



## Report to Resources Committee

25 February 2014

**Title:** Management Accounts – Third 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 third 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 third 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 December 2013.
12. The Management Accounts Revenue shows a surplus for the year so far of £16,000. This is mainly due to an increase in income received for the Rent and Income Performance Fee. This has increased by £109,000 for the year, from the budgeted figure of £650,000 to £759,000.
13. This increased income is offset by an increase in expenditure in relation to overhead costs which are £103,000 over budget at the third quarter. This is mainly due to a significant increase in the cost of insurance claims, where spend is at £272,000 for the third quarter compared to an annual budget of only £200,000, and a payment of £77,622 for Carbon Reduction Commitment (CRC) fees. The CRC charges relate to 2012/13 fees which were not recharged from the Council last year and for which there is no budget provision. In addition, we have been made aware that there is a further 2013/14 CRC charge of approximately £100,000 for which we are now liable. Discussions are ongoing with the council regarding budget provision for these charges going forward.
14. The overall position for repairs at the end of the third quarter is an overspend of £290,000. 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 that are currently being undertaken to minimise the risks to our budget.
15. We are currently anticipating to be overspent by £520,000 by the end of the financial year. Senior Officers of the Council and TGHC are meeting on 24<sup>th</sup> February to discuss this projected overspend and a verbal update will be given at the Committee to keep members up to date with progress made.
16. The numbers of orders raised for vacant properties continues to rise and is now at 1,429 in the third quarter compared to 1,254 for the same period last year. This continues to be due to the impact of welfare reform changes on tenancy terminations. Discussions are still ongoing with the Council around how any overspend will be funded at the year end and repairs 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 third quarter of the 2013/14 financial year.

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

**Revenue and Repairs Executive Summary**

1. The management accounts for the third 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	11,029	10,947	82	14,596
Employee Costs	6,999	7,036	37	9,381
Overhead Costs	4,014	3,911	(103)	5,215
<b>Surplus/(Deficit)</b>	<b>16</b>	<b>0</b>	<b>16</b>	<b>0</b>
<b>Repairs Fee</b>				
Repairs Management Fee	13,223	13,223	0	17,627
Capitalisation	1,500	1,125	375	1,500
Insurance funded repairs	96	0	96	0
Repairs Costs	15,109	14,348	(761)	19,127
<b>Surplus/(Deficit)</b>	<b>(290)</b>	<b>0</b>	<b>(290)</b>	<b>0</b>
<b>Overall Annual Surplus/(Deficit)</b>	<b>(274)</b>	<b>0</b>	<b>(274)</b>	<b>0</b>

2. The revenue budget to the third quarter shows a surplus of £16,000. 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 at the end of the third quarter by £290,000. 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 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	9,625	9,625	0	12,833
Officer Costs	750	750	0	1,000
Management Fee from external bodies	16	16	0	21
Gardening Service Income	1	1	0	2
Rent	28	28	0	38
Performance Fee	569	488	81	650
Welfare Reform Officers	38	39	(1)	52
Feed in Tariffs	2	0	2	0
<b>Total Income</b>	<b>11,029</b>	<b>10,947</b>	<b>82</b>	<b>14,596</b>

4. Overall income for the third quarter is over target by £82,000, 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.
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. As NEPO moved out of Keelman House at the end of January we will only receive 10 months of rental income, therefore the income received will be under budget by £6,250 for the year.
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 3 as the salary costs incurred by the 2 Advice and Support Officers have been slightly less than budgeted for.
12. The feed in tariff income of £2,000 relates to income we receive for the electricity generated by the photovoltaic panels on the 3 new build properties at High Lanes.

### Staff Costs

13. Staff Costs are broken down as follows:

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000
<b>Employee Costs</b>				
Customer Services	2,327	2,340	13	3,120
Neighbourhood Services - HQ	763	767	4	1,023
Investment & Development Services	569	571	2	761
<b>Customers and Communities sub total</b>	<b>3,659</b>	<b>3,678</b>	<b>19</b>	<b>4,904</b>
HR, Admin and Health & Safety	362	368	6	490
Finance	902	918	16	1,224
<b>Corporate Services sub total</b>	<b>1,264</b>	<b>1,286</b>	<b>22</b>	<b>1,714</b>
Neighbourhood Services - areas	2,076	2,072	(4)	2,763
<b>Total Employee costs</b>	<b>6,999</b>	<b>7,036</b>	<b>37</b>	<b>9,381</b>

14. Salary costs are underspent for the third 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.
15. 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.

