

DERBY HOMES MANAGEMENT ACCOUNTS 2012/13 – PERIOD 6

Report of the Director & Company Secretary

1. SUMMARY

This report tables the 2012/13 management accounts for Derby Homes as at September 2012. The report concentrates on key variances in actual income and expenditure at September 2012 and also provides an initial overall forecast year end position.

The year end forecast is for an operating surplus of £346,000, split across Management fee £586,000 and Maintenance £ (240,000). This is approx 1.2% of turnover.

Key reasons for this are:-

Reason	Management Fee £000	Maintenance £'000	Total £'000
Budgeted surplus for 12/13	337	-	337
Incentive scheme payment not budgeted for	150	-	150
Day to day repairs - £400k Increased productivity and reduction of agency staff and material savings less £185k costs above contingency on gas flues & hatches and £45k on gas breakdown	-	170	170
Underspends of £405k on alarms & fire equipment, social enterprise, grounds maintenance and drainage budgets less costs above contingency on asbestos removal £115k	-	290	290
Accommodation and depot improvements at London Road	-	(700)	(700)
Savings on insurance renewal contract and other minor variances	99	-	99
	586	(240)	346

The planned accommodation developments at London Road depot can now be funded from in year surpluses rather than reserves as originally planned. Plus

costs associated with the move to the Council House will also be funded from in year surpluses. Therefore, any actual surplus recorded for 2012/13 will be net of these one off costs. This explains the difference from the reported 12/13 surplus in previous months.

We intend to submit to the Board a list of investment opportunities as part of the 2013/14 budget setting process for use of reserves (which will include any surplus from 2012/13).

Within the current surplus are a number of permanent recurring savings that will be available to Derby Homes annually. These are estimated to total £540,000, including £350,000 on day to day repairs, £50,000 in specialist works, £140,000 grounds maintenance service charge income. These will be re-invested in 2013/14 service budgets with the balance proposed to be spent on new planned maintenance projects subject to Board approval.

Capital works progress on kitchen refurbishments is on track (180 completed) with bathrooms ahead of schedule (229 completed). It is anticipated that by year end the revised programmed number of jobs (360 for each) will be completed. This is subject to any impact on the forecast job numbers, following the change in policy on delaying works on tenants with rent arrears, not being material.

The Public Buildings works, operating on an open book basis with Derby City Council are in line with expectations.

Changes to the year end forecast will arise throughout the year as events occur and more certainty in the forecasting can be made. This explains the differences between the budgeted and actual income and expenditure at September 2012 and the forecast year end position shown in the tables below.

2. RECOMMENDATION

- 2.1 To note the current estimated forecast for 2012/13.
- 2.2 To note the planned use of reserves as summarised in 4.2
- 2.3 To note the revised reporting plans for Period 7 (October 2012) management accounts, due to an upgrade of the finance system, as detailed in 3.13.

3. MATTER FOR CONSIDERATION

- 3.1 **Management Fee** - The table below shows the September 2012 financial position for the services within the Management fee area of Derby Homes.

Section	Net budget 12/13 £'000	Variance against budget at September 12 £'000	Forecast year end variance £'000
Management Fee			
Principal fee	(8,693)	0	0
Housing Management	2,857	(37)	(30)
Area Offices	151	1	0
Supported Living	(96)	61	45
Initiatives	305	(2)	0
Homeless	(11)	(2)	0
Rent Arrears	592	(25)	(12)
Corporate Overheads	4,593	345	263
Trading Accounts	(35)	(13)	(17)
Total surplus / (deficit) against budget		328	249
Opening budgeted surplus for 12/13	337	0	337
Overall forecast surplus / (deficit)			586

- 3.2 The table shows that cost savings of £249,000 are forecast from operations in addition to the budgeted surplus for 2012/13 of £337,000. The main reasons for this are:

- £90,000 – Permanent saving on insurance following renewal of contract
- £150,000 – Incentive payment not budgeted, but likely to be achieved

- 3.3 A more detailed review of the first six months financial position is shown in Appendix 1.

3.4 **Maintenance** - The table below shows the September 2012 financial position for the services within the Maintenance area of Derby Homes.

