LANARKSHIRE
HOUSING ASSOCIATION LTD

2008 - 2011

Three Year Plan:
Finance Plan

affordable homes and inclusive services based on need which improve the social, economic and
environmental welfare of local communities in partnership with tenants and supportive agencies to develop
and sustain high quality affordable homes and inclusive services based on need which improve the social,
economic and environmental welfare of local communities in partnership with tenants and supportive agencies
to develop and sustain high quality affordable homes and inclusive services based on need which improve the
social, economic and environmental welfare of local communities in partnership with tenants and supportive
agencies to develop and sustain high quality affordable homes and inclusive services based on need which improve
the social, economic and environmental welfare of local communities in partnership with tenants and supportive
agencies to develop and sustain high quality affordable homes and inclusive services based on need which improve
the social, economic and environmental welfare of local communities in partnership with tenants and supportive
agencies to develop and sustain high quality affordable homes and inclusive services based on need which improve the
social, economic and environmental welfare of local communities in partnership with tenants and supportive agencies

Foreword p1

Finance Plan 2008-2011

1.0	Strategic Plan Introduction	p2
2.0	Financial Objectives for the Next 3 Years	p3
3.0	Policies Affecting Financial Performance	p5
4.0	Financial Performance to Date	p7
5.0	Financial Performance Indicators for the Next 3 Years	p8
6.0	Key Contacts	p10
7.0	Appendix 1 - Balance Sheet	p11
	Appendix 1 - Cash Flow Statement	P12
	Appendix 2 - Key Financial Performance Indicators	p13

(*Note Lanarkshire Housing Association hereinafter referred to as LHA)

Foreword by Convener of the Regulation & Audit Sub Committee – Fiona Tonner

LANARKSHIRE
HOUSING ASSOCIATION LTD

The landscape for the provision of social housing is facing a fundamental change within the coming years with the Scottish Government recently outlining its plans on the delivery of both private and social rented housing. These plans will provide challenges to Registered Social Landlord's (RSLs), however, LHA has adapted well to change in the past and we are well placed to meet these future challenges. We continue to be a well managed business with a strong financial base which allows us to make the necessary resources available to meet the needs and aspirations of our tenants.

We have recognised that financial performance is at the very core of the Association's daily operations and therefore financial scrutiny is practised rigorously by the governing body. Two sub committees have been established to monitor the financial management and performance of the business, with the Corporate Services Sub Committee being charged with the responsibility of scrutinising financial procedures and operational matters, whilst the Regulation & Audit Sub Committee has the responsibility for monitoring financial reporting and policy matters in addition to dealing with the internal control reports from internal audit. This two committee system provides the Association with a system of independent appraisal of all financial matters with different members serving on the two committees.

The Association has a clear business strategy for the next three years, which is outlined in this plan, which secures the short and medium term objectives without any detriment to the continuing business viability.

Fiona Tonner

Strategic Plan Introduction

Strategic Plan Introduction

1.1 The principal aim of this Finance Plan is to demonstrate that LHA can secure the long-term future of the housing provision owned by LHA and preserve the best interests of the tenants at all times; whilst also promoting the Association's viability and status as a RSL and providing a high quality of service to meet the needs of our tenants in the community.

1.2 LHA's overall mission is:

" We shall work in partnership with tenants and supportive agencies to develop and sustain high quality affordable homes and inclusive services based on need which improve the social, economic and environmental welfare of local communities."

