LEATHERMARKET JMB

Draft Audited Accounts 2023/24 and impact on reserves	
To	JMB Board
For	Approval of audited accounts for presentation to AGM Agreement to bring ringfenced reserves back into balance
Date of Meeting	Wednesday 25th September 2024
Link to Business / Annual Plan	Financial Performance and impact on reserves
Report Author	Berni McEwan, Finance Manager

AUDIT ACCOUNTS	2023/24	2022/23	£ difference	% difference
Total income	£8.96m	£8.37m	£590k	+7.0%
Direct costs (incl major works reserves)	£10.02m	£6.57m	£3.42m	+52.5%
Administrative expenses	£2.04m	£1.52m	£522k	+34.4%
Audited deficit after interest and tax	**-£3.10m**	£289k	-£3.38m	-1171.3%
Of which planned reserves spend	-£2.07m	-£13k		
Deficit on day-to-day operations	**-£1.03m**			

Draft Directors report to Audit

Total audited reserves	£4.45m
Of which emergency reserves (24/25 amount)	£925k
24/25 Income and expenditure account reserve (Directors' priorities)	£3.52m
Of which already ring fenced	£4.27m
Unallocated reserves (prior to Board September 2024)	-£866.5k
Therefore, board need to reduce existing ring-fenced allocations to balance reserves	

Key Audit Findings – awaiting key audit findings report

Current year issues:

Awaiting key audit finding report

Audit Headlines

2023/24 audited accounts

1.0 Key messages from the audit

1.1 Auditor Opinion

Overall, the audit was clean, the auditor's opinion is that the accounts give a true and fair view of the state of the JMB's finances. The auditor sees no material uncertainties that cast doubt on the JMB's ability to continue as a going concern for a period of at least 12 months (until the next audit reviews again).

1.2 Finance Manager's opinion

After a difficult audit process in 2022/23, the audit for 2023/24 has run much more smoothly and the JMB is back into the normal pattern of presenting to finance subcommittee and board in September, prior to the AGM in October 24. Thanks to the hard work especially of the finance team leader, for applying the experience of the audit of 2022/23 and leading on the audit for 2023/24.

The Month 13 management accounts for 2023/24, as presented to finance subcommittee in June 24, proved a reliable indicator of the final audited position, with only a £60k difference between the management accounts and final audit position. This reassures that the management accounts are a good guide to financial performance now the impact of the 2022/23 audit adjustments (including repairs accruals that were not working) have been removed.

1.3 Total deficit of £3.1 million
Planned reserves spend of £2.1 million
Day-to-day operations deficit of £1.0 million

1.3.1 The JMB has run at a total deficit for the first time in recent history. The deficit is the largest deficit since the JMB started up. In 2023/24, the JMB spent £3.1 million more than was collected in income. The difference comes out of the £7.5 million reserves, leaving £4.45 million of reserves carried forwards into 2024/25.

1.3.2 £2.1 million of the deficit was caused by planned reserves releases funding additional major works. This means more major works were delivered for residents, reducing the backlog in major works and delivering a better environment for residents. The JMB has been trying to increase spend on major works for the last few years so this planned spend is a positive outcome of much hard work by current and former staff members.

1.3.3 The remaining £1 million was caused by the more concerning deficit in spend on day-to-day operations. As discussed in the June 24 finance subcommittee, this operations deficit was caused predominantly by an overspend in responsive repairs and higher gas and electricity prices:

I. £462k over budget on repairs contractors representing a 29% increase in spend from 2022/23 and 68% more spend than budgeted as identified savings and one-off cost reductions did not result in lower spend.

II. £153k over on estate costs, though with a £162k credit for Joyce Newman fuel costs that is being applied in 2024/25, so this represents a one-off cash flow rather than ongoing budgetary issue.
III. £249k on the heating and cold-water tank contract and associated costs, of which £148k more was spent on district heating fuel, predominantly due to the backdated actual cost for 2022/23.
IV. £121k over on office staffing, of which £80k related to recruitment of senior managers and three months the new CEO had as a handover from the old executive manager
V. £94k of vacancy rate contingency that was not realised, as managers used temps, and agency finder's fees to fill gaps in recruitment
VI. -£39k as the JMB collected more income than budgeted, so reducing the net overspend.

