Goal 3: Making us stronger for the future	Success for us will mean we have:
<p>We continue operate in a volatile and uncertain environment. While this creates risk, our response is all about managing our threats and opportunities and creating an environment of 'No Surprises.'</p> <p>We know that simply doing the old things slightly better is no longer an option and innovative and efficient ways of working; incorporating ideas such as Lean Thinking are the way forward.</p> <p>We need to ensure that our services and processes are fit for the future and offer value for money and that our governance and financial structures support and compliment what we are trying to achieve.</p> <p>Every employee and volunteer has a crucial role to play in delivering our goals. We aim to continue to develop a culture of challenge and support to help our people succeed and develop and build their careers.</p>	<ul style="list-style-type: none"> <li>✓ Secured costs that provide value for money and created a culture of challenge on cost</li> <li>✓ Generated savings through effective and transparent procurement</li> <li>✓ Continued to effectively manage our balance sheet</li> <li>✓ Complete an independent study of rent affordability by 2017</li> <li>✓ Reviewed and updated our Risk Strategy and Risk Register.</li> <li>✓ Used "lean management" principles aimed at eradicating waste, so that resources are directed at areas which add value to the customer</li> <li>✓ Investors in People Gold Award by 2017</li> <li>✓ Continued to develop a governance model that supports a high performing board with learning, development and succession plans which facilitates this</li> <li>✓ Recruited 3 new Board members and strengthen financial acumen</li> </ul>

## **11.7 Conclusion**

We have developed a Business Plan over the next five years and beyond, which sets our strategic direction to ensure our business, is strong and financially secure and our governance arrangements provide the highest levels of assurance.

We will continue to set high standards in driving an effective business, meeting resident's expectations and embracing change. Around 3,000 people live in our homes and we take that responsibility very seriously.

We will continue to compare our performance with other housing organisations so we can understand not only what we do well, but also what we could improve.

We will continue to ask our tenants how we are doing and invite them to help us to ensure we spend our money wisely and to shape future service delivery and improve business effectiveness. We want to be a landlord our residents would recommend to a friend.

We will protect our homes for future generations, ensure they are maintained to the highest possible standard and enhance their energy ratings to mitigate against rising energy costs. We will make the best use of our assets, looking to achieve a balance between financial, social and environmental impacts.

We will encourage our staff to be creative and embrace new technologies and focus on Value for Money. As we improve our homes and services, we will continually review our business model ensuring the amount customers pay continues to be affordable and be great value and that surpluses are put back into services for our residents.

It is clear welfare reform, austerity and the general economic climate will continue to put a strain on our current and future residents. Through our regeneration activities, we will work with our community to help them manage this change by providing access to financial advice and helping people prepare for work.

We will continue to develop and support partnership working, encouraging the development of Ardenglen as a strong, vibrant and sustainable community and a place where people choose to live.

We will explore participatory budgeting as an innovative model to further engage our community in designing local services and delivering local democracy and control.

In conclusion, we recognise there is no escaping the challenging economic context faced by both Ardenglen and our residents. These challenges focus on welfare reform, rent affordability and an increasing emphasis on business effectiveness. Our Business Plan outcomes are, therefore, focussed on ensuring Ardenglen continues to respond positively to these issues, in what will remain a tough economic and social environment.





Financial Plan  
Key  
Assumptions

12

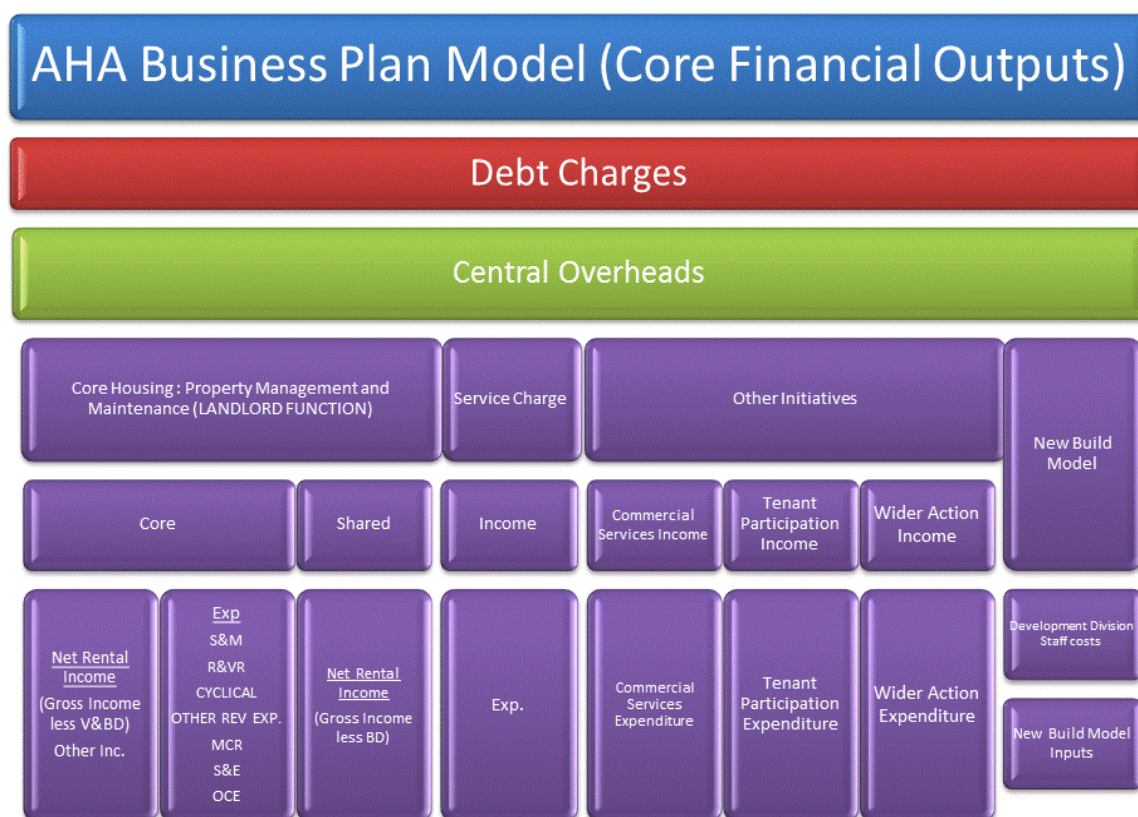


## **12. FINANCIAL PLAN MODEL KEY ASSUMPTIONS**

This section provides a detailed overview of the key assumptions which underpin the 30 Year Financial Plan Model. The model assumptions are based on detailed analysis of the Ardenglen's budget for 2016/17 and actual income and expenditure over the past three years.

### **12.1 Introduction**

This is a 30 year Financial Plan Model that takes account of all costs and income connected with the management and maintenance of the stock and the general operation of Ardenglen over that period. The model is illustrated graphically below:



The model profiles the actual and projected cash position of Ardenglen over a 30 Year modelling period to assess the fundability of its objectives and options. The Business Plan is based on agreed assumptions on stock numbers, inflationary and rate increases, income and expenditure, fixed costs and capital debt/borrowing.

### **12.2 Detailed Financial Model**

The detailed Financial Model is attached as a separate electronic document. This provides full information on all income and expenditure assumptions as noted above.

## 12.3 Inflation

The Financial Plan Model is developed as money terms model. The model assumes that all costs and income increase at the same rate of inflation. CPI is now used in the Model as the measure of Inflation. The assumption is that inflation is at **1% Year 2** moving to **2% Year 2 onwards**. This is based on the UK Treasury's Green book long term fiscal projections rate.

It is important to recognise that a money terms model is subject to key sensitivities, e.g. movements in interest rates, and clearly there is an impact of the current economic climate on inflation which has resulted in it running substantially above the UK Treasury long term fiscal projections. The effect of varying inflationary assumptions in these current circumstances is discussed further in later sections of this report.

## 12.4 VAT

All income and expenditure chargeable to VAT has been input using a VAT rate of **20%** which has been assumed and kept consistent at this level throughout the remainder of the model. Some house improvements are still covered by the VAT tax shelter and are noted in the detailed model.

## 12.5 Stock and Rental Assumption

Assumed increases in voids and bad debts are an acknowledgement of the risks posed by Welfare Reform and Universal Credit.

Annual rent increase assumptions have been dramatically reduced from the former RPI +1% Model as an acknowledgment to the issue of long term rent affordability.

