

cairn

BUSINESS PLAN

2015-2018 YEAR THREE UPDATE

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INTRODUCTION



Simon Guest,
Chairperson



Jason MacGilp,
Chief Executive

Welcome to the year three update of our current three year Business Plan, 2015-2018

The Plan sets out the priorities for action of the Association for the next year and how the whole staff team across Cairn will be focussed on delivering great services to our customers and the wide range of communities in which we work. A new three year business plan will be prepared next year.

Despite the economic challenges, Cairn remains in a strong financial position and our performance in key areas including income management and re-letting empty properties is amongst the best in the sector.

Our business performance, good governance, investment in tenants' homes and high levels of customer service satisfaction will remain key priorities. We shall also be

refinancing the business over the next year to help fund a substantial increase in our new build development programme to meet local housing needs.

We are continuing our positive partnership discussions with ANCHO to build a business case for the proposed constitutional partnership which will be subject to a tenants' ballot at ANCHO within the next six months.

Cairn continues to be open to discussions with organisations across Scotland to explore a range of strategic and service partnerships where this can help to ensure even better value for money, customer satisfaction and deliver a positive impact on local communities.

We are making real progress in delivering our Vision of Great Homes, Great Services, Great People.

Simon Guest, Chairperson and
Jason MacGilp, Chief Executive



VISION, VALUES & MISSION



Our vision and values reflect who we are:

OUR VISION

Great homes. Great services. Great people.

OUR MISSION

To provide quality affordable homes and services, with our communities and partners, throughout Scotland.

OUR VALUES

Customer First

Our customer comes first and we will always aim to achieve high quality outcomes for customers.

Excellence

We value excellence and quality and aim to achieve high standards in all we do. We always strive to be the best that we can be.

Accountability

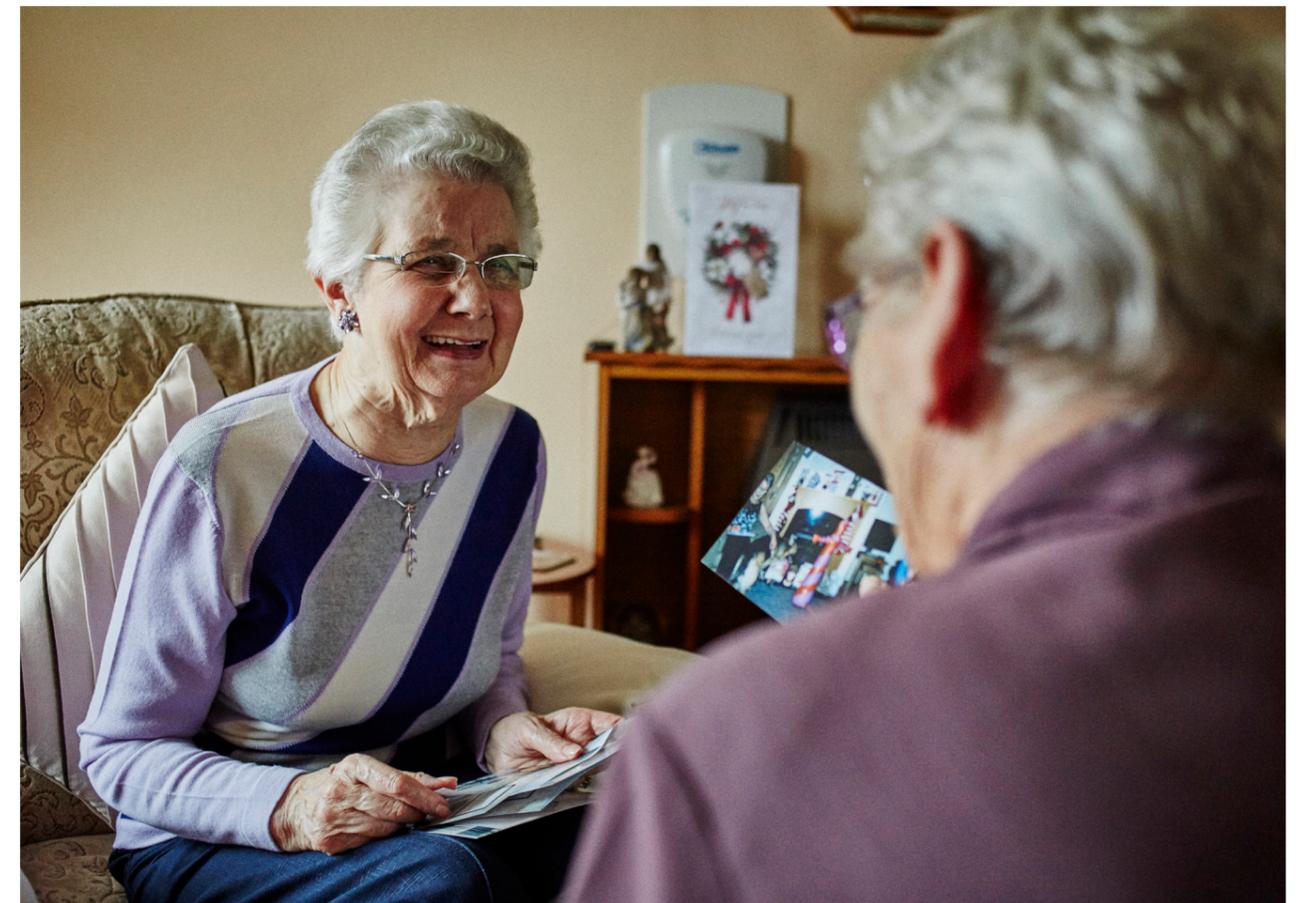
We are accountable for our actions and we take responsibility and ownership for outcomes.

