



Board Meeting

For Approval

To: Board
From: DCEO

SUBJECT: BUDGET 2024/25

DATE 26 March 2024

1.	Introduction
	<p>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.</p>
2.	Risk
	<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>
3.	Underlying principles
	<p>The principles listed below have been used in drawing up the 2024/25 budget.</p> <ul style="list-style-type: none">• Protecting tenant’s interests in terms of keeping rents affordable and ensuring adequate resources for maintenance.• Ensuring adequate staff resources to deliver services• Retaining the confidence of private lenders.• Sustaining good financial performance <p>In order to achieve the above the Association must ensure that:</p> <ul style="list-style-type: none">• rents - 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.

	<ul style="list-style-type: none"> • 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
	<p>The budget for 2024/25 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 together with steps towards reducing fuel poverty.</p> <p>Rental and service income is projected at £29.4m. This is with the agreed rent increase of 6.0% and the additional rent from letting the rehabilitated properties let to Ukrainians.</p> <p>The salary levels have been updated to include a 6.0% increase plus planned recruitment.</p> <p>Spend for 2024/25 on planned maintenance has been set at £8.9m. Recent years were meant to be exceptional years with planned expenditure set at high levels but with delays due to Covid and contractor issues there was underspends. With the spend on multi storey contracts now almost complete the range of works will be concentrated on standard works such as kitchens, bathrooms, rewires, windows 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 £4.7m has been capitalised but will be subject to revision depending upon the final mix of works done.</p> <p>Day to day and cyclical maintenance costs have been increased to reflect the material and contractor cost increases that have affected the RSL sector and the wider economy.</p> <p>Loan interest is projected at £1.52m. The repayments of various loans is behind the decrease in costs from £1.58m. The level of projected repayments over the next five years will reduce the interest charge as the loans are paid down. There is not any grant funding for planned maintenance projects in the year or additional loan finance. That may change if proposals for further net zero works primarily funded by grant is approved by the Scottish Government.</p> <p>A surplus of £1.9m is projected for the year. The surplus will change as we go through the work programme.</p>

	<p>Beyond the planned maintenance capitalisation there is net investment of £0.3m on other fixed assets built into the balance sheet. Projected repayment of £2.2m of loans during the year.</p> <p>Cash flow is negative with projected decrease in cash of £1.1m bringing cash at bank down to £16.0m.</p> <p>The Association is meeting its commitments and remains in a healthy financial position.</p>
5.	Recommendation
	<p>Members are asked to:</p> <ul style="list-style-type: none"> a) Approve the revised budget for 2024/25. b) Receive quarterly reports on performance. c) Delegate DCEO / C.E.O (and Senior Management Team) with day-to-day responsibility for implementing and managing overheads and overall budget reporting any material changes as necessary. d) Senior Management Team to continue to review expenditure for savings and to report back to Board on such.

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 longer-term pandemic effects has impacted on employment levels and income for our tenants. Costs are increasing over all headings with high inflation rates, but the effect was felt particularly in energy costs.

Budget Key Features

- **Rent** – increase of 6.0% leading to total rents and service charges of £29.4m net of voids.
- **Day to day maintenance** – set at £2.48m compared to £2.36m with increases in costs for contractors and materials built in at an expected rate of 5%. Savings expected from repairs review and additional procurement exercises.
- **Cyclical maintenance** – set at £2.36m compared to £2.31m. The increase is based on the general increase in costs together with the increase in compliance costs across various areas including ASHP, damp and environmental costs.
- **Planned Maintenance** – The projected cost for various programmes of work for this year is £8.9m. This is due to a wide range of contracts being undertaken including kitchens, bathrooms, rewires, boiler replacements, windows and other works. Of the overall total £4.7m 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 £250k.
- **Property depreciation** – set at £5.4m with continuing charges on existing capitalised major repair costs and general properties. With the substantial investment in the stock in recent years the charge has increased.
- **Service costs** – reflecting increases in utility costs and contractor costs with rises in living wage.

- **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 with the increases in costs of day-to-day repairs and planned maintenance. Income set to a total of £906k, and factoring costs of £632k has been put into the budget.
- **Loan Interest** – decreased from £1.58m to £1.52m. Interest rates increasing is balanced out by repayments of £2.2m that are projected in the year. Repayments in the years after will reduce the interest charges. No new loans currently projected to be drawn down in the year balanced by repayments of £2.2m.
- **Salary costs** – Salary costs increased from £5.64m to £5.74m. Salary costs have been amended for staff changes and salary increments. A 6.0% pay increase has been included. The employer SPF pension rates for the next two years have reduced from 27% to 8.6%.
- **Overheads** – Costs are projected to increase from £2.24m to £2.59m. General inflationary increases together with increases in office and other assets depreciation, IT investment and communications.
- **Wider action projects** – For 24/25 income is projected to be £220k and expenditure of £430k. This includes community support plus a range of other projects.
- **Projected surplus of £1.9m for 2024/25.**
- **Investment in Housing Properties** - £4.7m for capitalised major repairs and £0.3m for other assets.
- **Loan balances** – loans decreasing from £39.3m to £37.1m with repayments of £2.2m in the year.
- **Cash balances** – with the spend on planned maintenance and loan repayments the cash balance decreases from £17.1m to £15.95m.

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

- An Income and Expenditure Account and overheads summary with a comparison between the 2024/25 budget and the 2023/24 budget, and the actual results for 2022/23 is also shown.
- Projected balance sheet on 31 March 2025
- Projected cash flow for the year to 31 March 2025