

## Budget Preparation Guidance 2026-27

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## **1.0 Introduction**

- 1.1 This guide is intended to provide budget holders and other staff members of Kingdom Housing Association Limited (KHA) with details of the budget setting process for the financial year ended 31 March 2027 for KHA, Kingdom Initiatives Limited (KI) and Kingdom Support & Care Community Interest Company (KSC)

## **2.0 Budget Principles**

- 2.1 The purpose of the budget is to provide an estimate of the organisation's income and expenditure for the forthcoming year. It forms the basis of our assessment of financial performance within the quarterly management accounts reported to the Board and is fundamental to financial control within the Group.
- 2.2 Although some areas of routine expenditure can be assessed with reference to previous years, it is important that budget holders begin the process on the principle of "zero-based" budgeting to drive efficiencies within our financial model. The rationale is to try and contain and justify all items of expenditure over the next 12 months recognising the challenging operating and economic conditions.
- 2.3 Once plans are received from each team and input into the model as a whole, judgements will be made by the Executive Team and Board on the cost/benefit of any discretionary spend so the amounts, and rationale for them, should be clearly documented.

## **3.0 Business Plan Interaction**

- 3.1 The KHA business plan currently contains a 30-year forecast of income and expenditure, balance sheet movements and cash flow. This is updated at least annually to reflect changes in the operating environment and within the business itself. It is a key document for our Board and key stakeholders, including regulators and lenders to evidence the financial resilience and sustainability of the organisation.

- 3.2 This budget will form the basis of year 1 of the updated financial plan. This then feeds through the rest of the model and small changes in assumptions at this stage can have a significant effect in future years.
- 3.3 The resultant plan must ensure all the Group's commitments to its customers, funders and the Scottish Housing Regulator are met.

#### 4.0 **Approach to budget setting and inflation assumption**

- 4.1 Budget holders will find guidance on how to access Xledger to view individual transactions that make up actual spend to 30 November 2025 in **Appendix 2**. Although this information will assist in estimating certain items in the 2026-27 draft budget, as described earlier budget holders are expected to adopt a "zero-based" budget approach and identify specific budgets or projects outwith the minimum requirements for the business. Such projects should have a direct link with the company's strategic objectives. New spend should be kept cost neutral where possible.
- 4.2 Notwithstanding the zero-based philosophy, where items are a continuation of current contracts or arrangements then inflation should be taken into account as follows:
- Contractual arrangements - refer to contract for specific reference to inflation measures and revision dates
  - Pay increase - to be considered by the Board.
  - For non-payroll expenditure impacted by inflation a rate of no more than 3% should be applied for the purposes of the budget, with efforts explored to contain cost increases where possible.
- 4.3 Budget holders should work alongside members of their teams to produce budgets for their sections and the relevant activities. Depending on the nature of budget holders' cost centres, budgets should reflect both income and expenditure including grants and capital expenditure.
- 4.4 Where applicable, budget holders should appropriately phase budgets over the 12-month period to reflect the months when income will be received and expenditure paid. This will enable the management accounts to reflect accurate variances throughout the financial year and improve the quality of our financial controls.
- 4.5 Phasing should apply to both capital and revenue budgets as it impacts the cash flow.

- 4.6 A folder containing a template budget input sheets will be shared with budget holders by Finance with Directors and BLT. Budget holders are asked to populate these templates with their anticipated spend for 2026/27 for each cost heading. Please save any budget workings and back-up into the same folder.
- 4.7 See **Appendix 3** (separate document) for the chart of accounts which includes nominal accounts, project codes, cost centres & analysis codes.
- 5.0 **Specific budget items**
- 5.1 **Rental income and service charge** calculations on existing stock will be completed by Neighbourhoods and driven by the outputs from the rent / service charge project.
- 5.2 **Rent on developments under construction** which are due to be completed between now and March 2027 will be calculated and phased by Neighbourhoods based on rent commencing 3 months after estimated handover dates.
- 5.3 **Voids** - we will adopt a rate of **1%** of gross rents to maintain consistency with existing plan assumptions
- 5.4 **Bad debts** - we will adopt a rate of **1%** of gross rents to maintain consistency with existing plan assumptions.
- 5.5 **Digital hardware and software** needs should be identified by each team at an early stage of the process and reviewed in discussion with the Digital Director. Hardware needs should be minimal due to the completion of the Microsoft transition. If a Digital project is likely to straddle financial periods and spill into the following year, please consider when the expenditure will be made in each year.
- 5.6 **Salary budgets** will be prepared by the Payroll team. This will take account of any planned contract end dates, anticipated post changes, increments, overtime and potential buy-back of leave. The salary budget will be populated for all departments by Payroll and will be dependent on the Board's approval of any additional posts and an overall pay rise. **However, if you are aware of agency staff likely to be paid out with payroll then these must be added in.**
- 5.7 **Proposed changes in posts** will be captured as part of the F4F project review.

