

**Yorkhill Housing Association**

**Agenda Item 5**

**Report to:** Management Committee 7<sup>th</sup> March 2020

**Prepared by:** Gary Watson, Finance Manager

**Subject:** Final Budget 2020/21

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**Purpose of Report**

The purpose of the report is to present the final revised budget for 20/21 for approval.

**Final Budget 2020/21**

A draft budget was presented to committee in December for discussion. Several changes have now been incorporated into the final budget for the year:

**Increase in Employee costs £14,950** - Based on addition of temporary Maintenance Officer for 4 month term and increased pension costs relating to SHAPS valuation.

**Increase in Rent Rates and Insurance £15,000** - Based on possible costs for additional office accommodation.

**Increase in Recruitment Costs £900**- Based on planned recruitment of Maintenance Officer.

**Increase in Consultancy Costs £15,000**- Provisional cost included for consultant re common environmental works.

**Increase in Depreciation charges £7,114** - Based on revised capital program for the year.

**Increase in Service Income/Charges £1,257** –Based on revised schedule for the year.

**Budget Summary 2020/21**

The Association will now report an operating deficit of £84,602 for the year 20/21 and a deficit before tax of £99,335.

The Association will start the year with an estimated cash balance of £1.92m. At the year the estimated cash balance will be £1.27M.

The value of the Association's housing properties including depreciation will be £7.7M. This includes increased costs for the Overnewton windows project (£160,000) and satellite equipment costs (£81,000).

The Association's net assets as at 31 March 2021 will be £2.74M.

A budget review exercise will be completed in November 2020 which will incorporate any changes required further to the conclusion of the Pension Consultation.

**Action Required:** Members are requested to approve the final budget for 2020/21.

## **Final Budget Assumptions 2020/21**

### **Employee Costs £823,317**

1. Employee costs have increased by 1.6% based on October 2019 CPI + 0.1% as per EVH (Employers Voluntary Housing) three year pay agreement.
2. Staffing structure includes full time Finance/Governance Assistant position and temporary Maintenance Officer for four month period. All annual increments that were due have been applied.
3. Pension costs- The Association offers CARE (Career Average Revalued Earnings) 1/120<sup>th</sup> scheme for all new members whilst existing members benefit from the Final Salary scheme.

Based on the results from December 2018 SHAPS (Scottish Housing Association Pension Scheme) valuation the contribution rates are set to increase from 01/04/2020. The final budget assumes the current 50:50 split between employer and staff contributions, pending the outcome of the staff consultation exercise. A provision has been included for the Association to cover the increased costs the period April to June 20.

The Association will continue to pay the deficit contribution with a revised cost of 20/21 will be £92,000.

### **Overheads £203,356**

#### **An inflation increase of 2% has been applied to all overhead costs.**

1. Rent, Rates and Insurance costs include insurance provision for the year for office combined and water services. An additional cost (£15,000) has been included in the final budget for the possible rental of additional office accommodation.
2. Heating, Lighting and cleaning costs include Office Cleaning (£6,300), Electricity and gas costs for office (£4,550) and window cleaning (£600) plus miscellaneous.

3. Staff Recruitment costs (£2,000) allow for the recruitment of temporary Maintenance Officer and costs of replacement staff should the need arise.
4. Major subscriptions include SHARE (£3,200), EVH (£4,100), GWSF (£2,400) and SFHA (£5,125).
5. Audit fees include provision for External Audit Fees (£14,500) and internal audit fees (£5,700).
6. Staff and committee training allows for the cost of courses and seminars throughout the course of the year and the attendance at conferences.
7. Marketing costs include the cost of three newsletters in the year (£3,900) and annual report (£1,300).

**Direct Costs £652,142**

**The property services team have provided costing program for 20/21.**

**An inflation increase of 2% has been applied to the other direct costs.**

1. Property Insurance costs are estimated to be £50,000 for the year based on recent tender prices.
2. Legal Fees in respect of Rent Arrears/Recovery is £5,100 for the year.
3. Reactive Repairs £123,600 includes the cost of day to day repairs.
4. Cyclical Repairs costs of £155,000 are based on program provided by Property Services Team. Costs include painting and gutter cleaning programs. The Association will continued with a program to replace smoke alarms as per compliance with recent change in legislation. The replacement program will be completed in 20/21 at a cost of £32,000.
5. Void Reactive Repairs/Major Repairs budget has now been combined and has been set at £50,000 for the year based on anticipated void levels.
6. Major repairs program of £215,000 for the year includes costs relating to Stonework's at 1291-1317 Argyle Street and other miscellaneous works.
7. Welfare Rights cost of £20,500 for the year include a provision for Welfare Rights (£16,250) and Money Advisor services (£4,250).

