Nationwide Foundation

Supporting Community Led Housing
Accredited Advisor Training

power to change

C2 Financial Modelling and Control

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Three Stages of Financial Modelling

1. Initial Feasibility
2. Full Development Model
3. Post Development Live Model

The critical issue is to use realistic assumptions and build a model based on what is feasible rather than starting with a set idea and then trying to make the numbers say what you want them to say!

Feasibility Variables

- Land purchase and site preparation costs
- Site area (square meters)
- Number of homes and other properties to be built
- Meterage build cost options
- Financing interest rate
- Sources of income
- Local housing market data
- Professional fees
- Community development costs

Development Variables

- Government levy costs
- Common parts – common house, communal areas or facilities, roads, pathways, green area
- Mixed development – retail, workspaces, office and leisure
- Tenure mix and price points
- Sales costs
- Service charge levels
- Equity or other financing inputs
- Legal status and tax considerations

Management Variables

- Rent inflation rates
- Void and bad debt levels
- Refinancing or net borrowing requirement annual cost
- Balances interest rate
- Management cost per property
- Day to day repairs and maintenance cost per property
- Common parts maintenance and servicing costs
- Cost inflation assumptions
- Asset management
- Governance costs

Financial Control Example 1

Green CLT owns 30 homes and has monthly meetings for its board members. Between meetings, a rumour goes around that the Treasurer has bought a computer costing about £1,500.

The Chair tackles the Treasurer about this and objects to the purchase. The Treasurer replies that the computer was needed because it provided very good facilities for the CLT. The Treasurer told the Chair that in fact £1,500 was a bargain for these facilities, the equipment had already been ordered and paid for and there was no point in referring it to the board – most of them don't understand anything about computing anyway.

Financial Control Example 2

Blue TMO manages 3000 homes and employs a large staff team. The Finance Director had informed the Chief Executive that he had submitted the accounts to the auditor shortly after the end of the financial year, and that the auditor was working on them.

It is now 1 week before the accounts need to be submitted, and the Finance Director has disappeared! The Chief Executive has found out that significant sums of money have gone missing from the accounts and that the books were never forwarded to the auditor. The Treasurer has no idea what has happened!

Long Term Financial Planning

- How do members understand long term finance planning?
- A 30-year finance plan and why is it important?
- Regulatory expectations
- Income and expenditure
- What is long term asset management?
- What assumptions do groups make and what could change?

Finance Control – Who is Responsible?

- Treasurer/governing body/staff/others?

- Overall financial control
- Preparation of the annual budget
- Agreement of the annual budget
- Preparing financial accounts for audit
- Liaison with the auditor
- Auditor’s management letter
- Ensuring financial reports come to the governing body and membership
- Compliance with financial standing orders

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Rent and Service Charge Setting

- Generally, rents should be set in accordance with the business plan
- However, in Registered Providers they are based on the regulatory Rent Standard
- Annual increases of CPI plus 1%
- Service charges increases are based on actual costs plus administration %
- Major works accounts
- Ground rents

Audit

- Any public grant will require full audited annual accounts to be done by a qualified auditor
- The auditor is required to check the probity of the organisation's finances and their financial systems
- The auditor will send a formal letter to the organisation following the audit with any recommendations and the organisation needs to comply with these
- Non-registered organisations or those with no grant will need to have their accounts prepared but not audited

Audit

- Auditor appointed annually at AGM
- Should be retendered regularly
- Financial records must be kept for seven years
- Compliance with the SORP and Accounting Standards and Board Guidelines – FRS102
- Surplus used in accordance with organisation’s governing documents
- Sending accounts to regulatory bodies
- If a Registered Provider – stating compliance with Governance and Viability Standard, Value for Money Standard and Code of Governance

Accounting Standards

- Statement of Financial Position (replaces Balance Sheet)
- Statement of Comprehensive Income (replaces Income and Expenditure Account)
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes to the Financial Statements
- Statement of Recommended Practice (SORP)
- Intended use of properties
- Component accounting, treatment of grant and depreciation
- Accounting at cost (accrual model), accounting by valuation (performance model)

Accredited Advisor information

The Community Led Housing section on the CCH website contains the following useful training resources:

- Course Notes
- Course Presentations
- Case Studies
- Videos

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