Item 5(b)

Board Meeting

For Approval

To: Board
From: DECO – Finance

SUBJECT: BUDGET 2021/22 **DATE 25 May 2021**

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 2021/22 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: • **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. • **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 2021/22 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. Rental and service income is projected at £24.8m. This is with the agreed rent increase of 2.0% and additional income from the new build units. 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 plus increments and planned recruitment. Spend for 2021/22 on planned maintenance has been set at £20.8m. Last year was meant to be an exceptional year with the expenditure set at £23.5m but with delays due to Covid there was an underspend of about £8m. This is primarily focused on completing the contract for the six 25 storey multi's with the other improvement works together with the new contract for ASHP and doors for the Carron multis. 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 £14.3m has been capitalised but will be subject to revision depending upon the final mix of works done. Loan interest is projected at £1.39m with interest rates staying low and most of the loans on fixed rates. It also reflects the additional costs of the various new loans that were drawn down in 20/21 to meet our financing needs for this year and future years that produced funds of £23.5m. In grant funding there is a £3.7m grant offer to support the ASHP works in the Carron multis from the Scottish Government LCITP fund. Additional funding of £2.2m can be drawn from the Energy Savings Trust. A deficit of £3.1m is projected for the year. The deficit may change as we go through the work programme. Beyond the planned maintenance capitalisation there is net investment of £0.2m on adaptations and £0.2m spend on other fixed assets built into the balance sheet. Projected repayment of £2.1m of loans during the year.

	Cash flow is negative with projected decrease in cash of £10.5m bringing cash at bank down to £26.2m. Cash balances will continue to 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.
5.	**Recommendation**
	Members are asked to: a) APPROVE the revised budget for 2021/22. 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 considering 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. The pandemic has severely impacted on employment levels and income for our tenants. Cutbacks by Council and others are increasing pressure on budgets.

Budget Key Features

- **Rent –** increase of 2.0% leading to total rents and service charges of £24.34m net of voids.

- **Day to day maintenance** – set at £1.86m with various expenditure headings being transferred over to cyclical maintenance. Further savings expected from repairs review and additional procurement exercises.

- **Cyclical maintenance** – set at £2.85m. This is substantially up on previous years as various cost headings have been transferred in from day to day repairs, service costs and planned maintenance. This is to better align the management of the programmes.

- **Planned Maintenance –** The projected cost for various programmes of work for this year is £20.8m. 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 £14.3m 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 level of charge at £460k.

- **Property depreciation –** set at £4.65m 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 £626k, and factoring costs of £423k has been put into the budget.

- **Loan Interest** – increased to £1.39m from £1.24m. Interest rates staying low and most of the loans are on fixed rates. Additional loans of £18.4m drawn down in previous year which raised funds of £23.5m. Additional loans of £2.2m projected to be drawn down in the year balanced by repayments of £2.1m.

- **Salary costs –** Salary costs held steady at £5.3m. Salary costs have been amended for staff changes and salary increments. The 0.8% EVH pay increase has been included. No changes in pension rates this year.

- **Overheads –** Costs are projected to decrease from £1.976m to £1.955m. 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 21/22 income is projected to increase to £691k and costs to £814k. This includes a welfare project for the North East, cycle storage project, Covid and community support plus a range of ongoing projects.

- **Projected deficit of £3.0m for 2021/22.**

- **Investment in Housing Properties** - £14.3m for capitalised major repairs and £0.2m for adaptations.

- **Loan balances –** loans increasing from £44.14m to £44.24m with £2.2m of additional loans being taken on balanced by normal repayments of £2.1m in the year.

- **Cash balances** – with the significant spend on planned maintenance the cash balance decreases from £36.7m to £26.2m. Cash balances will continue to 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 21/22 budget and the 2020/21 budget, and the actual results for 2019/20 is also shown.
- Projected balance sheet at 31 March 2022
- Projected cash flow for the year to 31 March 2022