

Finance Subcommittee Headline Report

Monday 20th November 2023, 5.30pm

Quarter 2 Management Account Review (end of Sept 23)	
Income above budget (as per management account)	£338k
Adjusted income below budget (removing early Q2 HB)	-£22k
Of which homeowner major works income above	£20.4k
Homeowner revenue service charge above	£20.2k
Rent (adjusted) <u>below</u>	-£60.6k
Expenditure below budget	£415k
Of which general expenditure below budget	£96k
Managers' budgets below budget (health warning on repairs)	£318k
Reserves expenditure	£311k
'Operating Surplus' month 6 (crude)	£82k
Rent collection end week 26 (performance stat)	96.19%
Rent collection below budget (finance stat)	-£60.6k
Cash flow	
Cash in bank end October 2023	£6.9 million
Low point in bank 23/24 February 2024	£5.0 million
Need to extend cash flow to length of longest major works and link to changing profile of major works predicted spend	
Key audit findings to JMB Board	
Maximising income through bank interest	
Report to be circulated 20/11/23	
Any other financial business	
Treasurer nomination from board	
Confirmation of bank signatories	
Best day and times for finance subcommittee meetings 24/25	
Andy Bates leaving do Thursday 14/12, 4-9pm in Roundhouse. Photos?	
Repairs Scheduler increase in rates to £3k (withdrawn)	

Month 6 (Quarter 2) Management Accounts 2023/24

Headline state of the JMB accounts

Six months is the first point in the year when we can meaningfully look at management accounts, as most of the start-of-year accruals into prior year spend are no longer having such a significant effect on the management accounts.

Income is at a very similar position to this time last year, with overall income £22k below budget (£8.5k at month 6 2022/23).

However, this means we have not got back to income collection levels routinely achieved before Covid-19 and before the creation of the RSO teams. Previously we were regularly above budget on income, with the JMB £83k above income at month 6 2019/20, and £72k up at same point in 2018/19.

Collecting £22k below budget is not cause for alarm as it represents income just 0.55% below budget at month 6. The directors' contingency of £180k can more than carry this reduction, even before looking at overall spend below budget.

Please note in this year's budget, rent and service charge income represents 98.7% of all budgeted income at month 6. Improving collection on these should be the focus to increase income.

Expenditure is £415k below budget. The majority of budgets are underspent. The two budgets that have the biggest impact on the overall underspend are £282k on repairs contractors and £50k less on disrepair. These two underspends account for almost 80% of the total underspend. However, difficulties with getting accurate management accounts from our financial software mean that conclusions should not be drawn until a clean set of management accounts is automatically produced at end October 23, reducing the change of double accounting for spend, or other manual errors. It also gives a chance for the finance team leader to correct known miscoding errors so spend shows in the correct budget.

In the first 6 months of 23/24, 100% of the in-year budget for major works has been spent. In addition, £311k of reserves has been spent. This is an excellent result as residents see the results of the speeding up of the major works programme on their blocks and estates.

The big picture is that after half the year has gone, the JMB is in a strong financial position. A crude operating surplus based on income and expenditure below budget and reserves spend gives an 'operating surplus' at month 6 of £82k (but with some budgets not yet profiled to spend).

To get a better understanding of the half-year position of the JMB, we need to look in more detail at the individual budgets.

Health Warning

The JMB moved to new servers in September 23, but this led to severe glitches in the management reporting of finances. This means that the copies of the system produced management accounts took much longer to produce and have not pulled in all the figures correctly, including with manual adjustments, actual spend or budget year to date information.

The issues are being resolved with the software support company so are not expected to recur from October management accounts onwards.

For this quarter only, the management account has been produced manually, to reflect income and spend on the nominal account more accurately. This is so directors and management have a reasonably accurate picture of the state of the JMB finances at the end of quarter two (end of September 23), half-way through the financial year. However, producing the management accounts manually increases the risk of human error.

Repairs expenditure was worst affected by the software problems, so the advice is to wait until October management accounts are produced before drawing strong conclusions on patterns of spend, especially in repairs.

