

## **ELHA PROCEDURE**

Date Issued	<b>2008</b>	Version/No of pages	1
Department	<b>Finance</b>	Supersedes	N/A
Procedure	<b>Annual Revenue Budget</b>		
Objective	To describe the process for preparing the annual revenue budget		
Responsible	<b>Director of Finance</b>		
Last Review Date	November 2016	Next Review Date	November 2019

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### **1.0 Introduction**

This procedure aims to set out the processes we use for producing the annual revenue budget including identifying budget holders, stakeholders and the timetable for producing the budget.

### **2.0 Annual Revenue Budget**

The annual revenue budget (the budget) is a financial plan which forecasts income and expenditure for the forthcoming financial year. The budget links with the Internal Management Plan (IMP) and other strategic documents and translates the operational objectives into money terms.

The budget is an essential financial management tool, which aims to ensure:

- continued viability
- that sufficient income is generated to meet costs
- that budget holders are aware of their areas of responsibility and will aim to control expenditure and achieve income targets
- that it acts as a means of control by providing financial information to compare against outturn

Once the budget has been agreed, budget holders use the quarterly management accounts to monitor actual income and expenditure against the budget. This monitoring of income and expenditure highlights key variances, which helps corrective action to be identified at an early stage.

### 3.0 Stakeholders

The budget is used both across the organisation and by other stakeholders out with the organisation. The table below provides a summary of these stakeholders and their responsibilities in the budget process.

<p>Finance &amp; Audit Sub-Committee, Management Committee</p>	<ul style="list-style-type: none"> <li>• to ensure continued viability</li> <li>• to agree proposed rent levels</li> <li>• to agree organisational objectives and priorities</li> <li>• to ensure performance benchmarks are achieved</li> <li>• to consider the budget in detail and approve the financial plan for the forthcoming year</li> </ul>
<p>Senior Management Team</p>	<ul style="list-style-type: none"> <li>• to ensure continued viability</li> <li>• to propose rent levels</li> <li>• to propose service priorities</li> <li>• to ensure performance benchmarks are achieved</li> <li>• to consider the budget in detail and propose the financial plan for the forthcoming year</li> </ul>
<p>Management Team</p>	<ul style="list-style-type: none"> <li>• to ensure continued viability</li> <li>• to identify organisational objectives and priorities</li> <li>• to identify our maintenance priorities and agree a programme for the year and beyond</li> <li>• to consider the draft budget and agree key assumptions</li> <li>• to consider outturn against budget through quarterly management accounts and other reports and consider/propose actions required to address key variances</li> </ul>
<p>Director of Finance</p>	<ul style="list-style-type: none"> <li>• to ensure continued viability</li> <li>• to assess viability and exposure to risk</li> <li>• to co-ordinate the production of the budget</li> <li>• to breakdown the budget into cost centres</li> <li>• to identify key areas for consideration by the Management Team and Management Committee</li> </ul>

Budget Holders	<ul style="list-style-type: none"> <li>• to identify priorities for specific budget categories</li> <li>• to monitor performance during the year and provide analysis/explanation of significant variances</li> <li>• to maximise income and achieve value for money</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• to contribute to continued viability by adhering to financial and other policies and procedures</li> <li>• to operate as efficiently as possible</li> <li>• to maximise income and achieve value for money</li> </ul>
Lenders	<ul style="list-style-type: none"> <li>• to ensure continued viability</li> <li>• to ensure financial covenants are achieved</li> </ul>
Scottish Housing Regulator	<ul style="list-style-type: none"> <li>• to ensure continued viability</li> <li>• to assess financial viability and overall exposure to risk</li> <li>• to ensure performance indicators are met</li> </ul>

#### 4.0 Budget Constraints

In preparing the budget we must consider the constraints that affect the budget and its assumptions and understand how these constraints impact on the budget. The constraints we consider are:

- affordability
- loans i.e. debt funding
- development plan
- compliance with lenders covenants and requirements
- reduction in housing stock due to RTB and shared ownership sales
- exposure to risk

We need to build these constraints into the financial projections and understand that as our funds are limited we must prioritise our expenditure.

