



Report to Resources Committee

10 September 2013

Title: Management Accounts – First Quarter 2013/14

Report of: Head of Corporate Services

Purpose of Report

1. To provide the Committee with an update on the management accounts for the first quarter of the financial year 2013/14.

Background

2. The Accounts Team produces monthly management accounts which detail the actual charges for the month, the year to date charges and the budget year to date. This shows the variance and the forecasted budget. This report has been included in the Appendix to this report.
3. The Board agreed the budget for 2013/14 at its meeting on 21 March 2013.

Management Accounts

4. The Council agreed to pay the company fees totalling £33.61m for the 2013/14 financial year. This consists of £12.833m for the Management Fee and £19.127m for the Repairs Fee, £1m for the Company to manage the capital programme and a Rent and Performance fee expected at £650k.
5. The Company has also budgeted to receive £113k in income in 2013/14 in relation to rent at Keelman House, management fees for managing other properties and additional fees for welfare reform advisors.
6. The total revenue budget for 2013/14 is therefore £14.596m and the repairs budget £19.127m.
7. As detailed in the budget report, the proposed budget, similar to the prior year, includes a review of current vacancies and by including some of these in the budget at zero cost we have set a budget deficit of £4,622. We would expect to bring this deficit back in line during the year.
8. The 2013/14 repairs fee has been agreed as a decrease on the 2012/13 fee to reflect the 3% savings proposed in the Mears tendered price as a result of efficiencies.

9. The Management Accounts for the first quarter of the financial year 2013/14 are included within the Appendix to this report. The Management Accounts include the income and expenditure in relation to both revenue and repairs up to the end of June 2013.
10. The Management Accounts Revenue shows an underspend for the year of £22,000. This is mainly due to slippage on salary costs where posts have not yet been filled in some services due to restructures currently taking place.
11. The Management Accounts Repairs is underspent based on forecasted budget to date, however, we are projecting that the full budget will be spent by the year end. Income is matched against expenditure in repairs, so no underspend is shown. The current underspend against forecast is mainly due to timing differences in repairs invoices being received and processed due to the interface between computer systems.
12. There has, however, been a significant increase in the number of orders raised for work to vacant properties in the first quarter this year (488) compared to the same period last year (325). A contributing factor to this additional workload is an increase in tenancy terminations as a result of welfare reform changes. We have not yet received all of the void invoices but there is the potential for the budget to overspend in year if this increase continues. Discussions have been held with the Council around how any over spend will be funded and void expenditure is being closely monitored.

Link to values

13. This report is in line with the following values of the company :-
 - Being honest, accountable and transparent
 - Being motivated trained, and committed across the company

Impact on tenants

14. Appropriate financial monitoring and control will ensure efficiencies are maximised and redirected to services that directly impact on tenants.

Risk Management Implications

15. Regular and accurate monitoring will ensure that the strategic risk within the business plan (insufficient available financial resources) is effectively controlled.
16. Current and proposed changes as part of Welfare Reform have impacted on void expenditure and will need to be closely monitored throughout the year to ensure any potential overspends are mitigated.

Financial Implications

17. The financial implications are contained within the report and appendices.

Health Implications

18. There are no direct health implications arising from this report.

Equality and Diversity Implications

19. There are no equality or diversity implications arising from this report.

Value for Money implications

20. Regular financial monitoring and control will ensure efficiencies are maximised and then utilised in the most appropriate manner.

Environmental Implications

21. Environmental consideration is given during the day to day management of financial resources through the drive to ensure that purchasing methods are sustainable and through the reduction of energy costs through energy efficient measures being introduced in working practices.

Consultation carried out

22. None directly for this report.

Recommendation

23. The committee's views are sought as to whether it is satisfied with the financial management of the Revenue and Repairs budgets for the first quarter of the 2013/14 financial year.

