



Glasgow and West of Scotland
Forum of Housing Associations

Welcome

Paul McNeill CA
Director HRC Ltd

Becoming Mission Impossible





CREDIT SUISSE 





THE COST OF LIVING CRISIS

ENERGY PRICES
SKYROCKETING



FOOD AND
PETROL PRICES
RISING

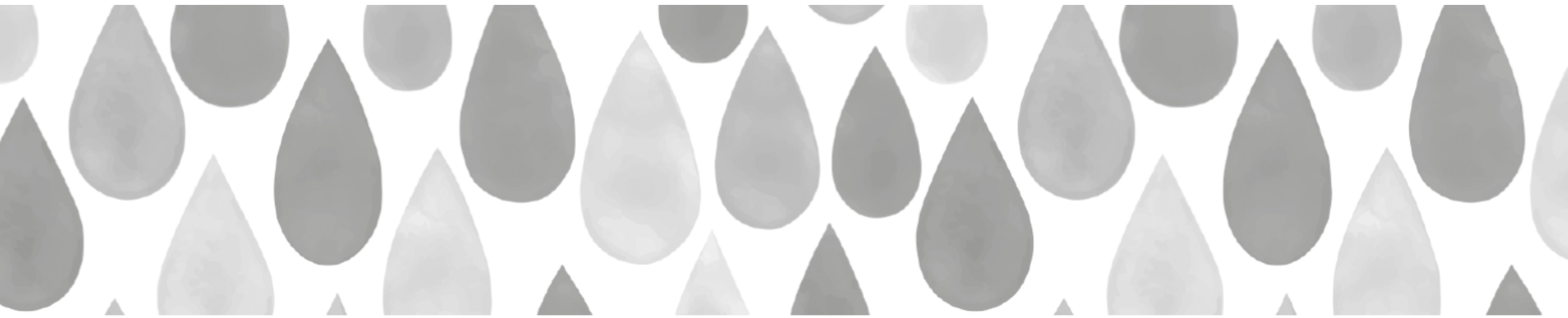


TAXES UP AND
WAGES
STAGNATING



RENTS INCREASING





Destitution in the UK 2023

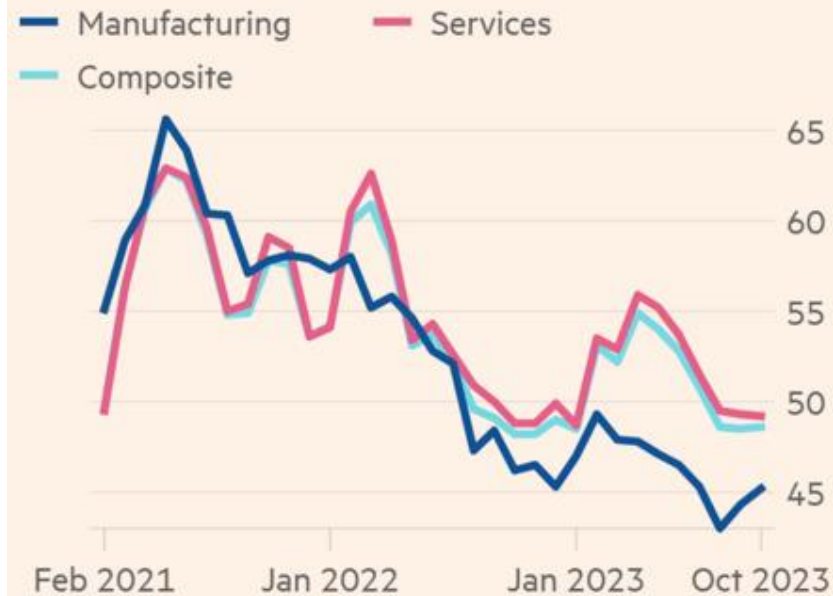
Suzanne Fitzpatrick, Glen Bramley, Morag Treanor, Janice Blenkinsopp, Jill McIntyre, Sarah Johnsen, and Lynne McMordie

24th Oct 2023 | [Related topics](#) ▼

This study, the fourth in the Destitution in the UK series, reveals approximately 3.8 million people experienced destitution in 2022, including around one million children. This is almost two-and-a-half times the number of people in 2017, and nearly triple the number of children. There is an urgent need for action to tackle destitution in the UK.

