



Report to Resources Committee

4 November 2014

Title: Management Accounts – Second Quarter 2014/15

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 2014/15.

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 spend at year end. This report has been included in the Appendix to this report.
3. The Board agreed the budget for 2014/15 at its meeting on 20 March 2014.

Management Accounts

4. The Council agreed to pay the company fees totalling £34.217m for the 2014/15 financial year. This consists of £13.206million for the Management Fee, £1million for the Company to manage the capital programme and £20.011million for the repairs fee (£18.011million from HRA Revenue and £2million from HRA Capital).
5. The Company has also budgeted to receive £208,145 income in 2014/15 in relation to management fees for ECO works, new build management fees, management fees for managing other properties and some miscellaneous income.
6. The total revenue budget for 2014/15 is therefore £14.414m and the repairs budget £20.011m.
7. As detailed in the budget report, the proposed budget, similar to the prior year, includes a review of current vacancies. We have removed costs associated with some of our current vacant posts that we do not expect to fill to enable the budget to balance.

8. We have not currently included any pay awards on salaries and have agreed with the council that further discussions will take place if a pay increase is agreed later in the year.
9. The 2014/15 repairs fee has been agreed as an overall increase on the 2013/14 fee. It reflects the 2% savings proposed in the Mears tender plus an increased fee for responsive repairs and voids expenditure. Fees for work with LES and other contractors have remained at 2013/14 levels.
10. The Management Accounts for the second quarter of the financial year 2014/15 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 2014.
11. The Management Accounts Revenue shows a surplus for the second quarter of £245,000. This is due to an increase in income from properties owned by TGHC, slippage on vacant posts and overhead budgets where spend will not be realised until later in the year.
12. The £292,000 under spend on employee costs is mainly due to slippage on vacant posts. Some of these posts were dependant on the company receiving funding to carry out ECO works however, as we currently believe it is unlikely future ECO funding will be secured, we are forecasting that these posts will remain vacant. The corresponding expected income has also been removed.
13. The overhead costs are over budget by £4,000 to the second quarter. This is mainly due to additional costs incurred for rent at the Civic Centre and Keelman House costs. These overspends have been partly offset by budgets that are traditionally not spent until later in the year. We are forecasting that overheads will come in £238,000 over budget by the year end due to the increased costs incurred at Keelman House, prior to it being handed back to the landlord, and a full year charge being made for the Civic Centre (when budgets were based on 8 months). In addition, Carbon Reduction Commitment charges have been levied which had no budget allocation within the management fee and there has been an increase in the company's contribution to the community fund.
14. At the year end, we are forecasting that the revenue budget will have a surplus of £19,000 overall. Income is expected to be under budget as the management fee for ECO works is unlikely to be received, however this will be offset by reduced expenditure in the Asset and Investment Team in relation to not filling posts that were to manage the works.
15. The overall position for repairs at the end of the second quarter is an under spend of £593,000. Although the position at the end of the second quarter would suggest that spend is reducing since last year, there are still some areas of concern within the budget and we are currently forecasting to be overspent by £357,000 by the end of the financial year.
16. The Mears specialist team has been disbanded and all outstanding work has now been invoiced. Therefore we have moved the remaining £468,000 from this budget head to support the Mears Responsive Repairs budget.

17. Prelims paid to Mears are expected to come in over budget due to unrealised efficiency savings on behalf of Mears. Control measures that were put in place to slow down and hold back some elements of planned responsive repairs have started to have an impact, this along with the additional budget transferred from Mears specialist means the responsive repairs budget is under spent by £216,000 in the second quarter. However with the winter months still to come, when traditionally we would expect repair requests to increase, we are forecasting spend will be to budget at the year end.
18. Although relets are currently underspent by £113,000, we are forecasting that spend will come in on budget by the year end. The numbers of orders raised for vacant properties continues to rise and is now at 943 in the second quarter compared to 733 for the same period last year. In addition, the number of vacant properties continues to rise and now stands at 536 compared to 349 at this point last year. Once works are completed in relation to all of these properties, we are expecting the current budget surplus to reduce. Increases in relation to voids and relets continues to be due to the impact of welfare reform changes on tenancy terminations.

