



## **Finance Subgroup Headline Report Monday 3<sup>rd</sup> February 2025, 5.30pm**

### **Agenda**

(start zoom meeting)

1. Welcome and Apologies
2. Declaration of Interest
3. Review of the first draft of the budgets for 2025/26
4. Q3 Management accounts review 24/25
5. Any other business

First draft income and expenditure budgets 2025/26	
To:	Finance Sub Committee
For:	Discussion/Information
Date of Meeting	3 <sup>rd</sup> February 2025
Link to Business/Annual Plan	This report sets out the first draft budget for 2025/26 for the Committee to review
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HEADLINES AT A GLANCE	2024/25	2025/26	£ difference	% difference
<b>Total income</b>	£9.35m	£9.84m	£485k	+ 5.19%
Income excl major works cash flow	£9.32m	£9.70m	£384k	+ 4.12%
<b>Total expenditure</b> (excl reserves spend)	£9.36m	£10.27m	£907k	+ 9.7%
Income less expenditure				-£439k

## 1.0 First draft budget 2025/26

### 1.1 Overview

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

Finance subcommittee is asked to review the first draft budget and give an opinion on the budget and propose 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 £485k, which is a 5.19% overall increase.

Expenditure budget is set to increase by £907k or 9.7% from the 2024/25 agreed budget. This increase should be considered bearing in mind the cost of inflation and on rising costs.

Inflationary increases included:

- 4.9% increase in building cost inflation used for major works
- 2.7% increase for repairs contractors (OCO contract increase)
- 2.6% increase in general inflation (CPIH) used for expenditure budget
- 1.7% increase in inflation (CPI) for income budgets

Overall staffing budgets have increased by £82k or 3.2%. This is based on an assumed 3% inflationary uplift.

Overall, this leaves a £439k gap between income and expenditure. The gap must be limited and budgets balanced for the final draft.

The medium-term aim is to generate sustainable surpluses that are required to fund future major works releases or other director priorities. Currently we are aiming to move towards £250k budget surplus. However, this won't be possible in the one year.

## Changes to budgets in detail

### 2.0 Income up £485k or 5.19%

This modest increase in income should be seen in the context of inflationary pressures on spend, with a 1.7% increase in CPI and a 4.9% increase in building cost inflation budgeted. This increase is modest in 'real terms' after inflation is taken into account.

This increase in income is predominantly from homeowners. Revenue service charge has increased due to higher buildings insurance and district heating fuel costs. Major works contributions have begun to recover from the last year big drop, as new schemes are beginning to be billed again.

Underlying income excluding the highly variable homeowner contributions to major works is up £384k or 4.12%. This is much closer to the increase in expenditure budgets.

Below are all budgets showing a variance of £5k or more since the 25/26 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 Homeowner Revenue Service Charge collection up £396k

This is based on the last available actual charges 23/24 plus CPI inflation of 1.7%. However, the buildings insurance is already accounted in the revenue, which means that the vast majority of £273k increase relates to insurance and district fuel.

The estimated bill for 24/25 will be finalised before the final budget is presented to board at the end of March 25 and is expected to go up. Therefore 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.

#### 2.2 Homeowner Major Works Contribution income is up £ 101k

The increase of MW contribution income is due to the new billed scheme for the year 2025/26 such as Beeston lifts, EIRC remedial works, Simla & Burwash safety and survey works.

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.

### **2.3 Rental Income up £64k**

Rental charges to tenants are expected to go up by 2.7% however the overall income is budgeted to go up by 0.79% as we return to 52 weeks rent year. The collection target remaining at 98%. The increase is based on the LBS HRA report provided by Southwark that recommended a 2.7% increase in property rent, 5% increase in garage rent and a 5% increase on stores rent.

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.

### **2.3 Bank interest up £8.1k**

The JMB set up saving accounts with NatWest bank. Currently, there are £2.5 million invested in various notices accounts. The £50.6k interest for year 25/26 is based on cash flow business needs and funding the gaps. The calculation is projected for £1.5 million spread across to instant (1.36%), 35 days' notice (3%) or 95 days' notice (3.75%) accounts over the year.

This is a modest prediction of income as reduce % interests are yet to fall, hence the reduced % interests are incorporated in calculation.

### **2.4 Other changes in budget with the dropped collection or negative collection**

It is noted that the telecom aerials collection has halved, budget is set as per LBS recommendation.