1.3.4 It is critical that the JMB makes quick progress in reducing the deficit on day-to-day operations and moves back into an operations surplus before planned reserves expenditure. Failure to do this will initially divert reserves from directors' priorities like major works. In the medium term, the JMB has to make operational surpluses to live within its means and fund future major works as required for self-financing.

1.3.5 The property services manager produced a paper explaining the process for bringing repairs contractor spend back down to a more sustainable level. Gas and electricity prices are still significantly higher than they were before the war in Ukraine broke out but are materially lower than at their peak. Overall, at the end of quarter 1 2024/25 spend was lower than income. Progress appears to have been made to keep overall spend within budget in 2024/25, though it is early in the year and ongoing work is needed.

1.3.6 **Comparing the 23/24 audited deficit to prior year positions**

Comparing to previous years demonstrates how unusual the unplanned £1m operations deficit is:

Year	**Surplus (deficit)**	**% surplus on income**
2023/24	(£3.096m)	-34.5%: £2.1m planned + £1m operations deficit
2022/23	£289k	+3.4%
2021/22	£1.215m	+15.2%
2020/21	£392k	+5.0%
2019/20	£1.133m	+15.2%
2018/19	£945k	+11.8%

1.3.7 **£590k increase in turnover (income)**

£495k increase in rental income, predominantly due to the government / council set rent
£94k increase in general income, predominantly due to more major works contributions being collected from leaseholders, part offset by a reduction in aerial income

1.3.8 **£3.4 million increase in direct costs (cost of sales)**

Page 18 of the accounts shows the increase in direct costs (cost of sales)
The main drivers of the £3.4m increase in direct costs are:

- £2 million increase in major works spend
- £0.9m increase in overall planned and responsive repairs costs
- £0.3m increase in estate costs (offset in 24/25 by £162k credit for electricity)

1.3.9 **£522k increase in administrative expenses**

Page 19 of the accounts shows the changes in administrative costs which are driven by a £379k increase in salaries plus oncosts. This was caused by a combination of new posts created, lower vacancy rates and inflationary / incremental pay rises. The three teams which saw the biggest increase in costs were office all (£93k increase) with two new posts, major works (£92k increase) with a temporary staffing increase whilst the major works programme is delivering more with reserves releases, and the RSO team (£81k) with a new team manager and homeowner focused RSO plus fewer vacancies.

In addition, £60k more was spent on IT with the transfer to a new server and associated software updates and £49k more was spent on training, recruitment and contingency (primarily temp worker fees).

1.3.10 **Debtors and creditors**

Both increased significantly, primarily linked to interactions with Southwark Council, who decided to bill after year end for their services, overheads and district heating fuel costs and were also delayed in paying normal invoices from the JMB (issue now resolved).

1.3.11 **Reserves**

Overall reserves have fallen from £7.54 million to £4.45 million due to the £3.1 million deficit.

1.4 Finance subcommittee recommendation to Board

Finance subcommittee looked in detail at the draft accounts. At time of writing, the draft accounts were under final review by the auditors but are not expected to change materially. Any changes will be reported to board on 25th September/ There is one detailed figure (page 19) reallocated staff costs to cleaning up from £337.6k to £697.8k that does not appear logical as the total cleaning costs (including staffing) are just £477.6k. Whether this is a typo so is removed, an underlying auditor adjustment so remains, or is a mis-posting so needs to be allocated elsewhere needs clarifying by the auditor. It will not materially change the overall accounts.

The finance team leader and finance manager recommend the draft accounts are agreed by board.

Finance subcommittee unanimously recommend the draft accounts for approval

1.4.1 **Does Board agree the audited accounts?**

1.5 Draft directors report for the audited accounts for approval

The finance manager has drafted the attached draft wording for the directors' report to audit. It is confidential until agreed by board and the auditor.

Please read before the meeting and come with any suggestions or comments.

1.5.1 **Do directors agree the draft directors report to the audit 23/24?**

1.6 Key Audit Findings

Awaiting receipt of the key audit findings. These may be tabled at the board meeting if they are provided in time, or to a future finance subcommittee or board meeting as appropriate.

