



Report to Resources Committee

8 September 2015

Title: Management Accounts – First Quarter 2015/16

Report of: Head of Corporate Services

Purpose of Report

1. To provide the Committee with an update on the management accounts for the first quarter of the financial year 2015/16.

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 forecast spend at year end. This report has been included in the Appendix to this report.
3. The Board agreed the budget for 2015/16 at its meeting on 19 March 2015.

Management Accounts

4. The Council agreed to pay the company fees totalling £35,858,691 for the 2015/16 financial year. This consists of £13,484,483 for the Management Fee, £1,000,000 for the Company to manage the capital programme and £21,374,208 for the repairs fee (£19,229,208 from HRA Revenue and £2,145,000 from HRA Capital).
5. The Company has also budgeted to receive £164,060 income in 2015/16 in relation to new build management fees, management fees for managing other properties, rental income for the TGHC owned properties and some miscellaneous income.
6. The total revenue budget for 2015/16 is therefore £14,648,543 and the repairs budget £21,374,208.
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. The 2015/16 repairs fee has been agreed as an overall increase on the 2014/15 fee. It reflects the increased costs agreed as part of the 2 year extension to the Mears contract and a £800,000 increase in the painting programme to allow a 7 year cycle to be implemented.
9. The Management Accounts for the first quarter of the financial year 2015/16 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 June 2015.
10. The Management Accounts Revenue shows a surplus for the first quarter of £292,000. This is due to slippage on vacant posts and overhead budgets where spend will not be realised until later in the year.
11. The £197,000 under spend on employee costs is mainly due to slippage on vacant posts. Some of these posts were new posts that the company received additional management fee to fund, as the posts could not be advertised until the funding was agreed they were not filled for the start of the year.
12. The overhead costs are under budget by £97,000 to the first quarter. This is mainly due to budgets that are traditionally not spent until later in the year and lower utility bills during the summer months. We are forecasting that overheads will come in £37,000 over budget for the year due to the Health & Safety SLA which was not budgeted for, however a vacant post within the Health & Safety team is being held to fund the SLA so there will be a corresponding under spend on employee costs.
13. The overall position for repairs at the end of the first quarter is an under spend of £361,000. Although the position at the end of the first quarter would suggest that spend is on target there are a couple of areas of concern. Mears responsive repairs and relets are both overspent, this is partly due to Mears completing work they received last financial year for which the budget has now transferred to Construction Services. Construction Services budget have underspent which partly offsets the over spend, but this area will need to be monitored closely to ensure it comes in on budget by the year end.
14. Spend on the painting programme is currently underspent for both Mears and Construction Services. Mears are currently on site and we would expect spend to increase and be back on budget during the next quarter as works progress over the summer months. Construction Services aren't due to start their painting programme until the end of July, however they are confident they can complete the full programme this year, therefore we still expect this to spend to budget.

Link to values

15. This report is in line with the Company values of being: -
 - Fair
 - Customer Focused
 - Open and Honest
 - Accountable

Impact on tenants

16. Appropriate financial monitoring and control will ensure efficiencies are maximised and redirected to services that directly impact on tenants.

Risk Management Implications

17. Regular and accurate monitoring will ensure that the strategic risk within the business plan (insufficient available financial resources) is effectively controlled.
18. 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

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

Health Implications

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

Equality and Diversity Implications

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

Value for Money implications

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

Environmental Implications

23. 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

24. None directly for this report.

Recommendation

25. The Committee's views are sought as to whether it is satisfied with the financial management of the Revenue and Repairs budgets for the first quarter of the 2015/16 financial year.