1.3 Other STRATEGIC OBJECTIVES:

- To provide a comprehensive housing service, embracing both development and management, which is complementary to the services of other providers, responds effectively to local needs and discharges its statutory obligations.
- To operate an equal opportunities policy at all times and in every aspect of our activities.
- To promote quality and choice in housing provisions by achieving high standards and tenure diversity; principally creating housing for rent, but also meeting aspirations towards home ownership in lower income groups.
- To encourage good tenant/landlord relations by providing a sensitive, efficient management service, which responds professionally to the client group and actively promotes tenant participation.
- To secure the most effective, efficient and economic maintenance and repair of the housing stock, including long term investment for renewals, ensuring resources are directed at areas of priority.
- To provide a professional development role, which addresses priority areas in terms of strategic and local plans, delivers high performance standards, promotes leverage of resources and achieves value for money.
- To endeavour to expand its field of operations in Lanarkshire and be included in public and private sector partnerships to provide new housing.
- To monitor and review the organisational structure and functions on a regular basis, revise objectives where necessary and maximise efficiency and the quality of service delivery to clients.
- To promote and attract the appropriate levels of combined public and private funding for developments to meet increasing needs and aspirations.
- To regularly monitor budgets and take appropriate steps to maintain financial viability at all times.

Financial Objectives for the Next 3 Years

LANARKSHIRE
HOUSING ASSOCIATION LTD

2.1 The primary objective over the next time period is to ensure that the Association continues to provide a quality affordable housing service.

2.2 The Association also intends over the next three year period to generate surpluses and maintain designated reserves at levels, which will allow the future planned maintenance, programme to be undertaken.

Short Term Financial Objectives 2008-09

2.3 With the recent re-organisation of clerical support provided to the Development Section and with notice of a retirement having been given, a review of staffing levels will be undertaken. This review will assess the requirements of the Corporate Services Section and a determination of the staffing levels needed to ensure that the level of service provided, continues to meet the expectations of both internal and external customers.

2.4 New payroll stationery will be introduced to provide bespoke pay advice notes. This will improve the provision of pay information to employees and provide a more professional image of the Association. This will be of benefit to employees when verification of pay information is required for mortgage or credit applications.

2.5 Development activity is set to increase significantly in the short term with a number of projects set to go on-site. Private finance for these projects is an integral component of the funding package and therefore procurement of this finance at competitive rates of interest is essential. The Association has a proven track record of obtaining highly competitive finance from a number of established lenders, which demonstrates the confidence the lenders have in the Association as a business.

2.6 Consideration will be given on the viability of using automated bank payments to the Association's suppliers and contractors. At present, the principal method of payment is by means of a cheque, and whilst this method is adequate, is does make cash flow management difficult, as there is always uncertainty when that cheque will be presented for payment. Automated bank payments would utilise our internet banking facilities, with payments made directly from our account into the payee's account. This provides security and certainty in managing cash flow for the business. Adopting this method would present some challenges, as any new procedure would need to have sufficient internal financial controls in place to ensure the payment system was not compromised.

Medium Term Financial Objectives 2009-11

2.7 A primary objective of the finance function is to safeguard the Association's assets. To enhance the controls currently in place, a comprehensive Asset Register will be compiled, which will draw information on all the association's assets together in one easily accessible document.

LANARKSHIRE
HOUSING ASSOCIATION LTD

2.8 Operational objectives will see the Association monitoring its treasury management function and will seek to ensure that exposure to interest rate fluctuations is minimised and where loans can be refinanced on more advantageous terms to the Association, it will be done. This will be achieved through the transfer of variable interest rate loans to fixed rate loans, and it is a key objective to ensure that a balance of at least 50:50 proportion of variable rate to fixed rate borrowing is maintained over the period of this plan.

2.9 The removal of Section 54 Grant by Communities Scotland, which funded the payment of the Association's corporation tax liability, increases the cost base of the business significantly. Consideration will be given to the options available to the business to minimise or eliminate the tax liability entirely. This could be done either by increasing the level of investment in the housing stock to reduce the taxable surplus, or by obtaining charitable status, which would eliminate the requirement to pay corporation tax. The charitable status option would need to be examined carefully to ensure no restrictions on current or future activity would be required to satisfy the charitable criteria.

2.10 A key measure of the effectiveness of the treasury management policy is the percentage of turnover required to service the debt in any one year. This measure has been established as a Key Performance Indicator (KPI) for the business, and a benchmark figure of 30% has been determined. For 2006/07, the figure achieved for this measure was 24%, and from the financial projections outlined in **Appendix 1**, this measure of 30% will not be exceeded during the period of the plan.

