



Report to Board of Directors
17 September 2015

Title: Management Accounts – First Quarter 2015/16

Report of: TGHC Head of Corporate Services

Purpose of Report

1. To provide the board with the management accounts for the first quarter of the financial year 2015/16.

Background

2. The board approved the Keelman Homes budget for 2015/16 at its meeting on 21 May 2015, as part of a 10 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 first quarter of the 2015/16 financial year are shown below:

| | YTD Actual (£) | YTD Budget (£) | YTD Variance (£) | Annual Budget (£) | Annual Forecast (£) |
|--------------------------|---------------------------|---------------------------|-----------------------------|------------------------------|--------------------------------|
| Income | 188,331 | 226,645 | (38,314) | 906,578 | 952,130 |
| Expenditure | 179,362 | 209,679 | 30,317 | 838,714 | 843,586 |
| Surplus/(Deficit) | 8,969 | 16,966 | (7,997) | 67,864 | 108,544 |

5. The management accounts show Keelman Homes has made a surplus of £8,969 in the first quarter, compared to the original budget surplus of £16,966.
6. The year to date variance to budget is mainly due to the timing on the sale of properties at The Lonnen. The budget assumes that these will be split evenly across the financial year however at the end of the first quarter none of the properties have been sold.
7. We are now expecting to make an overall surplus in this financial year of £108,544 compared to the budgeted surplus of £67,864 (an increase of £40,680). This is mainly due to a forecast underspend on depreciation (£71,470) and staff costs (£19,950), which are partially offset by a forecast overspend on loan interest repayments (£42,499).

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 the risk of 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 budgets for the first quarter of the 2015/16 financial year.

**Keelman Homes
Management Accounts – June 2015**

Executive Summary

1. The overall management accounts for the first quarter of the 2015/16 financial year are shown below:

| | YTD Actual (£) | YTD Budget (£) | YTD Variance (£) | Annual Budget (£) | Annual Forecast (£) |
|--------------------------|---------------------------|---------------------------|-----------------------------|------------------------------|--------------------------------|
| Income | 188,331 | 226,645 | (38,314) | 906,578 | 952,130 |
| Expenditure | 179,362 | 209,679 | 30,317 | 838,714 | 843,586 |
| Surplus/(Deficit) | 8,969 | 16,966 | (7,997) | 67,864 | 108,544 |

2. The overall surplus at the end of the first quarter is £8,969 against an expected surplus budget of £16,966, giving a £7,997 deficit compared to the original budget.
3. However, we are now expecting to make an overall surplus in this financial year of £108,544 compared to the budgeted surplus of £67,864 (an increase of £40,680). This is mainly due to a forecast underspend on depreciation (£71,470) and staff costs (£19,950), which are partially offset by a forecast overspend on loan interest repayments (£42,499).

Income

| | YTD Actual (£) | YTD Budget (£) | YTD Variance (£) | Annual Budget (£) | Annual Forecast (£) |
|---------------------------|---------------------------|---------------------------|-----------------------------|------------------------------|--------------------------------|
| Rent | 139,828 | 132,816 | 7,012 | 531,266 | 525,595 |
| Service Charges | 719 | 745 | (26) | 2,982 | 2,982 |
| Shared Ownership Rent | 8,591 | 9,136 | (545) | 36,545 | 34,364 |
| Mgmt. of Other Properties | 29,795 | 21,921 | 7,874 | 87,684 | 146,250 |
| Bad Debt | (2,656) | (2,656) | 0 | (10,625) | (10,625) |
| Void Loss | (665) | (1,328) | 663 | (5,313) | (5,313) |
| Release of Grant Funding | 12,719 | 14,010 | (1,291) | 56,040 | 50,877 |
| Sales Profit | 0 | 52,000 | (52,000) | 208,000 | 208,000 |
| Surplus/(Deficit) | 188,331 | 226,645 | (38,314) | 906,578 | 952,130 |

