



Report to Board of Directors

2 October 2014

Title: Management Accounts – First Quarter 2014/15

Report of: TGHC Head of Corporate Services

Purpose of Report

1. To provide the board with an update on the management accounts for the first quarter of the financial year 2014/15.

Background

2. The board approved the Keelman Homes budget for 2014/15 at its meeting on 16 January 2014, as part of a 5 year financial forecast.
3. The Accounts Team produces quarterly management accounts which detail actual year to date charges, the budget year to date, any variances to budget and a year end forecast. This report has been included in the Appendix to this report.

Management Accounts

4. The management accounts for the first quarter of the 2014/15 financial year are shown below:

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Income	138,799	148,489	(9,690)	593,957	584,516
Expenditure	123,163	171,281	48,118	685,122	601,754
Surplus/(Deficit)	15,636	(22,792)	38,428	(91,165)	(17,238)

5. The management accounts show Keelman Homes has made a surplus of £15,636 in the first quarter, compared to the expected deficit of £22,792.
6. We are still expecting to make an overall deficit in this financial year however we are now forecasting that the deficit for the year will be reduced to £17,238 compared to the budgeted deficit of £91,165 (a reduction of £73,927).
7. The decrease in the forecasted deficits (both quarter 1 and year end) is mainly due to a decrease in the cost of loan interest repayments required in year. The budget assumes that new loan financing would be taken early in the year and that two new loan repayments would be required, however, we are now forecasting that the loan won't be taken out until later in the year and that only one new loan repayment will be required.

8. Budgets will continue to be carefully monitored, with income and expenditure forecasts made on a prudent basis, until accurate trend analysis can be established.

Impact on tenants

9. 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

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

Financial Implications

11. The financial implications are contained within the report.

Equality and Diversity Implications

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

Value for Money implications

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

Health implications

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

Environmental implications

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

Consultation carried out

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

Recommendations

17. The Board is asked whether it is satisfied with the financial management of the revenue budgets for the first quarter of the 2014/15 financial year.

**Keelman Homes
Management Accounts – June 2014**

Executive Summary

1. The overall management accounts for the first quarter of the 2014/15 financial year are shown below:

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Income	138,799	148,489	(9,690)	593,957	584,516
Expenditure	123,163	171,281	48,118	685,122	601,754
Surplus/(Deficit)	15,636	(22,792)	38,428	(91,165)	(17,238)

2. The overall surplus at the end of the first quarter is £15,636 against an expected deficit budget of £22,792, giving a positive variance to budget of £38,428.
3. The original budgeted deficit of £91,165 is now expected to reduce by the year end to £17,238, a variance of £73,927. This is mainly due to a decrease in the forecasted cost of loan repayments in year, as it is now likely that only one new loan repayment will be required, rather than the two new loan payments that were originally budgeted for.

Income

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Rent	92,808	102,378	(9,570)	409,511	399,941
Service Charges	719	858	(139)	3,432	2,876
Shared Ownership Rent	6,981	8,130	(1,149)	32,519	31,370
Mgmt. of other Properties	15,757	15,535	222	62,140	63,028
Bad Debt	-2,048	-2,048	0	(8,190)	(8,190)
Void Loss	-78	-1,024	946	(4,095)	(3,149)
Release of grant funding	24,660	24,660	0	98,640	98,640
Surplus/(Deficit)	138,799	148,489	(9,690)	593,957	584,516

4. Rental income received for Keelman Homes properties is currently £9,570 less than the budget for the first 3 months and is forecasted to remain under budget by the end of the year. The reduction in rent is due to 3 of the Empty Homes Initiative properties not yet being let. The budget assumed that all of the properties would be let for the full year.
5. Service charge income is less than budget year to date by £139 and is forecasted to be £556 less than budget by the year end. This decrease is due to fewer tenants than budgeted requesting discretionary services such as the gardening scheme and community alarms, for which they must pay a service charge.
6. Shared ownership rent is currently £1,149 less than budget and we have forecasted that income for the year end will remain less than budget. The budget assumed all 13 properties would be sold by the start of the year and we would receive a full year's rental income, however only 10 had been sold at the start of the year. Further sales have been completed in April and July with the final property awaiting completion of sale.