£315 pcm for 956 properties £147 pcm for 10 SO properties	Voids (0.2% Yr. 1 then 0.5%)
Bad Debts (0.5% then 0.75% then 1% year 4+)	Rents – 1.5% year 2 then CPI Only (2%)+0.5% for 10 years and CPI thereafter

## 12.6 Summary Income Assumptions

Assumption	Year 1	Year 1 based on 2016/17 budget	Future Projections
General Inflation			Year 2: 1% based on current CPI. Year 3-30: 2% based on the UK Treasury's long term fiscal projections rate
VAT	20%		Year 2-30: 20% assumed throughout the remainder of the model.
<b>INCOME</b>			
<b>Rental Income Core Stock</b>			
Stock Numbers	956		From Year 3 - additional 22 new build units
Rent value	3,616,853	Average monthly rent of £315	Rent Increase Years 2-10: CPI + 0.5% From Year 11-30: CPI only
Voids	7,234	0.2% as a percentage of gross rental income	From Year 2-30: 0.50%
Bad Debts	18,084	0.5% as a percentage of gross rental income	Year 2-3: 0.75% From Year 4-30: 1%
Net Rental Income	3,591,535		
<b>Rental Income Shared Ownership</b>			
Stock Numbers	10		10 units throughout model
Rent value	17,601	Average monthly rent of £147	Rent Increase Years 2-10: CPI + 0.5% From Year 11-30: CPI only
Voids	0	0% as a percentage of gross rental income	Year 2-30: 0%
Bad Debts	0	0% as a percentage of gross rental income	Year 2-30: 0%
Net Rental Income	17,601		
<b>Total Rental Income</b>	3,609,136		
<b>Service Charge Income</b>			
Stock Numbers	8		8 units throughout the model
Service Charge Value	18,134	Average monthly charge of £189	Year 2-30: CPI only
Voids	0	0% as a percentage of gross charge income	Year 2-30: 0%
Bad Debts	0	0% as a percentage of gross charge income	Year 2-30: 0%
Net Service Charge Income	18,134		
<b>Other Income</b>			
Factoring Management Fee	1,800	18 Owners	No increase to the number of owners. Year 2-30: CPI only
Fairspace & Commercial Rents	64,861		Year 2-30: CPI only
Other Income	11,502	Agency Income/Misc	Year 2-30: no other income included
Regeneration	66,498	Includes Grants Awarded	Year 2-30: no grant income included
Medical Adaptations Grant	41,000	Awarded 2016/17	Year 2-30: reduced to £35,000
<b>Interest Received</b>	15,335	Interest Rate 0.5%	Year 2-5: 2.5%. Year 6-10: 1%. Year 11-30: 1.5%.

## 12.7 Employee Costs

Employee costs have been modelled on the current staffing structure (see Appendix A) which enables the gross salary adjusted for the salary sacrifice scheme and pension contributions for each post to be modelled over time. Gross salaries are increased by CPI + 0.5% throughout the business plan. Employer's national insurance and pension costs are then calculated separately based on current rates and future known rates.

<b>Staff Costs</b>	<b>Base Year</b>
Salaries	£539,638
Employer National Insurance	£49,333
Pension Costs DB Final Salary Scheme	£137,395
Pension Costs DC Scheme	£27,832
Other Staff Costs	£36,132
<b>Total Staff Costs</b>	<b>£790,330</b>
<b>CPU</b>	<b>£818</b>

Currently 11 employees are members of the Defined Benefit Final Salary Pension Scheme and the scheme has been closed to new members. Year 1 contributions are 12.3% this increases in Year 2-15 to 14.6%. The Defined Benefit Final Salary Scheme is modelled until year 15 based on a calculation of the average years to retirement of the current members and from year 16 each post is moved to the Defined Contribution Scheme at 10%.

Currently 9 employees are members of the Defined Contribution Scheme and this scheme is open to all new employees. Contributions range between 6% and 10%.

Other staff costs include staff expenses and welfare rights agency services which increase by CPI + 0.5% from Year 2 to 30.

## 12.8 Investment

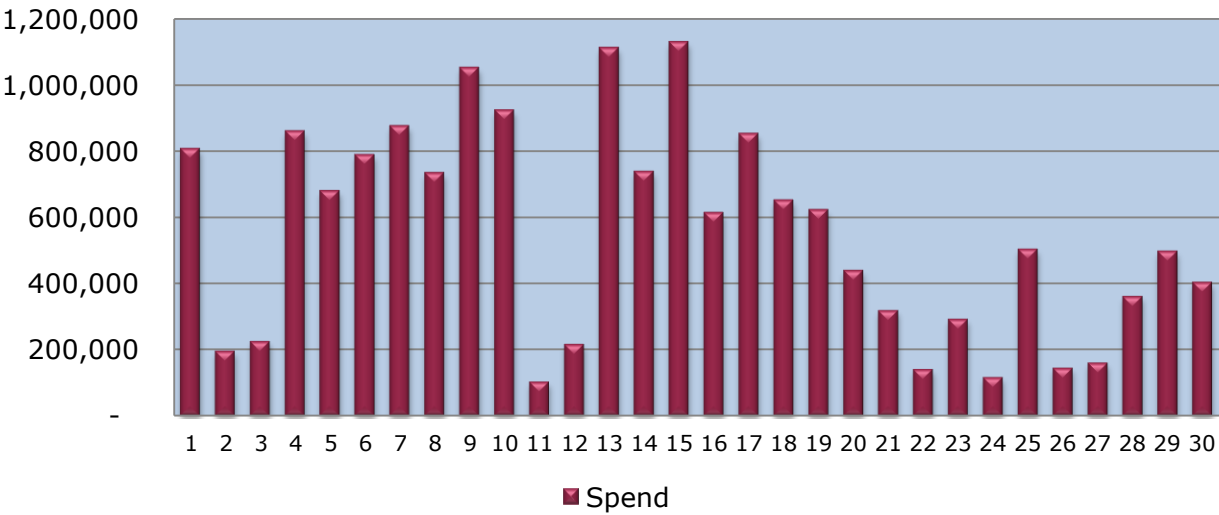
Total investment in Ardenglen's housing stock over the life of the business plan model is £34.4 million. This is split between revenue expenditure of £16.6 million and major component replacement of £17.8 million. All investment expenditure includes fees at 8% and contingency of 2%. From year 2 to 30 expenditure increases by CPI + 0.5%.

The investment programmes assumptions are based on The Stock Condition Survey carried out by John Martin Partnership in 2010 and have been updated on an annual basis to reflect actual costs.

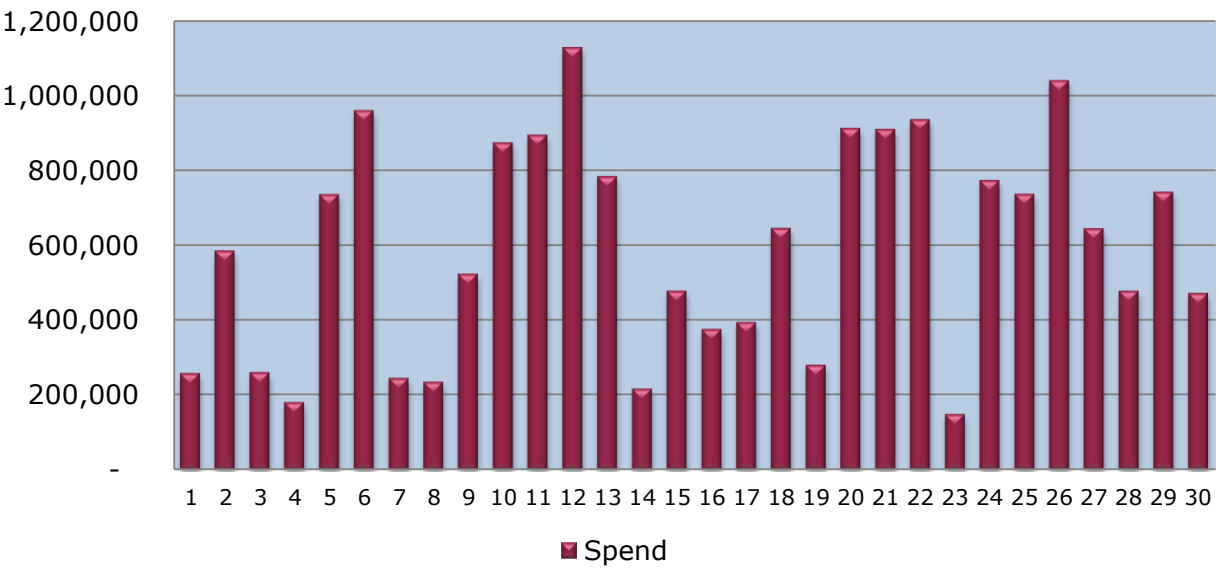
	<b>Base Year</b>	<b>CPU</b>
<b>Investment - Revenue</b>	£807,417	£836
<b>Investment - Major Component Replacement</b>	£258,735	£268
<b>Total</b>	<b>£1,066,152</b>	<b>£1,104</b>

The profile of investment expenditure is illustrated in the graphs below:

Investment - Revenue



Investment - Major Component Replacement





## 12.9 Summary Expenditure

Assumption	Year 1	Year 1 CPU	Year 1 based on 2016/17 budget	Future Projections
<b>EXPENDITURE</b>				
<b>Total Staff Costs</b>	<b>790,330</b>	<b>818</b>		
<b>Reactive &amp; Void Maintenance</b>				
Reactive Repairs	245,000	254		Year 2-30 CPI + 0.5%
Gas Reactive Repairs	83,000	86		Year 2-30 CPI + 0.5%
Vandalism Repairs	13,000	13		Year 2-30 CPI + 0.5%
Void Repairs	136,000	141	£1700 per void x 80 Voids	Year 2-30 CPI + 0.5%
<b>Total Reactive &amp; Void Maintenance</b>	<b>477,000</b>	<b>494</b>		
<b>Cyclical Maintenance</b>				
Gas Service Annual Checks	47,000	49		Year 2-30 CPI + 0.5%
Gutter Cleaning	26,000	27		Year 2-30 CPI + 0.5%
Painterwork	176,000	182	Programme is on a 7 year cycle	Year 2-30 CPI + 0.5%
IEE Inspections	30,000	31		Year 2-30 CPI + 0.5%
<b>Total Cyclical Maintenance</b>	<b>279,000</b>	<b>289</b>		
<b>Other Estate Maintenance</b>				
Common Close Maintenance	102,000	106		Year 2-30 CPI + 0.5%
Landscape Maintenance	130,000	135		Year 2-30 CPI + 0.5%
<b>Total Other Estate Maintenance</b>	<b>232,000</b>	<b>240</b>		
<b>Investment - Revenue</b>	<b>807,417</b>	<b>836</b>		
<b>Investment - MCR</b>	<b>258,735</b>	<b>268</b>		
<b>Medical Adaptations</b>				
Medical Adaptations Grant Funded	41,000	42	Grant Awarded 2016/17	Year 2-30 reduced to £35,000 & CPI + 0.5%
Medical Adaptations	20,000	21		Year 2-30 CPI + 0.5%
<b>Total Medical Adaptations</b>	<b>61,000</b>	<b>63</b>		
<b>Other Estate Related Costs</b>				
Property Insurance	51,962	54		Year 2-30 CPI + 0.5%. Increases in Year 3 due to 22 new build units added.
Property Related Costs	66,096	68		Year 2-30 CPI + 0.5%
Service Charge Costs	18,134	19	Furniture Services Costs	Year 2-30 CPI + 0.5%
CCTV Revenue Costs	18,000	19		Year 2-30 CPI + 0.5%
<b>Total Other Estate Related Costs</b>	<b>154,192</b>	<b>160</b>		
<b>Total Estate &amp; Maintenance Costs</b>	<b>2,010,609</b>	<b>2,081</b>		
<b>Regeneration</b>				
Grant Funded Projects	58,353	60		Year 2-30 grant funded expenditure removed
Ardenglen Supported Projects/Events	18,450	13		Year 2-30 continued support at this level. CPI + 0.5%
Maureen Cope Hall Expenditure	27,150	28		Year 2-30 CPI + 0.5%
<b>Total Regeneration</b>	<b>103,953</b>	<b>108</b>		
<b>OVERHEADS</b>	<b>221,522</b>	<b>229</b>		Year 2-30 CPI + 0.5%

## 12.10 Fixed Assets

The net book value in respect of fixed assets held by Ardenglen as at 1<sup>st</sup> April 2016 is detailed in the table below:

Category	Land & Housing Properties	Office Premises	Fixtures, Fittings & Equipment	Total
<b>Cost</b>	£25,008,982	£948,572	£320,822	£26,278,376
<b>Accumulated Depreciation</b>	£2,573,477	£372,799	£281,564	£3,227,840
<b>Net Book Value</b>	£22,435,505	£575,773	£39,258	£23,050,536

Ardenglen has taken the advantage of the deemed cost transitional relief on the adoption of FRS102 whereby a prior year valuation has been used as deemed cost. Completed housing properties, including shared ownership, were valued by professional external valuers based on an Existing Use Value for Social Housing (EUV-SH) basis.

The tables below details the depreciation assumptions based on current accounting policies.

Land & Housing Properties	Useful Life
Land	N/A
Structure	60 years
Windows	50 years
Bathrooms	30 years
Kitchens	20 years
Boilers	15 years

Other Fixed Assets	Straight Line
Office Premises	30 Years
Fixtures, Fittings & Equipment	4 Years

## 12.11 Loans

Debt outstanding at 1<sup>st</sup> April 2016 was £5,721,746 which represents a debt per unit of approximately £5,923. Each loan has been profiled individually, applying the interest margin based on the current loan arrangements. In the table below are the rates applied and the future assumptions for base and LIBOR.

Interest Rate Category	Base Year Rates	Future Assumptions
<b>Base</b>	0.50%	Gradually increasing to 5% at Year 11
<b>LIBOR</b>	0.60%	Gradually increasing to 5% at Year 11

## **12.12 Pension Provision**

The defined benefit deficit pension provision assumption is based on the Scottish Housing Associations' Pension Scheme 2015 valuation. The Scheme Actuary projects that the deficit will be removed from the Scheme by 28<sup>th</sup> February 2022.

The table below shows the movement in the base year required to remove the deficit by 2022 at the current contribution to deficit:

<b>Pension Provision</b>	<b>Base Year</b>
Valuation at 1st April 2016	£1,338,000
2016/17 Deficit Contribution	£113,262
Movement on Provision	£626,612
Valuation at 31st March 2017	£598,126

The annual deficit contribution increases by 3% each year until 2022.

## **12.13 Reserves**

The following table illustrates brought forward reserves as at 31<sup>st</sup> March 2016:

<b>Reserve</b>	<b>Balance</b>
Income & Expenditure Reserve	£18,194,099



New Build Assumptions	13
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## **13. NEW BUILD ASSUMPTIONS**

This section of the report details the assumptions in relation to the Association's proposed new build development at Cathkin Braes Phase 7. In total, there are 22 properties, including 4 for identified wheelchair or other special needs

<b>Apartment Size</b>	<b>Person Size</b>	<b>Type</b>	<b>General Needs</b>	<b>Adapted Needs</b>	<b>Total</b>
2 Apt	2	Flat	2	1	3
3 Apt	4	Flat	10	2	12
3 Apt	4	House	4	0	4
4 Apt	5	Flat	1	1	2
4 Apt	6	Flat	0	1	1

### **13.1 Development Expenditure**

The development programme is assumed to be complete by Year 3 within the business plan model

Based on a draft cost plan, the total construction costs amount to £3,080,000. It is assumed within the business plan model that the construction costs are charged through the cashflow in Year 2 of the business plan model.

### **13.2 Development Funding**

Based on current HAG funding calculations, development funding is anticipated at £1,716,000.

It is assumed within the business plan model that funding will be received through the cashflow in Year 2 of the business plan model.

### **13.3 Stock & Rental Income**

The level of rental income anticipated from each property has been calculated based on the Scottish Government published assumed rents and results in an average rental income of £375.64 per month by Year 3.

Voids have been assumed at 0.5% and bad debts have been assumed at 1% through the life of the business plan model. This results in a net annual rental income of £97,682.

### **13.4 Future Expenditure**

#### **Management & Maintenance**

Assumptions relating to the management and maintenance have been based on current costs per unit inflated to start in Year 3 and future assumptions relating to voids and bad debts. These assumptions are as follows:



Category	Assumption/CPU	Assumption
Voids	0.5%	From year 3-30: 0.5%
Bad Debts	1%	From year 3-30: 1.0%
Management Cost	Nil	The assumption has been made that management costs associated with the new build units can be accommodated within the current Management budget.
Repairs & Maintenance	874	From year 4-30: CPI + 0.5%

### Planned Maintenance

Future planned maintenance has been based the current average cost per unit inflated to start from year 10:

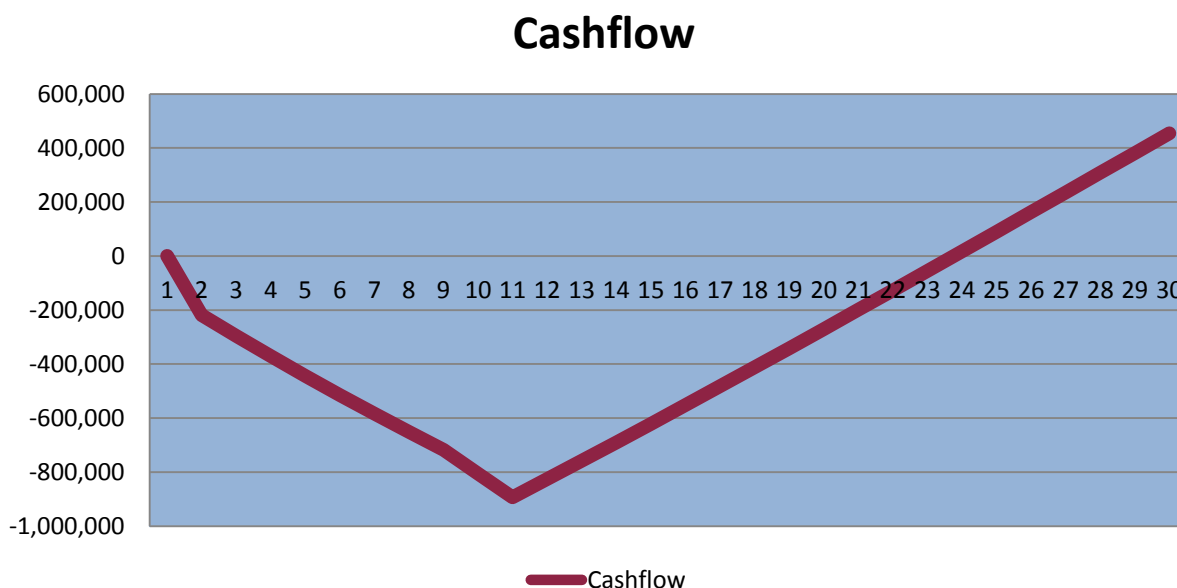
Category	Assumption/CPU	Assumption
Planned Maintenance	750	From Year 11-30: CPI + 0.5%

## 13.5 Borrowings

Borrowings of £1,300,000 have been assumed in Year 2 towards the development expenditure. An interest rate of 3.5% has been assumed based on advice from consultant, over a term of 10 years.

## 13.6 Cashflow

The remaining development expenditure of £64,000 is assumed from Ardenglen's own cash resources. The following graph illustrates the cumulative cash flows for the new development to year 30:



## 14. BENCHMARKING PERFORMANCE

This section benchmarks the following key aspects of the Association's performance against relevant Scottish averages:

- rent levels;
- voids;
- rent arrears;
- management and maintenance administration;
- repairs and maintenance;
- debt per unit; and
- staff costs to turnover

National benchmarks are based on The Scottish Housing Regulator - Scottish Registered Social Landlord Statistics 2015/16. This generally benchmarks the results of **161 RSL's** and also provides national average and quartiles.