**The Gateshead Housing Company
Management Accounts – June 2013**

Revenue and Repairs Executive Summary

1. The management accounts for the first quarter of the 2013/14 financial year are shown below:

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000
Management Fee				
Income	3,648	3,649	(1)	14,596
Employee Costs	2,328	2,345	17	9,381
Overhead Costs	1,298	1,304	6	5,215
Surplus/(Deficit)	22	0	22	0
Repairs Fee				
Repairs Management Fee	4,380	4,785	(405)	19,127
Repairs Costs	4,380	4,785	405	19,127
Surplus/(Deficit)	0	0	0	0
Overall Annual Surplus/(Deficit)	22	0	22	0

2. Overall, the first quarter position shows an underspend of £22,000. The under spend is mainly due to slippage on salary costs where posts have not yet been filled in some services due to restructures currently taking place.
3. Repairs is under spent for the year by £405,000, however, the income is matched against expenditure in repairs and so no under spend is shown. Repairs are projected to spend to full budget by the year end.

Income

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000
INCOME				
Management Fee	3,208	3,208	0	12,833
Officer Costs	250	250	0	1,000
Management Fee from external bodies	5	5	0	21
Gardening Service Income	0	0	0	2
Rent	9	9	0	38
Performance Fee	163	163	0	650
Welfare Reform Officers	12	13	(1)	52
Total Income	3,647	3,648	(1)	14,596

4. Overall income for the first quarter is under target by £1,000 but is expected to come in on target for the year. The Management Fee is in relation to the everyday management of Gateshead Council's properties. This was calculated based on the previous year's fee less an efficiency target of 1.41% savings.
5. The Officer Costs are for the work carried out in relation to managing the capital programme on behalf of the Council. This fee covers the staffing and overheads required to manage the programme. This fee equates to 5% of the overall capital programme.
6. The Management Fee from external bodies relates to the fee received by the company for undertaking the day-to-day management of properties on behalf of the company's subsidiary Keelman Homes and another local housing provider.
7. Gardening service income is an additional income amount agreed with Gateshead Council's Housing Options section. This income is received for the use of the Handyperson service to undertake grass cutting and other gardening services for the homeless section properties.
8. Rent relates to £38k rent received for the section of Keelman House that has been sub-leased.
9. The Performance Fee is in relation to the work that the rent and income teams undertake in the collection of rent and service charges. We have reached an agreement with the Council that if the rent and income teams collect rent and service charges over and above the national collection rate target we have a profit sharing arrangement where we receive 50% of the income collected over and above this target. This is paid annually in arrears and this is the fee due for collection rates in 2012/13.
10. The Welfare Reform Officer income is funding we have received to employ 2 Advice and Support Officers to assist tenants who will be affected by welfare reform changes. The 2 officers started in post in February 2013 and the income is to pay for their salary costs incurred this year. This income is slightly under

budget at the end of quarter 1 as the salary costs incurred by the 2 Advice and Support Officers have been slightly less than budgeted for.

Staff Costs

11. Staff Costs are broken down as follows:

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000
Employee Costs				
Customer Services	775	780	5	3,120
Neighbourhood Services - HQ	255	256	1	1,023
Investment & Development Services	188	190	2	761
Customers and Communities sub total	1,218	1,226	8	4,904
HR, Admin and Health & Safety	120	123	3	490
Finance	300	306	6	1,224
Corporate Services sub total	420	429	9	1,714
Neighbourhood Services - areas	690	690	0	2,763
Total Employee costs	2,328	2,345	17	9,381

12. Salary costs are underspent for the first quarter. The staff budget is based on the current structure but a number of vacant posts have been held at zero budget and therefore, they will not be appointed to during the year. This was to enable budgets to breakeven. As service areas are reviewed, restructures will be brought to this committee for approval to ensure that any vacant posts which are not required are deleted.
13. One of the main areas where staff costs are underspent is in Finance, which relates mainly to vacant posts in the leasehold and performance sections.
14. In addition, there is an underspend on staff costs in the Customer Services section, which is mainly due to the restructure being carried out within the Repairs Section. Vacant posts are being held whilst the restructure and subsequent filling of posts takes place.
15. During the first quarter 2013/14 we have spent £22,000 on agency staff, which remains at the same level as agency spend during the first quarter in 2012/13. The spend on agency staff this year has been partly offset in the month end figures due to a number of vacant posts being held.
16. The agency staff costs relate mainly to work in the Housing Offices to cover long term sick and the older person's team and finance team to cover vacant posts whilst recruitment takes place.

