

**Interim Business Plan**

**2021-2022**

(Unapproved Draft 16th March 2021)

**Section 1:** **Introduction**

***This business plan is our core strategic document and sets out our goals and priorities for the next year. We review and update our plan annually and this version of our plan was approved by our Board, as well as the Board of our parent organisation (Pentland Housing Association), in March 2021.***

|  |  |
| --- | --- |
| **CONTENTS**  page | |
| **About Us Partnership**  ***Context***  ***Strategy***  ***Priorities***  ***Risks***  ***Resources***  ***Appendices:***  ***Delivery Plan***  ***Budget*** | 2  3  4  5  6  9  10  12  13 |

**Purpose of the Business Plan**

The plan is primarily an internal document, serving several functions:

* helping us align with our internal and external operating environment;
* confirming our strategic priorities and setting out the key actions we will take to achieve these;
* demonstrating we have the resources necessary to carry out these actions;
* identifying and mitigating any risks we may face;
* providing a strategic overview for our operational plans; and
* providing a framework with which we can monitor our progress and measure our success.

**Why an Interim Plan?**

In our previous 3-year business plan (2019-2022) we signalled our Group’s intention to embark on a new journey with the goal of protecting the interests of our parent organisation’s current and future tenants and enhancing our Group’s performance. Our Group has since made significant progress and we are now proposing a transfer of engagements to Cairn Housing Association by April 2022; after which our Group will cease to exist. Given this decision, we have taken the opportunity to sharpen our strategic focus through the remaining year of our business plan; hence this updated and interim business plan. A new business plan for the new organisation will be developed after April 2022.

**Section 2: About Us**

***Pentland Community Enterprises (PCE)*** ***was incorporated in 2006 to provide opportunities to enhance Pentland Housing Group’s social impact beyond core housing services.***

**The Pentland Housing Group**

We are the wholly-owned subsidiary in the Pentland Housing Group. Originally one of several subsidiaries, we have since simplified our Group structure and consolidated our focus. Pentland Housing Association (PHA) is our parent organisation and is a Registered Social Landlord (RSL) and a Scottish charity. Pentland Community Enterprises is a company limited by shares.

**Our Governance**

As a separate company, we have our own Board, currently comprising 6 directors; half of whom are nominated by PHA’s Board and half are independent appointments. With extensive knowledge across several sectors (including asset management, energy, community development, finance, marketing and housing), previous experience in high-profile Board and leadership roles, and invaluable local insight, we believe we have one of the most experienced and skilled Boards amongst all RSL subsidiaries in Scotland.

We also have a formal intra-group agreement which sets out our relationship with our parent company and reinforces our parent’s responsibility for overall strategic direction and control for the Group. We each employ our own staff (we currently have one part-time member of staff) in addition to a service-sharing agreement which allows us to draw on PHA’s staff in accordance with agreed workplans.

**Our History**

We have a 15-year track record of delivering a wide range of community and commercial services. We were early adopters in the fuel poverty agenda, being one of the first social enterprises in Scotland to offer energy advice to tenants, owner occupiers and local businesses. We also made an early move to address digital exclusion by establishing a community IT Hub, locally-based and accessible to all. More recently, we have worked with partners to deliver a number of community projects funded by the likes of the Big Lottery and Keep Scotland Beautiful Climate Challenge Fund.

**Our Services**

Today, we deliver a range of commercial services which includes a factoring service, renting out garage, parking and workshop spaces, and managing a small portfolio of mid-market rent properties. We own 313 garages and a small landbank.

**Section 3: Partnership**

***Pentland Housing Association is currently working towards forming a partnership with Cairn Housing Association, due to conclude by April 2022. As a subsidiary of PHA, this partnership has the potential to completely transform our organisation.***

**Strategic Option Appraisal**

Following a full strategic option appraisal process in late 2018, our parent organisation made the decision to explore the potential to form a partnership with another RSL in order to protect the interests of their current and future tenants and enhance our Group’s performance (e.g. maximise our social impact, improve our value for money, access a wider range of skills and expertise).