## 5.0 Budget Timetable

The Management Committee is required to approve the budget along with the rent review in advance of each new financial year. We need to notify our tenants four weeks in advance of any change we want to apply to their rents. In order for us to apply a rent increase from the start of a new financial year (1 April), our timetable for preparing the annual budget is as follows:

Action	Responsibility	Target Date
Identify priorities for coming year	Management Team	Early December
Identify key assumptions	Director of Finance	Early December
Prepare draft budget	Finance Manager	Early January
Consider draft budget	Management Team	Mid January
Recommend budget to Management Committee	Finance and Audit Sub-Committee	Early February
Approve budget and rent review	Management Committee	Mid February

## 6.0 Budget Monitoring

We monitor the budget throughout the year in order to check that we are achieving our plans and if not, to identify and implement appropriate corrective action.

We recognise the importance of financial monitoring and reporting to record our actual results against budget and produce the following reports/statistics for consideration by Management Team and Management Committee:

- quarterly management accounts
- key performance indicators

## 7.0 Key Steps in Building the Budget

Category of Income/Expenditure	Steps used to develop budget figures	Responsibility
Rental income	<ul style="list-style-type: none"> <li>• Amend unit numbers for completions and sales and multiply by proposed rent</li> </ul>	Finance Manager
Voids and bad debts	<ul style="list-style-type: none"> <li>• Agree base assumptions for void loss</li> <li>• Consider bad debt provisions</li> </ul>	Finance Manager & Director of Housing
Owner Occupier Contributions	<ul style="list-style-type: none"> <li>• Profile costs based on historic outturns and current agreements</li> </ul>	Finance Manager

Service Charge Income/Costs	<ul style="list-style-type: none"> <li>Profile costs based on historic outturns and current agreements</li> </ul>	Finance Manager & Housing Manager
Insurance	<ul style="list-style-type: none"> <li>Profile costs using current agreements and anticipated acquisitions</li> </ul>	Finance Manager
Miscellaneous Housing Management costs (Tenant Participation, Rent Collection, Homehunt and Diversities and Equalities)	<ul style="list-style-type: none"> <li>Build budget cost from historic costs and known changes</li> </ul>	Finance Manager and Director of Housing
Reactive Maintenance, Void costs and Fixed Maintenance costs	<ul style="list-style-type: none"> <li>Provide estimated spend distinguishing between the individual analysis costs making up these budget heads and compare with historic costs.</li> </ul>	Asset Manager
Contract Disputes	<ul style="list-style-type: none"> <li>Consider ongoing claims and provide contingency sum</li> </ul>	Senior Management Team
Cyclical maintenance	<ul style="list-style-type: none"> <li>Confirm costs for heating system servicing</li> <li>Provide estimate of other cyclical expenditure</li> </ul>	Asset Manager
Planned maintenance/improvements	<ul style="list-style-type: none"> <li>Provide programme of works based on life cycle costings Specify fees. Include decoration allowances if applicable</li> </ul>	Asset Manager
New Development Extras (remedial repairs, council tax etc)	<ul style="list-style-type: none"> <li>Consider new schemes to identify potential "extras" and provide contingency sum</li> </ul>	Senior Management Team, Asset Manager
Loan Charges	<ul style="list-style-type: none"> <li>Apply current interest rates to outstanding balances on existing loans</li> <li>Estimate amount timing and rates for new draw downs</li> </ul>	Finance Manager  Director of Finance
Loan Management Costs	<ul style="list-style-type: none"> <li>Profile costs from historic information and any planned restructuring activities</li> </ul>	Finance Manager and Director of Finance

