**PAISLEY HOUSING ASSOCIATION**

**BOARD REPORT**

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| **MEETING** | Board | **DATE** | 21st February 2022 |
| **AGENDA NO** | 6 | **TITLE OF REPORT** | Quarterly Management Accounts: Q3 to December 21 |
| **AUTHOR** | Head of Finance & IT |  |  |

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| --- | --- |
| **Recommendations** | For Board:  To note the contents of the report and approve all corrective action where proposed. |
| **Financial implications** | This report is a part of the ongoing financial monitoring of the Association. |
| **Equal Opportunities implications** | None |
| **Health & Safety implications** | None |
| **Risk implications** | As per Financial Implications. |
| **Charter implications** | None |
| **New Regulatory Framework Implications** | 3. The RSL manages its resources to ensure its financial well-being and economic effectiveness |
| **Relevance to Business Plan** | 5. VIABILITY-Ensure the financial and organisational viability of the Association. |

PAISLEY HOUSING ASSOCIATION REPORT

#### To: Board

**Date of meeting:** 21st February 2022

**Report by:** Head of Finance & IT

**Subject:** Quarterly Management Accounts: Q3 to December 21

(April – Dec21)

**Agenda Item: 6**

1. **Purpose of the Report**

1.1 The purpose of this report is to allow the Board to:

* + monitor the financial position of the Association against the approved annual budget;
  + understand any variance between actual and budgeted performance; and
  + agree any corrective action required where necessary.
  + to provide financial information to assist Management in decision making.

1.2 This report provides information on the financial performance of the Association for the period from 1 April 2021 to 31 December 2021, as well as including a projected outturn to the year end to 31 March 2022.

1.3 The annual budget used for comparison was approved by Board on 29 March 2021.

**2.0 Surplus/Deficit for the Period to 31 December 2021**

* 1. Prior to transfers to reserves, the actual surplus to 31 December 2021 was £1,185,105 compared with a budgeted surplus of £778,830.

Appendix 1 columns A & B, line 10

* 1. An explanation for the main variances is provided below in section 4.

**3.0 Projected Outturn for the Year to 31 March 2022**

3.1 It is projected, based on performance to date, that the projected surplus to 31 March 2022, before transfers to designated reserves, will be £1,337,047 compared with a budgeted surplus for the year of £1,030,735.

Appendix 1, columns E & F, line 10

3.2 An explanation for the main variances is provided below in section 4.

**4.0 Significant Variances Against Budget**

* + 1. Only variances greater than £5,000 and 5% of budget have been highlighted and explained in this report, including any corrective action proposed by the relevant budget holder.

4.2 Interest Received and Other Income

Interest received is lower than expected, this is due to interest rates staying low for longer than anticipated.

The projected outturn has been decreased to £2,094 to reflect this.

Appendix 1 Line 4.

4.3 Commercial Rental Income

Commercial rental income is higher than expected. We did not budget for the rental income of 64 Espedair Street due to the uncertainty of being able to let it. 64 Espedair Street was rented out from 30th April 2021. The costs associated with the letting the property are going through overheads.

The projected outturn has been increased to £19,928 to reflect this.

Appendix 1 Line 5.

4.4 PSPS Profits Gifted

£5,330 subsidiary profits for 20/21 were gifted to PHA in 21/22

Projected outturn has been increased to reflect this.

Appendix 1 Line 6.

4.5 Interest Paid

Interest paid is lower than budget to date by £36,254.

The new CAF loan was fixed at a lower rate than expected in the budget resulting in a saving of £21,000. Interest rates remain low with small savings being made in most loans.

As a result of this the projected outturn has been decreased to £138,321.

Appendix 1 Line 7.

4.6 Voids

Void loss is lower that budget by £6,031, this is due to the number of voids and the average time to relet being better than expected. The average relet time is still considerably higher than pre-pandemic levels but is reducing. As part of the budget review, void numbers have been revised from 140 to 130, and relet times from 35 days to 32 days.

The projected outturn has been reduced to £56,966 to reflect these. Appendix 2 Line 5

4.7 Revenue Grants from Scottish Ministers

We are progressing well with our Stage 3 adaptation programme.

We were awarded £121,000 from the Scottish Government in June 2021, this is more than we expected in the budget. We applied for a higher grant this year as we anticipated adaptions being required for stock coming off site this year.

