



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 2015/16 and financial forecast for the 5 year period from 2015/16.

Background

2. On 16 January 2014, the Board approved the budget for 2014/15 and was asked to note the estimated budgets for 2015/16 and 2018/19.
3. Since the budget was set in 2014, there have been some changes to the forecasted activities of Keelman Homes. The company is nearing completion on a programme of new build for 2014/15, with a further programme of new build due to commence in 2015/16. In addition, Keelman Homes has now taken on the management of other properties on behalf of other housing organisations. These activities have had a financial impact and a revised budget has now been set for 2015/16 as part of revised 5 year forecast.
4. A statement showing the proposed budget for 2015/16 – 2019/20 is attached at the Appendix to this report.

Proposed Budget - Income

5. The income received into Keelman Homes is mainly the rental income for the properties. We have estimated the income based on the 2014/15 rents with an assumed annual rent increase of 2.2%.
6. The 5 year model assumes a scheme of 28 New Build properties in 2015/16, followed by 10 New Build properties in 2016/17 (6 rental and 4 sale). It is also assumed that there will be 6 Empty Homes developed per year, from 2015/16 to 2017/18.
7. Service charges have been assumed for the bungalows at Kibblesworth only, as the mix of properties for other new build schemes is not yet confirmed.
8. The shared ownership rental income is based on the current percentage of each property that has been sold. We have assumed that no staircasing will occur at any of these properties and rental income will increase by 2.2% 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. We have assumed that all future new build schemes will not contain any shared ownership properties.

9. The income for the management of other properties is based on all of the properties where we currently have management agreements in place. We earn an 11% management fee on rental income and it is assumed that there will be an annual rent increase of 2.2%.
10. The release of grant funding relates to the Homes and Communities Agency grant received for the Kibblesworth development and grants expected to be received for the Empty Homes and New Build properties going forward. Due to the change from reporting under the Charities Statement of Recommended Practice (SORP) to the Housing SORP, the period over which we release the grant funding is now 100 years. This is to match the period that the structure of the properties is being depreciated over.
11. We are currently assuming a 2% provision for bad debt and a 1% provision for voids.
12. Sales surplus in 2015/16 is from 6 properties at The Lonnen. These properties are currently under construction and it is assumed that they will all be completed and sold by the end of 2015/16. Sales surplus in 2017/18 is for 4 properties that are forecast to be built at West Park during 2016/17.

Proposed Budget – Expenditure

13. Employee costs are now included in the forecast in relation to the new Finance Manager who will be seconded to Keelman Homes from TGHC. Recruitment is also currently under way for a Keelman Homes Lead Officer. It is assumed that Keelman Homes will pay both these salary costs. An inflationary increase of 2.5% has been applied to salaries in future years.
14. The current loan repayments have been included at 6 monthly periods in line with the loan repayment schedule agreed with Gateshead Council. For the new loans required 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 cost of £200 per property, as per the management agreement with TGHC. This management agreement will expire at the end of December 2015 and will be reviewed in advance of its expiry. It has been assumed that the base fee will remain at £200 per property per year for the purposes of the 5 year forecast; however an inflationary increase of 2.5% has been applied to future years.
17. Depreciation of the properties has been calculated based on component accounting, in-line with the Housing SORP requirements. 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. The depreciation charge for New Build properties is based on the anticipated build costs.

18. Legal costs have been based on the 2014/15 forecast, 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 2013/14 audit with an inflationary increase of 2.5% for each year. The 2014/15 fee is still to be confirmed.
20. In order to assist in selling properties at The Lonnen and West Park we have included costs for marketing and estate agents fees. These are assumed to be £1,750 per property.
21. 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 service charge invoice we have received for 2014/15, with an inflationary increase of 2.5% for future years.
22. To support the grant funding bids it has been necessary to hire some external consultancy services. It is expected that this will continue in the future. Costs have been based on the 2014/15 forecast, with an inflationary increase of 2.5% for future years.
23. During 2014/15 a number of other miscellaneous costs have been incurred, including bank charges, Construction Design Management Coordinator (CDMC) services, planning fees and subscriptions. It is expected that costs such as these will continue to be incurred in future years, so these have been built into the budget.

Proposed Budget – overall

24. The overall budget position shows a surplus of £41,521 in 2015/16. The surplus is due to the sales income from the 6 properties at The Lonnen. Any delays on the sale of these properties beyond the end of 2015/16 would have a significant impact on the financial position in 2015/16.
25. The 5 year forecast shows that the company will make a deficit the following year (2016/17), but will produce a surplus from 2017/18 onwards. The reserves held by Keelman Homes will cover the deficit incurred during 2016/17.

Impact on tenants

26. 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

27. Regular and accurate monitoring will ensure that that the strategic risk within the business plan (insufficient available financial resources) is effectively controlled.
28. Progress on the sale of properties at The Lonnen will be closely monitored to reduce the risk of these slipping into the next financial year.

Financial Implications

29. The financial implications are contained within the report and appendix.

Equality and Diversity Implications

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

Value for Money implications

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

Health implications

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

Environmental implications

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

Consultation carried out

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

Recommendations

35. The Board is asked to:
 - approve the revenue budget for 2015/16
 - note the estimated budgets for 2015/16 to 2019/20.

Budget	5 Year Forecast				
	2015/16	2016/17	2017/18	2018/19	2019/20
	£	£	£	£	£
Income					
Rent	531,266	718,791	798,393	838,933	857,390
Service Charges	2,982	3,047	3,114	3,183	3,253
Shared Ownership Rent	36,545	37,349	38,171	39,011	39,869
Management of other properties	78,184	79,904	81,661	83,458	85,294
Bad Debt	-10,625	-14,376	-15,968	-16,779	-17,148
Void Loss	-5,313	-7,188	-7,984	-8,389	-8,574
Release of grant funding	56,040	58,320	59,520	59,520	59,520
Sales Surplus	208,000	0	61,702	0	0
	897,078	875,848	1,018,611	998,937	1,019,604
Expenditure					
Staff and Overheads	-102,500	-105,063	-107,689	-110,381	-113,141
Loan Interest Repayments	-391,863	-451,615	-470,819	-466,364	-461,908
Repair costs	-17,835	-23,639	-26,168	-27,816	-28,511
Void costs	-17,835	-23,639	-26,168	-27,816	-28,511
Management Fee	-25,215	-31,834	-34,891	-37,088	-38,015
Depreciation	-248,556	-269,498	-280,807	-280,807	-280,807
Legal Costs	-13,579	-13,919	-14,267	-14,623	-14,989
Audit Fee	-5,673	-5,815	-5,961	-6,110	-6,262
Marketing & property sales	-10,500	0	-7,000	0	0
Leasehold Service Charges	-1,230	-1,261	-1,292	-1,325	-1,358
Consultancy	-5,688	-5,830	-5,976	-6,125	-6,279
Misc Fees & Charges	-15,083	-15,460	-15,846	-16,243	-16,649
	-855,557	-947,572	-996,885	-994,698	-996,430
Surplus/(Deficit)	41,521	-71,724	21,725	4,240	23,174