Link to values

19. This report is in line with the following values of the Company :-
 - Being honest, accountable and transparent
 - Being motivated, trained and committed

Impact on tenants

9. 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 the strategic risk within the business plan (insufficient available financial resources) is effectively controlled.
11. 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

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

Health Implications

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

Equality and Diversity Implications

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

Value for Money Implications

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

Environmental Implications

16. 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

17. None directly for this report.

Recommendation

18. 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 2014/15 financial year.

**The Gateshead Housing Company
Management Accounts – September 2014**

Revenue and Repairs Executive Summary

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

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000	Year End Variance Forecast £'000
Management Fee					
Income	7,164	7,207	(43)	14,414	(82)
Employee Costs	4,419	4,711	292	9,421	339
Overhead Costs	2,500	2,496	(4)	4,993	(238)
Surplus/(Deficit)	245	0	245	0	19
Repairs Fee					
Repairs Management Fee	9,007	9,007	0	18,011	(100)
Capitalisation	651	1,000	(349)	2,000	100
Insurance Funded Repairs	25	0	25	0	51
Repairs Costs	9,090	10,007	917	20,011	(408)
Surplus/(Deficit)	593	0	593	0	(357)
Overall Annual Surplus/(Deficit)	838	0	838	0	(338)

2. The overall surplus at the end of the second quarter is £838,000.
3. The revenue budget to the second quarter shows a surplus of £245,000. The surplus is mainly due to slippage on vacant posts.
4. The repairs budget is underspent at the end of the second quarter by £593,000, however with the winter months which traditionally bring higher levels of repairs we expect this surplus to reduce over the coming months. The number of voids currently in Mears possession continues to grow and once all of these jobs have been completed they will reduce the current surplus.

Income

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000	Year End Variance Forecast £'000
INCOME					
Management Fee	6,603	6,603	0	13,206	0
Officer Costs	500	500	0	1,000	0
ECO Management Fee	0	57	(57)	114	(114)
New Build Management Fee	26	26	0	51	0
Management Fee from External Bodies	16	16	0	33	0
Gardening Service Income	1	1	0	2	0
Feed in Tariffs	1	1	0	2	0
TGHC Properties Rent	15	0	15	0	30
Solicitors Packs	2	1	1	2	2
Laundry Income	0	2	(2)	4	0
Total Income	7,164	7,207	(43)	14,414	(82)

5. Overall income for the second quarter is under target by £43,000. This is due to being unable to secure any grant funding to carry out ECO works and therefore not receiving a management fee for managing the works. This has been partly offset by rental income being received for properties owned by The Gateshead Housing Company that was not budgeted for. We are forecasting this rental income will be £30,000 for the year.
6. The Management Fee is in relation to the day to day management of Gateshead Council's properties. The historical Management Fee and the RAIT Performance Fee have now been amalgamated into one Management Fee with an overall reduction of 2.83%.
7. 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 6% of the overall capital programme.
8. The ECO management fee was in relation to grant funding secured in order to carry out ECO works at properties throughout the borough. Due to changes made to ECO funding by Central Government, this has more difficult to secure and funding has been reduced or removed completely, therefore we are taking a prudent view by forecasting that none will be received this year.
9. The New Build Management Fee relates to the fee paid by Keelman Homes for managing the development of its new build properties throughout Gateshead. The fee was based on 5% of the value of the build, however, should the build costs change during the year, then the level of income will also be subject to change.

10. 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 Keelman Homes and another local housing provider.
11. 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.
12. The Feed In Tariff income relates to income we receive for the electricity generated by the photovoltaic panels on the 3 new build properties at High Lanes.
13. The TGHC properties rent income relates to rent and service charge income received for the 8 properties at Dunston Staithes that are owned by The Gateshead Housing Company.
14. The Solicitors Pack income is in relation to information provided to solicitors by our Leasehold Services Team whenever a leasehold property is sold or mortgaged. Due to the increase in Right To Buy applications we have seen an increase in the number of sales so far this year and have forecasted that the income will double for the year to around £4,000.
15. The Laundry income relates to the coin operated washing machines and dryers based at Warwick Court. The actual income is currently under budget however we expect it to come in on budget by the year end.