2.11 LHA has embraced the performance culture and introduced a performance management system, which has an element of performance related pay for senior management. The salary awards which can be achieved from this system are constrained by an assessment of the overall corporate performance from measures obtained from the financial results as published in the annual audited accounts. This performance management system provides staff with the motivation and incentive to achieve whilst also ensuring that pay awards are affordable without effect on the viability of the business. Staff out-with the performance management system receive pay awards in line with the overall prevailing economic climate in conjunction with the affordability measures mentioned previously. It is a key corporate benchmark that staff costs should not account for any more than 32% of turnover, and this measure will not exceed this figure over the period of the plan.

2.12 The social housing sector is becoming a competitive market which increases pressure on RSL's to deliver high standards of performance. To monitor LHA's own performance in the social housing market context a benchmarking exercise with other comparable RSL's is carried out on an annual basis, the results of which are shown in **Appendix 2**. It is an objective to extend and improve this benchmarking exercise in order for the Association to improve performance out-turns.

Policies Affecting Financial Performance

LANARKSHIRE
HOUSING ASSOCIATION LTD

3.1 Rental Policy

Rental income is the primary source of the Association's turnover and thus the levels at which rents are set are fundamental to the Association's financial viability and operational effectiveness.

It is an objective however, of the Rent Policy that rents should be affordable for those people in low wage employment whose income is above the level for which they could claim Housing Benefit. The Association bases its policy on Income Survey's SCORE data and affordability criteria produced by the Scottish Federation of Housing Associations (SFHA).

The Association when determining the viability of a housing development prior to its construction makes the assumption of rents increasing by 1% over and above the rate of inflation. This assumption is required to allow the Association to accumulate a reserve that will fund that schemes future major repairs and renewals. The Association is therefore, committed to considering the impact of rent levels on the accumulation of the repairs and renewals reserve.

The method for reviewing rents and determining the annual budget has been to establish the Association's funding requirements and linking this to the quality of housing accommodation and housing service provided. Prior to any final decision on a proposed rent increase being taken by Committee, all tenants will be consulted on what the rent increase would mean for them. A detailed report on the consultation process is then considered and taken into account when determining the rent increase.

The Association is committed to investing in information technology that allows tenants to pay their rents more conveniently but will also produce efficiency savings. Payment methods have been extended to include both direct debits and on-line payments, and these two methods provide efficiencies through integration with LHA's own rent accounting software. This also allows accurate, up to date information being made available to both staff and tenants on the status of rent accounts.

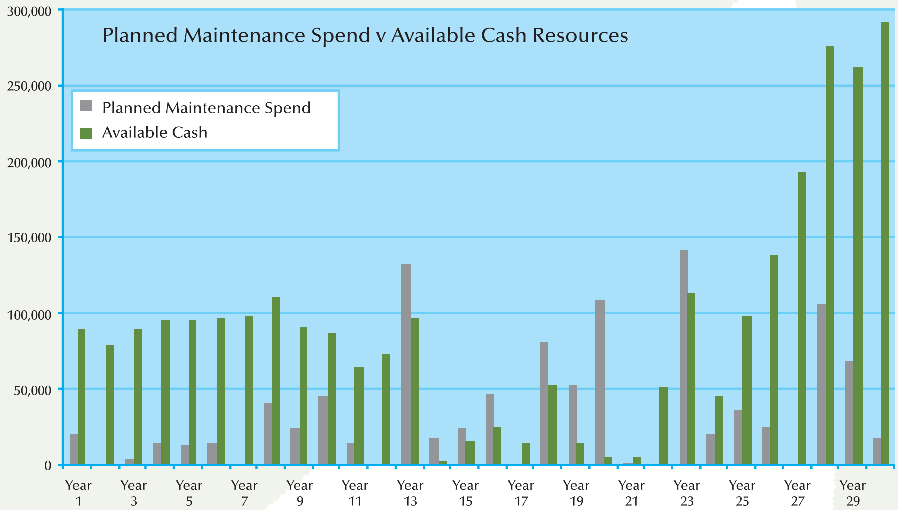
3.2 Future Maintenance Programme

The Association owns £45 million of housing stock at historic cost with on average, an additional £1.5m of development work being undertaken annually. The vast majority of the housing stock is new build, accounting for approximately 80% of the stock, with rehabilitated stock accounting for the remaining 20%.

