



Title: Management Accounts – Fourth 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 fourth 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 Finance Team produces quarterly management accounts which detail actual year to date charges, the budget year to date and any variances. This report has been included in the Appendix to this report.

Management Accounts

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

	Actual (£)	Budget (£)	Variance (£)
Income	594,224	593,957	267
Expenditure	480,409	685,122	204,713
Surplus/(Deficit)	113,815	(91,165)	204,980

5. The management accounts show Keelman Homes has made a surplus of £113,815 in the fourth quarter, compared to the original budget deficit of £91,165. This is subject to review which will be carried out by the external auditor, KPMG.
6. The positive variance to budget is mainly due to a decrease in the cost of loan interest repayments required in year. The budget assumed that new loan financing would be taken early in the year and that two new loan repayments would be required. The new loan wasn't required to be taken out until October therefore no repayments on the new loan are required.
7. The accounts have also been impacted 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 corresponding released grant funding.

Impact on tenants

8. 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

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

Financial Implications

10. The financial implications are contained within the report.

Equality and Diversity Implications

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

Value for Money implications

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

Health implications

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

Environmental implications

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

Consultation carried out

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

Recommendations

16. The Board's views are sought as to whether it is satisfied with the financial management of the revenue budgets for the fourth quarter of the 2014/15 financial year.

**Keelman Homes
Management Accounts – March 2015**

Executive Summary

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

	Actual (£)	Budget (£)	Variance (£)
Income	594,224	593,957	267
Expenditure	480,409	685,122	204,713
Surplus/(Deficit)	113,815	(91,165)	204,980

2. The overall surplus at the end of the fourth quarter is £113,815 against an expected deficit budget of £91,165, giving a positive variance to budget of £204,980.
3. The positive variance to budget 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. No repayments were therefore due on the new loan compared to the two new loan repayments that were originally budgeted for.

Income

	Actual (£)	Budget (£)	Variance (£)
Rent	379,916	409,511	(29,595)
Service Charges	2,741	3,432	(691)
Shared Ownership Rent	30,810	32,519	(1,709)
Mgmt. of Other Properties	89,342	62,140	27,202
Bad Debt	0	(8,190)	8,190
Void Loss	(1,574)	(4,095)	2,521
Shared Ownership Sales	43,375	0	43,375
Release of Grant Funding	49,614	98,640	(49,026)
Surplus/(Deficit)	594,224	593,957	267

4. Rental income received for Keelman Homes properties is £29,595 less than the budget. The reduction in rent is due to three of the Empty Homes Initiative (EHI) properties not being let until during the third quarter. The budget assumed that all of the properties would be let for the full year. The budget also assumed that nine properties at Runhead would be complete and let for three months of this financial year. This did not happen due to site issues, further reducing the rental income.
5. Service charge income is less than budget by £691. 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 £1,709 less than budget. The budget assumed all thirteen properties would be sold by the start of the year and we would receive a full year's rental income, however only ten had been sold at the start of the year. Further sales were completed in April and July, with the final property completing in November.

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 £27,202 greater than the budget. £9,792 is due to some properties that we manage coming under management earlier than we had forecast in the original budget. £9,172 is due to 2013/14 fees that have been transferred from The Gateshead Housing Company (TGHC). The remaining £8,238 is due to fees in relation to EHI properties that had not been included in the budget.
8. The rent arrears for March 2015 have been reviewed and we currently have no need for a bad debt 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 year has only been £1,574 against a budget of £4,095. Void loss was low due to high demand for the new properties.
10. The three remaining shared ownership properties were sold during the 2014/15 financial year. There was a surplus on the sale of these properties of £43,375.
11. 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 EHI. All HCA funding due has now been received for both the Kibblesworth properties and the EHI Properties. Due to the decision to change reporting from 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