Staff Costs

16. Staff Costs are broken down as follows:

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000	Year End Variance Forecast £'000
Employee Costs					
Customer Services	1,399	1,498	99	2,996	70
Neighbourhood Services - HQ	476	481	5	961	0
Investment & Development Services	367	480	113	960	156
Neighbourhood Services - areas	1,381	1,424	43	2,848	79
Customers and Communities Sub Total	3,623	3,883	260	7,765	305
Corporate Services	796	828	32	1,656	34
Total Employee Costs	4,419	4,711	292	9,421	339

17. Salary costs are underspent 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.
18. When the budget was set it was assumed that no pay increase would be awarded in 2014/15. However we have agreed with the council that further discussions will take place should any pay increase be agreed at a later date.
19. The Customer Services section is currently underspent by £99,000. This is mainly due to a vacant post within the repairs team pending completion of the restructure. This committee approved the recruitment of temporary posts in the Lettings and Voids Team at its meeting on the 6 May 2014 and whilst most of these posts are now filled, they were filled internally and we therefore have more vacancies to backfill. Once these posts have been backfilled we would expect the under spend to reduce and are therefore forecasting a £70,000 under spend for the year.
20. There is an under spend of £113,000 in the Investment and Development Services section. This is mainly due to vacant posts that were budgeted for to manage the ECO works. These posts were dependent on the ECO grant funding being secured and as funding now looks uncertain, the posts are held as vacant.
21. There is an underspend on staffing in Neighbourhood Services – areas due to vacant posts at the Birtley and Wrekenton Offices and maternity leave at the Felling Office.

22. Corporate Services is also currently under spent by £32,000 due to vacant posts within the Health & Safety, Performance and Communications teams.
23. During the second quarter we incurred agency costs of £36,000, this is a decrease on the same period in 2013/14 when the spend was £39,000. The spend on agency staff this year has been offset in the month end figures due to a number of vacant posts being held.
24. The agency staff costs relate to a post in the Repairs - Surveyors Team to cover maternity leave and to cover vacant posts in the Communications and HR & Admin Teams.

Overhead Costs

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000	Year End Variance Forecast £'000
Overhead Costs					
Customers and Communities HQ Total	116	143	27	286	(2)
Corporate Services Total	1,915	1,840	(75)	3,680	(209)
Customers and Communities Area Costs	469	513	44	1,027	(27)
Total Overhead Costs	2,500	2,496	(4)	4,993	(238)

25. Overhead costs are overspent at the second quarter. This is mainly due to paying rent at both Keelman House and the Civic Centre for the first 4 months of the year. Budgets were agreed on the basis of only paying for the Civic Centre for 8 months in 14/15. We are forecasting that this budget will be overspent by £238,000 at year end, which will potentially be offset by the forecasted underspend on salary costs.
26. 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.
27. 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.
28. The current under spend within the Corporate Services section is £75,000 over spent this is due to paying rent on both Keelman House and the Civic Centre as above, costs incurred at Keelman House prior to its handover back to the landlord and Carbon Reduction Commitment (CRC) charges that were not budgeted for. These overspends have been partly offset due to low spend on some budgets which traditionally don't spend until later in the year. The main

areas are training, which incurs spend when employees begin qualification courses at the start of the new academic year, communications and tenant involvement.