1.7 Total members' funds (reserves) £4.45 million

The members' funds are made up of all surpluses and deficits since the JMB formed. Deducting the 23/24 planned and operational deficits brings the total reserves down to £4.45 million.

Whilst the planned reserves spend came from existing reserves release, the deficit on day-to-day operations was not planned, so was not covered by reserves releases. This means directors will need to make difficult decisions around reducing existing ring-fenced allocations in reserves. With spend during 2023/24 funded from ringfenced reserves removed from the below table, this leaves approximately £867k of savings in existing ringfenced releases that need to be made.

2023/24 draft audited account reserves			**£4,447,447**
Ring fenced items			
Emergency reserve	**£928,581**	new 24/25 figure (23/24 £881,345)	
Major works	**£3,460,306**	bought forwards after 23/24 reserves spend	
Building act obligations	**£429,150**	Towards £1m fighting fund incl £150k emergency lighting fund, £100k lateral mains testing and remedials	
Directors' contingency	**£200,173**	Board agreed as part of 24/25 budget setting	
TRA led estate works	**£90,500**	Two years unspent (total tbc)	
Risk pot	**£80,100**	Board agreed as part of 24/25 budget setting	
Medical retirement provision (no staff now on local government pension scheme which included ability to retire early on medical grounds)	**£50,000**	agreed Board September 2017	
Senior management succession planning	**£20,000**	Handover finance manager, restructure costs	
HR consultancy	**£15,000**	Remainder of original £45k provision, for H&S policy review and lone working policy	
IT equipment renewal pot	**£12,900**	Max pot size £30k. All laptops to be renewed in next 2 financial years. No future server renewal.	
Business rates covid-19 relief Roundhouse	**£10,000**	Held in trust until TRA bank account is operating	
Support to negotiate new build management agreement	**£7,500**	As agreed board October 2023	
Cleaning equipment replacement pot	**£5,000**	Max pot size reduced to £5k	
Repairs diagnostics tool	**£5,000**	As agreed board October 2023	
GM equipment replacement pot	**£3,245**	Max pot size £5k	
Invicta contribution to Kipling Estate gardening project	**£500**		
Total existing commitments	**£5,313,955**		-£5,313,955
Unallocated reserves			**-£866,508**

1.7.1 Board needs to agree £866.5k of cuts to existing provisions, to bring the reserves back into balance.

1.7.2 A medium-term aim is to move the directors' contingency and risk pot back into the annual budget, building back a start of year budgeted surplus. The idea is then that all remaining funds after releases during the year, become that year's starting surplus, moving the JMB back to replenishing surpluses and providing a long-term income stream for major works. However, until savings in future budgets are realised, the directors' contingency and risk pot must remain in the reserves.

Budgets for 2024/25 were balanced, so income covered all predicted expenditure. However, it was not possible to build in a budget surplus. At month 5, income collected was £127.6k above budget, but expenditure was £107.4k above budget. This means there is a nominal £20k surplus to date. This is reassuring in terms of not showing any signs yet of running a large overall operating deficit in 2024/25, but it does not give scope for moving directors' contingency or risk pot to within the budgets during 2024/25.

1.7.3 There are no easy reductions in reserves ring-fences. As the biggest beneficiary, major works (which also includes the separate ringfence for meeting building act obligations) will need to take a material hit. However, directors should minimise this cut to reserves provisions as much as possible, as this money is needed to deliver the major works programme over the rolling 30 years that we are required to demonstrate adherence to for self-financing.

1.8 Provisions within the reserves with recommendations on retention or reduction:

1.8.1 Emergency reserves £928,581

This is money that must be available, with no notice, to fund unplanned works in the event of an emergency. The formula was set when self-financing was modelled by the JMB and agreed by LBS at £500 per tenanted property in 2012, inflated by buildings cost inflation since then. It is currently at £830.71 per tenanted property and includes all new builds. With self-financing, the JMB receives all the income from rent and services charges, so would need to fund emergency works directly.

Recommendation: to retain the emergency reserve in full

1.8.2 Directors' contingency £200,173

The former coopted director for finance, Cormac Hollingsworth, recommended that the JMB removes contingencies from within all budgets and pools them into a central contingency to allow better management of budgets and stop hidden surpluses being written into the overall budget. He suggested it was set at 3% of income budgets less the budgets for housing debt repayment and major works. This was agreed by finance subcommittee and has been written into the JMB financial procedures that have been agreed by board. It has remained at this level ever since.

