# Business Planning

Recommended Practice

**December 2015**

# About us

We are the independent Regulator of just under 200 social landlords – around 160 Registered Social Landlords (RSLs) and 32 local authorities. We are led by a Board of non-executive members and are directly accountable to the Scottish Parliament.

Our one objective is **to safeguard and promote the interests of**

- nearly 600,000 **tenants** who live in homes provided by social landlords
- around 90,000 **owners** who receive services from social landlords
- around 40,000 **people and their families** who may be homeless and seek help from local authorities
- over 2000 **Gypsy/Traveller** families who use official sites provided by social landlords

Our role is to gather, monitor, assess and report on social landlords' performance of housing activities and RSLs' financial well-being and standards of governance, and to intervene where appropriate to achieve our objective. We also keep a public register of social landlords.

You can see more on how we regulate social landlords in our published Regulatory Framework available on our website at: www.scottishhousingregulator.gov.uk.

# About Our Recommended Practice

Our Recommended Practice publications aim to provide clear, practical, accessible information for social landlords to help them to drive their own improvement and deliver value for money.

HAPPY TO TRANSLATE

# Contents

# 1. About this document

## 1.1 Introduction

We have produced this Business Planning Recommended Practice (BPRP) to assist RSLs in Scotland in their approach to business planning. The detail is therefore targeted at RSL governing bodies and management teams but the principles may also be relevant for local authorities.

This new BPRP builds on the principles of good business planning set out in our 2012 BPRP. We have refreshed the BPRP to ensure that it remains relevant and reflects the significant changes in the RSL operating environment since 2012. This BPRP also takes account of the recent experience of RSLs and our experience in regulating RSLs, current key risks and issues identified by stakeholders and emerging good practice.

This BPRP is principles-based and it focusses on compliance with the Regulatory Standards of Governance and Financial Management (the Regulatory Standards).

## 1.2 The importance of business planning and asset management

The business plan is a key strategic document which communicates an organisation's vision and objectives, and how it will achieve those objectives. The business plan should be central to the organisation's strategic decisions and operational decisions should be consistent with the strategic decision set out in the business plan. Reporting and monitoring systems should be designed to allow managers and those charged with governance to judge the extent to which the strategic aims are being achieved and to make any necessary adjustments in a timely manner. It is for each RSL to decide how best to achieve this, based on its own circumstances.

An RSL's ability to deliver good services for customers and provide a solid platform for improvement depends on its ability to make the most of its property assets. The business plan should be underpinned by a robust approach to strategic asset management. Strategic asset management should therefore be developed alongside and complement the business planning process. This BPRP should therefore be read in conjunction with our Recommended Practice on Strategic Asset Management which we plan to review and update in 2016/17.

## 1.3 Our expectations

RSLs are required to comply with the Regulatory Standards. We may have regard to the BPRP if we are assessing compliance with the Regulatory Standards but it is not mandatory guidance. It is for each RSL to determine how it meets the Standards. We recognise that there may be reasons for departure from the recommendations. Where this happens we expect the RSL to have considered and understood why it is doing something different and to be able to demonstrate why a different approach has been taken.

## 1.4 Related regulatory guidance

This BPRP should be read in conjunction with other relevant regulatory publications including our Regulatory Framework and as highlighted earlier our Recommended Practice on Strategic Asset Management. All of our guidance and publications are available on our website at: www.scottishhousingregulator.gov.uk

## 1.5 Acknowledgements

We commissioned Arneil Johnston and Housing Regeneration Consultants to help us develop a BPRP that is relevant in the current operating environment. We also selected a representative sample of RSLs, trade bodies, auditors and lenders and asked them to contribute to the review. We would like to thank them for their work and invaluable input to this BPRP.

# 2. Key Messages

In this section we highlight key messages which RSLs should consider in approaching business planning and ultimately producing the business plan.

**Vision and Mission**
The RSL's approach to business planning should recognise its vision for the future, the actions needed to make progress and how success will be measured. It should also allow the RSL to explore opportunities including business growth and innovation. The process should be structured in a way which results in key decisions and agreed actions. The business plan should be consistent with the RSL's formal constitution (including its charitable objects for those RSLs which are registered charities). The business planning process should feed directly into the business plan which should reflect the vision and leadership of the RSL.

**Informed Consent**
The RSL's strategy and business direction should be supported by the governing body and management and the business plan should reflect this. We expect the governing body, supported by management, to set out its vision, objectives and business direction and to ensure that the direction is fully supported by a consistent business plan. We expect the RSL to have a thorough understanding of its business plan and asset management strategy and the risks inherent in both. The governing body should provide oversight, direction and constructive challenge to management when delivering the business plan.

**Value for Money**
Value for Money (VFM) is about doing the right things, in the right way, at the right cost. Our statutory objective is to safeguard and promote the interests of tenants, future tenants and other service users and our approach to VFM is firmly rooted in that objective. We view VFM from a tenant and service user perspective.