16. 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.
17. At the end of the second quarter we reported the main area where staff costs were overspent was in Finance. This overspend related to a one off payment of £18,972 made in relation to outstanding equal pay claims. Following discussions with the Council they have agreed to pick up these costs. The current salary slippage is due to posts being held vacant in the Performance Team and Communications Team and from vacant posts in the Finance and Leasehold Teams earlier in the year.
18. 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. This overspend has reduced by £3,000 since the second quarter as the employees who were on long term sick have now returned and the agency workers contracts have ended.
19. 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.
20. During the third quarter we did not incur any agency costs and the spend remains the same as at the end of the second quarter of 2013/14 at £39,000, this is a decrease on the same period in 2012/13 when the spend was £54,000. 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.
21. The agency staff costs mainly relate to work in the Housing Offices to cover long term sick and to cover vacant posts in the Older Person's Team and Finance Team 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	198	214	16	286
Corporate Services Total	3,055	2,926	(129)	3,902
Customers and Communities Area Costs	761	770	9	1,027
<b>Total Overhead Costs</b>	<b>4,014</b>	<b>3,910</b>	<b>(104)</b>	<b>5,215</b>



22. Overhead costs are overspent at the third quarter. We expect that this budget will be overspent at the year end but this should be offset by the underspend on salaries and additional income received.
23. An analysis of overhead spend against budget is included within Appendix 1. Appendix 2 shows a pie chart of areas on which the HQ Overheads have been spent.
24. 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 effectively controlled. It should be noted that not all costs are fully controllable, especially those in relation to utilities and insurance claims. Finance monitors these costs on a monthly basis and highlights to the Management Team any areas causing concern.
25. The main area of concern within the overheads budget at present is the insurance budget. Spend is at £272,000 at the end of the third quarter against an annual budget of £200,000. 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 were due for renewal at the 1<sup>st</sup> January 2014 have also increased. The annual premiums have increased from £106,804 in 2013 to £148,608 in 2014 which will increase the overspend and put further pressure on the budget. We are currently looking at the options available to mitigate this pressure with Gateshead Council Insurance section and Marsh, our Insurance brokers.
26. Further pressure on the overhead budget relates to Climate Reduction Commitment charges (CRC) at £77,622. The CRC charges relate to 12/13 fees which were not recharged to us from the Council last year and for which there is no budget provision. We have also been informed that a further charge for CRC for 2013/14 may be made this year in the region of £100,000. We are currently in discussions with the Council regarding these charges and the 13/14 charge is not currently factored in to projections.

## Repairs Summary

27. 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.

28. 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)	3,489	3,478	(11)	4,637
Responsive – Mears	3,812	2,906	(906)	3,875
Responsive – LES	826	750	(76)	1,000
Responsive – Mears Specialist	380	356	(24)	475
Responsive – External Specialist	181	191	10	255
Responsive - Others	71	53	(18)	70
Relets – Mears	3,162	2,535	(627)	3,380
Relets - Other	258	525	267	700
Cyclical Repairs – Servicing	251	375	124	500
Cyclical Repairs – Remedial Works	0	113	113	150
Water Hygiene Testing	39	113	74	150
Painting	850	840	(10)	1,120
Gas Servicing	1,374	1,439	65	1,918
Electrical Circuit Testing	70	101	31	135
Solid Fuel Testing	0	2	2	2
Lift Maintenance	72	101	29	135
Security	59	150	91	200
Environmental Works	81	169	88	225
Energy Performance Certificates	27	38	11	50
Aids & Adaptations	107	113	6	150
	<b>15,109</b>	<b>14,348</b>	<b>(761)</b>	<b>19,127</b>
Insurance Funded Repairs	96	0	96	0
Capitalisation	1,500	1,125	375	1,500
Repair Management Fee Income	13,223	13,223	0	17,627
<b>Income Total</b>	<b>14,819</b>	<b>14,348</b>	<b>471</b>	<b>19,127</b>
<b>REPAIRS TOTAL</b>	<b>(290)</b>	<b>0</b>	<b>(290)</b>	<b>0</b>

## Overall Summary

29. The overall position at the end of the third quarter is an overspend of £290,000. 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.

