



## Report to Resources Committee

5 November 2013

**Title:** Management Accounts – Second 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 second 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 Income Performance fee expected at £650,000.
5. The Company has also budgeted to receive £113,000 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 some of these posts have been included in the budget at zero cost.
8. The budget agreed by the board on the 21<sup>st</sup> March contained a deficit of £4,622. Following the board meeting we received further information which has now allowed a balanced budget to be set. We received confirmation of the additional pension contributions figure for the year which was £4,700 less than originally forecast.

9. There was also a reduction in the number of employees who were part of the lease car scheme which reduced the lease car costs by £3,200. This budget was moved to increase the human resources budget for staff welfare and healthy lifestyle pilots by the same amount.
10. 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.
11. The Management Accounts for the second 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 September 2013.
12. The Management Accounts Revenue shows a surplus for the year so far of £70,000. This is mainly due to an increase in income received for the Rent and Income Performance Fee. This has increased from the budgeted figure of £650,000 to £759,000 for the year.
13. The Management Accounts Repairs is overspent based on forecasted budget to date. Income is matched against expenditure in repairs, so no overspend is shown. The current overspend against forecast is mainly due an increase in the number of voids and an increase in the number of responsive repairs orders
14. We are working closely with Mears and the Council to manage this budget effectively for the remainder of the year. A working group has been setup to look into the reasons behind the increase in repairs orders and how we can ensure that the overall spend with Mears is within budget by the end of the financial year..
15. The numbers of orders raised for vacant properties in the second quarter is 949 compared to 775 for the same period last year. This continues to be due to the impact of welfare reform changes on tenancy terminations.
16. If the current level of void expenditure continues, forecast spend is likely to be £5.47m by the year end compared to budget of £4.08m, a potential £1.39m overspend. As reported at the previous committee, discussions are still ongoing with the Council around how any overspend will be funded at the year end and void expenditure continues to be closely monitored.

### **Link to values**

17. 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**

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

### **Risk Management Implications**

19. Regular and accurate monitoring will ensure that the strategic risk within the business plan (insufficient available financial resources) is effectively controlled.
20. 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**

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

### **Health Implications**

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

### **Equality and Diversity Implications**

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

### **Value for Money implications**

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

### **Environmental Implications**

25. 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**

26. None directly for this report.

### **Recommendation**

27. The Committee's views are sought as to whether it is satisfied with the financial management of the revenue and repairs budgets for the second quarter of the 2013/14 financial year.

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

**Revenue and Repairs Executive Summary**

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

	<b>YTD Actual £'000</b>	<b>YTD Budget £'000</b>	<b>YTD Variance £'000</b>	<b>Annual Budget £'000</b>
<b>Management Fee</b>				
Income	7,353	7,298	55	14,596
Employee Costs	4,692	4,691	(1)	9,381
Overhead Costs	2,591	2,607	16	5,215
<b>Surplus/(Deficit)</b>	<b>70</b>	<b>0</b>	<b>70</b>	<b>0</b>
<b>Repairs Fee</b>				
Repairs Management Fee	9,654	9,567	87	19,127
Repairs Costs	9,654	9,567	(87)	19,127
<b>Surplus/(Deficit)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Overall Annual Surplus/(Deficit)</b>	<b>70</b>	<b>0</b>	<b>70</b>	<b>0</b>

2. Overall, the second quarter position shows a surplus of £70,000. The surplus is mainly due to increased income from the Rent and Income Performance Fee, which has increased from the budgeted figure of £650,000 to £759,000.
3. The repairs budget is overspent for the year so far by £87,000, however, the income is matched against expenditure in repairs and so no over spend is shown. We are closely monitoring and working with the Council and Mears to ensure that the financial pressures due to welfare reform on the voids budget and the increase in the number of responsive repairs carried out to date do not adversely impact on the overall budget for the year.

