Item
5 (c)

Board Report
Finance and IT

To: Board
From: Finance Director

SUBJECT: BUDGET 2019/20 **DATE 2nd April 2019**

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 2019/20 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 2019/20 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, substantial wider action expenditure and a full compliment of concierge and environmental staff in place. Rental and service income is projected at £23.5m. This is with the agreed rent increase of 2.0% on all the stock. The salary levels have been updated to include the agreed EVH increase of 2.30%. Spend for 2019/20 on planned maintenance has been set at £8.47m. This will be dependent on the timing of various contracts and the tendering processes being completed on time. Under component accounting works that have an extended life and can be identified to specific properties such as KBR's, rewires and doors should be capitalised and written off over the useful life of the asset. A provisional total of £5.09m has been capitalised but will be subject to revision depending upon the final mix of works done. Loan interest is projected at £898k with interest rates staying low and the majority of the loans on fixed rates but reflecting the ending of fixed rates on part of the loan portfolio. A surplus of £1.70m is projected for the year. Beyond the planned maintenance capitalisation there is net investment of £2.0m on new build, property acquisitions & adaptations and £0.2m spend on other fixed assets built into the balance sheet. Projected repayment of £0.8m loans during the year. Cash flow is negative with projected decrease in cash of £3.9m bringing cash at bank down to £14.1m. The Association is meeting its stock transfer and other commitments and remains in a healthy financial position. A separate board event will be held in May to review the business plan assumptions. Outcomes from that event and the budget will form part of the Board reports for the June meeting.

5.	**Recommendation**
	Members are asked to: a) Approve the revised budget for 2019/20; 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 taking into account 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. Cutbacks by councils and others are reducing income streams and increasing pressure on our tenants.

Budget Key Features

- **Rent –** increase of 2.0% leading to total rents and service charges of £23.267m net of voids.

- **Day to day maintenance** – set at £2.2m in line with current projections and previous year's costs.

- **Cyclical maintenance** – set at £1.35m. It is projected that there will be general inflationary increases in expenditure together with amendment of costs to reflect current expenditure patterns.

- **Planned Maintenance –** The projected cost for various programmes of work for this year is £8.47m. Wide range of contracts being undertaken including mini modernisations, rewires, boiler replacements, door replacements, fire door programmes and other works. Of the overall total £5.09m will be capitalised into the balance sheet.

- **Bad debts –** expected with economic circumstances still being depressed for our customer group together with universal credit implementation that projected bad debts will still be significant so adopting a high level of charge at £420k.

- **Property depreciation –** set at £3.4m with continuing charges on capitalised major repair costs and general properties.

- **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. Income set to a total of £598k, and factoring costs of £412k has been put into the budget.

- **Loan Interest** – reduced to £898k. Interest rates staying low and the majority of the loans are on fixed rates. Ending of fixed rates on £5m of the loan portfolio has reduced the cost level despite an expected increase in rates over the year. About 60% of the loan portfolio will still be at fixed rates.

- **Salary costs –** Salary costs moved upwards from £4.81m to £5.00m. Salary costs have been amended for staff changes and salary increments. The 2.30% EVH pay increase has been included.

- **Overheads –** Costs are projected to increase from £1.95m to £2.02m. General inflationary increases together with amendment of costs to reflect current expenditure patterns.

- **Wider action projects –** Project income is expected to reduce as various projects are coming to an end and there will be less projects in the coming year. Income is projected to reduce to £349k and costs to £894k. There may be further income depending on the success of future applications.

- **Projected surplus of £1.70m for 2019/20.**

- **Investment in Housing Properties** - £5.3m for capitalised major repairs and a net £2m for investment in Springburn Halls development, property acquisitions and adaptations.

- **Loan balances –** loans reducing from £26.49m to £25.69m with normal repayments in the year. No loan facilities currently available.

- **Cash balances** – with the significant spend on planned maintenance and new build without any new loans then the cash balance reduces from £18.0m to 14.1m.

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

- An Income and Expenditure Account and overheads summary with a comparison between the 2019/20 budget and the 2018/19 budget, and the actual results for 2017/18 is also shown.
- Projected balance sheet at 31 March 2020
- Projected cash flow for the year to 31 March 2020