Detailed consideration of month 6 management accounts

Income £339k above budget

Overall, income is £338.9k above budget. However, adjusting for Q2 housing benefit that was not expected so not budgeted until October but 'received' in September, the underlying position is £22k below budget.

Adjusted income £22k below budget

Overall income is close to target, falling just 0.55% below budgeted income to date.

Detail of variances in income from budget of more than £5k

Rent received £300.4k above budget

This includes £361k of Q2 housing benefit that was not budgeted until October 23

Adjusted rent received £60.6k below budget

This correlates with the rent collection statistics that show 96.2% collection at the end of September. Cumulative collection is made up of collection below 100% of 2.4% and total void loss at 1.4% of the rent charge.

Rent loss due to property voids has fallen from 1.28% at the start of April 23 to 0.91% at the start of November 23 as progress is made on letting the long-term voids. This is a leading indicator of progress in reletting voids. Ongoing work is needed as the number of new voids has started to rise again. Rent loss due to garage voids has consistently stayed at 0.29% (plus or minus 0.01%) the whole year, with rent loss due to shed voids at 0.18%.

Homeowner Major Works Income £20.4k above budget

The budget is deliberately set conservatively, based on experience of collection to date, not on predicting improved collection of historical arrears before it happens. This stops us allocating the income to expenditure budgets before we know we are likely to collect the money.

Collection figures against agreed payment plans are the stretch performance targets for the RSO's.

Homeowner revenue service charge income

£20.2k above budget

This reflects the cash received in each month from April until September 23. In addition £34.8k was received before the 1st April for 23/24 revenue charges that were sent out in early March but only became due on 1st April.

The budget was set based on the estimated service charges that were billed in early March 23. No provision was made for the actual service charge 22/23 that were calculated and billed in late summer 23. As actual bills were 4.2% higher than the previous year, which should mean higher collection later this year.

Collection above budget is positive. With some leaseholders paying annually and others quarterly in advance, collection above budget is expected to reduce as the year progresses without ongoing effort around chasing arrears.

All other income streams are within £5k of budget, so below the reportable limit.

Operating expenditure £415k below budget

Of which general budgets £96k below budget; and
Manager's budgets £318k below budget

VARIANCES OF MORE THAN £5,000 FROM BUDGET

General budget expenditure £96k below budget

Estate Costs

£33.1k below budget

Estate electricity £47.3k below budget, though not many bills have come in yet and usage is at its lowest over the summer months, when the days are longer. This underspend is expected to come down through the year.

Estate fire prevention £22.6k below budget. Spend is not smooth through the year as it depends when the Southwark led FRAs are completed and billed.

Estate gas (Joyce Newman House) £28.2k above budget. These are based on estimate bills to date and meter readings will need to be supplied to ensure the bills are accurate. The budget profile was also set profiling lower usage over the first six months of the year, with less than 20% of the overall budget profiled to date. 2023/24 is the first full year of gas billing for Joyce Newman House.

Estate council tax £12.2k over budget. This is mostly a timing issue as the expenditure report pulled in some council tax from October once the reporting software was useable.

Cleaning

£23.4k below budget

Staffing costs are £36.6k below budget, part offset by agency costs in staffing contingency that are £14.3k above budget. Overall staffing costs are £22.3k below budget due to staff vacancies so far this year.

Grounds Maintenance

£25.7k below budget

Staffing costs are £26.7k below budget due to staff vacancies during the year.

Office Staffing

£11.0k below budget

None of the below have received the inflationary award (paid in November)

Office salaries and oncosts £58.8k under budget made up from:

£13.3k under office management and oncosts

£3.4k under RSO salaries and oncosts

£26.5k under office all salaries and oncosts (office manager and resident engagement vacancies)

£6.7k under on Major Works salaries and oncosts

£7.7k under finance salaries and oncosts

£1.3k under HR salaries and oncosts

Recruitment £41.8k above budget

£41.2k management recruitment for deputy manager and CEO advertising and finders' fees

Training £11k above budget

Uneven spending through year, still within annual budget with additional reserves spend agreed.