UK private sector output declines for third month running in October

Purchasing managers' index, below 50= a majority of businesses reporting a contraction

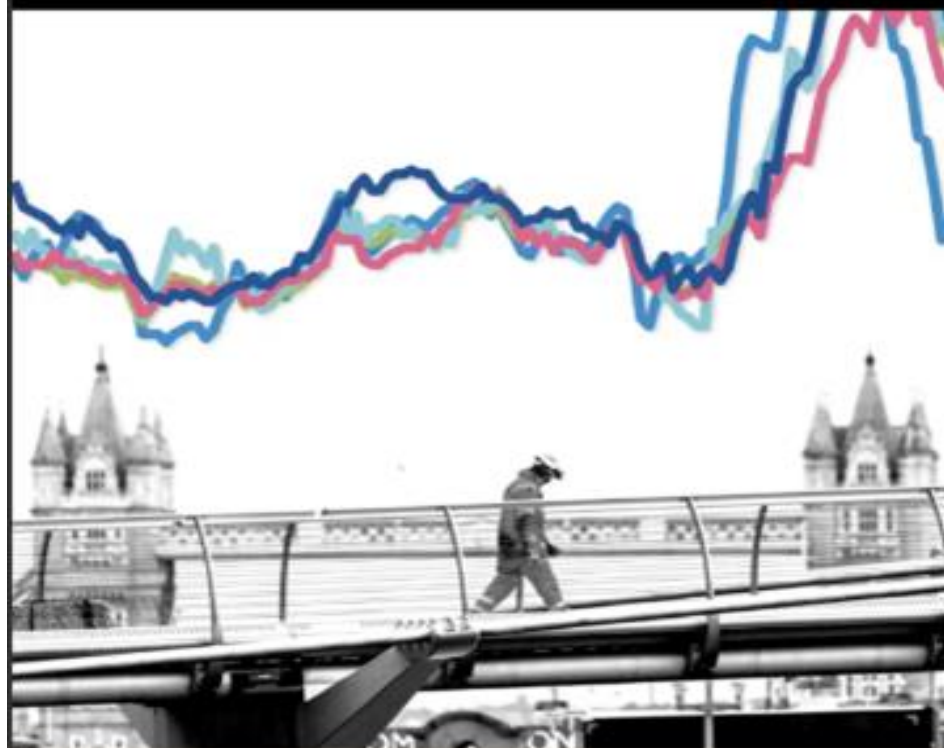


Source: S&P Global / CIPS
© FT

The PMI indices are closely watched as a near real-time gauge of the economy as official statistics lag by several months. The PMIs suggested that high interest rates are hitting demand, employment and confidence across

Stubborn UK inflation puts Bank of England in a bind

Central bank is grappling with persistent rising prices, sluggish growth and conflicting economic data



The Bank of England's plan for dealing with persistent inflation is to hold interest rates at high levels until the inflation threat has passed



UK unemployment and employment statistics

Bank of England expected to hold interest rates again after joblessness rise

Policymakers expected to keep rates at 5.25% after official figures show rise in UK unemployment

- **Analysis: Change to jobs market data could not come at worse time for Bank of England**
- **Business live - latest updates**

Phillip Inman

🐦 @phillipinman

Tue 24 Oct 2023 11.25 BST



Bank of England policymakers are expected to hold interest rates at their current 5.25% level for a second time next week after the UK jobs market showed signs of slowing down.

Paul Dales, chief UK economist at Capital Economics, said: "The failure of CPI inflation to fall in September from August's 6.7 per cent will be a bit of a disappointment to most .. but as it is still below the 6.9 per cent rate the Bank of England projected in August."

Dales did he does not expect the Bank of England to raise interest rates again. He said that inflation still remained on track to fall below 5.1 per cent by December as the chancellor pledged. "The new risk, though, is that events in the Middle East restrain how far inflation falls next year," he added.