Of the new build stock, 90% was constructed in the last 10 years, with the average age of all stock (after improvement) being approximately 9 years old.

The future maintenance of this housing stock has to be funded by the Association, as it is unlikely that there will be any capital grants to fund major repairs available. This has to be achieved with the Association building up cash reserves from rental income in order to pay for the replacement of components when they reach the end of their anticipated useful economic life.

LHA has produced in conjunction with Clyde Design Partnership a 60 years estimate of major repairs expenditure based on a life cycle costing programme using an accurate forecast of replacement costs for each development during this period. The diagram shows the Association



cash surplus to fund the maintenance programme.

The model assumes that the number of housing units does not increase over the period, and therefore the assumption is that rental increases will increase by 1% over inflation over the period.

The Association will be required to borrow approximately £700,000 in year 2016 to augment the funding of the maintenance programme. By this time, the Association will have repaid in full three private finance term loans, releasing 57 units from the lender's security, therefore allowing the Association to utilise these units as security to raise the required level of finance. In subsequent years, loans are repaid releasing additional rent income to fund the investment in the housing stock.

3.3 Financial Management Systems

The Association operate a full range of financial management techniques to ensure performance is carefully planned, monitored and reported to committee and reviewed in line with agreed policies and budgets.

Detailed short term budgets are prepared annually in conjunction with agreed investment priorities and funding constraints. Senior management and committee are involved in the budget setting and rent review process. Performance against budget is monitored both by means of a monthly budget report, analysed on a cost centre basis, and by quarterly management accounts which are prepared in the statutory reporting format. Committee and staff receive detailed analysis from both of these financial reports on the financial performance explaining and detailing variations from budgeted figures along with estimates on year end out-turn figures.

The Association has invested heavily in IT and through the utilisation of such technology; the reporting systems have improved significantly. Areas of poor financial performance can now be identified at an early stage and action plans for remedial action can be formulated and implemented. Such areas, which have benefited from this, have been the improvement in credit control in relation to rent payments.

Financial Performance to Date

4.1 LHA has achieved its present position through a steady growth as a result of a very successful development programme funded mainly through Housing Association Grant, averaging approximately £1.5m per year at present day value. Other funding sources have been used when available, the most significant of which was the Empty Homes Initiative, which resulted in ten dilapidated units being refurbished at Clydesdale Road, Mossend and Holytown Road, Motherwell.

4.2 LHA were one of the first RSL's to achieve Client Charter status, which recognises the commitment to continuous improvement with its key themes being leadership, partnering, learning from performance, sustainability and promoting equality.

4.3 The Association has a track record in development activity that stands comparison with any other RSL, based on solid achievement in all categories of housing activity supported by Communities Scotland grant funding.

4.4 LHA has in its twenty five years of operation built up a wealth of experience in managing and delivering an effective development and housing service. This experience also extends to financial management, as the LHA can demonstrate an impressive financial track record, which has seen the accumulation of total reserves in excess of £3.6m of which £3.3m has been designated for the future planned maintenance of the housing stock.

4.5 The use of private finance obtained from commercial lenders is essential to allow viable development activity. To date LHA has been successful in obtaining over £11.0m in private finance from three high street banks and at present the Associations long term debt stands at approximately £9.6m.

4.6 The management of this debt portfolio plays a pivotal role in the operational financing and this is governed by the treasury management policy. This policy has been developed with the core objective of minimising any potential risk to tenants. This is achieved through ensuring that there is a natural balance between fixed and variable interest loans and procuring low cost finance.

4.7 The financial management of the business is at the core of the business and will continue to be as the Association grows.

