

Review of Year End 2023/24 Financial Performance	
To:	Finance Subcommittee
For:	Information and Discussion
Date of Meeting	4 th June 2024
Link to Business/Annual Plan	Financial Performance and impact on reserves
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1. Summary

- 1.1 This report shows the financial position of Leathermarket JMB at the end of month 13, to give finance subcommittee members a detailed understanding of the 2023/24 year-end financial position, the major variances from budget that materially affected this, and the consequential impact this has on JMB reserves.
- 1.2 Overall, this means the JMB has made an operating deficit of £1.13 million, the first operating deficit since at least 2008 when the current finance manager was appointed. Whilst the JMB can fund this deficit from reserves in the short term, it means existing reserves releases need to be cut back. Spending money from reserves on operating costs means there is significantly less available for major works schemes. Work needs to be done quickly to move the JMB back to routinely generating operating surpluses.
- 1.3 JMB Board reviewed an earlier draft of the month 13 management accounts. Finance subcommittee is looking at much changed figures. This now includes provision for the outstanding Southwark Council invoice of £534k for 2023/24 estimate costs as declared to Board but not received.
- 1.4 The remainder of the change is due to the removal from the 23/24 accounts of the (predominantly) repairs accruals as agreed by the auditor, plus other audit adjustments linked to the 2022/23 audit. These have been removed from 2023/24 and reposted to end of 2022/23 to avoid the credit applying to the wrong year. The original posting in 23/24 and this change were agreed by the auditor, with the correcting adjustment only agreed in the last full week in May 24.
- 1.5 Finance subcommittee will review in detail the amended month 13 position, to take into account material spend after year end relating to the 2023/24 financial year and the removal of the repairs' accrual and other auditor adjustments. They will also review in detail, the variances of income and expenditure that are more than £5k different to the budgets.
- 1.6 The 2023/24 audit will provide the definitive audited year-end financial position and the consequential impact on reserves.

2. Headlines on financial performance 2023/24

Month 13 financial position				
	Budget	Actual	£ difference	% difference
Total income month 13	£8.99 million	£9.03 million	£39k	+0.4%
Less expenditure month 13	£9.08 million	£9.72 million	£639k	+7.0%
Management account deficit (income less revenue expenditure)			-£694k	
Less Southwark Council invoice expected but not yet billed			-£534k	
Operating deficit (predicted prior to audit)			-£1.23 million	
Adjusted operating deficit (£12k extra CBS income, £93k less MW)			-£1.12 million	
Less reserves expenditure (planned)			-£2.02 million	
Predicted Final Account Deficit (before audit adjustments)			-£3.04 million	
Operating deficit made up of				
Start of year income budget less expenditure budget based on agreed 4% staffing vacancy rate not posted to individual budgets			-£94k	
Income above budget			£39k	
General budget expenditure above budget			-£13k	
Manager's budget expenditure above budget			-£626k	
Management account deficit			-£694k	
Less Southwark Council invoice expected but not yet billed			-£534k	
Adjustments in report (£12k extra CBS income, £93k less MW)			£105k	
Adjusted operating deficit			-£1.12 million	
22/23 audited members funds			£7.54 million	
23/24 draft members funds after draft deficit			£4.50 million	
Draft unallocated reserves (to be finalised)			-£686k	
Cash flow position				
Cash in bank end March 2024			£4.5 million	
Owed £950k by Southwark Council for VAT payments on JMB allowances				
Owe £534k to Southwark Council for 2023/24 estimate services and overheads including fuel for district heating systems				
Cannot finalise cash flow forecast until 2024/25 major works programme is agreed and profiled				
Rent collection end week 52 (performance stat: 98% target)			97.39%	
Rent collection below target income (finance stat)			-£36k	
Homeowner annual service charge below 100% budget collection target (finance statistic)			-£10k	
Annual revenue service charge collection at month 12 (performance statistic)			91.22%	
Homeowner major works above £625k collection target			£204k	
Annual major works collection at month 12 (performance statistic based on payment against documented payment plans)			73.80%	

3. Main drivers of £1.12 million adjusted operating deficit for 2023/24

- 3.1 The JMB has run an operating deficit of £1.12 million in 2023/24. This is the first operating deficit at least since the finance manager became involved in JMB finances in 2008.
- 3.2 The scale of the operating deficit only became apparent in the past week, when prior year repairs accruals were removed and auditor adjustments reposted as per auditor instructions to eliminate a doubling error. This is on top of the anticipated Southwark invoice for £534k that was declared to board.
- 3.3 The JMB must get quickly back to generating operating surpluses to protect existing reserves allocations and provide a sustainable source of money to fund future reserves releases. A golden financial rule is that an organisation should fund day-to-day revenue expenditure from annual income. With current reserves, a one-year reversal of this whilst difficult is not critical, but it has significantly reduced previous unspent reserves releases to major works, reducing the amount of money available to fund the major works programme over the next 30 years. The JMB must therefore address the issues that caused the operating deficit to ensure we move back to operating surpluses quickly.
- 3.4 The biggest drivers of the £1.12 million operating deficit were:

- I. £462k overspend on repairs contractors. This represents an overspend against budget of 68%, and an increase in spend of 29% from 2022/23 when the repairs team was significantly understaffed, there were additional voids due to JMB tenants moving to Joyce Newman House and spend per void was high.

