Guidance – financial management

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This guidance discusses financial management and financial control in a community-led housing organisation. It relates to **L3 Financial Management** in the **Community Led Homes Programme**.

This guidance considers the following areas:

1 Financial components in a community-led housing organisation

Different community-led housing organisations will have different financial systems dependent on how they operate. However, the items listed below are likely to be necessary in most community-led housing organisations:

- **cash book** – itemising income and expenditure on a day to day basis
- **an income strategy** – i.e. in most cases a method of determining what rents and/or other fees are set for the organisation's members/residents
- **rent or payments accounts** – individual records of payments made by the organisation's members/residents
- **rent ledger** – a global record of payments received
- **reconciliations** – systems to reconcile the cash book and rent ledger against bank statements and to explain any differences
- **monthly reporting** – a monthly financial reporting system to the governing body together with any cash flow forecasting necessary
- **an annual budgeting system** – an annual budgeting process, based on the organisations long term finance plan, together with systems for the governing body to periodically review the budget
- **a long-term finance plan** – that takes into account the organisation's asset management strategy
- **the share register** – a record of the organisation's members and share payments received

2 Financial control in a community-led housing organisation

The governing body of a community-led housing organisation must always retain overall financial control of the organisation's finances. It makes overarching decisions about the organisation's long term finance plan, annual budget and how the organisation's finances are audited.

The governing body will usually delegate:

- detailed financial oversight to the community-led housing organisation's treasurer and/or to a finance group led by the treasurer

- day to day financial operations to staff or volunteers (i.e. potentially the treasurer)

In delegating financial oversight and operations, the governing body agrees a set of financial procedures (also known as financial standing orders) that set out how those to whom financial powers are delegated carry out their roles. Any financial activity that is not covered by financial procedures would normally be referred back to the governing body.

The community-led housing organisation should have an annual audit that checks finances and the effectiveness of financial procedures. Larger organisations have additional internal auditing procedures to ensure that financial systems are working on an ongoing basis.

The purpose of financial procedures or financial standing orders are to:
- ensure that there are internal checks on how the organisation's finances are operated
- ensure that finances are used for agreed purposes
- maintain high standards of security and probity within the finance systems
- ensure that there is an appropriate financial back-up system
- protect volunteers and staff from the potential for inappropriate activities taking place in the financial systems.

Finance procedures would normally need to include information regarding:

- **roles and responsibilities** – who in the organisation is responsible for making financial decisions and who is responsible for financial operations

- **budget preparation and agreement** – how the budget is prepared (including its relationship with the organisation's long-term finance plan) and how it is agreed

- **rent/service charge setting & notification** – how the rents, service charges and other charges are set; how they are agreed; and how those that pay them are notified

- **monthly & quarterly financial monitoring** – how finances will be reported to the governing body on a monthly and quarterly basis, including budget reviews

- **arrangements for ordering works and services** – setting out how works and services will be ordered and authorised - ensuring that there is separation between those ordering and checking that works and services have been carried out satisfactorily and those dealing with payments

- **payment authorisation processes** – setting out who can authorise payments at various levels and quotations and tendering process requirements. For example, payments might be authorised as follows:

Levels	Quotations/tenders	Authorisations
£1,000 or less	No quotations necessary	A delegated staff member or officer
£1,001 to £3,000	Two written quotations required	Approval by 2 governing body members
£3,001 to £20,000	Three written quotations required	Approval by the governing body
Over £20,000	Formal tendering arrangements required	Governing body overview of tendering process

The financial procedures may also identify regular payments that do not require an authorisation process, such as mortgage/loan costs, staff or agency payments (that will have had different authorisation arrangements when originally established).

- **bank accounts** – what bank accounts the organisation holds and arrangements for authorising payments (ie. numbers of signatories)

- **income and expenditure procedures** – arrangements in relation to receiving money into the organisation and paying money out (including payments for expenses) – including what books of account and rent/other charge accounting systems will be held and how reconciliations are carried out and reported on

- **managing insurances** – setting out what insurances are held, how insurance claims are made and how any payments are recorded

- **managing the annual audit** – how the annual audit will be managed; who will liaise operationally with auditors and who on the governing body will be accountable for the audit process

- **back-up and disaster recovery** – systems for backing up financial records and arrangements for disaster recovery if information is lost or if key personnel are not available.