Section	Net budget 12/13 £'000	Variance against budget at September 2012 £'000	Forecast year end variance £'000
Maintenance			
Repairs	9,432	353	170
Accommodation improvements	-	(700)	(700)
Specialist works	1,162	86	65
Planned repairs	2,331	122	200
Estates Maintenance	1,288	290	140
Pension & asbestos contingency	186	42	(115)
Investment & Regeneration	315	(13)	0
Overall forecast surplus / (deficit)		179	(240)

3.5 The table shows an overall overspend of £240,000 is currently forecast. Key reasons for this are:

- £400,000 – Day to Day Repairs - Increased productivity and reduction in agency staff and material savings as a result of continued business transformation. The true underlying savings are yet to be fully quantified but are estimated at £350,000. This year, some of the savings are being re-invested in one off costs associated with the purchase of vans, scaffold tower purchases (rather than future hire) and temporary staff costs.
- (£45,000) – Gas breakdowns, due to some 11/12 invoices from PTS having to be paid from 12/13 budgets.
- (£185,000) – Additional cost above £66k contingency budget allocated for works on gas flues & hatches following legislation changes
- (£700,000) – Anticipated costs of London Road depot improvements to joiners shop, demolition of buildings and car park improvements
- £45,000 – Alarms & fire equipment where the forecast cost of the programme is below budget for the second year running.
- £20,000 – Drainage budgets following transfer of responsibility to Severn Trent.

- £200,000 – The Social Enterprise has been set up with an annual budget of £250,000. With it not being fully operational until late 12/13 there will be a one off saving estimated at £200,000 in 12/13.
- £140,000 – Additional income above budget from grounds maintenance service charges
- (£115,000) – Ceiling re-instatement works following asbestos removal works at up to 56 properties

3.6 Although there are currently underspends against budget in the specialist works and planned repairs areas, this is mainly due to the timing of works and budgets are expected to be spent in full by the year end.

Within the Estates Maintenance section, there is the likelihood of major underspends in the Grounds Maintenance and Communal Cleaning areas, an overspend on the tenants garden scheme plus additional income received from related service charges. We are forecasting £140,000 surplus on grounds maintenance service charge income compared to budget of £655,000. The exact level of underspend will be dependent on agreeing work schedules with the new contractor between now and year end and will be reported later in the year. It is planned to re-invest these underspends in the service within the year. If this does not happen there could be a substantial increase in the current projected surplus figure.

3.7 The contingency budget of £149,000 is at this stage forecast to be fully utilised in the year. To date £83,000 has been earmarked to part fund £198,000 of work on asbestos removal in loft spaces in 175 homes plus reinstatement of ceilings in 56 properties. The balance of £66,000 has been used to part fund remedial works required to properties where works around hatches to gas flues following a change in legislation is required.

3.8 The forecast surplus for the Maintenance service at Period 5 was £265,000, the surplus at Period 6 is now an overspend of (£240,000), a decrease of £495,000.

This is due to:

- £130,000 increasing the projected savings in the day to day section, for the reasons stated in 3.6.
- (£45,000) Gas breakdowns, due to some 11/12 invoices from PTS having to be paid from 12/13 budgets.
- £10,000 increased saving on drainage following responsibility switch with Severn Trent
- £75,000 delayed start to the Social Enterprise
- £140,000 forecast income above budget from grounds maintenance service charges
- (£115,000) reinstatement of ceilings in 56 properties following asbestos removal in loft spaces.
- (£700,000) funding of London Road depot improvements from in year surplus rather than reserves.

3.9 A more detailed review of the first six months financial position is shown in Appendix 2.

3.10 The average cost of a day to day repair job is £84 so far in 2012/13 (2011/12 - £88). Decrease of 4.5%.

Void costs this year are an average of £1,862 per job (2011/12 - £2,101). Decrease of 11.2%.

3.11 **Capital works**

The forecast number of kitchen refurbishments for 2012/13 is 360, 180 have been completed at the end of September.

Current average cost per completed kitchen is £3,826 (2011/12: £3,650).

