LEATHERMARKET JMB

Finance Subgroup Headline Report
Monday 5th February 2024, 5.30pm

Agenda

1. Welcome and Apologies
2. Declaration of Interest
3. Review of the first draft of the budgets for 2024/25
4. Any other business

First draft income and expenditure budgets 2024/25	
To:	Finance Sub Committee
For:	Discussion/Information
Date of Meeting	5th February 2024
Link to Business/Annual Plan	This reports sets out the first draft budget for 2024/25 for the Committee to review
Report Author	Berni McEwan, Finance Manager

HEADLINES AT A GLANCE	2023/24	2024/25	£ difference	% difference
Total income	£8.99m	£9.16m	£174k	+ 1.9%
Income excl major works cash flow	£8.36m	£9.13m	£769k	+ 9.2%
Total expenditure (excl reserves spend)	£9.08m	£10.02m	£932k	+ 10.3%
Income less expenditure			-£852k	
Identified possible savings			£1.1 m	
First draft budgeted surplus			£250k	

1.0 First draft budget 2024/25

1.1 Overview

This first draft budget, based on current spend annualised does not balance as expenditure increases by more than anticipated income.

However, £1.1 million of proposed savings have been identified for discussion.

Finance subcommittee is asked to review the first draft budget and give an opinion on the budget and proposed savings, to give a steer to management when setting the final budget for approval. The final draft budget will be based on month 10 actual income and spend and include managers input into their budgets and funding for strategic priorities.

Income is predicted to go up by £174k, which is a 1.9% overall increase.

Expenditure budget is set to increase by £932k or 10.3% from the 2023/24 agreed budget. This is a large increase but should be considered bearing in mind the impact of inflation on rising costs:

Inflationary increases included:

- 10% additional increase in gas prices (on top of a 180% increase in last two years)
- 9.9% increase in building cost inflation
- 6.7% increase in general inflation (CPIH)

Overall staffing budgets have increased by £91k or 3.9%. This is based on an assumed 4% inflationary uplift, though the final draft will increase this to 5% to reflect the average rise being budgeted in Campbell Tickell's CEO group of housing organisations.

Changes to the staffing structure reflect the restructure of the asset management side, with the Property Services Manager post replaced by the Head of Services for Assets and the Building Safety & Client Officer post replaced by a Building Safety Manager.

Two posts have been deleted: the admin officer and the repairs assistant.

Overall, this leaves a £852k gap between income and expenditure. The new CEO wants the first draft budget to be in surplus by £250k to:

1. Cover costs and proposals by management that have not yet fed into the budget (including replacing three IT systems with an integrated system that will be presented to board before the finance subcommittee meeting); and
2. Generate sustainable surpluses that are required to fund future major works releases or other director priorities.

£1.1 million of proposed savings to the budget are presented to finance subcommittee for initial consideration. These in total bring the first draft budget to a £250k surplus.

Changes to budgets in detail

2.0 Income up £174k or 1.9%

This modest increase in income should be seen in the context of inflationary pressures on spend, with a 6.3% increase in CPIH and a 9.9% increase in building cost inflation budgeted. This increase in income is therefore a 'real term' cut after inflation is taken into account.

This cut is caused by a big drop in income from homeowners for major works, as no new schemes are being billed in 24/24 and £216k of final account credits from 11 major works schemes are all being applied in 24/25.

Underlying income excluding the highly variable homeowner contributions to major works is up £770k or 9.2%. This is much closer to the increase in expenditure budgets.

Below are all budgets showing a variance of £5k or more since the 23/24 budget: the reportable limit for finance subcommittee. We will discuss the big changes of more than £20k at finance subcommittee, but if you have questions about budgets with more modest changes, please bring these to the meeting.

2.1 Rental Income up £546k

Rental income is expected to go up by 7.5% overall, with the collection target remaining at 98%. The increase is based on the LBS HRA report provided by Southwark that recommended a 7.7% increase in property rent, 7.0% increase in garage rent and a 7.0% increase on shed rent.

Actual increases in property rent will be higher as the service charge elements are increasing by more than 7% overall. District heating charges are going up by 10% to reflect the gas and electricity prices being charged to Southwark Council (and Leathermarket JMB) with both prices and government support down. Lighting charges are increasing by 18.4%, door entry 5.1%, cleaning 20.5% and gardening 17.2%. The overall impact of these changes cannot easily be calculated in draft 1 but will be reflected in the final draft budget.