30. We are currently anticipating to be overspent by £520,000 by the end of the financial year. Senior Officers of the Council and TGHC are meeting on 24<sup>th</sup> February to discuss this projected overspend and a verbal update will be given at the Committee to keep members up to date with progress made.

### Responsive Repairs

31. 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.
32. 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
33. There have been 41,606 repair orders invoiced to the end of the third quarter and the average repair cost for the period was £101.38 (a reduction from the second quarter). This compares to 35,770 invoiced repairs for the same period 2012/13, however this figure was low due to the start of the Mears contract.
34. 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.
35. We have seen a change in spend profiles due to the reduced provision for elemental replacements and subsequent increase in multiple repairs being carried out. This has put pressure on responsive repairs budgets in relation to roofing works, access, asbestos, plastering, multi storey externals and multi storey internal communal infrastructure.
36. New budget control measures have been introduced to try and mitigate some of the overspend by the year end including slowing down spend on specific repair areas such as external works, garages and detached outhouses and reviewing the property inspector role to support VFM. In addition, staff have been briefed to maintain a consistent message in managing customer expectations and demands.

### Relets

37. 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.

38. Mears relet costs are over budget at the third quarter. The number of void properties has increased this year due to the impact of Welfare Reform with 1,429 properties let to the end of the third quarter, compared to 1,254 for the same period in 2012/13.
39. 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.
40. The average relet cost for jobs completed and invoiced to the third quarter was £2,425.14 (a reduction from the second quarter) and the number of relets invoiced to the third quarter was 1,435. At the third quarter of 2012/13, 964 jobs had been invoiced at an average cost of £2,084.12.
41. 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.
42. 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

43. The painting programme budget is currently over spent by £10,000 to the third quarter. The overspend is due to work commencing on many of the additional schemes that were added to this year's plan that were at the planning and preparation stage earlier in the year. During the winter months work will halt on the external painting programmes and work will be carried out on the internal programmes as the weather conditions are not suitable for outdoor painting. During these months we would expect the level of spend to slow down and we are anticipating that the budget will be slightly underspent by the year end.

#### Gas Servicing

44. Gas servicing is under budget for the third quarter as the number of gas repairs required has been lower during the summer months and lower than expected so far this winter, due to the mild weather conditions we have experienced. The spend could yet increase during the remaining winter months if 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.
45. Gas appliances are required to have a gas service carried out every 12 months. At the end of the third quarter, 99.86% of properties had a gas service within the previous 12 months. 7 properties were out of date by 1 to 4 weeks, 9 properties were out of date by 4 to 8 weeks, 7 properties were out of date by 8 to 12 weeks, 2 properties were out of date by 12 to 16 weeks and 2 properties were out of date by 16 to 20 weeks.

