Approved by Management Committee 26/11/21

ELHA POLICY

Date Issued	November 2002
Department	Finance
Review Date	November 2021
Title	Use of Revenue Reserves
Objective	To provide guidelines to be considered when assessing the suitability of projects to be funded from Revenue Reserves
Responsible	Director of Finance
Next Review Date	December 2026

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1.0 Definition of Funding from Revenue Reserves

1.1 There may be times when we need to use our own funds to finance a project in order to meet our wider objectives. We will use funding from Revenue Reserves where that project has a negative net present value (i.e. that at the end of the project more cash has been spent than generated by the project, after allowing for the effect of inflation).

2.0 Projects to be Considered for Funding from Revenue Reserves

2.1 We will consider using funding from Revenue Reserves for the following types of projects:

- For the development of schemes for social housing provision
- Where property maintenance/improvement costs are in excess of the approved planned maintenance programme
- For the provision of services at a loss (subject to Charitable Rules)
- For the set-up costs, or funding for a feasibility study, for a project or initiative that has the potential to become self-funding

2.2 As demand for social housing outstrips supply we need to make sure that we are making best use of our resources. We need to fulfil our strategic objectives whilst safeguarding our future financial position and tenants' homes. Any project with a negative net present value is likely to weaken our financial position. So, there are only a limited number of such projects which can be subsidised without putting the financial health of the Association at risk, or compromising the financial covenants we have with our funders.

2.3 If we identify a need for funding from Revenue Reserves, we will carry out a strategic review of the project to make sure that:

- The subsidy can be managed in the long term
- The project is necessary or desirable for us to undertake
- It represents the best possible use of our funds at that time

The review will include:

- Defining clearly the opportunity presented by the project
- Exploring the options available with regard to the project
- Evaluating the opportunity in both financial and operational terms
- Deciding on the key criteria which will be used to judge the success of the project
- Making a business case to the Management Committee on why the project should be accepted

2.4 It is important that multi-disciplinary teams carry out the work due to the wide range of skills, expertise and knowledge required to perform the above tasks.

3.0 Presentation of the Business Case for Funding from Revenue Reserves to the Management Committee

3.1 The Senior Management Team must present a detailed business case to the Management Committee for each project which needs funding from Revenue Reserves.

3.2 It is important that all those involved with delivering and managing the project are fully involved in the decision-making to ensure "ownership" of the project. A lead manager should co-ordinate the report (e.g. the Asset Manager if the project is to subsidise property improvement) and other managers will provide input. The report will typically include:

- **An executive summary**
  This should provide an outline of the proposed scheme, its objectives, scope, financial implications and recommendation to Management Committee.

- **Project definition, objectives and scope**
  The objectives and scope of the project must be clearly defined and relate back to our strategic objectives. If the project does not link back to our strategic objectives, but is a new opportunity, then it should only proceed if there is a conscious strategic decision to move into this new area, to expand our business activities. We will rarely accept projects outwith of our current strategic objectives due to the inherent risk with moving into new areas of business and the fact that our own funds are to be used.

  The advantages of the project need to be carefully weighed against the disadvantages. For example, there may be a large amount of time spent by senior managers on the project causing them to take their “eye off the ball” to the detriment of the existing business. However, a difficult project may also provide us with new skills and experiences in a growing and vital area for the future.

- **Options considered**
  We must consider the options available to us with regard to the project and how each of these meets our strategic objectives. The option to do nothing should also be included, i.e. what will happen if the proposal is rejected.

- **The value of the project in financial and non-financial terms**
  The value of the project in financial and non-financial terms, including the subsidy required and the long-term affect of this on our long term financial position.

  The financial value should be demonstrated by:

  1. A discounted cash flow for the project
  2. Calculation of its net present value (defining the amount of subsidy required)
  3. Its impact on our overall long term financial projections.

- **Assumptions used**
  The assumptions used should be defined and the sensitivity of these on our business considered.

- **Risk analysis**
  In light of the sensitivity of assumptions used, possible contingency plans and exit routes and the ease with which these could be implemented should be addressed within the report. In addition, the level of subsidy required will be directly compared to our agreed "Risk Appetite". (This will be gained through the development of our Risk Management processes).

- **Implementation issues**
  The report should include details of how, when and by whom the project is to be implemented.

- **Critical success factors**
  The criteria by which the progress of the project is to be monitored and the assumptions on which we will judge the success of the project should be set out in the report. The critical success factors need not be purely financial ones but may be qualitative such as tenant satisfaction.

- **Summary financial data**
  The cash flows used in calculating the value of the project and subsidy level should be included in the report.

- **Appendices**
  Detailed financial and non-financial data used in the appraisal process should be appended where appropriate.

4.0 Approval to Fund a Project from Revenue Reserves

4.1 The Management Committee is responsible for approving a proposal to subsidise a project from the Association's funds. Given that the use of Revenue Reserves could weaken our overall financial health, it is essential that the report authors present enough information to the Management Committee to allow it to make the most appropriate decision at the time.

5.0 Policy Review

5.1 The Director of Finance will ensure that this policy is reviewed at least every five years. Any amendments required will be submitted to either the

Audit & Assurance Committee or the Management Committee (dependent on extent of amendments proposed) for approval.