8. Consultancy costs includes a provision for £25,000 which will include costs relating to common environmental works.

### **Statement of Comprehensive Income**

#### **Income**

1. An annual rent increase of 2.1% is assumed based on October 2019 RPI. The rent consultation exercise has now been completed and the rent increase was approved by the Management Committee in December 19.
2. Service Income of £91,373 is expected and is based on costs provided by Housing Management.
3. The Association previously arranged a valuation of the commercial rent for the property at Overnewton Street in 2019/20. The annual rent increase has been based on October RPI of 2.1%. The rent expected is £12,250.
4. Void levels are estimated at 0.85% of rental income.
5. Deferred Income Amortised in the year amount's to £293,000.
6. Management Fees of £73,700 for 20/21 were approved by Management Committee at the November meeting.
7. Admin fees £7,500 –relates to Major Repairs, Processing Sales and Fire Alarm Testing. A revised schedule of fees will be included in final budget.
8. Maintenance Allowance £1,500 – Based on income of £15,000 received from Scottish Government for STG3 Aids and Adaptations.
9. Interest receipts for the year will be £16,000 based on a return of 1% on investment deposits.
10. Interest payments on the Triodos Bank loan will continue at a cost of £30,733.
11. The Association has budgeted to incur a deficit of £99,335 to 31<sup>st</sup> March 2021.

## **Expenditure**

1. Service Costs £91,373 – Costs assumed for service provision for 20/21.
2. Bad Debts £15,000 – This includes provision for bad debts written off.
3. Depreciation Housing Properties £531,608 – Calculation based on projected component's for the year end. The final budget includes revised depreciation costs based on changes to component lifecycles with the addition of a new component for satellite equipment.

## **Statement of Financial Position**

1. Components replacement costs (Asset Investment) - The Association will continue with a capital investment program in 20/21, this includes replacement kitchens, bathrooms, gas boilers and central heating systems.

The replacement window program at 46 Overnewton Court will commence in 19/20 at a cost of £60,000. The program will be completed in 20/21 at a cost of £270,000 based on cost summary provided by Langmuir and Hay. Final tender prices will be confirmed in due course.

In addition window replacements at 1291- 1317 Argyll Street are due to be completed at an estimated cost of £120,000.

The Association will begin a program to install Digital Equipment (Satellite Dishes) with an estimated cost of £81,000 included in the budget.

The anticipated total spend for component replacements will be £684,780.

2. The cost of the other fixed assets for the year will be £80,000. This includes costs for new business system and associated consultancy costs.
3. The Association will continue to make capital repayments towards the Triodos bank loan. It has been budgeted that £48,400 will be repaid in 20/21.