### 14.1 Rent Levels

The Association had an average weekly rent per unit in 2015/16 of **£72.01** which is below the national average of **£76.29**. The Association ranks nationally in the **Lower Quartile**, having the **61<sup>th</sup> lowest** rent level in comparison to the **194 RSLs and Local Authorities**.

### 14.2 Voids

In 2015/16, rents lost from voids represented **0.29%** of standard rental income, significantly below the Scottish average of **1.25%**. In 2015/16, the Association has the **44<sup>th</sup> lowest** void rent loss and again is within the **Lower Quartile** when compared to the other **161 RSLs**.

### 14.3 Rent Arrears

As a percentage of annual standard rental income, rent arrears as at March 2016, represented **1.1%** (current and former arrears) for the Association. This is significantly lower than the national average of **3.2%**. At this level, the Association ranks within the **Lower Quartile**.

### 14.4 Staff Costs to Turnover %

Staff costs as a % of turnover in 2015/16 stood at **19.6%**. This is significantly lower than the national average of **26.35%**. At this level, the Association ranks **75<sup>th</sup>** and is within the **Lower Quartile**.

### 14.5 Management & Maintenance Administration Expenditure

In 2015/16, management and administration costs per unit for the Association were **£2,140** against a national average of **£2,212**. As such, the Association has the **76<sup>th</sup>** lowest management and maintenance administration costs per unit in Scotland, when compared to the other **161 RSL's**. It is within the **Median Quartile**.

## 14.6 Direct Maintenance

Within the benchmark analysis provided by the Scottish Housing Regulator, repairs and maintenance is split between planned and reactive maintenance.

In respect of planned maintenance, the Association's cost per unit in 2015/16 was **£505**, which is 4% higher than the national average. At this level, the Association also ranked **51<sup>st</sup>** compared to **161 RSL's**. It is within the **Median Quartile**.

In 2015/16, reactive maintenance per unit for the Association was **£621**. This is **9% above** the national average. At this level, the Association also ranked **36<sup>st</sup>** compared to **161 RSL's** and is in the **Upper Quartile**. The Association recognized increasing reactive costs, particularly with regard to void repairs and is currently in the process of procuring our entire routine repair service.

Overall, total direct maintenance costs were above the Scottish average by 7% at **£1,127 per unit** driven primarily by an increase in routine repair costs.

## 14.7 Debt per Unit

In 2015/16, the national debt per unit was reported at **£12,806**. As at 31<sup>st</sup> March 2016, the debt outstanding for Ardenglen represented a debt per unit of **£5,895** (based on 956 properties). This level of debt is therefore **117%** below the national average, ranking Ardenglen at 75th from 161 reporting RSL's. It is within the **Lower Quartile**.

## 14.8 Conclusions

As the above findings show, Ardenglen compares well against national benchmarks for rents, voids, arrears, staff costs, management and administration costs and debt per unit.

The Association's level of routine repairs is higher than both the national and our local benchmarking group. The Association had been aware of rising repair costs for some time and has taken steps to reduce these by the closer monitoring of void repairs and issuing documents to procure the entire routine repair service. This will be in place for April 2017.

It is expected routine repair costs will fall significantly as the Association moves to a multi trade single contractor schedule of rates based service.

## 15. FUNDABILITY: THE BASELINE FINANCIAL MODEL

*"Taking action without thinking is the cause of every failure"*

### 15.1 Introduction

In terms of what makes a business plan fundable, there are key criteria which the Scottish Housing Regulator and other key stakeholders will be interested in.

Specifically, the business plan should be demonstrating that Ardenglen has the financial resources i.e. cash, to undertake planned activities that will deliver the Association's strategic objectives and priorities, as well as continuing to service and repay its debt.

In ascertaining whether a financial business plan is viable, fundable and sustainable in the short, medium and long term the following key questions will be considered:

<b>Profitability</b>	Are net surpluses increasing over time? Is the debt profile being managed so as not to impact on performance?
<b>Efficiency</b>	Are operations being managed effectively to realise efficiencies in, for example, voids and bad debts? Are operational costs being kept to an appropriate level in which to operate efficiently? How do we compare with our peers
<b>Liquidity</b>	Are positive cumulative cash reserves being maintained? Are current assets exceeding current liabilities
<b>Financing</b>	Are funders covenants remaining within target i.e. not breached? Is gearing/debt levels being managed appropriately to ensure that debt obligations can be met as they fall due? Is interest cover/debt servicing cover within the acceptable minimum standard? Are there appropriate hedging strategies in place to mitigate risks of rising interest rates?
<b>Rent Affordability</b>	Are rents affordable now and in the future? What impact might welfare reform have on rental income assumptions? Do rents still deliver tenants needs
<b>Services</b>	Can service delivery be maintained at required levels? How do we compare with our peers
<b>Investment</b>	Are there sufficient levels of investment? Is asset management integrated

With the above in mind, a first approach at assessing the viability of the financial business plan would be to assess the outcomes using various indicators associated with the above.

This is demonstrated in the following table:

Assessment Criteria	Base year	Year 5	Min	Max	Average	Comment
Operating Surplus %	16%	6%	-12% (Yr15)	17%	2%	On average both %ages fluctuate year on year, as a result of major capital repairs spend. With the exception of year 15, the % surplus is at its minimum at year 13 with 10% and 12% respectively. There are a few years where the % is below average but % is healthy throughout the remainder of the plan.
Net Surplus %	12%	3%	-13% (Yr15)	13%	2%	
Voids %	0.2%	0.5%	0.2% (Yr1)	0.5%	0.49%	Both assumptions are constant within the model. The Association will be challenged to manage both effectively however the plan demonstrates that there is capacity should either come under pressure.
Bad Debts %	0.5%	1%	0.5% (Yr1)	1%	0.97%	
Staff costs: NRI %	20.7%	21.3%	20.7% (Yr1)	23.4%	22%	This is gradually increasing over-time as the income increases by CPI only after year 10 and salaries increase by CPI + 0.5% throughout the plan.



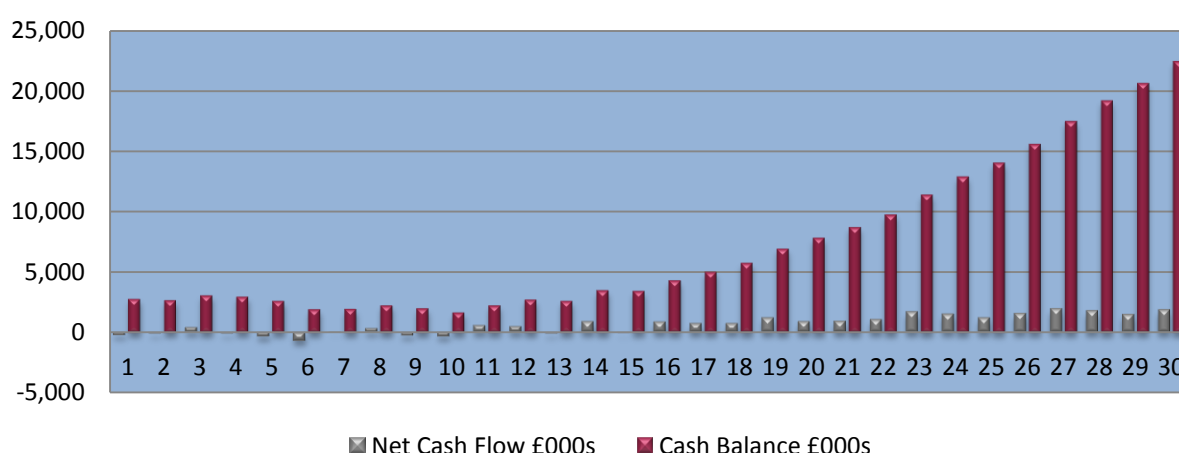
Assessment Criteria	Base year	Year 5	Min	Max	Average	Comment
Interest Cover	11.1	8.6	0 (Yr25-30)	705.9	50.5	Interest cover remains above the acceptable minimum of 1.1 (110%) throughout the plan. Debt is repaid in full at Year 24.
Debt per Unit	£5,531	£4,674	£0 (Yr24-30)	£6,363 (Yr2)	£1,941	This is reducing over-time as debt is being repaid. Increases in Year 2 due to new debt assumptions within the baseline model.
Debt Servicing Cover	3.4	2.9	0 (Yr25-30)	18.1	6.1	This remains above the assumed covenant level of 1.1 throughout the plan. It also increases over-time as opening debt is repaid.
Gearing %	9%	8%	0% (Yr23-30)	11%	3%	This remains below the covenant level of 30%. After year 22 gearing is 0% due to repayment of debt.
Cash surplus	£2,821,655	£2,647,857	£1,712,526 (Yr10)	£22,408,384	£7,371,853	The results reflect a stable cashflow position throughout the 30 year period.

## 15.2 Annual Net and Cumulative Cashflow

The Financial Model has been constructed to assess the viability of meeting and maintaining the SHQS, EESSH, SSHC outcomes and all other operational costs, resulting from the delivery of our Strategic Objectives, within a rent increase of CPI +0.5% up to year 10 and then an increase of CPI only. This was an alternative model to our previous rent increase assumptions of RPI +1%

It was found that, with this reduced level of increase, these could all be met and maintained. This is illustrated in the graph below:

### Net Cash Flows vs Cash Balances £000s



It can be seen that cumulative cash balances remains positive throughout the life of the plan, reaching **£22.4 million** at **Year 30**.

The minimum annual cashflow of **-£691,345** happens at **Year 6**. This arises as a result of a high level of capital investment and new development financing costs.

