



Board Meeting Minutes

Meeting: Special Board Meeting **Location:** Ron Davey Enterprise

Date: 30 April 2019 **Time:** Centre, 10 Vulcan St
5.30pm

Attendees: J Thorburn JT (Chair), J Berrington JB (left 6.30pm), C Rossine CR, T Dow TD,
M Thomson MT, I Cross IC, R Maguire RM
J MacLeod JM, R Porter MBE RP (left 6.15pm), A Gow AG, G Satti GS

Apologies: B Rossine, A Murphy

In Attendance: R Tamburrini(CEO) RT, B Hartness (DCEO FIN) BH, AM Devlin (SDCEO)
AMD, J Devine (DCEO REGEN) JD, T Sweeney (DDCS) TS, L Cooper (DDHS)
LC, A Whiteford (SCSO) AW

Barry Docherty - Consultant
Paul McNeill CA (HRC Ltd) - Consultant

Minute Taker: C Murray – (PA) CM

	Agenda	Action	Date
1.	Apologies		
	As above		
2.	Declaration of Interest and Attendance		
	None.		
3.	Business Plan Presentation by Paul McNeill, Consultant and Bob Hartness (DCEO)		
	<p>Chair opened the meeting and introduced CM as the new PA to CEO. The Board in turn then introduced themselves to CM.</p> <p>CEO informed the Board that this special meeting was called to focus on the Business Plan for 2019-2022. The Business Plan will be discussed in more detail at the next Board meeting scheduled for 28 May 2019.</p> <p>Once finalised it will be sent to the Regulator.</p> <p>Chair then introduced Paul McNeill from HRC Ltd who has been evaluating the financial element of the business plan. His assessment</p>		