## Yorkhill Housing Association Final Budget 20/21

Operating Costs	HM	D-D	CYC	FACT	MAJ REP	Admin	TOTAL	Revised 2019/20
<b>Employee Costs</b>	194,093 24%	149,716 18%	21,098 3%	42,837 5%	30,484 4%	385,089 47%	823,317 100%	788,170
<b>Overheads</b>								
Rent Rates & Insurance	5,941	4,582	646	1,311	933	11,787	25,200	8,500
Heating, Lighting, Cleaning	3,006	2,319	327	663	472	5,964	12,750	12,500
Telephones	1,202	927	131	265	189	2,385	5,100	5,000
Office Repairs & Supplies	1,202	927	131	265	189	2,385	5,100	5,000
Recruitment Costs	471	364	51	104	74	935	2,000	1,000
Travel	259	200	28	57	41	515	1,100	1,000
Subscriptions	4,291	3,310	466	947	674	8,513	18,200	17,000
Course & Conf Exp	2,530	1,951	275	558	397	5,019	10,730	11,500
Audit Fees	5,469	4,219	595	1,207	859	10,851	23,200	20,000
Postage, Stationery, Printing	2,947	2,273	320	650	463	5,847	12,500	11,500
Computer Costs	6,495	5,010	706	1,433	1,020	12,886	27,550	26,200
Bank Charges	1,686	1,300	183	372	265	3,344	7,150	7,000
Depreciation on fixtures and fittings	5,117	3,947	556	1,129	804	10,152	21,704	15,300
Depreciation Office Premises	2,240	1,728	243	494	352	4,444	9,501	9,500
Sundry Expenses	3,006	2,319	327	663	472	5,964	12,750	12,500
Legal Expenses	707	546	77	156	111	1,403	3,000	3,000
Marketing & Tenant Participation	1,372	1,058	149	303	215	2,722	5,820	5,700
	<u>47,940</u>	<u>36,979</u>	<u>5,211</u>	<u>10,580</u>	<u>7,529</u>	<u>95,115</u>	<u>203,356</u>	172,200
<b>Finance and Admin</b>	<u>111,802</u>	<u>111,802</u>	<u>111,802</u>	<u>24,985</u>	<u>111,802</u>	<u>480,204</u>	-	
<b>Total Admin Costs</b>	<u>353,836</u>	<u>298,498</u>	<u>138,112</u>	<u>78,402</u>	<u>149,815</u>	<u>0</u>	<u>1,026,673</u>	<u>960,370</u>

**Yorkhill Housing Association Final Budget  
20/21**

	HM	D-D	CYC	FACT	MAJ REP	Admin	TOTAL	Revised 2019/20
<b>Direct Costs</b>								
Property Insurance		50,000					50,000	63,000
Legal fees-Rents	5,100						5,100	5,000
Council tax Vacant Flats	615						615	600
Other Factoring Costs				1,591			1,591	1,560
Legal fees - Factoring				4,066			4,066	3,896
Factoring Write Offs				300			300	300
Reactive Repairs		123,600					123,600	120,000
Cyclical Repairs			155,000				155,000	174,500
Void Reactive Repairs		50,000					50,000	35,000
Void Major Repairs		0					0	20,000
Major Repairs					215,000		215,000	115,000
Legal Fees - Gas Servicing			1,070				1,070	1,070
Key Purchase		300					300	300
Welfare Rights	20,500						20,500	20,000
Consultancy fees	25,000						25,000	16,000
<b>Total Direct Costs</b>	<b>51,215</b>	<b>223,900</b>	<b>156,070</b>	<b>5,957</b>	<b>215,000</b>	<b>0</b>	<b>652,142</b>	<b>576,226</b>
	405,051	522,398	294,182	84,359	364,815	0	1,678,815	1,536,596



<b>Yorkhill Housing Association</b>		
<b>Statement of Comprehensive Income</b>	<b>2019/20</b>	<b>2020/21</b>
Rents Receivable	1,724,500	1,770,500
Service Income	88,300	91,373
Rent Overnewton St. Office	12,000	12,250
	<u>1,824,800</u>	<u>1,874,123</u>
Voids -	-14,658	-15,040
Voids - Services	-2,540	-2,591
	<u>1,807,602</u>	<u>1,856,492</u>
Amortisation of HAG	292,779	293,001
Management Fees	70,857	73,700
Admin fee - Major Repairs	2,000	2,000
Admin fee - Processing Sales	4,000	4,000
Admin fee - fire alarm Testing	1,000	1,500
Maintenance Allowances	1,500	1,500
	<u>2,179,738</u>	<u>2,232,193</u>
<b>Total Income</b>		
Less: <b>Operating Costs</b>	1,536,596	1,678,815
Service Costs - General Lettings	88,300	91,373
Bad Debts	25,000	15,000
Depcn. HLB	494,278	531,608
	<u>2,144,174</u>	<u>2,316,795</u>
<b>Total Expenditure</b>		
<b>Operating Surplus/Deficit</b>	35,564	-84,602
Loss/Gain on Sale of Fixed Assets		
Interest on investments	20,000	16,000
Interest payable	-35,259	-30,733
<b>Surplus before TAX</b>	<u>20,305</u>	<u>-99,335</u>