While other negative annual net cashflow do arise, again, as a result of higher than average annual capital investment costs and new development financing costs, there is a sufficient level of cumulative cash reserves to cover the shortfall arising.

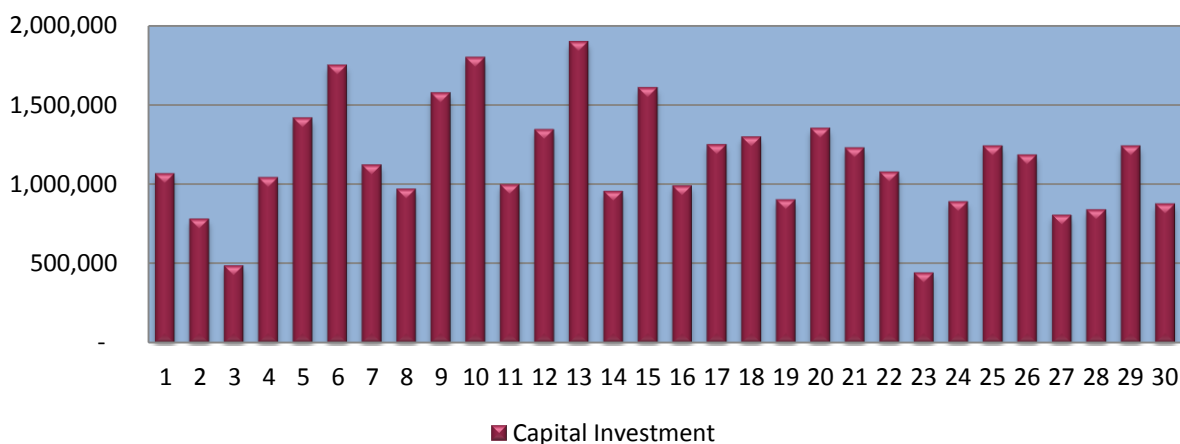
## 15.3 Funding Future Investment

Total capital investment in the Association's housing stock over the life of the business plan model is **£34.4 million** (*money terms*).

The capital expenditure profile has not been subject of a "smoothing" exercise to balance peaks and troughs and is based on the raw data of component replacement as forecast through the 30 Year Major Repair Plan and stock condition information.

The profile of capital expenditure is illustrated in the graph below:

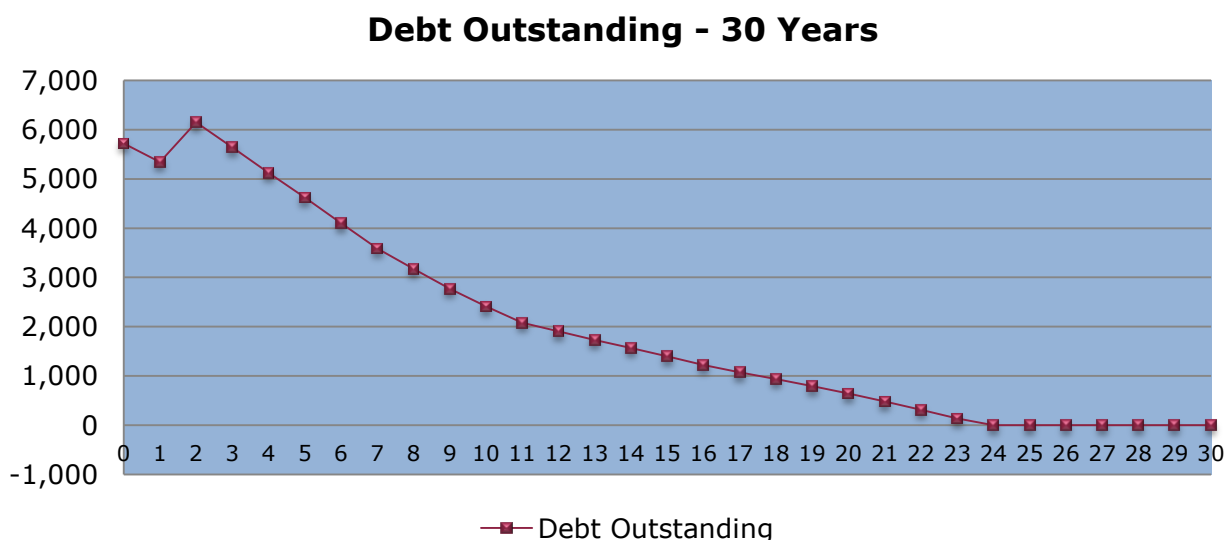
## Capital Investment



The capital investment is fully funded by the Association's own cash reserves, with no requirement for additional funding.

### 15.4 Borrowing

As mentioned above, within the baseline model the cumulative cash balance remains positive throughout the business plan. The only requirement for new borrowing is to finance the new development at Cathkin Braes Phase 7 in Year 2. The debt outstanding over the plan is illustrated in the graph below:



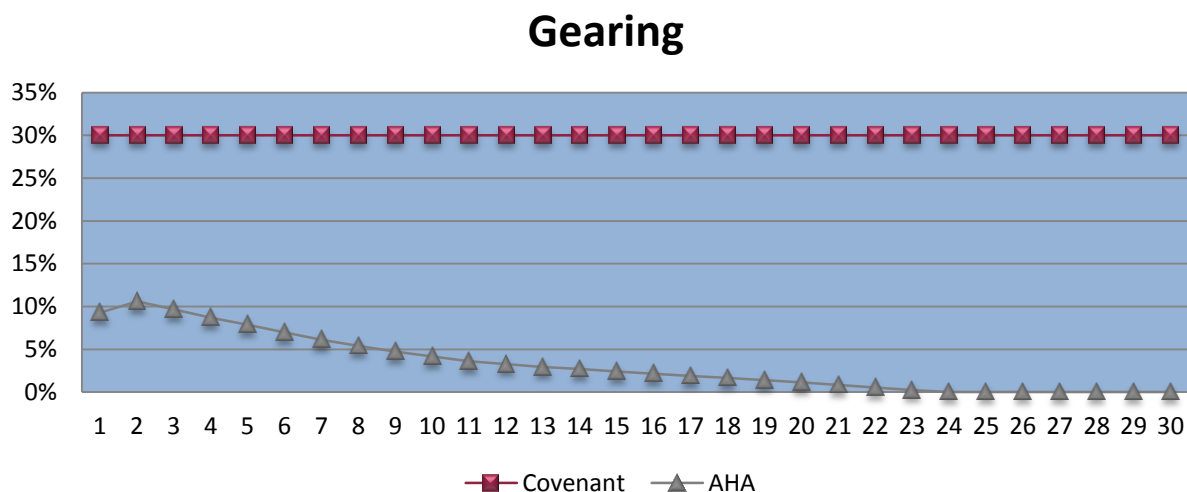
The level of debt reduces from **£5.34 million** in Year 1 to **£2.41 million** at Year 10 and to £nil at Year 30 of the plan. All debt is repaid at Year 24 of the model.

The debt per unit at Year 1 is **£5,531 per unit** and decreases to a debt per unit of **£2,442** at Year 10, and £nil at Year 30 as debt is repaid at Year 24 of the business plan model. The debt per unit is consistently below the Scottish Average (£12,806 2015/16) over the life of the plan.

## 15.5 Covenants: Gearing

In respect of lenders covenants, the following has been assumed which is in line with the covenants associated with the Ardenglen's largest balance sheet loan (Royal Bank of Scotland – loan outstanding as at 31<sup>st</sup> March 2016 of £2,512,529):

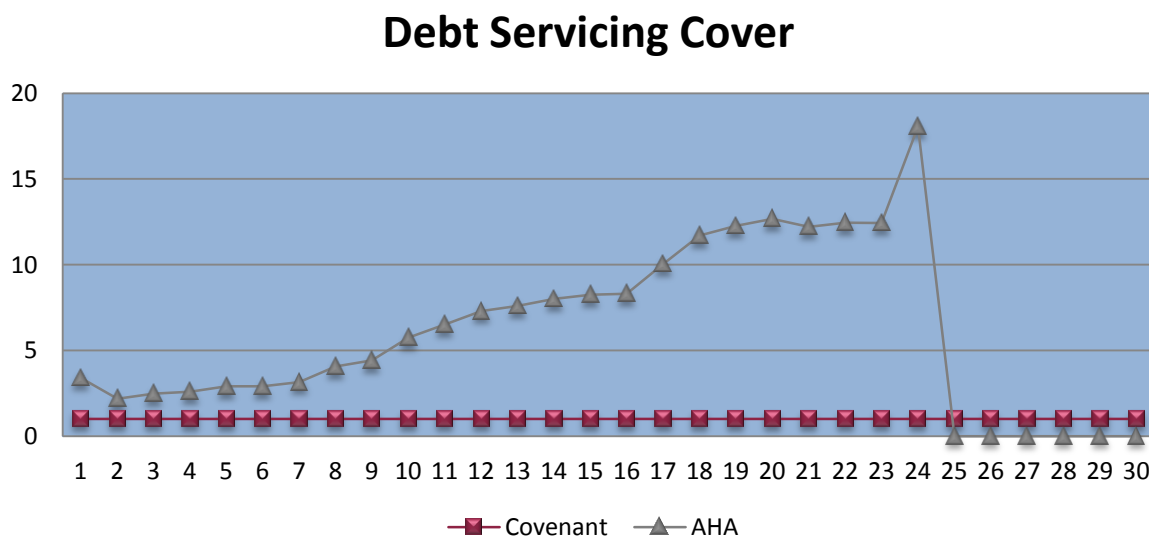
Total Borrowing: Tangible Net Worth – **maximum 30%**



The above graph clearly demonstrates that Ardenglen's gearing levels remain below the maximum set in the covenant of 30%. The maximum level of gearing is **11%** in **Year 2**.