Please note that the 98% collection rate is a financial measure, not a key performance indicator. It is prudent to set budgets more cautiously than stretch performance targets.

2.2 Homeowner Revenue Service Charge collection up £168k

This is based on the last available actual charges 22/23 plus CPIH inflation of 6.7%. However, the buildings insurance premium is expected to double, accounting for £160k of the difference – money that is paid straight to LBS with no benefit for the JMB.

The estimated bill for 24/25 will be finalised before the final budget is presented to board at the end of March 24 and is expected to go up. Therefor no provision has been made for collection below 100% in the first draft budget (though this will be done for the final draft). No provision has been made for prior year arrears being collected in 2024/25.

2.3 Bank interest received of £42.5k

The JMB currently receives no bank interest, on balances of £5 million. We have asked the bank to address this but are also looking to put cash in a 3 month notice account (maximum allowed in the management agreement) where cash flow projections allow. This income is projected on saving £1 million in a Nat West account that currently offers 4.25% interest. This is a modest projection until the account is open and cash flow forecasts based on the projected major works programme are clearer.

This is a modest prediction of income. We would aim to put more into higher interest accounts when cash flow predictions show it will not be needed for the next three months (the notice period on the account). It is prudent to be cautious when predicting new income streams.

2.4 Other changes in budget of less than £5k

These are shown in the background paper, with a brief explanation for the changes. £5k is the reportable limit to finance subcommittee.

2.5 Homeowner Major Works Service Cash flow down £596k

There is no new billing of major works for 2024/25 as no schemes had reached the required stage of leaseholder consultation to allow this.

Overall, the JMB is owed approximately 2/3rds of the total money recoverable in the first year it is billed. This is because non-resident leaseholders owe the full bill within 12 months and resident leaseholders have up to 5 years interest free to repay, depending on the total amount they must repay. Approximately half of JMB leaseholders are non-resident.

In addition, there are £216k of final account credits being applied in 2024/25. This is because 11 major works schemes are all at final account stage for 24/25.

This drop in income is a cash flow issue. New major works schemes started in 24/25 will be billed at the next billing run. Final accounts do not normally all fall in one year.

3.0 Expenditure up £932k or 10.3%

This is the start of year expenditure before reserves allocations / pots / carry overs are entered. Variance of less than £20k will not be explicitly discussed in the meeting unless attendees request any are reviewed. Please read the list before the meeting and bring up any below this threshold that you feel are important.

BUDGET INCREASES OF MORE THAN £5,000

3.1 Repairs Contractors up £236k

This is based on repairs completed and charged up to end December 23, annualised plus building cost inflation at 9.9%. It also represents a 44% increase in budget after inflation.
Included in options to reduce the budget are £230k of savings on the repairs budget (as discussed below). This would bring the budget down to £546k, an increase of £6k or 1.1% (a real term cut after inflation)

3.2 Major Works in year revenue funding up £236k or 9.9%

Inflating the budget by building cost inflation only, so the purchasing power of the budget remains the same.
Two savings are identified for this budget (as discussed below) based on reserves releases covering the drop in revenue budget during 24/25.
This would result in a one-year budget cut of £486k before inflation.

3.3 Estate Gas Joyce Newman House up £136k or 188%

This is based on billing to date, annualised and inflated. This billing is based on estimate readings that are significantly higher than actual readings. The third reading is being supplied before the finance subcommittee meeting, with the supplier expected to reflect actual readings (backed up by photographic evidence) which should reduce the increase by approximately £100k to £36k. This saving is reflected in the budget savings discussed below.

The 23/24 budget covered only 9 months of gas bill as the new development went live in July 23.

3.4 Homeowner Buildings Insurance and Ground Rent up £133k or 70%.

This provides for the doubling of building insurance premiums (none of which is net income to the JMB)

3.5 Repairs Materials up £40k or 43%

This still included miscoded repairs contractor costs. The net effect on the overall budget is zero but when corrected are expected to show a reduction in repairs materials matched to an increase in repairs contractor costs.

3.6 Court and legal fees up £34k or 48%

This should be read in conjunction with the cut in disrepairs budget of £76k. There is significant miscoding of disrepair costs to court and legal fees. Overall, both budgets together are down by £41.5k or 25% based on year to date spend, annualised, and inflated. The split between disrepair and other court and legal will be clearer once miscoded spend is identified and corrected. This will be investigated. Both the CEO and Deputy Manager are concerned that the total of both budgets is showing as reducing. This does not reflect the experience of more disrepair cases in the pipeline. The RSO manager says the delay for court action for rent arrears and other housing matters is over a year. The two budget headings will be reviewed in detail before the final draft of the budgets.