One Team

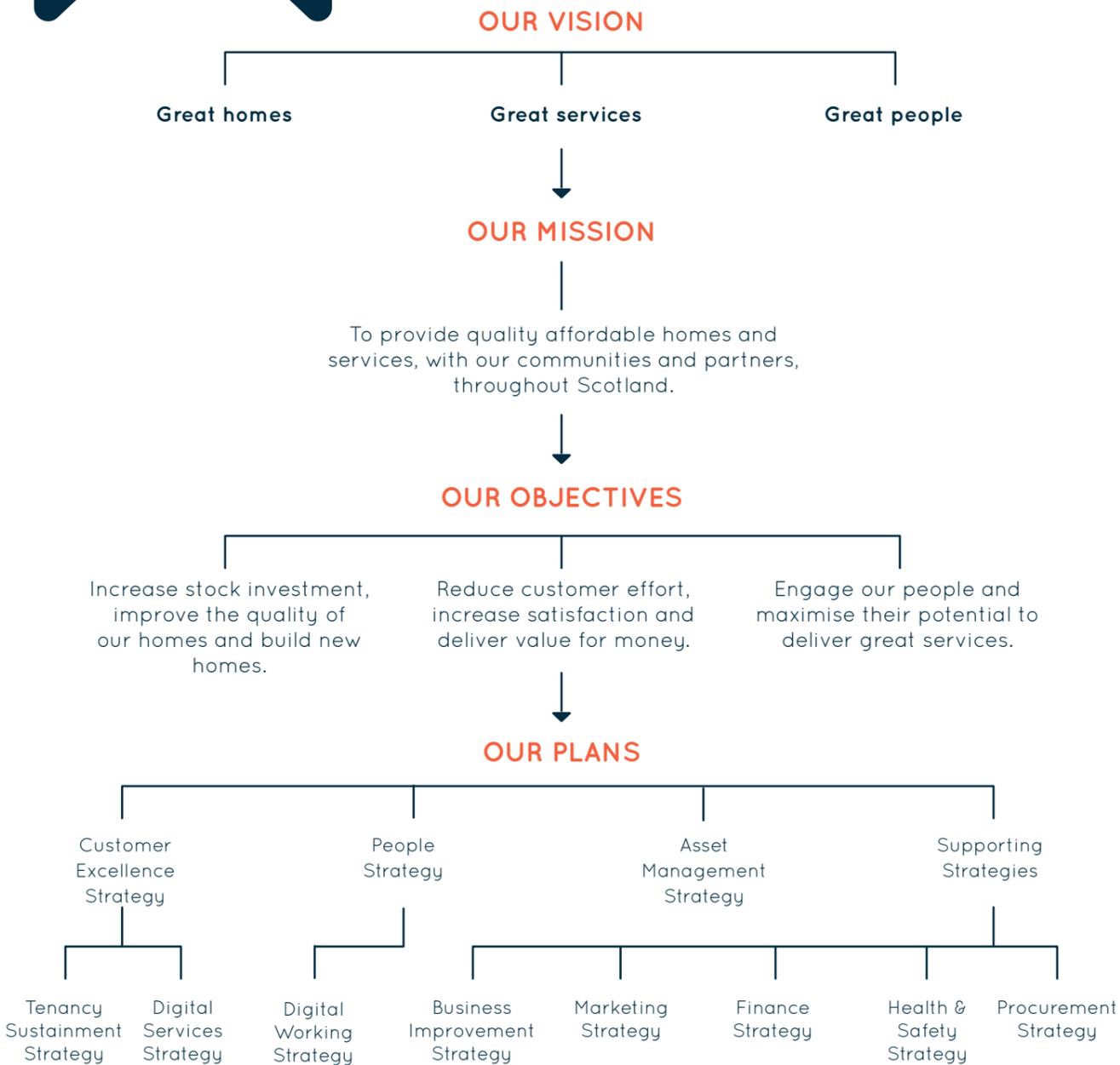
We work as one team and build excellent working relationships to achieve our goals.

Respect

We value high standards of fairness, treating everyone with consideration and dignity. We show this through our everyday words and actions.



THREE PILLARS



With our values underpinning everything we do, we will achieve our vision by focusing our activity around the three corporate objectives during the life of this plan



GREAT HOMES

2015 to 2018 strategic objective – *increase stock investment, improve the quality of our homes and build new homes*

We recognise that having a safe, secure, well equipped and well maintained home is very important to our customers. To enable this we are making significant investment in our homes, having spent £13m on improvements over the last two years.

As well as bringing our homes up to a

modern standard, we have also improved our approach to strategic asset management, by collecting good quality stock condition, demand and customer profile data. This has allowed us to implement an integrated stock condition and asset management solution that will provide us with comprehensive information on which to base effective decisions on future investment.

We are also committed to continuing to meet the requirements of the Scottish Housing Quality Standard (post-2015) and to improve the energy efficiency of all of our homes in line with the requirements of the 2020 Energy Efficiency Standard for Social Housing (EESSH).

We will maintain stock investment through refinancing and implementing the actions outlined in our Asset Management Strategy. During the life of this plan we will:

- Review our financial strategy and develop a value for money plan to maximise the amount we can invest in our homes and services whilst keeping rents affordable
- Deliver targeted investment of £16m in planned improvements to our homes across Scotland

- Deliver a cyclical maintenance programme of at least £5m to maintain our homes to a high standard
- Collect and analyse detailed stock condition and energy efficiency information for at least 35% of our homes
- Develop and embed an integrated stock condition and asset management solution that ensures our future investment plans are targeted and value for money
- Develop high quality energy information and modelling tools that will help us plan towards EESSH 2020 and future standards
- Develop and implement an updated Asset Management Strategy
- Improve customer satisfaction with the quality of our existing homes to at least 90%
- We will increase our ability to develop new build properties and aim to build 70 new homes a year by 2020
- Establish a plan for modernising retirement courts to ensure that they meet current and future tenant aspirations, where possible.

