



**Report to Board of Directors**  
**21 November 2013**

**Title: Management Accounts – Second Quarter 2013/14**

**Report of: TGHC Head of Corporate Service**

### **Purpose of Report**

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

### **Background**

2. This is the first year a budget has been produced for Keelman Homes. Previous financial information has been managed by way of a cashflow, as the main income for Keelman Homes was grant income from the Homes and Communities Agency and loan income from Gateshead Council. The main expenditure was costs in relation to the construction of properties.
3. The board approved the Keelman Homes budget for 2013/14 at its meeting on 30 January 2013.
4. The Accounts Team produces monthly management accounts which detail the actual charges for the month, the year to date charges, the budget year to date and any variances.

### **Management Accounts**

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

	<b>YTD Actual (£)</b>	<b>YTD Budget (£)</b>	<b>YTD Variance (£)</b>	<b>Annual Budget (£)</b>	<b>Annual Forecast (£)</b>
Income	170,246	194,188	(23,942)	388,375	323,989
Expenditure	208,259	208,251	(8)	416,502	425,624
<b>Surplus/(Deficit)</b>	<b>(38,013)</b>	<b>(14,064)</b>	<b>(23,950)</b>	<b>(28,127)</b>	<b>(101,635)</b>

6. The management accounts show Keelman Homes has made a deficit of £23,950 to the second quarter. Although Keelman Homes was expected to make a loss in this financial year the loss in the period has been greater than budgeted, and we are forecasting that the loss for the full year will be £101,635.

7. The increase in the deficit is due to both a decrease in the anticipated income compared to budget and an increase in the expenditure compared to budget. It is anticipated that this deficit will be met from reserves.
8. The three to five year budget plan will be provided at the next board meeting in January.

### Income

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Rent	165,767	192,000	(26,233)	384,000	317,341
Service Charges	1,721	1,350	371	2,700	3,150
Shared Ownership Rent	6,752	6,598	154	13,195	13,252
Bad Debt	(3,840)	(3840)	0	(7,680)	(7,680)
Void Loss	(154)	(1,920)	1,766	(3,840)	(2,074)
<b>Total Income</b>	<b>170,246</b>	<b>194,188</b>	<b>(23,942)</b>	<b>388,375</b>	<b>323,989</b>

9. Rental income received at Kibblesworth is currently £26,233 less than the budget for the first 6 months and is forecasted to be £66,659 less than the budget by the end of the year. This is due to the budget being set at the start of the year which included full rent being received from the shared ownership properties within the rental income budget. As customers purchase an initial share of their new home (between 25% and 75%), rent is only payable on the remaining share.
10. Service charge income is greater than budget year to date by £371 and is forecasted to be £450 greater than budget by the year end. This increase is due to more tenants than budgeted for requesting discretionary services such as the gardening scheme and community alarms, for which they must pay a service charge
11. Shared ownership rent is currently £154 greater than budget and we have forecasted that income for the year end will be slightly greater than budget. This, however, takes a very prudent view that no further sales will occur. If any more sales do occur, then the shared ownership rental income will be higher than the £13,252 forecasted at year end. When we set the budget for this income we had to make assumptions on the percentage of each property that would be bought by the tenant, once all of the properties have been sold we will be able to more accurately budget for this income.
12. We have kept the bad debt provision at the budgeted level, which was 2% of the annual rental income. At this point, we see no need to increase or reduce this provision, however we will continue to monitor the level of arrears and adjust this provision if necessary going forward.
13. Void rent loss for the first quarter has only been £154 against a budget of £1,920. We have prudently forecasted that the void rent loss will be on budget for the remaining months of the year, giving a total loss for the year of £2,074. However it is likely that voids will remain low and high demand for the new properties will see the void rent loss be lower than the currently forecasted figure.

## Expenditure

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Loan Interest Repayments	104,708	104,151	(557)	208,302	208,302
Repair Costs	1,744	6,000	4,256	12,000	7,744
Void Costs	0	6,000	6,000	12,000	6,000
Management Fee	8,100	8,100	0	16,200	16,200
Depreciation	83,566	84,000	434	168,000	167,132
Legal Costs	7,427	0	(7,427)	0	14,854
External Audit	2,714	0	(2,714)	0	5,932
<b>Total Expenditure</b>	<b>208,259</b>	<b>208,251</b>	<b>(8)</b>	<b>416,502</b>	<b>425,624</b>

14. Loan interest repayments are agreed amounts for the duration of the loan. The next payment is due in March and will be lower than the September payment as the level of loan capital is reduced. This expenditure will be as budgeted for the year.
15. Repair costs for the first 6 months are only £1,744, which is £4,256 under budget. We have prudently forecasted that the next 6 months will come in on budget, however as many items will still be under warranty and the properties should remain in good condition, it is possible that further savings could be made from this budget.
16. We have not incurred any costs for void works at Kibblesworth, we have forecasted that the next 6 months will come in on budget giving a £6,000 saving for the year. However due to the low void levels at these properties and the general condition of the properties further savings may be made on this budget.
17. The management fee was agreed at a price per property. As all properties are now being managed by The Gateshead Housing Company this will come in at the budgeted cost by the year end.
18. The forecast for the depreciation cost has been reduced slightly as the anticipated final account for the Kibblesworth development is lower than initially budgeted. The final account is still to be agreed with Keepmoat and once it has we will be able to confirm the exact annual depreciation charge. There may also be some scope to review the depreciation policy, which is currently 2%, in consideration of the condition and life cycle of the properties.
19. No budget was set for any legal costs that may be incurred by Keelman Homes. Legal costs have been incurred on the sales of the shared ownership properties and in relation to legal services for Keelman Homes. We have forecasted that we will incur the same level of legal costs in the second half of the year. We will include a provision for legal costs in the budget for future years.
20. No budget was set for the cost of Keelman Homes external audit. As a limited company, Keelman Homes must have its accounts externally audited each year. We have accrued the cost based on the cost of last years audit plus 3% for inflation. This cost will be incurred every year and will be built in to future years budgets.

### **Impact on tenants**

21. Whilst this report does not impact on tenants directly, appropriate financial monitoring and control will ensure efficiencies are maximised and redirected to services that directly impact on tenants

### **Risk Management Implications**

22. Regular and accurate monitoring will ensure that that the strategic risk within the business plan (Insufficient available financial resources) is effectively controlled.

### **Financial Implications**

23. The financial implications are contained within the report.

### **Equality and Diversity Implications**

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

### **Value for Money implications**

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

### **Health implications**

26. There are no health implications arising from this report.

### **Environmental implications**

27. There are no environmental implications arising from this report.

### **Consultation carried out**

28. There has been no consultation carried out in relation to this report.

### **Recommendations**

29. The Board is asked whether it is satisfied with the financial management of the revenue budgets for the second quarter of the 2013/14 financial year.