



## Regulatory requirement

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### 30 Year Financial Forecasts - 2022

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| <b>Purpose:</b>           | This document advises Registered Social Landlords (RSLs) on the content and prescribed format for the submission of 30 year financial forecasts. |
| <b>Effective date:</b>    | 31 March 2022  |
| <b>Related documents:</b> | Information Submission Timetable 2022/23   |
| <b>Distribution:</b>      | All RSLs required to annually submit 30 year financial forecasts   |

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### Advice

RSLs are required to prepare and submit annually a 30 year financial forecast (“forecast”) which has been approved by the Board.

For non developing RSLs, it may be acceptable to submit a shorter term forecast e.g. for 5 years. If you wish to propose submitting over a shorter timeframe, please contact your Regulation Manager or Financial Analyst to discuss.

### Timetable for Submission

RSLs should prepare and submit their forecasts in line with their own business planning cycles.

The submission deadline is **31 August 2022** unless prior agreement has been given by the Housing Regulation Team.

Please note this is the latest date for submission. Forecasts should be submitted following their approval by the Board.

## Contents of Submission

### The submission must contain the following information:

- Board approval paper
- Business plan file in an approved format
- FFR report in excel

The following information should be provided in support of the Plan:

- Key assumptions and significant changes in the forecast since the previous submission
- Details of the finance required to deliver the forecast
- Details of covenant compliance
- Accompanying information regarding stress testing and mitigation analysis

Where the above information does not form part of the Board approval paper, earlier or subsequent Board papers which do contain this information should be submitted as part of the return.

## The Business Plan File

RSLs must submit their model in an approved format.

Currently accepted formats are:

- Brixx planner; the .xpx file
- ABOVO planner; excel spreadsheet

If RSLs wish to submit in an alternative format to those currently approved, **they need to gain the prior approval of Welsh Government.**

For RSLs which operate in group structures, please ensure that you discuss your reporting arrangements for the 30 year financial forecast in advance with the Housing Regulation Team.

## FFR

**Non developing RSLs who do not use bespoke software for their business plans are not required to submit this return.**

FFR Reports are a standard feature of the Brixx and Abovo software. The report (including the assumptions and tenure section) should be submitted in **Excel** using 2019 or later versions of the FFR. Earlier versions will not be

accepted. Those RSLs operating software which produces an FFR older than this should upgrade their software before submission.

The majority of the data used for this report will flow automatically from the business planning software that you use. Where other data (for years 1 to 30 of the plan) needs to be entered manually (orange and blue sections of the Brix report) these can be left blank.

Where it is unclear how the return is populated you should use guidance provided by your software provider.

If, after speaking to your software provider, you need further clarification on completing the return please contact your Financial Analyst in Welsh Government.

The FFR report must be validated against your Business Plan prior to submission, to ensure that it is an accurate reflection of your Association's plan. As above, you should refer to guidance provided by your software provider on how to complete this.

## **Assumptions**

The Regulator expects Associations to determine their own assumptions, making use of published forecast data such as information provided by The Office of Budget Responsibility.

The Board needs sufficient time and opportunity to challenge the key assumptions used in the forecast.

## **Treasury Management**

The narrative provided to the Board should detail the timing and level of funding that is required to deliver the forecast.

The narrative should be consistent with, and make reference to, any other relevant documentation such as an annual treasury strategy.

## **Covenant Compliance**

It is expected that forecast performance will have been fully tested for compliance with relevant lender covenants and that the outcome of this testing will be communicated to the board.

## **Stress testing**

It is required that RSLs undertake stress testing of the forecast. This testing will examine the impact of various scenarios on the ability of an RSL to deliver its

plan and examine the cumulative effect of more than one scenario occurring at the same time.

The Regulator is not prescriptive as to the nature and degree of the scenarios tested as these will be dependent on a variety of factors which are specific to organization, including the degree to which the underlying assumptions used in the base plan are thought to be prudent.

However, it is expected that testing will focus on the impacts of key strategic risks identified in the Sector Risk overview and those in the RSL's Risk Map.

The Board should play a key role in determining what is appropriate testing of the Association's forecast and understand what scenarios or combination of events will put the RSL at risk. They need sufficient time and opportunity to input into and consider the degree and scope of the scenarios tested.

## **Mitigation Analysis**

RSLs are expected to have undertaken an exercise where they create a set of circumstances which cause the plan to fail. Typically this will result from combining some of the individual stress tests above. Typically the failure of the plan will relate to a covenant breach but could relate to other factors such as an inability to access loan funding though insufficient security.

Having modelled the scale of the crisis that results from the failure of the plan RSLs are expected to determine what recovery actions they have at their disposal and assess if they are sufficient and could be enacted in time in order to have the intended effect. The impact the recovery actions will have on tenants, services and the delivery of corporate objectives should be assessed when determining appropriate mitigations.

The exercise should be used to determine if the underlying plan is sufficiently robust, whether the RSL's risk appetite should be amended and if any internal controls or policies need to be strengthened in light of the analysis. This will in turn inform the RSL as to whether the risk map accurately reflects the exposure to risk.

The Board are expected to take a lead on this analysis and have a clear understanding of what mitigations are available to the RSL should a combination of events materialise which would cause the RSL to fail.

The degree and scope of the analysis of the mitigations available to the Association should be proportionate to the level and nature of the risks identified, and the underlying financial strength of the RSL.

## **Groups**

For group structures the following combinations may be submitted to satisfy the requirements for the entire group:

- consolidated 30 year financial forecast;
- 30 year forecast for each group member; or
- sub-consolidated forecasts grouping entities together by their operations or the management structure within the group

In some cases it may be acceptable for certain registered group members to be omitted from the forecast(s) submitted on the grounds of materiality.

If a group considers a forecast for certain registered group members is not required on the basis of the exemption above they should first seek the agreement of the Regulator.

## **Additional Requirements**

30 year forecasts should be compatible with the reporting requirements of FRS102.

The modelling of the development programme should clearly show the status of the developments included. Possible categories would include: On site, contracted, Board approved, pipeline or uncommitted.

## **Contact information**

The Housing Regulation team can be contacted as follows:

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