29. We are forecasting a large over spend of £209,000 for Corporate Services by the year end due to having to pay rent on both Keelman House and Civic Centre for the first 4 months of the year as well as unforeseen costs incurred at Keelman House prior to handing it back to the landlord. These costs include NNDR and utility bills. We have made an increased contribution to the community fund compared to the amount that was included in the budget. We are also expecting CRC charges of £29,000 which were not included in the budget.
30. The current underspend on Customer and Communities is mainly due to utility costs being under budget, however this is expected during the summer months and we expect the costs to increase during the winter months. We are forecasting the Customers and Communities budgets to be £27,000 overspent at the year end. This is due to utility costs at Sheltered Schemes that are due to be demolished. Delays in rehousing the final tenants mean we continue to incur utility costs that were not budgeted for. We have also incurred costs for additional building cleaning ordered by the Council's Care Call section for sheltered schemes that do not currently have an on-site warden.

Repairs Summary

31. The repairs budget was set with all Mears budgets reduced by a 2% efficiency saving as agreed in the repairs tender. The Mears responsive repairs and Mears relets budgets have both been increased compared to last year's budget in response to current pressures. All other budgets have remained at the same level as 2013/14.

32. An analysis of the repairs costs is provided below:

	YTD Actual £000's	YTD Budget £000's	YTD Variance £000's	Annual Budget £000's	Year End Variance Forecast £'000
REPAIRS					
Fixed Costs (Contractors' Prelim's)	2,389	2,185	(204)	4,370	(408)
Responsive - Mears	2,268	2,484	216	4,968	0
Responsive - LES	403	475	72	950	0
Responsive - Mears Specialist	32	16	(16)	32	0
Responsive - External Specialist	51	113	62	225	0
Responsive - Others	19	50	31	100	0
Relets - Mears	2,082	2,195	113	4,390	0
Relets - Other	167	193	26	386	0
Cyclical Repairs - Servicing	198	175	(23)	350	0
Cyclical Repairs - Remedial Works	0	50	50	100	0
Water Hygiene Testing	21	75	54	150	0
Painting	277	350	73	700	0
Gas Servicing	922	959	37	1,918	0
Electrical Circuit Testing	54	50	(4)	100	0
Solid Fuel Testing	0	1	1	2	0
Lift Maintenance	44	50	6	100	0
Security	48	50	2	100	0
Environmental Works	48	113	65	225	0
Energy Performance Certificates	9	23	14	45	0
Aids & Adaptations	58	75	17	150	0
Software Development	0	25	25	50	0
Repairs Contingency	0	300	300	600	0
Expenditure TOTAL	9,090	10,007	917	20,011	(408)
Insurance Funded Repairs	25	0	25	0	51
Capitalisation	651	1,000	(349)	2,000	100
Repair Management Fee Income	9,007	9,007	0	18,011	(100)
Income Total	9,683	10,007	(324)	20,011	51
REPAIRS TOTAL	593	0	593	0	(357)

Overall Summary

33. The repairs budget is underspent at the end of the second quarter by £593,000 however this is unlikely to continue and we are forecasting a £357,000 overspend by year end. We are prudently forecasting that all budgets underspent at the end of the second quarter will come in on budget at the year end.

34. We are currently forecasting that spend in relation to fixed costs will be £408,000 over budget due to unrealised efficiencies by Mears, however discussions are currently ongoing regarding potential changes to pension contributions which may mitigate this.

Responsive Repairs

35. 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.
36. To reflect operational delivery and to allow for closer monitoring of the budgets, the responsive repairs budgets were split 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
37. All outstanding works in relation to the Mears Specialist budget have now been completed and invoiced and the remaining budget of £468,000 is now being amalgamated back to the Mears Responsive Repairs budget head to allow for more budget flexibility.
38. There have been 24,598 repair orders invoiced to the end of the second quarter and the average repair cost for the period was £90.01. This compares to 28,708 invoiced repairs, at an average cost of £104.09 for the same period 2013/14.
39. Measures were introduced in December 2013 to attempt to reduce and control Mears spend on responsive repairs. Planned works are being batched and not immediately released to Mears and work to garages and externals are being held back in most cases. These measures have helped to reduce the number of jobs and average cost and along with the additional transferred budget from Mears Specialist Works, the budget is currently underspent and we are forecasting it to come in on budget at the year end.
40. 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

41. 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.
42. Mears relet costs are under budget at the second quarter however the number of void properties has continued to increase due to the impact of Welfare Reform.