It is for each RSL to demonstrate both internally and to its tenants that VFM is being delivered. The cornerstone of our Regulatory Framework is the Scottish Social Housing Charter and our Regulatory Standards and it is our view that by complying with the Regulatory Standards the delivery of VFM for tenants will be demonstrated.

**Rent Affordability**
There is an important relationship between rents, rent setting and VFM. RSLs should consider tenants' ability to keep paying their rent over the longer term when deciding levels of rent increases and they should:

- be clear on what is affordable for tenants and consider future affordability when determining annual rent increases;
- demonstrate transparency on costs and a vigorous pursuit of VFM;
- wherever possible give tenants genuine options and choices during rent consultations;
- engage in dialogue with tenants about costs versus service levels; and
- be clear on how tenants' views are taken into account.

**Risk Management & Mitigation**
RSLs should be aware of the inherent risks in their business plan and have adequate risk management and mitigation measures in place to ensure that tenants and other services users are protected. We expect each RSL to identify the risks to its business. At present most RSLs will be affected by risks arising from welfare reform, pension funding, covenant compliance, treasury management, diversification, development, maintaining Scottish Housing Quality Standard (SHQS) and achieving the Energy Efficiency Standard for Social Housing (EESSH).

**Asset Management**
A strategic approach to asset management is fundamental to future viability. Each RSL should ensure consistency between its business plan and asset management strategy. RSLs should have a good understanding of the long-term value that individual properties and different groups and types of stock bring to the business. Informed strategic asset management decisions will help ensure that resources are used effectively and should reduce the risk of longer term inefficiencies occurring.

**Treasury Management**
Each RSL should be able to demonstrate effective treasury management arrangements that comply with the CIPFA code. Effective systems should be in place to monitor and report regularly to the governing body on covenant compliance. RSLs should be aware of lenders' timescales for testing covenants and ensure that the implications of any breach are understood. Information systems should be in place to detect any material risk of breach as soon as possible.

**Stakeholder Management**
RSLs have important relationships with many stakeholders including tenants, other service users, lenders, regulators, local authorities and the Scottish Government. Robust business planning processes and a clear business plan will assist the RSL in building and maintaining constructive relationships with key stakeholders. A credible business plan is essential to provide assurance for lenders around future financial viability, governance and performance.

**Financial Planning**
Good financial planning should ensure that RSLs are able to avoid the experiences of recent cases which resulted in near insolvency for providers of social housing. This BPRP sets out a number of core financial planning principles which should help ensure financial well-being and economic effectiveness. Experience in the sector shows that following these principles gives clarity around the health of the RSL.

# 3. The Regulatory Standards

RSLs must comply with the Regulatory Standards listed below. These standards are designed to underpin the way in which RSLs are managed and governed. Therefore the Regulatory Standards must be taken into account in the strategic business planning processes which RSLs undertake.

The standards, together with the Charter, are the cornerstone of the Regulatory Framework. However these are standards which any well managed and well governed organisation would wish to demonstrate irrespective of any regulatory requirement.

## The Regulatory Standards

1. **The governing body leads and directs the RSL to achieve good outcomes for its tenants and other service users.**
2. **The RSL is open and accountable for what it does. It understands and takes account of the needs and priorities of its tenants, service users and stakeholders and its primary focus is the sustainable achievement of these priorities.**
3. **The RSL manages its resources to ensure its financial well-being and economic effectiveness.**
4. **The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose.**
5. **The RSL conducts its affairs with honesty and integrity.**
6. **The governing body and senior officers have the skills and knowledge they need to be effective.**

This BPRP aims to help RSLs to comply with the Regulatory Standards in their business planning processes. It takes each Regulatory Standard in turn and sets out the principles we expect RSLs to observe in this context.

Each RSL should apply the Regulatory Standards to its business planning process in a way that is proportionate to its size and profile.

There is no single best way to go about developing a business plan but most processes have certain common features and follow a broadly similar pattern. It is for each RSL to determine the most appropriate process and planning cycle. **Appendix 1** of the BPRP suggests an approach which may be helpful.

# 4. Business Planning and the Regulatory Standards of Governance and Financial Management

## 4.1 Regulatory Standard 1

The governing body should set the strategic direction and provide the necessary challenge when required.

**Regulatory Standard 1**

***"The governing body leads and directs the RSL to achieve good outcomes for its tenants and other service users".***

Compliance with this standard should ensure that good business planning is at the **heart of the RSL,** including strong governance, effective management and financial viability. It should also help to deliver good outcomes for tenants and other service users.