## 15.6 Covenants: Debt Servicing

Debt Servicing Cover - Net operating surplus (after adding back depreciation on housing properties and major costs which are covered by Designated Reserves or funded by additional borrowing): Debt Servicing Costs (Interest paid plus capital repayments on loans) – **minimum level 1:1**



Again, the graph above demonstrates that Ardenglen's debt servicing cover remains comfortably below the covenant set at **1.1**. The debt servicing cover within the baseline business plan model reaches a minimum of **2.1** occurring in **Year 2**.

The drop reflected in the graph above illustrates that the cover ratio is no longer applicable at **Year 25** of the model as debt has been fully repaid.

### **15.7 Covenants: Interest Cover**

Interest Cover – Net operating surplus (after adding back depreciation, major costs covered by reserves, interest income and reducing by pension deficit costs): interest paid. **Minimum 1:1**.

Base Year is **11:1** which then reduces to **6:1** in Year 2 due to the assumption of additional borrowing. From Year 3 this is increasing gradually over time to **706:1** at Year 24 when all debt is repaid.

### **15.8 Covenants: Asset Cover**

Asset Cover – Debt outstanding at year end as a percentage of latest housing properties valuation. **Minimum 110%**.

Base Year is **440%** which then reduces to **383%** in Year 2 due to the assumption of additional borrowing. From Year 3 this is increasing gradually over time to **17,207%** at Year 23 as debt is fully repaid by end of Year 24.

### **15.9 Fundability: Conclusion**

The Financial Model demonstrates that Ardenglen can meet and maintain our objectives and obligations in a financially sustainable way, within lender covenants as well as producing significant cash resources for future investment.

Furthermore, the benchmarking exercise noted in Chapter 14, confirms Ardenglen performs well in comparison with other Scottish RSL's and offers efficiency and value for money in respect of the service that it provides.



## **16. FINANCIAL RISK ANALYSIS**

### **16.1 Introduction**

An integral part of developing the business plan is the identification and mitigation of the potential risks to the underlying economic and financial assumptions which underpin the financial business plan. Effective organisations are aware of the risks that exist for their business and take action to deal with them accordingly.

Ardenglen has adopted a positive approach to risk management, which involves:

- identifying the current risks to the Association associated with the provision of housing services;
- identifying any additional risks arising or likely to arise in lifetime of this plan;
- quantifying and understanding the significance of these risks in terms of likelihood and impact, and therefore enable prioritisation;
- considering existing arrangements for avoiding risk where possible and otherwise managing risks; and
- developing action plans to assist in mitigating/controlling these risks.

Risk management is an ongoing process. Over time, some risks reduce in importance or disappear whilst other risks become more important or appear for the first time. As part of the strategy for managing risk the Association should ensure that the appropriate steps are taken to identify and address risks in all aspects of their operations.

### **16.2 Identifying & Assessing Risk**

According to the Scottish Housing Regulator Business Planning Guidance (published December 2015), a robust sensitivity analysis should test the impact of any changes that might arise to the economic and financial assumptions which underpin the financial model. Specifically, the sensitivity analysis should consider the following factors:

- Economic variables such as interest rates and differential inflation rates for example, for maintenance or development expenditure and staffing costs;
- Continued exposure to, and management of, growing pension obligations (employers' contributions and liability and the auto-enrolment statutory requirements);
- Current and forecast rent levels, in particular examining the possibility of not achieving an inflationary uplift to rent levels; and
- Rent losses due to voids, arrears, and bad debts; and differing subsidy levels.
- Impact of diversified activities such as the Cathkin Braes Activity Centre
- Supply chain management (break down in supply chain / financial stability of private contractors); and
- Testing multiple risk factors

Following the release of the 2016 annual risk assessment, the Regulator has now highlighted a number of key emerging issues that RSL's should be further considering as part of their "ongoing management of risk and business planning".

- the impact of Brexit and the associated uncertainty which arises from this;
- the likelihood of an increased rate of inflation following the devaluation of Sterling in the immediate aftermath of the European Union referendum
- continuing uncertainty over the scale of changes to the welfare system and the pace of changes
- More demanding private lending environment (increasing costs of funds, potentially shorter borrowing periods, covenant non-compliance resulting in review and re-financing);

The risk assessment carried out within the following sections embraces the Regulator's guidance, seeks to address the key emerging issues and to measure the impact of such risks on the viability of the financial business plan.

Each of the risks has been assessed using a baseline that the Association has met both the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (EESH) without additional investment and within a rental increase of CPI +0.5% for years 1 -10 and then CPI only over the life of the plan. This is with the exception of testing various rental increase scenarios.

### 16.2.1 Risks & Sensitivities: Inflation Assumptions

Given the uncertain inflationary environment at the present time it is important to have a clear understanding of the impact of changes in inflation on the business plan. The table below illustrates this.

Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Covenant Breach				Risk Mitigation Strategy
					Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
BOE target +1% (3%) for first 5 years	<b>23,701,819</b>	<b>1,870,659</b>	<b>7,833,344</b>	<b>39%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
BOE target +1 (3%) until Yr 10 and inflation only thereafter	<b>24,638,509</b>	<b>1,902,854</b>	<b>8,119,270</b>	<b>38%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
BOE target +2% (4%) for 5 Years, +1% (3%) to year 10 and inflation only thereafter	<b>25,748,195</b>	<b>2,045,446</b>	<b>8,519,471</b>	<b>40%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>

### 16.2.2 Risk & Sensitivities: Rent Levels

The table below outline a number of potential risks associated with varying rent increase assumptions which underpin the financial business plan and illustrates the effect of the individual risks on the viability of the financial business plan model.

Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Covenant Breach				Risk Mitigation Strategy
					Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
Rents pegged at 2.5% Yr3-30. Inflation increases to 4% for Y3-6; then to 3% Y7-11 and 2.5% Y12-30	<b>6,218,009</b>	<b>-1,945,848</b>	<b>992,710</b>	<b>-34%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
Rents at inflation only for the life of the plan	<b>15,617,816</b>	<b>763,717</b>	<b>4,781,121</b>	<b>17%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
Rents at 0.25% below inflation for the life of the plan	<b>9,233,421</b>	<b>195,559</b>	<b>2,822,747</b>	<b>4%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
Rent freeze for the first two years of the plan	<b>15,552,529</b>	<b>306,686</b>	<b>4,497,301</b>	<b>7%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>

### 16.2.3 Risk & Sensitivities: Voids and Bad Debts

The table below outline a number of potential risks associated with the rent, void and bad debts assumptions which underpin the financial business plan & illustrates the effect each of these individual risks has on the viability of the financial business plan model.

Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Covenant Breach				Risk Mitigation Strategy
					Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
Void Rate Doubles	21,515,607	1,520,829	6,991,608	33%	No	No	No	No	Monitor Monthly Void Rates
Bad Debt Rate Doubles	20,650,812	1,349,906	6,633,247	30%	No	No	No	No	Effective Arrears Management
Void and Bad Debt Rate Doubles	19,758,036	1,158,208	6,253,003	25%	No	No	No	No	Effective Void & Arrears Management
Bad debt increase Y2(1%) + additional 1% each yr to 5% Y6	15,797,817	573,674	4,739,402	13%	No	No	No	No	Effective Arrears Management
Voids and Bad Debts outturn at budget	23,808,844	1,998,467	7,958,361	44%	No	No	No	No	Effective Void & Arrears Management



### 16.2.4 Risk & Sensitivities: Reactive and Planned Maintenance Costs

The table below outline a number of potential risks associated with the reactive & planned maintenance cost assumptions which underpin the financial business plan and illustrates the effect each of these risks on the viability of the financial business plan model.

Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Covenant Breach				Risk Mitigation Strategy
					Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
All maintenance costs increase to inflation +1% for 30 Years	<b>18,239,636</b>	<b>1,442,113</b>	<b>6,146,465</b>	<b>31%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
Reactive & void costs increase by 10%	<b>19,963,255</b>	<b>1,206,894</b>	<b>6,348,752</b>	<b>26%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget and Review Programme</b>
Major repair programme underestimated by 10%	<b>18,173,211</b>	<b>474,627</b>	<b>5,297,339</b>	<b>10%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget and Review Programme</b>
Major repair programme underestimated by 15%	<b>16,058,497</b>	<b>(144,323)</b>	<b>4,261,750</b>	<b>-3%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget and Review Programme</b>
Professional Fee rate increases from 8% in Year 4+ to 12% internal rate	<b>20,941,174</b>	<b>1,343,434</b>	<b>6,694,141</b>	<b>29%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Review Procurement procedures</b>

### 16.2.5 Risk & Sensitivities: Management Costs

The table below outline a number of potential risks associated with the reactive & planned maintenance cost assumptions which underpin the financial business plan and illustrates the effect each of these risks on the viability of the financial business plan model.

Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Covenant Breach				Risk Mitigation Strategy
					Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
Management cost increase to inflation +1% in Years 1-10 then inflation +0.5% for the life of the Plan	<b>20,160,699</b>	<b>1,414,698</b>	<b>6,530,910</b>	<b>31%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
Management cost increase to inflation +1% in Years 1-15 then inflation +0.5% for the life of the Plan	<b>19,198,877</b>	<b>1,414,698</b>	<b>6,256,572</b>	<b>31%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
Management cost increase to inflation +1% for 30 years	<b>17,817,127</b>	<b>1,414,698</b>	<b>6,015,247</b>	<b>31%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
Management cost increase to inflation +5% for Years 2-5 then inflation +0.5% for the life of the Plan	<b>12,513,802</b>	<b>102,231</b>	<b>3,516,518</b>	<b>2%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>

### 16.2.6 Risk & Sensitivities: Debt and Private Lending

The table below outline a number of potential risks associated with the debt and lending assumptions which underpin the financial business plan and illustrates the effect of each of these individual risks on the viability of the financial business plan model.

Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Covenant Breach				Risk Mitigation Strategy
					Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
Interest rates increase by 1% Year 2 & Y-3-5 by 1.5% until reach 6% - remains at 6% for life of the plan	<b>22,078,910</b>	<b>1,476,700</b>	<b>7,139,083</b>	<b>32%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Systematic monitoring of interest rates</b>
Interest rates increase to 5% Year 3	<b>22,080,659</b>	<b>1,469,201</b>	<b>7,131,501</b>	<b>32%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Systematic monitoring of interest rates</b>
Interest rates increase by 1% each year until Year 5 - 5% - remains at 5% for the life of the plan	<b>22,204,851</b>	<b>1,561,409</b>	<b>7,226,635</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Systematic monitoring of interest rates</b>

### 16.2.7 Risk & Sensitivities: Other Key Risks

The table below outline a number of other key risks highlighted in recent months associated with certain assumptions underpinning the financial business plan and illustrates the effect of each of these individual risks on the viability of the financial business plan model.

					Covenant Breach				Risk Mitigation Strategy
Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
Defined Benefit Pension Scheme - Past service deficit contribution running to 2027	<b>21,531,580</b>	<b>1,122,079</b>	<b>6,813,363</b>	<b>24%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor periodically future pension valuation</b>
Defined Benefit Pension Scheme running to year 30	<b>22,146,731</b>	<b>1,712,526</b>	<b>7,308,097</b>	<b>38%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor periodically future pension valuation</b>
Defined Benefit Pension Scheme – 2018 Valuation deficit increases to approx £1 Million	<b>21,364,419</b>	<b>1,122,079</b>	<b>6,717,402</b>	<b>24%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor periodically future pension valuation</b>
VAT increases by a further 2.5% in year 5+	<b>20,261,113</b>	<b>1,336,607</b>	<b>6,504,277</b>	<b>29%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Systematic monitoring of VAT rates / legislation</b>

### 16.2.8 Risk & Sensitivities: New Build Development - Cathkin 7

The table below outline a number of scenarios regarding the funding assumptions of the new build development and illustrates the effect of each of these individual scenarios on the viability of the financial business plan model.

Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Covenant Breach				Risk Mitigation Strategy
					Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
Development of 22 units funded from cash balances	<b>22,594,948</b>	<b>1,343,668</b>	<b>7,300,639</b>	<b>25%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Treasury Management Review</b>
Development of 22 units (borrow £1.626M 10 year money 3.5%)	<b>22,361,539</b>	<b>1,715,761</b>	<b>7,389,734</b>	<b>38%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Private Finance procurement. External Affordability Review 2017</b>
Development of 22 units (borrow £1.3M 10yr money 3.5%) - AHA's Base Rent figure £3,783	<b>21,866,457</b>	<b>1,600,439</b>	<b>7,142,780</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Private Finance procurement. Ext Affordability Review 2017</b>
Development of 22 units (borrow £1.3M (15 year money 4%))	<b>22,302,314</b>	<b>2,115,450</b>	<b>7,430,413</b>	<b>44%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Private Finance procurement. Ext Affordability Review 2017</b>



### **16.2.8 Risk & Sensitivities: Value for Money / Efficiencies**

The table below outline a number of other key risks highlighted in recent months associated with certain assumptions underpinning the financial business plan and illustrates the effect of each of these individual risks on the viability of the financial business plan model.

Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Covenant Breach				Risk Mitigation Strategy
					Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
5% savings in Office Overheads Y2-5	<b>22,472,809</b>	<b>1,760,360</b>	<b>7,420,791</b>	<b>39%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
5% savings in Staffing Costs Y2-10	<b>36,700,305</b>	<b>2,626,617</b>	<b>12,788,871</b>	<b>44%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
5% savings in Staffing Costs for the life of the plan	<b>44,263,468</b>	<b>2,626,617</b>	<b>14,593,798</b>	<b>44%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget Periodically</b>
5% savings in Major Repair Programme	<b>24,525,970</b>	<b>2,290,624</b>	<b>8,409,110</b>	<b>45%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget and Review Programme</b>
10% savings in Major Repair Programme	<b>26,643,556</b>	<b>2,624,736</b>	<b>9,446,367</b>	<b>47%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor Budget and Review Programme</b>

As can be seen from the risk analysis tables above, the “majority” of the individual risk factors assessed on the base business plan model do not have any significant detrimental effect on the financial business plan and, in turn, confirms compliance with both the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (EESH) without additional investment. No immediate requirement to review our rental policy as the model confirms a rental increase of CPI +0.5% for the first 10 Years then CPI only over the life of the plan. This is with the exception of testing various rental increase sensitivity scenarios.

However, it should be noted that the model is sensitive to some changes more than others. The most detrimental of all risks is the impact of any changes made to the rental policy. Like most other housing organisations, the Association is likely to become increasingly under pressure to limit the increases that are applied to rent in the next few years, as particular households feel the impact of the changes to welfare benefits and rising household costs i.e. energy costs.

Four scenarios have been tested in the above section (at 16.2.2). To show the risk of rising inflation, the most significant impact upon the financial business plan would be if rents were pegged at **2.5% from Years 3-30** and inflation runs significantly higher than this throughout the life of the plan. **The Association would run out of Cash in Years 10-22 – Minimum Cash Balance in Year 15 - £1.9k overdraft.** Cash reserves at **year 30** would reduce significantly by over **72%**, with cash reserves never managing to grow beyond £5 million until year 29 onwards.

A similar story would arise if the Association chose to **set rents at 0.25% below inflation for the life of the plan.** Cash reserves from the baseline model at year 30 would **reduce by 41%** and would not reach beyond £5 million until year 25 of the model. **Minimum Cash Balance in Year 13 is £196k.**

Both are perhaps extreme cases but even applying a **rental freeze** for the next **2 years** will result in a significant reduction to the overall 30 year cash reserves of **£15.5Million.**

We also tested five scenarios in the Reactive and Planned Maintenance Costs section (16.2.4). If our Capital Investment Programme was underestimated by **15%**, this would impact upon the “cash” position of the business plan – this would result in a reduction to 30 year cash reserves of £6.3 million. **The Association would run out of Cash in Year 10 only – Minimum Cash Balance in Year 10 £195k overdraft.** Cash reserves at year 30 would reduce to **£16 Million (28% reduction).**

We examined several risks in the Other Key Risks section (16.2.7) and examined potential risks associated with the Defined Benefits Pension Scheme. The next valuation is due to be carried out in 2018 – if this valuation resulted in an increased deficit to £1Million the Association’s **Minimum Cash Balance in Year 10 - £1.1 Million.** Cash reserves at **year 30** would reduce to **£21.4Million – a reduction of 5%.** Furthermore, this would put pressure on the debt servicing cover covenant in Year 4.

We looked at the impact of increasing VAT by 2.5% in Year 5+ which would result in a VAT rate of 22.5%. **Minimum Cash Balance in Year 10 - £1.3Million.** Cash reserves at **year 30** would reduce to **£20.3Million – a reduction of 10%.**

Other risks which have less of an impact but have shown signs of affecting the overall plan includes:

- The pension future past earnings deficit is extended by a further 5 years to 2027 - reduction to 30 years cash reserves of £0.9 Million;
- Bad Debt/Arrears Debt level increases by 1% in Year 2 and an additional 1% each year until it reaches 5% in Year 6, and continues throughout the planned period - as a result of housing benefit changes - reduction to 30 year cash reserves of £6.6 Million;
- 10% underestimation in the entire capital investment programme throughout the plan – reduction to 30 year cash reserves of £4.2 million.

### 16.3 Multiple Risk Factors

It is important to identify and test individual risks. However, it is also important to contemplate the possibility, that a number of risks will impact the financial business plan simultaneously. Such modelling allows the plan to be tested rigorously against the most trying of circumstances. The table below illustrates various multiple risks and sensitivities that should be carried out. The sensitivities are measured against the same benchmark as used for the individual risks:

Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Covenant Breach				Risk Mitigation Strategy
					Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	No	No	No	No	n/a
Rents at inflation only over life of plan, void and bad debts doubling and maintenance and investment at +1% above general inflation	<b>6,029,986</b>	<b>-983,056</b>	<b>1,478,680</b>	<b>-19%</b>	No	No	No	No	<b>Monitor inflation; Monitor Void and Arrears Management Review Budget Periodically</b>
Rents at inflation only over life of plan, void and bad debts doubling; management; maintenance and investment at +1% above general inflation	<b>2,924,336</b>	<b>-1,794,545</b>	<b>111,961</b>	<b>-35%</b>	No	No	No	No	<b>Monitor inflation; Monitor Void and Arrears Management Review Budget Periodically</b>

					Covenant Breach				Risk Mitigation Strategy
Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	n/a
Inflation sits at 4% Yrs 3-5; Rent Freeze Year 3 only; Voids Increased by 0.5% to 1%; Bad Debts increased by further 0.5% throughout model; Interest Rates increase to 4.5% from Year 3+	<b>14,175,972</b>	<b>-81,051</b>	<b>3,844,885</b>	<b>-2%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor movement in inflation; Monitor void and arrears Management; Systematic monitoring of interest rates</b>
Inflation sits at 4% Yrs 3-5; Rent freeze Year 3 only; Construction costs increase to inflation +1% Year 2-10; Interest Rates increase to 4.5% from Year 3+	<b>12,871,430</b>	<b>-20,132</b>	<b>3,525,813</b>	<b>0%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monitor movement in inflation; Review &amp; Monitor Budgets; Review Procurement Procedures; Systematic monitoring of interest rates</b>



## **16.4 Financial Risk – Conclusion**

Any organisation reliant on one source of income is open to significant risk, should that source of income come under pressure. 95% of Ardenglen's income comes through rents either paid directly by tenants or through Housing Benefit, pressure on rents either through state or individual affordability represents the biggest risk faced by Ardenglen.

