Due Diligence upon a Housing Association Business Plan

Why are we doing it?

We endeavour to inform our Exec team, arm them with the knowledge and assurance needed to make clinical decisions. The comment from Finance is often a right of veto over weather a partnership / merger occurs or not.

The greatest risk is that miss-information or miss-analysis guides the exec team to make a positive decision where it would other wise have been a negative decisions and vice versa.

Working back from the biggest risk allows a business planner to gauge an appropriate level of materiality.

What information would possibly make a “Yes – proceed” decision a “No – let this opportunity pass”?

The list of what you need:

1. Past three annual accounts.
2. Audit letters from previous three annual accounts.
3. Past two LTFP (long term financial plans)
4. Previous Budget
5. Latest Management Accounts
6. Latest Forecast (if not within the management accounts)
7. Up to date loan book (including Swaps)
8. Security / Charging schedule
9. CV of business planner.
10. Note from management disclosing any off balance sheet items.
11. Agreed time frame by which you will receive all of the above.

Yes’s to No’s

The inflation assumptions should be based on a reasonable forecast

- These should reflect the forecast given by the Bank of England, with an acceptable level of prudence and or accepted industry average.
- *Warning* - accepted industry averages do not mean they are right – apply skill and independence of thought in your judgement.
- *Warning* - Does income (rent) increase at a faster rate than costs? Find out the average run rate for how both income and costs have increased in the past 3 years and create a scenario where the is cast forward for at least the next 5 years.

Development Spend

- Does the housing association have enough funding to embark on the development programme predicted?
- Does it have the security in place to acquire all funding needs (debt or other).

- Build periods within the development envelope should be reasonable. 18 months to 2 years is considered prudent for schemes over 30 units.
- Build costs. (as at August 2014 an average 2 bed flat in outer London would cost £205,000 to build) (£1640 pm^2 exc. land).

Opening Balances

- Can turnover in year one be reconciled to the prior years turnover reported within the financial statements?
- Are opening units inline with the SDR + any newly developed?
- *Warning* double check that opening assumptions around Voids and Bad Debts are inline with recent history and are not aspirational.
- Balance Sheet – Are both assets and liabilities correctly accounted for. What system are they using to depreciate their PPE? Are they running a re-valuation accounting system or historic cost system?
- What is the current depreciation charge? And is this reconcilable with the I&E of the business plan.

Loan Schedule

- Ensure that all loans are captured within the business plan, starting and ending at the correct times.
- Ensure that where interest payment schedules are known, these are tied back and incorporated within the LTFP.

Subsidiaries, Investments and PFI's

Leases

Biography or CV of Business Plan Creator.

Organisation Chart

- Is the correct number of employees within the business plan? C of E (costs of employment) is likely to be the main cost within a housing association. Knowing the previous year's average FTE headcount and the total C of E will allow you to asses what a reasonable assumption would be for year one of the business plan.
- Year 1 of the business plan may be the budget or forecast for the current financial year– if this is the case the budget should be double checked that all major income lines and overhead costs can be reconciled to the previous year's actuals with reasonable explanations for material variances.