**The Gateshead Housing Company
Management Accounts – June 2015**

Revenue and Repairs Executive Summary

1. The management accounts for the first quarter of the 2015/16 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	3,661	3,663	(2)	14,649	0
Employee Costs	2,253	2,450	197	9,795	32
Overhead Costs	1,116	1,213	97	4,854	(37)
Surplus/(Deficit)	292	0	292	0	(5)
Repairs Fee					
Repairs Management Fee	4,807	4,807	0	19,229	0
Capitalisation	393	536	(143)	2,145	0
Insurance Funded Repairs	32	0	32	0	32
Repairs Costs	4,871	5,343	472	21,374	(32)
Surplus/(Deficit)	361	0	361	0	0
Overall Annual Surplus/(Deficit)	653	0	653	0	(5)

2. The overall surplus at the end of the first quarter is £653,000.
3. The revenue budget to the first quarter shows a surplus of £292,000. The surplus is mainly due to slippage on vacant posts and overhead budgets that traditionally have low levels of spend during the first quarter.
4. The repairs budget is underspent at the end of the first quarter by £361,000, however Mears responsive repairs and voids are overspent (partially offset by the underspend in relation to Construction Services contract mobilisation) and will be monitored closely over the next few months to ensure that the overspend is reduced and if required measures will be put in place to control the spend to within budget.

Income

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000	Year End Variance Forecast £'000
INCOME					
Management Fee	3,371	3,371	0	13,484	0
Officer Costs	250	250	0	1,000	0
New Build Management Fee	22	22	0	88	0
Management Fee from External Bodies	6	6	0	25	0
Gardening Service Income	1	1	0	2	0
Feed in Tariffs	0	1	(1)	2	0
TGHC Properties Rent	10	10	0	40	0
Solicitors Packs	1	1	0	4	0
Laundry Income	0	1	(1)	4	0
Total Income	3,661	3,663	(2)	14,649	0

5. Overall income for the first quarter is under target by £2,000. This is due to timing issues in receiving feed in tariff and laundry income. However we would expect this income to be on budget at the year end.
6. The Management Fee is in relation to the everyday management of Gateshead Council's properties. The fee has increased by 2.1% from the 2014/15 management fee.
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 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 has been calculated based on the salary costs of the employees involved in managing the builds. The fee will be reconciled at the end of the year to ensure it covers the actual costs of the relevant employees.
9. 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. The contract to manage the properties on behalf of Thirteen Group and Gateshead Council's Empty Homes now sits with Keelman Homes, however the company has a management agreement with Keelman Homes from which it receives £200 per property for each of these properties. Should any new properties come under our management during the year then this fee could potentially change.
10. 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.

11. 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.
12. The TGHC Properties Rent income relates to rent and service charge income received for the 8 properties that are owned by The Gateshead Housing Company.
13. 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 over the last year, we increased this budget from 2014/15 to a more realistic level.
14. 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

15. 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	663	726	63	2,903	0
Neighbourhood Services - HQ	249	249	0	994	0
Investment & Development Services	264	332	68	1,326	0
Neighbourhood Services - areas	687	717	30	2,870	0
Customers and Communities Sub Total	1,863	2,024	161	8,093	0
Corporate Services	390	426	36	1,702	32
Total Employee Costs	2,253	2,450	197	9,795	32

16. Salary costs are underspent for the first quarter due to salary slippage. The salary budget is based on the current structure and a number of vacant posts have been held at zero budget and will not be appointed to during the year 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.
17. The Customer Services section is currently underspent by £63,000. This is partly due to a vacant post within the repairs reporting centre that we are currently in the process of recruiting to. In addition, the council provided us with

additional management fee to create new posts within the voids, lettings and rent and income teams, to deal with the additional workload caused by welfare reform and universal credit, and for an additional post in the repairs team to assist in the management of the repairs contract extension. As we couldn't begin recruitment to these posts until the management fee was agreed, the posts weren't filled at the start of the year leading to the salary slippage.