GREAT SERVICES

2015 to 2018 strategic objective - *reduce customer effort and increase satisfaction and deliver value for money*

As an organisation we are always striving to provide the best service to our customers and the communities in which they live. We are committed to the pursuit of service excellence and will develop our approach to this over the life of this plan. Our aim is that customers will be able to access our services with minimum effort. They will deal with staff that take ownership of the customer enquiry and respond courteously, effectively and efficiently. We will always put our customers first and place a high emphasis on working together with our customers, and communities, to ensure their views are heard and acted upon.

We will continue to positively embrace the Scottish Housing Regulator's Social Housing Charter requirements and provide annual updates to our customers on how we are performing against these National Charter Standards.

We will deliver an improved customer experience by implementing the actions outlined in our Customer Excellence, Customer Involvement, Tenancy Sustainment, Community Development and Business Improvement Strategies. During the life of this plan we will:

- Ensure effective communication with and reduce customer effort for customers in delivering services
- Provide accessible services based on a good knowledge of our customers to ensure their needs are met
- Ensure we have well trained customer focussed staff who display a customer focussed attitude at all times
- Collect customer profile data that can be used to tailor services and to identify any groups that may be facing barriers in accessing our services
- Continue to embrace modern technology and innovative processes and service delivery models to transform

the way we deliver our services

- Continue to increase our community development work and explore opportunities to establish a new social enterprise project
- Develop opportunities to widen access to our services, in partnership with local authorities and other organisations, particularly with regard to the requirement for online access
- Review our benefits advice service and improve the financial capability and awareness of our customers and increase access to welfare benefits and debt advice
- Increase support provided to our more vulnerable tenants to successfully maintain their tenancy
- Support the work of our Customer Panel to enable them to identify and conduct a series of scrutiny projects that will drive performance improvement and positive outcomes for our customers
- Improve overall customer satisfaction with our services to at least 91% and homeowners' satisfaction with our factoring services to at least 75%

GREAT PEOPLE

2015 to 2018 strategic objective - *engage our people and maximise their potential to deliver great services*

A knowledgeable, engaged and well trained staff team underpins high performance and the provision of excellent services to our customers.

We recognise that in order to achieve our corporate objectives we need to retain, attract and develop high performing staff who share our ambitions and values. We also recognise the value of all of our staff and are committed to achieving a culture of staff engagement, innovation and empowerment.

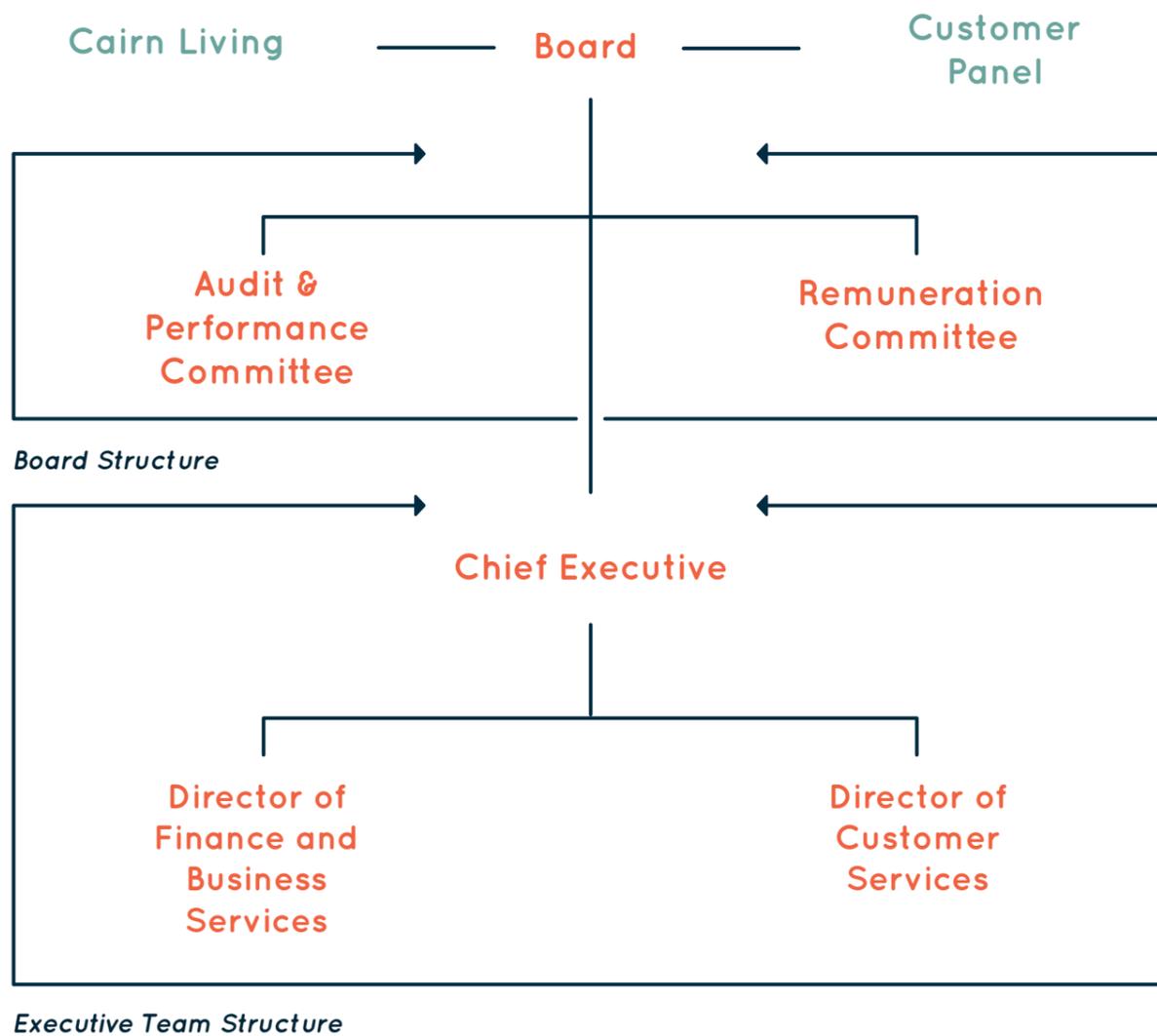
We will maximise the potential of our staff by implementing the actions outlined in our People Strategy. During the life of this plan we will:

- Promote wellbeing and actively involve our staff in shaping the future of Cairn and creating a culture of shared values, accountability and trust
- Measure against the best performers and become an employer of choice
- Embed a culture of high performance and continuous improvement through defined expectations, support and positive challenge
- Recruit, develop and retain staff who are skilled, flexible, motivated and committed to achieving our goals
- Promote a culture where the dedication, skills and talents of staff are nurtured, valued and recognised
- Actively embrace diversity in our staff team and strive to create a working environment that is free from prejudice, discrimination and harassment by supporting the diverse and cultural needs of our people
- Ensure we have the right skills and competencies in place to enable us to achieve our goals, now and in the future
- Develop our staff to enable them to fulfil their potential and deliver excellent services to our customers
- Develop our leaders and managers to be strategic thinkers and role models, inspiring confidence, mutual trust and respect
- Validate our progress by becoming a Best Companies Two Star accredited organisation and preparing for the Investors in People standard

LUNCH AT OURS



**ORGANISATIONAL
STRUCTURE**



**PAST,
PRESENT &
FUTURE**

Our Association was formed as an independent Scottish organisation in 1990. Prior to this it had been the Scottish arm of the Royal British Legion Housing Association, providing housing and care to former armed forces personnel in sheltered housing. In 1991 we changed our name to Cairn Housing Association and expanded our range of affordable housing.

In 1996, after a tenant ballot, we acquired 850 properties from Scottish Homes in the Highlands. Since then, through a variety of means including transfers of engagements, stock transfers and our new build development programme, our stock has grown from 916 homes in 1990, to 2,351 in 2002, to almost 3,500 today. In addition to rented homes, we also offer shared ownership and shared equity products as well as a range of specific accommodation and care solutions for special needs groups. We also provide factoring services to over 600 home owners.

We employ around 180 people and have an annual rental income of £12.7m with total income of £15.7m.

We are a registered housing association with charitable status. Our rules are based on the Scottish Federation of Housing Associations (SFHA) Model Rules (Scotland) 2013. We are registered under the Industrial and Provident Societies Act 1965 and are a Community Benefit Society.

As a not-for-profit organisation, we are registered with and regulated by the Scottish Housing Regulator and manage our housing through principal offices in Edinburgh, Inverness and Bellshill, with other locally based staff across the country.

Our mission is simple: "To provide quality affordable homes and services, with our communities and partners, throughout Scotland." Delivering on our mission is not quite so simple, but our dedicated staff team strive to ensure we deliver a quality and professional service which provides excellence and value for money to our customers.

Over the last 15 years, Cairn has grown through developing new properties throughout Scotland, working with local authorities and other partners to meet local housing needs.

Recent years has seen a focus on investment to improve existing housing stock. We also plan to continue a programme of new build development.

The bulk of our current operational activity is focussed on landlord services. In the last two years we have largely moved away from the direct provision of care and housing support. We believe the future holds a number of challenges, as well as opportunities. Continuous improvement and innovation are vital to our future success.

The year 2015/16 marked Cairn's 25th anniversary as an independent registered housing association. We are proud of our roots and are ambitious for a successful and progressive future. We marked this important 25 year milestone in various ways with staff, board members, partners and customers to acknowledge past achievements, recent changes and to look ahead to the next 25 years.

STAKEHOLDERS



Customers

Our customers include tenants, residents and service users. Our focus is on delivering the best possible services and developing meaningful relationships between ourselves and our customers.

This is the group of stakeholders for whom we exist. These are the people that we deliver services to and build homes for. Our customers are the basis of Cairn and as such are the most important stakeholder group.

Staff

Our staff team are vital to all that we do as an organisation. We are only as good as those who deliver services on our behalf. It is vital that we provide appropriate incentives, support and direction to our staff in return for performance and high levels of professional behaviour. We will focus on engaging our people and maximising their potential to deliver great services to our customers.

Local Authorities

We work in 22 local authorities across Scotland. The customers we serve are also customers of the local authority, therefore local authorities have significant interest and influence on our work. We will continue to develop our existing good partnership relationships with local authorities to contribute to their strategic objectives in the interests of local communities.

Regulation

We welcome the rigour and scrutiny that audit and regulation brings to ensure high standards of probity, risk management, governance and financial health. We will continue our positive and professional working relationship with our Regulators, responding to queries and information requests accurately and in a timely fashion to meet regulatory standards.

Lenders

As a charitable, not-for-profit organisation, and social business, we borrow money from lenders to support both the building of new homes and the refurbishment of existing stock. Communicating with this group of stakeholders and providing them with relevant, accurate and timely information is vital and we will manage our finances to ensure compliance with our financial covenants.