The forecast number of bathroom refurbishments for 2012/13 is 360; the number completed to the end of September is 229. This is ahead of schedule, enabling resources to be switched onto kitchens as necessary.

Current average cost per completed bathroom is £2,080 (2011/12: £2,340).

Capitalised salary budget of £374,000 for 2012/13 is forecast to be fully spent.

3.12 **Public Buildings** - This section currently operates on an open book basis for Derby City Council. Costs of around £1.3m in 2012/13 are in line with expectations, see Appendix 2. The reduced cost of the service in 2011/12 as a result of savings in materials contracts and revised central support charges from the Council is forecast to continue in 2012/13.

Derby Homes have been awarded a four year extension to this contract. Ongoing discussions are taking place as to exactly what work is within the contract and the basis on how the contract is to be charged. This contract contributes approx £135,000 to Derby Homes overheads which would otherwise have to be absorbed by remaining maintenance functions, increasing their costs.

3.13 **Financial System Upgrade**

In late October, an upgrade to the existing Oracle financial system took place. A number of modules including Accounts Payable, Accounts Receivable and the General Ledger (from which the management accounts are produced) were upgraded.

As a consequence, we are proposing for Period 7 only, to amend the standard management accounts reporting process. We intend to focus on reporting the year end outturn estimates, rather than updating the actual Period 7 income / expenditure to date via monthly accruals. Therefore, because the Period 7 actual income / expenditure to date figure could be

mis-leading we will exclude these from the Period 7 management accounts report.

This will allow accountants to focus on ensuring that the Oracle financial system changes are successful have been tested and become familiar with a slightly altered financial system. Whilst, most importantly still concentrating on any material issues to enable a forecast year end position to be reported.

The upgrade Oracle system includes a more “user friendly” budget reporting option (mainly around budget forecasting). We intend to explore the possibilities this brings, to enable budget managers to have better budget monitoring information available and increase their financial ownership of their budgets. This will be a gradual process commencing in 2013/14.

4. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

- 4.1 Current forecasts indicate that Derby Homes are likely to generate an operating surplus in 2012/13. This is mainly due to the realisation of business transformation savings earlier than planned, strong cost control and productivity increases. Consideration needs to be given towards the medium and long term financial strategy on how any surplus arising in this financial year is to be re-invested in future years. The budget setting day on 23rd November will consider use of reserves and recommend to the Board options as part of the formal budget setting process in January 2013.

The areas listed below have no implications directly arising from this report:

- Consultation
- Legal and Confidentiality
- Council
- Personnel
- Environmental
- Equalities Impact Assessment
- Health & Safety
- Risk
- Policy Review

If Board members or others would like to discuss this report ahead of the meeting please contact:

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Background Information: None

Supporting Information: Appendix 1 – Management Fee summary
Appendix 2 – Maintenance & Capital works summary

