



Title: 10 Year Financial Forecast

Report of: TGHC Head of Corporate Services

Purpose of Report

1. To provide the Board with a revised budget for 2015/16 and to note the financial forecast for the 10 year period from 2015/16.

Background

2. On 19 March 2015, the board approved the budget for 2015/16 and was asked to note the financial forecast for 2015/16 to 2018/19.
3. Since the budget for 2015/16 was approved, there has been some progress with the forecasted activities of Keelman Homes which affects the budget and the future financial forecasts. These include the agreement of the first 2015/16 loan drawdown with Gateshead Council and a review of corporation tax with the external auditors, KPMG.
4. The Board is therefore asked to review the amended budgets and future forecasts and approve the variations.
5. A statement showing the revised budget for 2015/16 – 2024/25 is attached at the Appendix to this report.

Changes to the Budget - Income

6. The income for the management of other properties has been increased to include the management of the Empty Homes Initiative properties on behalf of Gateshead Council. There are now 19 properties being managed, generating an income of £9,500 per annum.

Changes to the Budget – Expenditure

7. The first loan drawdown has now been agreed with Gateshead Council for 2015/16 and it is forecast that a second loan drawdown will be required later in the year. The original budget assumed that a loan of £3m would be taken in April 2015, however only £1.5m was required. Due to the change in the timing of loan drawdowns, this has reduced the number of interest payments required in 2015/16 and the budget has been amended accordingly.

8. The original budget for 2015/16 assumed that the interest rate on loans from Gateshead Council would be 4%, as per previous loans. However, the most recent loan drawdown rate is 4.25%, which has increased the interest payments required in year. The forecasted budget assumptions in future years have also been updated to use the higher rate of 4.25% going forward.
9. As per the management agreement between TGHC and Keelman Homes, the management fee has been budgeted for at an annual cost of £200 per property. Costs totalling £31,160 in relation to the management of properties on behalf of Thirteen Group and the Empty Homes Initiative properties have now been included in the budget for 2015/16 and future years.
10. As a private limited company, Keelman Homes must have its accounts externally audited each year. The fees for 2014/15 have now been agreed with the external auditor, KPMG, and assumptions have been updated for future years. An additional cost of £2,994 now needs to be included in the budgets in relation to corporation tax and accounts tagging, which will also be carried out by KPMG.
11. The sale of properties on the open market will incur corporation tax, as this is not classed as “primary purpose trading” to attain the charities tax exemption. We are expecting to sell 6 properties at The Lonnen in 2015/16 and 4 properties at West Park in 2017/18. The budget has been updated to include corporation tax at 20% on the sales surplus for these properties. Further guidance has been requested from our external auditors, KPMG, in relation to our corporation tax liabilities.

Changes to Budget – overall

12. The revised budget position shows a surplus of £67,864 in 2015/16. The surplus is due to the sales income from the 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.
13. The 10 year forecast shows that the company will make a deficit in the following 4 years (2016/17 to 2019/20) but will return to surplus from 2020/21. The reserves held by Keelman Homes will cover the deficit in these years.

Impact on tenants

14. 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

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

Financial Implications

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

Equality and Diversity Implications

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

Value for Money implications

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

Health implications

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

Environmental implications

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

Consultation carried out

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

Recommendations

23. The Board is asked to:
- approve the revised budget for 2015/16;
 - note the forecasts for 2016/17 to 2024/25.

Keelman Homes 10 Year Forecast

APPENDIX

Budget	10 Year Forecast									
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£	£	£	£	£	£	£	£	£	£
Income										
Rent	531,266	718,791	798,393	838,933	857,390	876,253	895,530	915,232	935,367	955,945
Service Charges	2,982	3,047	3,114	3,183	3,253	3,325	3,398	3,472	3,549	3,627
Shared Ownership Rent	36,545	37,349	38,171	39,011	39,869	40,746	41,642	42,559	43,495	44,452
Management of Other Properties	87,684	89,613	91,584	93,599	95,658	97,763	99,913	102,111	104,358	106,654
Bad Debt	-10,625	-14,376	-15,968	-16,779	-17,148	-17,525	-17,911	-18,305	-18,707	-19,119
Void Loss	-5,313	-7,188	-7,984	-8,389	-8,574	-8,763	-8,955	-9,152	-9,354	-9,559
Release of Grant Funding	56,040	58,320	59,520	59,520	59,520	59,520	59,520	59,520	59,520	59,520
Sales Surplus	208,000	0	61,702	0	0	0	0	0	0	0
Total Income	906,578	885,557	1,028,533	1,009,078	1,029,968	1,051,318	1,073,138	1,095,437	1,118,228	1,141,519
Expenditure										
Staff and Overheads	-102,500	-105,063	-107,689	-110,381	-113,141	-115,969	-118,869	-121,840	-124,886	-128,008
Loan Interest Repayments	-299,266	-463,407	-484,091	-479,635	-475,179	-470,724	-466,268	-461,812	-457,357	-452,901
Repair Costs	-17,835	-23,639	-26,168	-27,816	-28,511	-29,224	-29,955	-30,704	-31,471	-32,258
Void Costs	-17,835	-23,639	-26,168	-27,816	-28,511	-29,224	-29,955	-30,704	-31,471	-32,258
Management Fee	-56,375	-63,773	-67,629	-70,644	-72,410	-74,220	-76,076	-77,978	-79,927	-81,925
Depreciation	-248,556	-269,498	-280,807	-280,807	-280,807	-280,807	-280,807	-280,807	-280,807	-280,807
Legal Costs	-13,579	-13,919	-14,267	-14,623	-14,989	-15,364	-15,748	-16,141	-16,545	-16,959
Audit Fee	-8,668	-8,884	-9,106	-9,334	-9,567	-9,807	-10,052	-10,303	-10,561	-10,825
Marketing & Property Sales	-10,500	0	-7,000	0	0	0	0	0	0	0
Leasehold Service Charges	-1,230	-1,261	-1,292	-1,325	-1,358	-1,392	-1,426	-1,462	-1,499	-1,536
Consultancy	-5,688	-5,830	-5,976	-6,125	-6,279	-6,436	-6,596	-6,761	-6,930	-7,104
Misc Fees & Charges	-15,083	-15,460	-15,846	-16,243	-16,649	-17,065	-17,492	-17,929	-18,377	-18,836
Total Expenditure	-797,114	-994,373	-1,046,040	-1,044,749	-1,047,401	-1,050,231	-1,053,243	-1,056,441	-1,059,831	-1,063,417
Corporation Tax	-41,600	0	-12,340	0	0	0	0	0	0	0
Surplus/(Deficit)	67,864	-108,816	-29,847	-35,671	-17,433	1,087	19,895	38,996	58,396	78,102
Reserves Opening	143,173	211,037	102,221	72,374	36,703	19,270	20,357	40,252	79,248	137,644
Reserves Closing	211,037	102,221	72,374	36,703	19,270	20,357	40,252	79,248	137,644	215,745