Staffing contingency £2.6k under budget

But contingency for other services is budgeted here

Pension fees and benefits £2.3k under budget

Voids and repairs**£35.8k below budget**

£44.4k under repairs management staffing budgets

£51.9k under repairs operatives staffing budgets (offset by temp costs)

£59k over budget on contingency (mostly temping agency charges)

£3.3k over consultancy fees (no budget requested as retendering was complete)

£2.3k under fuel use (awaiting billing and reconcile of receipts)

Office costs**£11.6k over budget**

£8k over office gas (billed on estimate with little usage in summer so expect this to rebalance during year when meter reading supplied)

£4k over on office electricity (awaiting reading)

£3.4k over on office repairs (£3.5k on remedial works to office alarm and emergency lighting)

£1k over office printing

£2.3k under postage and mailing

£1.6k under photocopier

£1.5k under fixed telephones

Insurance & accounts**£20.5k over budget**

£17.4k over audit fees, but this includes a £9k double posting to be journaled out, and the full annual budget will appear in October, reducing the overspend by a further £8.4k. However, we are in discussion with the auditor as the audit took longer to complete, but we are negotiating on cost.

£4k over on insurance costs, with the final quote agreed after the budget was set. It continues to be a tough market for insurance.

All other general budgets are well within £5k of budget

MANAGER'S BUDGETS

£318k BELOW BUDGET

The problems with the IT for management reporting had a disproportionate impact on repairs manager budgets, mixed up with a repairs accruals report that is no longer used but is showing credits on many accounts until the software supplier helps us remove them. There has also been significant miscoding, but the finance team make provision for bills not yet appearing on a budget code, so these cannot be manually amended on the management account without risk of double counting.

Repairs codes especially will need verifying in the October management accounts, before conclusions on spend are made.

VARIANCES OF MORE THAN £5,000 FROM BUDGET

Voids and repairs materials

£59.7k over budget

There is over £100k of contractor works miscoded here that needs to be journalled to other repairs codes. Need to wait for the October management accounts when this has been done, to see the overall impact on the budget, as some of the miscoding may also be reflected in the manual adjustment provisions. Additionally, some of the invoices paid this year may have been for materials supplied last year, so have been accrued out of this year's spend.

Voids and repairs contractors

£282k below budget

This budget is only showing £60k of spend in 2023/24. This does not include contractors for heating and lifts.

£248k of repairs accruals have been removed from the management accounts as this report was no longer fit for purpose. Things will become clearer when the software supplier has helped physically remove the repairs accruals report off the system. There may still be prior year accruals impacting on spend.

On the face of it, there appears to be a big reduction in the amount of work going out to contractors. The in-house repairs team is more fully staffed, so should be delivering more of the repairs compared to 2022/23 when the in-house team was under-staffed.

Again, conclusions should not be drawn until the October management accounts are run as this should iron out anomalies around any double counting of accrual removals against bills paid etc.

Voids and repairs other

£50.3k under budget

Disrepairs and compensation budget is £49.9k under spent. This appears to be really good news, but there needs to be an exercise to ensure all disrepair has been coded here. Also legal costs cannot be accrued so are at least a month behind. Keep watch on this budget as the year progresses.

Heating and cold-water tanks**£33.4k under budget**

Currently costs from June are on estimate as they have not reached finance for processing. Under spend appears to be a timing issue as there has been no saving on expected costs as yet. Expect costs to go up in the winter as boilers are not used as heavily in the summer. Additional cost of the gas for the three original district heating systems for 22/23 actual will be added to this budget in Autumn (when invoice received from Southwark Council, which will more than reverse the underspend. As actualization comes months into the following year, it is difficult to make provision for these extra costs.

There are over £100k of heating works coded to repairs materials, but provision has been made for these bills in the manual adjustments. The October management accounts should give a clearer position.