The following principles should help to ensure compliance with this standard:

- the approach to business planning should reflect the RSL's **vision, mission statement and strategic objectives**. This approach should ensure that the business plan reflects the vision and leadership of the RSL and allows the exploration of opportunity and innovation where appropriate.
- a **whole organisation** approach to business planning should be adopted with an understanding and ownership right across the RSL.
- the business plan should support **day to day decision making** and be aligned to key external strategies.
- the business plan should have **informed consent**. The management and governing body should understand and support the business direction and ensure that the business plan is consistent with that direction.
- a **clear and consistent approach** to business planning should be adopted**.** The business plan should reflect and complement other strategies and plans, and clearly link with the asset management strategy and financial plans. It should be supported by an appropriate range of plans which cover the RSL's business activities.
- **asset management** and **service planning** are crucial elements of business planning. The business plan should answer the questions of *"Are we doing the right things?"* and *"Are we doing things right?"*
- the business plan should reflect the chosen strategic direction. **Strategic options appraisal** should be part of the business planning process. **Appendix 2** of the BPRP sets out a suggested approach to this which may be helpful.

## 4.2 Regulatory Standard 2

RSLs have many important stakeholders including tenants, other service users, lenders, regulators, local authorities and the Scottish Government. The primary purpose of the business plan is to guide operations and strategy but it is also a means of engaging and informing stakeholders about future plans.

**Regulatory Standard 2**

***"The RSL is open and accountable for what it does. It understands and takes account of the needs and priorities of its tenants, service users and stakeholders. And its primary focus is the sustainable achievement of these priorities."***

Compliance with this standard should ensure that the business plan reflects the needs and priorities of tenants, service users and, as appropriate, the interests of other key stakeholders.

The following principles should help to ensure compliance with this standard:

- the RSL should **actively manage and build constructive relationships** with key stakeholders. It should understand how it is perceived by key stakeholders and use the business planning process and the business plan to provide assurance to them.
- stakeholder intelligence should be used to set a **positive culture with a strong customer focus** and this should be embedded throughout the RSL.
- RSLs should understand how the business plan is **aligned to the objectives of key stakeholders**. This can be facilitated by appropriate stakeholder and customer mapping.
- the business plan should reflect a **good understanding of tenants' and other service users' needs and expectations** and provide quality information that meets these. It should where appropriate take into consideration tenants' surveys and tenant scrutiny panel's views.
- the business plan should be sustainable and should demonstrate a **good understanding of what tenants and other service users want.**
- the business plan should reflect a good understanding of **how priorities and needs are changing over time** and the business impact of adapting to these changes.
- the RSL should have a **good understanding of lenders' requirements.** A robust business plan is key to providing assurance around future financial viability and stability.
- the business plan should be based on an understanding of the current and potential future **operating environment**. This can be facilitated by appropriate environmental analysis and **Appendix 3** of the BPRP sets out a suggested approach to this which may be helpful.

## 4.3 Regulatory Standard 3

The governing body needs to be satisfied as to the integrity and robustness of the business plan and the supporting financial models.

> **Regulatory Standard 3**
>
> ***"The RSL manages its resources to ensure its financial well-being and economic effectiveness."***

Compliance with this standard should ensure financial viability and a robust approach to business planning and business plan outcomes. Robust financial planning should be at the heart of the business planning process. This can be achieved by embedding **appropriate principles of financial planning** at the following different stages of the planning process:

- linking the financial plan to key strategies;
- developing the financial plan; and
- producing adequate financial plan outputs.

***Linking the Financial Plan to Key Strategies***

The financial plan should support **strategic objectives**, priorities and decision making and should be closely linked to:

- **performance management** supported by appropriate Key Performance Indicators (KPIs);
- **a VFM strategy** which should incorporate an effective monitoring system; and
- **a procurement strategy** which should aim to build flexibility into contracts and achieve the best VFM.

There should be an **alignment of the financial plan to the budget structure.** This should ensure clear links between long term forecasts, investment plans, short term annual budgets and medium term five year financial projections. These should all be readily available, consistent, monitored and updated at appropriate intervals. These should be consistent with the corresponding budgets presented for approval to the governing body.

There should be an **integration of asset management / investment planning and financial planning** by using appropriate business planning tools. This should feed into scenario testing of investment options which should enable the financial impact of any future investment options to be appropriately assessed.

There should be an adequate strategy to **maintain service delivery** at appropriate levels. The correct mix of assets, skills, and infrastructure will be required to deliver good value to tenants and other service users.

### *Developing Financial Plans*

The financial profiling of expenditure should capture the impact of all future investment decisions and be supported by **appropriate trend analysis**.

**Evidence-based planning** should be used to clearly demonstrate that there are sufficient financial resources available to undertake planned activities to deliver objectives, sustain services and maintain assets.

A **zero based budgeting** approach should be used to show that all planned expenditure is justified. The chosen approach to budgeting should take into consideration:

- the risk impact associated with rent affordability, welfare reform, pension costs and grant allocations; and
- other significant variables which may negatively impact on operations.