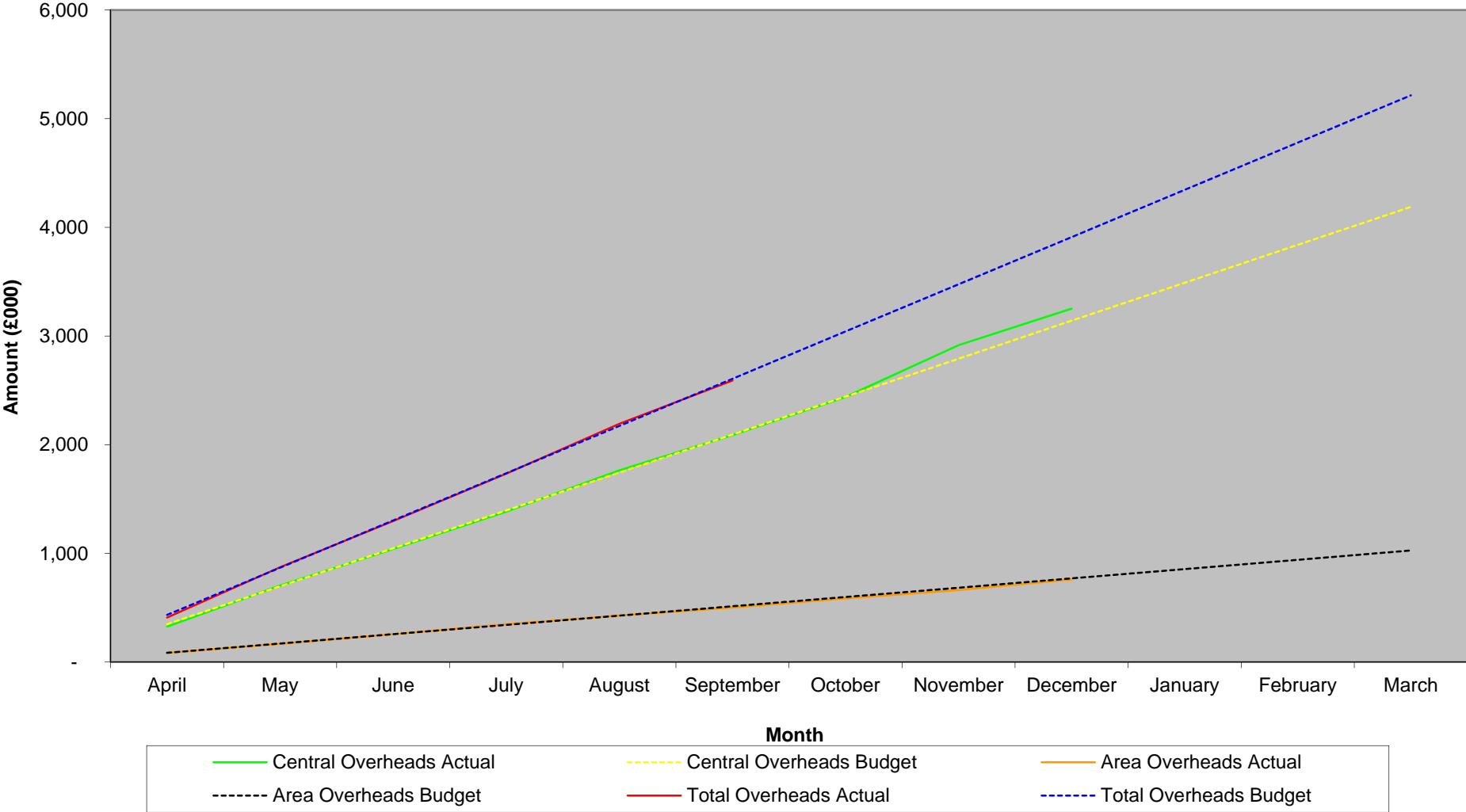
## Cyclical Maintenance

46. 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.
47. 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 third quarter.
48. The security budget is underspent at the third quarter and this is due to queries with invoices from one of the contractors used for security works. Despite these outstanding queries, we would still expect this budget to come in underspent for the year.
49. The environmental budget is underspent to the end of the third quarter however we have received additional invoices from LES for environmental works which are currently being investigated these charges as the level of supporting information we have received to support the charges is insufficient. Once these outstanding invoices have been agreed we would expect this budget to be on budget or slightly overspend by the end of the year.
50. 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.