## Income

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000
<b>INCOME</b>				
Management Fee	6,417	6,417	0	12,833
Officer Costs	500	500	0	1,000
Management Fee from external bodies	11	10	1	21
Gardening Service Income	1	1	0	2
Rent	19	19	0	38
Performance Fee	380	325	55	650
Welfare Reform Officers	25	26	(1)	52
<b>Total Income</b>	<b>7,353</b>	<b>7,298</b>	<b>55</b>	<b>14,596</b>

4. Overall income for the second quarter is over target by £55,000, and is expected to come in £109,000 over target for the year, due to the increased income from the Rent and Income Performance Fee.
5. 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.
6. 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.
7. 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. The income is £1,000 greater than budgeted as we have received income for repairs and maintenance carried out at these properties.
8. The 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.
9. Rent relates to the £38,000 rent received for the section of Keelman House that has been sub-leased to NEPO.
10. 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. The actual performance in 2012/13 was better than

expected when the budget was set and therefore the actual income will be £759,000, an increase of £109,000 on the budgeted figure.

11. 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 2 as the salary costs incurred by the 2 Advice and Support Officers have been slightly less than budgeted for.

## Staff Costs

12. Staff Costs are broken down as follows:

	<b>YTD Actual £'000</b>	<b>YTD Budget £'000</b>	<b>YTD Variance £'000</b>	<b>Annual Budget £'000</b>
<b>Employee Costs</b>				
Customer Services	1,548	1,560	12	3,120
Neighbourhood Services - HQ	509	512	3	1,023
Investment & Development Services	379	381	2	761
<b>Customers and Communities sub total</b>	<b>2,436</b>	<b>2,453</b>	<b>17</b>	<b>4,904</b>
HR, Admin and Health & Safety	242	245	3	490
Finance	626	612	(14)	1,224
<b>Corporate Services sub total</b>	<b>868</b>	<b>857</b>	<b>(11)</b>	<b>1,714</b>
Neighbourhood Services - areas	1,388	1,381	(7)	2,763
<b>Total Employee costs</b>	<b>4,692</b>	<b>4,691</b>	<b>(1)</b>	<b>9,381</b>

13. Salary costs are overspent for the second 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.
14. When the budget was set it was assumed that no pay increase would be awarded in 2013/14, however a 1% pay increase has now been awarded to all employees backdated to the 1<sup>st</sup> April 2013. Had this pay award been added to the budget the staffing budget would have been increased by £94,000.
15. Since the 2013/14 management fee was set, the company has agreed with the council that we will not receive any additional management fee to cover the pay award but instead will look to fund the cost from savings made through vacant posts and the additional income received from the Rent and Income Performance Fee.

16. One of the main areas where staff costs are overspent is in Finance. This overspend relates to a one off payment made in relation to outstanding equal pay claims that have now been settled. The cost of settling these claims was £18,792 and this is the final payment in relation to these equal pay claims. Discussions are ongoing as to whether these can be recharged back to the Council.
17. In addition, there is an overspend in the Neighbourhood Services – areas staffing budget due to one-off holiday payments made to concierges who left the company (following the concierge restructure) and agency staff employed to cover long term sickness for customer-facing roles in the housing offices.
18. This is offset by 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.
19. In the first two quarters of 2013/14 we have spent £39,000 on agency staff, this is an increase on the same period in 2012/13 when the spend was only £28,000. 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.
20. 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
<b>Overhead Costs</b>				
Customers and Communities HQ Total	139	143	4	286
Corporate Services Total	1,950	1,951	1	3,902
Customers and Communities Area Costs	502	513	11	1,027
<b>Total Overhead Costs</b>	<b>2,591</b>	<b>2,607</b>	<b>16</b>	<b>5,215</b>

21. Overhead costs are underspent at the second quarter. We expect that this budget will break even at the year end.
22. 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.
23. 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.

24. The one area of concern within the overheads budget at present is the insurance budget. Spend is at £160k at the end of the second quarter against an annual budget of £200k. This high cost is due to the settlement of a few large insurance claims within the period. Due to the increase in insurance claims, the insurance premiums which are due for renewal at the 1<sup>st</sup> January may also increase, which will put further pressure on this budget. We are currently looking at the options available to mitigate this pressure with Gateshead Council Insurance section and Marsh, our Insurance brokers.



## Repairs Summary

25. 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.