Financial Performance Indicators for the Next 3 Years

LANARKSHIRE HOUSING ASSOCIATION LTD

5.1 Assumptions Made in Financial Modelling

The development programme for 2008/09 allows for the completion of the Mossend Phase 2 project which will yield additional rental income late in the financial year 2008/09. A number of other sites have been acquired and it has been assumed that these sites will be completed providing around 70 additional units for rent.

LHA has identified a number of others sites and projects which would meet with the approved investment and strategic priorities. At present there is no guaranteed development funding available for these sites however, the Association is well placed to take these projects should funding become available either in the short term or in the medium term depending on the grant regime.

5.2 Assumptions Made in Financial Projections

The financial projections in **Appendix 1** detail the following:-

- Income & Expenditure
- Balance Sheets
- Cash Flow Statements
- Key Performance Indicators & Benchmarks

These projections are based on the assumptions set out below.

i) Rental Income

Rental income for the financial year 2008/09 is based on the number of units in management as at 1 April 2008 with additional rental income on completion of Mossend Phase 2 will not materially affect the Turnover figure. Rental income thereafter is increased at inflation plus 1% (4.5%) for both 2009/10 and 2010/11.

ii) Voids & Bad Debts

Overall void levels have been assumed as being in line with the Association's own benchmark figure of 0.75% of rental income throughout the period of the plan. Bad debts levels have been increased to approximately 1% of total rental income for the period of the plan to ensure an accurate reflection on current experience.

iii) Employee Costs

Staffing costs and levels have been agreed for the 2008/09 financial year. It is estimated that there will be a small increase in staff numbers as posts previously left vacant are recruited. This increase in staffing levels will be off set by in part by the savings achieved with a member of staff returning from maternity leave on part time hours. Staffing costs for 2009/10 and 2010/11 have been increased to take account of increments and performance related awards and also a cost of living award which is expected to be 0.5% greater than inflation.

iv) Property Maintenance Costs

Reactive maintenance is per the budget for 2008/09 and increased in line with inflation for subsequent years with an allowance for additional stock coming into management in throughout the period of the plan. Cyclical maintenance is per the programme of works whilst planned maintenance is based on the life cycle costing model currently in use with an inflationary adjustment to take into account potential price increases.

v) Other Property Costs

Includes insurance premiums and service costs and depreciation. Insurance premiums are expected to decrease by around 12% as an improved claims experience allows premiums to be reduced. Service charges increase in line with inflation and depreciation charges also increase based on the Depreciation Policy and in accordance with the requirements of the 2008 SORP.

vi) Business Overheads

General business overheads are expected to increase in line with inflation over the period of the plan.

vii) Interest Payable

Interest payable is expected to increase over the period by approximately 16%. This is due to the fact that additional borrowing of £3.0m will be required to partially fund the existing development programme. It is also assumed that interest rates will increase to 5% over the period of the plan.

Key Contacts

LANARKSHIRE
HOUSING ASSOCIATION LTD

Governing Body

Charles Millar (Chairman)

Michael McCann (Vice Chair)

Thomas Cartwright MBE (Secretary)

Fiona Tonner (Treasurer)

Catriona Blyth

Shirley Killeen

John Glenny

Gordon Heng

William Jeffrey

John McNally

Jessie Mitchell

Management Team

Chief Executive
James M Stevenson, B.Sc. (Hons.)

Corporate Services Director
Simon McManus, B.A., CPFA

Housing Services Director
Teresa Ward

Business Manager
Ann Marie Collins

Development Manager
Tracey Winters, B.A. (Hons.)