The **cash flows** of all activities in the short, medium and long term should be adequately planned, monitored and controlled to ensure long term financial viability. Effective management of cash is crucial and should ensure:

- a good understanding and evidence of business plan cash forecasts;
- a good understanding of the necessary controls to mitigate risk and maintain covenant compliance; and
- a good understanding of the demands on cash flows. The adoption of financial health check indicators can further help liquidity planning.

RSLs should have a good understanding of their **organisational cost structure.** This will enable an assessment of future financial viability taking into consideration the impact of all future rental scenarios. To achieve this clarity is required on:

- resources and the ability to ensure that any cost increases can be linked to effective improvements in the services provided and assets managed;
- high expenditure areas and the proportion of tenants' rent which is devoted to these areas; and
- which costs are controllable or uncontrollable and the contribution level that each business activity achieves.

### *Producing Adequate Financial Plan Outputs*

The aim of **financial reporting** is to ensure the provision of accurate, quality and timely management information to appropriate internal and external stakeholders. This should be achieved by producing clear and meaningful summary reports and providing key financial indicators and accounting ratios. This should then allow the assessment of different strategic activities. Good financial reporting should also help to achieve the following key financial reporting outcomes.

**Key Financial Reporting Outcomes**

- **Cash position** - Good understanding of the demands on cash flows and how these are linked to the business plan pressure points.
- **Debt & covenant position** - Information requirements of lenders (particularly in respect of covenants) and other stakeholders, including regulatory expectations are fully met.
- **Rent affordability** - Good understanding of how the rent policy impacts on tenants both now and in the future and what effect changes to this policy will have on the RSL's sustainability.
- **Level of investment** – Good understanding of the investment requirement needed to sustain services and maintain assets over their lifetime and what impact these funding requirement levels have on e.g. Private Finance and Rental Policy.
- **Level of contingency** – Good understanding of how to react to unforeseen circumstances and what levels of working capital are available to deal with negative eventualities.
- **Performance Indicators** – Clear insight into which aspects of the business are working well, where improvement is required and how the business compares with other RSLs and other relevant organisations.

**Sensitivity Analysis** should ensure that the key assumptions are robustly tested. The sensitivities tested should be appropriate to the business and concentrate on key risk areas e.g. interest rates, rent assumptions, inflation, voids, bad debts etc. The business plan should summarise the sensitivities tested and the financial impact, particularly on lenders' covenants and cash. If negative impacts are identified under certain sensitivities, the business plan should set out how these will be managed and explain the likelihood of occurrence. Financial forecasts and sensitivity analyses should always be consistent with corresponding budgets presented for approval to the governing body.

**Scenario Planning** should ensure that a range of scenarios outwith standard sensitivity analysis are tested. A good understanding of what the key risks are and their impact on business plan pressure points is required to achieve this. The objective of scenario planning is to develop insight into the circumstances in which it may become impossible to maintain solvency.

There should be adequate **KPI reporting** which should include benchmarking information with other RSLs and other sectors where appropriate.

The **Financial Models** which support the business plan should be in an appropriate format and be provided with sufficient detail. Each RSL should set out the types of model that it uses and identify who has prepared each model. **Appendix 4** of the BPRP sets out a suggested approach to this which may be helpful.

## 4.4 Regulatory Standard 4

The governing body needs to ensure that it receives good quality information and advice from staff and, where necessary, expert external advisors.

> **Regulatory Standard 4**
>
> ***"The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose."***

Compliance with this standard in business planning should ensure a good understanding of the RSL's financial position. This is a critical first step in evaluating the health of the RSL. The business plan should be based on:

- appropriate challenge and advice;
- quality information and assumptions; and
- an appropriate Risk Management Strategy.

***Appropriate Challenge and Advice***

The absence of **effective internal challenge** has been a common factor in many governance and financial failures across a number of sectors. Each RSL should encourage a culture where staff members, senior management and members of the governing body provide constructive challenge to the business planning process and the business plan.

RSLs should consider the role that **internal audit** can play in providing assurance that the business plan is on track and that the internal controls that support the achievement of the plan are functioning effectively. If there is no internal audit function the RSL should consider whether internal audit is required and in particular how the management and governing body will gain an appropriate level of assurance in the absence of internal audit.

The role of the **external auditor** is to provide an opinion on whether the accounts for the year show a true and fair view. It is not external audit's role to certify compliance with the Regulatory Standards. However in order to arrive at its opinion on the accounts the RSL should ask the external auditor to plan its work so that it has a reasonable chance of detecting any material non-compliance with the Regulatory Standards. Each RSL should seek the view of its external auditor on the extent to which the auditor can provide assurance in relation to compliance with the Regulatory Standards.