**Our Preferred Partner**

Following a lengthy process of advertising and assessment, we identified Cairn Housing Association as our preferred partner. Cairn HA is a national registered social landlord with offices in Edinburgh, Inverness, Irvine, Bellshill, and Thurso. It currently has two subsidiaries; ANCHO (an RSL operating in north Ayrshire) and Cairn Homes & Services (a commercial organisation trading as Cairn Living).

Working alongside our preferred partner, we have developed a proposal which would see Pentland Housing Association merge into Cairn Housing Association and us merge into Cairn’s commercial subsidiary, Cairn Homes & Services.

**Towards a New Structure**

Under the proposed transfer arrangements, our merger into Cairn Homes & Services Ltd (currently trading as Cairn Living) will create a single, combined, commercial subsidiary for the Cairn Group, either at the time of transfer, or within one year of the transfer date.

The new combined commercial subsidiary will be established with a revised memorandum and articles of association, jointly agreed prior to completion of the business case for partnership. This will include a revised commercial and community purpose which will drive future wider role and commercial activities in support of the strategic objectives of the Cairn Group.

**Transition Process**

Our transition over this next year will be guided by our Group’s Transition Project Plan and includes several key milestones. So far, we have agreed Heads of Terms, are currently drafting the business case for approval in June 2021, and our parent is consulting with key stakeholders with a tenants’ ballot planned for October 2021.

**Section 4:** **Context**

*In producing this interim business plan, we reviewed our current operating environment and identified the key internal and external drivers which will shape our goals and priorities for this next year (highlighted in bold), as well as a significant period after our merger.*

|  |  |  |
| --- | --- | --- |
| **Integration with Cairn HA**  **Gaps in local service provision**  Government policy to decarbonise energy  Shift to electric vehicles  Well-located for NC500 route  **OPPORTUNITIES**  Funding redirected to sustainability, digitisation, community resilience, etc  Remote working and increasing demand for workspaces  Increasingly buoyant housing market  Local interest in purchasing some garage sites  Well-located to align with Orkney energy infrastructure | | |
| **Part of a Group structure**  **Highly supportive parent (PHA)**  **Highly dedicated & skilled staff**  **Highly experienced & skilled Board**  **STRENGTHS**  **Straightforward business model**  **Regular income streams**  **Well-located office and garages**  **Effective reporting systems** | **PENTLAND**  **COMMUNITY**  **ENTERPRISES** | **Outstanding loan from parent**  **PHA has control over our asset strategy**  **Staff capacity severely limited**  **Out of date market intelligence**  **WEAKNESSES**  **Some unlettable garages**  **Some very poor quality garages**  Low profile/brand awareness  Little social impact |
| **Impact of integration with Cairn HA**  **Impact of Covid-19 uncertain**  **Competition for customers and funding**  **THREATS**  Banning of petrol & diesel cars  Fragile local economy  Uncertain economic outlook | | |

**Section 5: Strategy**

***Our strategy has been developed within the context of the wider Pentland Housing Group, the key influences in our operating environment and our proposal to merge with Cairn Homes & Services.***

**Group Strategic Framework**

Both organisations in our Group share the same aim:

“*To enhance our social impact across our communities.”*

Each organisation within the Group structure makes its own unique contribution to achieving this aim and will do so at its own pace.

**Strategic Direction**

Like any organisation, we have gone through several phases, where each phase is influenced by various internal and external factors. This next phase is one of transition and has the potential to be the most transformative phase in our 15 year history.

**Strategic Goals**

We have reviewed and sharpened our strategic goals to ensure we stay focused over these next 12 months. All our activities will be aligned to delivering these two specific goals with agreed outcomes and targets to help us track our progress and assess our performance. Our new, strategic goals are:

|  |  |
| --- | --- |
| House with solid fill | **GOAL 1: Put our house in order.**  This goal is about being well-prepared for our partnership with Cairn HA and addressing, where practical to do so, any key risks in advance of the merger. |
| ***Acorn with solid fill*** | **GOAL 2: Shape our legacy.**  This goal is about ensuring the new, combined, commercial subsidiary can hit the ground running and deliver improved services and social impact. |

**Section 6: Priorities**

***We have identified six inter-connected, strategic priorities for the next year, understanding that these will contribute to either, or both, of our strategic goals. We have set out how we will deliver on these priorities together with our annual targets in our updated strategic delivery plan (see Appendix).***

|  |  |
| --- | --- |
| **1. Prepare for Integration** | *Contributing towards*  House with solid fill***Acorn with solid fill*** |

Over the next 12 months, together with our parent organisation, we will be working to secure the necessary approvals to allow us to fully integrate with Cairn HA and its commercial subsidiary. We have agreed Heads of Terms and are currently exploring how best to effectively integrate the two commercial subsidiaries.

