

cairn

# BUSINESS PLAN

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2018-2021 YEAR TWO UPDATE

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## INTRODUCTION



**Simon Guest,**  
Chairperson



**Jason MacGill,**  
Chief Executive

Welcome to year two of our 2018 - 2021 Business Plan.

The Plan sets out our key objectives and strategies for the year around services to our tenants and other customers, further strengthening business resilience and improving performance and other initiatives.

During the last twelve months ANCHO (based in North Ayrshire) joined Cairn to form the new Cairn Housing Group. This was a very positive and important development of the history of both organisations and we are already busy working together as a Group on the transition and integration plan and ensuring the delivery of the various promises made to ANCHO tenants.

From next year we will be preparing a Group Business Plan, including Cairn Housing Association and ANCHO.

Cairn continues to offer strong governance, an experienced management team and customer-focused staff to deliver good quality, affordable homes and services in communities across Scotland. Our recent refinancing through private placement has secured long term funding that enable us to plan with confidence for further growth and partnerships. We remain committed to our vision of Great Homes, Great Services and Great People and we will continue to focus on continuous improvement and to working in partnership with local authorities and other valued partner across the country.



# 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

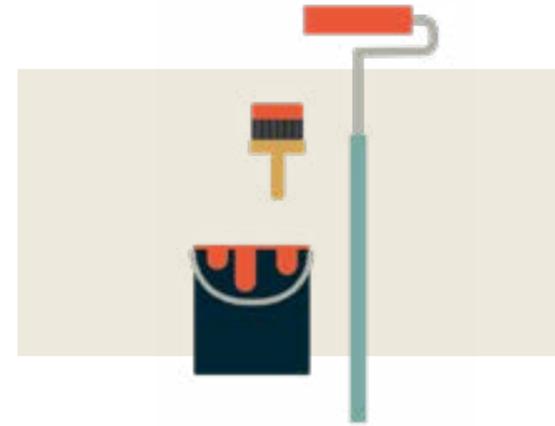
We value high standards of fairness, treating everyone with consideration and dignity. We show this through our everyday words and actions.



# 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

Strategic objective – *increase stock investment and improve the quality of our homes*

We recognise that having a safe, secure, well equipped and well maintained home is very important to our customers. To enable this we will continue to invest appropriately in our homes over the life of this plan.

As well as bringing our homes up to a modern standard, we continue to improve our approach to asset management. We collect high quality stock condition, demand and customer data and then implement an integrated stock condition and asset management solution

that will provide us with information on which to base effective decisions on future investment.

In addition to modernising our properties, we are looking to add to our stock numbers through our new build programme.

We remain committed to continuing to meet the requirements of the Scottish Housing Quality Standard 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 deliver increased stock investment through refinancing and implementing the actions in our Asset Management Strategy & will deliver against new actions identified in our forthcoming strategy which is being developed. 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 at least £6m in planned improvements to our homes across Scotland
- Deliver a cyclical maintenance programme of at least

£1.5m to maintain our homes to a high standard

- Collect and analyse additional stock condition and energy efficiency information, to at least 10% of our homes, to supplement existing information
- Continue to refine and further embed an integrated stock condition and asset management that ensures our future investment plans are targeted and represent 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 update to our current 2015-18 Asset Management Strategy
- Maintain customer satisfaction with the quality of our existing homes to at least 90%
- Increase our ability to develop new build properties and aim to build 70 new homes a year by the end of 2021
- Establish a plan for modernising retirement courts to ensure that we invest in courts which meet current and future need and meet tenant aspirations

# GREAT SERVICES

Strategic objective - *reduce customer effort and increase satisfaction*

We have made significant progress in our journey towards providing excellent customer service. Customer satisfaction has continually improved since the implementation of our first strategy in 2014 and we have transformed our approach to customer access through the launch of our contact centre.

We were also successful in obtaining Customer Service Excellence (CSE) accreditation in March 2017.

As with the approach in our first strategy we still recognise that there is room for improvement.

We continue to focus on the quality of the customer experience when a customer contacts us. In our second strategy, we have placed increased focus on the 'human' side of customer service delivery.

Our key aim is to increase understanding of 'how' we interact with customers. Our previous strategy was primarily focussed on the development of processes and systems to enable staff to deliver excellent service. Our focus is now on supporting staff to deliver tailored solutions which meet the needs of our customers.