***Appropriate Quality of Information and Assumptions***

The RSL should satisfy itself as to **the integrity and robustness of the business plan, financial information and model**. The following principles should help to ensure this:

- the plan is founded on the **most up-to-date and reliable data** available on tenants, stock, other assets, services, staff, performance, contracts, finance, competitors and the external operating environment. This should be used to produce clear and succinct strategic and financial analysis. Likewise, **financial projections** should be based on realistic assumptions and the best and most up to date information available which has been subjected to some form of validation.

- financial projections should be supported by an **independent stock condition survey** normally no more than 5 years old.
- the **assumptions should be** reasonable, clearly set out and regularly discussed at meetings of the governing body. Any subsequent changes to the assumptions should be reflected in an updated business plan. Some RSLs have found it helpful to record the key facts which underlie assumptions in the form of a **Data Book.** Where adopted this has allowed a record to be kept of the most important data and assumptions that underpin the business plan. The data source and data owner are recorded and updated whenever changes occur.
- the **overall investment and maintenance expenditure** is almost always the largest component of expenditure in any plan. It is therefore critical that the RSL is clear on what is required and how it will be achieved.
- the business plan should draw on the views of service users to show how core services will be developed and improved. Where there are plans to **diversify** into new areas the plan should show the overall impact of this upon the RSL.
- cash is essential in ensuring continuity of operations and should be closely managed to ensure the business can survive and grow effectively. This can be achieved through risk assessment using a range of **financial health check indicators** including peak debt, debt repayment, closing cash balances, covenant impact and business plan pressure points. **Appendix 5** of the BPRP sets out a number of questions which may help to assess the financial health of an RSL.

***Appropriate Risk Management Strategy***

The RSL should be able to demonstrate **an understanding of the main risks, the trigger points and the effectiveness of the mitigation strategies which are in place**. There should be a comprehensive risk review and the key areas and risks should be explicit as in the following Risk Review table.

## Risk Review

- **Development.** The RSL should demonstrate a clear understanding of the impact of its development program (where one exists) on future cash flows.
- **Covenant Compliance.** There should be effective systems to monitor covenant compliance and report to the governing body on this at appropriate intervals.
- **Pension Affordability.** The plan should take account of any pension deficit and the financial projections should include the effects of auto enrolment. Where appropriate the impact of continuing to offer defined benefit schemes should be set out.
- **Diversified Activities.** Where non-social housing activities are undertaken (through a subsidiary or directly), it should be clear what impact this will have on core activity and tenants. Where the plan is reliant on a contribution from non-core activities, there should be adequate controls in place to carefully monitor and manage any risks. Where non-core activity involves an investment of funds generated through the core business a clear benefit for tenants and other service users should be demonstrated.
- **Treasury Management.** The potential impact of prolonged low or no inflation upon the RSL's ability to meet its obligations as they fall due should be considered.
- **Arrears and Welfare Reform.** The progress of the implementation of the welfare reform program should be monitored and its potential impact should be assessed. Business planning assumptions should be adjusted as appropriate. This may include additional resources being targeted on arrears recovery.
- **Debt risk**. The RSL should clearly understand the detailed conditions in loan documents and understand the implications the conditions can have in the future. Risks and obligations when entering into new loan arrangements should be fully understood and based on appropriate financial and legal advice before finalising any facility.
- **Rents.** The RSL should be able to demonstrate how rent affordability for tenants has been considered and how it has determined if rents are affordable now and in the future.
- **Stock.** There should be an active approach to asset management that recognises the current and long term demand of stock, the physical condition of stock and the suitability of stock for investment.
- **Insolvency.** The RSL should fully understand the demands on its cash flows as this is critical to its business. Whilst the precise timing of some events cannot be ascertained, the adoption of financial health check indicators can prove helpful in planning liquidity. The RSL should be able to demonstrate a clear understanding of the impact any development program has on future cash flows and ensure there are adequate cash reserves throughout the life of the plan. It is essential that funding is in place before the commencement of any development.
- **SHQS & EESSH Compliance.** The impact of maintaining SHQS compliance and achieving EESSH compliance in the business plan assumptions should be included.
- **Business Continuity.** Each RSL should have an awareness of what could break the business and what contingency plans are required to manage this. There should be suitable Business Continuity Planning exercises carried out to test the plans.

## 4.5 Regulatory Standard 5

The actions taken by the governing body and staff determine how the RSL will be perceived by stakeholders.

**Regulatory Standard 5**

***"The RSL conducts its affairs with honesty and integrity".***

Compliance with this standard in business planning should ensure the business plan underpins the whole business and through the actions of the governing body and staff, upholds the good reputation of the RSL and the sector.

The Scottish Federation of Housing Associations (SFHA) has published a Model Code of Conduct and Model Policy on Entitlements, Payments and Benefits. These codes have been endorsed by SHR. So where an RSL adopts and applies the SFHA's Models it can have confidence that it complies with the Regulatory Standards. An RSL can choose a different approach provided it complies with the Regulatory Standards.

## 4.6 Regulatory Standard 6

The people on the governing body, and the skills and knowledge they collectively have, are the most significant contributors to good governance.

