

North East Wales Board Meeting Agenda Item 8

Date of Meeting	Tuesday 10th January 2017
Report Subject	Financial and Operational Update
Report Author	Melville Evans
Type of Report	Operational

EXECUTIVE SUMMARY

The purpose of this report is to present to Board the current position with regard to financial and operational performance, highlight any key material changes since last report in respect of income, expenditure, treasury management, operational performance and financial risks.

RECOMMENDATIONS

1	Board note content of the report.
2	Board approve the proposed format of operational performance report going forward.

REPORT DETAILS

1.00	Finance and Operational update report
1.01	<p>This report provides the Board of New Homes with an overview of NEW Homes (NEWHs) financial and operational performance/position to 30th November 2016.</p> <p>Financial Update</p> <p>The following Income and Expenditure Account shows, as at November 2016, NEWHs is projecting a surplus of £15.8k for 2016/17. This is based on variations to the</p>

Business Plan for the previous reduction in stock numbers.

**NEW Homes
Profit and Loss Forecast 2016/17**

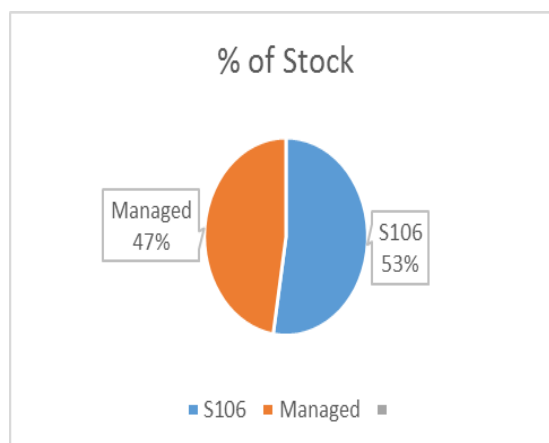
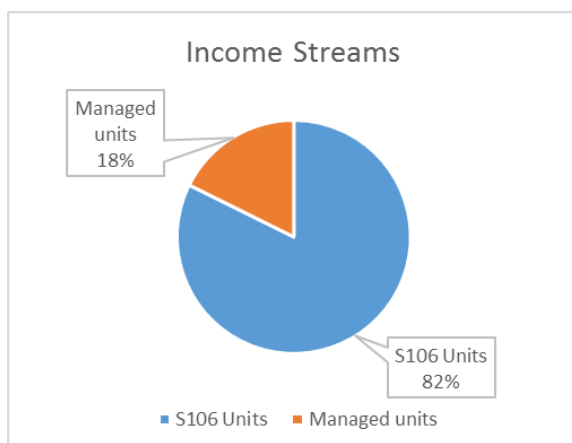
All Units	Budget	Apr - Nov	Dec - Mar	Outturn	Variance
	£	£	£	£	£
Income					
S106/Mortgaged Units					
Rent Receivable	(184,400.00)	(95,795.00)	(58,995.00)	(154,790.00)	29,610
Voids rent loss	0.00	0.00	0.00	0.00	0
Service charges	0.00	(648.00)	(2,196.00)	(2,844.00)	(2,844)
Managed Letting units					
Management Income	(24,650.00)	(21,762.34)	(2,609.51)	(24,371.85)	278
Over 55s Income	(7,150.00)	(4,400.00)	(2,200.00)	(6,600.00)	550
Tenant Find Only Income	(1,500.00)	(300.00)	(600.00)	(900.00)	600
Sign up Income	(4,875.00)	(780.00)	(1,170.00)	(1,950.00)	2,925
Voids rent loss	0.00	0.00	0.00	0.00	0
Net Rental Income	(222,575.00)	(123,685.34)	(67,770.51)	(191,455.85)	31,119.15
Operating Costs					
S106 Units					
Routine Repair and Cyclical Costs	12,000.00	3,871.59	2,330.41	6,202.00	(5,798)
Major Repairs Provision	0.00	0.00	0.00	0.00	0
Bad Debt Provision	2,900.00	0.00	1,500.00	1,500.00	(1,400)
Bad Debt Write Offs	0.00	0.00	0.00	0.00	0
S106 Legal Fees	0.00	0.00	1,500.00	1,500.00	1,500
S106 Service Charge	0.00	0.00	2,844.00	2,844.00	2,844
Depreciation	0.00	0.00	0.00	0.00	0
Over 55s					
Over 55s Guaranteed Rent	0.00	3,300.00	1,650.00	4,950.00	4,950
Overheads					
General Management Recharges	133,625.00	15.75	115,754.92	115,770.67	(17,854)
Comms and software	3,100.00	4,585.88	661.62	5,247.50	2,148
Subscriptions	1,275.00	2,746.95	0.00	2,746.95	1,472
Financing charges	5,300.00	3,488.08	118.92	3,607.00	(1,693)
Marketing and Printing	1,500.00	0.00	0.00	0.00	(1,500)
Deposit Charges	700.00	179.52	0.00	179.52	(520)
Training	0.00	1,182.00	0.00	1,182.00	1,182
Other - General	1,000.00	106.86	393.14	500.00	(500)
Consultancy	15,000.00	14,952.42	8,447.58	23,400.00	8,400
Total Operating Costs	176,400.00	34,429.05	135,200.59	169,629.64	(6,770.36)
Interest Payable	18,500.00	0.00	0.00	0.00	(18,500)
Surplus Before Tax	(27,675.00)	(89,256.29)	67,430.08	(21,826.21)	5,848.79
Corporation Tax	6,050.00	0.00	6,050.00	6,050.00	0
Surplus After Tax	(21,625.00)	(89,256.29)	73,480.08	(15,776.21)	5,848.79