Millions of UK families could face cuts to value of their benefits next year

Whitehall insiders say it is 'open' question whether payments will rise in line with September inflation figure of 6.7%



More than 70% of couples with children would be affected if working-age benefits such as universal credit were frozen, according to the Resolution Foundation © Victor Huang/iStock/Getty Images

UK benefit reform will cause hardship without aiding economy, charities warn

Proposed changes to work capability assessment could be centrepiece of push to cut welfare bill in Autumn Statement



Rishi Sunak has called it a 'national scandal' that more than 2mn people have been assessed as being unfit to work © PetaPix/Alamy

Real living wage rises to £12 an hour as cost of living crisis continues

The half a million workers whose employers pay the voluntary real living wage will earn £3,000 a year above the minimum wage



This month the government said the national living wage will rise from £10.42 to at least £11 an hour from April 2024, though the chancellor is not expected to give a final figure until the autumn statement on 22 November.

Economic Outlook



Fraser of Allander Institute Economic Commentary

Vol 47 No 3

Foreword

We enter the final months of 2023 amid a thoroughly mixed outlook for our economy and, accordingly, for business and consumers. As this quarter's Commentary outlines, we have seen economic growth this year, but that growth has been at its weakest rate since the 1950s; and although inflation is falling it remains uncomfortably high.

The Commentary highlights that from a consumer standpoint, that doesn't mean a drop in prices, just that prices are increasing less quickly. It's no surprise, then, that consumer confidence – despite having risen for two consecutive quarters – remains historically weak.

The outlook for businesses is equally challenging, with Deloitte's latest CFO Survey showing that finance chiefs are regarding debt finance with a remarkable level of caution, as they foresee an extended period of high interest rates and stubbornly high inflation. The survey found 84% of CFOs expect their operating costs will continue to increase, either somewhat or significantly, in the next year, and that their focus has very much shifted to prioritising debt reduction.

- That chimes with the conclusions of the Fraser of Allander Institute's latest Scottish Business Monitor, which found a third of businesses expect to only be able to absorb costs for another year. It also showed notably high rates of delays and cancellations to business investment, though half of businesses do anticipate initiating investment in 2023 or 2024, suggesting that hesitation may be temporary.

Delays in Investment

Following consultation with residents, where they were given the option of a 5%, 7% or 9% rent increase, the Board decided on 7%. They were concerned that if we increased rents by only 5%, we would not be able to replace windows.....7% rent increase will mean reducing the amount we have to spend on improving customers' homes over the next five years.

This effectively means that the 6% increase loses the Association in the region of £0.5m per year – and every year.

Can't Continue with this Strategy

Year	1	2	3	4	5	6	7	8	9	10	11
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
uplift all by 2%	£	£	£	£	£	£	£	£	£	£	£
PM Forecast	10,724,325	3,266,748	4,020,946	3,567,325	4,806,227	3,997,384	3,291,741	2,990,609	2,329,442	4,612,537	4,294,499
Reduction to Planned			(60,000)	(120,000)	(120,000)	(180,000)	(180,000)	(240,000)	(300,000)	(300,000)	(360,000)
New Developments	0	0	0	0	0	0	0	0	0	37,988	563,858
Re-profile PIM spend over 30 years	(9,294,325)	(1,000,000)	4,500,000	3,000,000	3,994,325	(2,000,000)	(700,000)	(200,000)	800,000	(1,000,000)	(1,000,000)