**Regulatory Standard 6**

***"The governing body and senior officers have the skills and knowledge they need to be effective."***

Compliance with this standard in the business planning process should ensure that:

- the governing body and senior management are **engaged and supportive** of business and financial planning.
- the governing body has the **appropriate mix of experience and objectivity** enabling effective strategic direction.
- there is a **good understanding of the business plan and financial model** and overall control is with the governing body and senior team – not one person (eg the Financial Director), and not externally (range of consultants).
- there is a **joined-up approach to assumption setting** across the RSL (asset management, service delivery, development, diversification, financial control, governance) and between executives and non-executives.
- there are clear key **business planning financial performance indicators**, business risk stress factors and clear links between the business vision and strategy.
- there is appropriate and effective **internal constructive challenge and external appraisal**.

**APPENDIX 1**

# Business Planning Cycle

It is for each RSL to develop its own business planning processes to suit its particular circumstances. Practices will vary in relation to matters such as the annual rent setting review and reporting to lenders. The BPRP does not therefore attempt to set out a standard approach.

There are though certain common practices which some RSLs have found useful in developing a robust approach to business planning.

**Rolling Programme**

Some RSLs have developed a rolling programme to accommodate different activities happening on different timelines as follows:

- every 3 years - there is a comprehensive update of the strategic direction of the RSL;
- annually – the business plan is updated;
- quarterly – progress with operational plans is reported; and
- monthly – performance status reports and management accounts are presented.

**Project Plan**

In some cases a project plan has been developed to allow planning and monitoring to be undertaken continuously. This can help to allocate tasks throughout the year thus avoiding problems associated with carrying out one big exercise every year. This also ensures that time is set aside during the year for work with governing body members and staff.

A broad outline of a business planning process is provided on the following page. This illustration is indicative only.

**Illustrative timeline**

| Task | | Cyclical timeline | | | |
|---|---|---|---|---|---|
| | | Jul-Sep | Oct-Dec | Jan-Mar | Apr-Jun |
| 1 | Agree process for business planning | □ | | | |
| 2 | Engage key stakeholders | | □ | □ | |
| 3 | Collate data and provide strategic analysis | □ | □ | | |
| 4 | Risk assessment | □ | □ | □ | □ |
| 5 | Review performance (and history) | □ | □ | □ | □ |
| 6 | Confirm strategic direction, objectives and vision | □ | | | |
| 7 | Define SMART objectives | □ | □ | | |
| 8 | Communicate and cascade objectives throughout the RSL | □ | □ | | |
| 9 | Prepare financial and other resource plans | | □ | □ | |
| 10 | Approve business plan and budgets | | | □ | |
| 11 | On-going monitoring and review | □ | □ | □ | □ |

**APPENDIX 2**

# Strategic Options Appraisal

Each RSL has to make important decisions about how it conducts its business and the impact it aims to have on an area or community. Each RSL needs to consider how it will use its resources to meet a range of competing demands in terms of services, neighbourhood management, stock quality, regeneration and new development.

Options appraisal is a technique for considering strategic alternatives and analysing their relative costs and benefits against a pre agreed range of criteria. Option appraisal, if conducted properly, facilitates improved decision making and helps develop VFM solutions that meet strategic objectives.

The following diagram summarises a basic options appraisal process.

| Stage 1 | Stage 2 | Stage 3 | Stage 4 | Stage 5 |
|---|---|---|---|---|
| Agree objectives (what it is that the RSL is trying to achieve, what does success look like?) | Gather and analyse information (quantitative and qualitative) | Consider options and identify a shortlist of realistic different options | Undertake comparative assessment against pre-agreed criteria including strategic, financial and deliverability issues | Decide and implement, then monitor and control |

