



Report Title	Draft Budget 2023-24
Author	Head of Finance
Committee	Board
Date	1 March 2023
Purpose	For Approval

Executive Summary / Background	The purpose of this report is to provide the Board with 2023-24 Draft Budget to enable the Board to reach a decision on the rent increase.
Recommendations	The Board is asked to note the contents of the report and to raise any queries or concerns with the content and approve the 2023-24 Budget.
Appendices	Draft Budget 2023-24 (Second Draft)
Financial Implications	There were some direct financial implications associated with the potential rent freeze/rent cap in 2023-24. These were numerous and were detailed in the Rent Consultation Options 2023-24 report by the CEO at the December Board meeting.
Risk Considerations	<p>The Association must meet its covenant conditions dictated by Nationwide. One of these covenants is a Debt Serviceability Test. This uses the rental income as part of the calculation. If we fail to meet the required formula, we may be in breach of the covenant.</p> <p>Using the draft Budget 23-24 all Nationwide covenants are being met.</p> <p>There are other financial risks which will be detailed in the report.</p>
Legal/Legislative Issues	There could be direct legal implications should we breach Nationwide Covenants.
Health and Safety Issues	Not applicable
For Publication	No

1. PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to provide the Board with a Draft Budget for 2023-24 to enable the Board to consider the proposed rent increase options of 6% and 7% and to approve the rent and service charge revisions. This second draft of the 2023/2024 budget will be discussed at tonight's Board meeting. It is proposed that the content of this report and the Chief Executives report which was discussed at the December 2022 Board on the rent consultation should be considered with the Draft Budget so that a decision on rent increases can be made with viability issues fully covered.

2. BACKGROUND

- 2.1 On Tuesday 6 September 2022 the Scottish Government announced a combined rent freeze and moratorium on evictions to help people through the cost of living crisis. The programme outlined emergency legislation which was introduced to put in place a rent freeze.

Following further consultation with the Scottish Government, legislation to end the social rent cap was laid in Parliament on 19 January 2023 to expire the rent cap provisions for the social sector on 26 February. Crucially, this allows those with rent cycles that start earlier than 1 April to give the full required notice period.

- 2.2 Soaring inflation, the economic impact of the pandemic, war in Ukraine and the fallout from Brexit are combining to create huge pressures on our communities and businesses. Together, these factors also pose a serious and sustained challenge to the Association's finances - a challenge that has been exacerbated by the political uncertainty stemming from the Prime Minister's resignation and the subsequent appointment of a new Prime Minister.
- 2.3 These economic and political headwinds will make it difficult for the Association to budget and plan ahead with any degree of precision.
- 2.4 Inflation is currently sitting at 10.5% (CPI) December 2022, (10.7% in November 2022 CPI; 11.1% October 2022 CPI). which means that prices are currently more than 10% higher than they were 12 months ago. The cost of living is increasing faster than at any time for the past 40 years driven largely by the rising cost of food and fuel.
- 2.5 Energy costs have risen sharply because of high oil and gas prices. Bills are predicted to rise further in April 2023, although not as steeply as first predicted.
- 2.6 Petrol and diesel prices, partly because the war in Ukraine has driven up the cost of crude oil, this has a knock on effect with the cost of some of our overheads and repairs costs.
- 2.7 Higher bank interest rates also make loan payments more expensive. On 2 February 2023 the BOE increased the bank base rate by a further 0.5%.

3. DRAFT BUDGET ASSUMPTIONS

The Draft Budget shows a surplus for 2023-24 of £405k (£1,341,073 excluding £936,000 SHAPS actuarial gain) compared to £323k in the budget for 2022-23. This report will provide details of the underlying assumptions made in preparing this Budget. Surpluses are required to allow the Association to plan for major expenditure in the future and to enable us to service our loans.