As discussed previously, we therefore wished to take account of rent affordability by abandoning RPI+1% and modelling instead on annual rent increases of CPI +0.5% for years 1 -10 and then CPI only over the life of the plan. The modelling was based on this revised income stream delivering our existing long term commitments and allowing the inclusion of a 22 unit new build and the CBAC.

We are pleased that our base risk model confirms that this is achievable, and that the plan can absorb most of the identified risks without requiring significant changes in service or major cost cutting.

We do recognise the fragility of any housing association business plan with regard to income assumptions; however we believe we have modelled a realistic model of future income, which takes account of our current and future rent levels and their long term affordability.

We are not complacent and recognise that a positive approach to Value for Money and risk management will assist in controlling and mitigating any risks that may occur.



**Cathkin Braes  
Activity Centre**

**17**

## **17. CATHKIN BRAES ACTIVITY CENTRE**

The Base Financial Model represents the long term financial viability of Ardenglen in terms of the delivery of its key Strategic Objectives contained in the Business Plan, including the funding of a new 22 unit development at Cathkin Braes Phase 7.

Ardenglen's mission statement is "*Investing in our Community*". This means we are not only concerned with providing and managing housing, but also supporting and developing our local community.

Chapter 7 confirms that to meet these Strategic Objectives, the Association is committed to partnership working to deliver regeneration activities and programmes to mitigate the excesses of welfare reform and help develop a vibrant sustainable community.

The vast majority of these hugely successful programmes are currently delivered from the Maureen Cope Community Hall, which does not have a sustainable long term future without massive repair investment.

The Association has examined a number of long term options to replace the MCCH, all of which have very high capital costs, high borrowing and were unlikely to attract grant funding. These subsequently had an extreme impact on financial viability and were rejected.

The Association's involvement in the CBAC is the result of extensive public consultation and offers the opportunity to save an important Scottish "B" Listed Building and deliver a £4m world class facility, which would be 95% grant funded. Ardenglen would own the building, but our capital contribution and development risk is restricted to approximately £275,000.

A full business case for the CBAC is being prepared and includes a full individual business and financial plan. This was developed by an independent consultant.

While it is likely the management of the CBAC will be delivered by a subsidiary of Ardenglen, full details cannot be finalised until the Grant conditions of the various funders are considered and appropriate risk mitigation is agreed. These will then be added to the business case.

Ardenglen believe the CBAC would represent a "game changing" opportunity for our local community, Castlemilk and Glasgow. We recognise however, the risks involved in the project and the importance of being clear what impact this may have on core activity and tenants.

This section of the business plan therefore focuses on the financial impact of the base financial model if the Association were to fund capital and revenue investment in the development of the proposed Cathkin Braes Activity Centre.

## 17.1 Potential to Support the Cathkin Braes Activity Centre

The table below outline a number of key risks associated with the CBAC and the potential impact of these individual risks on the viability of the financial business plan model.

Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Covenant Breach				Risk Mitigation Strategy
					Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
50% UTILISATION CBAC no net income contribution from subsidiary and AHA pays £42k per annum for use of space	<b>21,050,197</b>	<b>1,200,093</b>	<b>6,640,998</b>	<b>26%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Periodic Review Business Plan. Review Letting/ Marketing Strategy. Governance Review.</b>
As above with 50% contribution from partners for the £42k CBAC rent payment	<b>22,094,176</b>	<b>1,398,573</b>	<b>7,065,653</b>	<b>31%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Periodic Review Business Plan. Review Letting/ Marketing Strategy. Governance Review.</b>

					Covenant Breach				Risk Mitigation Strategy
Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
CBAC generates no income from activity centre space hire/event /cafe sales over years 3-12 of the plan	<b>20,555,078</b>	<b>112,240</b>	<b>5,787,717</b>	<b>2%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monthly Financial Reporting. Review Business Plan. Review Letting/ Marketing Strategy. Governance Review.</b>
UTILISATION increases to 70% by year 5+ CBAC AHA pays £42k per annum for use of space & receives 50% of net income via gift aid from CBAC	<b>22,688,785</b>	<b>1,489,498</b>	<b>7,301,330</b>	<b>33%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Monthly Review of Finance Reports. Periodic Review Business Plan &amp; Marketing Strategy. Governance Review.</b>

					Covenant Breach				Risk Mitigation Strategy
Risk Factor	Max Cash	Min Cash	Average Cash	Min Cash balance as a % of Gross Exp	Interest Cover	Debt Servicing Cover	Gearing	Asset Cover	
<b>Baseline</b>	<b>22,408,384</b>	<b>1,712,526</b>	<b>7,371,853</b>	<b>35%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>n/a</b>
CBAC generates no income from Activity Centre space hire/event/cafe sales over Yr 3-12. However, energy costs are reduced by 30%, maintenance costs reduced by 10% and part time manager removed from staffing costs.	<b>21,018,985</b>	<b>380,336</b>	<b>6,093,857</b>	<b>8%</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Periodic Review of Finance Reports / Business Plan; Review Marketing/ Letting Strategy. Maintenance Programme Review. Governance Review.</b>



## **17.2 Conclusion**

Based on the above financial assessment, it is clear that through effective planning, managing and monitoring of key risk factors, the Association's business plan has the capacity to allow the Association to "Invest in our Community" by way of providing a restricted capital contribution to acquire the building, as well as financial revenue support to the Cathkin Braes Activity Centre (CBAC).

The Association currently delivers its regeneration activities from the Maureen Cope Community Hall, and with the building having a restricted useful life, it is anticipated that the Association's regeneration activities would move its operations base to the CBAC.

Without the CBAC, the Association would be required to invest significant sums in the construction or acquisition of an appropriate building or alternatively abandon or severely curtail our regeneration activities.

While there is risk associated with the CBAC, we believe this can be controlled and that there is no danger to the association being able to support our key commitments in terms of the provision of core services.

Five scenarios have been tested in the above section (17.1). The most significant impact upon the financial business plan would be if the CBAC generated no income in Year 1-10 and the Association supported the Centre's full operating costs over the planned period. No financial support thereafter. **Minimum Cash Balance in Year 10 - £112k.** Cash reserves from Year 11-30 steadily increases to **£20.6 Million (reduction of 8%)**.

A similar story would arise if the Association supported the above, however, reduced energy costs by 30%; reduced maintenance costs by 10% and the loss of one part-time employee, over the planned period. No financial support thereafter. **Minimum Cash Balance in Year 10 - £380k.** Cash reserves from Year 11-30 steadily increases to **£21 Million (reduction of 6%)**.

Both of the above cases are extreme, and it is extremely unlikely that the Association would allow poor trading results without intervention.

On a positive note, we also tested if the CBAC utilisation rate was to increase from 50% to 70%, and was in a position to gift aid 50% of its surpluses back to the Association. **Minimum Cash Balance in Year 10 - £1.5 Million.** Cash reserves at Year 11-30 steadily increases to **£22.7 Million (increase of 1%)**.

The Association has not engaged in the CBAC project on the expectation of this generating a significant cash windfall. Much of the benefit from our involvement will be non financial and difficult to quantify in cash terms. But by improving community cohesion and assisting people to become job ready we are helping to mitigate the impact of welfare reform and helping to sustain tenancies.

We believe the CBAC is an opportunity rather than a threat and while there is risk inherent in all opportunities, the data does provide evidence and demonstrates that the business plan would remain financially viable and sustainable over time should the CBAC project come to fruition.

## **APPENDIX A**

### **Staff and Governance Structure**

The Ardenglen Group  
Organisational Chart  
Revised Structure May  
2016

Denotes Management Team Members

Denotes Governance Reporting .....

Ardenglen Housing  
Association  
Management Committee

Ardenglen Developments  
(Subsidiary)

Kenny Stocks  
CEO

Housing  
Services

Finance &  
Business  
Support

Regeneration  
Services

Diane Hendry  
Head Of Housing Services

Pamela Forrest  
Housing Services  
Manager

Lauren Docherty  
Suzanne Casey  
Angela Mooney  
Housing Officers

Kerri Downie  
Housing Services  
Assistant

Peter Boyle  
Maintenance Officer

Colin Robertson  
Maintenance Officer

Heather Sokolov  
Housing Services  
Assistant

Nicole Babes  
Snr Customer Services Assistant

Front of Office

Eleanor Spence  
Customer Services Assistant  
Temp

Front of Office

Amy McQueen  
F&BS Manager P/T

Leanne McGowan  
Senior F&BS Officer

Michelle Robertson  
F&BS Assistant

Maureen Perry  
Business Support Officer  
P/T

Lesley Macphee  
Regeneration Manager P/T G

Fiona McGovern  
Regeneration Officer

Jackie King  
Regeneration Assistant