Item No:	Classification Open	Date: 29.03.23	Meeting Name: JMB Board meeting
Report title:		**2023/24 proposed budget**	

1. Recommendation

1.1 Finance subcommittee unanimously recommend the proposed 2023/24 income and expenditure budgets are approved by Board.

2. Background

2.1 After a lot of hard work, there is now a balanced budget for 2023/24, with predicted income covering budgeted expenditure less a 4% staffing vacancy rate.

2.2 It is a requirement of the board and the management agreement that the JMB produces a balanced budget where in-year revenue income covers proposed expenditure. Compromises have been made, but the finance manager and JMB manager believe the savings are realistic and deliverable.

2.3 Finance subcommittee unanimously recommend the income and expenditure budgets to Board for approval.

3. 2023/24 budget headlines

	2022/23	2023/24	£ difference	% difference
Total income	£8.42m	£8.99m	£570k	+ 6.8%
Income excluding variable major works contributions from leaseholders	£7.65m	£8.36m	£721k	+ 9.4%
Total expenditure (excluding reserves spend)	£8.42m	£9.08m	£667k	+ 7.9%
Income less expenditure			-£94k	
Saving 4% staffing vacancy rate			£94k	
Adjusted income less expenditure			£Nil	
Budget balanced but some significant changes to achieve this				

4. Key budget changes

4.1 Income is predicted to go up by £570k, which is a 6.8% overall increase. Overall, this is below the general inflation rate including housing costs (CPIH) of 8.8%, below building cost inflation of 9.9% and below the general inflation rate (CPI) of 10.1%. Therefore, this represents a cut in income in real terms. The biggest change is an increase of £574k in rent income as rents across the borough increased by 7%.

4.2 The expenditure budget is set to increase by £667k or 7.9% (£572k or 6.8% after taking off a 4% staffing vacancy provision) from the 2022/23 budget. The overall increase is below the rate of general inflation, before considering building cost inflation.

4.3 Big increases in costs are budgeted including:

- 104% increase in gas prices
- 40% increase in electricity prices
- 15% increase in staffing costs including four new posts
- 9.9% increase in building cost inflation

4.4 To balance the overall budget, four savings were identified from the standard budget setting calculations:

I. **Major works not receiving a £200k inflationary uplift from 22/23 budget**. This is in the context of a £5.4 million unspent major works reserve allocation before the major works underspend in 22/23 is added. There was £933k remaining at end of month 11, predominantly caused when Lawson Phase 2 stalled to deal with a failing contractor and precure a new contractor.

For this cut to be temporary, savings in spend or increases in income will need to be identified in future year budgets to restore the £200k in future years. Identified items are:

- £66.5k when temporary major works project manager post is deleted after reserves funded surge in major works programme is delivered
- £65k increases in income, specifically by reducing void loss (so increasing rent collected) and increasing the percentage of homeowner major works contributions collected in year
- £51k reduction when the temporary building safety and client officer role has dealt with the temporary surge in building safety requirements
- £20k reduction in the £50k surge in funding ringfenced for condensation alleviation begins to taper off

Finance subcommittee strongly recommend that the proposed deduction of the inflationary award to major works 23/24 is reversed in future years to avoid a permanent cut to the in-year budget.

II. **Staffing vacancy rate saving of £94k based on 4% of staffing budgets**: based on recent experience of a minimum 7% staffing budget saving over the last few years, part offset by permission to manager to mitigate against critical vacancies with temporary appointments or commissions within the agreed staffing structure

III. **£60k saving by repairing 10 voids in-house**: Voids are costing on average £10k each to be made good for relet. Taking off £2k for electrical testing and remedial works, and a further £2k for material, still represents a saving of £6k per void delivered in-house. Now the team is fully staffed, the target of delivering 10 voids works in-house is achievable and in line with what was achieved before the recent challenges in repairs.

IV. **£15k saving by reducing by 25% the increase in the budget for disrepair from 22/23 budget**: reflecting a full repairs management team beginning to bring down the recent increase in costs by tacking disrepair more systematically and quickly, with more money allocated to tackling condensation. The £15k saving on 22/23 costs still represents a £45k increase in budget from the 22/23 budget (which was based on 21/22 spend), with the total budget climbing to £133k.