The new CEO is asking for additional splits from the court and legal budget to separately show HR and constitutional legal costs.

3.7 RSO salaries and oncosts up £24.7k or 6.4%

4% is the current inflationary provision (to be raised to 5% for final draft).
The difference is for the additional uplift for the RSO leading on enforcement of homeownership charges.

3.8 Repairs management salaries plus oncosts up £24.2k or 11.6%

This includes the board agreed uplift of the building safety officer to a building safety manager, plus the normal inflationary and incremental uplifts provisions.

3.9 Major works salaries plus oncosts up £20.7k or 9.4%

This includes the board agreed uplift of the property services manager to head of services for assets, plus the normal inflationary and incremental uplift provisions. The head of service for assets costs will be charged to different departments (major works, repairs, building safety), but the budget needs to be kept in one place.

3.10 Lifts budget up £19.8k or 26.3%

Based on year-to-date spend annualised, plus £19k annual charges, plus 9.9% building cost inflation, plus £10k for lift insurance works. Previous years budgets included time when lifts were replaced or in defects liability periods. The budget in 22/23 was £102.9k so this year’s budget is lower than this, even before inflation is considered.

3.11 Repairs Operatives Salaries and oncosts up £19.3k or 6.9%

This includes the normal inflationary and incremental uplift provisions. The repairs assistant post has been deleted, but this was still budgeted within the cleaning budget where the post holder came from when the 23/24 budget was agreed, so there is no saving in the repairs budget.

3.12 Office Management salaries and oncosts up £16.2k or 4.8%

This includes for staffing changes of CEO and Deputy Manager during 23/24 plus the normal inflationary and incremental uplift provisions.

3.13 LBS Services up £15.2k or 8.6%

This is based on 22/23 actual charges plus inflation.

3.14 Estate council tax up £15.2k or 60.8%

This is predominantly for council tax in voids. £10k is mistaken provision for new build voids (none expected 24/25) so will be removed in the final draft budget. When void turnaround improves, this will result in a further reduction in cost on void council tax, but this should not be banked until it is achieved.

3.15 Estate fire prevention up £15.1k or 26.2%

Based on £57.6k new LBS inspection costs, to be confirmed, plus costs of office test fire prevention services. The budget requirement for estate fire prevention is fast changing, so this budget will be reviewed in detail for the final draft budget.

3.16 CEO budget (previously called business plan development) up £15.0k or 128.2%

This is based on spend to end December (by the former Executive Manager) annualised and inflated including the first year of National Housing Federation membership as this came up during the financial year after the 23/24 budget was agreed. The new CEO has produced a list of requirements for budget consideration. These will be costed up and finalised for the final draft budget in March 24 which will give a much more accurate amount for this budget.

3.17 Directors training up £9.8k or 164%

Includes new affiliation to National Housing Federation £6.6k, plus away day £1000, plus current year training annualised. The CEO has indicated that the Directors away day is likely to cost more than this including venue hire, facilitation etc. These costs will be included in the final draft budget.

3.18 IT revenue up £9.7k or 8.5%

Based on 23/24 spend adjusted to remove one-off costs, inflated. Actual licence costs for existing software to be included in final draft budget.

3.19 Gardener salaries plus oncosts up £9.2k or 8.6%

The normal inflationary and incremental uplift provisions. Fixed amount increases 23/24 result in higher percentage increase for lower paid staff.

3.20 Office cost audit and accountancy fee up £8.9k or 43.5%

The final draft budget will match to halfway between 23/24 actual costs and 23/24 budgeted costs as the amount of support required reduces as knowledge and experience increase.

3.21 Gardening materials and equipment up £8.8k or 89.8%

Increasing the budget to reflect the additional cost of £8.2k for chemicals for weed suppressant in 23/24 for spraying of hard standing areas.

3.22 Finance salaries plus oncosts up £8.4k or 5.4%

The normal inflationary and incremental uplift provisions

3.23 Office electricity up £8.3k or 55.2%

Based on bills to date annualised. Need to check whether these are based on estimate or actual readings.

3.24 Office insurance up £8.0k or 13.3%

Based on actual premiums 23/24 plus inflation. Final draft budget should have actual costs included.