26. An analysis of the repairs costs is provided below.

	YTD Actual £000's	YTD Budget £000's	Variance £000's	Annual Budget £000's
<b>REPAIRS</b>				
Fixed Costs (Contractors' Prelim's)	2,321	2,319	(2)	4,637
Responsive – Mears	2,480	1,938	(542)	3,875
Responsive – LES	406	500	94	1,000
Responsive – Mears Specialist	251	238	(13)	475
Responsive – External Specialist	146	128	(18)	255
Responsive - Others	57	35	(22)	70
Relets – Mears	1,838	1,690	(148)	3,380
Relets - Other	160	350	190	700
Cyclical Repairs – Servicing	217	250	33	500
Cyclical Repairs – Remedial Works	0	75	75	150
Water Hygiene Testing	30	75	45	150
Painting	545	560	15	1,120
Gas Servicing	922	959	37	1,918
Electrical Circuit Testing	50	68	18	135
Solid Fuel Testing	0	1	1	2
Lift Maintenance	51	68	17	135
Security	35	100	65	200
Environmental Works	52	113	61	225
Energy Performance Certificates	17	25	8	50
Aids & Adaptations	76	75	(1)	150
	<b>9,654</b>	<b>9,567</b>	<b>(87)</b>	<b>19,127</b>
Insurance Funded Repairs	0	0	0	0
Repair Management Fee Income	9,654	9,567	87	19,127
<b>Income Total</b>	<b>9,654</b>	<b>9,567</b>	<b>87</b>	<b>19,127</b>
<b>REPAIRS TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Overall Summary

27. Whilst the overall position at the end of the second quarter is primarily a breakeven position, there are two areas of concern that are being closely monitored in partnership with the Council and Mears - Responsive Repairs Mears and Relets Mears. Further detail is included below highlighting the actions currently being undertaken to minimise the risks to our budget.

## Responsive Repairs

28. 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.
29. To reflect operational delivery and to allow for closer monitoring of the budgets, we have split the repairs other costs budget into three smaller budgets:
  - Mears Specialist Works - for one-off larger jobs and batched work passed to Mears
  - External Specialist Works - for asbestos work and any other subcontractors used to provide specialist work (that Mears do not have the ability to carry out)
  - Responsive Other - for the repairs freephone number, postage for postcards/letters and removal and accommodation costs incurred due to repair works
30. Overall, the responsive repair costs are over budget at the end of the second quarter. We are working closely with Mears and the Council to manage this budget effectively for the remainder of the year. A working group has been setup to look into the reasons behind the increase in repairs orders and how we can ensure that the overall spend with Mears is within budget by the end of the financial year.
31. The overspend on external specialist works is due to outstanding costs in relation to the floods last year. As these costs were a one-off incurred earlier in the year we expect that this budget will come in on target by the end of the year.
32. There have been 28,708 repair orders invoiced to the end of the second quarter and the average repair cost for the period was £104.09. This compares to 19,021 invoiced repairs for the same period 2012/13, however this figure was low due to the start of the Mears contract.
33. 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

34. The relet budget is split between the costs of the works carried out by Mears and the other costs associated with relets. Other costs mainly relate to costs associated with asbestos works, security costs and decoration vouchers provided to new tenants.
35. Mears relet costs are over budget at the second quarter. The number of void properties has increased this year with 949 properties let in the second quarter, compared to 775 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 go further over budget.

36. 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.
37. The average relet cost for jobs completed and invoiced to the second quarter was £2,558.10 (a slight reduction from the first quarter) and the number of relets invoiced to the second quarter was 852. At the second quarter of 2012/13, 545 jobs had been invoiced at an average cost of £1,936.31.
38. The increase in average cost is due to more major work and category 3 voids being required this year in comparison to the same period last year. There has been more elemental replacement in line with maintaining decency and a higher level of plastering works carried out on voids, which has pushed voids into the higher categories.
39. The number of voids and the level of work content continues to be closely monitored and discussions are ongoing with the Council regarding the budget implications and options for mitigating the problem if the current trend continues.

#### Painting

40. The painting programme budget was increased this year by £500,000. The budget is currently under spent by £15,000 in the second quarter. The underspend on this budget has significantly reduced in the second quarter as work has now commenced on many of the additional schemes that were added to this years plan that were at the planning and preparation stage during the first quarter.