The directors' contingency is available for funding unexpected cost or new opportunities, with directors' permission required. In the past, when it was held in the revenue budget, unspent money at year end became part of the operating surplus. The medium-term aim is to restore it to revenue budgets, to build back a sustainable income stream for major works funded from reserves.

Agreed releases during 2023/24 totalled £106.6k included for the creation of a new head of property services, for a building safety manager and a major works manager for three months before the posts could be built into future staffing budgets. It also allowed for a drainage condition survey, though it is not clear whether this was carried out. During 2024/25 the contingency is funding the additional costs of taking on a highly experienced responsive repairs manager to sort processes out and recruit a permanent successor.

It would be possible to cut the percentage set aside from 3%. The recommendation is that this should only be on a temporary basis, to cushion major works from budget cuts dealing with an exceptional operating deficit.

% directors' contingency 2024/25	Amount £	Saving £
3%	£200,173	
2.50%	£166,811	£33,362
2%	£133,449	£66,724
1.50%	£100,087	£100,087

Any cut to directors' contingency would mean there is less money available during 2024/25 for allocation if required. It would also reduce the impact of cuts on major works provisions in reserves.

Recommendation: cut directors contingency in 2024/25 to 1.5%, but restore to 3% in 2025/26 reducing required provision by £100,087

1.8.3 TRA led estate works £90,500

This covers unspent budgets from 2022/23 and 2023/24 for the five TRA areas. There was pressure on directors to not carry over unspent budgets when budgets were set for 2024/25. However, directors felt strongly that unspent money should be carried forwards into 2024/25. A compromise was agreed where the budget was rolled into 2024/25, but any unspent money would not be ring fenced in future years. This left 12 months' notice for TRAs to come up with proposals before the money was recycled to major works. Future in-year £10k budgets per recognised TRA was not at risk.

Considering the operating deficit and the need to protect major works ringfences, directors may want to reconsider this. For information, little money has been spent from the £10k each allocated to the three TRAs in 2024/25. The in-year budget needs to be spent in full before any reserves money is used.

Recommendation: directors revisit whether to protect two years of unspent budgets, bearing in mind each TRA area is budgeted £10k in 2024/25

1.8.4 Risk pot £80,100

The risk pot is a pooled provision for situations that might occur but are not certain. It is based on the principle that one of the items provided for might happen, but all are unlikely to occur in the same year. In 2024/25 the risk pot covered:

Risk Pot	Provision made £	% probability multiplied by cost £
Succession planning (management)	£10,000	50%, £20k
JMB office rent	£25,000	25%, £100k
Less rent income collected	£36,700	50%, £73.4k
Disrepair costs greater than budget	£8,400	30%, £28k
Emergency major repair issue	£0	
TOTAL RISK POT	**£80,100**	

During 2024/25, succession planning is covered in reserves releases so there is less chance of needing the provision in the risk pot also (provision should be made in future years when not also provided in ringfenced reserves).

There is a continued risk that Southwark are considering ways to charge the JMB rent for use of the office. This is despite the JMB paying the share of housing debt taken on amongst other things to build the JMB office. This is being resisted, but provision in the risk pot should remain.

Whilst at the end of month 5, rent collection was above the budgeted 98% by 0.64%, the difficult winter and Christmas periods are still to come. It would be prudent to keep this provision in the risk pot.

At month 5, disrepair was running £26k above budget. There may be some miscoding between this and the court and legal fees budget that was showing £24.4k below budget. However, it is too early to release this provision

New item recommended: at medical retirement provision moved to the risk pot from a ringfenced reserves provision

Proposed amended risk pot 2024/25

Risk Pot	Provision made £	% probability multiplied by cost £
Succession planning (management)	£0	50%, £20k
JMB office rent	£25,000	25%, £100k
Less rent income collected	£36,700	50%, £73.4k
Disrepair costs greater than budget	£8,400	30%, £28k
Emergency major repair issue	£0	Covered by emergency reserve
Medical retirement	£10,000	20%, £50k
TOTAL RISK POT	**£80,100**	

Recommendation: amend the risk pot as above for £nil reduction here but to allow following saving

1.8.5 Medical retirement provision £50k

This provision was set up following really tricky situations where employee's health took major turns for the worse, but as the JMB is not part of the Southwark pension scheme, there is no possibility for early retirement. Directors agreed a policy to allow a sickness panel to give some provision if the sickness met the tough requirements for medical retirement stipulated by Southwark. The JMB has not spent this provision in recent years.

