Item 5(b)

Board Meeting

For Approval

To: Board
From: DECO – Finance

SUBJECT: BUDGET 2020/21 **DATE 28 APRIL 2020**

1.	**Introduction**
	ng homes must plan and control its finances by setting an annual budget which includes an accurate assessment of the full cost of each activity and a fair allocation and apportionment of costs.
2.	**Risk**
	The Budget is a necessary part of the governance structure of the Association. The budget sets out the financial objectives, actions and initiatives agreed by the Board for the year ahead. Not to prepare the budget and failure to submit would be a failure in controls and a breach of agreements. The risk is mitigated by the proper preparation of the budget and consideration of such against required standards. Review of such at management and Board level and submission to the Regulator within agreed timescales.
3.	**Underlying principles**
	The principles listed below have been used in drawing up the 2020/21 budget. • Protecting tenant's interests in terms of keeping rents affordable and ensuring adequate resources for maintenance. • Ensuring adequate staff resources to deliver services • Meeting SST Commitments. • Retaining the confidence of private lenders. • Sustaining good financial performance In order to achieve the above the Association must ensure that: • **rent*s*** - income is maximised whilst remaining affordable. • **factoring** - charges cover the costs of managing the service. • **repairs** - there is a plan and funding for the lifetime maintenance of stock. • **development** - the process is carried out efficiently, effectively and economically. • **Efficiency / value for money** - best use is made of resources.

	• **Board -** exercise proper control over the activities and ensure that decisions are taken in best interests of the tenants and the Association.
4.	**Summary**
	The budget for 2020/21 is detailed below and in the attached pages. This year is a continuation of the promises that were made being implemented with significant planned maintenance, improving the lives of our tenants and a programme of wider action expenditure. In particular it is a commitment to ensuring the health and safety of our tenants in the multi's stock together with steps towards reducing fuel poverty. Rental and service income is projected at £24.1m. This is with the agreed rent increase of 3.0% on all the stock. The rental income has been reduced to reflect units expected to be demolished in future years. The salary levels have been updated to include the agreed EVH increase of 1.60%, increments and planned recruitment. Spend for 2020/21 on planned maintenance has been set at £23.5m. This is an exceptional year with the expenditure well beyond any other previous year as highlighted at various Board meetings and other events. This is primarily focused on the contract for the six 25 storey multi's with the ASHP and other improvement works together with a range of works in the other stock including smoke detectors programme and other works. Under component accounting works that have an extended life and can be identified to specific properties should be capitalised and written off over the useful life of the asset. A provisional total of £17.51m has been capitalised but will be subject to revision depending upon the final mix of works done. Loan interest is projected at £1.2m with interest rates staying low and the majority of the loans on fixed rates. It also reflects the additional costs of the various new loans that have or may be agreed to meet our financing needs for this year and future years. In 2019/20 we took on £1m of loan from the Scottish Government at 0% interest rate. We have a £4.5m loan from the Energy Savings Trust at 3.5% to be agreed. Also we have proposals from anther funder to provide up to £20m of additional funding. In grant funding there is a £4.57m grant offer to support the ASHP works from the Scottish Government LCITP fund. A deficit of £2.4m is projected for the year. The deficit may change as we go through the work programme. There is a clause in the original Nationwide agreements that sets aside

	the loan interest covenant in years where the Association advises that a deficit is due to be made due to planned maintenance works in a business plan submitted before the start of the financial year. We will be discussing this with the Nationwide. Beyond the planned maintenance capitalisation there is net investment of £4.0m on new build, property acquisitions & adaptations and £0.2m spend on other fixed assets built into the balance sheet. Projected repayment of £1.6m of loans during the year. Cash flow is positive with projected increase in cash of £4.7m bringing cash at bank up to £23.3m. Cash balances will decline over the immediate future till we run through the short term programme. The Association is meeting its stock transfer and other commitments and remains in a healthy position. A separate board event will be held in April to review the business plan assumptions and narrative.
5.	**Recommendation**
	Members are asked to: a) Approve the revised budget for 2020/21; b) Receive quarterly reports on performance; c) Delegate DCEOF / C.E.O (and Executive Team) with day to day responsibility for implementing and managing overheads and overall budget reporting any material changes as necessary. d) Executive team to continue to review expenditure for savings and to report back to Board on such. Robert Hartness (DCEOF)

Budget Detail

The attached extracts from the budget model have been prepared in consultation with the overall staff team and taking into account the changes in the financial environment since the last time the budget was approved.

Economic conditions

Economic conditions have continued to be depressed since the preparation of the last budget. Cutbacks by councils and others are reducing income streams and increasing pressure on our tenants. The Westminster election has given certainty on political direction there but no assurance that economic conditions will in any way improve.

Budget Key Features

- **Rent –** increase of 3.0% leading to total rents and service charges of £23.77m net of voids.

- **Day to day maintenance** – set at £2.4m in line with current projections and previous year's costs net of expected savings from repairs review.

- **Cyclical maintenance** – set at £1.4m. It is projected that there will be general inflationary increases in expenditure together with amendment of costs to reflect current expenditure patterns.

- **Planned Maintenance –** The projected cost for various programmes of work for this year is £23.56m. This is the highest level of expenditure the Association has ever planned with the work on the multi's project being the core element of this. Outside of this is there is still a wide range of contracts being undertaken including mini modernisations, rewires, boiler replacements, door replacements, fire door programmes and other works. Of the overall total £17.5m will be capitalised into the balance sheet. This is for the current year and in the next year there will still be significant expenditure on the same areas.

- **Bad debts –** expected with economic circumstances still being depressed for our customer group together with universal credit implementation that projected bad debts will still be significant so adopting an increased level of charge at £460k.

- **Property depreciation –** set at £4.4m with continuing charges on existing capitalised major repair costs and general properties. With the substantial investment in the stock this year the charge has increased significantly.
- **Factoring** – is an area that is difficult to project at any point in time as the level of repairs included within the gross levels of income and expenditure are always variable. Income set to a total of £569k, and factoring costs of £367k has been put into the budget.

- **Loan Interest** – increased to £1.24m. Interest rates staying low and the majority of the loans are on fixed rates. Additional funding of £17m nominal has been included though this may increase.

- **Salary costs –** Salary costs moved upwards from £5.0m to £5.3m. Salary costs have been amended for staff changes and salary increments. The 1.6% EVH pay increase has been included. Additional staff resource has been budgeted particularly within investment to have the resource to deal with the increased planned maintenance expenditure programme

- **Overheads –** Costs are projected to decrease from £2.02m to £1.98m. General inflationary increases balanced by a reduction in depreciation as assets become fully depreciated.

- **Wider action projects –** Project income is expected to reduce as various projects have come to an end and there will be fewer projects in the coming year. Income is projected to reduce to £275k and costs to £539k. There may be further income depending on the success of future applications.

- **Projected deficit of £2.39m for 2020/21.**

- **Investment in Housing Properties** - £17.5m for capitalised major repairs and £6m for investment in Keppochill Road development and adaptations.

- **Loan balances –** loans increasing from £26.49m to £42.64m with the additional loans being taken on less normal repayments in the year.

- **Cash balances** – with the significant spend on planned maintenance and new build balanced out by the new loans then the cash balance increases from £18.6m to £23.3m. Cash balances will decline over the immediate future till we run through the short term programme.

The recommended version of the budget has attached to this report:

- An Income and Expenditure Account and overheads summary with a comparison between the 1920/21 budget and the 2019/20 budget, and the actual results for 2018/19 is also shown.
- Projected balance sheet at 31 March 2021
- Projected cash flow for the year to 31 March 2021