3.25 Homeowner enforcement fees up £6.8k or 6.3%

Inflationary uplift only. No spend possible until LBS agree to add a schedule to the management agreement / terms for a service level agreement. Stuck between Southwark Legal and the TMI team at Southwark. No spend in any year yet, but this is reflected in poorer collection figures.

3.26 Communication budget up £5.4k or 47.7%

Expect this to reduce at year end as this includes some annual costs within the spend to date (annual report, ballot invites etc).

3.27 Estate upkeep manager budgets up £5.0k or 7.7%

Based on spend year to date, annualised and inflated.

3.28 68 budgets are within £5k of the 23/24 budget

Variances of less than £5k are not reportable to finance subcommittee, but a short explanation is included in the background papers.

The overall cost of these changes is £12.5k increase in budget.

BUDGET DECREASES OF MORE THAN £5,000

3.29 Disrepair and compensation down £75.7k or 56.8%

This should be read in conjunction with the increase in court and legal costs of £34k. There is significant miscoding of disrepair costs to court and legal fees. Overall, both budgets together are down by £41.5k or 25% based on year to date spend, annualised, and inflated. The split between disrepair and other court and legal will be clearer once miscoded spend is identified and corrected. However, with over 25 active disrepair cases, the cut in budget based on current year spend to date, does not appear realistic, and will be reviewed before the final budget is drafted.

3.30 Office All salaries on costs down £19.8k or 11.6%

Removal of the office admin post, part offset by the normal provisions for inflationary and performance related increments.

3.31 Estate cleaning salaries and oncosts down £14.9k or 3.4%

Removal of repairs assistant post (who was originally a cleaner so budgeted here). Need to check whether number of cleaners includes the part time post from HR process or if this is an additional post in the staffing structure. If additional, it will add to the budget but help release team cover for the additional cleaning responsibilities on new build estates.

3.32 Repairs operatives' vehicle expenses down £7.3k or 13.2%

This is based on a reduction from seven to six vehicles. This is based on current vehicle hire numbers. Need to check when all posts are filled whether a post is static, so does not need a van, or a further vehicle needs to be budgeted for.

3.33 Staff training down £7.3k or 29.3%

Need manager input into required budget. This reduction should be read in conjunction with the £6k increase in directors training budget to reflect national housing federation funding. However, the cut in budget before inflation does not reflect current focus on training.

3.34 Housing debt repayment down £6.1k or 0.5%

Based on agreed repayment schedule, before right to buy considered.

3.35 Meeting minute writing down £6k or 100%

Budget no longer required now vacancies have been filled.

4.0 Income less expenditure & contingencies

Income less expenditure	
Income	£9.2 million
Expenditure	£10.0 million
Net deficit (to be eliminated)	-£852k
Changes required to balance budget	**£852k**
Changes required for a surplus of £250k	**£1.1 million**

4.1 Directors' contingency £173.7k: a reduction of £12k or 6.4%

The directors' contingency is set at 3% income, excluding that allocated to debt repayment or major works.

This is held in reserves, so does not impact 23/24 revenue budget.

The figures will change based on agreed measures to balance the budget. If less major works is funding from revenue 24/25, the contingency will go up.

4.2 Risk pot £83.5k

The risk pot is for known costs that are not certain, but the likelihood of them occurring can be estimated. The thinking is one may occur, but all are unlikely. Therefore, pooling the cost multiplied by probability of each risk into one pot helps to cover if one occurs, without risking high inbuilt surpluses by funding all risks.

The risk pot will be reviewed before the final draft budget to reflect 2024/25 risks.

5.0 Important items / issues not yet covered in the budget?

Managers are being asked to contribute to the budget setting for 24/25 and these need to be added to the budgets. They have been asked to identify budget pressures, budget overprovisions, and new budget lines required (and whether these take from existing budgets or are new funding requirements). This includes strategic changes, such as the renewal of three existing IT systems with one integrated system, that will impact on IT budgets but also other staffing requirements on a short-term basis.

During the year many directors / resident suggestions for funding are discussed. However, if provision is not made within budgets, they are not prioritised. Money put to these has to be weighed up against money not spent on major works.

A further opportunity will come to fund projects when reserves are allocated in September 2024.

There is usually money that can be agreed during the year if more income is collected or less expenditure occurs. This is done by agreeing headroom for new items during the year.