The reason of drop is due to the decommissioned broadband on Symington, Burwash and changes on lease renewal on Symington. Budget set for year 25/26 is £73k.

No income is set on commercial properties (Peveril garages) as no information from LBS yet received.

### **2.5 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.

## **3.0 Expenditure up £907k or 9.7%**

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.

### **BUDGETS THAT INCREASE OF MORE THAN £5,000**

#### **3.1 Major Works in year revenue funding up £701 k or 45.1%**

Base budget for year 24/25 was uplifted for £596k (this is the amount that was reversed as one-off deduction for year 24/25 due to the lower leaseholder income) uplifted for 4.9% building inflation. MW revenue budget for 25/26 is set at £2.26 million.

#### **3.2 Repairs Contractors up £116k**

The budget is set on month 9 (December 24) completed and charged £ 540.6 annualised uplifted for 4.9% building cost inflation.

To be noted:

Options to be explored how to reduce the budget and make some savings. If the repairs materials budget is high, then should be a reduction of spend on repairs contractors.

### **3.3 Office Management salaries and oncosts up £94k or 25.9%**

The budget consists of CEO, Deputy Manager, Finance Head, MW head of services and IT manager, uplifted for inflation and increments as well as reorganisation costs. NIC allowance deduction of £10k. For draft 2 the HR manager will move to this budget. Please note that head of service was formerly in MW department.

### **3.4 Repairs management salaries plus oncosts up £44k or 18.7%**

The budget consists of repairs manager (vacancy), building safety manager, contract coordinator, scheduler (vacancy), receptionist. Uplifted for inflationary and incremental provisions.

### **3.5 Estate electricity cost up £29.4k or 8%**

Based on YTD annualised to November per supplier invoices. The % figure reduction is yet to be provided.

### **3.6 Estate cleaning salaries and oncosts up £28.8k or 6.3%**

The budget consists of estate upkeep manager, estate upkeep supervisor, 9 full time and 1 half-time cleaner posts. The reason for budget goes up was due to the managers salary adjustment in line with other managers. Weekend rota budget and letter deliveries are also part of the budget. All is uplifted for inflationary and incremental provisions.

### **3.7 New build maintenance contracts up 28£ or 100% (new budget)**

The proposed budget consists of new build maintenance for JHN £15k, Marklake £8k, Villiers court 5k.

### **3.8 Lifts budget up £22.6k or 25%**

Based on year-to-date spend annualised, plus 4.9% building cost inflation, plus £10k for lift insurance works. The budget includes annual charges of the amount of £19k.

### **3.9 RSO salaries and oncosts up £17.7k or 4.2%**

The budget consists of 1 RSO manager, 1 RSO homeowner, and 6 RSO. Uplifted for incremental and inflationary provisions. The additional uplift is for the RSO leading on enforcement of homeownership charges.

### **3.10 Estate Gas Joyce Newman House is up £16.3k or 23.8%**

The budget is based on billing to date, annualised and inflated. This billing is based on estimate readings and adjusted for credit after actual meter read supplied in 19/11/2024. Total credit as of January 25 is £ 173k. Average monthly bill would be £6.8k, which means that credit covers 23 months from Jan 25.

### **3.11 Repairs Operatives Salaries and oncosts up £13.2k or 4.4%**

This includes the normal inflationary and incremental uplift provisions. There are 2 vacant posts.

**3.12 Office cost audit and accountancy fee up £10.1k or 33.7%**

The budget is set in the middle of 24/25 annualised uplifted for inflation. There is £5k additions for help to move to the new IT.

**3.13 Finance salaries plus oncosts up £9k or 4.6%**

The budget includes a temporary cover in finance for IT finance cover. The inflationary and incremental uplift provisions

**3.14 Repairs Heating Contract up £8.8k or 1.2%**

The budget is based on new contract figures for repairs spanning from Jan – Dec24. Figures uplifted for CPI. Fuel is calculated on actual figure of £299k increased for 10.4% and deduct for 19.5% as per LBS charges. Plus £36k addition for dealing with residents directly.

**3.15 IT revenue up £8.6k or 6.5%**

Based on 24/25 budget uplifted for inflation and adjusted for £5k spend for unforeseen costs.

**3.16 Gardener salaries plus oncosts up £7.4k or 6.3%**

The normal inflationary and incremental uplift provisions. One 1 x vacancy.

**3.17 Cleaning materials & equipment up £6k or 31.1%**

The budget consists of YTD £ 16.5k annualised to £22k uplifted for inflation and £2.5k top up.