The projected outturn has been increased to £121,000 to reflect this. Appendix 2 Line 7.

4.8 Overheads

Overheads are under budget by £49,946. This is mainly thought to be a timing issue however, there have been some savings made and some increases to projected costs required.

As a result of letting out the office we incurred costs of £7,108. This was not originally budgeted but is offset by the commercial rental income being received. (See 4.3)

The projected recruitment costs have been increased to £25,000, to reflect anticipated costs to replace a Senior post, due to retirement. However, saving in other consultancy budgets compensate slightly.

Telephones is overspent to date due to the continued need for staff mobile phones with home working. This alongside a higher cost for the leased line has resulted in the increased costs.

Costs on Office Equipment Maintenance have gone up as, on replacement of licences, many Microsoft and hardware licences have now moved to a monthly subscription model. This means in practice costs now going through the Office Maintenance Account, as Revenue expenditure rather than through the balance sheet as capital spend.

To compensate Projected Depreciation of Office Furniture & Equipment has reduced.

Depreciation of Office Furniture & Equipment spend to date is also low due to postponement of the new office final set up costs, as the office opening has been postponed.in the current circumstances.

There are also savings in cleaning and both staff & committee training.

The savings in cleaning are due to the delay in the return to office working and so delay in full cleaning services until much later in the year. Training costs for both staff and committee are less than anticipated due to the continuing pandemic, with external conferences and training not being organised as normal.

The projected outturn has increased by £7,709 to £429,641 to reflect these changes. Appendix 2 Line 9

4.9 Direct Costs

Direct costs in Housing Accommodation Account are under budget by £22,540.

The main savings are in legal fees and the stock condition survey, with smaller savings in council tax and travel expenses.

The legal process is now longer, taking 6 months rather than the normal 1, so legal fees will take longer to come through. We do have 1 legal action currently that is expected to incur a high fee.

The stock condition survey is an actual saving with the quote coming in less than budget.

The projected outturn has been decreased to £86,529 to reflect these.

Appendix 2 Line 10

4.10 Direct Costs - Development

Development Consultants are underspent to date by £12,269. This is due to most of the consultant spend being capitalised against the current developments.

A requirement for inspections has been identified at Orchard Street, the propping to the end of March will be £1,200.

The projected outturn has been decreased to £6,000 to reflect these.

Appendix 3 Line 11

4.11 Common Service Charges

Common Services is under budget by £11,884

This is mainly due to an underspend in landscape maintenance and an overspend in bulk uplifts.

With Landscape maintenance we haven’t had to use our additional cost provision and have reduced the outturn accordingly.

Bulk is overspent to date, there is an increase in the number of people contacting us and a significant increase in volume of items, leading to increased costs as we pay per tonnage. There has been a more limited pickup by the estates team due to covid. At year end, any surplus against Estate Team skip costs will assist to reduce total bulk costs however, we still anticipate Bulk to be overspent at year end.

There has been a small saving in engineering insurance and inspection costs for the year.

The projected outturn has been increased to £301,797 to reflect increased bulk uplifts.

Appendix 2 Line 13

4.12 Planned Maintenance

Planned maintenance is under budget for the year by £31,676.

This is mainly due to the spend profile for stage 3 adaptations, the budget to date being linear however, the spend is weighted to the end of the year due to the requirement for adaptions to the stock that has just come off site. We forecast that this will be fully spent in the year.

The projected outturn for the Stage 3 adaptation expenditure has been increased in line with the award, item 4.6, as this is offset by the grant income.

The projects for Drainage works at Mannering Road and Magnalocks have been carried forward from 2020/21 and will be competed in Quarter 4.

The projected outturn has been increased to £248,590 to reflect this..

Appendix 2 Line 16

4.13 Environmental Project

No work on the environmental contract has been undertaken to date. We are still anticipating being able to do some small pieces of work in the last quarter.

The projected outturn has not been reduced to £61,800 to reflect this.

Appendix 2 Line 17

4.14 Bad debts

Bad Debts are lower than budget by £24,631.

This is due to the majority of the new arrears being at lower debt bandings which are not provided for in the bad debt movement.

As we have been more successful in our debt recovery, we now do not expect bad debts to jump as high as our original budget as fallout from the pandemic, so have reduced this from 1.1% to 0.75%.

The projected outturn has not been reduced to £43,241 to reflect this.