#### Gas Servicing

41. Gas servicing is under budget for the second quarter as the number of gas repairs required has been lower during the summer months. We would expect this to increase during the winter as the weather gets colder and boiler usage increases. This budget line also includes 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.
42. Gas appliances are required to have a gas service carried out every 12 months. At the end of the first quarter, 99.76% of properties had a gas service within the previous 12 months. 32 properties were out of date by 1 to 4 weeks, 12 properties were out of date by 4 to 8 weeks and 1 property was out of date by 8 to 12 weeks.

#### Cyclical Maintenance

43. There are a number of repair costs in relation to the cyclical maintenance programme which have 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.
44. 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

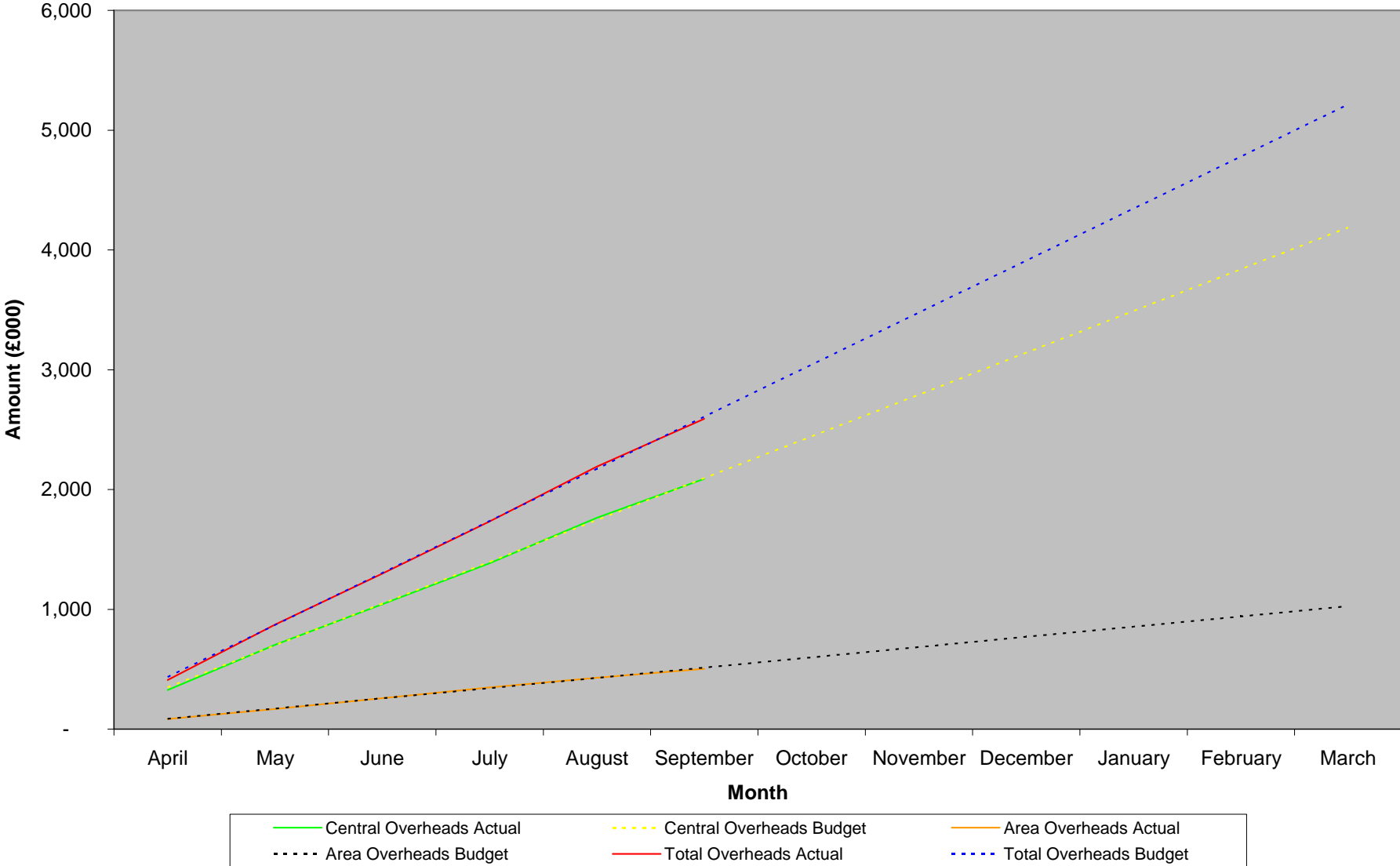
element of costs, so we can build up our ability to assess the expenditure. There has been no spend required in this area in the second quarter.