Income

As at November 2016 we have an adverse income variance to budget of £31.1k for the year. This is due to the removal of the Mortgaged units and revised handover dates for the remaining S106 properties.

	Budget	Projection	Variance
S106 Units	-(£184,400.00)	-(£157,634.00)	£26,766.00
Managed units	-(£38,175.00)	-(£33,821.85)	£4,353.15
	-(£222,575.00)	-(£191,455.85)	£31,119.15

£157.6k (82%) of income relates to rental charges on the S106 units which make up 53% of the property portfolio. £33.8k (18%) of income is from management fees via our managed portfolio.



Operating Costs

As at November 2016 we have a favourable variance on costs to budget of £6.8k for the year.

	Budget	Projection	Variance
S106 Units	£ 77,885.00	£ 92,243.34	£14,358.34
Managed units	£ 98,515.00	£ 77,386.31	-(£21,128.69)
	£ 176,400.00	£ 169,629.64	-(£6,770.36)

S106 Direct Costs

We are currently projecting costs of £12k for the S106 units against a budget of £15k. This is for land searches, valuation charges for new sites transferring to us and Gas Safety Certificates for each property as they become due.

Lower than anticipated remedial costs have been projected in year on the S106 properties. This is due in part to the low tenant turnover.

Overheads – all properties

Communications and Software

Projected spend of £3,300 for the ongoing software support on Landlord Manager and the hosting of the system on the Cloud via an external company.

Financing Charges

Actual spend of £3,600 relating to the Yearend Accounts completed by Sage & Co. costing £3,300, along with bank charges and loan interest amounting to £300.

Subscription Charges

Actual spend of £2,746 relating to the Rent Smart Wales membership, Residential Landlords Association (RLA) and UK Association of Letting Agents (UKALA).

Consultancy

Projected spend of £23.4k has been set aside to pay for the following:

- Advice on Taxation matters from BDO which amounted to £10,762.50
- Legal advice from Trowers & Hamlin Consultants which amounted to £8,284.34
- David Tolson engagement for Andy Roskams time which amounted to £4,189.92

General Management Recharges

These relate to the staff costs attributable to NEW Homes that will be transferred from Flintshire County Council at year end. Within the Support Charges is an assumption of £15.0k relating to office premises, Chief Officer advice, IT support etc.

All figures are inclusive of VAT.

Staff Recharges - Finance	£22,683.00
Staff Recharges - Operational Staff	£55,499.96
Staff Recharges - Legal	£6,000.00
VAT Staff Recharges for 2014/15 & 2015/16	£16,571.96
Support Charges	£15,000.00

Stock Assumptions

In the Business Plan we had expected a growth rate of 85.19%. Based on the current evaluation of business for 2016/17, the growth rate reduces to 42.59%. Mix of business shown below.