To do this we will further empower staff to resolve issues locally at the first point of contact. We will work to ensure that this approach will reduce the likelihood of issues arising in the first place.

We will deliver an improved customer experience by implementing the actions outlined in our new Customer Excellence Strategy for 2018-2021 which will be underpinned by the following objectives:

- Instil a 'freedom to do' approach to meeting customer needs & enable staff to provide quick and responsive service delivery
- Equip staff with the knowledge, skills and confidence to deliver an excellent customer experience including first class complaint handling skills
- Develop increased customer intelligence which enhances service delivery

During the life of this plan we will:

- Review our approval processes & policies to reduce bureaucracy encountered by staff
- Promote a 'freedom to do' culture which recognises and celebrates 'outside the box' problem solving and service delivery
- Devolve budgets to service managers and frontline officers to enable rapid and localised decisions
- Deliver bespoke customer service training to staff linked to the strategic objectives of the organisation
- Implement regular customer care visits to increase customer intelligence gathered
- Respond positively to improvement areas identified via CSE review inspection

We introduced a new Tenancy Sustainment Strategy last year to ensure we have a robust approach to assisting tenants to remain successfully in their home. As the impact of Universal Credit on customers becomes greater it is imperative that we do as much as possible to protect both tenant income and income to Cairn. As such, work in this area is a key focus for the new strategy and we have identified additional resources in these areas to ensure that we provide as much proactive support as possible to our tenants.

# GREAT PEOPLE

Strategic objective - *engage our people and maximise their potential to deliver great services*

Cairn recognises that having a skilled and engaged workforce is critical to productivity, innovation and growth. During 2019 - 2021, continued focus will be given on improving and upskilling our leaders and people managers, under the following three main themes:

## Culture

To be recognised as a learning organisation with a workforce who are self-aware, adaptable and strive for continuous improvement; coaching and challenging each other for excellence and taking responsibility for solutions.

## People

To have a workforce who are highly skilled, work collaboratively and are enabled and driven to deliver exceptional services.

## Systems & Process

To have developed, linked and efficient systems which enable staff and support mobile and digital working and are compliant with GDPR and FOI requirements.

Underneath these themes, there are 5 underpinning programmes of work:

- People development
- Engagement/Employer of choice
- Future proofing
- Recruitment/Talent management
- Process/Support for business

Delivery of these programmes of work will:

- Align our people resources to deliver our strategic priorities and commitments
- Support our ambition to become a top 10 organisation by 2025
- support the process of organisational change
- Enable an engaged, effective and motivated workforce

- Sustain an excellent HR & OD Service to the organisation, at both strategic and transactional levels
- Support top quartile performance in our people related KPIs



