

<b>Review of Quarter 1 management accounts 2024/25</b>	
To:	Finance Subcommittee
For:	Information and Discussion
Date of Meeting	Monday 29 <sup>th</sup> July 2024, from 5:30pm
Link to Business/Annual Plan	Financial Performance and impact on reserves
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<b>Quarter 1 Management Account Review (end of June 24)</b>	
<b>Income above budget</b> (as per management account)	<b>£38k</b>
Of which homeowner major works income above	£42.4k
Homeowner revenue service charge above	£14.8k
Rent <u>below</u> budget	-£21.9k
<b>Expenditure below budget</b>	<b>£5k</b>
Of which general expenditure below budget	£94.5k
Managers' budgets below budget (health warning on repairs)	£89.6k
<b>'Operating Surplus'</b> month 3 (BIG HEALTH WARNING)	£ 91k
<b>Reserves expenditure</b>	<b>£ 3.6 k</b>
<b>Rent collection end week 13</b> (performance stat)	99.89%
<b>Rent collection below budget</b> (finance stat)	-£16 k
<b>Cash flow</b>	
Cash in bank end June 2024	£5.4 million
Full report to next finance subcommittee	
<b>Finance team update</b>	
<b>Maximising income through bank interest</b>	
<b>Any other financial business</b>	
Request to change repayment terms for leaseholders for new billings when only a small amount is owed	

# Month 3 (Quarter 1) Management Accounts 2024/25

## Headline state of the JMB accounts

Three months is the first point in the year when we can meaningfully look at management accounts.

**Income** is at a very similar position to this time last year, with overall income £38k above budget (£46.5k at month 3 2023/24).

Rent collection over the years (Apr 2020 – March 24) averaged 98.58% at end of quarter 1. For the Q1 24-25 the cumulative rate is 99.89% and it's better vs. 96.45% (23-24). However, with collection lower than 98% for three years from April 2020 to March 2024, it is important that collection increases to collect include the collection of prior year arrears.

Major works and revenue service charge collection is above the budget overall, mainly due to better collection on MW service charges. However, no new schemes were budgeted for the year 24/25, and lots of final account credits are expected in 24/25, so the yearly budget was set at £29k.

Please note in this year's budget, rent and service charge income represents 99.9% of all budgeted income at month 3, and 96.6% for the whole year. Improving collection on these should be the focus to increase income.

**Expenditure** is £5k below budget. The general budgets are underspent £94.5k, while the managers budgets overspend £89.6k.

The two budgets that have the biggest impact on the overall overspend on managers budgets are voids & repairs which is £104k over the budget and major works, which is £164k over the budget.

It is noted that no repairs works order accruals have been posted this year and prior years accruals have been reversed, hence better picture on actual spend is captured. Further, better view on miscoding errors is captured and corrected to the right budget. This will enable us to monitor overall repairs spend as the budget represents the second biggest budget spend and needs to be monitored tightly.

The spend on contractors is £104k above budget at the end of quarter 1. In 2023/24 repairs contractors ended up £462k above budget at month 13 so this £104k over budget is just £12k lower than the average quarterly position in 23/24. More work is needed to get repairs contractors overspend back in budget.

In the first 3 months of 24/25, major work budget has been overspent vs. projected for £167k. This is just an accounting / timing issue. We are asking the auditor to accrue £117k into 23/24 and the rest is the difference between the smooth profiling of the budget and uneven spend. It is noted that revenue budget for the year 24-25 is set at £ 1.556m. The stock condition survey planned for Autumn 24 will provide a better picture to guide the future major works programme, while cash flow planning will be crucial to fund the major work schemes when required whilst maximising bank interest by tying cash into interest bearing accounts where the cash is not needed in the short term.

## **Detailed consideration of month 3 management accounts**

### **Income**

**£38k above budget**

Overall, income is £38k above budget. Although, it is noted that the amount above is due to the better collection on MW service charge, while the overall rent collection is under budget by £22k.

