



## Report to Board of Trustees

24 March 2016

**Title: Management Accounts – Third Quarter 2015/16**

**Report of: TGHC Head of Corporate Services**

### Purpose of Report

1. To provide the board with the management accounts for the third 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 third quarter of the 2015/16 financial year are shown below:

	<b>YTD Actual (£)</b>	<b>YTD Budget (£)</b>	<b>YTD Variance (£)</b>	<b>Annual Budget (£)</b>	<b>Annual Forecast (£)</b>
Income	707,348	679,934	27,414	906,578	952,356
Expenditure	625,117	629,036	(3,918)	838,714	839,753
<b>Surplus/(Deficit)</b>	<b>82,231</b>	<b>50,898</b>	<b>31,333</b>	<b>67,864</b>	<b>112,604</b>

5. The management accounts show Keelman Homes has made a surplus of £82,231 in the third quarter, compared to the original budget surplus of £50,898.
6. The year to date variance to budget is mainly due to additional income received in relation to Feed in Tariffs from the Solar PV panels installed on some of the properties at Kibblesworth.
7. We are now expecting to make an overall surplus in this financial year of £112,604 compared to the budgeted surplus of £67,864 (an increase of £44,740). This is mainly due to forecast underspends on staff costs and depreciation and the additional income received for Feed in Tariffs. Forecast underspends have been partially offset by the delay in selling properties at The Lonnen and a forecast overspend on loan repayments.

### **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 strategic risk within the risk register (failure to manage the company's finances) is effectively controlled.

### **Financial Implications**

10. The financial implications are contained within the report and Appendix.

### **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 third quarter of the 2015/16 financial year.

**Keelman Homes  
Management Accounts – December 2015**

**Executive Summary**

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

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Income	707,348	679,934	27,414	906,578	952,356
Expenditure	625,117	629,036	(3,918)	838,714	839,753
<b>Surplus/(Deficit)</b>	<b>82,231</b>	<b>50,898</b>	<b>31,333</b>	<b>67,864</b>	<b>112,604</b>

2. The overall surplus at the end of the third quarter is £82,231 against an expected surplus budget of £50,898, giving a positive variance of £31,333 compared to the original budget.
3. We are now expecting to make an overall surplus in this financial year of £112,604, compared to the budgeted surplus of £67,864 (an increase of £44,740). This is mainly due to forecast underspends on staff costs and depreciation and additional income received for Feed in Tariffs. Forecast underspends have been partially offset by the delay in selling properties at The Lonnen and a forecast overspend on loan repayments.

**Income**

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Rent	395,186	398,449	(3,263)	531,266	531,266
Service Charges	1,756	2,236	(480)	2,982	2,341
Shared Ownership Rent	25,656	27,409	(1,753)	36,545	34,058
Mgmt. Fee for Other Properties	70,189	65,763	4,426	87,684	97,265
Recharge of Repairs for Other Properties	21,164	0	21,164	0	27,950
Bad Debt	(7,969)	(7,969)	0	(10,625)	(10,625)
Void Loss	(1,568)	(3,984)	2,417	(5,313)	(5,313)
Release of Grant Funding	38,844	42,030	(3,186)	56,040	51,792
Interest	1,935	0	1,935	0	1,935
FiT Income	59,083	0	59,083	0	59,083
Shared Ownership Staircasing Surplus	3,216	0	3,216	0	11,250
Sales Surplus	99,856	156,000	(56,144)	208,000	151,355
<b>Surplus/(Deficit)</b>	<b>707,348</b>	<b>679,934</b>	<b>27,414</b>	<b>906,578</b>	<b>952,356</b>

4. Rental income received for Keelman Homes properties is currently showing a deficit of £3,263 compared to budget for the third quarter due to a difference in the timing of rents on the Empty Homes Initiative (EHI) purchase and repair properties. Rents are forecast to be in-line with budget for the full year.

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 and is expected to be slightly under budget at the year end.
6. Shared ownership rent is currently £1,753 less than budget and we have forecast that income for the full year will remain less than budget. This is due to shared owners purchasing further shares in their properties during the year (Staircasing). This means that the rent they pay on the portion of the property that they don't own has reduced, on a pro-rata basis. One Staircasing transaction completed during October 2015 and a second transaction is expected to complete during the final quarter of this financial year.
7. Management of other properties income is the management fee we receive for managing properties that belong to other organisations. The actual fee received is higher than the budget year to date and is expected to be higher than budget at the year end as new properties have come into management that had not originally been anticipated.
8. Repair and void works completed on the properties that we manage for other organisations can be recharged back to these organisations, as per the contract agreements. 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.
9. 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.
10. Void rent loss in the year to date has been £1,568 compared to a budget of £3,984. 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.
11. 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 EHI scheme. 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 compared to the timing assumptions included within the budget, the amount of grant to release in this financial year has been reduced. There is also a corresponding reduction in depreciation charges.
12. Keelman Homes has earned a small amount of bank interest in the year to date, as surplus funds were invested in fixed rate deposit accounts. It is not anticipated that any further interest will be earned in the final quarter of this financial year.
13. Keelman Homes installed Solar PV panels on a number of its properties at the Kibblesworth development. Keelman Homes is entitled to receive Feed in Tariff (FiT) income from these properties. FiT income is a payment made as an incentive to encourage the take up of renewable technology. Processes have

been implemented to ensure that Keelman Homes claims the income it is due. During 2015, Keelman Homes has claimed backdated funds that it was due from 2011 up to the year to date. In the future, the FiT income is estimated to be around £400 per property, per year. Keelman Homes will have to pay Corporation Tax on any surpluses generated from this activity, which has also been included in the annual forecast.

