

MONMOUTHSHIRE HOUSING ASSOCIATION LIMITED

REPORT TO BOARD

TO BE HELD ON 18th SEPTEMBER 2019

FINANCIAL BUSINESS PLAN & STRESS TESTING UPDATE

INTRODUCTION

This report seeks members' recommendation to Board of the 30 year financial Business Plan and the associated stress testing.

This report provides the Committee with the details of the new Business Plan (including Consolidated Income and Expenditure Accounts, Balance Sheets, Cash Flows which incorporate separate Monmouthshire Housing Association and trading subsidiary Capsel Business Plans, the debt profile, the assumptions used in the BP and the stress testing results).

This BP has already been submitted to Barclays so they can start to do their own analysis in preparation for submission to their internal credit committees. Once approved by them the covenants for 2019/20 that are included in this business plan and beyond will be confirmed.

The additional Appendix shows the individual risks and the mitigations we can apply to offset the stress testing scenario outcomes.

The year-end Asset and Liability Register is attached at Appendix H

Recommendation

Members are asked to comment on and recommend to Board that they approve the Financial Business Plan for 2019 and the outcomes of the stress testing carried out on this BP.

Members also asked to approve the asset and liability register for 2019.

Key Issues

MHA are required to adopt a budget for the forthcoming 12 months. The figures that make up the budget form the basis of the first forecast year of the 30 year business plan that will be sent to Welsh Government, Barclays and all other stakeholders.

The 30 year Financial Business Plan is in line with previous submissions to Board, Welsh Government and Barclays (see the debt profile attached to this report – Appendix D refers) and the assumptions used in the BP (Appendix E refers).

Development Numbers have reduced to 349 in this plan and the total development spend has gone down from £51.4m to £40.9m, however the number and value of properties for sale in the program has decreased from 131 to 96.

This Business Plan allows for multi-variable stress testing the results of which are summarised on the attached Appendix F.

The main outcome arising from the stress testing is that we are in a good place at the moment to deal with most of the high priority risks on our risk register. What it does show that in individual financial terms the 5 most impacting risks on peak debt (and comparison with last year) are as follows:

Risk Identified	2018/19	2018/19
Removal of Dowry (assumed from year 2 last year from five years hence)	£4.03m	£1.64m
Rents to change per potential new policy i.e. CPI from April 2020 (Last year stress test was to decrease as per England - Rents to decrease by - 1% from 2019 for the remaining year of the original agreement and then CPI + 0.5% from 2020)	£0.09m	£12.16m
Increased build costs by 10% on all our developments	£3.03m	£5.43m
Significantly Increased Voids and Bad Debts as a result of WR	£0.24m	£2.00m
Delay sale proceeds by one year	£8.02m	£11.85m
Reduced Grant Rate arising from AHR	£4.02m	N/A
One-off catastrophic event	£4.00m	£4.00m

The top 7 risks this year in terms of peak debt impact individually account for 88% of the total impact of each risk on the peak debt.

All of the high priority business risks have been evaluated along with the Dowry removal and Development build cost increase and the results in various scenarios are shown on Appendix F. This shows the amount of income needed to maintain Covenants and keep within the existing facility if the multi-variable scenarios came to fruition.

This is where Board will need to make considered decisions going forward i.e. what are our Plan B's should these risk scenarios happen and these are available for discussion on Appendix H.

This will continue to be a moving target because of the excellent financial condition we are in at the moment but we should be looking at where we could make savings in future years to offset the impact of the risks occurring. On the scenarios modelled the 'savings' needed to offset the financial impact of the risks would need to be a minimum of £2.1m p.a. rising to £7m p.a. in the worst case scenario

An initial meeting will be held with Barclays to discuss the business plan and the impact on covenants and then potentially a further meeting is likely to be scheduled to finalise this plan and any changes to the Loan Agreement arising from the approval process e.g. revised 30 year covenant figures will be presented to the next available Committee/Board.

In parallel we will be discussing with our financial advisers the options to consider for refinancing and they will be brought to the next available Board.

The salient point arising from the stress testing is the strong financial position we are in at the moment – with no immediate covenant breaches on the horizon should the risks materialise in the quantum noted – however the timeframe does appear to be shortening when these accumulated risks, if they happen, would impact us.

Financial / Value For Money Consequences

The Board and the Finance and Governance working group will be monitoring performance against the Business Plan and the budget for this and subsequent financial years.

The proposed budget supports the Business Plan objectives and will enable the Association to deliver good quality, good value services to all its consumers.

Business Risk Consequences

The business planning and budgetary processes are an important feature of the control mechanism that MHA have adopted post transfer to identify and minimize risk. Whilst the actual performance will differ from that budgeted it will be important to identify, at the earliest opportunity, where those significant differences are occurring so that appropriate, and if necessary, corrective action can be taken. This is then built into the business planning process for the subsequent year.

The risks associated with the financial business plan appear to be manageable and members will be kept informed of all material changes that will have an impact on the financial business plan over the subsequent years.

Staffing / Personnel Implications

Any resource implications arising from the production of the business plan are included in the schedules attached for approval.

Environmental Implications

No material environmental implications arise from this report.

Equality & Diversity Implications

No material equality and diversity issues arise from this report.

Reflecting MHA Values

Open – The budget included in the financial business plan for the coming financial year is carried out in conjunction with other managers from within MHA and Capsel.

Fair – The budget included in the financial business plan for the coming year and the priorities contained within it will be agreed in a consistent and equitable manner relative to the level of risk involved.

Flexible – The budget included in the financial business plan and the priorities contained within it will allow us to meet the changing needs of MHA and Capsel

Achieving – The monitoring of the budget included in the financial business plan and the controls associated with it will enable us to ensure that MHA or Capsel is not exposed to any material risk.

AUTHOR

Steve Higginson

Deputy Chief Executive

Telephone 01495 761110

steve.higginson@monmouthshirehousing.co.uk