We currently have 536 void properties compared to 349 at this point last year. This large increase in the number of voids is putting pressure on Mears to complete the works and we would expect that once the backlog of jobs has been completed and invoiced the budget will no longer be underspent. There were 844 properties let to the end of the second quarter, compared to 949 for the same period in 2013/14.

43. 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.
44. The average relet cost for jobs completed and invoiced to the second quarter was £2,147.03 and the number of relets invoiced to the second quarter was 815. At the second quarter of 2013/14, 852 jobs had been invoiced at an average cost of £2,558.10.
45. In some areas of the borough where we have multiple vacant properties and demand for these properties is low we have taken the decision to slow down relet works until the properties that are currently ready to let have been let. There are currently 47 void properties being held back.

Painting

46. The painting programme budget is under spent by £73,000 to the second quarter. There is a programme in place based on the budgeted figure which Mears are currently working to; therefore we would expect this programme to be complete and the budget to spend by the year end.

Gas Servicing

47. Gas servicing is under budget for the second quarter by £37,000 as the number of gas repairs required has been lower during the summer months, we would expect these to increase during the winter months as the weather worsens and the current underspend to reduce. 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.
48. Gas appliances are required to have a gas service carried out every 12 months. At the end of the second quarter, 18,925 properties (99.89%) had been serviced and had a valid gas certificate. Of the 21 without, 3 properties were out of date by 1 to 4 weeks and 18 properties were out of date by 4 to 8 weeks.

Cyclical Maintenance

49. 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.
50. The electric circuit testing budget is currently overspent by £4,000, however there is programme in place for the year based on the budgeted amount and therefore we would expect spend to come in on budget by year end.

51. The environmental budget is underspent to the end of the second quarter by £65,000. This is due to invoices and details of work carried out not being received from LES. We are continuing to work with LES to improve the information we receive relating to these charges to allow the charges to be correctly audited. Once we receive this information we would expect this budget to be on budget by the end of the year.