- 3.1 **Staff Costs and Overheads** – The Staff remuneration figure of £1,225,866 allows for the existing complement of staff plus one factoring assistant. Overall salary costs have reduced from last year by £35k due to the SHAPs Pension Deficit now having stopped and a reduction in employer's pension contributions. A contingency of £7k is included to cover sickness/maternity/overtime.

Staff Costs	£
Total Staff Remuneration Costs	1,219,659
Staff Travel Costs	2,000
Staff Recruitments	4,206
Temp Staff	37,386
Freelance Fees	16,350
	1,279,601
Care & Repair salary costs (Separate Cost Centre)	446,647

Also included in the Staff Remuneration Costs are the SHAPS DC scheme life cover costs which amount to approx. £5k. Care and Repair Staff costs are **not** included in the total.

- 3.2 Salaries have increased to 5.25% to match the current EVH pay negotiations. The Pension Trust SHAPS Defined Contribution Scheme employer contributions have remained at 10%. Employer National Insurance rates remain at 13.8%.
- 3.3 Central Overheads have increased by £56k. Details of each individual overhead cost element is summarised below.
- 3.4 Inflation has been charged at 9% on most overhead costs elements within the Draft Budget. Inflation is predicted to peak at current levels (10.5% Dec 2022 CPI) and slow to 2.4% by December 2023 (Source BBC Business). **However, lower inflation does not mean prices will go down. It just means they will stop rising at their recent faster pace.**
- 3.5 Office heat and light has been reduced from last year's budget by £8k. The new office in Inchinnan has these costs included as part of the Service Costs. In this budget only 3 months office heat and light has been included.
- 3.6 Telephone charges have been reduced by £3k to reflect this year's actual costs.
- 3.7 Office repairs costs have been increased to £10k to account for any general repairs and maintenance required in the new office. There is a dilapidations reserve of £69k within our creditors accounts for the Bridgewater office.
- 3.8 Office rent has increased by £80k to include the draft rent figures that we have received from India of Inchinnan. The figure includes one quarters rent for the current Bridgewater office and 9 months of rent for the India of Inchinnan office.
- 3.9 Postage and Stationery has been reduced by £11k as staff are making better use of email and social media to communicate with customers. Less Stationery has been used over the last two years with staff working from home.
- 3.10 Board conference costs have been reduced to £10k this year, £2k less than last year. This is due to a reduction in Board members. This equates to approximately £1k per Board member.

- 3.11 Subscriptions have been reviewed in the year and some have been stopped. Costs have been inflated and have increased by £4k from last year for SFHA, EVH, GWSF and SHN.
- 3.12 Computer costs have increased since last year by £16,527 in overheads due to the introduction of the customer portal "MyBHA", contractor portal MyContractor and the significant increased costs for Microsoft and SDM Licences.
- 3.13 General sundry costs have decreased since the pandemic. For the purpose of this budget we have reduced costs by £6k. Staff are working part of the week from home and less office consumables are being used/replaced.
- 3.14 Professional Fees have been increased by £14k to allow for architect fees for the new office, as India of Inchinnan is a listed building. There has also been a contingency for consultancy fees for the Nationwide stock revaluation, which may be required if the Florish Road development goes ahead.
- 3.15 The Erskine Community fund has not been fully utilised over the last 3 years as we have been successful in obtaining revenue grants to support our customers from elsewhere. This year and last we have been successful in obtaining grant funding to assist customers in a variety of ways, recently being successful in obtaining £50k from the Social Housing Fuel Support Fund to provide customers with fuel vouchers, energy advice, healthy eating cookery classes, air fryers, slow cookers and high tog duvets.

For this year we have taken this fund out of the draft Budget but will continue to apply for further funding to support our customers. Should a 7% rent increase be approved we have committed to re-instating this fund.

- 3.16 Depreciation has been reduced within the overheads as we will not be carrying out extensive refurbishment to the Bridgewater Office. Included in this cost is depreciation of computer equipment and office leasehold improvements.
- 3.17 The Associations Management Expenses which consist of staff costs and office overheads has increased by £20k from last year. The Association's overhead costs remain under constant scrutiny and we will continue to identify potential savings throughout the year.