3 Income and expenditure

Income

The substantial part of income in a community-led housing organisation is likely to be rental, service charge or other charge income.

The community-led housing organisation should have a long-term business plan which will indicate what resources need to be brought in to ensure its long-term viability. This should usually determine the level of rents, lease, ground rent or other charges that need to be charged. Some community-led housing organisations would assess the views of their members about increases, possibly at a general meeting.

However, for Registered Providers, rents are usually required to be set in accordance with the Rents Regulatory Standard – which means that Government determines the levels of rent increases. Until 2020, the Government determined that rents for Registered Providers should decrease by 1% per annum (although the Government exempted fully mutual housing co-ops and community land trusts from this decrease), but from 2020, should increase by 1% plus the Consumer Price Index. For new properties, the Government determined that "Affordable Rents" could be set up to 80% of the local market rent.

Service charges should be set in accordance with what the services provided cost (e.g. cleaning, gardening, communal lighting etc) with some allowance for management costs relating to service charges. Details of what the service charge pays should be provided to those that pay it. There are legal rules relating to service charge fees that can be charged to leaseholders and leaseholders have legal means of redress if they are required to pay service charges that are not used to pay for services.

Occupation of mutual home ownership society homes, and possibly other community-led housing organisations, requires payment of equity, house charges (designed to cover the organisation's management costs) and possibly other charges. The principle behind mutual home ownership societies is that each resident pays a proportion of their income. Otherwise charges will be calculated in accordance with the organisation's business plan and agreed by members.

A community-led housing organisation may have a variety of other income:

- **share income** – generally set at a nominal rate that enables membership of the community-led housing organisation
- **any equity income** – where members invest equity into the community-led housing organisation

- **any investments in the organisation** – loans received, loanstock or community share income – usually on a one-off basis

- **any sales income** – dependent on the nature of the organisation – there may be sales income

- **any investment income** – received from investments made by the community-led housing organisation

- **other income** – which could come from various sources – such as insurance claims, feed in tariffs

Offset "income" – some forms of what could be considered expenditure items might be included as offset or negative income where the nature of the "expenditure" is such that it is actually a reduction of what would otherwise be income. This might include Corporation Tax or Council Tax. When budgeting, an organisation is likely to determine a percentage of lost income for empty homes and for bad debtors.

Expenditure

Each community-led housing organisation will break its expenditure down in ways that suit its operations. The following may be major items in the expenditure profile:

- **financing costs** - this could include loan repayments and any investment dividends paid out

- **management costs** - this could include staff or service provider costs, office related costs, training and development costs, social activity costs and expenses

- **maintenance costs** - this could include day to day repairs costs, costs to bring empty homes up to a lettable standard, service contracts (e.g. gas servicing, door entry systems, lift maintenance), asset management costs, and service costs (e.g. grounds maintenance, lighting, cleaning)

- **professional costs** - this could include insurance premiums, bank charges, legal costs, audit costs and any other professional expertise)

4 Long-term finance planning

Community-led housing organisations should have long-term finance plans as part of their long-term business planning (see **L6 – long term business planning**).

> A community-led housing organisation needs to be able to state, to a reasonable degree of certainty, that the money it will have coming in over the next 30 years will be more than the money it will need over the same period to manage the organisation and maintain its homes.
> **A definition of what a community-led housing organisation needs from its finance plan**

There are some key features to the above definition:

- **ensuring that the money coming in is more than the money going out** - this seems quite obvious, but an aim of long term finance planning is to ensure that the community-led housing organisation has the money it needs in the long term. A long-term finance plan assesses income and expenditure over the period of the plan, with a view to the long-term plan at least balancing over the period.