In five years, repairs contracts spend has gone up from £370k to £1.14m. Some of this has related to moving away from a repairs contractor who could not deliver a quality service, and soaring building materials inflation. However, the scale of the increase in expenditure on repairs contractors is not sustainable and is having real impacts on the size of the major works programme and the ability for the JMB to generate operating surpluses to fund future major works reserves releases. This is a major focus of the new head of property services.

- II. £249k overspend on heating and cold-water tank contract, with the biggest contributor, the £148k of actual charges for 2022/23 district heating fuel calculated by Southwark in Summer 2023, after the budget was set. The fuel budget for 23/24 was only down £8k on 23/24 costs but did not cover the underestimate of fuel cost for 22/23.
- III. £153k overspend on estate costs, though a £162k credit for fuel used on Joyce Newman House means that spend in 24/25 will be reduced by a similar amount. This is mainly a temporary cash flow issue, rather than an underlying budget pressure. However, £93k higher than budgeted estate electricity costs also contributed to the overspend, part offset by £48k less than predicted on fire prevention costs to Southwark.
- IV. £121k over budget on office staffing. £80k relates to CEO and Deputy Manager finders fees and the three months of two salaries being paid whilst the former Executive Manager handed over to the CEO. £23k is over budget on major works salaries and recruitment, with £20k over on finders fees and temp fees within the RSO team. A further £17k over on training budget overall. The JMB is reviewing how we recruit to ensure we only incur finders fees in difficult to fill or specialist roles.

- V. £94k vacancy rate provision within the start of year expenditure budget. This was based on JMB prior years' experience of large gaps whilst posts were recruited to. However, it was before the approach of using agencies and head-hunters became more dominant and before managers were told they could fill vacancies with temps or consultants without further permission from directors as long as they stayed in budget. The vacancy rate provision is no longer used from the 24/25 budget.
- VI. £93k over on major works revenue spend. This is not an operating overspend as it will be profiled to additional reserves spend on major works, reducing the remaining amount of money held in reserves for major works.
- VII. This was part offset by an additional £39k of income above budget related to £204k more homeowner major works income collected than the cautious budget and a new homeowner focused job within the RSO team, part offset by a £109k drop in aerial income as a backdated refund was issued for decommissioned aerials, plus a £36k reduction in homeowner revenue service charge collected.

4. All variances of more than £5k from start of year budget

4.1 £39k additional income from budget made up of:

- I. £204k additional homeowner major works collections than budgeted caused by a combination of conservative budgeting assuming all leaseholders take up longest free payment plan, plus a new approach to historic debt collection with a new lead officer targeting historical arrears. However, future progress depends on getting Southwark to agree the requested amendment to the management agreement so the JMB can buy an enforcement service from them.
 - II. -£109k aerial income due to decommissioned aerials on Burwash House (backdated refund to supplier to Nov 21), Symington House and 80% reduction on cost of other Symington House aerial on lease renewal due to statutory changes to way rent is assessed. The JMB only found about the drop in income after year end.
 - III. -£36k rent collections less than budgeted based correlating to 0.6% collected below the 98% collection target.
 - IV. -£12k CBS Service Level agreement income. This is just a timing issue as the quarter 4 income will be accrued into 2023/24 by the auditor.
 - V. -£10k less homeowner revenue service charge collected than budget.
- Adjusted CBS service level agreement income on budget** (additional £12k of income to be accrued into 2023/24 by auditor)

Adjusted additional income from budget: £51k above budget

- 4.2 Looking at income collection performance, whilst conservative budget projects were exceeded for homeowner major works contributions, performance statistics show there is still scope for improving collection rates and therefore improved financial resilience. This is achievable especially as the RSO team is expected to be fully staffed from early June 24 and with an organisational focus on improving void turnaround. Rent collection

was 0.6% below the achievable 98% collection target which is equivalent to £50k below target. Prior to Covid-19, the JMB routinely achieved 99% collection. Homeowner revenue service charge collection at 91% and major works at 74% both could be improved, though this is being made more difficult by the hold-up in buying legal enforcement of the lease from Southwark Council, currently held up by Southwark Legal team.