Partners

We work with local and national partner organisations on a variety of initiatives. These relationships are valued by us and allow us to deliver a range of projects. We will also seek to learn from others and actively engage in the sector, including the CIH and SFHA, to contribute our voice and influence where appropriate.

Scottish Government

We will continue to seek to make a range of contributions to align our services and investment to meet the national policy priorities of the Scottish Government. We seek, with others, to influence the Government on housing policy, community, and health and social care where appropriate for the benefit of all our customers.

Suppliers

We work with a number of suppliers, contractors and developers throughout Scotland and have developed a great relationship with all our suppliers. We will ensure positive, professional partnerships following best practice in partnering, procurement and contract management.

PRODUCTS & SERVICES

We provide a wide range of housing and other services.

General needs

General needs housing is provided for single people, couples and families to rent in a wide range of developments throughout Scotland.

Shared Equity and Shared Ownership

Shared equity and shared ownership are Government initiatives which assist people to become homeowners by building properties that are regarded as affordable. In addition there is an advantage to the householder of owning a percentage of the equity of the home.

Retirement housing

Retirement housing is provided for people aged 50 or over, living independently in their homes. Communal facilities such as lounges and laundries are usually provided and a range of social activities can be organised by the residents. For those who require it, a package of housing support may be arranged with the local authority or other provider.

Extra care housing

Our extra care housing at Madelvic Square in Edinburgh provides supported but independent community living for people aged 60 or over. Our dedicated team provide emotional and social support, main meals, cleaning and a safe and homely living environment.

Repairs service

We provide a responsive repairs and maintenance service via our in-house HomeWorks team in the Highlands and via our contractor Rodgers & Johnston to the rest of our homes. Both provide a very customer focussed service and ensure that the quality of our properties is maintained to a great standard.

Care & Repair and Handyperson Services

The Care and Repair team in the Highlands is responsible for providing a technical and administrative service to assist older and people with disabilities in private sector accommodation to remain living in their homes in comfort and safety, and to assist other sections of the community with property improvements. Our Care and Repair team also manage a handyperson service which is free to vulnerable and elderly people living in Inverness, Nairn, Badenoch and Strathspey and aims to help them with basic maintenance tasks and repairs to their home.

Supported housing and special lets

We act as landlord to voluntary agencies, where properties are let to meet specific needs through supported housing, leases or special lets. These types of accommodation cater for a range of people with special needs including autism, mental health issues and physical disabilities. We also provide accommodation for women at risk of domestic violence.

Welfare benefits advice

Ensuring our customers have appropriate advice on benefit entitlement and, where necessary, assistance with applying for benefits is a key role for our dedicated Welfare Benefits Advisor. In the Highlands we also work in partnership with other housing associations to deliver welfare and money advice through an initiative funded by the Scottish Legal Aid Board and the Big Lottery.

Provision of back office functions

We already provide IT services to two other housing associations. Over the life of this business plan we will look to develop our provision of Back Office functions further in other service partnership arrangements.

OPERATING ENVIRONMENT

Customer profile

We are committed to getting to know our customers better so that we can tailor our services to the needs of the people who rent homes from us.

This process of getting to know our customers better involves improved data collection and production of reports that show patterns of characteristics based on age, household compositions, income levels, employment and disability status. We already know a great deal about our customers but we aim to build on this knowledge as a means of improving our services.

Customer engagement

Our new organisational values include putting the customer first and accountability. In 2001 the Housing (Scotland) Act placed a statutory duty on all housing associations to develop a tenant participation strategy. The importance of customer engagement in the housing sector was strengthened further by the introduction of the Scottish Social Housing Charter which placed a significant emphasis on tenant participation, evidence of customer satisfaction and scrutiny of services.

Customer engagement is given a high priority and we are committed to delivering best practice and positively embracing the requirements. Supported by our dedicated Communications & Engagement team, we employ a variety of means to increase and enhance our customer participation. At the centre of our approach is our innovative Customer Panel that provides an important level of customer scrutiny. Satisfaction surveys, Registered Tenant Organisations, customers forums, working groups and our annual events are all ways in which we seek our customers views so we can continue to improve our services. We also encourage tenants to apply for election to the Board of Management.



Cairn Community Fund

Our Community Fund was established to help sustain vibrant, thriving and safe places to live. We want to support community groups to create places that people are proud of and want to live in. We recognize that each of our communities is different and our Community Fund is available to support big and small ideas that make a difference.

Demand

In the vast majority of cases, there is significant demand for our homes and services, particularly in the wake of the economic recession and reductions in public expenditure.

However, some of our accommodation, for older people in particular, is no longer attracting adequate levels of interest from prospective customers because of its lack of contemporary facilities and/or location. These high risk properties have been identified within our Asset Management Strategy, and during the life of this plan, decisions will be taken as to how we deal with them.

In light of the UK Government welfare reform and changes to social security payments, demand profiles will be kept under regular review.

New services and homes

The increase in grant rates by the Scottish Government give us an opportunity to increase our new build programme in the coming years. We will also explore opportunities to provide mid-market rented homes through our commercial subsidiary, Cairn Living.

We will devote a significant proportion of our financial resources to funding our major stock investment programme during the life of this business plan. Our housing re-let standard will be reviewed to ensure we continue to provide homes of the highest quality to meet customer expectations.