Lifts**£2.7k over budget**

Whilst spend is very close to budget, it includes £11k on two large repairs in the first half of the year. Generally, lift repairs have been reducing as older lifts / those more prone to breaking down are being replaced.

IT**£23.5k over budget**

2023/24 will be a difficult year for IT, as the demands for changes to systems has increased already this year. The over budget is partly a timing issue, as most big spend (licences, annual fees, development projects) are paid for near the beginning of the year. The over-spend is expected to come down as the year progresses and more budget is released.

Estate works**£26.6k under budget**

Nothing is showing on the management account as spend yet. However, the estate services manager has committed £23k already. Some of this will need to be journalled from other budgets as the cost is currently in repairs or gardening and needs to be put to these budgets.

Strategic projects**£12k over budget**

£8.5k has been spend on a building safety research project through TPAS

£6.3k has been spent on legal advice on the JMB constitution and on how to respond to legal requests for information.

£3.3k has been spent on Devonshires preparing and attending the Directors / Managers away day.

The whole year budget is only £10k.

Resident involvement

£7k below budget

£3k down on communication before annual report is paid for

£5.5k down on events with no summer fun day, and hampers to be paid for in November / December.

Legal & compensation

£13k over budget

The disrepairs and compensation budget is £49.9k under budget. An exercise is required to move disrepair costs from the legal & compensation budget which is meant for housing management and HR cases only. Once done, this is expected to be under budget.

Homeowner services

£24.7k under budget

Please note the budget is not spread smoothly through the year so the under budget is larger than this reflects. There has only been £2.5k spend year to date.

£190k of buildings insurance and ground rent has not been billed by Southwark yet but will be spent when the bill arrives.

None of the £108.5k has been spent on homeowner enforcement whilst we await Southwark legal approval to buy this service from the homeownership enforcement team.

None of the £10k has been spent on setup fees for service charge loans for homeowners until Southwark legal team approve that the JMB can buy this service from homeownership services.

All other managers budget spends are within £5k of budget.

Major works

All in-year budget spent

All of 23/24 in year budget has been spent so far this year, with an additional £311k spent from reserves. This is great news and should result in a planned reduction in reserves and help move towards an in-year deficit as these reserves are spent. The speed of spending will reduce as the year progresses and large projects come to an end, before new projects are tendered and works begins on site.

Annual capital expenditure (reserves) of £311k

This is all major works spend above the in-year budget. This is planned spend from reserves.

Cash flow

Cash flow predicts the amount of money in the bank at the end of each month to make sure there is enough money in the bank to pay the bills / salaries when they are due.

Additionally, it can be used to identify whether any money can be held on deposit to attract higher interest rates.

Finally, it is used to check whether a new major works scheme can be contracted based on a draft profile of spend across the length of the contract, before tendering the works and again once the actual contract costs are agreed.

There was £6.9 million in the bank at the end of October 23.

The low point in the bank is predicted to be in February 24 when there is predicted to be £5.0 million in the bank if income and expenditure occurs as predicted in the budgets.

The bank balance is predicted to go up to £5.8 million after year end when all month 13 income and expenditure is taken into account.

The most variable item in the budgets is major works spend, that is concentrated in the times of year when projects are on site. When we have the latest profile agreed by the property services manager, the finance team will extend the cash flow to reflect the expected profile of spend across the length of the longest major works contract. This will give a clearer idea of how much money can be safely deposited away to earn better interest.

Board have asked that the emergency reserves are available in the bank at all times.

There is a £200k buffer finance subgroup have added to give early warning if we are predicted to get close to the emergency reserves level, to allow us to adjust when we spend in advance to keep the emergency reserves protected.

Review of key audit findings

Report to be circulated before the meeting.

Maximising interest from money in bank

Report to be circulated before the meeting.

Any other business

1. Request to increase authorisation limit of repairs scheduler from £500 to £3,000.
2. Finance sub recommendation on treasurer
3. Confirmation of 6 bank signatories
4. Agree best day and time for finance subcommittee meetings in 2024.
5. Other?