We fully support our Group’s Transition Project Plan and will play our part in ensuring key milestones are achieved. This may require us to implement some legal or financial changes ahead of the merger in order to facilitate the integration. In terms of shaping our legacy and giving the new combined, commercial subsidiary the best possible start, it may also be beneficial to remove some key risks before the transfer date (e.g. demolishing some poor quality, unlettable garages).

|  |  |
| --- | --- |
| **2. Review our Financial Structure** | *Contributing towards*  ***Acorn with solid fill*** |

In 2010, our parent company awarded us an inter-company loan of £670,000 and sold its 460 garages and adjacent land to us. No cash changed hands and the loan was secured by a standard security agreement over the property and buildings. As part of a strategic review in 2014, this loan was revalued, reducing the outstanding loan to £550,000.

Part of the reason for transferring the garages to us was to provide us with an asset base to support future borrowing. However this has not been possible as the cost of managing the garages together with loan interest payments and a reduction in loan valuation (compared with the outstanding loan debt) have resulted in a substantial accumulated deficit.

This position presents some significant financial challenges for us, as well as for the new combined commercial subsidiary. Consequently we will review our options for meeting the terms of the loan agreement and for securing sufficient cash to fund garage improvements, investment and/or demolition.

|  |  |
| --- | --- |
| **3. Review our Asset Strategy** | *Contributing towards*  House with solid fill***Acorn with solid fill*** |

We own 313 garages, of which 61 are judged to be unlettable and beyond economic repair. Of the 252 lettable, 72 are currently void. Of the 180 garages let, 35 are let to PHA tenants and 145 to other customers.

Although void levels have remained stable over the past two years, without further investment, we would expect to see a drop in both customer satisfaction and demand due to a variety of factors including: availability of street parking; relatively high pricing compared with other suppliers; most modern cars require bigger garages; lack of power and on-site lighting; unresolved dampness due to roof pitch; and ongoing garage door and lock maintenance issues.

We therefore plan to review and refine our strategy structured around three asset categories:

* Refurbished and lettable garages;
* Unlettable and un-refurbished garages; and
* Parking spaces (sites where garages have been demolished).

|  |  |
| --- | --- |
| **4. Maintain Service Quality** | *Contributing towards*  House with solid fill |

Whilst we focus on preparing for our merger with Cairn Homes & Services, it is just as important that we continue to deliver high-quality customer services and offer value for money to all our customers in the meantime. This includes:

* Letting and managing our portfolio of 252 lettable garages and adjacent parking spaces in accordance with our updated asset strategy.
* Allocating and managing 7 mid-market rented properties in Thurso, Wick and Dunbeath. All properties currently experience strong demand with no voids in the last 18 months or so.
* Providing high-quality factoring services to around 40 properties in Thurso and Wick.

We will produce concise operational plans for each of these core services which set out our operational priorities, actions and targets for the next 12 months.

|  |  |
| --- | --- |
| **5. Enhance our Capacity** | *Contributing towards*  House with solid fill***Acorn with solid fill*** |

Following a recent review and re-allocation of staffing resources across the Group, our current staffing resource consists of one member of staff working the equivalent of one day per week. In addition, we also receive some input (albeit limited) from some PHA staff (e.g. the Senior Officer) regulated and paid for via a Service Level Agreement.

We recognise that whilst we are sufficiently resourced to cover our “business as usual” activities, we are not adequately resourced to deliver on all our 2021/22 priorities (e.g. potentially managing a garage demolition programme). Consequently, a key priority for us will be to seek additional support from our parent, Cairn HA and/or grant funders which will allow us to enhance our capacity for this next year.

|  |  |
| --- | --- |
| **6. Explore our Potential** | *Contributing towards*  ***Acorn with solid fill*** |

Part of shaping our legacy will also involve exploring the potential for the new combined commercial subsidiary to enhance its social impact in Caithness and North Sutherland. We are mindful of our limited capacity and resources at this time and so will focus on the following actions:

* Working with Cairn HA and its subsidiary Cairn Homes & Services to consider the vision for the new combined commercial subsidiary;
* Exploring local needs and known service gaps in discussions with our key local partners; and
* Following any demolition, consider the potential for future redevelopment and/or repurposing of the garages and adjacent land (e.g. by undertaking a local survey).

