

Bridgewater Housing Association

Annual Budget for 2022/23 and 30 Year Financial Projections from 2022/23

Introduction

This procedure sets out the process for producing the annual budget and business plan including identifying budget holders, stakeholders and the timetable for producing the annual budget and 30-year financial projections.

Annual Budget

The annual budget is a financial plan which forecasts income and expenditure for the forthcoming year. The budget links with strategic documents such as the internal management plan and asset management strategy and translates the Association's strategic and operational objectives into money terms, effectively underpinning the Organisation's plans to deliver quality services to customers.

Normally a budget will include an income and expenditure account, balance sheet, cashflow, notes and assumptions and a comparison with the prior year.

The annual budget also forms the base year of the five-year financial projections and is used to inform the longer term 30-year business plan both of which require to be updated annually and submitted to lenders and the Scottish Housing Regulator (SHR).

A budget is essential in ensuring proper financial management of the organisation and will aim to ensure –

- continued viability
- that sufficient income is generated to meet costs
- that budget holders are aware of their areas of responsibility, will manage and control expenditure, demonstrate value for money (vfm) and meet efficiency and income targets
- that it acts as a means of control by providing financial information to compare against outturn

To be effective, income and expenditure must be monitored by individual budget holders for each area of operation they have responsibility for, by regularly reviewing performance within their team and overall outturn via management accounts. This will allow key variances and corrective action, including virement, to be identified at an early stage.

The budget will be used to project cashflow for the year. It is essential that income and expenditure is profiled monthly so that the cashflow forecast is accurate. The cashflow is used to monitor movements in cash and measure performance against lenders covenants. The drawdown of loan finance is determined by projected cash balances as is any short-term investment in deposit accounts.

Business Plan/30-year Financial Projections

Long term financial plans are an essential tool to help inform the strategic decision-making process. These plans allow the SMT and Board to consider:

- strategic options available e.g. development or office relocation and the impact these have on the longer-term financial position.
- whether the Association can afford to implement a strategy

- the financial risks which need to be monitored and managed
- the Association’s ability to meet quality standards such as EESSH

A business plan is prepared to quantify long term strategy and by doing so this in turn quantifies long term funding requirements. Both lenders and the SHR require Associations to regularly update financial projections and it is likely that this will become an annual process.

The Board has overall responsibility for compliance with Regulatory Standards as well as ensuring the long-term viability of the Association. The 30-year plan demonstrates how the Association will perform, based on agreed assumptions around income and expenditure, and should provide the Board with assurances that the business plan and long-term strategies are sustainable, rents are affordable, plans are deliverable, loans will be repaid and loan covenants will be achieved.

The planning process for the 30-year projections is similar to that of the annual budget and the information required is based on the same principles. Basic assumptions need to be clear and must be capable of being varied when necessary. Long term plans should focus on the key risk areas such as rent affordability, development, loan payments and planned maintenance expenditure.

The business plan should include sensitivities to assess how robust the finances are to changes in key assumptions or risk and to measure their impact on long term cashflow. The plan should include key measures of financial performance, ratios and loan covenants.

The 30-year projections should be prepared and reviewed at the same time as the budget and Internal Management Plan, i.e. as part of the same process.

Roles and responsibilities

The budget is used across the organisation and there are a number of different stakeholders who can place a claim on resources or output. The table below provides a summary of the key players who drive the planning and budget cycle and their responsibilities in the budget process.

	Board	Managers	Finance
Setting the budget	<ul style="list-style-type: none"> • Agreeing priorities • Challenging assumptions • Formal approval of the budget 	<ul style="list-style-type: none"> • Developing service plans and options • Forecasting performance outcomes • Proposing budgets and targets 	<ul style="list-style-type: none"> • Advising on financial strategy • Drafting the overall budget • Identifying and evaluating pressures and options for change
In year monitoring	<ul style="list-style-type: none"> • Approval of significant adjustments or measures to remain within budget targets 	<ul style="list-style-type: none"> • Maintaining performance • Monitoring budgets and targets • Proposing options in response to variances 	<ul style="list-style-type: none"> • Monitoring and reporting on overall position • Revising the overall budget • Monitoring cashflow
Reporting financial results	<ul style="list-style-type: none"> • Approval of management accounts and financial statements 	<ul style="list-style-type: none"> • Providing information as required for budgets and management accounts • Relating financial and service outcomes 	<ul style="list-style-type: none"> • Managing the budget and accounts process • Preparing management accounts and annual accounts for audit

It is good practice to consider the constraints that affect the budget or business plan and its assumptions and how these impact on business operations. It is also important that there is an understanding that funds are limited and as a consequence, expenditure will need to be prioritised.