5.8 **KSC** should include a provision for undelivered hours. This has been estimated as 5% of the total income hours.

## 6.0 **Capital v revenue**

6.1 Budget holders will need to distinguish between capital or revenue when considering projected income and expenditure. The finance team will assist with the classification. Where income or expenditure is related to the development of a long-term asset that contributes to the generation of future income and this is classed as capital expenditure. This distinction is likely to affect Development, Asset Management and Digital in particular.

6.2 Expenditure on building new houses is classified as capital, as will accompanying grants where they contribute to the development of a long-term asset.

6.3 Grants for services such as a SFHA Housing Advocacy and Kingdom Works are revenue grants. These are included in the income and expenditure account as they refer to the provision of services and the costs they relate to are in the income and expenditure account.

6.4 The replacement of components within our houses is classed as capital expenditure if the component forms part of those listed in the Asset Module. The budget for Planned Maintenance should specify the components involved within the contracts so we can ensure they are correctly allocated.

6.5 Office furniture and replacement digital equipment of less than £1,000 in value will be treated as revenue. Where the cost of a single item is greater than £1,000 it will be classified as capital. Due consideration will be given to expenditure on the Business Estate project.

## 7.0 **Budget approval process**

7.1 Refer to the various timelines in the timetable (**appendix 1**). The budget will be considered firstly by ST and ET with reference to a number of factors including:

- the strategic delivery plan objectives set by the Board
- efficiency gains
- business plan constraints such as covenants and future risks

7.2 Thereafter the budgets will be considered by the respective boards of KHA, KI and KSC. The KHA board is ultimately responsible for the Group as a whole and will approve all three budgets after sign off from the KI and KSC boards in February 2026, with KHA rents being approved separately on 2 February 2026.

## 8.0 Timescale

8.1 **Appendix 1** shows a detailed budget setting timetable for the group. The Finance Department will issue these guidelines for budget setting to budget holders by cob Wednesday 10 December 2025.

8.2 **Budget holders should endeavour to submit their first draft budget to Finance in line with the timetable - if there are difficulties in meeting this, please advise Lesley Janes, Director of Finance ([lesleyjanes@kha.scot](mailto:lesleyjanes@kha.scot)).**

8.3 It is important that departmental submission dates for information are met due to the volume of work involved in collating each of the three company's budgets in the Group and then reviewing against the business plans.

8.4 The proposed budgets and amended business plans will be considered by the Executive and Senior Teams in January 2026 and revised during February 2026. The final budget will be submitted to the KHA Board on Friday 13 February for its meeting on 23 February 2026.

8.5 KI and KSC Boards will approve their budgets prior to the KHA board meeting.

8.6 The business plan will be submitted to the Lenders and the Scottish Housing Regulator for information following KHA Board approval.

## 9.0 Guidance for budget preparation

9.1 Should budget holders identify any mis-postings in Xledger during budget preparation, please notify your Finance Business Partner.

9.2 For variable costs, such as repairs, budget calculations should be made in terms of average £ per unit. Past trends and the anticipation of any changes in policy or procedure will also assist in assessing likely outcomes.

- 9.3 Workings and details of how budget figures have been arrived at should be added into the shared folder.
- 9.4 Budget holders should check that all intercompany transactions are correctly reflected in the budget for each company e.g. MMR lease costs in KI agree with MMR lease income in KHA and SLA costs in the KSC are income in KHA.
- 9.5 If budgets are not phased, they will be automatically allocated evenly over 12 months.
- 9.6 Please note, budgets are in their pre-F4F structure. Please ensure that your 2026/27 budget reflects the current structure of your team.