45. The security budget is underspent at the second quarter and this is due to queries with invoices from one of the contractors used for security works.
46. The environmental budget is underspent to the end of the second quarter however we have received additional invoices from LES for environmental works but are currently investigating these charges as the level of supporting information we have received to support the charges is insufficient.
47. 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

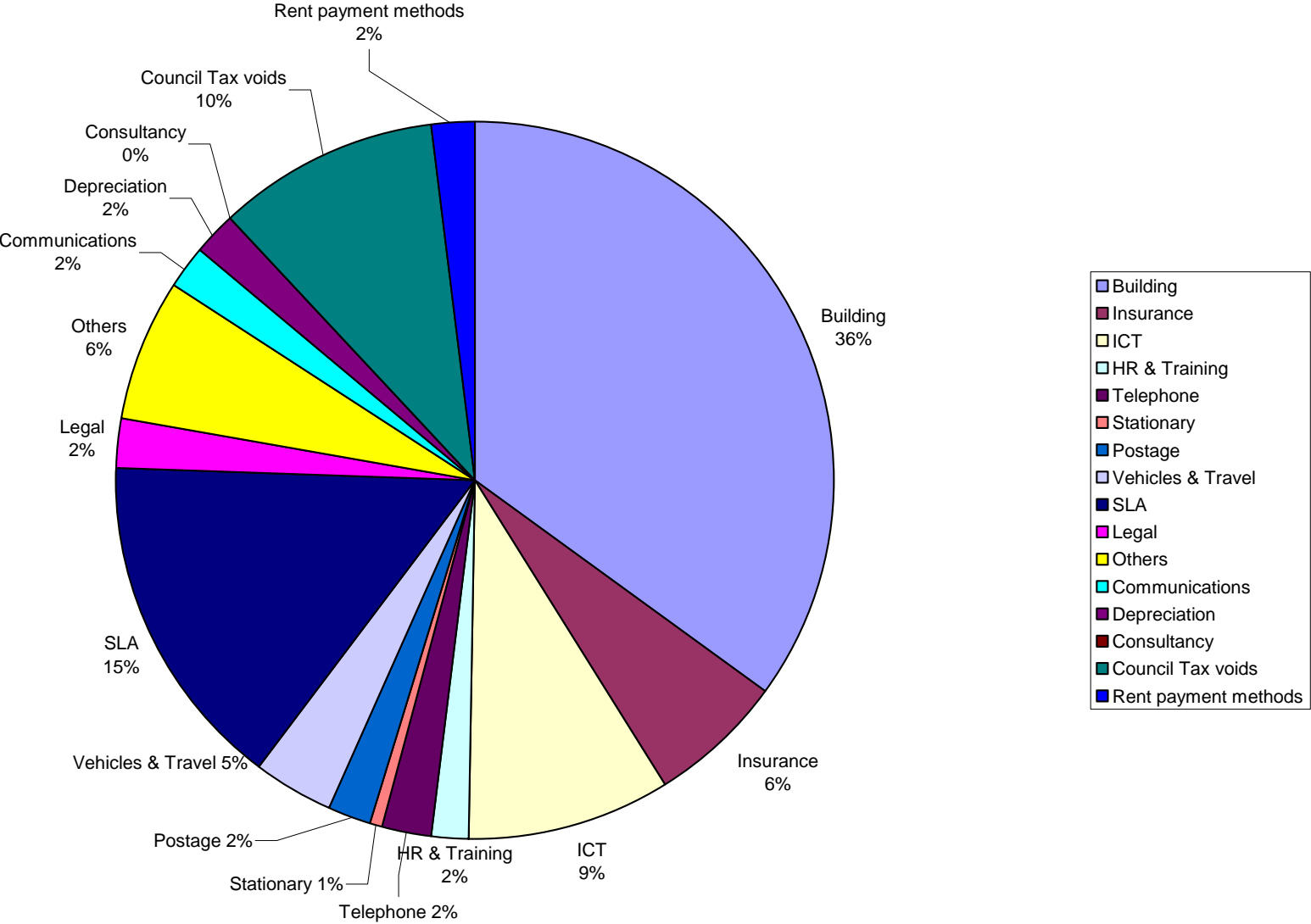
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<b>Total Overhead Costs</b>	<b>2,591</b>	<b>2,607</b>	<b>16</b>	<b>5,215</b>
<b>Surplus/(Deficit)</b>	<b>70</b>	<b>0</b>	<b>70</b>	<b>0</b>
<b>Repairs Fee</b>				
Repairs Management Fee	9,654	9,567	87	19,127
Repairs Costs	9,654	9,567	(87)	19,127
<b>Surplus/(Deficit)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Overall Annual Surplus/(Deficit)</b>	<b>70</b>	<b>0</b>	<b>70</b>	<b>0</b>