18. There is an under spend of £68,000 in the Investment and Development Services section. This is mainly due to vacant posts pending a restructure of the teams and transfer of the cyclical maintenance team from the Customer Services section to the Investment and Development section.
19. There is an underspend of £30,000 in Neighbourhood Services – areas due to vacant posts and savings from reduced maternity leave pay across the housing office network.
20. Corporate Services is currently under spent by £36,000 due to vacant posts within the Health & Safety, Performance and ICT teams. It is expected that this budget will be underspent by £32,000 at year end as a post in the Health and Safety team is being held vacant to fund the Health and Safety Service Level Agreement (SLA).
21. During the first quarter we incurred agency costs of £20,000. This is an increase on the same period in 2014/15 when the spend was £14,000. The spend on agency staff this year has been offset in the month end figures due to a number of vacant posts being held.
22. The agency staff costs relate to a post in the Lettings and Gas Servicing Team to cover maternity leave and to cover vacant posts in the Rent and Income 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	59	73	14	294	(1)
Corporate Services Total	852	912	60	3,646	(33)
Customers and Communities Area Costs	205	228	23	914	(3)
Total Overhead Costs	1,116	1,213	97	4,854	(37)

23. Overhead costs are underspent at the first quarter. This is mainly due to costs not yet being incurred. We are forecasting that this budget will be overspent by £37,000 at year end, which will be offset by the forecasted underspend on salary costs.

24. 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.
25. 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.
26. The current under spend within the Corporate Services section is 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, tenant involvement and ICT.
27. We are forecasting an over spend of £33,000 for Corporate Services by the year end, £32,000 of this is due to the Health & Safety SLA which was agreed after budget-setting. The SLA is being funded via a vacant post within the H&S staffing budget and there is therefore a corresponding £32,000 underspend showing within Corporate Services salaries costs.
28. 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.

Repairs Summary

29. The repairs budget was set taking in to consideration the changes to the repairs contract following the agreement of a 2 year extension to the Mears Contract. As part of the extension, responsive repairs to boundary walls, fencing and flat roofs will now be carried out by Construction Services as will Relets in the East and Central Neighbourhoods. The relevant budget to cover these works has now transferred to Construction Services.
30. As part of the contract extension a 2% inflationary increase on all Schedule of Rates (SOR codes) was agreed and the relevant budgets have therefore been increased by 2% to account for this. No inflationary increases had previously been applied to the rates during the first 3 years of the contract.
31. 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 (Mears Prelim's)	952	952	0	3,810	0
Fixed Costs (CS Prelim's)	152	152	0	606	0
Responsive – Mears	1,319	1,124	(195)	4,494	(32)
Responsive – CS	253	394	141	1,575	0
Responsive - External Specialist	34	26	(8)	102	0
Responsive - Others	14	58	44	230	0
Relets – Mears	1,055	751	(304)	3,003	0
Relets – CS	255	420	165	1,679	0
Relets - Other	78	99	21	394	0
Cyclical Repairs - Servicing	129	89	(40)	357	0
Cyclical Repairs - Remedial Works	0	25	25	102	0
Water Hygiene Testing	6	38	32	153	0
Painting – Mears	60	179	119	714	0
Painting – CS	0	200	200	800	0
Gas Servicing	467	489	22	1,956	0
Electrical Circuit Testing	20	25	5	102	0
Solid Fuel Testing	0	1	1	2	0
Lift Maintenance	29	25	(4)	102	0
Security	10	25	15	102	0
Environmental Works	15	57	42	230	0
Energy Performance Certificates	6	11	5	46	0
Aids & Adaptations	17	38	21	153	0
Software Development	0	12	12	50	0
Repairs Contingency	0	153	153	612	0
Expenditure TOTAL	4,871	5,343	472	21,374	(32)
Insurance Funded Repairs	32	0	32	0	32
Capitalisation	393	536	(143)	2,145	0
Repair Management Fee Income	4,807	4,807	0	19,229	0
Income Total	5,232	5,343	(111)	21,374	32
REPAIRS TOTAL	361	0	361	0	0

Overall Summary

32. The repairs budget is underspent at the end of the first quarter by £361,000 however this is unlikely to continue and we are forecasting spend to come in on budget by the year end. We are prudently forecasting that all budgets underspent at the end of the first quarter will come in on budget at the year end.
33. The underspend in the first quarter is mainly due to low spend on the painting programme. The painting budget has been increased this year and works are now being carried out by both Mears and Construction Services. There has been no spend by Construction Services in relation to painting due to the mobilisation period required before they can start on site. Mears spend to date has also been low but we would expect this to increase over the summer months when the majority of the external painting will be carried out.