	<p>focused on cash flow and gave examples of how changes the Association might implement could affect the cash flow of ng homes.</p> <p>Paul invited questions from the Board at any point during his presentation. He explained that the Business Plan will include financial forecasts of ng homes:</p> <ul style="list-style-type: none"> • Cash flow, Statement of Financial Position & Statement of Comprehensive Income • NBS by 30 June • 5YP to SHR 30 June <p>He confirmed the aim was to demonstrate ongoing viability and financial strength in the short and medium term to meet the challenges ahead.</p> <p>He also confirmed that a sensitivity analysis had been carried out on possible risks. He added the analysis would reflect the stock conditions survey and the new asset management strategy.</p> <p>He outlined the following potential risks for the Association:</p> <ul style="list-style-type: none"> • Brexit • Inflation and Interest rates • Austerity • Demand • Affordable rents • Arrears • Pensions • Covenant compliance • Future new build • Health and Safety • Future maintenance standards <p>There was a general discussion on the potential risks and the financial strengths of the Association. In response to questions Paul explained the cash flow simply shows the money the Association has in the bank.</p> <p>Money in - rents, factoring income, service income, bank borrowings, new build grant etc.</p>		
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	<p>Money out – new build, planned, cyclical, reactive maintenance, service costs, staff salaries, office overheads, bank interest and capital repayments, etc.</p> <p>Paul emphasised it was important that the Board keep cash flow at the forefront of their minds and to consider 'the bigger picture' when making decisions for the Association. One big consideration following the Grenfell Tower disaster is fire safety which will result in investment from ng homes and likely changes to government policies. There was some general discussion on the 'bigger picture' considerations and it was agreed that ng homes number one priority is the health and safety of its tenants.</p> <p>Paul stressed the importance to have 'financial headroom' and advised that he had been pessimistic in his projections to allow for this.</p> <p>He added ng homes SHR Regulatory Status is to be determined following the receipt of the Assurance Statement in October 2019. New Build MMR and a commercial unit will also be considered. ng homes must:</p> <ol style="list-style-type: none"> 1. send SHR by 31 May 2019, its refreshed business strategy, its report to the Board on this and its updated risk register; 2. provide copies to SHR of its Board and audit committee minutes as they become available; and 3. Tell SHR if there are any material adverse changes to its development plans which might affect its financial position or reputation, in line with their notifiable events guidance. <p>Paul then commented on the wider picture that underlies the assumptions used in the business plan model.</p> <ul style="list-style-type: none"> • Purchase 5 properties during the year in line with previous policy • Build 28 units for rent Springburn Halls • Build 1 Commercial Unit Springburn Halls • Build 21 units for mid market rent Springburn Halls • Springburn Halls will be funded through a combination of 		
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	<p>grants and ng homes own funds – No new private finance</p> <ul style="list-style-type: none"> • Build approximately 10 units for rent at Ashfield Street • Model now reflects the information from the asset management database • First 10 years of the cash flow assume private finance drawn down of £30m to support future investment plans (£10m each year in year 4, 7 and 10) • Assumed 20 year bond at an interest rate of 4.5% • Assumed a simple covenant structure remains i.e. no deduction of capitalised repairs, pension deficit payments etc in interest cover calculation. <p>For Springburn Halls the total build costs was estimated at £7.9m with grant received £4.2m. With no borrowings the Statement of Comprehensive Income (SOCi) and Statement of Financial Position (SOFp) look strong with operating surpluses and net income each year. However the cash flows tell a different story with ng supporting the new build with £3.7m of their own resources and no additional private finance. The cash flows are in surplus in years 27-29 only and by year 30 show a small deficit of £30,000 on the assumptions in the current model. This would suggest further grant support may be required from Council and senior staff are negotiating with the Council on this matter. The Ashfield development was on a smaller scale but had similar concerns. It was noted that the scale of development may change to a larger size.</p> <p>Paul commented that the business plan now fully reflected the updated investment costs from the stock condition information. This resulted in:</p> <ul style="list-style-type: none"> • Investment in houses £83m first 10 years, followed by £72m in years 11- 20 and £54m in years 21-30 giving a total investment £209m (including vat and fees) • £18m of fire safety investment included above of which £10m assumed in first 10 years <p>The point was put out for discussion as to whether we needed to consider additional rent charge for properties to cover the additional</p>		
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	<p>costs? The costs also assumed that the review work being done in some of the MSF properties would not need any additional cost for structural issues. A general discussion followed and it was agreed that the health and safety of tenants is of paramount importance and this would be fully considered.</p> <p>Commenting on the cash flows Paul highlighted the principal assumptions had inflation at 2% long term, LIBOR at 4.5% by year 4, and the rent policy inflation plus 0.5% till year 9 then inflation only, cost uplifts above inflation for all repair and management costs of 0.5% which adds £50m to costs over the thirty years, voids 3% and bad debts 3% and by year 30 all debt had been repaid. It was noted that we have to always bear in mind that long term cash flows are sensitive to changes in assumptions and these can have dramatic effects on cash resources or future borrowings. Paul advised that further work would be undertaken to refine the assumptions for the final business plan.</p> <p>Concentrating on the first five years, the Association is projecting operating and trading surpluses in the next 5 years which increases the net worth of the business. Projecting covenant compliance based on current covenant definitions. For new lending, the Association will ensure new covenant structures are put in place that work for ng homes.</p> <p>The current model showed some trading deficits in later years but it was noted that as stated earlier the final model would be refined and this would reduce these. Some members commented on this and Paul highlighted that as circumstances change then the Association also needs to review its options stating that both legislative and technological change will affect the long term.</p> <p>To summarise Paul highlighted the following points:</p> <ul style="list-style-type: none"> • 2019/20 BP reflects significant investment in the houses based on the asset management information • Fire safety investment of £18m are additional costs that could attract additional rent increases 		