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

#### **Rent received**

**£22k under budget**

The rent collection rate has slightly improved vs. prior year, although there are historical arrears from 2020 onwards that would allow for a higher collection rate.

Rent loss due to property voids has fallen from 1.01% at the start of April 24 to 0.78% at the end of June 24 as progress is made on letting the long-term voids. This is a lagging indicator of progress in reletting voids. Ongoing work is needed to monitor the voids and to keep the void period short as possible to minimize the void loss and improve the rent collection figures overall. Rent loss due to garage voids has consistently stayed at 0.32% (plus or minus 0.01%) within the period, with rent loss due to shed voids at 0.16%.

#### **Homeowner Major Works Income**

**£43k above budget**

The budget for the year is set at £29k, which is the lowest vs. prior years. This was due to no new major works scheme being billed to leaseholders in April 2024, plus provision for final account credits. £29k was collected in April 24, £18k in May with only £2k in June 24.

#### **Homeowner revenue service charge income**

**£14.8k above budget**

This reflects the cash received in each month from April until June 24. In addition, £23.6k was received before the 1<sup>st</sup> April for 24/25 revenue charges that were sent out in early March but only became due on 1<sup>st</sup> April. This gives a boost to collection figures early in the year.

The budget was set based on the estimated service charges that were billed in early March 24.

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 £5k below budget**

Of which general budgets £94.5k below budget; and  
Manager's budgets £89.5k below budget

### **VARIANCES OF MORE THAN £5,000 FROM BUDGET**

#### **General budget expenditure £94.5k below budget**

##### **Office Staffing**

**£29.7k above budget**

**Office salaries and oncosts £42k under budget** made up from:

£ 21.3k under RSO salaries (offset by temp costs)

£ 12k under finance salaries

£ 15 k under on HR staffing salaries (offset by temp costs)

Part offset by:

£ 7.6 k above management salaries

Please note that the 24/25 inflationary award has not been agreed yet, so is not yet reflected in these figures.

##### **Staffing contingency £65.6 above budget**

£30 k over MW temp. fees with no saving in major works salaries to part offset this

£16 k over HR temp. fees almost matching the saving in the HR salaries budget

£14.5 k over RSO temp. fees which is less than the current reduction in the RSO salaries budget.

£3.7 k over HR policy reviews (agreed funding from reserves)

**Pension fees and benefits £5k above budget** – profiling issue as full year cost spread across year.

##### **Voids and repairs**

**£11.7k above budget**

£19k under repairs management staffing budgets (vacancies)

£6.3k under repairs operatives staffing budgets (vacancies) offset by

£29.7k above on contingency (mostly temping agency charges)

£7.4k above fuel use (awaiting billing for year 23-24 and 24-25 Q1)

## **Estate Costs**

**£112k below budget**

Estate electricity £34.5k below budget: there is drop in costs on electricity due to the reducing energy rates. It is noted that Npower and CSD Laser are charging at a lower rate similar to the rates seen prior to the energy costs crisis. Quarter 1 also covers the season when nights are shortest, so less electricity is used to light the estates.

Estate fire prevention £17k below budget. Spend is not smooth through the year as it depends when the Southwark led fire safety works are completed and billed. There is ongoing discussion about fire prevention responsibilities between the JMB and Southwark, so no billing has been received to date.

Estate gas (Joyce Newman House) £68.9k below budget due to large credit for lower usage 22/23 and 23/24 than charged. Actual meter read has been provided and actual costs recalculated. Gas for JNH is in credit of £ 130k as of 30.04.2024. Actual invoices are offset against the credit, hence no payments needed.

Estate council tax £8.8k over budget, this is due to mis-posting, which has been retrospectively corrected and office tax code debited.

## **Office costs**

**£19.4k under budget**

£ 10.3 k under office rates (have corrected mis-posting in July management account)

£ 6.7 k under water rates (prior year credit)

£ 3.2 k under printing

Offset by £5.4 k over spend between on office gas, H&S and sundry costs

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

## **MANAGER'S BUDGETS**

**£89.5k OVER BUDGET**

There is continuous miscoding that is adjusted more quickly to make the management accounts more accurate. The new IT system is seen as the main tool for significantly reducing miscoding.