Derby Homes Ltd

APPENDIX 1

Management Fee Net Summary by main operations - September 2012

2012/13

Cost Centre	Service	Budget 2012/13 £'000	Budget Sept 2012 £'000	Actual Year to Sept 2012 £'000	Variance Year to Date £'000	Forecasted variance against budget £'000	Comments (on variances >£5k)
PRINCIPAL FEE							
S310450	MANAGEMENT FEE	(8,693)	(4,347)	(4,347)	-	-	
		(8,693)	(4,347)	(4,347)	-	-	
HOUSING MANAGEMENT							
H110100	AREA MANAGEMENT	585	293	303	(11)	(11)	POE of Customer Services Manager & Re-grade of Housing & Neighbourhood Manager
H110150	NEIGHBOURHOOD MANAGEMENT	102	51	47	4	-	
H110300	HOUSING OFFICERS	989	495	517	(23)	(23)	Additional HB agency costs proposed until March 2013
H110750	ALLOCATIONS TEAM	173	86	90	(3)	-	
H150200	ENQUIRY CENTRE	430	215	206	8	-	
H110550	CONCIERGE	12	6	10	(4)	-	
H110600	NEIGHBOURHOOD SAFETY TEAM	180	90	80	10	10	Vacant NSO & Administrator on Mat leave
H110650	COMMUNITY WATCH PATROL	109	55	40	14	14	Vacant administrator post & lower pay scales than budget
H150500	FURNITURE PACKS	-	-	-	-	-	
H110500	ESTATE RESPONSE TEAM	-	-	2	(2)	-	
H130400	SHELTERED HOUSING	127	63	91	(27)	(27)	£27K spend on under occupation disturbance payments not budgeted
H140100	LANDLORD SERVICES-GENERAL	188	94	94	-	7	£7k saving on Property Insurance
C410600	IMARI PARK & PARK HOMES	(34)	(17)	(17)	-	-	
C410100	EATON COURT	(4)	(2)	1	(3)	-	
		2,857	1,429	1,464	(37)	(30)	
AREA OFFICES							
H120100	SUSSEX CIRCUS	28	14	13	1	-	
H120200	ALLENTON	27	14	13	-	-	
H120220	OSMASTON	13	6	7	-	-	
H120300	ALVASTON LIBRARY	4	2	2	-	-	
H120400	STOCKBROOK STREET	33	17	17	(1)	-	
H120500	MACKWORTH LIBRARY	8	4	4	-	-	
H120520	BROOK STREET	15	8	7	1	-	
H120600	SINFIN	23	12	12	-	-	
		151	77	75	1	-	
SUPPORTED LIVING							
C420400	FAMILY INTERVENTION PROJECT	90	45	13	32	32	Vacant Support Worker post & change in team leader post
H110800	TENANCY SUSTAINMENT	(40)	(20)	(36)	15	13	£13k additional income compared to budget
H110700	HRA SUPPORTED LIVING	23	12	12	(1)	-	
H130200	SUPPORTED LIVING SERVICE	(169)	(84)	(99)	15	-	Reduction in SP funding
		(96)	(47)	(110)	61	45	
INITIATIVES							
H150300	RESIDENT INVOLVEMENT	201	101	92	9	-	Vacant posts
H150350	COMMUNITY INITIATIVES	84	42	44	(2)	-	Vacant posts
M210100	REGENERATION	-	-	14	(14)	-	Development officer
S310500	INITIATIVES	20	10	5	5	-	
		305	153	155	(2)	-	
HOMELESS (DCC GF)							
C410300	HSG OPTIONS HOMELESS INITIATIVE	(3)	(1)	1	(2)	-	
C410400	LONDON ROAD HOMELESS ACCOMM	(6)	(3)	(4)	1	-	
C410500	MILESTONE HOUSE	(2)	(1)	-	(1)	-	
		(11)	(5)	(3)	(2)	-	
RENTS & ARREARS							
H110200	ARREARS OFFICERS	447	223	255	(32)	(22)	Vacant posts in restructure appointed to by existing staff higher in grading structure
S310310	RENTAL CONTROL	145	72	66	7	10	Current secondment staff to cover Mat leave in personnel
		592	295	321	(25)	(12)	
CORPORATE OVERHEADS							
S310400	CORPORATE OVERHEADS	1,256	628	501	127	80	£33k underspend on Insurance; £18k underspend on vacant development manager post; £28k Credit for mobile phones
	CONTINGENCY	200	100	-	100	-	Contingency not yet fully allocated - additional 2 x Welfare Reform posts in 12/13 approx £50k. Plus approx £15k contribution to credit union trial. Plus £25k for tenant rewards. Home Release underwrite £50k in 12/13.
	LGPS	155	78	78	-	-	
	INCENTIVE PAYMENT	-	-	(75)	75	150	Annual incentive payment not budgeted for
H150100	PERFORMANCE MGT	121	60	61	-	-	
H150150	BUSINESS TRANSFORMATION	89	45	47	(2)	-	
H150400	COMMUNICATIONS	101	51	46	4	-	
S310100	DIRECTORATE & SUPP SERVS	240	120	112	8	3	Minor variation on Chief Exec post
S310150	LEGAL	131	65	65	-	-	
S310200	PERSONNEL & STAFFING	458	229	212	17	20	Delayed Apprentices expenditure & minimal recruitment advertising
S310300	FINANCE	361	181	171	10	10	Savings against agency budget
S310350	IT	1,230	614	609	6	-	
	IT DEPRECIATION	251	126	126	-	-	
		4,593	2,297	1,953	345	263	
TRADING ACCOUNTS							
C420100	SPIRITA HSG POET'S CORNER	(10)	(5)	(8)	3	-	
C420200	NCHA BEDFORD STREET	(9)	(4)	(4)	-	-	
C420350	LILLIAN PRIME TRUST	(1)	(1)	(3)	2	-	
C420500	GREEN HILL APARTMENTS	(6)	(3)	(1)	(2)	-	
C420600	NEW BUILD	(6)	(3)	6	(8)	(8)	£14k spend on replacing boilers
C420650	DCC NEW BUILD	-	-	9	(9)	(9)	Prof fees relating to New Bungalows
C420700	LEYTONSTONE DRIVE	(3)	(2)	(3)	1	-	
C420900	LEASEHOLDER REPAIR SCHEME	-	-	-	-	-	No actual
		(35)	(18)	(4)	(13)	(17)	
Total Profit / (Loss) against budget		(337)	(166)	(496)	328	249	
Opening budgeted profit for 12/13						337	
Overall forecasted Profit / (Loss)						586	