**Yorkhill Housing Association**  
**Statement of Financial Position Final Budget 20/21**

	<b>2019/20</b>	<b>2020/21</b>
<b>TANGIBLE FIXED ASSETS</b>		
Housing properties	7,577,446	7,730,619
Other Fixed Assets	461,835	510,630
	<u>8,039,281</u>	<u>8,241,248</u>
<b>CURRENT ASSETS</b>		
Debtors	202,475	207,700
Cash at bank and in hand	1,921,839	1,274,823
	<u>2,124,314</u>	<u>1,482,523</u>
<b>CREDITORS</b>		
Amounts falling due within one year	981,502	982,420
<b>NET CURRENT ASSETS</b>	<u>1,142,812</u>	<u>500,103</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>9,182,093</u>	<u>8,741,351</u>
<b>CREDITORS</b>		
Amounts falling due after more than one year	5,989,141	5,647,734
Pension Liability	348,000	348,000
<b>NET ASSETS</b>	<u>2,844,952</u>	<u>2,745,617</u>
<b>CAPITAL AND RESERVES</b>		
Called up share capital	126	126
Revenue reserves	2,844,826	2,745,491
	<u>2,844,952</u>	<u>2,745,617</u>

<b>Yorkhill Housing Association</b>		
<b>Statement of Cash flows Final Budget 20/21</b>	<b>2019/20</b>	<b>2020/21</b>
Operating Surplus	35,564.0	(84,602.1)
Depcn & Amort	226,299.0	269,812
Inc/(Dec) in payables	(148,341.0)	918
(Inc)/Dec in receivables	18,828.0	(5,225.0)
<b>Net Cash from Operating Activities</b>	<b>132,350</b>	<b>180,903</b>
Interest Received	20,000.0	16,000
Interest Paid	(35,259.0)	(30,733.0)
<b>Return on Investment</b>	<b>-15,259</b>	<b>-14,733</b>
Capital Expenditure & Financial Investment		
Construction or acquisition of Housing properties		
Improvement of Housing	(375,694.0)	(684,780.1)
Construction or acquisition of other Non-Current Assets	(20,000.0)	(80,000.0)
Sale of Social Housing Properties	0	0
Grants (Repaid) / Received	0	0
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>	<b>-395,694</b>	<b>-764,780</b>
<b>NET CASH BEFORE FINANCING</b>	<b>(278,603.0)</b>	<b>(598,610.3)</b>
Financing		
Equity drawdown		
Debt drawdown		
Debt repayment	(308,105.0)	(48,406.0)
Working Capital (Cash) - Drawn / (Repaid)		
<b>NET CASH FROM FINANCING</b>	<b>(308,105.0)</b>	<b>(48,406.0)</b>
<b>INCREASE / (DECREASE) IN NET CASH</b>	<b>-586,708</b>	<b>-647,016</b>
Cash Balance		
Balance Brought Forward	2,508,547.0	1,921,839
Increase / (Decrease) in Net Cash	(586,708.0)	(647,016.3)
<b>CLOSING BALANCE</b>	<b>1,921,839</b>	<b>1,274,823</b>

## YORKHILL HA FINAL BUDGET LOAN COMPLIANCE REPORT

### Triodos Covenants at 31st March 2021

The Association will satisfy the loan covenants with Triodos as at 31.03.21 as per Final Budget Assumptions.

#### 1. Interest Cover

The interest cover ratio is the measure of the Association's ability to meet its interest payments:

Operating Surplus	-84,602
Add back depreciation of housing properties	531,608
Add back gain/deduct loss on disposals of properties	0
Deduct amortisation of public sector grant	-293,000
Deduct any payment made in year towards Pension deficit	0
<b>Adjusted Operating Surplus</b>	<b>154,006</b>
Interest Payable	30,733
Interest Receivable	-16,000
<b>Net Interest payable</b>	<b>14,733</b>
Interest Cover	10.45
Covenant	1.1

#### 2. Debt Service Cover

The debt service coverage ratio is the ration of cash available for debt servicing to interest, principal and lease:

Adjusted Operating Surplus	154,006
Net Interest Paid	30,733

Loan Repayments	48,400
	<hr/>
	<b>79,133</b>
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**DSC** 1.95

### **3. Asset Cover**

Asset Cover shows that the valuation of properties cover the loan balances outstanding.

Bank Indebtedness 929,468

Security Cover MV-T 2,250,000

**Asset Cover** **2.42**

Covenant 1.25