4. Rental income received for Keelman Homes properties is currently showing a surplus of £7,012 compared to budget for the first quarter due to a difference in the timing of rents in comparison to budget (50 v's 52 weeks). Rents are forecast to be slightly under budget in the full year due to a slight delay on the budgeted timing of rents from properties purchased under the Empty Homes Initiative.
5. Service charges relate to discretionary services that tenants can request, for which they have to pay a service charge, such as the gardening scheme and community alarms. This is slightly under budget year to date, but is expected to be in-line with budget by the year end.
6. Shared ownership rent is currently £545 less than budget and we have forecast that income for the full year will remain less than budget. This is due to the actual rent increase being slightly lower than the rate that the budget had assumed.

7. Management of other properties includes the management fee we receive for managing properties that belong to other organisations. The actual received is higher than the expected budget year to date and is expected to be higher than budget in the full year due to now including the recharge of repairs and voids works. These had previously not been included in the budget as they had been recharged to the other organisations by TGHC. Additional costs have also been included in the annual forecast to offset this.
8. We have kept the bad debt provision at the budgeted level, which was 2% of the annual rent 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 quarter has only been £665 compared to a budget of £1,328. We have prudently forecast that the void rent loss will be on budget for the full year; however it is likely that voids will remain low due to the high demand for new properties.
10. The grant funding relates to the Homes and Communities Agency (HCA) funding we receive towards the building of new properties and the purchase and repair of properties through the Empty Homes Initiative (EHI). This funding is released over 100 years, in line with the time period that the structure of the properties is depreciated over. Properties are only depreciated and grant released against them once they have been fully built. Depreciation and grant release is not charged on properties under construction. Due to the delayed timing of new build schemes for 2015/16 at Runhead, Heddon View and Malton Green, the amount of grant to release in this financial year has been reduced, as these properties will not be completed by the year end. There is also a corresponding reduction in depreciation charges.
11. Sales profit relates to the surplus we will earn on selling the six properties at The Lonnen. At the end of the first quarter none of these properties have been sold, however we are still forecasting that they will be sold during this financial year.

Expenditure

| | YTD Actual (£) | YTD Budget (£) | YTD Variance (£) | Annual Budget (£) | Annual Forecast (£) |
|----------------------------|-------------------|-------------------|---------------------|----------------------|------------------------|
| Staff and Overheads | 13,903 | 25,625 | 11,722 | 102,500 | 82,550 |
| Loan Interest Repayments | 82,785 | 74,816 | (7,969) | 299,266 | 341,765 |
| Repair Costs | 6,852 | 4,459 | (2,393) | 17,835 | 41,310 |
| Void Costs | 3,738 | 4,459 | 720 | 17,835 | 41,310 |
| Management Fee | 14,094 | 14,094 | 0 | 56,375 | 56,375 |
| Depreciation | 44,272 | 62,139 | 17,867 | 248,556 | 177,086 |
| Legal Costs | 964 | 3,395 | 2,431 | 13,579 | 13,579 |
| Audit Fee | 8,667 | 2,167 | (6,500) | 8,668 | 15,168 |
| Marketing & Property Sales | 0 | 2,625 | 2,625 | 10,500 | 10,500 |
| Leasehold Service Charges | 320 | 308 | (12) | 1,230 | 1,572 |
| Consultancy | 1,422 | 1,422 | 0 | 5,688 | 5,688 |
| Other Fees & Charges | 2,345 | 3,771 | 1,426 | 15,083 | 15,083 |
| Corporation Tax | 0 | 10,400 | 10,400 | 41,600 | 41,600 |
| Surplus/(Deficit) | 179,362 | 209,679 | 30,317 | 838,714 | 843,586 |