4.5 The reductions have all been on the expenditure side and are reflected in the presented expenditure budget 23/24. There is capacity to collect more income, predominantly by reducing void loss and increasing the collection rate on leaseholder contributions to major works. These are expected to contribute to the restoration of the 23/24 major works inflationary uplift in future years. In the latter case, this strengthens the link between leaseholders paying for major works and the sustainable future funding of the major works programme.

4.6 Responsive repairs management is a critical area. Management needs to ensure that the now fully staffed DLO is running at a challenging but sustainable level of productivity to take pressure off the repairs contactors budget. The repairs contractor budget is decreasing by 16% or £105k to £540k. £70k relates to the removal of one-off funding 22/23 for extra void work as JMB tenants moved into the new CBS built properties. £60k relates to a required saving as some void work is delivered in-house.

4.7 To put this in context, annualising the repairs contractor spend in 22/23 from the month 11 management accounts, excluding the extra £70k for extra voids, then inflating to 23/24 comes to £585k. Even with the reduction, the repairs contractor budget is still 44% higher than in 2019/20, though this includes paying more for better quality contractors and building cost inflation over 4 years.

4.8 The pressure on the major works budget is expected to increase over time to cover Grenfell Inquiry recommendations and the decarbonisation agenda. Building cost inflation has traditionally been higher than the annual increase in rent.

4.9 The overall staffing budget has increased by £303k or 15%:

I. **£151k for new posts:** RSO manager, Resident Engagement & Board Support, and admin assistant (all permanent) and Building Safety & Client Officer (temporary)
II. **£41k relates to the national agreement on the 22/23 inflationary increase**: the JMB budgeted a 2% rise, but staff received on average 4%
III. **£93k is the budgeted 4% inflationary salary increase for 23/24.** There is no current advice on what level to budget for the inflationary increase.
IV. **£18k relates to potential incremental awards** for staff who perform well and are not at top of scale.

The inflationary increases are well below the rate of inflation, so represent a cut in real terms over both 2022/23 and 2023/24 for existing staff.

5. Income budget changes of more than £10k

5.1 **Rental income up £574k**: based on a 7% increase in rent for JMB managed properties

5.2 **Homeowner revenue service charge income up £118k**: based on 97% collection of estimated service charge bills. Overall, the budget increased by 18%, of which 7.6% relates to the increase in gas prices and a further 3.4% to electricity prices. Southwark Council sources our gas and electricity as they can achieve better prices across the whole borough. Although prices have increased substantially, they are still well below the new energy price guarantee levels.

5.3 The underlying increase in homeowner revenue service charges, stripping out the impact of the rises in gas and electricity, is 7%. Whilst this is substantially higher, it is below the current rate of inflation.

5.4 **Allowance for the management and maintenance of Joyce Newman House / Joseph Lancaster Terrace of £18k**: 2023/24 is the first full year of allowance for this development, that the JMB started to manage in Summer 2022.

5.5 **There are nine income budgets where the change in income is less than £10k**. The total impact in the changes of these nine budgets, is an increase in income of £10.6k. Changes in all income budgets are shown in the background income budget 23/24 paper. All changes of more than £5k have been reviewed by finance subcommittee.

5.6 **Homeowner Major Works contributions down £150k**: Problems to a major contract on Lawson Estate where the JMB had to change contractors, has had a knock on effect on the amount collected in 22/23 and the new schemes billed in 23/24. The budget also reflects the recommendations on interest free repayment terms for resident leaseholders paying back larger sums of money, that is being considered by board.

6. Expenditure budget changes of more than £10k

6.1 **Estate electricity up £141k**: based on month 11 electricity bills and an inflationary uplift of 40% on electricity costs, as recommended by Southwark Council who source the best price for our electricity and have significant economies of scale

6.2 **Cleaning salaries and on cost up £129k**: Estate Services Manager and one operative costs moved from repairs to cleaning following reorganisation of repairs management. £17.5k relates to inflationary and incremental provision of the biggest team at the JMB. The 22/23 inflationary pay-rise was 4% on average, but higher for lower paid staff including estate cleaners, with the extra cost reflected in this budget.