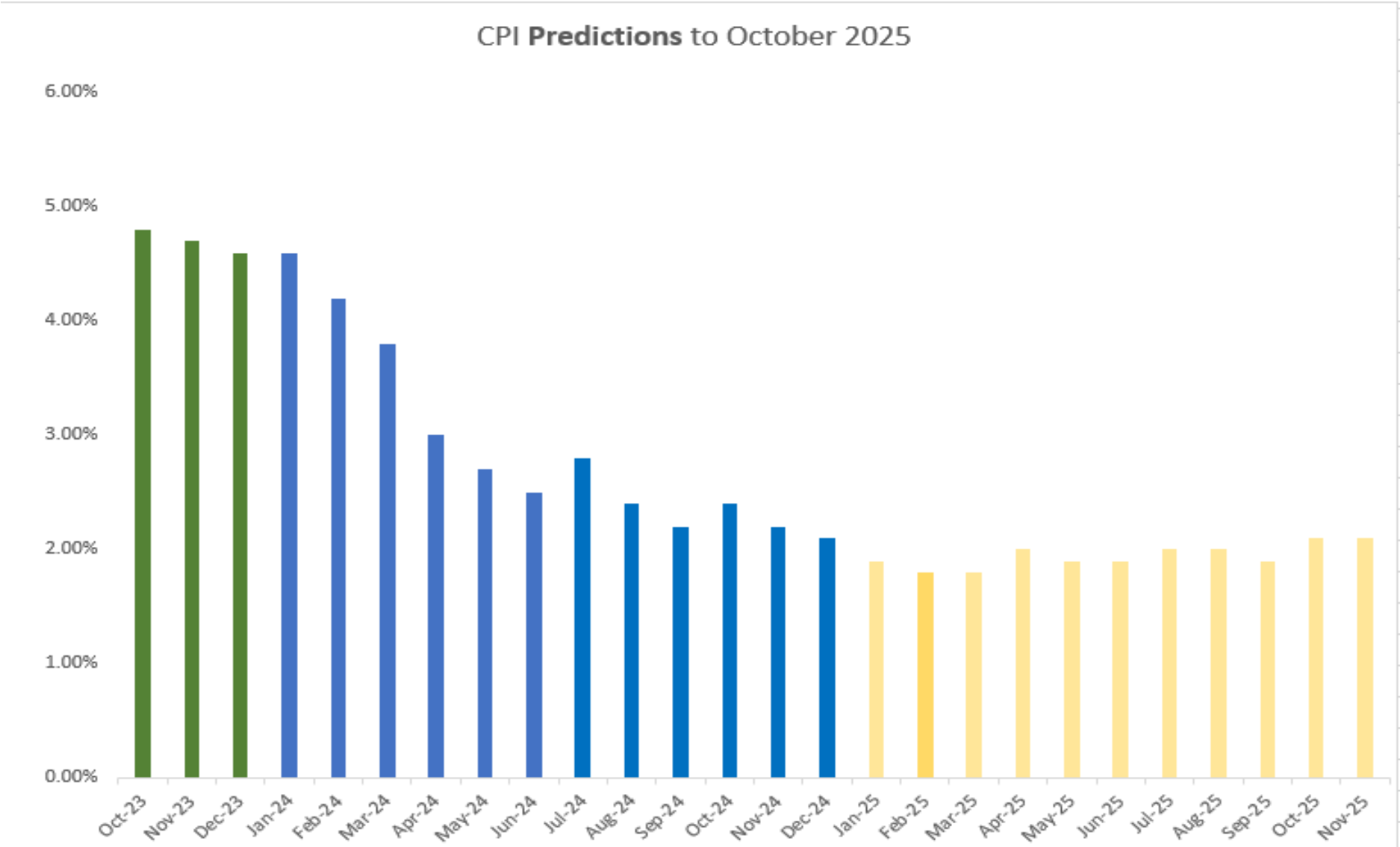
Challenges



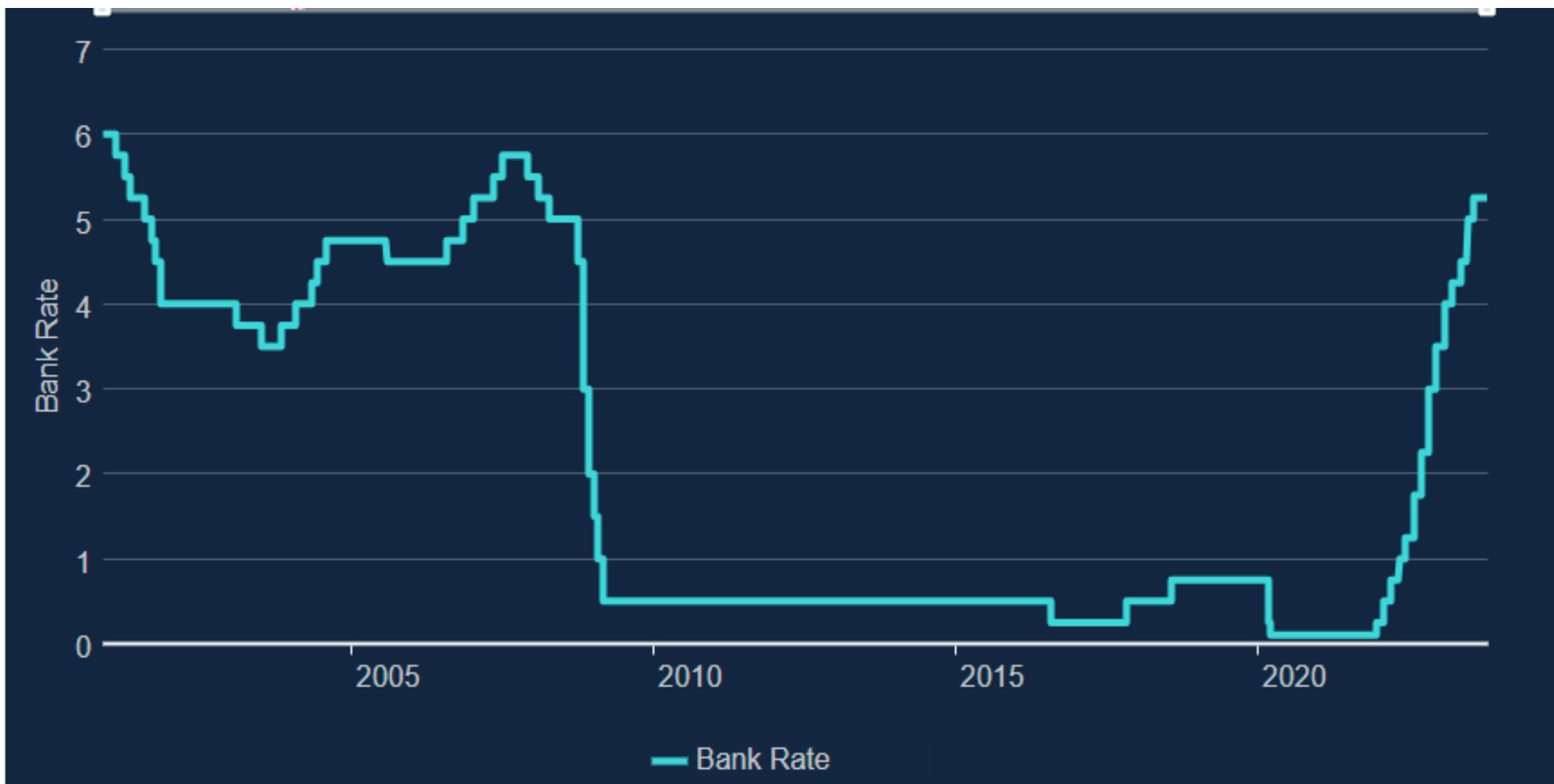
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- Prices of kitchens bathrooms, boilers, windows etc
 - JLL estimating that maintenance inflation has increased by 10% at least in the last 12 months to September 2023
- Construction cost for newbuild
 - Lottery of grant levels some telling me that HAG of £60k is available
- Salaries 2024/25 increase?
- Energy costs
- Insurance premiums etc
- Health and safety
 - Damp and Mould
- Net Zero
- Reinforced Autoclaved Aerated Concrete (RAAC)
- Interest rates