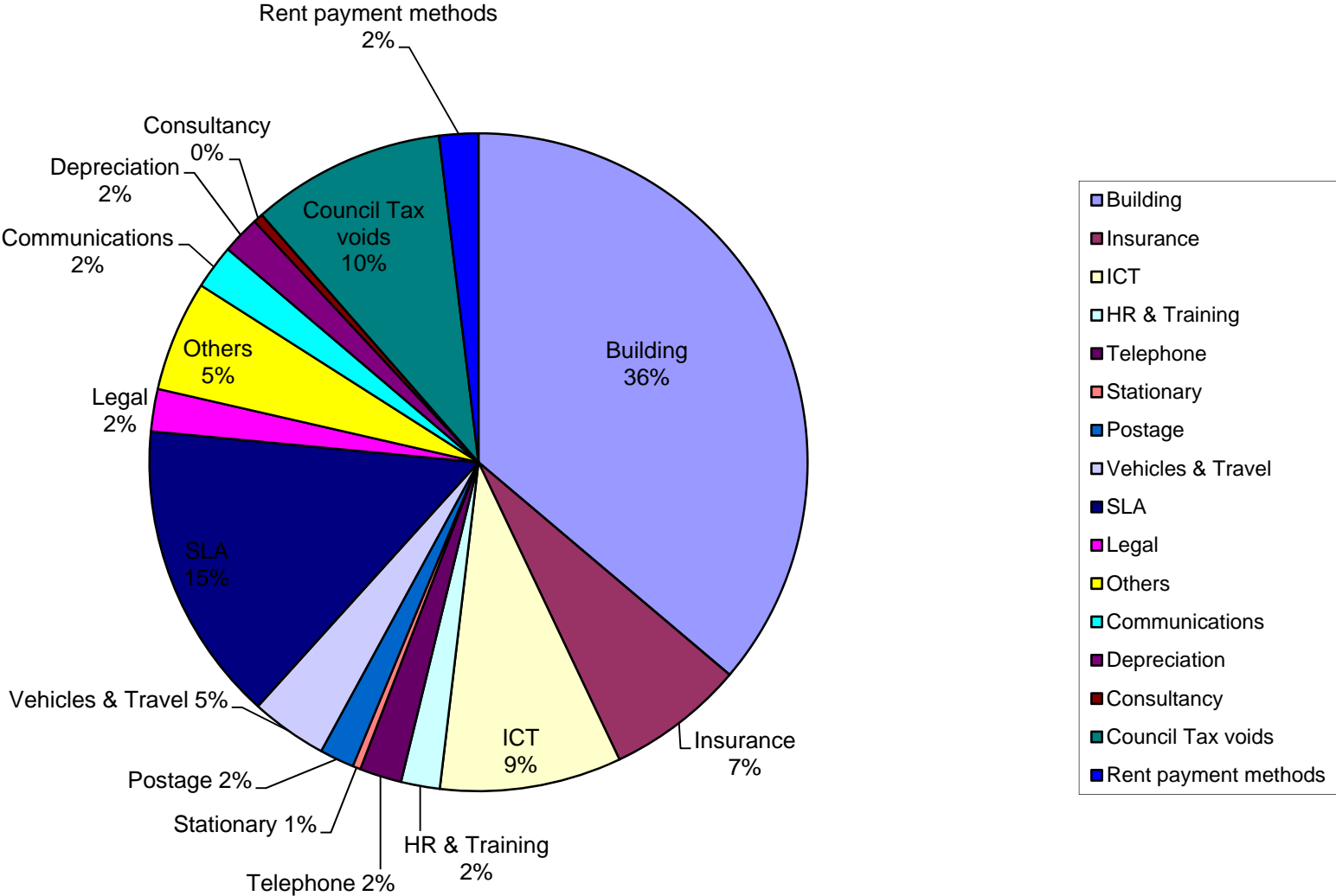
## Detailed Management Accounts

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000
<b>INCOME</b>				
Management Fee	9,625	9,625	0	12,833
Officer Costs	750	750	0	1,000
Management Fee from external bodies	16	16	0	21
Gardening Service Income	1	1	0	2
Rent	28	28	0	38
Performance Fee	569	488	81	650
Welfare Reform Officers	38	39	(1)	52
Feed in Tarrifs	2	0	2	0
<b>Total Income</b>	<b>11,029</b>	<b>10,947</b>	<b>82</b>	<b>14,596</b>
<b>Employee Costs</b>				
Customer Services	2,327	2,340	13	3,120
Neighbourhood Services - HQ	763	767	4	1,023
Investment & Development Services	569	571	2	761
<b>Customers and Communities sub total</b>	<b>3,659</b>	<b>3,678</b>	<b>19</b>	<b>4,904</b>
HR, Admin and Health & Safety	362	368	6	490
Finance	902	918	16	1,224
<b>Corporate Services sub total</b>	<b>1,264</b>	<b>1,286</b>	<b>22</b>	<b>1,714</b>
Neighbourhood Services - areas	2,076	2,072	(4)	2,763
<b>Total Employee costs</b>	<b>6,999</b>	<b>7,036</b>	<b>(37)</b>	<b>9,381</b>
<b>Overhead Costs</b>				
Customers and Communities HQ Total	198	214	16	286
Corporate Services Total	3,055	2,926	(129)	3,902
Customers and Communities Area Costs	791	770	9	1,027
<b>Total Overhead Costs</b>	<b>4,014</b>	<b>3,910</b>	<b>(104)</b>	<b>5,215</b>
<b>Surplus/(Deficit)</b>	<b>16</b>	<b>0</b>	<b>16</b>	<b>0</b>
<b>Repairs Fee</b>				
Repairs Management Fee	13,223	13,223	0	17,627
Capitalisation	1,500	1,125	375	1,500
Insurance funded repairs	96	0	96	0
Repairs Costs	15,109	14,348	(761)	19,127
<b>Surplus/(Deficit)</b>	<b>(290)</b>	<b>0</b>	<b>(290)</b>	<b>0</b>
<b>Overall Annual Surplus/(Deficit)</b>	<b>(274)</b>	<b>0</b>	<b>(274)</b>	<b>0</b>