4.2 £13k additional expenditure from general budgets made up of:

OVER BUDGET

- I. £153k above on estate costs of which £109k is on Joyce Newman House gas, that we have now received a £162k credit based on actual reading, which will apply during 2024/25 (no leaseholders), £93k over of estate electricity costs due to increases in electricity costs, offset by £48k in fire prevention costs as Southwark have not yet invoiced for fire risk assessment work.
- II. £121k over on office staffing: £45k over on finder fees for CEO and deputy manager, £35k over of CEO starting 3 months before previous Executive Managers left, £23k over on major works salaries and recruitment, £20k over on RSO temp and finders fees, and £17k over on training. There was a paper underspend of £16k on office all contingency that offset this (full budget added here not to departments). Please note £21k provision in reserves for CEO handover and £10k for additional training. JMB is reviewing use of agencies to find candidates in 24/25 and will review future budget provisions for recruitment once this is done.
- III. £20k above budget on insurance and accounts, of which £18k is the additional auditor fees for additional time needed to support the JMB through last years audit.
- IV. £233k under budget on LBS charges prior to full reconciliation of costs for 23/24. Although Southwark Council have not yet billed, they have provided the figures for the 2023/24 estimate (matching to the 2022/23 actual bill) which when added in show an additional £244k expected expenditure.
Adjusted total LBS charges £11k over budget
- V. £8k over on office costs, predominantly on higher office electricity costs than budgeted.

UNDER BUDGET

- I. £36k under on voids and repairs salaries and other 'fixed' costs: £44k under on repairs operatives salaries after temp costs and finders fees, offset by £3k over on repairs managements costs (recruitment expenses and consultancy fees) and £5k over on repairs management salaries after temp costs
- II. £13k under budget on cleaning: made up of £6k under on bin replacement and hire costs, £3k under on vehicle expenses and £3k under on staffing after agency costs deducted.
- III. £9k under on grounds maintenance due to saving on salaries costs whilst staff vacancies

£257k adjusted general budgets above budget taking into account Southwark Council services and overhead costs 23/24 estimated but not yet billed by Southwark Council.

4.3 £626k more spend than budget in manager's budgets made up of:

OVER BUDGET

- I. £462k above budget on repairs contractor budget, made worse by auditor agreed stripping out of no longer fit for purpose repairs accruals that was hiding cost through the year by applying a big credit at start of year. Position was also hidden during the year due to miscoding to materials budget. The repairs contractors overspend is the biggest influencer of the operating deficit, accounting for 41% of the operational deficit before reserves spend. It also represents an increase in spend on repairs contractors of £183k or 21.7% from 2022/23 when there were all the extra voids created when JMB tenants moved into Joyce Newman House.
- II. £41k under on heating charges as shown on management accounts. However, when adding in £290k of estimated district fuel costs for 2023/24 that has not yet been billed by Southwark, this reverses the underspend and produces an accrued £249k overspend overall. This biggest contributor to the overspend is £148.5k of 22/23 actual fuel costs above 22/23 estimates. It is not possible to calculate the actual prior year costs until Southwark Council produce these figures in summer the following year, well after the budget was set. Southwark Council's recommended fuel bill provision for 23/24 was only £8k under the estimate bill.
Adjusted total £249k overspent when 2022/23 actual fuel costs added in
- III. £93k over on major works. This is just a profiling issue. All £93k will become additional major works spend funded from reserves.
Adjusted total major works on budget (reduction in £93k in overspend)
- IV. £34k over on repairs materials costs. There was significant miscoding here during the year, so it has proved difficult to understand the underlying position until after year end.
- V. £23k over on voids and repairs other of which £27k emergency lighting renewal that was coded as a revenue cost that wasn't planned at the beginning of 2023/24. Tenants' disrepairs and compensation came in £4k under budget.
- VI. £20k over on IT projects, part offset by £2k reserves release to cover additional costs associated with the finance software support. The overspend on IT projects has reduced the amount held in reserves as an IT replacement pot.
- VII. £17k over on estate works: £30k out of a maximum of £50k of TRA works were agreed by TRAs and delivered by the JMB. The remaining £37k is miscoding that will be moved to repairs contractors and included in the costs incurred there.
- VIII. £16k over on lifts based on consultant approved works and costs.
- IX. £12k over on homeowner services: LBS billed the JMB for total homeowner actual costs for buildings insurance in 2023/24 but the JMB will not collect the full income until Autumn/Winter 2024/25 once the 2023/24 bills have been actualised. This resulted in £129k more spend than budgeted. This was mostly offset by no spend on homeowner enforcement (£108k underspend) plus £10k underspend on service charge loans. LBS has been unable to draw up their required amendments to the management agreement to allow the JMB to buy an enforcement services and service charge loan service off Southwark Council.
- X. £11k over budget on legal and compensation now disrepair cases are booked elsewhere. HR legal does not have a separate budget, with costs posted here.
- XI. £10k over on strategic projects. This included £8.5k on joining a TPAS building safety research project to help the JMB extend knowledge and understanding on best practice in this critical area.
- XII. £5k over on grounds maintenance manager's budget offset by £2k under on grounds maintenance on grounds maintenance estate works budget.