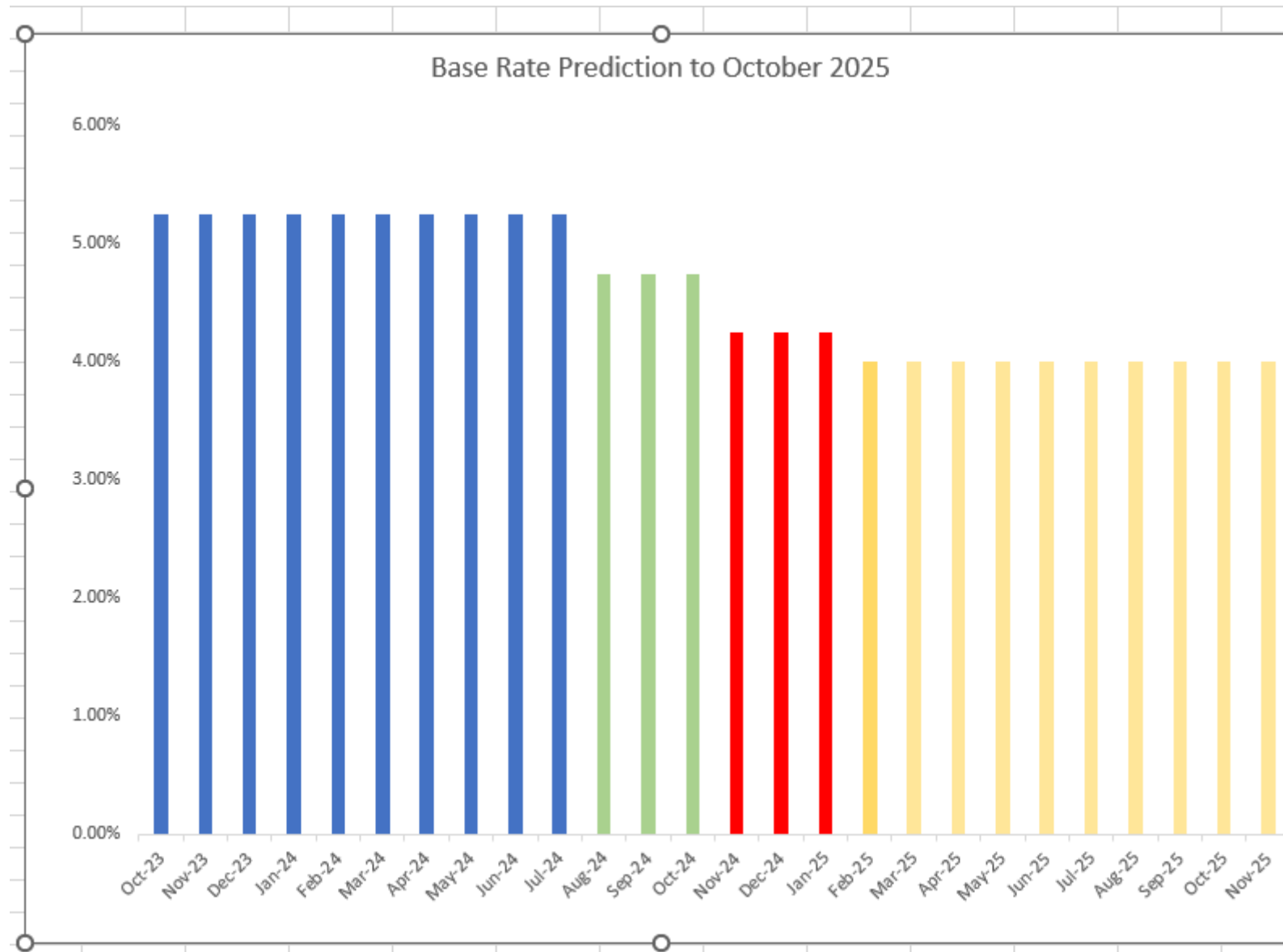
4.6% December 2024, 3% by April 2024, 1.9% January 2025



Base Rate Higher for Longer



4.75% August 2024 4.25% November 2024 4% February 2025



Economic Outlook



**NO
CONTROL**

Material Cost Increases above inflation

- Reduced operating surplus

Interest rates higher for longer

- Reduced surplus for the year

Rents going up but below inflation

- Reduced operating surplus
- Reduced surplus for the year
- Rent freezes and rent increases below inflation not sustainable