## ORGANISATIONAL STRUCTURE

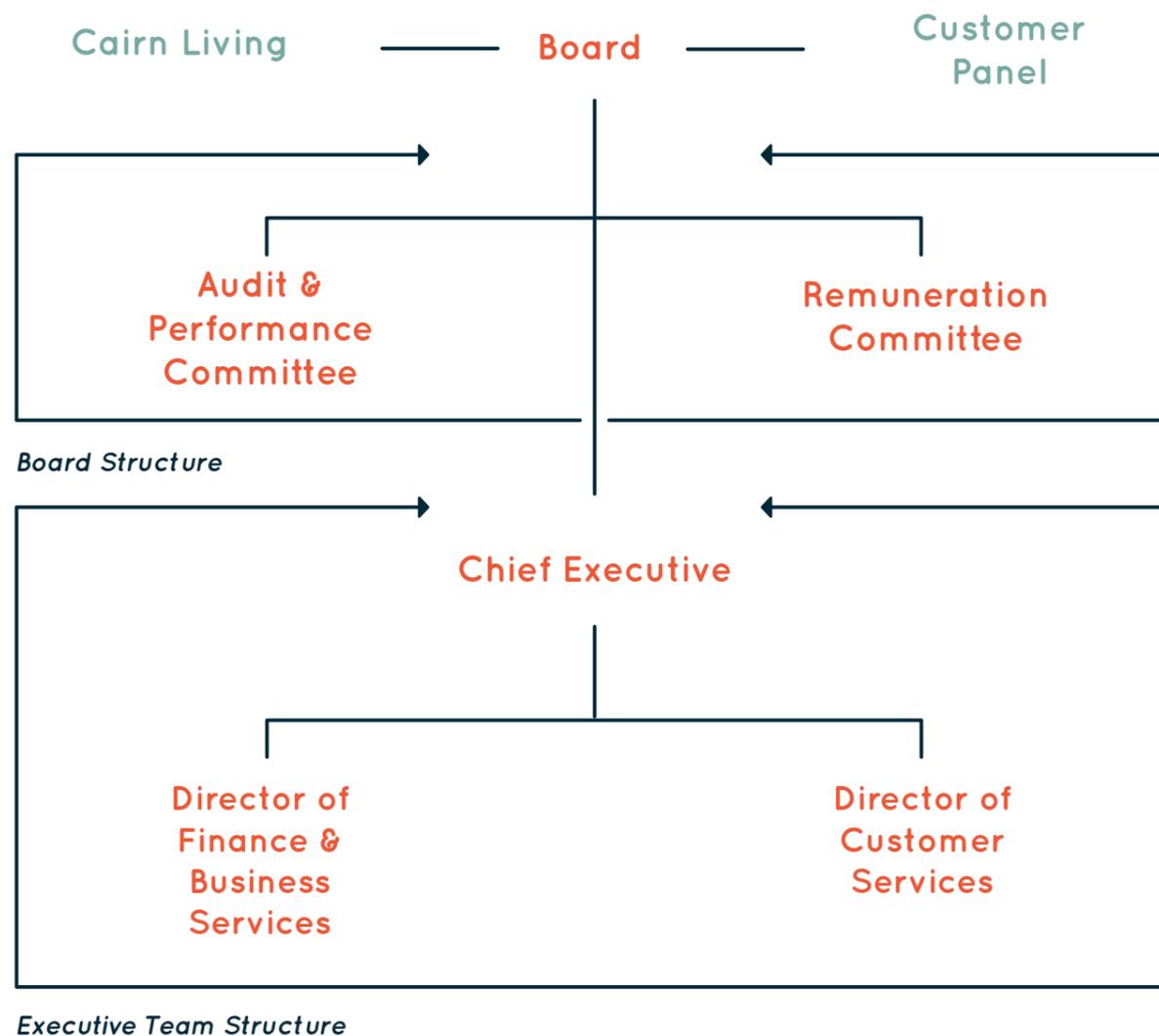
### 'The Cairn Group'

One of our key strategic aims is to strengthen the association through growth and partnerships. This includes growing our new build development programme as well as looking for opportunities to enter into strategic partnerships with other organisations. This new business planning period sees the establishment of The Cairn Group.

The Group is made up of Cairn Housing Association, ANCHO Housing Association and our subsidiary company, Cairn Living.

The Cairn Group brings benefits to all partners through:

- Resilient income streams
- Enhanced liquidity
- Improved financial standing and borrowing capability
- Scale and strength to do more
- Further opportunities for overhead reduction through shared office accommodation and sharing other services
- Improved standing within the sector



## 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, with the primary purpose of housing and care of former armed forces personnel in sheltered housing. In 1991 we changed our name to Cairn Housing Association and expanded our range of affordable housing, including family homes.

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, the stock has grown from 916 homes in 1990, to 2,351 in 2002, to almost 3,500. 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 165 people and have an annual rental income of £14.4m with total income of £16.3m.

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, and we are registered under the Industrial and Provident Societies Act 1965.

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.

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, we have focussed on developing new properties throughout Scotland, working with local authorities and other partners to meet housing needs.

As we move forward with this plan, we are refocussing our energy and finances to improve the housing stock we have. We will also explore opportunities for new build development.

The bulk of our current operational activity is focussed on landlord services and housing support. In the last two years we have largely moved away from the direct provision of 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.

In 2018 ANCHO Housing Association tenants voted to become part of the Cairn Group of organisations. This partnership brings strength and capacity for all partners as part of a wider group and enables all partners to deliver positive outcomes for our customers and communities.

## 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 and provide crisis centres and associated outreach services.

### 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.

### Understanding our customers

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, digital engagement, 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.

### Digitalisation

During this plan we will continue to take action on our digital future, both in terms of how we work and how customers access services. 2018/19 will see us launch our first Digital Strategy. This strategy covers four main workstreams:

#### Our Customers

Providing easy, convenient and flexible services to our customers. Giving customers a choice on how to access fast and personalised services.

#### Our People

Empowering our people to work flexibly, providing a supportive and attractive service to our customers.