**Section 7: Risk**

***We understand the importance and value of managing risk and see our risk management policy and framework as an essential element of good governance, improving our decision-making and enhancing our outcomes and accountability.***

**Approach**

We take a comprehensive approach to risk management to ensure that we:

* are more flexible and responsive to new internal and external demands;
* are able to make informed decisions;
* can provide assurance to our Board;
* reduce incidents and control failures; and
* are able to achieve our key targets and priorities.

**Risk Management Framework**

A few years ago, we strengthened our risk management framework across the Group and introduced a process in which risks are identified, assessed, controlled, monitored and reviewed. The framework is designed to:

* integrate risk management into the culture of the Group;
* raise awareness of the need for risk management;
* encourage a positive approach to risk management;
* support improved decision-making, innovation and performance through a good understanding of risks and their likely impact; and
* manage risk in accordance with good practice.

**Audit Committee**

Our Board is responsible for overseeing risk management in our organisation. It is assisted by the Group Audit Committee, charged with monitoring the management of high-level risks, reviewing the risk appetite, ensuring proper controls are in place and reviewing the Group’s approach to risk management.

**Section 8: Resources**

***We are fully committed to making the best use of our resources and to continue to deliver value for money. We are also keen to give the new combined, commercial subsidiary the best possible start.***

**Financial Health**

Total turnover for 2021/22 is expected to be around £197,000 derived from the three income streams, namely garages, mid-market rent housing and factoring, with a positive end of year cash position of around £33,000. This represents a more positive outlook than the previous two years of trading.

As part of our staffing review across the Group, our 2021/22 budget includes a fairer allocation of staffing and service level agreement costs across our three income streams. The effect of which is mid-market and factoring services are now shown as loss-making, calling into question the current arrangements for the operation of these services.

With an outstanding loan of £550,000 and a recent desk-top valuation of our assets at £480,000, our loan is now significantly under-secured and raises a key question about the current business model and its ongoing financial viability.

Both of these issues have been taken into account in our partnership business case and Cairn HA’s financial modelling and will be explored in detail as part of any post-merger review process. Nonetheless, we are keen to explore potential mitigation prior to the merger, and so we intend to carry out an early review of our intercompany loan.

**Budget Assumptions**

Our 2021/22 Budget is based on the following assumptions:

* Garage rents will be frozen at current levels.
* Garage void levels will continue at current levels 25%.
* Mid Market Rented properties assumed at 1 out of 7 void for entire year.
* Interest payable to PHA based on intercompany loan, but subject to review during the year. No contribution to repaying capital.
* Reactive Maintenance spend will be in line with last year’s actual spend.
* Cyclical works will cover garage maintenance works, weed killing and sweep of garage sites.
* No Planned Maintenance is assumed.
* Costs for selective demolition of up to 61 garages are not included and subject to review during the year.
* Intercompany recharge for overheads is in line with the SLA.
* Staff costs include an officer level post at reduced hours plus admin support providing an overall allocation of staff capacity of 17.5 hours per week.
* The salary detail has been increased in line with year 3 of the EVH salary agreement in place, 1.7%.
* Provision for bad debts is set at 3%, covering garage provision of 2% and other services at 1%.
* Corporation tax assumed to remain at 19%.