Provisions for bills not yet appearing on the budget codes are made in the management accounts.

## **VARIANCES OF MORE THAN £5,000 FROM BUDGET**

### **VOIDS AND REPAIRS CONTRACTORS**

**£104.4k over budget**

Repairs contractors is above budget, and it does not include contractors for heating and lifts.

The repairs accruals report is no longer posted in GP dynamics hence more accurate data is available to track the actual spend on repairs. Prior year's accruals have been reversed, which means the management account figures on repairs contractors spend are showing the true picture, without large start of year credits.

**Lifts****£44.7 k over budget**

The overspend is a mis-coding issue. The total includes £46.9k on two large heating invoices (OCO) miscoded (with some provision also made for these bills in the heating budget) and a £7k double posting. This will be adjusted in July management accounts.

**Voids and repairs other****£14k over budget**

Disrepairs and compensation budget is £14.5k overspent. Budget is quite often miscoded hence to be closely observed as the year progresses.

**UNDER BUDGET****IT****£30.4k under budget**

For 2024/25 the IT budget is set at a higher sum, primarily due to the new software implementation which has not yet started to incur costs.

**Heating and cold-water tanks****£15.2k under budget**

Currently costs from April are on estimate as they have not reached finance for processing. Underspend appears to be a timing issue as there has been no saving on expected costs as yet. Furthermore, cost of the gas for the three original district heating systems for actual 22/23 and estimate for 23/24 are still expecting to be invoiced (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).

**Legal & compensation****£12k under budget**

The legal and compensation is £12k under budget. Delay in receiving invoices during the year, vary out disrepair.

**Estate works****£10.5k under budget**

Nothing is showing on the management account as spend yet. However, there was £ 2k overspend on repairs due to miscoding.

**Strategic projects****£7.2k under budget**

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

## **Operating surplus at end of Quarter 1**

Total income received (£1.94 million) less operating expenditure to date (£1.85 million) shows an operating surplus of £91k. However, this figure is not a good guide to year end financial performance this early in the year, due to higher homeowner service charge income paid in full before and during the first quarter, requested auditor accrual into prior year not yet agreed, and identified mis-postings that will be corrected in future management accounts.

## **Reserves expenditure (Annual capital budgets) adjusted £3.6k**

Spend allocated to major works funded from reserves will be corrected from month 4. The revenue budget needs to be adjusted to reflect the amended profile for major works spend. There are also £117k of accruals into 23/24 that we are asking the auditor to adjust for. Adjusting for these two eliminates the reserves spend on major works shown on the management accounts.

Therefore, the only reserves spend to date relates to cleaning equipment purchasing.

## **Cash flow**

There was £5.4 million in the bank at the end of June 24. The finance team need to create a cash flow report for the 23/24 audit showing projected cash income and expenditure to the end of March 2026 to demonstrate that the JMB is a going concern. In addition, with interest-bearing bank accounts due to be opened in the next 6-8 weeks, and with up to £2 million of reserves spend on major works profiled for 24/25 if the proposed profile of works is all delivered on time, cash flow becomes essential. A full cash flow report will be presented to the next finance subcommittee and will then be a regular item for the regular quarterly meetings.

## **Update on current focus of finance team**

### **2023/24 external audit**

Audit for the year 23-24 is in progress. Difficulties experienced in last year's audit are impacting this year's audit as adjustments made by the auditor last year needed to be redirected this year to give an accurate starting position. The finance team leader is leading on the audit, with support from the finance manager and input from other team members.

In real terms, this means that the auditors adjustments had to be reversed in order to establish clean opening position going forward for audit. This has required time to review the control accounts and to have a clean starting point, which delayed the start of the audit. However, the audit is now in progress, and we believe that this year's audit is going much better and have much better understanding about how to respond to the questions we are being asked.