Overhead Costs

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000
Overhead Costs				
Customers and Communities HQ Total	63	72	9	286
Corporate Services Total	978	975	(3)	3,902
Customers and Communities Area Costs	257	257	0	1,027
Total Overhead Costs	1,298	1,304	6	5,215

17. Overhead costs are underspent for the first quarter. This is mainly due to costs not yet being incurred. We expect that this budget will break even at the year end.
18. The overspend in Corporate Services is mainly due to the settlement of a couple of larger insurance claims.
19. An analysis of overhead spend against budget is included within Appendix 1. Appendix 2 shows a pie chart of areas that the HQ Overheads have been spent on.
20. Budget Holders are accountable for their budgets and receive monthly management accounts. This enables them to review their spend in more detail. The finance section monitor all areas of spend and ensure that costs are controlled effectively. It should be noted that not all costs can be controlled especially in relation to utility costs and insurance claims. Finance monitors these costs on a monthly basis and highlights to the Management Team any areas causing concern. There are no such areas causing concern at this time.

Repairs Summary

21. The repairs budget was set with all Mears budgets reduced by a 3% efficiency saving as agreed in the repairs tender. All other budgets have remained at the same level as 2012/13.
22. An analysis of the repairs costs is provided below.

	Budget £000's	YTD Actual £000's	Variance £000's
REPAIRS			
Fixed Costs (Contractors' Prelim's)	1,159	1,172	(13)
Responsive – Mears	969	1,256	(287)
Responsive – LES	250	194	56
Responsive – Other	200	137	63
Relets – Mears	845	757	88
Relets - Other	175	66	109
Cyclical Repairs – Servicing	125	102	23
Cyclical Repairs – Remedial Works	38	0	38
Water Hygiene Testing	38	15	23
Painting	280	114	166
Gas Servicing	480	468	12
Electrical Circuit Testing	34	23	11
Solid Fuel Testing	1	0	1
Lift Maintenance	34	22	12
Security	50	7	43
Environmental Works	56	13	43
Energy Performance Certificates	13	8	5
Aids & Adaptations	38	26	12
	4,785	4,380	405
Insurance Funded Repairs	0	0	0
Repair Management Fee Income	4,785	4,380	(405)
Income Total	4,785	4,380	(405)
REPAIRS TOTAL	0	0	0

Responsive Repairs

23. Responsive repair costs have been split between spend with Mears, spend with Local Environmental Services and the other costs associated with repairs. Mears are the repairs contractor and they carry out all the repairs and maintenance at properties. LES carry out all drainage and highways repair works. Other costs are in relation to asbestos testing and removal works, batched Mears repair work, the repairs freephone number and postage for any postcards/letters, as well as other sub-contractor costs for works Mears are unable to carry out.

24. Overall, the responsive repair costs are over budget for the first quarter. The overspend with Mears is due to more specialist works being directed through Mears rather than given to other subcontractors. The reduction in other responsive works is due to more works being directed through Mears rather than using other specialist contractors. The under spend with LES is due to works not being invoiced by LES in a timely manner.
25. There have been 15,306 repair orders invoiced in the first quarter and average repair costs for first quarter were £105.41.
26. An analysis of the type of responsive repairs carried out is included within Appendix 3 and a comparison of responsive repairs costs and number of jobs is included in Appendix 4.

Relets

27. The relet budget is split between the costs of the works carried out by Mears and the other costs associated with relets. Other costs relate mainly to costs associated with asbestos works, security costs and decoration vouchers provided to new tenants.
28. Mears relet costs are under budget at the first quarter. However, the number of void properties has increased significantly this year with 428 properties let in the first quarter, compared to 298 for the same period in 2012/13. We have not yet received invoices for all of these jobs but when we do it is likely the void spend will be over budget. The numbers of voids will be closely monitored during the year and discussions have been held with the Council regarding this potential problem if the current trend continues.
29. Weekly operational meetings are held with Mears to discuss the relet works being undertaken and we closely monitor the number of voids sent through to Mears for relet works.
30. The average relet cost for jobs completed and invoiced in the first quarter was £2,660.59 and the number of relets invoiced in the first quarter was 405. The figures for the first quarter of 2012/13 are not comparable due to invoicing issues at the start of the new repairs contract.