Our focus in the plan period will be on creating efficiencies in our service delivery to create more capacity to improve the quality of what we do whilst exploring opportunities to develop new working practices and services where appropriate. We will always remain alert to opportunities and/or need to develop new services or products, recognising the uncertain climate in which we work and the constant need to adapt our business practices and plans to meet the changing housing and care needs of society and local communities. Shared services and other partnership arrangements with other organisations may be part of that approach to achieve improved value for money.

Welfare reform

We recognise that many of our customers receive a range of benefits and tax credits and are being affected by the UK Government welfare reform changes. Of particular concern to us are the:

- Changes to the number of bedrooms a household is entitled to claim for through Housing Benefit
- Direct payment of Housing Benefit to customers
- The move from Disability Living Allowance (DLA) to Personal Independence Payments (PIP)

We recognise that these changes have the potential to impact on our income through

greater levels of rent arrears and void loss. In preparation for these changes we:

- Undertook work to assess the number of customers who may be affected by the various changes
- Communicated the changes to staff and customers
- Set aside money in our training budget to ensure staff are able to advise customers
- Identified a range of policies and procedures which required review
- Assessed the potential impact of the changes on our business
- Appointed a specialist Benefits Advisor to provide advice and information
- Restructured our income management team to increase our focus in this area

Our work continues in this area so we are able to support our customers through the changes and minimise the impact the changes will have on our business.

Benchmarking

We are members of two specialist benchmarking groups (HouseMark and Scottish Housing Network) focusing on housing management performance and value for money. A report is presented annually to the Board so that trends can be identified and adverse material variances addressed. Use is also made of the Scottish Housing Regulator's published statistics to compare ourselves with the sector. Particular attention is paid to this data at the time of considering future rental policy to ensure that we are within reasonable sector parameters.

Keeping our rents affordable forms part of our mission statement. Our affordability mitigates some of the risks associated with current welfare reform issues, as well as giving us an opportunity to realign our rents to generate additional revenue in future years, whilst ensuring value for money.



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Sociological

- Demographic change (smaller households/ageing population)
- Migration
- Equality and Diversity
- Rise of consumer aspirations/choice
- Dispersed/rural services
- Crime and antisocial behaviour
- Digital inclusion

Technological

- Energy efficiency requirements
- IT access and channel shift
- Building standards and regulations
- Data security
- Shared services
- E-government
- Accessibility of information
- Connectivity
- Internet of things
- New building tech (modular etc)

Economic/ Environmental/Ethical

- Interest rate fluctuations
- Inflation/deflation
- Unemployment levels and low wage issues
- Availability of funding
- Fuel and Food poverty
- Flexibility of labour market
- Corporate Social Responsibility
- EESSH
- Sustainability
- Scottish Living Wage
- Brexit implications

Political/Legal

- Change in administrations
- Change to housing legislation
- Change to welfare benefit system
- Change to Govt investment strategy
- Employment legislation
- SHQS/EESSH
- Equality and Diversity agenda
- Value for money and Affordability
- Changes to the Regulatory Framework
- New/changed powers for Scottish Govt
- Brexit
- Consumer Credit Agreements
- Reclassification of RSLs
- Freedom of Info extension

Strengths

- National presence
- Strong governance
- Experienced staff team
- Competitive remuneration package
- Working environment
- Clear vision and values
- Financial capacity
- High level of stock investment
- Improving performance trends
- Corporate services capacity
- Contact centre
- Partnerships and relationships with stakeholders
- Positive relationship with the regulator
- Robust business planning process
- Commitment to leadership and management development
- Customer Panel
- Self-awareness
- Very good staff engagement

Weaknesses

- Geographical spread of stock
- Higher than average overhead costs
- Underdeveloped approach to digital inclusion
- Low demand issues in certain locations
- Ageing stock components
- Estate and environment condition info
- Inconsistent rent policy
- Affordability/admin of service charges

Opportunities

- National presence
- Improving approach to performance management
- Development of digital inclusion
- Developing approach to Community Development and Social Enterprise
- Access to grant funding
- Expansion of Homework's
- Growth and Partnerships
- Exploitation/ utilisation of technology
- Development and capacity of our people
- Handyperson service expansion
- Utilisation of subsidiary
- Customer profiling
- Scottish Government new build housing pledge
- Channel shift
- Digital working
- Increased value for money: reduced CPP

Threats

- Failure to manage adverse impacts of further welfare reforms
- Level of borrowing
- Performance of an expanded Care & Repair/ Handyperson service
- Commercial/ financial risk through subsidiary activity
- Failure to actively manage costs in relation to income and stock levels
- Lack of succession planning around key roles
- Failure of key contractor
- Lack of awareness of demand and customer aspirations
- Stock rationalisation (AMS)

STRATEGIC KPIs

Area	Measures	2017/18 Target
Financial	• Overhead costs as a % of rental income	38.75%
	• Interest cover	120%
	• Financial gearing	48%
Customer service	• Overall customer satisfaction (all services)	90%
	• Satisfaction with value for money	86%
	• % of tenants who have had repairs carried out in the last 12 months who were satisfied with the repairs and maintenance service	91%
	• % of appointments kept	99%
	• % of repairs completed right first time	98%
	• % of stage 1 frontline complaints responded to within timescale	100%
	• % of stage 2 investigation complaints responded to within timescale	100%



Area	Measures	2017/18 Target
Homes	• Satisfaction with quality of home	91%
	• SHQS compliance	93%
	• EESSH compliance	82%
People	• Overall staff engagement (Best Companies survey)	Best Companies '2 star' organisation Status
	• Staff absence	3.25%
Other results	• Rent loss due to voids as % of debit	0.5%
	• % of income collected	103.5%
	• New let average turnaround times	14 days
	• % of new tenancies sustained for more than a year	90%



STRATEGIC RISK MANAGEMENT

We are proactive in working to contain and limit the risks to which our organisation is exposed.