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	<ul style="list-style-type: none"> • New build is a drain on cash flow and requires review for additional grant support • Additional private finance of £30m required over first 10 years and future covenant structures should be carefully considered. <p>CEO acknowledged that the Board had a difficult job ensuring financial viability and at the same time discharging its responsibility in terms of investing heavily in improvements and treating tenants health and safety as the highest priority. He added that a further challenge for the Board is to keep rents affordable. Members agreed that the business planning process itself had helped them to achieve a balanced approach and reconcile all of the above.</p> <p>BH started his presentation by referring to the Board business update session in December 2018. At that time the main assumptions in the thirty year plan were inflation at 2% with rent increases up to year 10 at 2.5%, base interest rates slowly rising to 4.5%, voids & bad debts both set at 3% of income and £210m on planned maintenance in today's money along with £39m cyclical repairs and £75m for day to day repairs.</p> <p>BH advised that now we have the output from the Asset Management Survey the main changes were £209m on planned maintenance in today's money along with £40m cyclical repairs and £80m for day to day repairs, expenditure more front loaded than in previous projections and inflation at 2% with rent increases at 2.5% for the first nine years and inflation only after that.</p> <p>In terms of cash flow, planned maintenance and development expenditure causes cash outflow across the first five years of the plan with cash falling from £18m to £6.5m after inflow of £10m of bond funds. The Nationwide loans change with lower interest charges as fixes end but higher capital repayments. The £8m THFC loan starts capital repayments in 2020/21, Combined the loan repayments move from about £800k per annum to about £2.2m by 2023/24. All of today's debt would be repaid by 2032.</p>		
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	<p>There was some discussion regarding the implications of this and BH explained this has to take into account the effect of welfare changes, Brexit was still unclear and likely to be negative and that additional funding will be required if more developments are planned after Springburn Halls and Ashgill Road.</p> <p>BH confirmed that the Association could deal with the future successfully. Funders are still willing to lend to the sector with a continuing flow of new deals. We will be looking at all options but probably a Bond deal as covenant terms can be agreed so as not to be a burden and limit future planned maintenance spend. We are anticipating funding of £30m over the next ten years to assist with the above. A phased drawdown would be done to reduce interest rate costs. Other considerations include EESSH 2 which requires future discussion on the nature of investment in stock and that after 2033 there is no requirement to repay any part of funds from GHA disposals. This allows future discussion on disposals and additional new build.</p> <p>To summarise, BH commented that our projections are showing that we are still viable. We have a low debt profile compared to others and can access further funds for our long term plans. Sufficient headroom was built in to cope with changes in the long term environment and that a full range of scenarios had been prepared for the business plan.</p> <p>The Board agreed that HRC Ltd and BH to work together on possible changes and subsequent impacts and to discuss with the CEO and then report back to the Board on 28 May 2019.</p> <p>CEO advised that some items from the Board Agenda on 28 May will need to be carried forward to a later Board meeting to allow ample time to discuss the business plan and ARC. The Board members agreed to this.</p> <p>The CEO and Directors took it in turns to go over some key messages (although not exhaustive) that will be captured in the Business Plan:</p>	BH/RT	May Board
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	<p>1. Strengthen Governance</p> <p>Continue with Board development/appraisals and investing in training; continue self-assessments based on the new Regulatory Standards to ensure on-going compliance; develop our Assurance Statement; establish a succession planning strategy for senior staff and Board; and update our Rules based on the latest model.</p> <p>2. Tenure Diversification</p> <p>North Glasgow has an ownership of 27% which is lower than the national average of over 60%. Agreed a mixed tenure is more favourable. ng homes to always look forward to collaborate with partners to increase local resident's tenure choice.</p> <p>3. Customer Service</p> <p>ng homes values state "we are customer focused and put the customer first" therefore we must continue to improve the customer journey.</p> <p>4. EESSH 2020 / EESSH 2030</p> <p>Firstly, remedial works will continue to ensure ng homes meets the 2020 standard. Also considered important to look forward to what will be required for EESSH 2030.</p> <p>5. Health and Safety Management (as landlord and employer)</p> <p>Board agreed there will continue to be a strong focus on health and safety for tenants, customers and staff. Noted ng homes already have a program underway with ACS Health and Safety Consultants, and will continue to focus on health and safety as a top priority. Attainment of ISO 45001:2018 considered as a target.</p> <p>6. Pilot Option Appraisal</p> <p>Agreed ng homes to look in close detail at the performance of Balgrayhill Decks and Hawthorn Tenements. They will feature in the business plan and we will look at how both are performing: demand for the areas; movers from the area and spend vs collection.</p> <p>7. Big 4 Shopping</p> <p>ng homes want to promote Possilpark and Parkhouse and will aim to work with Glasgow City Council and other partners to support the arrival of one of the bigger supermarkets (Tesco, Sainsburys, Asda and Morrisons) to the area.</p>		
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	<p>8. MSF Fire Safety, Smoke Suppression + Asbestos (containment and/or removal)</p> <p>In the wake of Grenfell, ng homes are already focusing on many aspects of healthy and safety in the MSF.</p> <p>9. Fuel Poverty and Demo project</p> <p>Fuel poverty is affecting many ng homes tenants and therefore it is important for ng homes to look at more innovative ways to help people out of poverty.</p> <p>10. IT/Communications</p> <p>Members recognise the importance of providing a range of ways for tenants and other customers to contact/communicate with the Association. Currently ng homes are developing a new interactive website and social media.</p> <p>11. Regeneration Strategy 2</p> <p>Current economic, physical and social strategy to be updated.</p> <p>12. Gas Safety</p> <p>Gas safety has always been a priority and nothing less than 100% compliance is acceptable. This year ng homes were 99.9% compliant and as soon as this was identified it was rectified. Monitoring gas safety will continue to be a priority.</p> <p>13. Staffing Structure</p> <p>People are the Association's most important resource and ng homes will review the staffing structure to ensure it delivers value for money and has the right people with the right skills in the right place at the right time.</p> <p>There was a general discussion and agreement on the strategic importance of the key messages covered.</p> <p>CEO invited members to flag up any queries on any aspect of the business plan to senior staff and/or the Chair.</p> <p>The Chair thanked Paul McNeill, Bob Hartness, ET and in particular the Board. He stated that the business planning process had been very thorough with Board and staff all contributing since last December and he considered it time well spent.</p>		
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