**ITEM 5**

**Report to Board of Directors**
**20 November 2014**

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| **Title:** | **Management Accounts – Second Quarter 2014/15** |
| **Report of:** | **TGHC Head of Corporate Services** |

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**Purpose of Report**

1. To provide the board with an update on the management accounts for the second 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 second quarter of the 2014/15 financial year are shown below:

| | YTD Actual (£) | YTD Budget (£) | YTD Variance (£) | Annual Budget (£) | Annual Forecast (£) |
|---|---|---|---|---|---|
| Income | 257,288 | 296,979 | (39,691) | 593,957 | 532,842 |
| Expenditure | 234,541 | 342,562 | 108,021 | 685,122 | 553,566 |
| **Surplus/(Deficit)** | **22,747** | **(45,583)** | **68,330** | **(91,165)** | **(20,724)** |

5. The management accounts show Keelman Homes has made a surplus of £22,747 in the second quarter, compared to the expected deficit of £45,583.

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 £20,724 compared to the budgeted deficit of £91,165 (a reduction of £70,441).

7. The decrease in the forecasted deficits (both quarter 2 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, the new loan wasn't taken out until October and therefore only one new loan repayment will be required.

8. The accounts have also been impacted in the second quarter by the change from producing our statutory accounts under the Charities Statement of Recommended Practice (SORP) to the Housing SORP, in conjunction with our external auditors KPMG. This change in accounting policy was implemented when producing the 2013/14 statutory accounts and has an impact on the management accounts in relation to depreciation. Component accounting in relation to our fixed assets has now been implemented and this has seen a reduction in the depreciation charge and in the released grant funding.

9. 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**

10. 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**

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

**Financial Implications**

12. The financial implications are contained within the report.

**Equality and Diversity Implications**

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

**Value for Money implications**

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

**Health implications**

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

**Environmental implications**

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

**Consultation carried out**

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

### Recommendation

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

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**Appendix**

# Keelman Homes
# Management Accounts – September 2014

## Executive Summary

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

| | YTD Actual (£) | YTD Budget (£) | YTD Variance (£) | Annual Budget (£) | Annual Forecast (£) |
|---|---|---|---|---|---|
| Income | 257,288 | 296,979 | (39,691) | 593,957 | 532,842 |
| Expenditure | 234,541 | 342,562 | 108,021 | 685,122 | 553,566 |
| **Surplus/(Deficit)** | **22,747** | **(45,583)** | **68,330** | **(91,165)** | **(20,724)** |

2. The overall surplus at the end of the second quarter is £22,747 against an expected deficit budget of £45,583, giving a positive variance to budget of £68,330.

3. The original budgeted deficit of £91,165 is now expected to reduce by the year end to £20,724, a variance of £70,441. This is mainly due to a decrease in the forecasted cost of loan repayments in year, due to not drawing down new loan financing until October, meaning only one repayment is due on this new loan rather than the two new loan payments that were originally budgeted for.

## Income

| | YTD Actual (£) | YTD Budget (£) | YTD Variance (£) | Annual Budget (£) | Annual Forecast (£) |
|---|---|---|---|---|---|
| Rent | 187,207 | 204,756 | (17,549) | 409,511 | 391,962 |
| Service Charges | 1,438 | 1,716 | (278) | 3,432 | 2,876 |
| Shared Ownership Rent | 14,874 | 16,260 | (1,386) | 32,519 | 31,133 |
| Mgmt. of other Properties | 34,584 | 31,070 | 3,514 | 62,140 | 69,168 |
| Bad Debt | (4,095) | (4,095) | 0 | (8,190) | (8,190) |
| Void Loss | (1,380) | (2,048) | 668 | (4,095) | (3,427) |
| Release of grant funding | 24,660 | 49,320 | (24,660) | 98,640 | 49,320 |
| **Surplus/(Deficit)** | **257,288** | **296,979** | **(39,691)** | **593,957** | **532,842** |

4. Rental income received for Keelman Homes properties is currently £17,549 less than the budget for the first 6 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 being let by the end of the second quarter. The budget assumed that all of the properties would be let for the full year. The budget also assumed that the 9 properties at Runhead would be complete and let for 3 months of this financial year, this is now unlikely to happen due to site issues, further reducing the rental income forecast.

5. Service charge income is less than budget year to date by £278 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 £1,386 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 £3,514 greater than the budget. This is due to some properties coming under management earlier than we had assumed in the original budget. All properties that were expected to be handed over this year in the budget have now been handed over.

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 second quarter has only been £1,380 against a budget of £2,048. 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 £3,427. 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 due has now been received for the Kibblesworth properties and Empty Homes Initiative Properties. Due to the decision to change from reporting under the Charities SORP to the Housing SORP, the period over which we release the grant funding has increased from 50 years to 100 years. This is to match the period the structure of the properties are now being depreciated over and means the level of grant funding released this year is half of the budgeted amount.