	Derby Homes Ltd							APPENDIX 2
	Maintenance Net Summary by main operations -September 2012							
							2012/13	
Cost Centre		Budget 2012/13	Budget September 2012	Actual Year to September 2012	Variance Year to Date		Forecasted variance against budget	
		£'000	£'000	£'000	£'000		£'000	Comments (on variances >£5k)
	Repairs Budget							
A100000	Day to Day Repairs	4,070	2,035	1,684	351		400	This under spend is due to increased productivity and reduction of agency staff and use of subcontractors and material savings. Currently some staff are working in other areas, these are due to be returned shortly.
A100500	Gas Breakdowns	1,143	529	663	(134)		(45)	Overall the Gas budgets are showing as over spent against by £73k, however £45k of PTS invoices relating to 2011/12 were not accrued for and have been charged to 2012-13. Gas have been picking up a lot of repairs identified from Void properties - which is being investigated
A200600	Gas Testing	845	483	422	61			
A200601	Gas Flues	50	25	16	9		(150)	These budgets have been set up to capture the true cost of the legislative gas changes. Estimated annual spend is in the region of £200-£250K - this will be funded from the current day to day surplus
A200602	Gas Hatches	16	8	11	(3)		(35)	
A100100	Depot improvements	-	-	20	(20)		(700)	Improvements to joiners shop, demolition of buildings and car park improvements works
A200000	Voids	2,381	1,180	1,155	25			Voids has been closely monitored over the last few months, to reduce costs
A200500	Electrical Testing	349	174	137	37			This under spend is due to difficulties in access, to address this an additional 2 agency staff will be taken on to catch up with the testing programme
A100250	Business Processing and Procurement	72	29	23	6			
A400500	Open Contractor Team	125	70	76	(6)			Relates to Principal officer post for first 3 month when project initially went live, plus costs for Home to Work post who was taken on after the budgets were set
A500500	Facilities Management	381	190	183	7			
		9,432	4,723	4,390	333		(530)	
	Specialist works							
A600000	Specialist Works - Staff Costs	215	107	114	(7)		-	
A600001	Alarms & fire equipment	485	242	199	43		45	£45k under spend was reported in period 3, there are possible dilapidation repairs of £8k which have been accrued, and rates for Roosevelt that have been added in the period.
A600002	Entry systems, CCTV & aeralis	125	62	57	5		-	
A600003	Lifts	90	45	54	(9)		-	This over spend is due to under accruing by £7k last year - accrued £9k actual £16k
A600004	Water safety	30	15	6	9		-	Budget for 2013-14 to be assessed and possibly reduced
A600005	Asbestos sampling	30	15	8	7		-	Budget for 2013-14 to be assessed and possibly reduced
A600006	Energy performance certificates	30	15	10	5		-	Budget for 2013-14 to be assessed and possibly reduced
A600007	Structural repairs	50	25	9	16		-	Structural Repairs is currently under spending, this has been checked with John Kendrick
A600008	Drainage	100	50	29	21		20	There is currently an under spend on drainage as Severn Trent are now legally responsible for more repairs, however they have yet to bill us for any works that we are responsible for. As we are not able to estimate this cost we are showing a prudent under spend at this stage.
A600009	Other servicing	7	3	7	(4)		-	Solid fuel servicing for 2012-13 has all been done this month, only minimal spend is expected throughout the remainder of the year
		1,162	579	1	86		65	
	Planned Repairs							
A700000	Planned Repairs - Staff costs	168	84	91	(7)		-	
A700001	Repairs prior to painting	693	347	181	166		-	Internal works are generally planned for Autumn / winter time. The budget is anticipated to be spent by the year end.
A700002	External painting	720	360	519	(159)		-	A higher proportion of external works takes place in the first part of the financial year due to the likelihood of favourable weather conditions. The budget is anticipated to be spent by the year end.
A700003	Internal painting	250	125	104	21		-	Internal works are generally planned for Autumn / winter time. The budget is anticipated to be spent by the year end.
A700004	Home dec scheme	250	125	149	(24)		-	This budget is currently over spent but works are programmed in to accommodate the contractors leave and also Christmas week when work is reduced
A700005	Social Enterprise	250	125	0	125		200	The in house based Social Enterprise is planned to commence later in the financial year.