Depreciation of housing stock	<ul style="list-style-type: none"> <li>Calculate charge for the year using stock profile and adjusting for RTB sales and stock acquisitions</li> </ul>	Finance Manager
Investment Income	<ul style="list-style-type: none"> <li>Calculate income based on anticipated rate of interest and cash balances</li> </ul>	Finance Manager
Property Sales/Costs	<ul style="list-style-type: none"> <li>Profile sales proceeds based on historic outturns, business plan assumptions and enquiries/applications received</li> </ul>	Finance Manager & Director of Finance
Care and Repair Grant/Costs	<ul style="list-style-type: none"> <li>Funding bid approved by the Council</li> </ul>	Finance Manager
Care and Repair Small Repairs Service non grant income and costs	<ul style="list-style-type: none"> <li>Profile income and costs from historic information and any planned amendment to activities</li> </ul>	Finance Manager
Employee Costs	<ul style="list-style-type: none"> <li>Confirm changes to staff structure</li> <li>Provide reasonable estimates of salary increase to be applied</li> <li>Estimate mileage and subsistence claims from current year's</li> <li>Estimate recruitment costs based on staff turnover from prior years and anticipated new posts</li> <li>Agree provision for training</li> <li>Vehicle running costs from Care &amp; Repair Business Plan</li> <li>Confirm requirements for temporary staff</li> </ul>	Senior Management Team Finance Manager  Finance Manager  Senior Management Team  Senior Management Team Finance Manager  Management Team
Office overheads	<ul style="list-style-type: none"> <li>Provide analysis of costs based on actual outturn and identify additional requirements.</li> </ul>	Finance Manager and Corporate Services Manager

	<ul style="list-style-type: none"> <li>Adjust costs to accommodate staffing changes (eg additional work stations)</li> </ul>	
Miscellaneous Costs	<ul style="list-style-type: none"> <li>Provide analysis of costs based on actual outturn and identify additional requirements.</li> </ul>	Senior Management Team Finance Manager Office Manager
Development Costs	<ul style="list-style-type: none"> <li>Provide details of anticipated spend on new developments, and related HAG and other capital grants.</li> </ul>	Senior Management Team
Other Capital Costs	<ul style="list-style-type: none"> <li>Provide analysis of anticipated capital expenditure on office equipment, IT hardware and software and office alterations.</li> </ul>	Corporate Service Manager and Asset Manager

This list is not exhaustive and Managers/Budget holders will add any other items of income and expenditure that should be included.

## 8.0 Timing of Income/Expenditure

In order to assist in the budget process and to enable us to identify our cashflow requirements, budget holders should provide a spend profile for each expenditure item. This profile should confirm whether the income or expenditure will be evenly apportioned throughout the year or concentrated in a given month/quarter.

## 9.0 Inflation

When estimating income and costs, budget holders should use current prices **including VAT** and fees where appropriate but should NOT adjust them for inflation. These estimates will be adjusted by RPI (Retail Price Index) during the budget preparation process by the Director of Finance/Finance Manager. If a budget holder considers that certain costs are likely to increase at a rate different to RPI they should notify the Finance staff accordingly.

## **10.0 Budget Preparation Assistance**

Budget holders are required to detail their requirements on a budget template form (appendix 1) and return this to the Finance Manager. Budget holders may obtain assistance with the steps they are required to take in completing the form from the Director of Finance or Finance Manager. In addition, the Director of Finance and Finance Manager will arrange meetings with budget holders to discuss the budget at various stages of its preparation.

## **11.0 Tax Treatment of Transactions**

Once the budget has been prepared, a copy of the "Tax Treatment of Transactions" schedule is to be saved to the budget folder and updated for the income projected in the year to confirm that the total taxable income remains below £50,000.

## **12.0 Monitoring**

During the year, the Finance Manager prepares quarterly Management Accounts which budget holders should use to monitor actual income/expenditure against budget. In addition, the Finance Manager will provide more detailed information on specific accounts when requested by a budget holder.