

Date Issued	2008	Date Reviewed	September 2020
Department	Finance		
Procedure	Annual Budget		
Objective	To describe the process for preparing the annual budget		
Responsible	Director of Finance		
Next Review Date	September 2025		

1.0 INTRODUCTION

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

2.0 ANNUAL BUDGET

Each year the Director of Finance and Finance Manager will produce a budget which forecasts income and expenditure (both revenue and capital) for the forthcoming financial year. The financial year runs from 1 April to 31 March, coinciding with the Association's financial year. The budget links with the Business Plan and other strategic documents and translates the operational objectives into money terms.

2.1 Budget Contents

The budget will include the following for the consideration and approval by the Management Committee at its February meeting:

- Summary Report
- Projected Statement of Comprehensive Income
- Projected Management Costs
- Projected Statement of Financial Position
- Projected Statement of Cash Flow
- Projected Capital Expenditure (housing and non-housing)
- List of Assumptions

2.2 Purpose of the Budget

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 monthly management reports and 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, see **section 6.0** below.

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.

Stakeholder	Responsibilities
Management Committee	<ul style="list-style-type: none"> • to ensure continued viability • to agree proposed rent levels • to agree organisational objectives and priorities • to ensure performance benchmarks are achieved • to consider the budget in detail and approve the financial plan for the forthcoming year
Audit & Assurance Committee	<ul style="list-style-type: none"> • to ensure continued viability • to ensure performance benchmarks are achieved • to consider outturn against budget through quarterly management accounts and other reports and consider/approve actions proposed by staff to address key variances
Senior Management Team	<ul style="list-style-type: none"> • to ensure continued viability • to propose rent levels • to propose service priorities • to ensure performance benchmarks are achieved • to consider the budget in detail and propose the financial plan for the forthcoming year
Management Team	<ul style="list-style-type: none"> • to ensure continued viability • to identify organisational objectives and priorities

	<ul style="list-style-type: none"> • to identify our maintenance priorities and agree a programme for the year and beyond • to consider the draft budget and agree key assumptions • to consider outturn against budget through quarterly management accounts and other reports and consider/propose actions required to address key variances
Director of Finance	<ul style="list-style-type: none"> • to ensure continued viability • to assess viability and exposure to risk • to co-ordinate the production of the budget • to breakdown the budget into cost centres • to identify key areas for consideration by the Management Team and Management Committee
Budget Holders	<ul style="list-style-type: none"> • to identify priorities for specific budget categories • to monitor performance during the year and provide analysis/explanation of significant variances • to maximise income and achieve value for money
Employees	<ul style="list-style-type: none"> • to contribute to continued viability by adhering to financial and other policies and procedures • to operate as efficiently as possible • to maximise income and achieve value for money
Lenders	<ul style="list-style-type: none"> • to ensure continued viability • to ensure financial covenants are achieved
Scottish Housing Regulator	<ul style="list-style-type: none"> • to ensure continued viability • to assess financial viability and overall exposure to risk • to ensure performance indicators are met

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 and capacity
- compliance with lenders' covenants and requirements
- reduction in housing stock due to shared ownership sales and other ad hoc 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.

The Director of Finance will undertake some sensitivity analysis by reviewing the impact on the projections resulting from changes to a number of key assumptions.

5.0 Budget Setting 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. To enable 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	Senior Management Team/Management Team	Early December
Identify key assumptions	Director of Finance	Early December
Prepare draft budget	Finance Manager	Early January
Consider draft budget	Senior Management Team/Management Team	Mid January
Approve budget and rent review	Management Committee	Late February

5.1 Pre-Budget Setting Meetings and Budget Setting Template

In December, the Finance Manager will arrange a budget setting meeting in December with the Management Team and the Director of Finance will arrange a similar meeting with the Senior Management Team. The purpose of these meetings is to discuss the forthcoming financial year and agree estimates of costs/ revenues for existing budget headings and identify new items of Income & Expenditure.

To assist with this process, the Finance Manager will provide managers with a copy of the previous year's budget and a Budget Setting Template, **Appendix 1**, for their completion by a specified date.

In order to assist in the budget process and to enable us to identify our cashflow requirements, budget holders are asked to provide a spend profile for each expenditure item. This profile should confirm how the income or expenditure is expected to be profiled throughout the year.

When estimating income and costs, budget holders are asked to use current prices inclusive of VAT and fees (where appropriate) but NOT to adjust these 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

Budget holders may obtain assistance from the Director of Finance or Finance Manager, with the completion of the form.

5.2 Preparation of Draft Budget

In early January, the Finance Manager and Director of Finance will prepare a draft budget incorporating the information detailed on the completed Budget Templates and the December RPI figure (published in January). The Budget Templates and all calculations made by the Finance Manager and Director of Finance in setting the budget will be retained in a file clearly marked with the year to which the budget relates. The electronic budget file will contain all the working papers used to draft the budget.

5.3 Approval of Budget

At the end of January, the draft budget will be circulated to the Senior Management Team and then to the Business Management Team for final comment. The Director of Finance will present the budget to the February meeting of the Management Committee for approval.