	Derby Homes Ltd							APPENDIX 2
	Maintenance Net Summary by main operations -September 2012							
							2012/13	
Cost Centre		Budget 2012/13	Budget September 2012	Actual Year to September 2012	Variance Year to Date		Forecasted variance against budget	
		£'000	£'000	£'000	£'000		£'000	Comments (on variances >£5k)
		2,331	1,166	1,044	122		200	
	Estates Maintenance							
A800000	Estates Maintenance - Staff Costs	45	54	51	3			- Includes Estates Pride Contribution to staffing costs
A800001	Grounds maintenance	669	335	49	286		140	Service charge income receipts above budgeted levels. Possibility that substantial underspends will arise on main works contract. Some budget will be required to support tenants garden scheme.
A800002	Tree maintenance	227	113	113	-			- Charges from DCC expected to be in line with budget.
A800003	Playground inspections	70	35	25	10			- No repairs on playgrounds have been charged to date, only expenditure for inspections has been accrued up to this point
A800004	Tenant's garden scheme	100	50	95	(45)			- Costs from contractor are higher than budgeted - will cover additional costs in 12/13 from underspends within grounds maintenance pending review of level of charges from contractor.
A800005	Communal cleaning	177	88	52	36			- Budget for 2013-14 to be assessed and possibly reduced
		1,288	675	385	290		140	
	Pension Contribution & Contingencies							
A900000	General Contingency and BTS	83	42	-	42		(115)	Asbestos removal works costing £115k to 56 BISF ceilings in non traditional mid 1940's properties plus £83k asbestos removal from 175 properties. (Memo : £66k from the original budget has been used to create Gas Flue budgets £50k and Gas Hatches £16k).
A900001	Additional Pension Contribution	103	51	52	(1)		-	
		186	93	52	41		(115)	
A900500	Investment & Regeneration	315	157	170	(13)			- Part is POE not budgeted
		14,714	7,393	6,042	859		(240)	
	Capital Budget							
A300000	Capital Kitchens	1,256	636	689	(53)		-	
A300100	Capital Bathrooms	847	430	476	(46)		-	
A600500	Capitalised Salaries	-	187	188	(1)		-	
A300500	Solar Panels	-	-	-	-		-	- May have some residual payments in 2012/13
		2,103	1,253	1,353	(100)		0	
	Other Works							
A400000	Public Buildings	1,347	673	669	4			This under spend on Public buildings is usual for this time of year, there is likely to be an under spend against the budget at the year end, but this is a cost neutral budget as all actual costs are recharged to DCC
		1,347	673	669	4		0	
Average Costs								
Day to Day		£84.35						
Voids		£1,862						
Kitchens		£3,826	Including £18983 of additional works - Hartington taken out					
Bathrooms		£2,080	Including £29948 of additional works - Hartington taken out					