As we work towards achieving our strategic objectives for the life of this plan, each activity we undertake will bring its own particular area of risk. We will regularly identify and appraise risks, taking a prudent approach to managing them.

In our management of risk we:

- Recognise that ultimate responsibility rests with the Board, with high quality advice and support from the management team and auditors
- Comply with all statutory, regulatory and good practice requirements
- Adopt structures which delegates authority to the appropriate level for risk management of various activities

- Adopt, implement and regularly review key policies
- Support Board members and staff with risk and business continuity training
- Employ a programme of internal audit to assist in risk identification
- Obtain verification from external auditors of the statements of internal control

To enable risk management reporting, identified risks need to be assessed and evaluated in terms of the likelihood or probability of the risk occurring and the impact that such an occurrence would have.

We have developed a Strategic Risk Register which identifies the risks to our business plan and the achievement of our strategic goals. This includes the actions that we are and will take to mitigate these risks. The Strategic Risk Register is reviewed on a regular basis by our Audit and Performance Committee and Board.



ASSET MANAGEMENT STRATEGY

One of our main objectives for 2017/18 is to ensure that updated stock condition information is embedded in our new PIMSS database to help to accurately project future investment needs. We currently own and manage almost 3,500 properties throughout Scotland and in addition to operating over a wide geographic area, stock types and client groups we cater for are many and varied.

Our stock also varies in age and condition and with changing needs and aspirations of customers, it is important to ensure that we continue to provide quality affordable homes and services, with our communities and partners, throughout Scotland.

In order to meet our objectives, our Asset Management Strategy has evolved from a framework for making investment decisions into a more comprehensive document providing a clearer understanding of our stock characteristics including:

- Condition
- Popularity with existing and future client groups
- Popularity of particular geographic locations
- Net present value
- Return on investment

The Asset Management Strategy is continually evolving, helping to influence our strategic and corporate objectives.

Analysis of stock surveys previously undertaken and information provided by customers and staff, have provided an understanding of the works and finances required for us to bring existing properties up to our own standards, which will exceed the requirements of the Scottish Housing Quality Standard. More than one thousand stock surveys have been undertaken, which has given us a more detailed understanding of our properties. This has led to us setting our own ambitious Cairn Property Standard, which will see certain major components all being within their expected life cycle by 2025.

Context

A considerable amount of work has been done to help improve our stock data and management systems. During 2017, we will use the new data to help inform a 30 year investment model. Planning investment in our housing stock, based on sound investment principles, including:

- Value for money
- Property option appraisals where the investment needed is uneconomic, future demand is causing concern or there are other

issues with current stock

- Engagement with key stakeholders to inform investment decisions

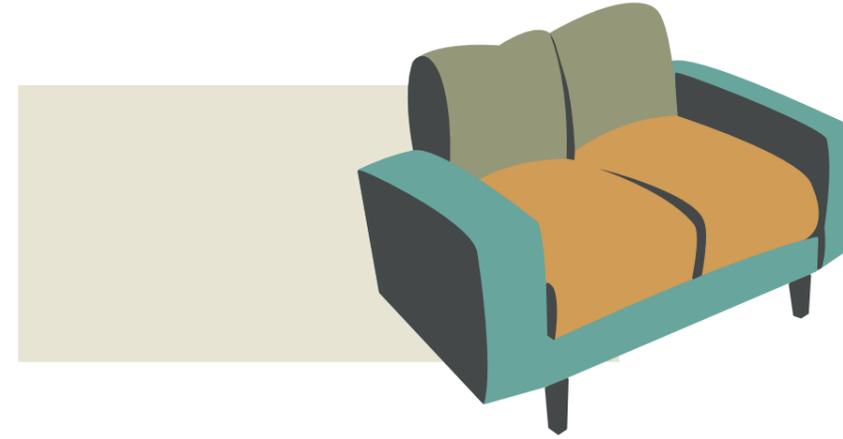
SHQS

Through targeted investment in the last few years, Cairn has complied with the Scottish Government target of achieving SHQS in all of our stock, by 2015 (including agreed exemptions and abeyances). The abeyances mainly relate to energy efficiency issues which we propose to tackle with investment to meet the new Energy Efficiency Standard for Social Housing (EESHS). We will continue to monitor stock condition to ensure that SHQS continues to be met.

EESHS

Having established a minimum housing quality standard, the Scottish Government turned its attention to ensuring that housing stock meets more stringent energy standards, to reduce fuel poverty to tenants and to help meet its ambitious carbon reduction targets. It has established the EESHS standard for landlords to achieve by 2020 and intends to increase that standard to a higher level by 2025.

With a significant number of non-traditional house types and a large number of properties which are distanced from the gas network, we have some significant challenges ahead but will ensure this is addressed through actions identified in our new Asset Management Strategy.



FINANCIAL STRATEGY

We have a 30 year financial plan covering the period from 2017/18 to 2046/47 to ensure the long term financial health of Cairn. The underlying financial forecasts are broken into a detailed annual budget and thirty year financial projections. Each set of projections includes an income and expenditure account, balance sheet and cash flows.

Financial planning within Cairn is a dynamic process, with sensitivity analyses undertaken during the plan preparation and reviewed regularly. This financial plan shows how we will meet the costs of achieving our key objectives and it details the associated income and expenditure assumptions over the next 30 years. The financial projections are consistent with the requirements of the Scottish Housing Regulator and our lenders, the Royal Bank of Scotland and Santander.