4. HOUSING ACCOUNT

- 4.1 Gross rental income has been inflated by 6%. The rent charge will be applied on 29 April 2023. Only 11 months rent has been increased and included in the budget figures, equating to a rent increase of 5.5%. Garage rents and managed property income also increase by 12.1%.
- 4.2 The Association levy's a service charge on top of the rental charge to cover a higher level of support for certain properties. The charge is used to pay for heating, lighting, laundry, equipment rental and cleaning costs. Service charges have been increased by 6%.
- 4.3 Voids have increased by £33k from last year to allow for ongoing contractor issues. This area will be closely monitored going forward.

- 4.4 Amortised Grant has been increased by £130k as advised by our external auditor, Alexander Sloan. The auditors are currently reviewing this figure which may change.
- 4.5 Revenue Grants in relation to Medical Adaptations for 2023-24 are estimated at £27,000. This income is never guaranteed.
- 4.6 Management Costs have reduced by £20k, this is due to the reduction of overhead apportionment of costs against the housing function.
- 4.7 Reactive Repairs - The Property Services Manager has increased the budget for reactive repairs by £230k. Materials/Labour costs have increased generally over the sector to in excess of 30%. The Association is currently using smaller contactors due to the recent withdrawal of the Associations reactive repair contractor, Consilium. Smaller contractors do not follow a Schedule of Rates and prices are likely to be more expensive.
- 4.8 Planned maintenance - The Property Services Manager has reduced the planned maintenance schedule for this year due to the potential implications of a rent freeze/rent cap being less than inflation. Costs this year are £207k less than last year. Kitchen and re-roofing contracts have been reduced. The carport replacement contract has also been cancelled.
- 4.9 Extra Care Costs - Robertson House and Clayson House energy bills, have risen rapidly because of high oil and gas prices. Bills are estimated to rise further in April 2023. This has the greatest impact on the extra care developments as the utility costs for these are expensive under normal conditions. For this budget, energy costs have been doubled and cleaning costs have been increased by 10%. All other costs for repairs/maintenance, telephone, lift maintenance, broadband, and TV licensing have all been increased by assumed 9% inflation.
- 4.10 Housing Costs have been inflated for all areas of spend e.g. payment collection costs, legal fees, subscriptions, tenant participation, survey costs and the share of IT license costs. Property insurance costs have been increased by 19% to reflect market conditions and to cover increased rebuild costs due to the BCIS index (Building Cost Information Service of the Royal Institute of Chartered Surveyors) rising to 19% this year.
- 4.11 The budget forecasts an operating surplus of £454,256.
- An Operating Surplus is necessary to service the Association's long term loans and to maintain a positive cash flow.
- 4.12 Interest Receivable - Deposit interest received have also increased due to base rate increases. At present interest deposit rates are higher than they have been for some years, 3-4%.
- 4.13 Nationwide Loan interest payable – Interest on the Associations two variable loans has increased due to increases in the Bank of England base rate. These have been pegged at 6% for Budget purposes.
- 4.14 SHAPS Actuarial Gain - The SHAPS deficit payments ceased on 30 September 2022. The creditor of £936k which is sitting in the balance sheet has been written off to the

Housing income and expenditure account. This is not a cash item or income. It is an actuarial valuation, which fluctuates year on year.

- 4.15 The Surplus for 2023-24 is £405k (excluding SHAPS actuarial gain of £936k) compared to £323k in the budget for 2022-23. It is vitally important for the Association to plan its finances to both pay for current and future commitments. Surpluses made now will ensure that the Association can maintain and improve properties so that they remain desirable as attitudes, needs and tastes change going forward and without huge above inflation rent increases in the future. The Association's prudent financial management of income and expenditure means that there are sufficient cumulative reserves to meet expenditure in the year.