- **ensuring sufficient resources over a 30 year period** - 30 years is an accepted period of time for finance planning because it is a standard length of time that lenders lend finance needed to build or renovate new homes. However, loan periods can be longer or shorter, and most existing community-led housing organisations will not have new housing loans. Finance planning can be done over longer or shorter periods, but for most organisations, a key issue is that significant major works that will be needed to have money available for in the future may not happen for many years.

- **stating to a reasonable degree of certainty** – it is for each community-led housing organisation to decide for themselves what degree of certainty they need for them to be confident that they have robust finance plans. No one can be absolutely certain about what may happen within the next 30 years, but a long-term finance plan can be developed that will enable the organisation to plan for the future. It would need to be regularly reviewed to ensure that its assumptions still hold good, and part of the risk management strategy should be to test the long-term finance plan against different assumptions.

It is important that members of the community-led housing organisation's governing body have some understanding of the organisation's finances and whether it has the resources it needs over the long term. Those who prepare the organisation's finance plan (e.g. the treasurer, staff members) need to present it to the organisation's governing body and to do it in such a way that governing body members understand the key issues.

The following are reasons why having a 30 year finance plan is necessary and/or might be useful:

- the community-led housing organisation would have more certainty that it will have the money it needs
- the community-led housing organisation would need a long-term finance plan as part of its risk management strategy so that it can consider the effect of different financial possibilities.
- it may be helpful for the community-led housing organisation to understand the effects that the external environment will have on the finances of the organisation
- it is helpful to be able to understand the effects that the community-led housing organisation's decisions have on the organisation's finances
- if the community-led housing organisation needs to borrow money, particularly for new development, it would need a long-term finance plan
- it is a regulatory requirement to have a long-term finance plan for Registered Provider community-led housing organisations. Without a long-term finance plan, Registered Provider community-led housing organisations would not be in compliance with the standard.

A 30 year finance plan

Below is a sample finance plan for a community-led housing organisation. How the finance plan is presented is important. It is designed to be presented to a community-led housing organisation governing body and the intention has been to make the plan as simple as it can be.

Years	2017-18	2018-19	2019-20	2020-21	2021-22	2022-27	2027-32	2032-37	2037-42	2042-47
Rents	197.93	197.93	197.93	197.93	197.93	1050.62	1159.96	1280.69	1413.99	1561.16
Service charges	4.90	5.00	5.10	5.20	5.30	28.15	31.08	34.32	37.89	41.84
Less voids/bad debts	-4.90	-4.92	-4.93	-4.95	-4.97	-26.40	-29.15	-32.18	-35.53	-39.23
Total rents & service charge	**197.93**	**198.01**	**198.09**	**198.17**	**198.26**	**1052.37**	**1161.90**	**1282.83**	**1416.35**	**1563.76**
Other income	**2.13**	**2.15**	**2.05**	**2.05**	**2.15**	**11.65**	**14.39**	**16.01**	**15.54**	**15.65**
Income (£000s)	**200.06**	**200.16**	**200.13**	**200.21**	**200.39**	**1064.04**	**1176.44**	**1299.14**	**1432.35**	**1580.04**
Management costs	**29.77**	**30.48**	**30.54**	**31.07**	**31.74**	**168.55**	**185.47**	**204.30**	**225.02**	**247.88**
Service provider/staff	24.87	25.37	25.88	26.39	26.92	142.90	157.77	174.20	192.33	212.34
Office related costs	1.15	1.18	1.20	1.22	1.25	6.63	7.32	8.08	8.92	9.85
Training & development	3.75	3.94	3.46	3.45	3.57	19.02	20.37	22.03	23.77	25.69
Maintenance costs	**116.89**	**130.13**	**129.22**	**61.42**	**101.76**	**420.40**	**466.95**	**1069.35**	**1238.73**	**841.11**
Day to day repairs	25.30	25.81	26.33	26.85	27.39	145.38	160.51	177.22	195.67	216.03
Gas servicing	6.39	6.52	6.65	6.78	6.92	36.73	40.56	44.78	49.44	54.58
Void works	1.99	2.03	2.07	2.11	2.16	11.45	12.64	13.95	15.40	17.01
Asset management	83.92	95.77	94.17	25.67	65.29	226.84	253.24	833.40	978.22	553.49
Services	**4.79**	**4.89**	**5.03**	**5.13**	**5.23**	**27.77**	**30.66**	**33.85**	**37.37**	**41.26**
Professional costs	**15.05**	**17.14**	**16.99**	**17.54**	**18.06**	**93.73**	**102.21**	**111.37**	**121.59**	**132.84**
Repayment of loans	**39.85**	**40.86**	**41.37**	**41.74**	**42.46**	**163.53**	**81.70**	**81.70**	**81.70**	**81.70**
Expenditure (£000s)	**206.35**	**223.51**	**223.15**	**156.90**	**199.24**	**873.98**	**866.98**	**1500.57**	**1704.40**	**1344.79**
Balance	**211.00**	**187.64**	**164.62**	**207.93**	**209.08**	**399.15**	**708.61**	**511.15**	**239.10**	**474.35**