Maintenance Manager
Alice McLean, M.Phil, MCIH

Housing Manager
Irene Savage, Dip.Hsg

Technical Services Manager
Gavin Young, B.Sc., Dip.Arch, RIBA, RIAS

Main Bankers

Bank of Scotland
207 Main Street
Bellshill
ML4 1AL

Auditors

Scott-Moncrieff
25 Bothwell Street
Glasgow
G2 6NL

Internal Auditors

BDO Stoy Hayward
Ballantine House
168 west George Street
Glasgow
G2 2PT

Solicitors

Brechin Tindal Oatts
48 St Vincent Street
Glasgow
G2 5HS

MacRoberts
152 Bath Street
Glasgow
G2 4TB

Appendix 1

LANARKSHIRE
HOUSING ASSOCIATION LTD

Balance Sheet

	Annual 2006/07 £000's	Projected Actual 2007/08 £000's	Annual Estimate 2008/09 £000's	Annual Estimate 2009/10 £000's	Annual Estimate 2010/11 £000's
Housing Assets	47,950	48,767	51,677	53,217	53,817
Grants	**(35,130)**	**(36,518)**	**(37,500)**	**(38,482)**	**(38,682)**
Depreciation	**(1,164)**	**(1,317)**	**(1,514)**	**(1,814)**	**(2,033)**
Net Housing Assets	11,656	10,932	12,663	12,921	13,102
Other Assets	628	667	652	638	619
Net Current Assets	861	1,817	332	376	577
Total	**13,145**	**13,416**	**13,647**	**13,935**	**14,298**
Total Loans	9,309	9,355	9,550	9,812	10,672
Provisions	121	121	79	24	-
Designated Reserves	3,653	3,884	3,884	3,926	4,130
Revenue Reserves	62	56	134	173	126
Total	**13,145**	**13,416**	**13,647**	**13,935**	**4,928**

LANARKSHIRE
HOUSING ASSOCIATION LTD

Cash Flow Statement

	Annual 2006/07 £000's	Projected Actual 2007/08 £000's	Annual Estimate 2008/09 £000's	Annual Estimate 2009/10 £000's	Annual Estimate 2010/11 £000's
Cash Received:					
Income Received from Activities	2,407,398	2,513,300	2,643,560	2,784,590	3,110,630
Total Income from Investments	59,117	61,000	40,000	40,000	40,000
	2,466,515	**2,574,300**	**2,683,560**	**2,824,590**	**3,150,630**
Cash Paid:					
Total Operating Costs	1,583,185	1,936,550	2,083,671	2,127,369	2,304,630
Non Development Capital Expenditure	15,267	110,000	30,000	0	20,000
Total Mortgage Repayments	670,389	675,000	715,776	710,253	726,751
	2,268,841	2,721,550	2,829,447	2,837,622	3,051,381
Less: Depreciation Charges	**(187,263)**	**(213,000)**	**(213,000)**	**(224,000)**	**(229,000)**
Less: Provision For Bad Debts	**0**	**(10,000)**	**(10,000)**	**(10,000)**	**(10,000)**
	2,081,578	**2,498,550**	**2,606,447**	**2,603,622**	**2,812,381**
Inc./(Dec.) in Cash Position	**384,937**	**75,750**	**77,113**	**220,968**	**338,249**

Appendix 2

Key Financial Performance Indicators

	Benchmark	Projected Actual 2007/08	Annual Estimate 2008/09	Annual Estimate 2009/10	Annual Estimate 2010/11
Interest Cover	110%	138%	147%	156%	165%
Interest Paid	30%	24%	23%	23%	22%
Current Ratio	110%	178%	169%	171%	184%
Gross Surplus	30%	29%	32%	34%	36%
Net Surplus	3%	9%	13%	15%	17%
Growth in Reserves	2%	4%	6%	7%	8%
Staff Costs	32%	32%	31%	31%	29%

You can request this document in large print, Braille or on audio cassette, please contact 01698 269119 for further information.

If you require this information in another language please contact the Interpretation and Translation Service (Telephone 0131 242 8181).

Member

Scottish Federation of Housing Associations

INVESTOR IN PEOPLE

POSITIVE ABOUT DISABLED PEOPLE

Registered with the Scottish Housing Regulator Reg. No. HAL 202
Registered under the Industrial and Provident Socieities Act 1965 Reg. No. 1941 R(S)

LANARKSHIRE
HOUSING ASSOCIATION LTD

LANARKSHIRE HOUSING ASSOCIATION LTD
191 Brandon Street
Motherwell ML1 1RS
Tel: 01698 269119
Fax: 01698 275202
Web: www.lanarkshireha.com
Email: enquiries@lanarkshireha.com