Recommendation: delete this specific provision and move to the risk pot as a possible but unlikely cost reducing required provision by £50k.

1.8.6 Succession planning / restructure cost £20k

This is required in 2024/25 for the expected departure of a senior manager and to allow the new CEO scope for reviewing the structure of the JMB. In future years succession planning would be expected to return to a risk pot provision unless specific senior succession planning is expected.

Recommendation: retain for 2024/25 then move to risk pot

1.8.7 HR consultancy £15k

The two areas that require outside facilitation are to update the JMB Health & Safety and the lone working policies. This budget was reduced from £46k in 2023/24 as work on other policies was undertaken, leaving provision for the above two policies only.

Recommendation: retain remaining HR consultancy provision

1.8.8 Equipment pots

IT equipment renewal pot	£12.9k	max size £30k	laptop replacement
Cleaning equipment replacement pot	£5k	max size £5k	
Gardening equipment replacement pot	£3.2k	max size £5k	

Managers save up money each year to fund periodic replacement of equipment. This avoids the need for surges in budgets when new equipment is required. The estate bin replacement pot and tree pruning pot have been abolished before the meeting as the budget holder was spending a smaller amount each year within annual budgets.

Recommendation: retain last three replacement pots with reduced maximum size as indicated

1.8.9 Roundhouse business rate relief (Covid-19) £10k

Awarded automatically to community centres to get them through lockdowns. Held whilst TRA sorts out a bank account.

Recommendation: retain, but with provision to remove if bank account is not set up by March 2025

1.8.10 Support to negotiate new build management agreement £7,500

This was agreed prior to the increase in the strategic business plan development budget / CEO budget from £11.7k to £34k. This cost should be absorbed into the annual CEO budget in 2024/25

Recommendation: remove allocation

1.8.11 Repairs diagnostic tool £5k

Provision for additional software to help repairs staff (and possibly in the future residents through a portal) to better specify repairs codes. Still required.

Recommendation: keep ringfence

1.8.13 Invicta donation to Kipling gardening works £0.5k

Awaiting spend decision by Kipling TRA

Recommendation: keep ringfence

1.9 Impact on proposed measures on overallocation of reserves following operating deficit

Overallocation in reserves after operating deficit	**£866.5k**
Temporary reduction in directors' contingency	-£100k
TRA led estate works	tbc
Risk pot changes	£nil
Medical retirement pot into risk pot	-£50k
Negotiation new build management agreement	-£7.5k
Remainder to be taken from major works allocations	**£709k**

Any additional cuts to reserves allocation would reduce the further the cut to major works allocations.

1.10 Remaining reserves allocation to balance

23/24 Audited account reserves	**£4,447,447**
Retained fenced items	
Emergency reserve	£924,581
Major works	£2,751,385
Building act obligations	£429,150
Directors' contingency	£100,086
TRA led estate works 22/23 & 23/24 unspent budget	£90,500
Risk pot	£80,100
Medical retirement provision	£0
Succession planning / restructure costs	£20,000
HR consultancy	£15,000
IT equipment renewal pot b/f	£12,900
Business Rates covid-19 relief Roundhouse	£10,000

Support to negotiate new build management agreement	£0
Cleaning equipment replacement pot b/f	£5,000
Repairs Diagnostics	£5,000
GM equipment replacement pot b/f	£3,245
Invicta MW contract money for GM estate works Kipling estate	£500
Total existing commitments	**£4,447,447**

1.10.1 Do directors agree the recommended cuts to reserves allocations?

1.10.2 Do directors agree any additional cuts to reduce the impact on major works budgets?

1.10.3 Do directors agree to aim to prioritise future reserves releases for major works to offset the proposed cuts?