UNDER BUDGET

- XIII. £17k under budget on directors' projects made up of £8k under on TRA funding, £5.3k under on minute writing budget (now abolished as posts have been filled)
- XIV. £8k under on trees budget with only modest tree surgery undertaken during the year
- XV. £5k under on resident involvement, with £8k less spent on events offset by £4k over on communications.

£823k adjusted managers budgets above budget adding £290k district heating fuel costs estimated but not yet billed by Southwark Council, and deducting £93k major works funded from reserves.

5. Adjusted operating deficit

Management account operating deficit	£1.23 million (incl LBS £534k invoice due)
CBS service level agreement income Q4	-£12k
Major works revenue over spend to reserves	-£93k
Adjusted operating deficit	£1.13 million

6. Impact on reserves

Audit 22/23 reserves	£7.53 million	
Reserves spend 23/24	-£2.11 million	(incl MW rev overspend)
Adjusted 23/24 operating deficit	-£1.13 million	
Predicted 23/24 audited reserves	£4.50 million	
Current ring fenced allocations	-£5.19 million	
Current over allocated	-£685k	

This means £685k of savings will need to be found from existing reserves allocations that have previously been agreed. This is the responsibility of board rather than finance subcommittee. However, of the £5.2 million existing ring-fenced allocations, major works makes up £3.7 m, with £925k as emergency reserve, and £280k as directors' contingency and risk pot. Inevitably with £685k of savings required, this will reduce the amount available to major works.

7. Current cash flow

The cash in the bank at the end of March 2024 was £4.5 million, rising to £4.75 million on 30th May 24.

£950k is owed by Southwark for VAT on self-financing allowances.

£534k is owed by the JMB to Southwark for 2023/24 estimate services and overheads (not yet billed).

The JMB will create a cash flow forecast based on the profile of when major works projects will be billed. This will extend to the end of the longest committed major works scheme. It is done to ensure the JMB continues to operate with emergency reserves always available throughout the year.

Board agreed the proposed programme of major works on 22nd May 24. The timetabling of it depends on the revenue budget which is set, but also on the reserves available which must cover all proposed projects until they finish, usually a year after works are completed. There are current ringfences of £3.7 million for major works, but reserves are overcommitted by £685k so

this will fall. Work is required between major works and finance to understand available cash in bank and timetable the major works projects accordingly.

8. Financial Implications

The adjusted operating deficit of £1.13 million is exceptional in the history of the JMB. A one-off hit can be absorbed due to the current level of reserves. However, the JMB needs to quickly get back to running day to day services within the limits of the revenue income we earn.

Absorbing the deficit has a direct and significant impact on the size of the major works programme. Self-financing relies on operating surpluses funding additional major works, to ensure the JMB can continue to fund major works across the 30-year timescale self-financing is measured against.

An initial review of existing reserves ring fences means that existing provisions have reduced to absorb £445k of the deficit. This was a combination of works funded within 23/24 and provisions no longer required. Two previous ring fences have yet to be reviewed but these total £137k and not all of them will be removable. Before this reduction, this leaves £685k of previous reserves releases that need to be reversed to fund the operating deficit.

9. Actions to avoid future operating deficits

Already in place:

- The repairs accruals issue will not recur as no new repairs accruals (or consequential auditor adjustments) will be produced. This means repairs spend during the year will not be hidden behind large accrual credits. Whilst repairs management were shown the background calculations of spend during their regular finance meetings, it will now appear directly on the management accounts.
- The 4% staffing vacancy rate was removed in the 24/25 budget.

Additional action required:

- A real focus on budget control in repairs, looking at voids spend and void loss, disrepair including legal cost, which schedule of rates are used and which codes are agreed etc.
- A focus on improving income collection as the RSO team becomes fully staffed.
- A review of use of agencies and head-hunters who charge finders fees, to ensure they are only incurred for hard-to-fill or specialist roles.
- A review of finance reports to ensure they give advanced warning of risk to the financial position.
- A review of whether there is any reasonable way to predict prior year actual fuel charges before Southwark Council calculate them, to make reasonable budgetary provision.
- Focused time by the new CEO and the senior management team to regularly review financial performance and support managers to take corrective action when overspends are anticipated.