5. NON HOUSING ACCOUNTS

- 5.1 The Non Housing Account relates to activities which are not "core". With the exception of Housing Support, these activities are self-financing, but are presented in a costs centre basis to enable the Association to monitor and isolate any losses that may occur.
- 5.2. Housing Support Account – The Association receives a grant plus service charges to cover a higher level of support for certain sheltered tenants. There has been no uplift in Renfrewshire Councils funding for the last 11 years despite costs increasing year on year. This Budget assumes the Housing Support Co-ordinator will continue to work 5 days a week and that salaries have increased by 5.25% as per EVH salary negotiations. Predictions are that the Housing Support service will be in a deficit of £35k for 2023-24. This is an area that the Association intends to review in the new business plan.
- 5.3 Care and Repair Account – The Association is currently in discussion with both Councils regarding procurement and at this stage, the value of a potential new contract is not known. For the purposes of this document, funding is shown as static. However, this is unlikely and in the event that the Association does not secure the contract or the value changes, the Board will require to be consulted regarding alternative proposals. There is a predicted surplus of £24k on this service.
- 5.4 Factoring Account – The Association acts as Property Factors to approx. 193 factored flat owner-occupiers in its area of operation. Over and above this there are 2,493 factored house owners from whom we recover a percentage of landscaping costs and certain repairs and maintenance costs.

Factoring Fee income is made up of both the Management and Administration Fees charged to provide the service. For Budget purposes we have predicted that the Factoring service will make a small surplus of approx. £1k. The Management and Admin fees for owner occupiers has been increased to cover the "MyBHA" portal implementation and license costs and also to employ a factoring assistant. Annual house admin costs have been increased from £32 to £47.40 per year. Management Fees for flat owners have been increased from £103 to £152.60 per year.

- 5.5 Other Income and Expenditure - The Association manages 6 properties for Turning Point Scotland and one for RAMH. The rents collected are remitted to these organisations monthly. From those receipts, the Association deducts an agreed management fee shown as Managed Property Income. Repair costs incurred are recharged quarterly to TPS and RAMH.

For the purpose of the budget management income has been increased by 12% inflation. On this basis, this budget predicts that this service will make a small surplus this year of £6k.

- 5.6 The Non Housing account will create a small deficit overall of approx. £3k for 2023-24. The total deficit is carried back and deducted from the Housing Account surplus on page 2, which produces a total Operating Surplus of £454,256, shown before the deduction of Loan Repayments etc. The Non-Housing Accounts are designed to identify and isolate any activity that may prove to be a drain on the Association resources

6 BALANCE SHEET

- 6.1 The Balance Sheet on page 4 contains aggregated historical figures, however the main figures for the Board to keep under constant review are the cash and bank balances (including deposits) amounting to £4.5m and the Net Current Asset position at the end of the year of £3.8m, These figures demonstrate the Association's ability to meet its short and medium-term commitments

- 6.2 Tangible Fixed Assets – There has been a capital addition for £150k professional fees for the Florish Road potential development and there has also been an inclusion of HAG amounting to the same within the Balance Sheet, under Deferred Income. The Association has not yet commenced the Florish Road development. Stewart Milne have yet to provide build costs. We know that costs for labour and materials for construction have increased significantly and expect that this may impact on the prices we receive.

At this stage expenditure in relation to Florish Road will be financed out of the Association's own resources. However, if the project is to go head discussions will require to take place in relation to loan financing. In this budget there is no provision for development/build costs other than for the professional fees.