5.4 Revision of Budget

The budget may be revised during the year to reflect the Association's actual financial position at the start of the year (where this materially differs from the original budget) and other material changes that have come to light. The revised budget will be presented to the Management Committee for approval.

5.5 Update of Long-Term Projections

The Director of Finance will update the first year of the long-term projections with the approved budget and any subsequent revisions. These long-term projections form the basis of the annual Five-Year Financial Projections (FYFP) which must be submitted by the deadline set by the Scottish Housing Regulator.

6.0 BUDGET MONITORING

We recognise the importance of monitoring performance against 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 monitor our performance by recording our actual results against budget in a number of reports produced by the Finance Staff for consideration by Management Team, Audit & Assurance Committee and Management Committee:

- monthly management reports for budget holders
- quarterly management accounts
- key performance indicators
- ad hoc reports as requested by budget holders

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"> • Amend unit numbers for completions and sales and multiply by proposed rent 	Finance Manager
Voids and bad debts	<ul style="list-style-type: none"> • Agree base assumptions for void loss • Consider bad debt provisions 	Director of Finance/Finance Manager & Director of Housing
Owner Occupier Contributions	<ul style="list-style-type: none"> • Profile costs based on historic outturns and current agreements 	Finance Manager
Service Charge Income/Costs	<ul style="list-style-type: none"> • Profile costs based on historic outturns and current agreements 	Finance Manager & Housing Manager
Amortisation of Housing Association Grant	<ul style="list-style-type: none"> • Estimate as the amortisation amount for the year in the latest long-term projections 	Finance Manager
Insurance	<ul style="list-style-type: none"> • Profile costs using current agreements and anticipated acquisitions 	Finance Manager
Miscellaneous Housing Management costs (Tenant Participation, Rent Collection, Homehunt and Diversities and Equalities)	<ul style="list-style-type: none"> • Build budget cost from historic costs and known changes 	Finance Manager and Director of Housing

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Reactive Maintenance, Void costs and Fixed Maintenance costs	<ul style="list-style-type: none"> Provide estimated spend distinguishing between the individual analysis costs making up these budget heads and compare with historic costs. 	Asset Manager and Director of Asset Management
Contract Disputes	<ul style="list-style-type: none"> Consider ongoing claims and provide contingency sum 	Senior Management Team
Cyclical maintenance	<ul style="list-style-type: none"> Confirm costs for heating system servicing Provide estimate of other cyclical expenditure 	Asset Manager and Director of Asset Management
Planned maintenance/improvements	<ul style="list-style-type: none"> Provide programme of works based on life cycle costings, identifying number of replacements in each component category. Include fees and decoration allowances if applicable 	Asset Manager and Director of Asset Management
Capitalised Components	<ul style="list-style-type: none"> Confirm value to be capitalised for each category of component 	Director of Finance/Director of Asset Management
New Development Extras (remedial repairs, council tax etc)	<ul style="list-style-type: none"> Consider new schemes to identify potential "extras" and provide contingency sum 	Senior Management Team, Asset Manager
Loan Charges	<ul style="list-style-type: none"> Apply current interest rates to outstanding balances on existing loans Estimate amount, timing and rates for new draw downs 	Finance Manager Director of Finance
Loan Management Costs	<ul style="list-style-type: none"> Profile costs from historic information and any planned restructuring activities 	Finance Manager and Director of Finance
Depreciation of Housing Stock	<ul style="list-style-type: none"> Estimate as the depreciation charge for the year in the latest long-term projections 	Finance Manager

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Investment Income	<ul style="list-style-type: none"> • Calculate income based on anticipated rate of interest and cash balances plus balance of loan to R3 and anticipated interest rate to be charged • Anticipated interest rates as per most recent long-term projection assumptions 	<p>Finance Manager</p> <p>Director of Finance</p>
Property Sales/Costs	<ul style="list-style-type: none"> • Profile sales proceeds based on historic outturns, business plan assumptions and enquiries/applications received 	Finance Manager & Director of Finance
Care and Repair Grant/Costs	<ul style="list-style-type: none"> • Funding bid approved by the Council 	Finance Manager
Care and Repair Small Repairs Service non grant income and costs	<ul style="list-style-type: none"> • Profile income and costs from historic information and any planned amendment to activities 	Finance Manager
Other Income	<ul style="list-style-type: none"> • Profile income from historic information and any planned amendment to activities 	Finance Manager & Senior Management Team
Employee Costs	<ul style="list-style-type: none"> • Confirm changes to staff structure • Provide reasonable estimates of salary increase to be applied (if not already agreed) • Estimate mileage and subsistence claims from current year's • Estimate recruitment costs based on staff turnover from prior years and anticipated new posts • Agree provision for training • Vehicle running costs from Care & Repair Business Plan • Confirm requirements for temporary staff 	<p>Senior Management Team</p> <p>Finance Manager</p> <p>Finance Manager</p> <p>Senior Management Team</p> <p>Senior Management Team</p> <p>Finance Manager</p> <p>Management Team</p>

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

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 the threshold for the maximum non-charitable/trading income permitted by HMRC (currently £50,000).