34. The spend with Mears on responsive repairs and relets has been high in the first quarter, however this appears to be due to the completion and invoicing of jobs that were work in progress at the end of 2014/15. The budget for these now sits with Construction Services under the new contract extension. It is expected that this overspend will be mainly offset by a corresponding underspend by Construction Services as they start on the works passed across from April.

Responsive Repairs

35. Responsive repair costs have been split between spend with Mears, spend with Construction Services (CS) and spend with other providers. Mears remain the main repairs contractor and they carry out the majority of the repairs and maintenance works at our properties. Construction Services carry out all drainage works, highways repair works, works to flat roofs and boundary fencing and walls.

36. To reflect operational delivery and to allow for closer monitoring of the budgets, we have split the repairs other costs budget into smaller budgets:

- External Specialist Works - for asbestos work and any other subcontractors used to provide specialist work (that Mears/CS 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. There have been 13,530 repair orders invoiced to the end of the first quarter and the average repair cost for the period was £100.44. This compares to 12,961 invoiced repairs, at an average cost of £93.13, for the same period 2014/15.

38. Mears Responsive Repairs are overspent by £195,000 at the end of the first quarter. This is partly due to Mears completing and invoicing for works to flat roofs and boundary walls and fences that were started by Mears prior to April. The budget for these works has now transferred to Construction Services who are responsible for any new jobs raised from April. A corresponding underspend is expected by Construction Services at the year end, due to low spend in the first few months during mobilisation.

39. The majority of the outstanding works with Mears should now be completed and invoiced, therefore we would expect Mears responsive repairs to be on budget each month for the rest of the year. We will continue to monitor this closely and if spend continues to be over budget, we may have to introduce measures to reduce and control spend on responsive repairs, similar to those utilised in previous years.

40. The Mears overspend has been partly offset by the £141,000 underspend on Construction Services Responsive Repairs. The spend in the first few months was expected to be low as a mobilisation period is expected between jobs being raised, completed and invoiced.

41. 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

42. The relet budget is split between the costs of the works carried out by Mears, Construction Services 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.
43. Mears relet costs are £304,000 over budget at the first quarter however 63 jobs at a cost of £199,000 were for the Central and East neighbourhoods, for which the budget now sits with Construction Services. These jobs were raised with Mears during 2014/15 and were in progress at the year end and not completed until 2015/16. There were 490 properties let to the end of the first quarter (443 at the end of July 15), compared to 375 for the same period in 2014/15.
44. Construction Services relet costs are £165,000 under budget which will offset some of the Mears overspend. Due to the time it takes to complete a relet there were only a few jobs completed and invoiced in the first months of the new contract due to this mobilisation period. We would expect this to change now the first quarter is finished and for jobs to be completed and invoiced steadily for the rest of the year to bring spend within budget in the remaining periods.
45. Weekly operational meetings are held with Mears and Construction Services to discuss the relet works being undertaken and we closely monitor the number of voids being sent through to both contractors in order to manage overall expenditure.
46. The average relet cost for jobs completed and invoiced to the first quarter was £2,605.45 and the number of relets invoiced to the first quarter was 385. At the first quarter of 2014/15, 344 jobs had been invoiced at an average cost of £2,206.78. The 2015/16 statistics do not currently include any of the Construction Services jobs as we are awaiting the detail of the work that has been completed.
47. 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 21 void properties being held back which has reduced from a high of 52 properties in September 2014.