The budget process must recognise the following –

- affordability and rent levels
- performance in relation to arrears, voids, overall expenditure and procurement
- loans i.e. debt funding
- longer term financial projections and business plan needs
- cash backed reserves for future maintenance
- compliance with lenders covenants and the requirements of the loan agreement
- compliance with guidance issued by the Scottish Housing Regulator
- development costs, grants and private finance
- exposure to risk

Timetable

The draft budget should be considered by the Management Team before it goes to Board. The final budget should be presented to the Board for approval in February. It is therefore essential that initial information requirements are completed as soon as possible so that the draft budget can be prepared for review in December with the draft plan required for Board in January. Available information should therefore be passed to Finance as soon as possible. The budget will inform the annual rent increase which is scheduled to be approved by the Board in January, with customer consultation taking place between October and January. These timescales are in accordance with the overall business plan review approved by Board and are designed to ensure the appropriate consultation with customers can take place.

Date	Details	Purpose
September/October	Consult with Board on rent increase	To approve proposed increase and agree consultation methods
October	Issue procedure	Confirm budget and business plan process and information requirements
October to January	Consult customers on rent increase	To seek feedback on proposals
By November	Draft assumptions and back up to be provided to finance	To allow draft budget and business plan to be prepared in advance of SMT in December
October to December	Draft budget and business plan	SMT to review and agree proposed budget/business plan and assumptions
January	Rent increase approved by Board	To confirm rent increase applicable
January	Board to review draft budget and business plan	To approve budget/business plan or agree amendments
February	Finalise budget/business plan. Board to approve.	Obtain any outstanding or further information required. To approve final budget and business plan

Information Requirements

All budget figures should be supported by sufficient detail to demonstrate how target amounts have been calculated and the assumptions made.

Category	Process	Responsibility
Rental income	<ul style="list-style-type: none"> Update base budget for existing units. Check rents are accurate and adjust for secure rent increases and new build developments/acquisitions. 	H+CSM
Service charges	<ul style="list-style-type: none"> Review current charges against projected expenditure and adjust as required. 	H+CSM
Lock ups	<ul style="list-style-type: none"> Review current charges and adjust as required 	H+CSM
Voids and bad debts	<ul style="list-style-type: none"> Agree base assumptions for void loss Consider bad debt provision for current and former tenants 	H+CSM
Employee costs	<ul style="list-style-type: none"> Confirm changes to staff structure Confirm incremental increases Provide reasonable estimates of salary increases to be applied Estimate expenses Confirm temporary staff required Estimate recruitment costs Review apportionment of staff time 	CEO/SMT
Consultancy Fees	<ul style="list-style-type: none"> Provide details of any projects where consultants are required. Estimate cost of fees, expenses and outlays and specify individual projects 	CEO/SMT
Donations	<ul style="list-style-type: none"> Provide estimates 	CEO
Office overheads	<ul style="list-style-type: none"> Provide analysis of costs based on actual outturn and identify additional requirements or confirm estimated cost. 	HOF
IT	<ul style="list-style-type: none"> Provide analysis of costs based on actual outturn and identify additional requirements or confirm estimated cost. 	CSM/ITCO
Depreciation of housing stock	<ul style="list-style-type: none"> Calculate charge for year using stock profile, adjusting for sales and additions through development / acquisition. Adjust for component accounting – investment spend. 	HOF/TSM
Reactive maintenance	<ul style="list-style-type: none"> Provide estimated spend including any decoration allowances, compensation for improvements and redress Breakdown in detail and estimate monthly spend profile 	TSM
Void maintenance	<ul style="list-style-type: none"> Provide estimated spend including decoration allowances, compensation for improvements and redress 	TSM
Cyclical maintenance	<ul style="list-style-type: none"> Confirm costs for landscape and gas maintenance including unit numbers and split between tenanted stock, common areas for 	TSM