6.3 **Office all salaries and oncosts up £86k**: £78k relates to two new posts agreed by board: Resident Engagement & Board Support Officer and Admin Assistant.

6.4 **Estate gas up £73k**: a new budget for the gas for the communal heating system on Joyce Newman House

6.5 **Heating contract up £67k**: reflecting a £140k increase in gas and electricity costs, with an underlying decrease in budget of £73k based on 21/22 and 22/23 spend and

contract costs. Heating is one of the most difficult budgets to predict, with significant volatility in high value works: tenant boiler replacement, water tank remedials and district heating repairs costs.

6.6 **RSO salaries and on-costs up £62k**: this is based on the new team structure of a bespoke RSO manager and one of the RSO posts becoming a homeowner specialist post

6.7 **Planned condensation up £50k**: separating an existing provision from general repairs budgets and from programmed estate budgets managed by a different manager

6.8 **Repairs operative salaries and on costs up £40k**: repairs working supervisor moved from repairs management to repairs operatives budget, plus inflationary rises for a large team

6.9 **Disrepair up £45k**: The increase in budget has been capped at 75% of that indicated by 22/23 spend to reflect the full staffing of repairs management giving an opportunity to deal with disrepair cases more systematically and quickly

6.10 **Estate fire prevention up £29k**: reflecting estimated LBS costs for enhanced building safety requirements

6.11 **Finance salary and oncosts up £28k**: including reabsorbing £19k of finance consultancy cost in 22/23 whilst dealing with a staffing matter. The rest relates to inflationary and incremental provision

6.12 **Homeowner buildings insurance and ground rent up £26k**: reflecting the LBS recommended 11% increase in buildings insurance provision, whilst they source appropriate cover. Money collected is handed to Southwark with none kept by the JMB

6.13 **Gardening salaries and oncosts up £24k**: £18k additional costs as the part time assistant seasonal gardener becomes a full time, permanent gardener.

6.14 **Repairs operatives vehicle expenses up £13k**: budgetary provision for one extra vehicle so all operatives in the fully staffed team have their own van. Proposal to be considered by staffing subcommittee in April 23.

6.15 **Court and legal fees up £12k**: based on spend in 22/23. This budget is for tenancy enforcement, not disrepair cases

6.16 There are 68 expenditure budget lines where the change in budget is less than £10k. In total they add £65k from the 22/23 budgets (including inflationary rises). They are included in the background paper expenditure Budget 23.24. Finance subcommittee has reviewed all changes of more than £5k.

6.17 **Repairs Contractors down £105k**: Removing £70k one-off provision for voids works when JMB residents moved into the new build estate in 22/23. £60k saving as some voids works are undertaken by the in-house team. Part offset by inflationary increase

6.18 **Repairs Management salaries and oncosts down £38k**: repairs working supervisor moved to repairs operative budget.

6.19 **Repairs consultancy down £35k**: removal of temporary budget to retender repairs contracts.

6.20 **Lifts down £28k**: reflecting actual costs 22/23 plus inflation. A number of the older lifts have or are being renewed as major works contracts.

6.21 **Estate upkeep manager budgets down £28k**: £50k condensation budget moved from here to a new budget. Other estate budgets increased to reflect management focus on planned estate works

6.22 **Finance consultancy fees down £19k**: removal of one-off consultancy need whilst staffing succession issue resolved. Cost moved back into finance salaries and on-cost budget.

6.23 **Seniors project down £11.5k**: Not restarted since covid. If it becomes feasible and a priority to restart project, can be funded from directors contingency or in-year underspend reallocation.

7. **Recommendation to board to agree the 2023/24 income and expenditure budgets**: based on the work of the finance team and finance subcommittee, the recommendation of the finance manager, and the unanimous recommendation of finance subcommittee

8. **Do Directors agree the 2023/24 income and expenditure budgets?**