TGHC Overheads Budget 2013/14



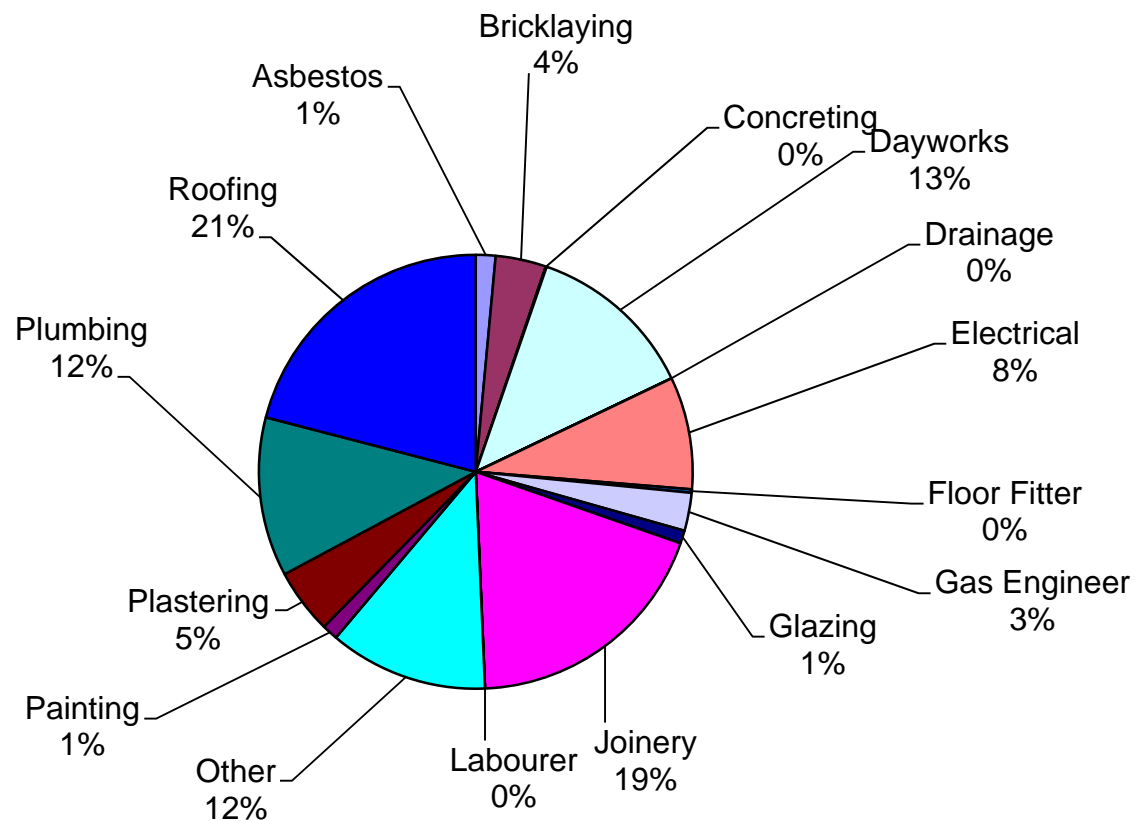
Central Overheads expenditure cumulative 31st December 2014





### Appendix 3

## Mears invoiced Repairs by trade for the period April 2013 - December 2013



Trade	2013/14 (9 months)
Asbestos	55,909
Bricklaying	143,385
Concreting	2,538
Dayworks	480,708
Drainage	118
Electrical	319,292
Floor Fitter	10,127
Gas Engineer	107,758
Glazing	36,852
Joinery	723,122
Labourer	-
Other	451,045
Painting	45,217
Plastering	184,315
Plumbing	452,183
Roofing	798,949
<b>TOTAL</b>	<b>3,811,516</b>

Comparison of Responsive Repairs to Previous Years