12. Staff costs relate to the salaries and on-costs of the Development and Investment Manager and the Finance Manager. There is an underspend in actual costs compared to budget due to the Development and Investment Manager post not being filled until June, whereas the budget assumed this position would be filled for the full year. The annual forecast has been updated to reflect the actual cost, now that both positions have been filled.
13. The annual forecast for loan interest repayments has been based on payments in relation to the following loans:
- £4.5 million for Kibblesworth
 - £1.7 million drawn down in October 2014
 - £1.5 million drawn down in April 2015
 - Expected draw down of £0.5 million in the second half of 2015/16
14. Following on from the 2014/15 year end audit, the full year forecast has been updated to include interest payments accrued on these loans although they are not due to be paid until after the period end. This means that the loan interest payments are currently forecast to be over-spent against the full year budget, as the budget had been based on the timing of cash flows. The requirement for a further loan drawn down during this financial year is under review and this will have an impact on the amount of interest to be accrued at the year end.
15. Repair costs include costs recharged from The Gateshead Housing Company (TGHC) for repairs completed on Keelman Homes properties, as well as properties we manage on behalf of other organisations. Repairs have overspent against budget year to date and are forecast to overspend in the full year. This is due to the costs incurred on the properties we manage for other organisations, as these had not been included in the budget. Additional income has also been included in the full year forecast in relation to the recharge of these costs to other organisations to offset this overspend.
16. Void costs also now include the additional costs in relation to properties we manage on behalf of other organisations (the corresponding income to offset these costs has also now been included). This is under budget year to date, as the numbers of voids on Keelman Homes own properties remains low.

17. The management fee is an agreed price per property that is paid to TGHC for them to manage all of Keelman Homes properties. This is in line with budget year to date and is expected to remain in line with budget for the full year.
18. The depreciation charge is £17,867 under budget year to date and is forecast to be under budget by year end. Properties are only depreciated (and grant released against them) once they have been fully built; depreciation is not charged on properties under construction. Due to the delayed timing of new build schemes for 2015/16 at Runhead, Heddon View and Malton Green, the amount of depreciation in this financial year has been reduced, as these properties are not forecast to be completed by the year end. This corresponds to the reduced release of grant funding above.
19. Legal costs relate to various activities including land transfers for new build sites and the purchase of EHI properties. Year to date we have underspent on the budget, however in the full year we are forecasting to spend in-line with the budget, due to legal work required in relation to the purchase of EHI properties and the sale of properties at The Lonnen.
20. Keelman Homes is required to have its accounts externally audited each year and also to produce a corporation tax return. We have accrued the cost of these services based on the budget. The exact fee will not be agreed until near year end when planning begins with KPMG for undertaking these services. The budget has overspent year to date and is forecasting to overspend by year end due to the additional cost of a one-off audit in relation to Keelman Homes development controls.
21. The budget for marketing and property sales costs is in relation to the sale of six properties at The Lonnen. These fees will be payable to the estate agent on completion of a sale. At the end of the first quarter none of these properties have been sold, however we are still forecasting that they will be sold during this financial year.
22. A number of the properties that Keelman Homes has purchased under EHI were leasehold, meaning that we have to pay annual service charges to Gateshead Council to cover the cost of the shared areas of these buildings. The current forecast is based on the estimated service charge invoices that we have received. We will receive an adjusted actual service charge in the following financial year once all of the costs are known.
23. Consultancy costs relate to advice and guidance received from Judy Mackley, a housing funding consultant, on HCA grant funding issues.
24. Keelman Homes has a budget for other small items including miscellaneous fees and charges. Year to date costs that have been incurred include the Independent Housing Ombudsman Annual Subscription, bank charges for a CHAPS payment and planning fees for Malton Green and Heddon View. These will be monitored as the year progresses, but we are currently forecasting spend in line with the budget.
25. The sale of the six properties at The Lonnen will incur corporation tax, as this is not classed as "primary purpose trading" to attain the charities tax exemption. At the end of the first quarter none of these properties have been sold, however we are still forecasting that they will be sold during this financial year.