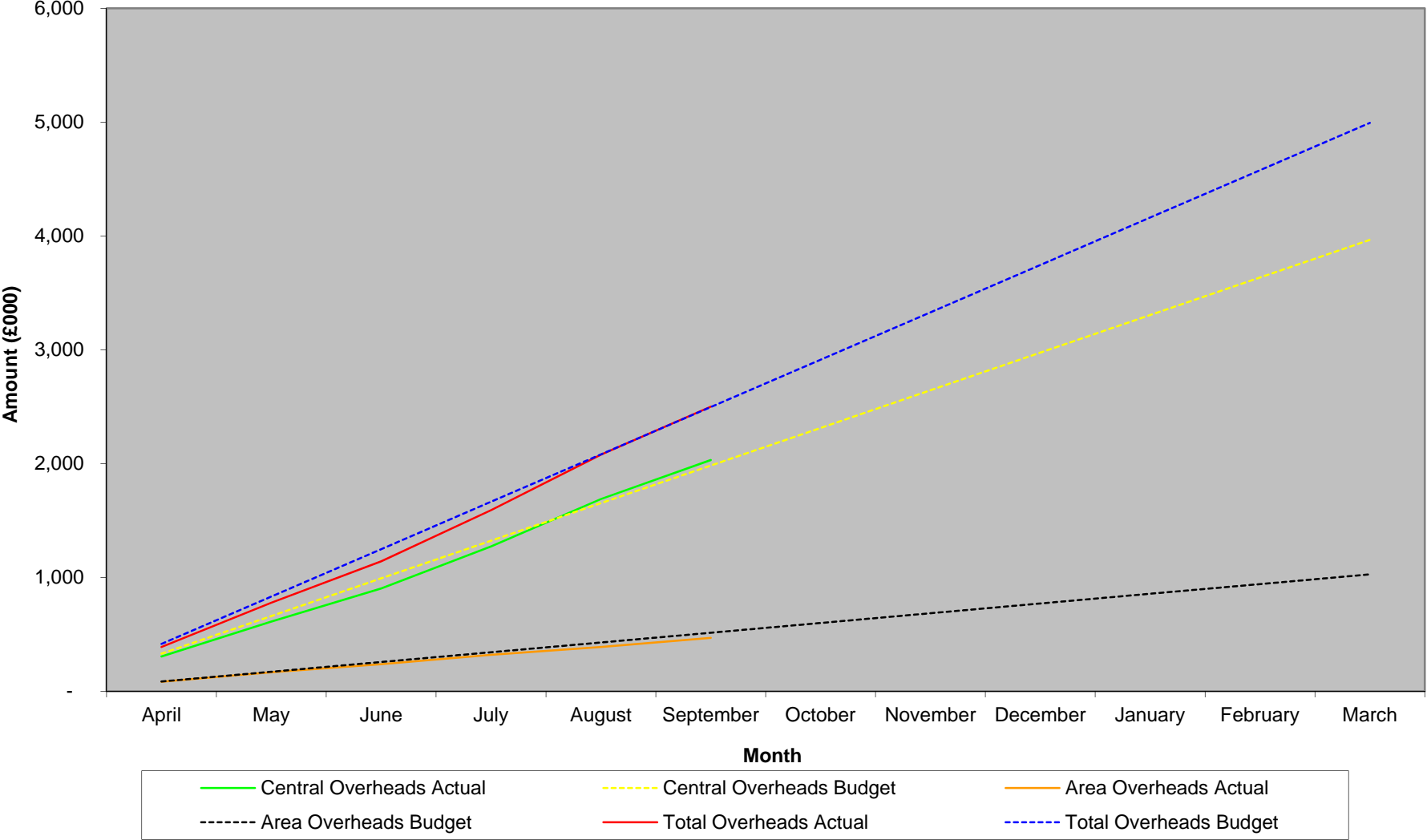
Others

52. The software development budget relates to the contribution from the repairs budget for the purchase of the BARIS interface. The interface will be used to improve the flow of information between Northgate and Mears repairs management system MCM and LES repairs management system TOTAL. The interface is currently undergoing testing and the revised anticipated date to go is around January with Mears and later in the year with LES.
53. The repairs contingency budget of £600,000 will be used to increase the available budget for any of the budget headings that are under pressure during the year. Although there is no spend against this budget, we are taking a prudent view and forecasting that the full £600,000 will be spent during the year.