**Appendix A: Our Delivery Plan**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Goals** | | **Actions** | **Performance Indicators** | **Target Dates** |
|  | | | | |
| **Strategic Priority 1: Prepare for integration.** | | | | |
| 1. | House with solid fill***Acorn with solid fill*** | Agree with Cairn HA how to merge the two subsidiaries. | Merger plan agreed | June 2021 |
| 2. | House with solid fill***Acorn with solid fill*** | Implement any legal or financial changes required to facilitate the transition. | All necessary changes complete | April 2022 |
| 3. | House with solid fill | Contribute to the Transition Project Plan as appropriate. | All milestones achieved | April 2022 |
| **Strategic Priority 2: Review our financial structure.** | | | | |
| 4. | ***Acorn with solid fill*** | Secure sufficient funds to implement a garage demolition programme. | Funding secured. | July 2021 |
| 5. | ***Acorn with solid fill*** | Review the potential to restructure the inter-company loan. | Review complete. | May 2021 |
| **Strategic Priority 3: Review our asset strategy.** | | | | |
| 6. | House with solid fill | Agree an annual operational plan for the management of the refurbished garages. | Operation plan agreed | May 2021 |
| 7. | ***Acorn with solid fill*** | Consider demolishing all un-refurbished garages before merger. | Option appraisal complete  Demolition contract awarded | July 2021  Oct 2021 |
| **Strategic Priority 4: Maintain service quality.** | | | | |
| 10. | House with solid fill | Agree annual service priorities, actions and targets for the MMR service | Operational plan agreed | May 2021 |
| 11. | House with solid fill | Agree annual service priorities, actions and targets for the Factoring service | Operational plan agreed | May 2021 |
| 12. | House with solid fill | Agree annual service priorities, actions and targets for the Garage service | Operational plan agreed | May 2021 |
| **Strategic Priority 5: Enhance our capacity.** | | | | |
| 13. | House with solid fill***Acorn with solid fill*** | Secure additional resources to enhance capacity. | Resources secured | June 2021 |
| **Strategic Priority 6: Explore our potential.** | | | | |
| 14. | ***Acorn with solid fill*** | Undertake market research to identify gaps in local services, wider community needs, and opportunities for PCE. | Market research complete | Oct 2021 |
| 15. | ***Acorn with solid fill*** | Agree with Cairn the potential to develop community investment and enterprise in Caithness & North Sutherland. | Vision for new combined commercial subsidiary agreed | Jan 2022 |

**Appendix B: Our 2021/22 Budget**

**Statement of Comprehensive Income**

|  |  |
| --- | --- |
| **For the Year Ended 31 March 22** | **Final Budget 2021/22**  **£** |
| Turnover | 186,651 |
| Less; Operating Costs | (179,102) |
| **Operating Surplus** | **6,948** |
| Interest Receivable | 63 |
| Interest Payable (Loans) | (16,500) |
| Corporation Tax | 0 |
| **Retained in Revenue Reserve** | **(9,488)** |

**Statement of Financial Position**

|  |  |
| --- | --- |
|  | **Final Budget 31/03/22**  **£** |
| **Investment Property**  **Current Assets** | 480,000 |
| Debtors | 5,522 |
| Cash at Bank and in Hand | 82,382 |
|  | 87,904 |
| **Creditors**: amounts falling due within one year | (19,173) |
| **Net Current Assets** | 68,731 |
| **Total Assets less Current Liabilities** | **548,731** |
| **Creditors**: amounts falling due after one year inter co loan | (550,00) |
| **Provisions for liabilities:**  Deferred tax | (4,750) |
| **Total Net Assets** | **(6,019)** |

**Cash Flow**

|  |  |
| --- | --- |
| **CASH BAL. b/f 1/4/21** | **TOTAL**  **98,847** |
| Factoring Service Charges Income | 20,706 |
| Cash Effect (-Increase in Arrears) /+Decrease | 186,051  0 |
|  | **186,051** |
| **EXPENDITURE** |  |
| STAFF COSTS | 18,084 |
| DIRECT OPERATING COSTS | 66,033 |
| GARAGE ESTATE COSTS | 67,060 |
| DIRECT OVERHEADS | 13,000 |
| PHA SERVICE LEVEL AGREEMENT COSTS | 14,925 |
| (-DECREASE) / INCREASE IN CREDITORS | 179,102  0 |
|  | **179,102** |
| PHA LOAN INTEREST | 16,500 |
| CORPORATION TAX | 6,977 |
| LOAN CAPITAL REPAID | 0 |
| FIXED ASSETS – MAJOR | 0 |
| FIXES ASSETS – OTHER | 0 |
|  | **202,579** |
| INTEREST RECEIVABLE  CASH BAL c/f 31/3/22 | **82,382** |