Please note that this is for urgent gaps in funding. Money allocated to new budgets must come from somewhere. The default is a cut in the major works budget, but with building safety requirements adding to pressures on the major works budget, it is important that any cuts are temporary.

Are there any other urgent and important items the JMB should look to fund in 2024/25?

6.0 Any items receiving funding that more information is required before you can recommend the final budget to board?

Please check the full list of expenditure budget changes. In the meeting, please ask if there are items being funded that you want more information on before you feel able to make a recommendation to board.

7.0 Significant changes to the budget setting approach 24/25

7.1 More manager input into budget setting

Managers are being asked to feed in budget change requests to the finance team for inclusion. They are being asked to rate budget requests in terms of essential (red), important impact on service delivery (amber) and nice to have (green). These have not fed through to draft one of the budget but will be included in the final draft.

7.2 Removal of the staffing vacancy rate contingency

Last year the budget was balanced with a staffing vacancy rate provision of 4% of staffing costs. This was based on information from the Executive Manager about how local authorities achieved balanced budgets. The new CEO has recommended its removal as it is not a standard approach in the housing sector, and it limits manager's ability to fill vacancies temporarily whilst full recruitment is undertaken.

7.3 Introduction of a surplus on budget

The new CEO wants to build in a budget surplus, initially of £250k, to ensure sustainable production of surpluses and smooth any short-term budgetary changes in available resources. This is in line with his experience with other housing providers. The former Executive Manager wanted to spend the money in year, to add to the surge of the major works programme so residents saw the benefit more quickly, although the reality was often an underspend in major works in year rolling into provisions within reserves.

8.0 Options for reducing the £852k deficit and build in a budget surplus of £250k

Identified possible changes to balance budget: Please note, these are currently options, based on management discussions, not commitments. Finance subcommittee views are being sought before final decisions are made.

	Opening deficit			**-£852k**
8.1	Move one-off drop in major works cash flow (income) from leaseholders to reserves	£596k	-£256k	
8.2	Repairs savings on budget	£230k	-£26k	
8.3	Saving on gas budget Joyce Newman House based on actual readings	£100k	£74k	
8.4	2024/25 pause on TRA release for estate works	£50k	£124k	
8.5	Additional reduction in major works budget covered by reserves	£126k	£250k	
8.6	Other?			
	Closing surplus			**£250k**

8.1 Providing for the £596k one-off drop in homeowner contributions to major works in reserves: as previously discussed, the drop in income from leaseholder contributions to major works is caused by:

- **a.** A timing issue as no new major works schemes are ready for billing in 24/25 billing run; and
- **b.** £216k of final account credits hitting in one year as 11 major works schemes are moved to final account.

Using reserves to cover a 'cash flow' issue is reasonable to smooth the impact of one-off events in any one year's budget.

8.2 Identified savings in the repairs contractor budget: the Head of Service for Assets and the Responsive Repairs Manager have agreed to a number of changes to bring control to the repairs budget. These are:
£112k saving in voids spend by setting an appropriate void standard and bringing down the spend per void. Recent experience has shown void spend of at least £10k per void. Bringing down this spend by £3k for 37 voids would achieve this reduction
£30k saving by the DLO delivering some voids in house. Once they are fully staffed, delivering 4 voids should achieve this saving after additional materials costs are taken into account
£90k saving as the one-off works undertaken by Grouts in 23/24 are stripped out of the spend.
Total repairs contractor savings are of £230k from the current budget provision.

8.3 Savings in the gas costs for Joyce Newman House: the budget is based on billing to date annualised. However, this has been done on estimate bills with actual reading significantly lower. The third reading is being submitted at the end of January, which is expected to result in the supplier recalculating and issuing a significant credit. Current estimates is for a £100k reduction in budget but this should be clarified for the final draft budget.

8.4 One-off holding of £50k release to TRAs for estate works in 2024/25: whilst these funds are important to residents, especially those involved in the TRAs including Directors, this release is desirable rather than essential. When looking at real cuts to the major works budget, it is important to minimise the effect to ensure the JMB can continue to deliver required major works programme, including the extra building safety works responsibilities.

8.5 Additional £126.4k reduction in the major works in-year release: this will then leave a first-draft budget surplus of £250k, before managers budget changes, including new IT costs are added to the final draft budget.

8.6 Do finance subcommittee have any thoughts on the possible changes or alternative suggestions on savings in expenditure or increasing income?

9.0 Any other business?

9.1 Consideration of how to present budgets in future.

9.2 Other?