Detailed Management Accounts

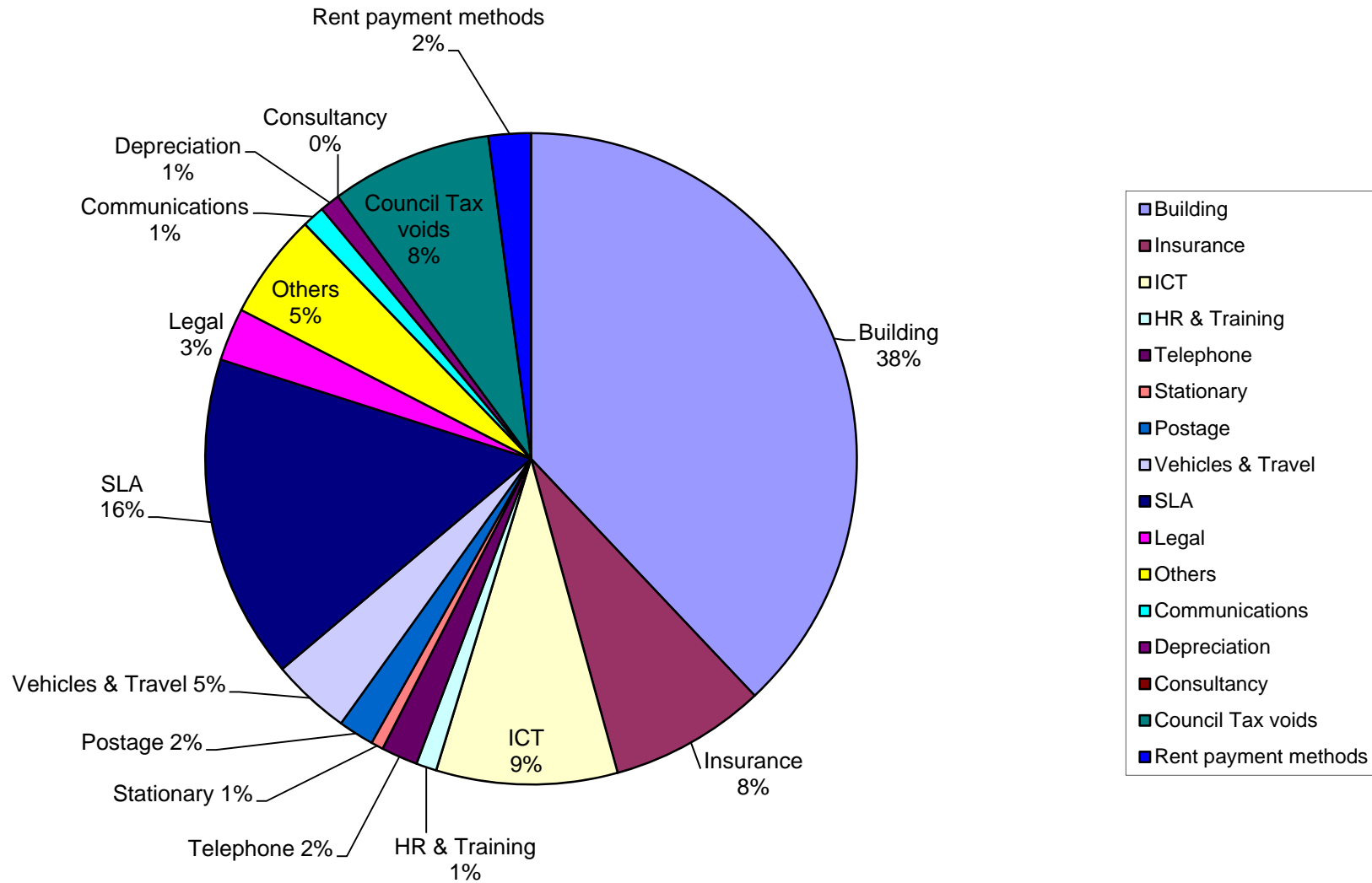
	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000	Y/E Variance Forecast £'000
INCOME					
Management Fee	6,603	6,603	0	13,206	0
Officer Costs	500	500	0	1,000	0
ECO Management Fee	0	57	(57)	114	(114)
New Build Management Fee	26	26	0	51	0
Management Fee from external bodies	16	16	0	33	0
Gardening Service Income	1	1	0	2	0
Feed in Tariffs	1	1	0	2	0
TGHC Properties Rent	15	0	15	0	30
Solicitors Packs	2	1	1	2	2
Laundry Income	0	2	(2)	4	0
Total Income	7,164	7,207	(43)	14,414	(82)
Employee Costs					
Customer Services	1,399	1,498	99	2,996	70
Neighbourhood Services - HQ	476	481	5	961	0
Investment & Development Services	367	480	113	960	156
Neighbourhood Services - areas	1,381	1,424	43	2,848	79
Customers & Communities sub total	3,623	3,883	260	7,765	305
Corporate Services	796	828	32	1,656	34
Total Employee costs	4,419	4,711	292	9,421	339
Overhead Costs					
Customers and Communities HQ	116	143	27	286	(2)
Corporate Services	1,915	1,840	(75)	3,680	(209)
Customers and Communities Area	469	513	44	1,027	(27)
Total Overhead Costs	2,500	2,496	(4)	4,993	(238)
Surplus/(Deficit)	245	0	245	0	(19)
Repairs Fee					
Repairs Management Fee	9,007	9,007	0	18,011	(100)
Capitalisation	651	1,000	(349)	2,000	100
Insurance funded repairs	25	0	25	0	51
Repairs Costs	9,090	10,007	917	20,011	(408)
Surplus/(Deficit)	593	0	593	0	(357)
Overall Annual Surplus/(Deficit)	838	0	838	0	(376)