Painting

48. An additional £800,000 has been added to the painting budget this year to allow a 7 year painting cycle to be introduced. The budget has been split between Mears and Construction Services.
49. The Mears painting programme budget is under spent by £119,000 to the first quarter. There is a programme in place based on the budgeted figure which Mears are currently working to and we would expect this programme to be complete and the budget to spend by the year end. The majority of the external

painting programme will be carried out over the summer when the weather is more favourable so we would expect spend to increase during the second quarter.

50. Works in relation to the Construction Services painting programme are due to start on site in July 2015, therefore there is no spend against this budget to date. A full programme is in place however based on the budgeted figure, which Construction Services have confirmed they will complete by the end of the year.

Gas Servicing

51. Gas servicing is under budget for the first quarter by £22,000 as the number of gas repairs required has been lower during the summer months. We would expect these to increase during the winter months and the current underspend to reduce. This budget line also includes the Gas Care Plan (which is a fixed monthly cost of £150,000), the budget for gas repairs and the no access team and any warrant required to secure access to a property.
52. Gas appliances are required to have a gas service carried out every 12 months. At the end of the first quarter, 99.73% of properties had a gas service within the previous 12 months. 50 properties were non-compliant, of these 27 were serviced in early July, 14 have been visited by the contractor but have outstanding compliance paperwork and 9 properties are still outstanding and warrants are being sought to gain access to these properties .

Cyclical Maintenance

53. There are a number of budgets headings in relation to the cyclical maintenance programmes which have been developed for our properties; this includes cyclical repairs, water hygiene testing, lift maintenance, environmental works, electrical circuit testing and solid fuel testing.
54. The cyclical repairs – servicing budget is £40,000 over budget to the end of the first quarter, however this is partly offset by a £25,000 underspend on cyclical repairs – remedial works. The current system does not allow the costs to be easily split between servicing and works, however implementation of the new BARIS interface should make this possible and costs will be correctly allocated to each budget heading once this is in place.
55. The environmental budget is underspent to the end of the first quarter by £42,000. However the May and June invoices have not yet been paid as the charges on the two invoices are being reviewed and queried with Construction Services. We would expect this to spend to budget by year end.