7. The income for management of other properties is a management fee we receive for managing properties that belong to other organisations. The fee is based on a percentage of the net rent and is currently £222 greater than the budget. This is due to some properties coming under management earlier than we had assumed in the budget. If further properties are handed across earlier then the income received may be even greater, but we have taken a prudent view in the forecast that all future properties will be handed across as per the timescale used when setting the budget.
8. 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.
9. Void rent loss for the first quarter has only been £78 against a budget of £1,024. We have prudently forecasted that the void rent loss will be on budget for the remaining months of the year, giving a total loss by the year end of £3,149. It is likely that voids will remain low however and high demand for the new properties should see the void rent loss be lower than the currently forecasted figure by the year end.
10. The grant funding relates to Homes and Communities Agency (HCA) funding we have received for the new build properties at Kibblesworth and for the purchase and repair of properties through the Empty Homes Initiative. All HCA funding has been received for the Kibblesworth properties. We have received partial funding for the Empty Homes properties and expect to receive the remaining funding by the end of the year.

Expenditure

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Loan Interest Repayments	51,240	92,155	40,915	368,618	286,418
Repair Costs	130	3,301	3,171	13,204	10,033
Void Costs	0	3,301	3,301	13,204	9,903
Management Fee	4,800	4,800	0	19,200	19,200
Depreciation	63,283	63,283	0	253,133	253,133
Legal Costs	518	3,075	2,557	12,300	12,300
External Audit	1,366	1,366	0	5,463	5,463
Shared Ownership sale costs	1,500	0	(1,500)	0	4,000
Bank Charges	25	0	(25)	0	100
Leasehold Service Charges	301	0	(301)	0	1,204
Surplus/(Deficit)	123,163	171,281	48,118	685,122	601,754

11. Loan interest repayments are agreed amounts for the duration of the loan. The next payment is due in September 2014 and a further payment is due in March 2015. When setting the budget we had forecast that the draw down on the new additional loan in 2014/15 would be made early in the year and therefore two repayments would be required in year on this new loan. We are now forecasting that the drawdown will not be until after the first repayment date in September and therefore only one repayment will be made in the year on the new loan. We have reduced the forecast to £286,418 taking this in to consideration.
12. Repair costs for the first quarter are only £130, which is £3,171 under budget. We have prudently forecasted that the next 9 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 by the year end.

13. We have not incurred any costs for void works in Keelman Homes properties in the first quarter. We have forecasted that the next 9 months will come in on budget giving a £3,301 saving for the year. Due to the low void levels at these properties however, and the general condition of the properties, further savings may be made on this budget by the year end.
14. The management fee was agreed at a price per property for The Gateshead Housing Company to manage all of the Keelman Homes properties. We have assumed the properties currently being built will be completed as per the timescales used in setting the budget and therefore the cost will be as budget.
15. The forecast for the depreciation is shown as budget. Once the new build properties currently under development have been completed, and we know the actual final build cost of the properties, we will be able to update the figure to the exact amount. 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 new properties.
16. In the first quarter we have incurred £518 of legal costs which relate to the sale of a shared ownership property. Although the first quarter spend is under budget, we are forecasting spend at the year end will be on budget. We are expecting further legal charges later in the year from Gateshead Council who only raise Legal Services recharges to Keelman Homes twice a year.
17. As a limited company, Keelman Homes must have its accounts externally audited each year. We have accrued the cost of external audit based on the budget as the exact fee will not be agreed until near year end when planning begins with KPMG for the auditing of the accounts.
18. In order to assist in the sales of the remaining shared ownership properties we have employed the services of an estate agent, Reeds Rains, to advertise the properties on our behalf. On completion of any sale we have to pay them a commission for that sale. During the first quarter, we sold one property and have a further two to sell which may incur commission charges of £4,000 should they both be sold through Reeds Rains.
19. We have also incurred some minor bank charges for making CHAPS payments that were required when Keelman Homes purchased land at The Lonnen, one of the new build sites. Whilst we try to minimise using CHAPS as a payment method to avoid these extra costs it is not always possible.
20. Three of the properties that Keelman Homes purchased as part of the Empty Homes Initiative were former Gateshead Council properties located in a low rise block, meaning we have only purchased the leasehold of the property and not the freehold. As a leaseholder, we have to pay annual services charges to Gateshead Council to cover the shared areas of the building. The current forecast is based on the estimated service charge invoice we have received. We will receive an adjusted actual service charge invoice in the following financial year once all the costs are known.