We are having to adjust to a more distant audit process, with the work being done remotely and less feedback on how we are doing, though we hope to be able to give a verbal update at the meeting. In the past financial year, we were better at capturing anomalies and mis-postings across the budget holders. This year we are up to date with the reconciliation, regular transfers, including control account checks have been done.

## **Actual revenue service charges for homeowners 2023/24**

Another massive piece of work in addition to the daily, weekly and monthly cycle in finance, is the construction of actual revenue service charges. The lead is one of the finance project officers, with support from the finance manager, with the whole team involved in calculating costs for different service charge schedules. On the current IT system, much of the construction needs to be done manually off-system and this year is being adversely affected by the number of correcting journals that were required due to mis-coding.

## **Accountant review of homeowners' actual charges 23/24**

This is due to start in August 24 once the construction of the actual revenue service charges is complete. It is a joint project led by one of the finance project officers and the finance manager, with significant input across the team.

## **Implementation of new integrated software**

Once the tender is completed, the finance team will be heavily involved in the project, as finance is the building blocks of a new system including block and estate definitions matching to homeowner charging requirements, creating a new chart of accounts that links to these, and setting up coding to reduce the manual choices in coding so reduce the volume of mis-coding. Finance are also heavily involved in rents, homeowners and repairs module implementation on top of the finance system. Furthermore, financial procedures will need to be re-written to reflect the new system requirements and new procedures for implementing all work.

All of the above are on top of the normal daily, weekly, monthly and periodic cycle required to deliver the operating and management requirements of the finance function.

## **Maximising interest from money in bank**

Following a difficult process, with input required from all Directors, hopefully final documentation was signed off by the chair and treasurer and forwarded to the bank. The expected process is for the bank accounts to be open within 6 to 8 weeks, subject to any additional requirements of the bank.

By this time the cash flow forecast will be updated regularly with the ongoing changes to the major works programme, enabling realistic calculation of money that can be saved in 3 month notice, 1 month notice and instant access savings accounts that bear interest, in addition to the current account, rents account and homeowners accounts that do not pay interest.

## **Any other business**

### **Request to amend repayment terms for resident leaseholders for major works charges up to £250**

Following the commissioning of Electrical Installation Condition Reports for JMB blocks, works were required to bring the blocks up to standard. These works were procured without leaseholder statutory consultation taking place as the then Executive Manager believed it was important to get the works done quickly to meet building safety requirements.



The majority of the individual costs are well below the S20 limit; however, 76 leaseholder dwellings have charges capped at £250, leading to a gross service charge loss of £21,590.39.

The JMB needs to learn lessons from this as the value of the loss was not understood before the decision to proceed without statutory consultation was made.

The lowest estimate for leaseholder contributions to these works is £17.45 and the highest is £250, (gross billing amount £58,311.41) and the service charges will be billed as major works estimated demands in April 2025.

Currently the JMB has repayment terms for resident leaseholders of between 3 and 5 years for major works billings. These are beneficial terms in addition to the standard 12 monthly lease terms, to allow resident leaseholders longer to repay larger major works service charge bills. Finance subcommittee reviewed these rules in light of larger anticipated bills to leaseholders, when up to 5-year interest free repayment terms were agreed.

There is no lower limit for smaller value works such as this, so current rules mean the JMB would have to offer three-year repayment terms which would vary between 49p and £6.95 per month based on the above figures.

The recommendation for finance subcommittee is that where leaseholder major works bills are for £250 or less, that these become payable within 12 months only, so monthly payments would be between £1.46 and £20.84 respectively.

The homeownership services manager will notify all leaseholders in advance of the 2025 estimated billing run, which will give them over a year to save and pay for the works.

**Recommendation: major works billings of £250 or less will result in repayment terms of 12 months for both resident and non-resident leaseholders, in line with the lease, with no extended interest free period for resident leaseholders.**

Once I have the committee's decision, the homeowner services manager will notify leaseholders of the service charge estimate due in 2025/2026 and inform them of the payment terms.

## **Discussion on repairs overspend report**

### **Additional AOB?**