14. During 2015/16 two shared owners have requested to purchase additional shares in their property, through Staircasing. One shared owner purchased additional shares in their property in October 2015. A second shared owner is expected to complete on the purchase of additional shares in their property during the fourth quarter of this financial year. The forecast has been updated to include the surplus on these transactions. These are the first requests that have been received in relation to Staircasing.
15. Sales surplus relates to the surplus we will earn on selling the properties at The Lonnen. At the end of the third quarter, two of these properties have sales completed and we are forecasting the completion of a third sale before the year end. The full year forecast has been updated to reflect the surplus generated on the sale of the three properties.

## Expenditure

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Staff and Overheads	59,926	76,875	(16,949)	102,500	83,200
Loan Interest Repayments	248,634	224,449	24,185	299,266	331,140
Repair costs (KH own properties)	11,166	13,376	(2,210)	17,835	15,625
Void costs (KH own properties)	1,558	13,376	(11,818)	17,835	6,017
Repair & Voids Costs Managed Properties	19,057	0	19,057	0	25,409
Management Fee	42,281	42,281	0	56,375	56,375
Depreciation	136,036	186,417	(50,381)	248,556	181,381
Legal Costs	7,257	10,184	(2,927)	13,579	13,579
Audit Fee	13,001	6,501	6,500	8,668	15,168
Marketing & Property Sales	3,000	7,875	(4,875)	10,500	4,500
Leasehold Service Charges	1,478	923	555	1,230	2,500
Consultancy	3,040	4,266	(1,227)	5,688	5,688
Unrecoverable VAT	37,337	0	37,337	0	42,000
Other Fees & Charges	9,559	11,312	(1,754)	15,083	15,083
Corporation Tax	31,788	31,200	588	41,600	42,088
<b>Surplus/(Deficit)</b>	<b>625,117</b>	<b>629,036</b>	<b>(3,918)</b>	<b>838,714</b>	<b>839,753</b>

16. 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.

17. 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
18. 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 overspent against the full year budget, as the budget had been based on the timing of cash flows. It is currently anticipated that no further loan drawdown will be required before the year end.
19. Repair costs are the costs recharged from The Gateshead Housing Company (TGHC) for repairs completed on Keelman Homes properties. Repair costs for the third quarter are £11,166, which is £2,210 under budget. We have forecast to spend the budget remainder (one quarter of the annual budget) in the final quarter, meaning repairs costs are forecast to be £2,210 under budget in the full year.
20. Void costs are £1,558, which is £11,818 under budget, as the numbers of voids on Keelman Homes properties remains low. We have forecast to spend the budget remainder (one quarter of the annual budget) in the final quarter, however further savings may be made on this budget by the year end.
21. Keelman Homes incurs repair and void costs on the properties that we manage for other organisations. These have not been included in the budget previously. These costs are recharged back to the relevant organisation. The income received is included in the full year forecast to offset this overspend.
22. 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.
23. The depreciation charge is £50,381 under budget year to date and is forecast to be under budget by the 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, compared to the timing assumed in the budget, 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.
24. 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.
25. 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.

26. The budget for marketing and property sales costs is in relation to the sale of properties at The Lonnen. These fees will be payable to the estate agent on completion of a sale. At the end of the third quarter two of these properties have sales completed and we are forecasting that there will be a third completion during this financial year.
27. 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. At the beginning of 2015/16 Keelman Homes owned 4 leasehold properties. An additional 3 properties have been purchased during the year. 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.
28. Consultancy costs relate to advice and guidance received from Judy Mackley, a housing funding consultant, on HCA grant funding issues. It is forecast that these costs will be in line with budget in the full year, however these services are being reduced, as the expertise required to do this has now been developed in-house.
29. Keelman Homes is VAT registered, but due to the nature of the Company's activities, it is only able to part recover VAT. Any VAT that cannot be recovered is required to be written off. An estimate has been made for this and included in the forecast.
30. 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 CHAPS payments, planning fees, local searches in relation to the purchase of EHI properties, carpets at sales properties at The Lonnen and council tax on the sales properties at The Lonnen whilst they remain unsold. These will be monitored as the year progresses, but we are currently forecasting spend in line with the budget.
31. The sale of the 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 third quarter, two of these properties have sales completed and we are forecasting that there will be a third completion before the end of this financial year. Corporation Tax will also be payable on the FiT income received and the forecast has been updated to reflect this.