	<p>sheltered housing and offices. Expenditure should be estimated monthly.</p> <p>Costs in relation to owners to be separately identified</p> <ul style="list-style-type: none"> • Provide estimate of other cyclical expenditure and programmes and split between tenanted stock, common areas for sheltered housing and offices and estimate monthly spend profile. <p>Costs in relation to owners to be separately identified</p>	<p>TSM/Factoring Officer</p> <p>TSM</p>
Planned maintenance/ improvements	<ul style="list-style-type: none"> • Provide programme of works based on life cycle costings or stock condition and split between tenanted, common areas for sheltered housing, owners and offices. Specify fees • Include decoration allowances and compensation for improvements. Estimate monthly spend profile. <p>Quantify any grant funding due.</p> <p>Costs in relation to owners to be separately identified</p>	<p>TSM</p> <p>TSM/Factoring Officer</p>
Miscellaneous estate costs	<ul style="list-style-type: none"> • Based on historical costs, provide estimates for Council Tax, storage costs and utilities for void properties • Estimate costs associated with tenant satisfaction surveys, HMO licences, Response services and other alarm provisions, any other housing services expenditure, etc. and identify any new costs or projects. 	H+CSM
Other estate costs	<ul style="list-style-type: none"> • Provide build-up of income, grants and costs for <ul style="list-style-type: none"> - property insurance - legal fees - sheltered housing services - non sheltered housing services - medical adaptations - rent collection charges – allpay, etc - debt recovery - loan interest - stationery and printing - common housing register - common electricity supplies 	<p>HOF</p> <p>H+CSM</p> <p>H+CSM</p> <p>H+CSM</p> <p>TSM</p> <p>H+CSM</p> <p>H+CSM</p> <p>HOF</p> <p>H+CSM</p> <p>H+CSM</p> <p>TSM</p>
Care & Repair	<ul style="list-style-type: none"> • Provide build-up of income, grants and costs for <ul style="list-style-type: none"> - Service costs - Staff costs - Running costs - Van costs 	CSM

Factoring	<ul style="list-style-type: none"> • Provide build-up of income from management fees, including estimates for growth • Provide build-up of costs for – <ul style="list-style-type: none"> - property insurance - legal fees - allpay or equivalent payment processing costs - other costs - factoring handbooks/statement of services 	TSM HOF FO FO FO FO
Development	<ul style="list-style-type: none"> • Provide estimated costs and funding for HAG/private finance or other resources including spend profile. Include details of development allowances per scheme • Provide estimated number of units for rent and/or sale with provisional dates for completion, handover, draw down of funds and receipt of grant, etc. 	TSM H+CSM
Office furniture/equipment	<ul style="list-style-type: none"> • Provide estimate/ requirement for additional equipment, furniture, etc. for all staff teams and facilities 	SMT
Wider Role and Customer Engagement	<ul style="list-style-type: none"> • Provide estimated costs of wider role / customer engagement and income sources • Provide estimates for any other projects • Provide estimates for tenant participation, RTO costs including training 	H+CSM H+CSM H+CSM
Computer equipment	<ul style="list-style-type: none"> • Provide estimates/requirements for hardware and software for all staff, new SDM or Sage modules, etc. 	ITO
Office Repairs	<ul style="list-style-type: none"> • Provide programme of works for cyclical and planned maintenance and provide estimated costs for reactive office repairs 	TSM
Office Refurbishment	Provide programme of works, costs and costs for professional fees,	CEO
Health and Safety	<ul style="list-style-type: none"> • Provide estimates for each office and sheltered location for all H & S equipment/training/other costs 	CSM and H+CSM/TSM
Staff Training	<ul style="list-style-type: none"> • Provide estimates for training, personal development and further education and attendance at conferences 	CEO
Board Training	<ul style="list-style-type: none"> • Provide estimates for training, personal development and attendance at conferences 	CEO

***This list is not exhaustive and is intended as a guide. Please add any other items of income and expenditure that should be included.**

In order to assist in the budget process and to allow cashflow requirements to be assessed following budget approval, budget holders should provide a spend profile for each expenditure item, confirming whether spend will be evenly apportioned throughout the year or concentrated in a given month/quarter. **Costs should be estimated at current prices including VAT with no adjustment made for inflation.**

Thereafter budget holders should refer to management accounts, variance analysis and the other financial monitoring reports produced for confirmation of historic income and expenditure. Individual analysis of budget items can be provided from the finance system if required. A proforma for completion is attached below and can be used if required.

There is no need to input budget information into this form if it already exists in another format.

Budget holders should produce a separate sheet or complete these forms for each budget item they are responsible for.

Bridgewater Housing Association
Budget template for the financial year 2020/21

Budget item:

Budget holder:

Budget for current year:

Budget for forthcoming year:

Date completed:

Signed:

Description	Budget Estimate	Adjust for Inflation	Budget Total	Spend Profile				Comments
				Apr – Jun	Jul – Sept	Oct – Dec	Jan - Mar	
Total								