

Review of Draft Audited Accounts 2023/24	
To	Finance Subcommittee
For	Recommendation on approval to Board
Date of Meeting	Monday 9 th September 2024, from 5:30pm
Link to Business / Annual Plan	Financial Performance and impact on reserves
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Audit Headlines

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			
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)			-£898k	
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				
Finance manager opinion:				
Awaiting key audit finding report				

2023/24 audited accounts

Key messages from the audit

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).

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.

Total deficit of £3.1 million

Planned reserves spend of £2.1 million

Day-to-day operations deficit of £1.0 million

The JMB has run at a total deficit for the first time in recent history. The deficit is by far 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 £4.4 million of reserves carried forwards into 2024/25.

£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.

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:

1. £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.
2. £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.
3. £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.

4. £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
5. £94k of vacancy rate contingency that was not realised, as managers used temps, and agency finder's fees to fill gaps in recruitment
6. -£39k as the JMB collected more income than budgeted, so reducing the net overspend.

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 operations surpluses to live within its means and fund future major works as required for self-financing.

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.

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%
2017/18	£379k	+5.1%
2016/17	(£103k)	-1.4% (planned deficit due to major works)

£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

£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)

£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).

Debtors and creditors

Both increased significantly, primarily linked to interactions with Southwark Council, who have 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 (now resolved).

Reserves

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

Request to finance subcommittee to recommend agreement of draft accounts to board

The draft accounts have been reviewed by the auditors and are not expected to change materially. 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 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 for finance subcommittee approval.

Do finance subgroup agree the accounts and recommend them for acceptance at Board?

Key Audit Findings

Awaiting receipt of the key audit findings. These may be tabled at finance subcommittee if they are provided in time, or at full board. Alternatively, it may be necessary to hold a mini-finance sub meeting to review in detail.

Total members' funds (reserves)**£4.45 million**

The members' funds are made up of all surpluses and deficits since the JMB formed. Deducting the Adding the 23/24 deficit brings the total to a new high of £4.45 million.

With emergency reserves going up again in 2024/25 to £925k this means directors will need to make difficult decisions around reducing existing ring-fenced allocations in reserves. Of the £3.1 million deficit, only the £1m deficit on day-to-day operations was unplanned. With spend from ringfenced reserves removed, this leaves approximately £898k 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 (all staff except 2 on LBS pension)	£50,000	agreed Board September 2017	
HR consultancy	£46,000	Remainder of £50k agreed September 2020 (tbc)	
Senior management succession planning	£20,000	Handover finance manager, restructure costs	
IT 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	£5,344,955		
Unallocated reserves			-£897,508

Do finance subcommittee want to question any current ring-fenced provision or have suggestions for board on how to reduce the over-provision?