Objectives

The key financial objectives underpinning the 30 year projections are to:

- Secure the long term financial viability of Cairn
- Ensure funding is available to secure the investment required to maintain and enhance our existing stock
- Seek overhead efficiencies to ensure value for money for tenants
- Ensure that all individual activities we undertake at least break even, and that any short term deficits are explicit and transparent to both the Senior Management Team and Board
- Sustain our strong financial reputation
- Ensure compliance with loan covenant requirements from all lenders

FINANCIAL ASSUMPTIONS

Our financial projections are based on the following assumptions over the life of this plan:

- Inflation or Consumer Prices Index (CPI) runs at 2%pa
- Annual rent increases are based on CPI plus 1% for the lifetime of this plan
- Variable bank interest rates increase from 1.0% in 2017/18 to 4.5% by 2024/25
- Overhead costs will reduce from 39.6% of rental income in 2017/18 to 31.0% in 2021/22
- Pension costs incorporate past service re-measurement costs as well as ongoing defined contribution and auto enrolment costs
- The impact of Welfare Reform has been incorporated within the financial model

- During 2017/18 we will restructure our finances to allow significant growth and further investment in our stock. The re-financing will be a capital market (private placement) debt package
- New debt funding will be on a fixed interest rate with a bullet capital repayment after 30 years. The financial model generates sufficient cash reserves to repay all debt after 30 years
- During 2017/18 we will build 26 new properties we have already committed to. The next four years will see us build 400 new properties and we will look to build around 50 new properties each year thereafter.

We believe these assumptions are prudent and will maintain the financial viability of Cairn. The assumptions will also allow us to invest heavily in our existing stock whilst still being able to supply much needed new housing stock.



FINANCING

The business plan is funded on a combination of existing private finance from our lenders, the Royal Bank of Scotland and Santander, together with a new private placement. Current funding facilities of £50m exist and we will continue to draw from these sources until the private placement is active, thereafter our borrowing levels will increase to £70 million.

The existing loan agreements and the new capital market finance deal carry

with them financial covenants, and we closely monitor these to ensure compliance.

Our financial projections show full compliance with all existing loan agreements and anticipated new covenants, including the repayment of capital within the time period of the borrowings.

CAIRN LIVING

Cairn Living is the trading name for Cairn Homes and Services Ltd which was established in 2007 to provide a vehicle to augment our provision of new homes by engaging in housing for sale, market rent and mid-market rent opportunities to cross subsidise our social rent provision. It also gives access to land that otherwise might be too expensive for social rent provision alone. Given our charitable status, a non-charitable vehicle is required to carry out such activities, namely Cairn Homes and Services Ltd.

We will continue to explore opportunities to use this vehicle for potential business development opportunities in the future and commenced trading during 2015 with an initial small number of mid-market rented homes.

IMPACT ON RENTS

The projected rental increase of CPI plus 1% maintains our average rents in line with the anticipated sector average for the duration of this plan.

We are currently reviewing our approach to rent setting and affordability with tenant consultation starting on this during 2017/18.

SCENARIO PLANNING

It is important that we are in a position to respond to any changes in the assumptions detailed in this plan. Sensitivity analyses and stress tests have shown how the financial position would handle material changes to the income and expenditure assumptions. The following sensitivities were considered.

Scenario 1

Annual rent increases are based on CPI only for the lifetime of this plan.

Scenario 2

Variable bank interest rates increase more rapidly than currently forecast.

Scenario 3

Inflation or Consumer Prices Index (CPI) runs at 3%pa.

Scenario 4

The impact of Welfare reform is more severe than anticipated, resulting in increases in arrears increasing by 25% per annum.

The results of these sensitivities are measured against the base projections as well as the covenants set by lenders. The results from the sensitivity analysis and stress testing indicate that we would be able to meet all our financial obligations whilst accommodating these challenges.

A full set of financial forecasts has been produced for each of these scenarios, and is available on request.

If more challenging scenarios arose we would review our spend profile to ensure that banking covenant compliance was maintained. The process of covenant review and cash flow monitoring is undertaken on a monthly basis and reported to our Board quarterly.





**STATEMENT OF
COMPREHENSIVE INCOME**

2017/18

£

Income	
Rental income	12,772,281
Service Charge income	2,182,570
Other income	789,621
	15,744,473
Expenditure	
Overhead staff costs	2,917,442
Overheads	2,433,707
Service Charge costs	2,191,908
Other income costs	736,811
Repairs and renewals	1,892,693
Planned maintenance	2,556,000
Depreciation	2,339,922
Capitalised planned maintenance	(2,056,000)
Loan interest and fees	1,879,991
	14,892,473
Surplus / (Deficit) excl gain on sale	851,999

CASH FLOW

2017/18

£

Opening bank	4,335,579
I&E income	15,744,473
Grants	1,872,000
Asset sales	360,000
New borrowings	30,000,000
	47,976,473
I&E expenditure	14,445,976
Capital repayments	21,115,696
Asset purchases	400,000
Past Service Pension Deficit Payments	538,110
New development works	3,289,000
	39,788,782
Closing bank	12,523,269

**STATEMENT OF
FINANCIAL POSITION**

2017/18

£

Tangible fixed assets	
Housing properties - depreciated	95,985,069
Investment Properties	9,076,133
Other fixed assets - depreciated	1,465,172
	106,526,374
Current assets	
Debtors	1,980,384
Cash at bank and in hand	12,523,269
	14,503,653
Current liabilities	
Creditors due within one year	(6,056,831)
Net current assets / (Liabilities)	8,446,822
Total assets less current liabilities	114,973,197
Creditors: amounts falling due after more than one year	(60,329,323)
Net assets	54,643,874
Capital and reserves	
Share capital	99
Revenue reserves	54,643,775
	54,643,874



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