Painting

31. The painting programme budget was increased this year by £500,000. The budget is currently under spent by £166,000 in the first quarter as many of the additional schemes that were added to this years plan have been at the planning and preparation stage during the first quarter. We would expect the level of spend to increase during the second quarter as work begins on the additional schemes.

Gas Servicing

32. Gas servicing is under budget for the first quarter. This budget line includes the budget for the Gas Care Plan which is a fixed monthly cost of £147,000, the budget for gas repairs and the no access team, and any warrant required to secure access to a property.

33. Gas appliances are required to have a gas service carried out every 12 months. At the end of the first quarter, 99.97% of properties had a gas service within the previous 12 months. 4 properties were out of date by 1 to 4 weeks and 2 properties were out of date by 4 to 8 weeks.

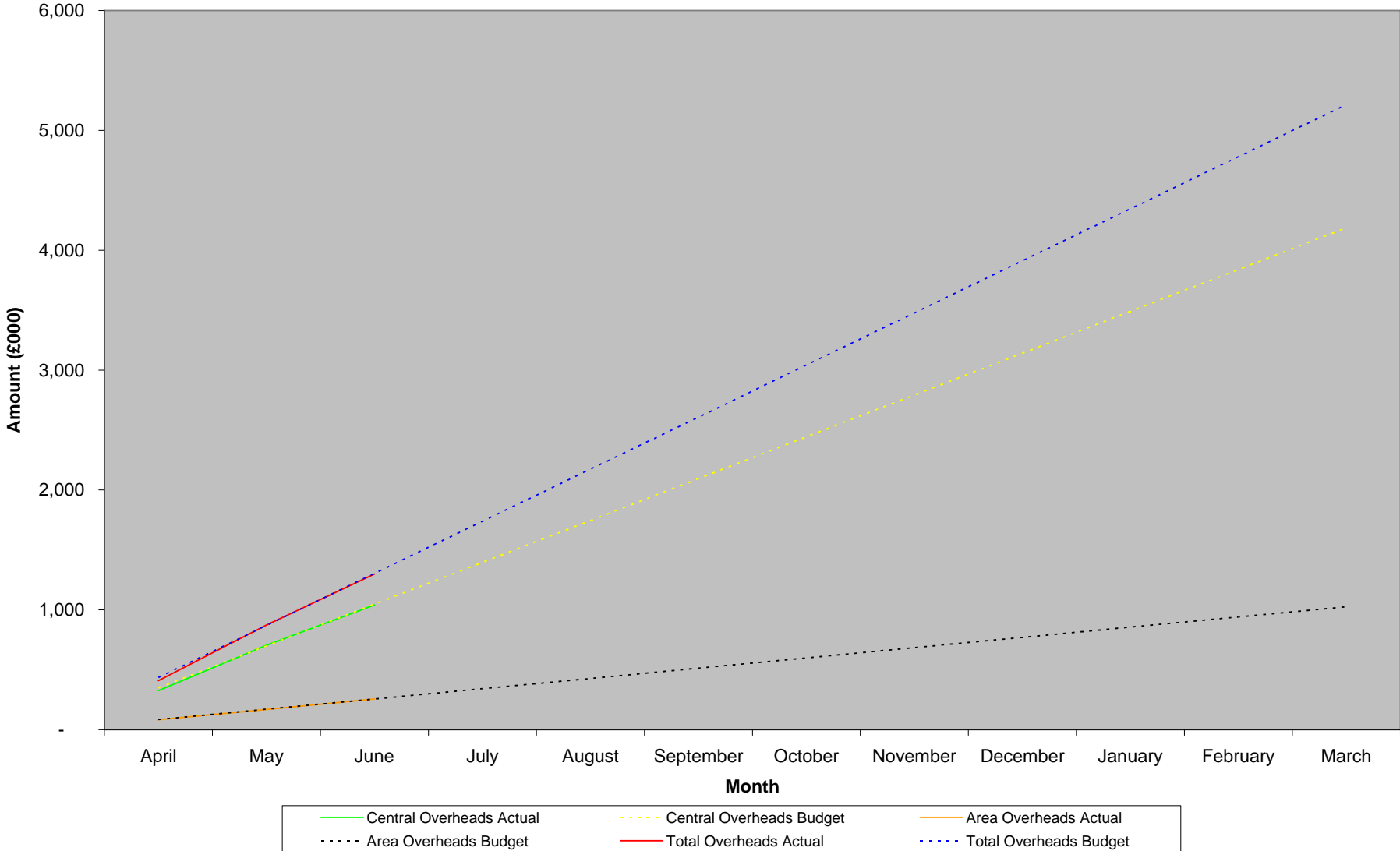
Cyclical Maintenance