The key features of the summary are:

- the figures shown are all divided by 1,000 so that governing body members are not looking at long complex numbers
- the first five years are shown individually in the first five columns (including the previous year and the current year) – subsequent years are shown in five-year blocks
- it amalgamates a number of income and expenditure items so that their presentation is less complicated.
- the bottom line figures are important – particularly the final figure at the bottom right (£474,350). If this figure was negative, the community-led housing organisation would have to explore how to deal with it.

The summary can be presented digitally to governing body members to enable key assumption and asset management figures to be changed so that they can see the long term financial effect of changes.

5 Budget setting and review

The annual budget needs to be based on the long-term finance plan, which should be updated annually to take account of actual income and expenditure. It should show comparisons with the previous year's income and costs and project income and costs based on the previous year.

The governing body – and in some cases, the membership, will approve the budget and review it on at least a quarterly basis, monitoring progress against the original budget and making changes as necessary.

The budget needs to cater for costs that would otherwise skew the budget and give misleading impressions regarding the community-led housing organisation's finances. For example:

- proportionate costs may need to be included in expenditure for costs that have not yet been incurred in the year
- large one-off items and asset management costs need to be excluded from the annual budget (but included in the long-term plan)

The budget would be presented in a similar fashion to the long-term finance plan in relation to the year in question. The budget review would particularly draw attention to items where there had been significant variations to the budget.

6 Audit and accounting strandards

Any public investment will require that full audited annual accounts are done by a qualified auditor. Even without public investment, having audited accounts inspires confidence in the transparency and integrity of the community-led housing organisation.

The auditor is required to check the probity of the organisation's finances. Their presentation of accounts is done in accordance with defined accounting standards and is designed to ensure that anyone who understands accounting methodology can quickly look at the accounts and assess the financial position of the community-led housing organisation. Copies of the accounts, signed on behalf of the governing body and the auditor, should be filed with either the Financial Services Authority (if the community-led housing organisation is a society) or Companies House (if the organisation is a company) within the designated time period. If the community-led housing organisation is a Registered Provider, accounts also need to be filed with the regulator.

The auditor also checks the probity of the organisations's financial systems and will send a formal letter to the organisation following the audit with any recommendations. The organisation needs to comply with recommendations received from the auditor.

Accounting standards – as defined in FRS102 - require that accounts include:

- a Statement of Financial Position (replaces what was formerly known as the Balance Sheet)
- a Statement of Comprehensive Income (replaces what was formerly known as an Income and Expenditure Account)
- a Statement of Changes in Equity (if any)
- a Statement of Cash Flows
- notes to the Financial Statements – setting out issues defined in accounting standards
- any requirements in the Statement of Recommended Practice (SORP) that applies to particular sectors. Registered Providers are required to comply with a SORP that includes setting out:
  a) any intended use of properties
  b) information relating to component accounting, setting out treatment of grant and depreciation
  c) accounting at cost (accrual model), accounting by valuation (performance model)