Less cash at bank

- There are some RSLs running out of £
- and/or are delaying investment

Less headroom in covenants

Funders Appetite Remains Strong

- On a stand alone basis the margin (over SONIA) for longer dated loans is as follows
 - 15 years – 1.45%
 - 20 years – 1.50%
- Our standard practice is to allow you to retain the benefit of the current margin and blend that together to give us the new margin.
- An arrangement fee of 1% of the 'new money' would be payable.
- Alternatively, you may wish to consider a Revolving Credit Facility for that purpose or indeed also as part of the development funding.
- illustration,
 - 5 Year – 1% margin, 0.50% arrangement fee, 0.40% non-utilisation fee.
 - 10 year – 1.35% margin, 1% arrangement fee, 0.54% non-utilisation fee

EBITDA MRI

- **An inappropriate covenant**
- Gives control of capital spend to Bank
- Used to protect banks from the effects of increased capitalisation of maintenance costs
- Fails to understand that RSL are in the business of providing good quality homes for those in housing need
- Fails to understand that investment helps meet SHQS and EESSH
- Fails to understand the investment extends long term life of the asset and the lenders security

• **Earnings Before
Interest, Tax,
Depreciation,
Amortisation,
Major Repairs
Included**

EBITDA 110%



EBITDA

I can confirm once the covenant has been removed it will be permanently removed. As I mentioned on our call the removal for covenants is because loan facilities with ourselves are under £2.5m. Once the covenant is removed there will be no testing of the covenant.

The Borrower shall procure that the maximum aggregate capitalised component replacement and major repairs expenditure incurred by it in the period from and including 1 April 2020 to and including 31 March 2026 shall not exceed £15,300,000



EBITDA 160%- 230%





Cross Default



Delivering progress for Scotland

Policy statement on rents for social housing

Updated 14 December 2022

Applies to England

Limit on annual rent increases

1.9 In October 2017, the government announced its intention to set a long term rent deal for both local authority landlords and housing associations. This would permit annual rent increases on both social rent and affordable rent properties of up to CPI plus 1 percentage point from 2020, for a period of at least five years.

1.10 This policy recognised the need for a stable financial environment to support the delivery of new homes and to enable registered providers to plan ahead. The government is looking to the social housing sector to make the best possible use of its resources to help provide the homes that this country needs.

1.11 This policy came into effect from 1 April 2020. It did not override landlords' statutory obligation to complete the four year social rent reduction as required by the Welfare Reform and Work Act 2016. Where a landlord had not completed the social rent reduction by 31 March 2020 (because its rent year begins after 1 April), it was required to complete the reduction before the applying the policy.

1.12 In light of exceptional circumstances, the government has since adjusted this policy in order to protect social housing tenants from very large nominal-terms rent increases that would otherwise have been permitted in 2023-24 due to higher than expected levels of inflation. For rent periods that begin in the 12 months from 1 April 2023 to 31 March 2024, the CPI plus 1 percentage point limit on annual rent increases is replaced by a 7% 'ceiling'. This means that, in that year, registered providers may increase rents

England in Theory

- CPI +1%
- CPI September 2023 6.7%
- 2024/25 rent increase 7.7%
- But.....



If CPI at September is above 3% the Minister sets the rent

Rent increase was 6.5% last year

Feeling is that 2024/25 increase will be 6.7%

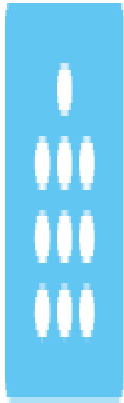
New rent policy will be put in place

- In Ireland NIHE have frozen rents for the last few years
2023/24 NIHE increased rents by 7%
Some HA's went as high as 9%
- Without functioning assembly, will be hard for NIHAs to be "told" what rents will be
- Unclear what NIHA's will decide upon
 - 6 to 7% being suggested



2023/24 Rent increases

- Average for RSLs 5.34%
 - £5.05 per week
- Maximum 8%
- Minimum 2.5%



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Business Planning and rent increases