Others

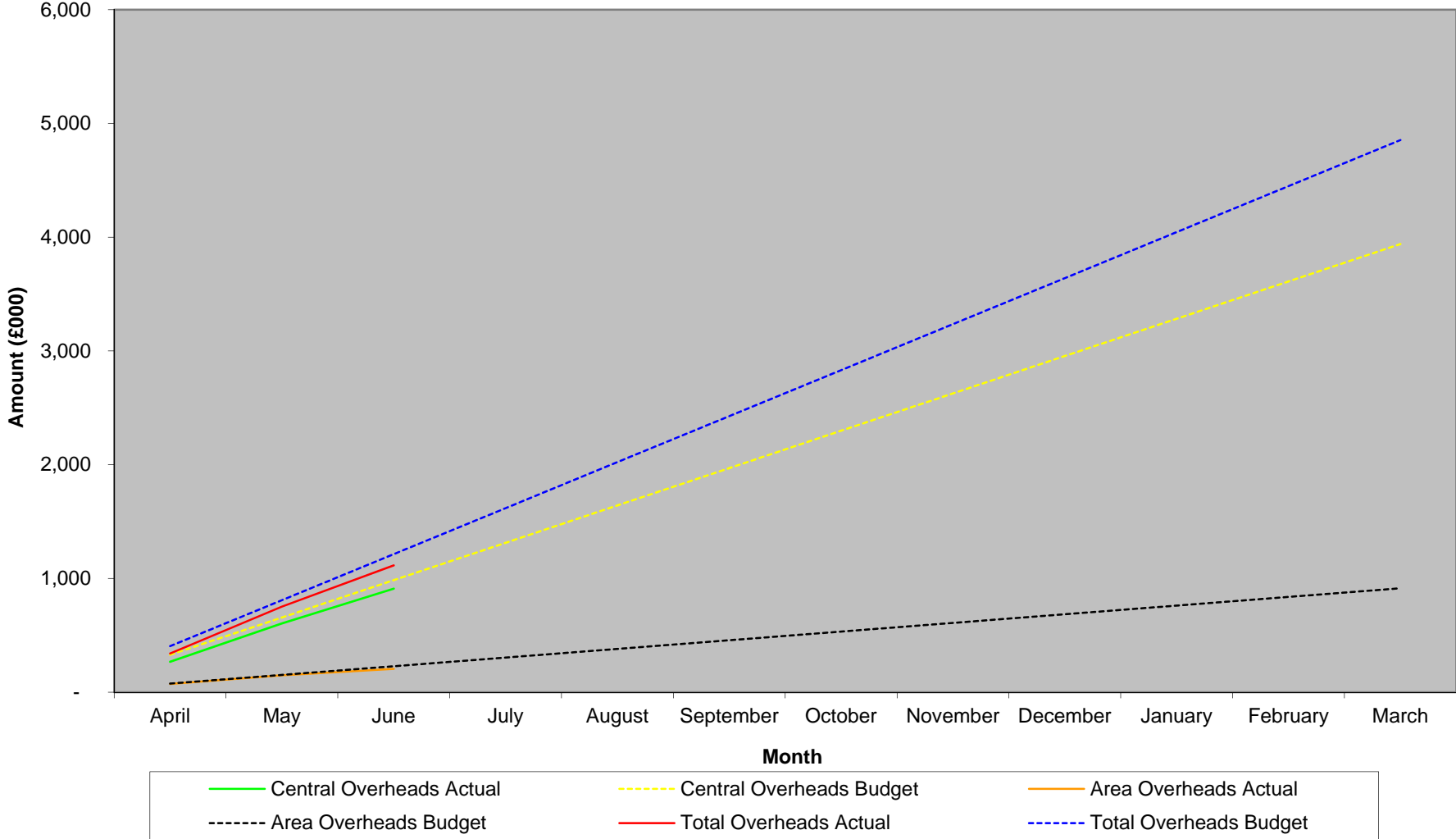
56. The software development budget relates to the contribution from the repairs budget for the purchase of the BARIS interface. The interface will be used to improve the flow of information between Northgate, the Mears Repairs Management System (MCM) and Construction Services Repairs Management system (TOTAL). The costs for the interface have been charged to the company's fixed assets on the balance sheet and will be depreciated over the next 4 years. Development and testing of the interface is still ongoing with Mears and Construction Services.

57. The repairs contingency budget of £612,000 will be used to offset any potential overspends or any unforeseen one-off expenditure items arising in year. There is no spend against this budget to date, however we are currently taking the prudent view that spend will be to budget by the year end.