#### Our Systems

Provide simple, secure and flexible technology using modern and innovative systems that work.

#### Our Returns

Ensure return on investment, maximisation of income, increased efficiency and value for money.



### Customer engagement

Our 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.

### Demand

In the vast majority of cases, there is significant demand for our homes and services, 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**

There are significant challenges to the future public funding of new homes and services by housing associations across Scotland. We will continue to explore new development opportunities in selected parts of the country. We will also explore opportunities to provide mid-market rented homes through our commercial subsidiary, Cairn Living.

We will continue to devote a significant proportion of our financial resources to funding our major stock investment programme during the life of this business plan, and will assess our capacity to provide funded services on a continuous basis.

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. We recognise that these changes have the potential to impact on our income through greater levels of rent arrears and void loss.

We have developed and improved structures, processes and systems to deal with the challenges presented by the welfare reforms and, in particular, the introduction of universal credit.

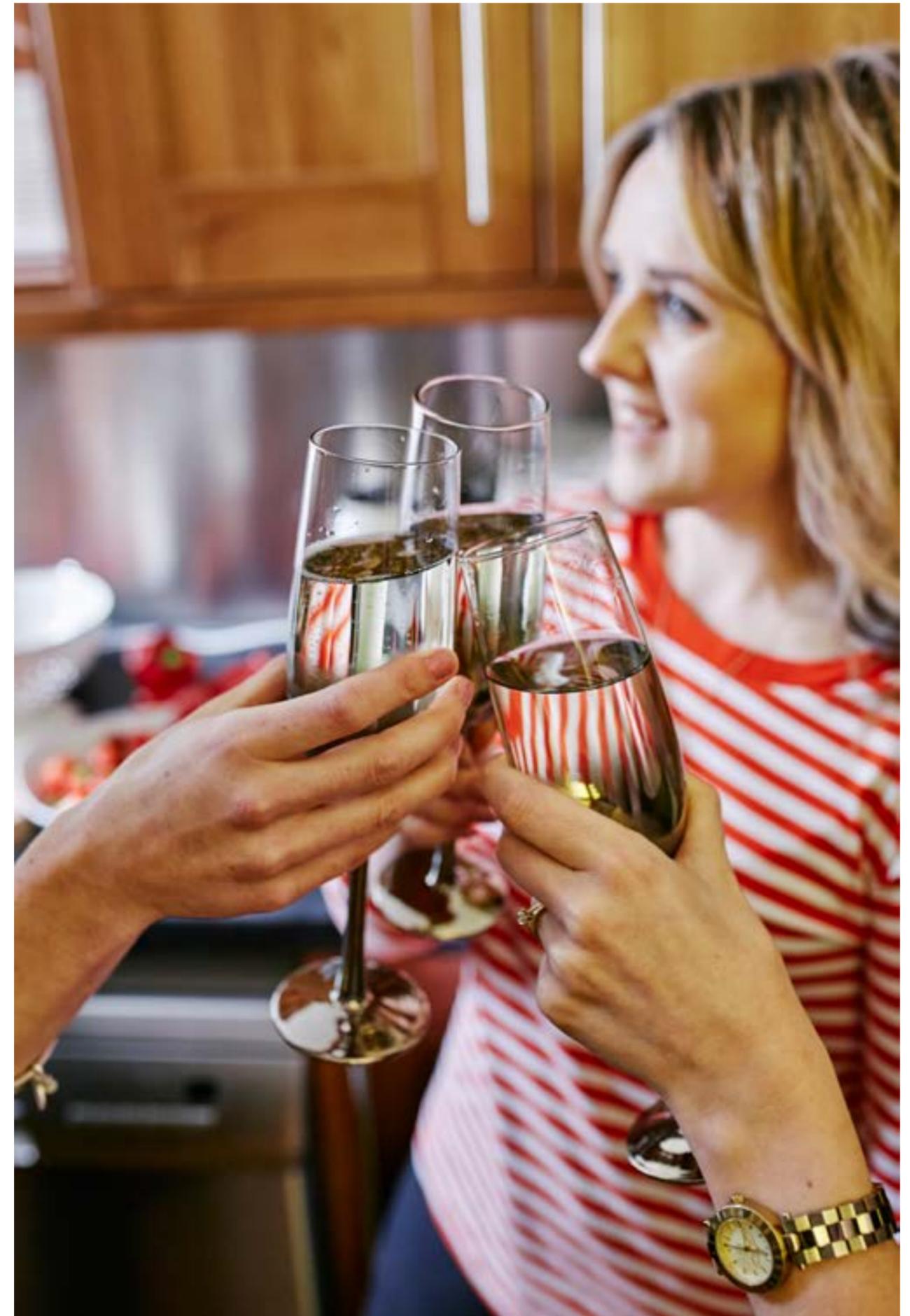
Our work continues in this area so we are able to

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 Best Value Network) focusing on housing management performance and value for money. 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.