- 6.3 Component additions amounting to £428k for bathroom, windows/doors, kitchens and boiler replacements are included in the budget. Included are some rewiring and re-roofing costs also.
- 6.4 Other Fixed Assets include an addition of £60k for office reconfiguration costs for the new India of Inchinnan office and £5k for the capitalisation of a new recovery server.
- 6.5 Debtors - The amount in the Balance Sheet under Current Assets is made up of normal trading balances including trade debtors, tenant/owners' arrears and sundry debtors.
- 6.6 Predicted cash at bank for 31 March 2024 is £4.5m.
- 6.7 Creditors - The amount appearing in the Balance Sheet under Current Liabilities is made up of normal trading balances including rents and owners' costs in advance, trade creditors, sinking funds, taxation, and sundry creditors. There is a dilapidations reserve of £69k to reconfigure the existing Bridgewater office back to its original form should the office move be successful.
- 6.8 Housing loans will be reducing by circa £814k in the year as the capital payments are being made throughout the year. If the Florish Road development goes ahead then

additional loan funding will be required.

- 6.9 The loan from the Energy Saving Trust for EWI will reduce by £87k by the end of March 2024 to £362k as payments are being made.
- 6.10 Scottish Government Fire Detection Loan will reduce by £100k, leaving £100k outstanding as at 31 March 2024.
- 6.11 The Net Current Asset figure will be predicted to be approx. £3.8m. This indicates that the Association will be able to meet its obligations in the short and medium term.

7. CASH FLOW

- 7.1 The cashflow on page 5 demonstrates a comfortable cash position over the coming 12 months, ending with a bank balance estimated at £4.5m. It should be noted however that with inflation running significantly higher than was predicted even a year ago and with uncertainties around tender costs, materials and manpower availability, it may well be necessary to comprehensively review the budget in six months and in particular the Association's expenditure plans.

8 BANKING COVENANTS

- 8.1 The Association is obligated to meet and certify the financial covenants specified in the loan agreement with Nationwide Building Society. Calculations based on budget show covenants for Debt Servicing and Asset Cover Ratio are being met with a 6% rent increase.

Basis 1 of the Covenants (Asset Cover)	Estimated Results for 2023-24	Nationwide Covenant Rules	Compliant ?
Valuation Loan Basis 1 of property stock ÷ Loan Balances	477%	Results must be greater than >105%	Yes
Valuation Loan Basis 2 of property stock ÷ Loan Balances	752%	Results must be greater than >133%	Yes
Basis 2 of the Covenants (Debt Serviceability)	Estimated Results for 2023-24	Nationwide Covenant Rules	Compliant ?
Net Rental Income repays debt @ 7% interest within 35 years	Nationwide Debt paid off using Net Rental Income by year 2 (2026)	Nationwide Debt to be paid off using Net Rental Income within 35 years	Yes

BRIDGEWATER HOUSING ASSOCIATION LTD				
MANAGEMENT EXPENSES				
	Note	Budget for 2023-24 £	Budget To 2022-23 £	Increase/ Decrease
STAFF COSTS	1			
Staff Remuneration		1,225,866	1,299,509	-73,644
Agency Fees		53,736	15,570	38,166
		1,279,601 *	1,315,079	-35,478
OFFICE OVERHEADS	2			
Heat & Light		5,450	13,727	-8,277
Telephone		24,067	27,611	-3,544
Office Repairs & Renewals		10,196	6,536	3,660
Office Rent & Rates		140,968	61,103	79,865
Postage & Stationery		13,265	24,918	-11,653
Printing & Publications		4,420	4,496	-77
Board Training		5,000	5,000	0
Board Conferences		10,000	12,000	-2,000
Staff Training/Conferences		15,834	13,166	2,668
Office Insurance		22,832	23,537	-705
Audit Fees (Internal and External)		21,445	18,849	2,596
Subscriptions and Affiliation Fees		26,621	22,196	4,426
Computer Costs		42,783	26,255	16,527
Equipment Maint/Lease		8,894	7,998	896
Cleaning Costs		13,123	12,405	719
Board Expenses		992	1,557	-565
Bank charges		8,775	7,478	1,296
Advertising		545	298	247
General Expenses		5,583	12,006	-6,423
Professional Fees		53,173	38,474	14,700
Erskine Community Fund		0	10,000	-10,000
Depreciation		12,778	40,930	-28,152
		446,744	390,539	56,205
MANAGEMENT EXPENSES	3	1,726,346	1,705,619	20,727
ALLOCATED :				
HOUSING COSTS		1,398,494	1,418,545	-20,051
HOUSING SUPPORT ACCOUNT		164,249	159,571	4,677
FACTORING ACCOUNT		139,906	100,049	39,857
MANAGED PROPERTY		23,696	27,453	-3,756
		1,726,346	1,705,619	20,727