**3.18 Office Costs LBS service up £5k or 2.6%**

22/23 actual Charges £181,512 + 6.3% for 23/24, plus 2.6% inflated to 24/25

**BUDGET DECREASES OF MORE THAN £5,000**

**3.18 Major works salaries plus oncosts down to £96.3k or 39.5%**

This includes the board agreed uplift of the property services manager, plus the normal inflationary and incremental uplift provisions. The head of service for assets has been moved to the office management.

**3.19 IT Development Projects down to £32k or 30.8%**

Budget is based on £50k for technical support and data transfer, £35k support from existing software suppliers and support.

**3.20 Office All Staffing salaries & Oncosts down to £31.8k or 20.9%**

Removed the JMB administration post.

**3.21 Court and legal fees down £25.7k or 26.8%**

This should be read in conjunction with the disrepairs budget of £.

Budget is set based on month 10 annualised plus inflation and £35k on backlog on rent arrears cases.

**3.22 Office costs CEO budget to £19.8k or 58.1%**

YTD annualised £5.2k, plus £ 5k legal, £4k directors away day.

**3.23 Homeowner Buildings Insurance and Ground Rent down to 14.7k or 4.3%.**

It's based on bed size premiums estimated by LBS. The final draft will be based on the estimate amounts 25/26 as billed to the leaseholders.

**3.24 Estate Costs Council tax down to £12.3k or 42.5%**

This is predominantly for council tax in voids. The budget is based on YTD annualised uplifted for inflation. Budget reduction is for faster void relet.

**3.25 Office electricity down to 9k k or 36.4%**

Based on YTD annualised annualised to month 9 is £15,245, plus inflation 2.6%

**3.26 Estate Upkeep Managers Budget down to £8k or 8.4%**

The budget consists of £20k trip hazards, £15k gutter/drainage clearance, £7.5k CCT maintenance, £5k ladder certification, £5k signage upgrade, £10k estate pest control, £ 2.5k playground maintenance

**3.27 Office cost -LBS housing debt repayment down to £5.9k or. 0.5%**

Based on Chris O'Brian projection for 2024.25 before adjustments.

**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.

## **4.0 Income less expenditure & contingencies**

Income less expenditure

Income	£9.8 million
Expenditure	£10.3 million
Net deficit (to be eliminated)	-£439k

**4.1 Directors' contingency £193.8k:**

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

This is currently held in reserves, so does not impact 25/26 revenue budget. The medium-term aim is to move directors' contingency and risk pot out of revenue costs to create a budgeted surplus.

**4.2 Risk pot £82.2k**

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 2025/26 risks.

<b>Risk Pot</b>		
Succession planning (management)	£10,000	50%, £20k
JMB office rent	£25,000	25%, £100k
Less rent income collected	£20,155	25%, £80.6k
Disrepair costs greater than budget	£17,000	30% £56.8k
Emergency major repair issue	£0	
Medical Retirement	£10,000	20%, £50k
<b>TOTAL RISK POT</b>	<b>£82,155</b>	

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

Managers are being asked to contribute to the budget setting for 25/26 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 2025, as long as the JMB returns to operating surplus.

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.

**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 25/26



## **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 budgets but will be included in the final draft.

## **7.2 Introduction of a surplus on budget**

The JMB needs to move back to creating a budgeted surplus to top up reserves and allow sustainable releases from reserves, mostly for major works. One way of doing this would be to move the directors contingency and risk pot back into revenue funding as these traditionally have not been spent at year end. More work is needed to leave space in the revenue budgets to cover these contingencies.

## **8.0 Discussion on priority areas for removing the £439k deficit**

Finance subcommittee will be asked to look at changes to budgets and suggest budget lines to focus on for eliminating the deficit. Following finance subcommittee, the Senior Management Team and budget holding managers will be asked to review budgetary provision and identify possible savings. One temporary saving identified by the finance team is:

**8.1 Savings in the gas costs for Joyce Newman House:** there is an outstanding credit of £173k. This is expected to cover 23 months from end December 24 so no spend is expected in 25/26 and into 26/27. The energy contract will come up for renewal in 25/26 and rates are anticipated to drop significantly from the current contract. A temporary drop to remove provision for gas costs in 25/26 would save £84.9k. This would reduce the budgeted deficit but must be considered as a temporary drop in budget, not a permanent saving, so provision will need to be made in future years, making balancing the budget more difficult in the future.

**8.2 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?**