TGHC Overheads Budget 2013/14



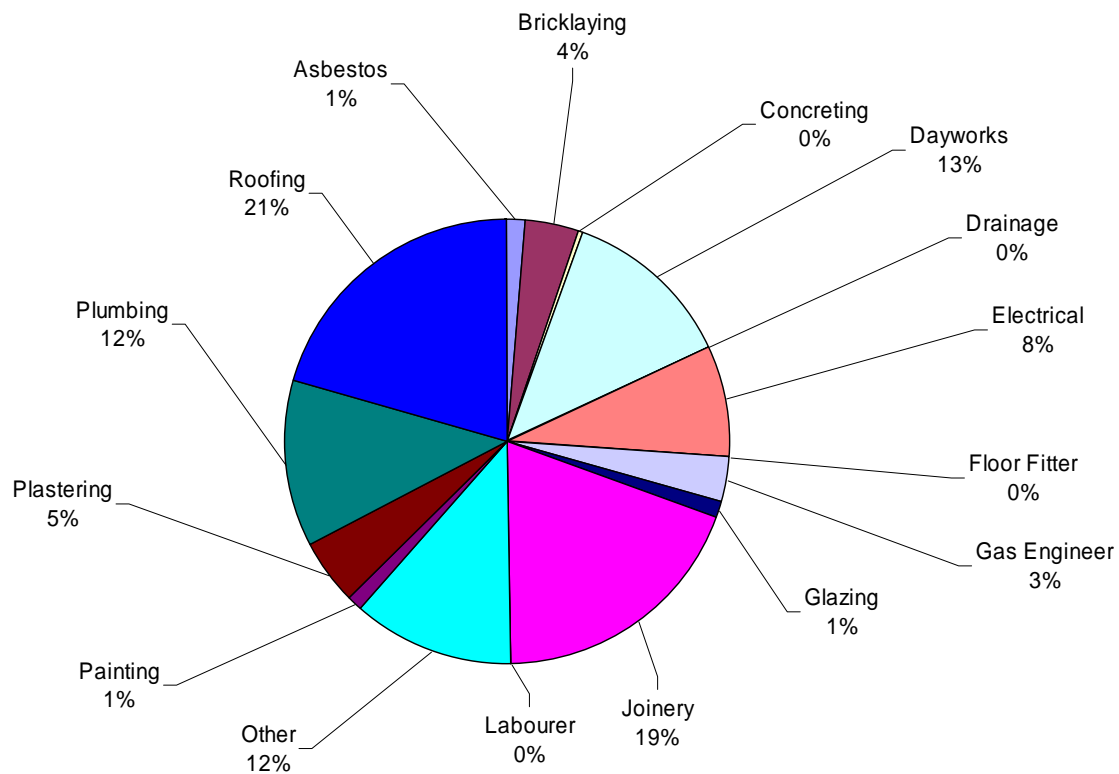
Appendix 2

Central Overheads expenditure cumulative 30th September 2014



### Appendix 3

Mears invoiced Repairs by trade for the period April 2013 - September 2013



Trade	2013/14 (6 months)
Asbestos	40,177
Bricklaying	106,297
Concreting	1,569
Dayworks	344,342
Drainage	102
Electrical	220,106
Floor Fitter	37
Gas Engineer	91,634
Glazing	27,810
Joinery	527,893
Labourer	-
Other	315,234
Painting	32,288
Plastering	129,667
Plumbing	331,011
Roofing	563,145
<b>TOTAL</b>	<b>2,731,312</b>



Comparison of Responsive Repairs to Previous Years