34. There are a number of repair costs in relation to the cyclical maintenance programme which has been developed for our properties. This is particularly in relation to cyclical repairs, water hygiene testing, lift maintenance, environmental works, electrical circuit testing and solid fuel testing.
35. We have a programme of works for these areas of maintenance. We have separated out the cyclical works – remedial works, as this is a responsive element of costs, so we can build up our ability to assess the expenditure. There has been no spend required in this area in the first quarter. The security budget is underspent at the first quarter and this is due to a delay in processing invoices. The cyclical repairs servicing budget is also underspent at the first quarter and this is due to delays in receiving invoices from LES.
36. Following the appointment by the Company of a Cyclical Repairs Manager, all areas of cyclical maintenance will be reviewed, including the service level agreements we have in place, during 2013/14.

Detailed Management Accounts

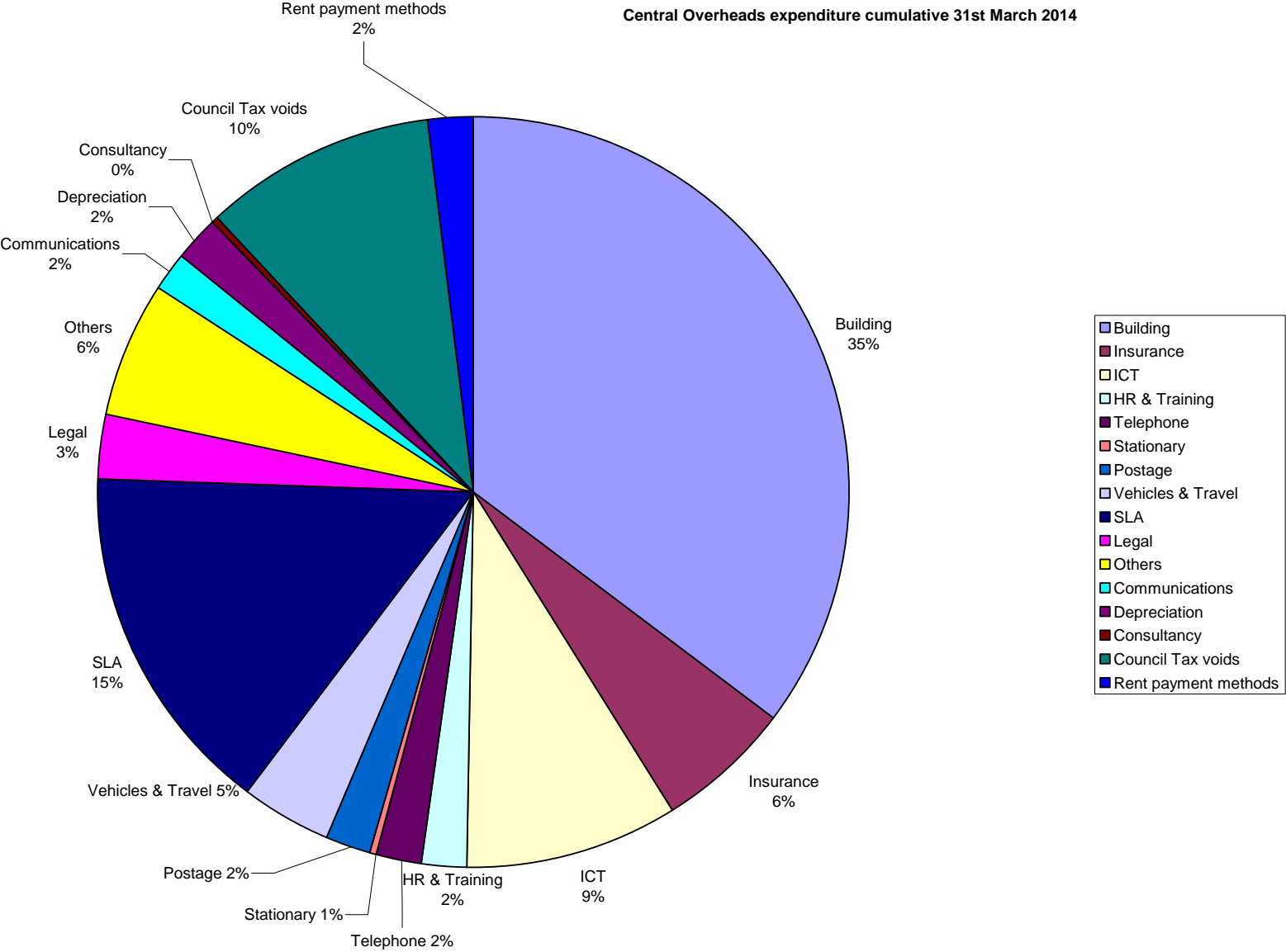
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TGHC Overheads Budget 2013/14