	Actual (£)	Budget (£)	Variance (£)
Loan Interest Repayments	203,846	368,618	164,772
Repair Costs	10,639	13,204	2,565
Void Costs	9,833	13,204	3,371
Management Fee	44,824	19,200	(25,624)
Salaries	3,120	0	(3,120)
Depreciation	145,590	253,133	107,543
Legal Costs	13,776	12,300	(1,476)
External Audit	14,381	5,463	(8,918)
Shared Ownership sale costs	4,700	0	(4,700)
Bank Charges	86	0	(86)
Leasehold Service Charges	1,510	0	(1,510)
NNDR	895	0	(895)
Subscriptions	619	0	(619)
CDMC Services	1,800	0	(1,800)
Marketing	500	0	(500)
Consultancy	4,162	0	(4,162)
HCA Audit Fee	895	0	(895)
Planning Fees	16,585	0	(16,585)
Award Ceremonies	400	0	(400)
HCA Grant Funding Fees	2,248	0	(2,248)
Surplus/(Deficit)	480,409	685,122	204,713

12. 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 was made 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 no repayments were due in the year on the new loan.

13. Repair costs for the fourth quarter are £10,639, which is £2,565 under budget. Repairs costs were low as many items are still under warranty and the new properties remain in good condition.

14. Void costs are £9,833, which is £3,371 under budget. This cost relates to void works at five properties, including high value works required on one EHI property. (Works were completed at two properties on the Kibblesworth Estate and three EHI properties in total).

15. The management fee was agreed at a price per property for TGHC to manage all of the Keelman Homes properties. This fee has overspent on budget due to the inclusion of Thirteen and EHI properties which had not been included in the budget.

16. The Keelman Homes Finance Manager commenced work at the beginning of March. One month's salary costs have been charged to the management accounts.

17. The depreciation charge is £107,543 under budget. This is due to 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. The charge for the new build properties has been based on actual costs incurred. This is lower than expected, as a number of properties have not been completed and are therefore classed as assets under construction, which are not depreciated.

18. Keelman Homes has incurred £13,776 of legal costs during the year. These relate to various activities including the sale of a shared ownership property, the purchase of EHI properties and land transfers for the new build sites.
19. 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 a quote received from KPMG. This also includes the cost of the corporation tax return. The budget has overspent 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.
20. In order to assist in the sales of the remaining shared ownership properties at Kibblesworth we employed the services of an estate agent (Reeds Rains) to advertise the properties on our behalf. During the year, the final three shared ownership properties have been sold and incurred commission charges of £4,000. 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 had to get the properties revalued at a cost of £150. We have also had the six properties we are planning to sell at the current development on The Lonnen site valued at cost of £550.
21. We have 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 and 16A Brearley Way, an EHI property. 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 charges for an audit report from our bank which KPMG requested as part of the external audit.
22. Three of the properties that Keelman Homes purchased as part of the EHI were former Gateshead Council properties located in a low rise block, meaning we have 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.
23. 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.
24. 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 have been built in to future year's budgets.
25. 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 incurred in 2014/15 for The Lonnen new build site was £1,800.

26. The new build site at The Lonnen contains six properties for sale. In order to promote these properties, we have paid £500 for advance marketing material. Sales are forecast to complete in the next financial year.
27. Consultancy costs relate to advice and guidance received from Judy Mackley, a Housing Funding Consultant, on grant funding issues.
28. We were required by the HCA to carry out a compliance audit this year. The audit has been carried out on the EHI during September/October by an independent consultant for an agreed fee of £895.
29. We have also incurred planning fees in 2014/15 in relation to the new build developments that will start in 2015/16, to the value of £8,335. It has also been necessary to write off planning costs that had previously been capitalised to the value of £8,249. This was in relation to a new build site that will not be pursued.
30. Keelman Homes Kibblesworth Development was nominated and won an award, from the Northern Finals of the Local Authority Building Control Awards, for the best social or affordable new housing development. Winning this award meant we were entered in to the national finals and sent representatives down to London to attend the awards on behalf of the company. The cost of attending the awards was £150 per delegate. The Kibblesworth development also made the shortlist for the Northern Silver Screen Awards, again we sent delegates to represent the company at a cost of £50 per delegate.
31. Other costs of £2,248 relate to a fee to obtain grant funding (via ESH) to contribute towards the cost of rebuilding 73 Marian Court, recruitment costs for the new Lead Officer post and the fee for filing the accounts at Companies House.