TGHC Overheads Budget 2014/15

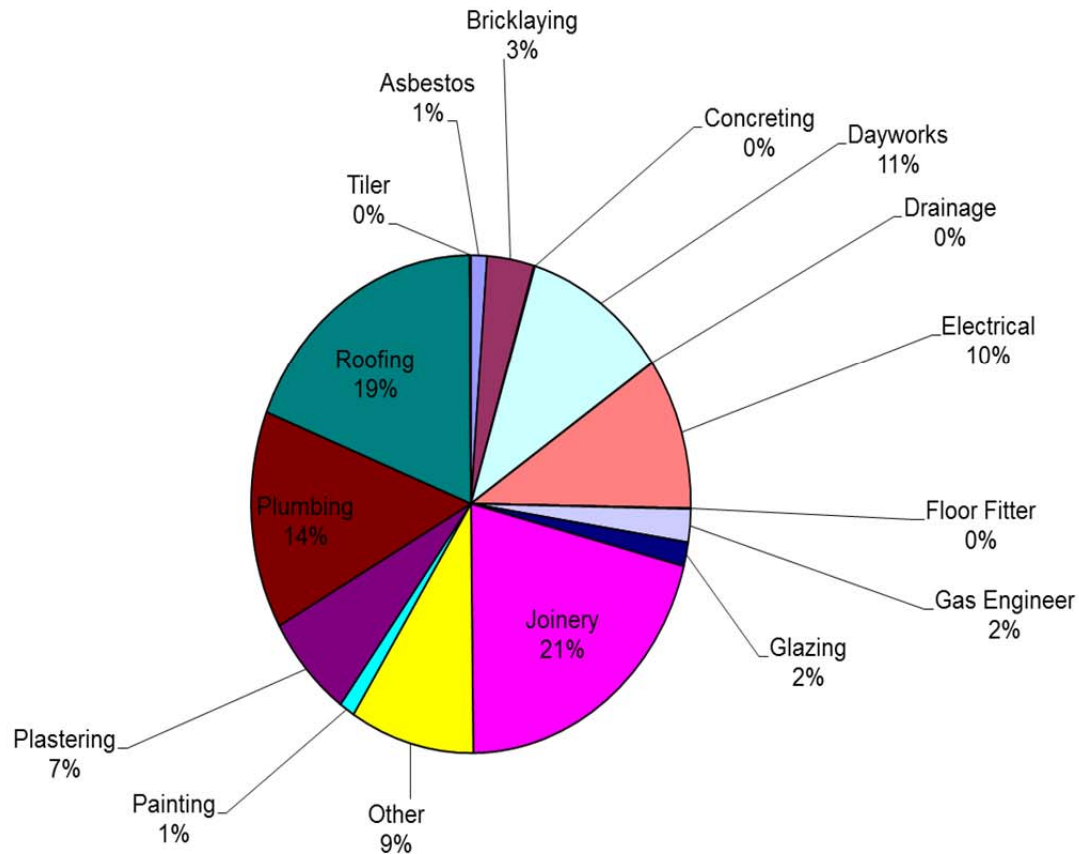


Appendix 2

Central Overheads expenditure cumulative 30th September 2014



Mears invoiced Repairs by trade for the period April 2014 - March 2015



Trade	2014/15
Asbestos	26,493
Bricklaying	78,289
Concreting	1,876
Dayworks	242,394
Drainage	154
Electrical	223,781
Floor Fitter	957
Gas Engineer	48,619
Glazing	35,214
Joinery	471,015
Other	207,234
Painting	25,760
Plastering	152,713
Plumbing	320,347
Roofing	428,306
Tiler	2,223
TOTAL	2,265,375

Comparison of Responsive Repairs to Previous Years