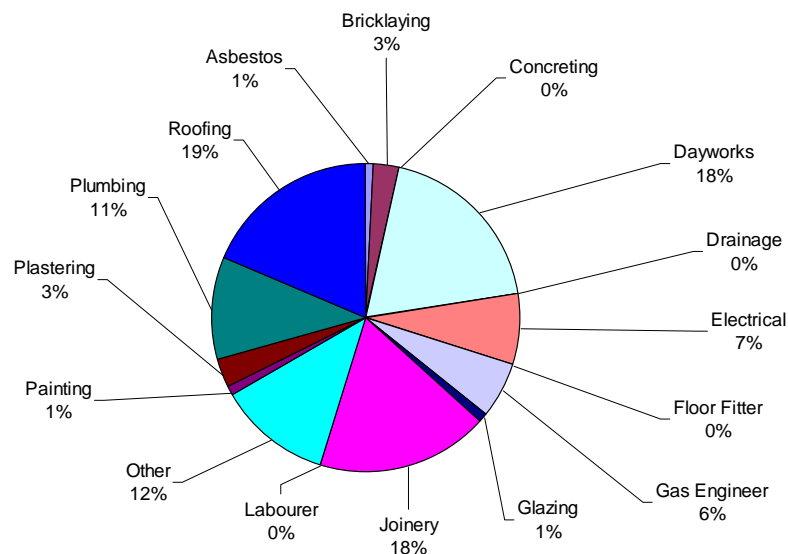
Appendix 2

Central Overheads expenditure cumulative 31st March 2014



Appendix 3

Mears invoiced Repairs by trade for the period April 2013 - March 2014



Trade	2012/13	2013/14
Asbestos	-	17,973
Bricklaying	12,298	61,780
Concreting	82	775
Dayworks	10,001	408,260
Drainage	42	75
Electrical	26,013	160,518
Floor Fitter	-	295
Gas Engineer	216	125,465
Glazing	4,635	16,974
Joinery	41,858	392,781
Labourer	-	-
Other	1,819	254,945
Painting	176	18,667
Plastering	11,598	68,174
Plumbing	59,228	231,129
Roofing	62,191	402,082
TOTAL	230,157	2,159,893

Comparison of Responsive Repairs to Previous Years