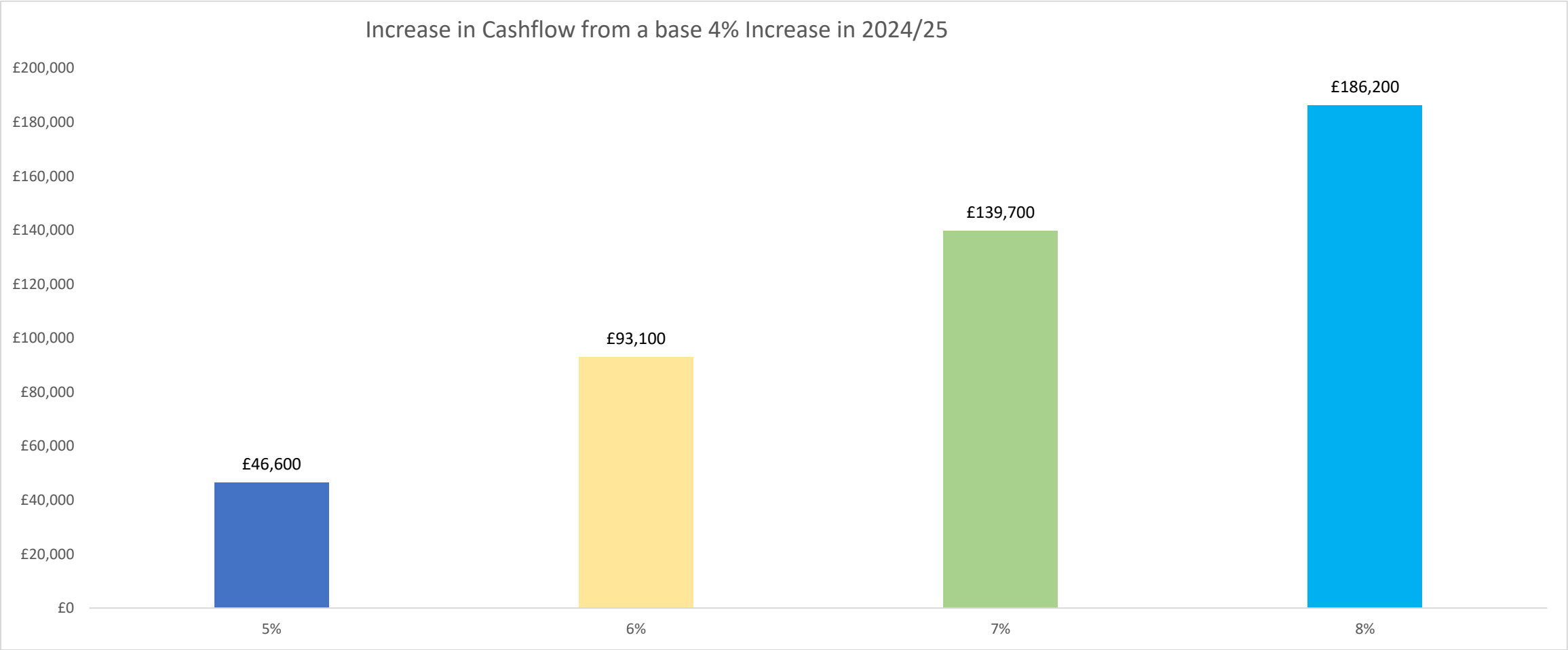


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- What is the cost base of the planned maintenance programme?
 - Reflect current day prices
- What additional sensitivities have been run in respect of forecast inflation, interest and rent increases below or above inflation?
- What is the impact on liquidity and cash holding positions?
- How does the increase in base rate impact on existing and proposed future borrowing in the short, medium and long term?
- How does increases in borrowing rates effect investment levels?
- What is the impact on covenants in the short, medium and long term from different rent increases?
 - How much headroom do you have on the covenants?
 - How much cash do we have in the bank?
 - Do we have a minimum cash at bank level as part of our Golden rules of viability?
 - What prospect net zero?
 - Are we waiting for the grants

1,000 homes average rent £4,900 , additional cash benefit of rent increase above a 4% base



2024/25



- unpredictable, volatile and difficult
- reduced inflation does not mean that prices will be coming down
- delays in investment
- NB targets not met
- some will get into financial difficulties
- economic forecasts of inflation and interest rates will continue to be wrong
- some will look back and regret they did not increase their rents by more in 2024/25

2024/25

