



# Board Meeting

For Approval

To: Board  
From: DECO – Finance

**SUBJECT: BUDGET 2022/23**

**DATE 29 March 2022**

<b>1.</b>	<b>Introduction</b>
	<p><b>ng homes</b> 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.</p>
<b>2.</b>	<b>Risk</b>
	<p>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.</p> <p>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.</p>
<b>3.</b>	<b>Underlying principles</b>
	<p>The principles listed below have been used in drawing up the 2022/23 budget.</p> <ul style="list-style-type: none"><li>• Protecting tenant’s interests in terms of keeping rents affordable and ensuring adequate resources for maintenance.</li><li>• Ensuring adequate staff resources to deliver services</li><li>• Retaining the confidence of private lenders.</li><li>• Sustaining good financial performance</li></ul> <p>In order to achieve the above the Association must ensure that:</p> <ul style="list-style-type: none"><li>• <b>rents</b> - income is maximised whilst remaining affordable.</li><li>• <b>factoring</b> - charges cover the costs of managing the service.</li><li>• <b>repairs</b> - there is a plan and funding for the lifetime maintenance of stock.</li><li>• <b>development</b> - the process is carried out efficiently, effectively, and economically.</li></ul>

	<ul style="list-style-type: none"> <li>• <b>Efficiency / value for money</b> - best use is made of resources.</li> <li>• <b>Board</b> - exercise proper control over the activities and ensure that decisions are taken in best interests of the tenants and the Association.</li> </ul>
<b>4.</b>	<b>Summary</b>
	<p>The budget for 2022/23 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. 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.</p> <p>Rental and service income is projected at £25.6m. This is with the agreed rent increase of 2.9% and additional income from the new build units. The rental income has been reduced to reflect units expected to be demolished in future years.</p> <p>The salary levels have been updated to include a 2.65% increase and the NI increase of 1.25% plus increments and planned recruitment. There is no agreed EVH increase as the increase is still in negotiation at the time of writing this report.</p> <p>Spend for 2022/23 on planned maintenance has been set at £14.3m. The last two years were meant to be exceptional years with planned expenditure set at levels of about £20m but with delays due to Covid there was underspends and the addition of the Carron ASHP contract. This spend this year is primarily focused on completing the multi storey contracts. 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 £8.8m has been capitalised but will be subject to revision depending upon the final mix of works done.</p> <p>Loan interest is projected at £1.22m. The additional costs of the various loans that were drawn down over the last two years to meet our financing needs is partially balanced by the end of a fix on £4.7m of loans that will reduce interest rates by 4%. . There is not any grant funding for planned maintenance projects in the year or additional loan finance.</p> <p>A deficit of £0.5m is projected for the year. The deficit may change as we go through the work programme.</p> <p>Beyond the planned maintenance capitalisation there is net investment of £0.2m on adaptations and £0.5m spend on other fixed assets built into the balance sheet. Projected</p>

	<p>repayment of £2.7m of loans during the year.</p> <p>Cash flow is negative with projected decrease in cash of £9.1m bringing cash at bank down to £19.0m. Cash balances will continue to decline over the immediate future till we run through the short-term programme.</p> <p>The Association is meeting its stock transfer and other commitments and remains in a healthy position.</p>
<b>5.</b>	<b>Recommendation</b>
	<p>Members are asked to:</p> <ul style="list-style-type: none"><li>a) Approve the revised budget for 2022/23.</li><li>b) Receive quarterly reports on performance.</li><li>c) Delegate DCEO / 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.</li><li>d) Executive team to continue to review expenditure for savings and to report back to Board on such.</li></ul> <p>Robert Hartness (DCEO)</p>

## Budget Detail

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

## Economic conditions

Economic conditions have continued to be problematic since the preparation of the last budget. The pandemic has impacted on employment levels and income for our tenants. Costs are increasing over all headings but particularly in energy costs.

## Budget Key Features

- **Rent** – increase of 2.9% leading to total rents and service charges of £25.6m net of voids.
- **Day to day maintenance** – set at £2.15m with increases in costs for contractors and materials built in at an expected rate of 15%. Savings expected from repairs review and additional procurement exercises.
- **Cyclical maintenance** – set at £1.96m. This is down on last year with the smoke detector installations completed within 2021/22.
- **Planned Maintenance** – The projected cost for various programmes of work for this year is £14.3m. This is due to ongoing ASHP projects in the multis together with a wide range of contracts being undertaken including rewires, boiler replacements, door replacements and other works. Of the overall total £8.8m will be capitalised into the balance sheet.
- **Bad debts** – expected with economic circumstances still being depressed for our customer group together with ongoing universal credit implementation that projected bad debts will still be significant so adopting a charge of £400k.
- **Property depreciation** – set at £5.0m with continuing charges on existing capitalised major repair costs and general properties. With the substantial investment in the stock last year and 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. This is particularly true this year with the catch up on day-to-day repairs and planned maintenance

delayed by Covid. Income set to a total of £727k, and factoring costs of £515k has been put into the budget.

- **Loan Interest** – decreased to £1.22m from £1.39m. Interest rates increasing is balanced out by the ending of a fix on £4.7m of loans that will reduce interest rates on such by 4%. No new loans projected to be drawn down in the year balanced by repayments of £2.7m.
- **Salary costs** – Salary costs held steady at about £5.35m. Salary costs have been amended for staff changes and salary increments. A 2.65% pay increase has been included as well as the 1.25% NI increase. No agreement on EVH salary increase has been reached yet. No changes in pension rates this year.
- **Overheads** – Costs are projected to increase from £1.955m to £2.085m. General inflationary increases balanced by some areas of Covid savings expected to continue.
- **Wider action projects** – In 20/21 project income was expected to reduce substantially with a limited number of projects approved but due to Covid related support and unexpected applications income was at a level higher than 19/20. For 22/23 income is projected to decrease to £478k and costs to £733k. This includes a welfare project for the Northeast, lottery funded recycling project, community support plus a range of ongoing projects.
- **Projected deficit of £0.5m for 2022/23.**
- **Investment in Housing Properties** - £14.3m for capitalised major repairs and £0.5m for adaptations.
- **Loan balances** – loans decreasing from £44m to £41.3m with normal repayments of £2.7m in the year.
- **Cash balances** – with the significant spend on planned maintenance the cash balance decreases from £28.1m to £19.0m.

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

- An Income and Expenditure Account and overheads summary with a comparison between the 22/23 budget and the 2021/22 budget, and the actual results for 2020/21 is also shown.
- Projected balance sheet on 31 March 2023
- Projected cash flow for the year to 31 March 2023