BRIDGEWATER HOUSING ASSOCIATION LTD				
INCOME AND EXPENDITURE ACCOUNTS				
HOUSING ACCOUNT	Notes	Budget for 2023-24 £	Budget To 2022-23 £	Increase/ Decrease
Income :				
Gross Rental Income (incl SC)	4	4,628,347	4,365,809	262,538
Extra Care Service Charge Income	5	195,434	184,186	11,248
Less Voids	6	-92,714	-59,244	-33,470
Amortised SHG		375,446	245,224	130,221
Revenue Grants	7	27,000	28,000	-1,000
Total Income		5,133,512	4,763,975	369,538
Expenditure :				
Management Costs	8	1,398,494	1,418,545	-20,051
Reactive Repairs	9	749,591	518,867	230,724
Planned Repairs	10	882,519	1,089,079	-206,560
Extra Care Costs	11	396,817	174,714	222,102
Housing Costs	12	218,770	184,896	33,874
Property Depreciation	13	1,017,552	1,016,145	1,407
Bad Debts	14	12,000	10,000	2,000
Contingency		0	0	0
Total Costs		4,675,744	4,412,247	263,497
HOUSING SURPLUS/(DEFICIT)		457,769	351,728	106,041
NON HOUSING SURPLUS/(DEFICIT)		-3,513	22,701	-26,214
OPERATING SURPLUS	15	454,256	374,429	79,827
Gains on Sale		0	0	0
Interest Receivable	16	71,733	3,875	67,858
Nationwide Loan Interest	17	-120,916	-54,766	-66,150
HEEPS Loan Interest	17	0	0	0
SHAPS Unwinding of Discount		0	0	0
New Loan Florish Rd		0	0	0
SHAPS Actuarial Gain or Loss	18	936,000	0	936,000
SURPLUS (DEFICIT) FOR YEAR	19	1,341,073	323,538	1,017,535
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BRIDGEWATER HOUSING ASSOCIATION LTD				
BALANCE SHEET				
AS AT		31 MARCH 2024		
Projected			Nts.	£
31.3.23				
	Tangible Fixed Assets			
23,920,820	Housing Properties (NBV)		25	23,261,428
641,149	Other Fixed Assets (NBV)		26	686,551
24,561,969				23,947,979
	Current Assets			
1,284,510	Debtors		27	1,284,441
3,271,426	Cash and Bank			3,063,928
1,500,000	Term Deposits			1,500,000
6,055,936				5,848,369
	Less Current Liabilities			
-2,020,360	Creditors		28	-2,020,360
4,035,576	Net Current Assets			3,828,008
28,597,545	Total Assets less Current Liabilities			27,775,987
	Creditors (due more than a year)			
-4,356,608	Housing Loans		17	-3,542,894
-449,930	HEEPS Loan		17	-362,460
0	New Loan Florish Road Development		17	0
-200,000	Scottish Government Loan -Fire Detection			-100,000
-936,000	SHAPS Deficit		18	0
-5,942,538				-4,005,353
	Deferred Income			
-9,312,668	Scottish Housing Grant (SHG)			-9,087,222
13,342,339	NET ASSETS			14,683,412
	Capital and Reserves			
71	Share Capital			71
13,018,730	Revenue Reserves B/Fwd			13,342,268
323,538	Surplus/(Deficit) for Period			1,341,073
13,342,339	TOTAL CAPITAL AND RESERVES			14,683,412

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