## Expenditure

| | YTD Actual (£) | YTD Budget (£) | YTD Variance (£) | Annual Budget (£) | Annual Forecast (£) |
|---|---|---|---|---|---|
| Loan Interest Repayments | 102,480 | 184,309 | 81,829 | 368,618 | 286,418 |
| Repair Costs | 2,731 | 6,602 | 3,871 | 13,204 | 9,333 |
| Void Costs | 0 | 6,602 | 6,602 | 13,204 | 6,602 |
| Management Fee | 9,375 | 9,600 | 225 | 19,200 | 18,750 |
| Depreciation | 95,989 | 126,567 | 30,578 | 253,133 | 191,978 |
| Legal Costs | 8,264 | 6,150 | (2,114) | 12,300 | 14,414 |
| External Audit | 6,069 | 2,732 | (3,337) | 5,463 | 8,800 |
| Shared Ownership sale costs | 2,900 | 0 | (2,900) | 0 | 4,150 |
| Bank Charges | 61 | 0 | (61) | 0 | 122 |
| Leasehold Service Charges | 602 | 0 | (602) | 0 | 1,204 |
| NNDR | 895 | 0 | (895) | 0 | 895 |
| Subscriptions | 232 | 0 | (232) | 0 | 619 |
| CDMC Services | 1,200 | 0 | (1,200) | 0 | 2,400 |
| Marketing | 500 | 0 | (500) | 0 | 500 |
| Consultancy | 3,243 | 0 | (3,243) | 0 | 6,486 |
| HCA Audit Fee | 0 | 0 | 0 | 0 | 895 |
| **Surplus/(Deficit)** | **234,541** | **342,562** | **108,021** | **685,122** | **553,556** |

11. Loan interest repayments are agreed amounts for the duration of the loan. The first loan repayment was made 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. The new loan was not actually drawn down until October 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 second quarter are £2,731, which is £3,871 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 by the year end.

13. We have not incurred any costs for void works in Keelman Homes properties in the second quarter. We have forecasted that the next 6 months will come in on budget giving a £6,602 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 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 removed the management fee for the 9 properties at Runhead as they will not be completed this financial year. 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 depreciation charge is £30,578 under budget and is forecasted to be £61,155 under budget at year end. This is due the implementation of component accounting following the change to reporting under the Housing SORP. Component accounting means that each component of a property is depreciated over its individual life, rather than the whole property being depreciated at the same rate. We have also removed any charge for the properties at Runhead as they will not be completed in this financial year. The charge for the new build currently under development is based on the anticipated build costs. Once the properties 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.

16. In the second quarter we have incurred £8,264 of legal costs which relate to the sale of a shared ownership property, purchase of empty homes properties and land transfers for the new build sites. We are expecting further legal charges later in the year from Gateshead Council who raise Legal Services recharges to Keelman Homes twice a year. We are expecting this budget to overspend at year end.

17. As a limited company, Keelman Homes must have its accounts externally audited each year. We have accrued the cost of external audit for 2014/15 based on the budget. The exact fee will not be agreed until near year end when planning begins with KPMG for the auditing of the accounts. The budget is currently forecasting to overspend due to additional costs incurred on the 2013/14 audit. This was due to the work required for the change from the Charities SORP to the Housing SORP and costs in completing a corporation tax return for the first time.

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 second quarter, we sold two properties and have a further one to sell which may incur commission charges of £2,000 should it be sold through Reeds Rains. As part of the HCA requirements on sales of shared ownership properties we must get an independent valuation of the properties every three months, due to the delay in selling the last few properties we have had to get the properties revalued at a cost of £150.

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. We have also incurred bank changes for an audit report from our bank which KPMG requested as part of the external audit

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.

21. We have had to pay National Non Domestic Rates (NNDR) for the new build site at Felling Library. When we took ownership of the site the library building was still standing meaning we were liable for business rates until demolition began.

22. Keelman Homes has subscribed to the North East Chamber of Commerce and the Independent Housing Ombudsman during the year. Both of these subscriptions will be annual costs going forward and will need to be built in to any future year's budgets.

23. Due to a lack of expertise internally, we have had to contract an external company to carry out the Construction Design Management Coordinator (CDMC) role on the new build sites. The cost for The Lonnen new build site is £2,400 and we have agreed a further fee of £1,980 for CDMC at the Runhead site. As this site is unlikely to progress this year, we have excluded these costs from the forecast.

24. The new build site at the Lonnen contains 6 properties for sale. In order to promote these properties, we have paid £500 for marketing material although we don't anticipate any of the sales to complete until next financial year. We are not expecting to incur any further marketing costs this financial year. We will need to include a marketing budget in future years if we are planning to sell any properties.

25. We have employed the services of Judy Mackley, a Housing Funding Consultant, on an ad hoc basis to provide advice and guidance on grant funding issues and to correspond with the Homes & Communities Agency (HCA) on our behalf. As we lack this experience and knowledge in house, we will need to build these costs in to future year's budgets as we will continue to require expert advice.

26. We were required by the HCA to carry out a compliance audit this year. The audit has been carried out on the Empty Homes Programme during September/October

by an independent consultant for an agreed fee.  It is likely that we will be required to carry out further audits by the HCA in future years and therefore will need to build these costs in to future budgets.