## STEP & SWOT

### Sociological

- Demographic change (household information and ageing population)
- Immigration/emigration
- Equality and diversity
- Dispersed/rural services
- Crime and antisocial behaviour
- Digital inclusion
- Rise of consumer aspiration/choice

### Technological

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

### STEP Analysis

### Economic, Environmental, Ethical

- Interest rate fluctuations
- Inflation/deflation
- Unemployment levels & low wages
- Availability of funding - Housing Association Grants and private finance
- Fuel and food poverty
- Flexibility/stability of labour market
- Corporate social responsibility
- EESSH
- Sustainability
- Scottish Living Wage
- Brexit implications - single market, legislation (HR, procurement, environmental)
- Bank failure

### Political/legal

- Change at Westminster & Holyrood
- Change to gov. investment strategy, development programme priorities
- Change to welfare benefit system
- Change to gov. investment strategy
- SHQS/EESSH(2)
- Equality and diversity agenda
- Changes to the regulatory framework
- Value for money and affordability
- New/changed powers for Scottish Gov.
- Employment legislation
- Consumer credit agreements
- Brexit
- Reclassification of RSLs - ONS
- Freedom of information extension
- GDPR
- New fire safety regulations

### Strengths

- National presence
- Experienced staff team
- Strong governance
- Financial capability
- Corporate services capacity
- Partnerships with stakeholders
- Positive relationship with regulator
- Robust business planning process
- Leadership and mgt development
- Financial and self-awareness
- Competitive remuneration package
- Working environment
- Clear vision and values
- Stock investment plans
- Contact centre
- Very good staff engagement
- Focus on organisational development
- Proactive asset management
- Flexible working
- Securing institutional investment

### Weaknesses

- Geographic spread of stock
- Higher than average overhead costs
- Low demand issues
- Ageing stock components
- Estate and environmental condition information
- Affordability/admin of service charges
- Progress on leadership scores
- Stock condition and investment levels
- Current approach to health and safety management
- Resource planning
- Underdeveloped approach to factoring

### SWOT Analysis

### Opportunities

- National presence
- Improving approach to perfor. mgt.
- Development of digital inclusion
- Expansion of HomeWorks
- Growth and partnerships
- Exploitation/utilisation of technology
- People development and capacity
- Handyperson service expansion
- Utilisation of subsidiary
- Developing approach to com. dev.
- Access to grant funding
- Customer profiling
- Channel shift
- Digital working
- Scottish Gov. new build pledge
- Increased value f/ money; reduced CPP
- Leadership and mgt development
- Health and safety review
- E-learning
- Job evaluation

### Threats

- Debt portfolio
- Performance of C&R/Handyperson
- Commercial/financial risk through subsidiary activity
- Failure to actively manage costs in relation to income and stock levels
- Lack of succession planning
- Failure of key contractor
- Demand and customer aspirations
- Failure to manage adverse impacts of further welfare reforms
- Stock rationalisation (AMS) - lost income
- Cost of new fire safety requirement
- Challenges of development process
- Reduced learning & dev. spend
- Over commitment to dev. projects

# STRATEGIC KPIs

Area	Measures	2019/20 Target
<b>Financial</b>	<ul style="list-style-type: none"> <li>Overheads as % of total expenditure</li> </ul>	35%
<b>Services</b>	<ul style="list-style-type: none"> <li>Service specific satisfaction surveys</li> <li>% of emergency repairs completed in target</li> <li>% of urgent repairs completed in target</li> <li>% of routine repairs completed in target</li> <li>Call handling GOS Level 1</li> <li>Call handling GOS Level 2</li> <li>% of stage 1 frontline complaints responded to within timescale</li> <li>% of stage 2 investigation complaints responded to within timescale</li> </ul>	9 (out of 10) 95% 92% 80% 95% 100% 100%