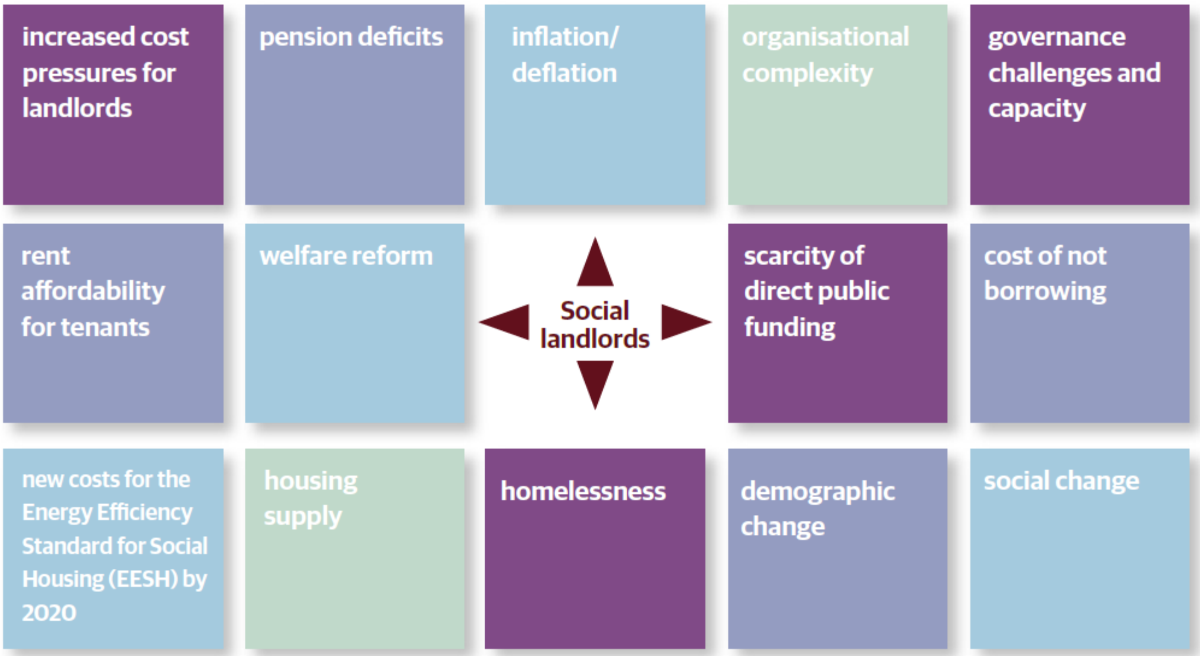
The basics shown here can be applied proportionately to strategic options and strategic projects that require appraisal. Options appraisal is distinct from sensitivity analysis which tests the movements and impact of changes in key variables (for example interest rates or rent levels) which impact upon the business plan.

The business plan which is approved by the governing body should reflect the RSL's chosen strategic direction. Where alternatives are being explored these should feed into the business planning process. Supporting information should be available to evidence the range of options appraised. This should include strategic options appraisal reports where necessary to support the selection of the preferred option. In these cases, it would be good practice to note in the business plan that the chosen direction was determined following an options appraisal.

The options appraisal process should itself incorporate stress testing that reflects the pressures, changes and risks that the RSL is likely to face. Consideration should be given to the financial impact, particularly on lenders' covenants and the terms of lending agreements. If breaches are identified under certain scenarios or sensitivities the RSL should be clear on the associated probability and how any breach would be dealt with.

# Environmental Analysis

RSLs need to be aware of how the economic climate can impact upon the business plan. PEST and SWOT analyses can be useful tools in assessing the impact of economic changes. The process should be reconsidered as the dynamics of the environment change. The diagram below highlights some key areas.




The business planning process should consider the operating environment (drawing on the environmental analysis conducted). It should also examine how to respond to meet housing need, the expectations of current and future residents and changes in demand for housing and related services. Typically this will be done separately for each key area of business activity.

A separate environmental analysis should be undertaken for each main business activity while recognising the inter-connections (for example rent affordability and welfare reform). The nature and depth of the analysis will differ, depending on whether:

- the activities are new or existing;
- there are inherent risks associated with those activities; and
- the resources and infrastructure exist to support the activities without compromising other critical elements of the business.

An important consideration will be the strategic objectives of the main partners as set out in the strategic planning documents. The way these are set out in each strategic plan will vary but typically might include:

- key local authority plans (for example local housing strategies, housing needs assessment and associated SHIPs);
- community development and regeneration plans;
- community care plans; and

- other wider role and relevant social enterprises including the voluntary sector and charities.

# Financial Planning Model

A robust financial model has certain characteristics:

- consistent, internal logic and mathematical accuracy.
- logical inter-relation of elements. For example, the income and expenditure account should tie in to the balance sheet and the cashflow forecast.
- usability. The model should not be so complex that it can only be operated by a very few highly technical users. However, it should be sufficiently detailed and able to analyse the contribution of different key activities.
- it should clearly distinguish between inputs, workings and outputs.
- assumptions and relationships between worksheets should be set up so that inputs can be easily changed and to give sufficient flexibility to test different variables and scenarios.
- the RSL should own and understand the model even if it was prepared by external advisors.

Where complex systems have been developed it is important to ensure that there is appropriate documentation to allow staff not directly involved to understand the processes and how they operate. This documentation is also important for auditors. Steps should be taken to ensure that all of the knowledge required to operate the system and to understand the outputs does not reside with a single member of staff.

Models should be validated from time to time.

# Financial Health Check

The following checklist of key questions should help determine if the business plan is fundable and sustainable in the short, medium and longer term:

- **Financial Viability**
  - Is the baseline plan sustainable in the short, medium & long term?
  - Are there adequate cash reserves throughout the life of the plan?

- **Rent Affordability**
  - Can the level of income generated support the business activities?
  - Are rents affordable now and in the future and what impact will rent levels and welfare reform have on arrears in the future?
  - Are rent levels linked to the delivery of tenant's needs and to the provision of services tenants want?