Appendix 2 Line 19

4.15 Board Expenses

Board Expenses for the year are £648 compared to the budget for the period of £3,443. The projected outturn has been reduced to £1,000.

* 1. Balance Sheet – Component Replacement Spend

Spend for the quarter on component replacements was £265,820.

This is spend on the rewiring and fire safety works, and the boiler contract.

The kitchen contract has been procured as a 2 year contract, with the option to extend. In this, year 1, we are doing less properties at a slightly higher cost. However the cost for year 2 is projected to be less than anticipated in the 5 year budget.

The bathroom contractor has pulled out of the contract as per the report that went to the board in January. Our agreed action is to re procure for 136 properties from the Framework in Q4 once permitted to do so. Installation will consequently slip into 2022/23.

Due to lack of interest by contractors on Framework Lot 3 (doors and windows), internal doors will be procured this year along with 2022/23 external doors. This may have to be outwith the Framework. Their installation will therefore be in 2022/23. .

The projected outturn has been reduced to £1,271,819 to reflect the above.

Appendix 4 Line 3

5.0 **Summary of Performance**

* 1. Overall, our performance has resulted in an underspend against budget of £306,312. It is anticipated that the outturn for the year will be £1,337,047 compared with a budgeted figure of £1,030,735, resulting in an underspend of £292,466.

Appendix 1 column C, E & F Line 10

**6.0 Balance Sheet**

* 1. The Balance Sheet is attached at Appendix 4

* 1. As at 31 December 2021:
* Our Fixed Assets (Housing, Office, and Office Equipment & Investments) were valued at £53,460,196 - column B, line 11.
* We have £5.36 of Current Assets for every £1 of Current Liabilities.
* Our cash balances totalled £6,800,781 - column B, line 17.
* Our long-term creditors (all bank loans, pensions’ liability & SHG) totalled £35,881,358 column B, line 27.
* Our Total Capital & Reserves are £23,288,503 - column B line 32.
* Fixed assets and Long Term Creditors reflect that SHG is now shown as deferred income in long term creditors.

**7.0 Cashflow Statement**

7.1 The Cashflow Statement in Appendix 5 explains the actual movement of cash making up the actual cash balance as at 31 December 2021 of £6,800,781.

**8.0 Financial Performance Indicators**

8.1 Financial Performance Indicators assist the Board to monitor various aspects of our financial performance. See appendix 6.

* 1. The Board should note however they are indicators only to highlight possible issues. There may be good reasons why we are performing as we are e.g. a high quick ratio because we have a high cash balance as we are about to carry out a large major repairs contract.

**9.0 Lenders’ Financial Covenants**

9.1 As part of the lenders financial covenants of lending, the Association agreed annual financial targets as detailed in appendix 7.

9.2 Failure to meet/exceed these targets is a breach of the loan agreements. This could mean the lender requesting immediate repayment of the loan.

9.3 Per Appendix 7 we predict to pass all ratios for the lenders this year.

**10.0 Recommendations**

10.1 For the Board to note the contents of this report.

**Appendix 7 Financial Covenants**

The table below indicates the financial targets for 2021/2022 we require to achieve, to meet our financial covenants agreed with the various lenders, against projected out turn for the year to 31 March 2022.

**Key Targets – Royal Bank of Scotland**

|  |  |  |  |
| --- | --- | --- | --- |
| **Ratio** | **Target** | **Projected Out turn** | **Pass/Fail** |
| Loan Repayment Cover | >100% | 246% | Pass |
| Debt Cover | <35% | 13.8% | Pass |

**Key Targets – Bank of Scotland**

|  |  |  |  |
| --- | --- | --- | --- |
| **Ratio** | **Target** | **Projected Out turn** | **Pass/Fail** |
| Interest Cover | >125% | 1726.77% | Pass |

**Key Targets – Clydesdale Bank**

|  |  |  |  |
| --- | --- | --- | --- |
| **Ratio** | **Target** | **Projected Out turn** | **Pass/Fail** |
| Debt Cover | <30% | 8.5% | Pass |

**Key Targets – CAF**

|  |  |  |  |
| --- | --- | --- | --- |
| **Ratio** | **Target** | **Projected Out turn** | **Pass/Fail** |
| Interest Cover | >110% | 1545.54% | Pass |
| Gearing Cover | <65% | 61.21% | Pass |