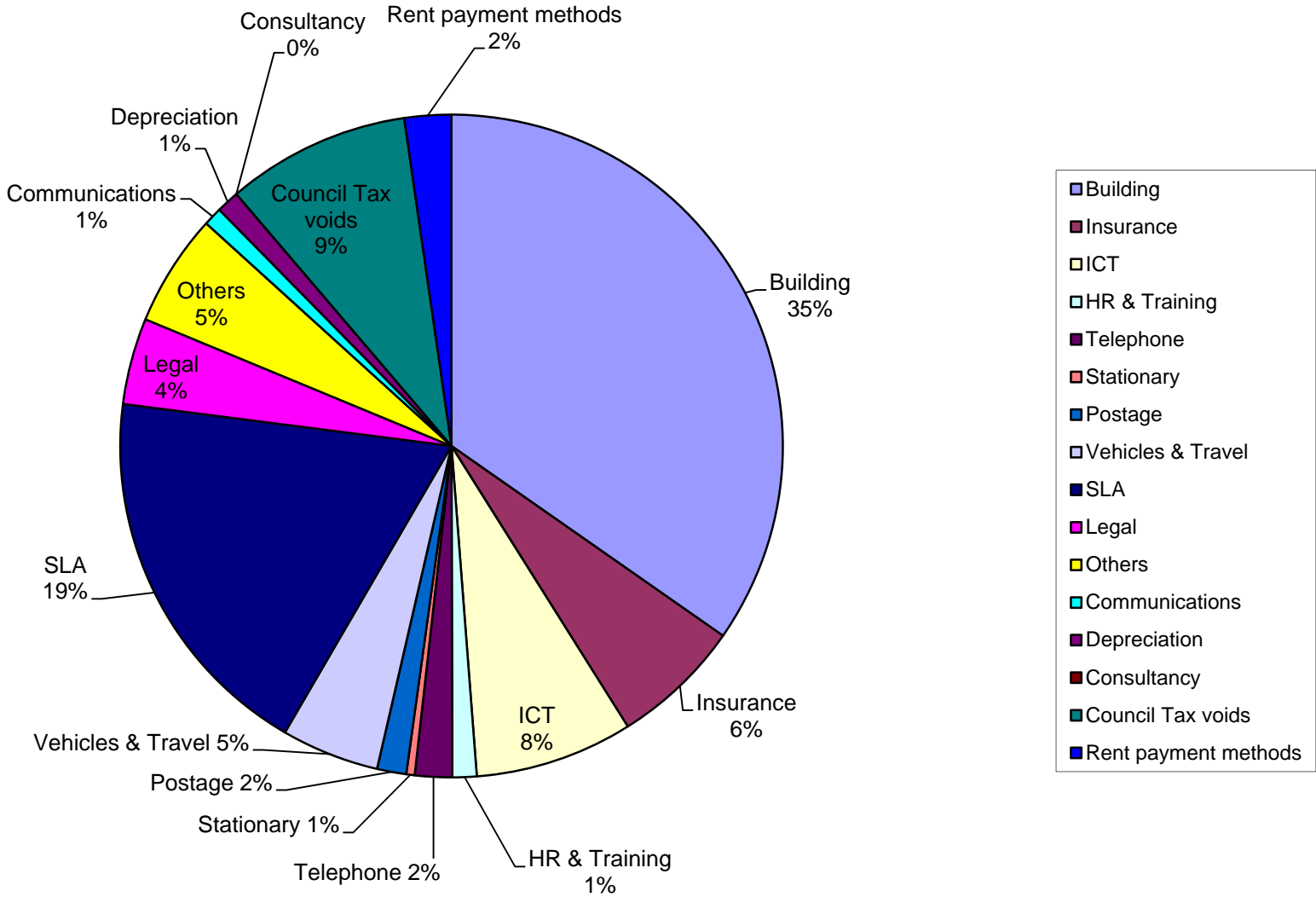
Detailed Management Accounts

	YTD Actual £'000	YTD Budget £'000	YTD Variance £'000	Annual Budget £'000	Y/E Variance Forecast £'000
INCOME					
Management Fee	3,371	3,371	0	13,484	0
Officer Costs	250	250	0	1,000	0
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Total Employee costs	2,253	2,450	197	9,795	32
Overhead Costs					
Customers and Communities HQ	59	73	14	294	(1)
Corporate Services	852	912	60	3,646	(33)
Customers and Communities Area	205	228	23	914	(3)
Total Overhead Costs	1,116	1,213	97	4,854	(37)