- **Debt Affordability**
  - Can borrowing be financed now and in the future?
  - Is the borrowing affordable, sustainable and prudent?

- **Investment**
  - Are there sufficient levels of investment in the stock?
  - Is there an integrated approach to asset management?

- **Service Delivery**
  - Can service delivery be maintained at required levels?
  - How does the RSL compare to its peers?

- **Performance & Efficiency Review**
  - What aspects of the business work well?
  - How does the RSL compare to its peers?

# Glossary

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| **Asset management** | Ensuring that current and future assets (houses, land, garages, shops etc) fully support the organisation's objectives – working towards having the right assets, of the right quality, in the right place, at the right time generating appropriate value to the business plan and 30 year cashflows. |
| **Business plan** | A document setting out a landlord's aims and objectives and its financial plans and resources for a specific period. |
| **Business continuity planning** | Prepared (and tested) measures for protection of critical business operations from the effects of a loss, damage or other failure of operational facilities. |
| **Cash flows** | An accounting term that refers to the amounts of cash being received and spent by an organisation during a defined period of time. |
| **Community care plan** | A plan setting out the provision of support and services to people who have community care needs in a local authority area. |
| **Cost Structure** | Relates to the types and relative proportions of fixed and variable costs that a business incurs. |
| **Contingency plans** | Alternative plans to cover what the organisation will do if things change and the original plans will not work. |
| **Data Book** | Records details of the data and assumptions that have been used to build up the business plan. This should be appropriate to individual organisations and may include comprehensive information about Rents, Planned, Cyclical, Reactive Maintenance, Stock Condition Surveys and Service Costs etc. |
| **Energy Efficiency Standard for Social Housing (EESSH)** | A minimum quality standard for all of Scotland's social homes. Landlords should achieve the standard by 2020. |
| **Evidence Based Planning** | Enables a more accountable and sustainable approach to developing policies and strategic plans. It also helps build credibility into planning and decision-making processes. |

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| **Financial forecast** | A projection of the organisation's expected financial position based on expected conditions. |
| **Financial Reporting** | The process of producing information that disclose an organisation's financial status to appropriate stakeholders. |
| **Key performance indicator** | A measure of how an organisation is achieving its objectives or performing in particular activities. Performance indicators can be compared with a pre-set standard (a benchmark) or with other organisations. |
| **Lending covenant** | Agreement between an organisation and its creditors that the organisation will work within certain limits, for example in relation to its debt levels, asset sales and financial ratios. If these limits are broken the consequences can be serious. |
| **Mission statement** | A formal short written statement of the purpose of an organisation which has been approved by the organisation's governing body. |
| **Options appraisal** | A structured process for considering alternative choices against appropriate evaluation criteria in order to optimise the achievement of strategic objectives. |
| **Peak Debt** | The highest forecast level of borrowing included in the 30 year financial plans. |
| **Performance Management** | A process that ensures employees' performance contributes to business objectives. It brings together many elements of good people management practice, including learning and development, measurement of performance, and organisational development. |
| **PEST** | An investigation of the **P**olitical, **E**conomic, **S**ocial and **T**echnological influences on a business. |
| **Private finance** | Funding borrowed from a private sector lender such as a bank or building society. |
| **Procurement** | The way an organisation obtains services or materials from other organisations or agents. |
| **Registered Social Landlord (RSL)** | A landlord providing or managing social rented housing that is registered and regulated by the Scottish Housing Regulator. |

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| **Risk management** | The process of defining and analysing risks, and then deciding on the appropriate course of action in order to minimise and mitigate these risks. |
| **Scenario planning** | A process of visualising and testing what might happen to affect the organisation's business, what the likelihood and impact would be and how to respond. |
| **Scottish Housing Quality Standard (SHQS)** | A minimum quality standard for all of Scotland's social homes. Landlords should achieve the standard by 2015. |
| **Sensitivity analysis** | Investigation into how projected performance varies along with changes in the key assumptions on which the projections are based. |
| **Stakeholder** | Any person or organisation using a landlord's service, affected by the landlord's actions or having an interest in the landlord's activities – an interested party. |
| **Strategic objective** | A target that an organisation should achieve to make its strategy work. |
| **Stress test** | A test that looks at the impact on an organisation's business plan of a major change in one or more variables in order to see what impact this would have. |
| **SWOT** | SWOT analysis is an analytical tool used for the identification and categorization of internal and external factors. |
| **Treasury management** | A policy governing the way an organisation manages borrowing and investments. |
| **Value for money** | Value for money is about obtaining the maximum benefit with the resources available. |
| **Zero Based Budgeting** | A method of budgeting in which all expenses must be justified for each new period. Zero-based budgeting starts from a "zero base" and every function is analysed for its needs and costs. |