## Area

### Homes

Measures	2019/20 Target
<ul style="list-style-type: none"> <li>New supply delivered: absolute (social and non-social)</li> </ul>	38
<ul style="list-style-type: none"> <li>New supply % (social and non-social)</li> </ul>	1.17%
<ul style="list-style-type: none"> <li>% of properties meeting the Cairn Property Standard</li> </ul>	59%
<ul style="list-style-type: none"> <li>EESSH compliance</li> </ul>	84.5%
<ul style="list-style-type: none"> <li>SHQS compliance</li> </ul>	94.02%
<ul style="list-style-type: none"> <li>% of gas safety certificates renewed within timescale</li> </ul>	100%

## People

<ul style="list-style-type: none"> <li>Staff turnover (leaver and new recruits)</li> </ul>	6 - 12%
<ul style="list-style-type: none"> <li>Staff absence</li> </ul>	3.2%

## Other results

<ul style="list-style-type: none"> <li>Rent loss due to voids as % of debit</li> </ul>	0.5%
<ul style="list-style-type: none"> <li>% of income collected</li> </ul>	100.04%
<ul style="list-style-type: none"> <li>New let average turnaround times</li> </ul>	14 days
<ul style="list-style-type: none"> <li>% of new tenancies sustained for more than a year</li> </ul>	90%
<ul style="list-style-type: none"> <li>Occupancy (% of properties occupied)</li> </ul>	98.5%
<ul style="list-style-type: none"> <li>Current tenant arrears as % of debit</li> </ul>	3.5%



## 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.





## FINANCIAL STRATEGY

We adopt a rolling annual financial planning cycle in line with regulatory requirements which is supported by a higher level 30-year forecast. A detailed budget model is maintained and produces detailed outputs at a cost/expense code level to enable budget monitoring to be managed on an ongoing basis. The model has the ability to adapt to changing financial needs and has built in functionality to enable stress testing and scenario planning.

The detailed budget model is incorporated within the 30 year plan and enables assumptions and variables to be amended over the 30 years. It incorporates the financial impact of delivering Cairn's strategic corporate objectives. The budget model is regularly presented to Board.

The budget model is a flexible tool and sensitivity analysis is undertaken during its development and review at all stages. A process of regular review and reporting is carried out to ensure there is a high degree of control and compliance.

Agreement of the 30 year model is on the basis of approved cash limit budgets for the following year and indicative budgets for the subsequent 29 years, as these will again be reviewed in detail as part of the next years' cycle.

### Strategy purpose

The purpose of the finance strategy is to:

- Support good governance within Cairn and Cairn Living
- Support development of strategic goals and ensure integration with financial plans/activity
- To ensure compliance with loan covenant requirements
- Maintain continuous improvement of budget development/management
- Meet regulatory requirements/deadlines
- Continue to review and challenge overheads and central costs
- Maintain strong and robust treasury management policy
- Continual improvement in all areas of the business and look for ways to improve efficiency
- Working closely with internal audit to ensure best practice and robust financial controls are in place
- Strive to maintain a clean external audit report on the annual accounts

## 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
- Overhead costs will reduce from 38.7% of rental income in 2019/20 to 37.5% in 2023/24
- Pension costs incorporate past service re-measurement costs as well as ongoing defined contributions and auto enrolment costs.
- During 2018/19 we restructured our finances to enable significant growth and continued investment in our stock. The re-financing was achieved through a capital market (private placement) debt package.
- The new funding is 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 2019/20 we will build 38 new properties and over the next 3 years a further 274 units are planned.

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.



The business plan is funded on a combination of existing private finance from our lenders, The Royal Bank of Scotland, Santander and a new private placement which is now fully drawn. Our current borrowing levels have increased to £70 million.

All existing loan agreements and the new private placement have financial covenants attached which are closely monitored to ensure compliance.

Our financial projections show full compliance with all existing loan agreements and include the repayment of capital within the time period of the borrowings.

Cairn Living is the trading name for Cairn Homes and Services Ltd, 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. Given our charitable status, a non-charitable vehicle is required to carry out such activities, namely Cairn Homes and Services Ltd.

We continue to explore new opportunities for growth and have added 11 market rent properties and 15 mid-market rent properties during 2018/19.

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

## SCENARIO PLANNING

Being responsive to changing business needs and external forces is crucial when considering the financial sustainability of any organisation. As such we carry out sensitivity analysis and stress tests to ensure the financial plan is robust enough to manage any material changes to the income and expenditure assumptions. The following sensitivities were considered during the current 30 year financial plan process.

