KEELMAN HOMES

Report to Board of Directors
16 January 2014

Title: **5 Year financial forecast**

Report of: **TGHC Head of Corporate Services**

Purpose of Report

1. To make a recommendation to the Board to approve the company's budget for 2014/15 and financial forecast for the 5 year period from 2014/15.

Background

2. On 30 January 2013 the board approved the budget for 2013/14 and was asked to note the estimated budgets for 2014/15 and 2015/16.

3. 2013/14 was the first year that a budget was produced for Keelman Homes. Previous financial information had 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.

4. However, since the budget for 2013/14 was approved by the board there have been some significant changes in the activities of Keelman Homes, with a new programme of new build due to commence and Keelman Homes taking on the management of other properties on behalf of other housing organisations. These activities will have a significant financial impact and therefore a revised budget for 2014/15 has been produced as part of a 5 year forecast.

5. A statement showing the proposed budget for 2014/15 and a forecast to 2018/19 is attached at the Appendix to this report.

Proposed Budget - Income

6. The income to be received into Keelman Homes is mainly the rental income for the properties. We have estimated the income based on the 2013/14 rents with an assumed rent increase of 3.7%.

7. For the future new build developments, we do not currently have detailed information available on exactly how many properties and what type of properties will be built so we have assumed that 20 properties will be built each year and the mix of property types will be similar to that of the properties being built in Phase 1 and 2 of the New Build Programme.

8. We have assumed that the level of service charge income on all of the future new build properties will be at the same level as the current service charges paid at the Kibblesworth properties.

9. The shared ownership rental income is based on the current percentage of each property that has been sold. Where a sale had not yet completed, we have used the proposed equity percentage from the purchaser. We have assumed that all future new build schemes will not contain any shared ownership properties.

10. We have assumed that no staircasing will occur at any of these properties and rental income will increase by 3.7% annually. However, if any staircasing did occur the income will be treated as exceptional income and held in reserve for future sales, therefore, this is not included in the budget.

11. The income for the management of other properties is based on all of the properties where we currently have management agreements in place. Some of these properties have not yet been handed over to us to manage. Where this is the case we have included income from the latest anticipated handover date.

12. The release of grant funding relates to the grant funding received from the Homes and Communities Agency for the Kibblesworth development. The grant funding is being released over 50 years to match the expenditure charge to the accounts for depreciation.

13. We are currently assuming a 2% provision for bad debts and a 1% provision for voids.

Proposed Budget – Expenditure

14. The current loan repayments have been included at each 6-month period and reflect the agreed loan repayments as per the agreement with Gateshead Council. For the new loans, which will be used to fund the future new build programme, we have based the repayments on the anticipated loan drawdown dates and the likely interest rate at this time, which has been provided by the Treasury Management Team at Gateshead Council.

15. The repairs and voids expenditure has been based on a prudent estimate of £150 per property for both repairs and voids. The properties will still be in warranty for part of the period and therefore repair costs may be less. An inflationary increase of 2.5% has been applied to future years.

16. The management fee has been budgeted for as an annual one-off cost and this is calculated at £200 per property.

17. Depreciation of the properties has been calculated at 2% per annum and is based on the overall capital cost of the construction.

18. Legal costs have been at £1,000 per month, with an inflationary increase of 2.5% for future years.

19. As a private limited company Keelman Homes must have its accounts externally audited each year. We have based the cost on the fee paid for the 2012/13 audit with an inflationary increase of 2.5% for each year.

Proposed Budget – overall

20. The overall budget position shows a deficit of £91,165 in 2014/15. This is due to the loan drawdown and repayments required versus the receipt of limited rental income whilst the properties are being built. The 5 year forecast shows that the company will then make a small deficit the following year, but will produce a

surplus from 2016/17 onwards, once all new build properties have been completed and we are receiving full rental income. The reserves currently held by Keelman Homes will cover the deficits incurred during the first 2 years.

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 and appendices.

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 to:

- approve the revenue budget for 2014/15;
- note the forecasts for 2015/16 to 2018/19.

Contact: Natalie Hewitt, Head of Corporate Services, TGHC Tel No (0191) 433 5350

Appendix

Budget	5 Year Forecast				
	2014/15	2015/16	2016/17	2017/18	2018/19
	£	£	£	£	£
Income					
Rent	409,511	578,304	689,345	807,811	934,101
Service Charges	3,432	3,559	3,691	3,828	3,969
Shared Ownership Rent	32,519	33,722	34,970	36,264	37,605
Management of other proper	62,140	80,080	82,483	84,957	87,506
Bad Debt	-8,190	-11,566	-13,787	-16,156	-18,682
Void Loss	-4,095	-5,783	-6,893	-8,078	-9,341
Release of grant funding	98,640	98,640	98,640	98,640	98,640
	593,957	**776,956**	**888,448**	**1,007,266**	**1,133,798**
Expenditure					
Loan Interest Repayments	-368,618	-402,323	-460,015	-513,795	-564,264
Repair costs	-13,204	-19,534	-23,022	-26,598	-30,263
Void costs	-13,204	-19,534	-23,022	-26,598	-30,263
Management Fee	-19,200	-26,200	-30,200	-34,200	-38,200
Depreciation	-253,133	-293,133	-333,133	-373,133	-413,133
Legal Costs	-12,300	-12,608	-12,923	-13,246	-13,577
Audit Fee	-5,463	-5,600	-5,740	-5,883	-6,030
	-685,122	**-778,930**	**-888,055**	**-993,453**	**-1,095,729**
Surplus/(Deficit)	**-91,165**	**-1,974**	**393**	**13,813**	**38,069**