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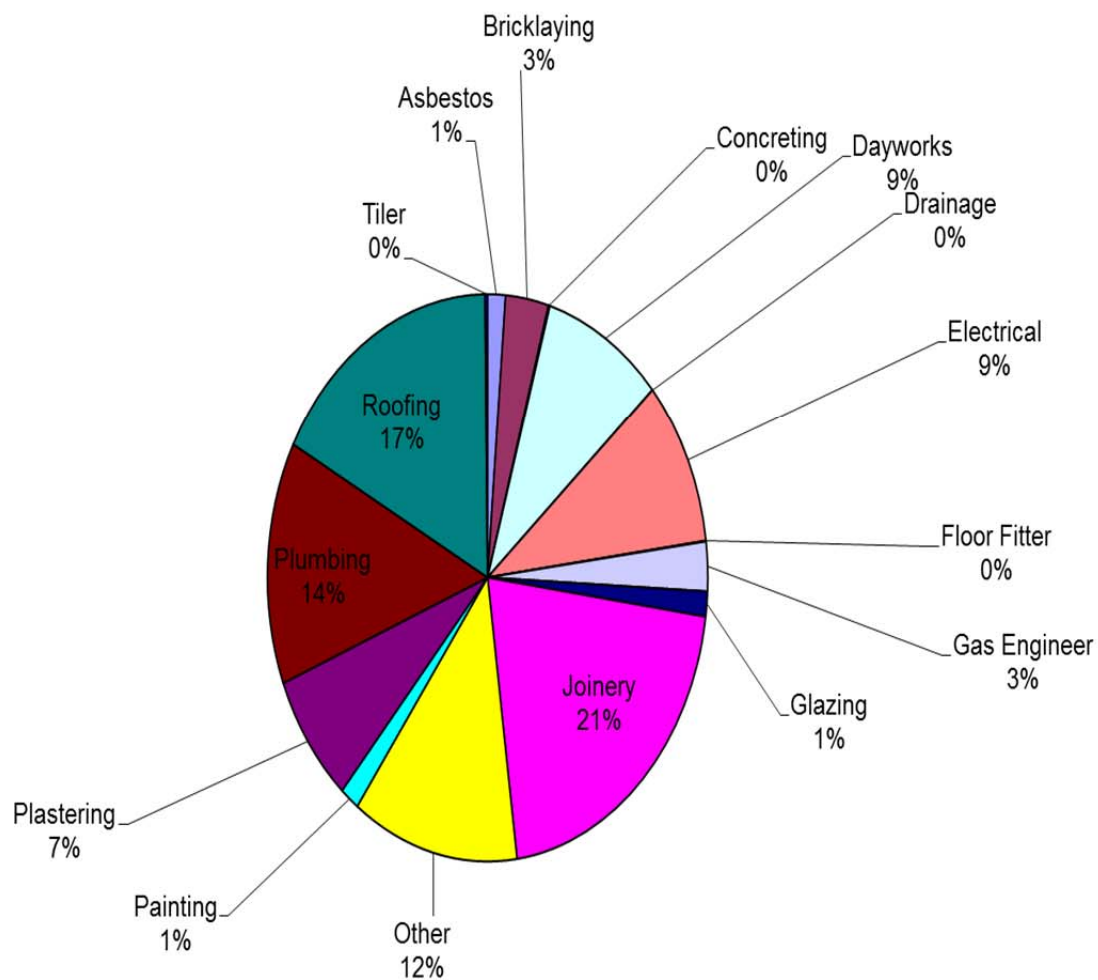
TGHC Overheads Budget 2015/16



Central Overheads expenditure cumulative 30th June 2015



Mears invoiced Repairs by trade for the period April 2015 - March 2016



Trade	2015/16
Asbestos	17,222
Bricklaying	41,567
Concreting	1,390
Dayworks	117,298
Drainage	69
Electrical	124,782
Floor Fitter	531
Gas Engineer	37,129
Glazing	18,735
Joinery	272,408
Other	161,173
Painting	18,583
Plastering	98,007
Plumbing	182,566
Roofing	224,666
Tiler	2,416
TOTAL	1,318,542

Comparison of Responsive Repairs to Previous Years