### Scenario 1

Annual rents are based on CPI + 0.5%

### Scenario 2

Inflation increased by 1%

### Scenario 3

Bank interest rates increased by 0.5%

### Scenario 4

Increase in bad debt %

### Scenario 5

Void % increase and reduction in rental % increase

### Scenario 6

Development unit numbers reduces and higher bank interest rates

### Scenario 7

Bank interest rates increased and rental % increase reduced

The outcome of these scenarios are measured against the base projections and lender covenants. The results of these sensitivities and stress testing indicate that we would be able to meet all our financial obligations whilst accommodating these challenges.

For each scenario a full set of financial forecasts have been produced and are available on request.

Should further challenges arise, we would continue to review our spend profile to ensure the all lender covenant compliance was maintained throughout the life of the plan. Covenant compliance and cash flow monitoring is reviewed on a monthly basis and reported to our Board quarterly.

## FINANCIAL ACCOUNTS

### STATEMENT OF COMPREHENSIVE INCOME

	2019	2018
	£	£
<b>Turnover</b>	<b>16,750,541</b>	16,052,821
Operating expenditure	(14,602,032)	(13,514,264)
<b>Operating surplus</b>	<b>2,148,509</b>	2,538,557
Gain on sale of property, plant and equipment	161,518	101,189
Interest receivable	6,875	-
Interest payable and similar charges	(2,042,446)	(1,653,727)
Revaluation gain on investment properties	269,515	-
<b>Surplus for the year before taxation</b>	<b>543,971</b>	986,019
Taxation	-	-
<b>Surplus after taxation</b>	<b>543,971</b>	986,019
<b>Other comprehensive income</b>		
Initial recognition of SHAPS pension	(1,172,313)	-
Actuarial loss in respect of SHAPS pension	(699,000)	-
<b>Total comprehensive income for the year</b>	<b>(1,327,342)</b>	986,019



## CASH FLOW

	2019		2018	
	£	£	£	£
<b>Net cash generated from operating activities</b>		4,020,197		3,814,207
<b>Cash flow from investing activities</b>				
Payments to acquire and improve housing	(8,969,952)	(4,120,874)		
Payments to acquire investment property	(3,092,220)	-		
Purchase of other fixed assets	(578,191)	(242,085)		
HAG and other capital grants received	5,531,324	1,407,072		
Proceeds from sale of tangible fixed assets	500,563	297,222		
HAG repaid	-	(52,532)		
Interest received	6,875	-		
Improvement to investment properties	(15,974)	(2,700)		
		(6,617,575)		(2,713,897)
<b>Taxation paid</b>				-
<b>Cash flow from financing activities</b>				
Loan to ANCHO	(700,000)	-		
Interest paid	(1,961,446)	(1,626,727)		
Housing loans repaid	(17,816,713)	(1,115,376)		
Housing loans received	23,300,000	2,000,000		
		2,821,841		(742,103)
<b>Net change in cash and cash equivalent</b>		224,463		358,207
Cash & cash equivalent at beginning of year		1,095,389		737,182
Cash & cash equivalent at end of year		1,319,852		1,095,389

## STATEMENT OF FINANCIAL POSITION

	2019		2018	
	£	£	£	£
<b>Tangible fixed assets and investments</b>				
Housing properties	101,641,012		94,595,059	
Investment properties	11,928,562		9,078,833	
Other fixed assets	1,373,686		1,251,960	
Investments	1		1	
	114,943,261		104,925,853	
<b>Current assets</b>				
Debtors due after one year	700,000		-	
Debtors within one year	2,494,191		2,307,489	
Cash and cash equivalents	1,920,066		1,490,828	
	5,114,257		3,798,317	
<b>Creditors (amount falling due within one year)</b>		(9,681,065)		(4,450,078)
<b>Net current liabilities</b>		(4,566,808)		(651,761)
<b>Total assets less current liabilities</b>		110,376,453		104,274,092
Creditors: amount falling due after more than one year	(53,227,909)		(49,496,202)	
SHAPS defined benefit pension scheme	(3,698,000)		-	
<b>Net assets</b>		53,450,544		54,777,890
<b>Capital and reserves</b>				
Share capital		92		96
Revenue reserves	53,450,544		54,777,890	
	53,450,544		54,777,890	



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