	2015/16	2016/17	Expected Growth
S106 Units	21	31	
Mortgaged Units	0	0	
HMO/Over 55s	1	2	

Managed units

	32	44	
	54	77	42.59%

The Business Plan assumed a stock portfolio of 100 units, based on the re-evaluation we are projecting a portfolio of 77 units. A decrease of 23 units, being 8 mortgaged properties and 15 managed units, as displayed below.

	Business Plan	Projected
S106 Units	31	31
2 Beds	23	23
3 Beds	8	8
Managed Units	61	46
1 bed	3	3
2 beds	26	20
3 Beds	25	18
4 beds	3	2
Over 55s	3	3
HMO	1	0
Mortgaged Units	8	0
	100	77

Revision of the stock numbers, and timing of the handover for the S106 properties, reduces the overall income budget from £222.6k to a projected income of £191.5k. A reduction of £31.1k.

The reduction of these stock numbers does not impact on the Management Costs due to the amount of work that is involved in managing the tenancies.

Managed Units - we currently have 2 tenancies under Section 21 Notices to end the tenancy, along with 1 former tenancy awaiting a payment plan and 1 former tenancy under dispute with landlord. Current rent arrears for these properties, which are borne by the landlord, amount to £6.9k. The liability for chasing these debts, through the courts, rests with the landlord.

Section 106 property rent arrear figures are Zero.

Complaints

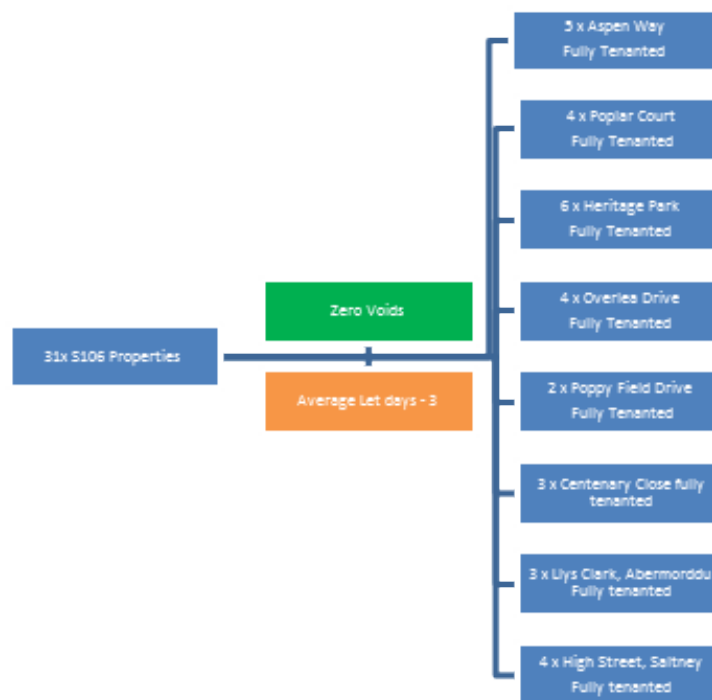
In October 2016 NEW Homes received a complaint from a landlord of a tenant causing damage to their property and non-payment of rent arrears amounting to

£685.00. The property was subsequently abandoned by the tenant. Following discussions with the Chair, it was agreed that NEW Homes should fully compensate the landlord for undertaking repairs to the property, along with payment of the rent arrears. The damage to the property is excessive and at the time of writing this report the final invoice had not been received from the contractor undertaking the repairs. However a sum of £4K has been set aside within the company's accounts to cover these costs. Board will be updated on exact costs at the February Board.

NEW Homes will be pursuing this debt against the tenant and is currently awaiting legal advice from its legal advisors on the most appropriate approach to address this issue satisfactorily. An update will be provide at the February Board meeting

Operational Update

S106 Units



2016/17 Average Let Days 3 days



Managed Properties – Signed up



Comparison of average let days for 2015/16 to 2016/17 decreased by 6 days. We are still experiencing issues with properties being in a lettable condition on handover from the landlord.



Business Growth projects

At the NEW Homes Board Away Day there was a discussion with regard to a project for expanding accommodation choices for the over 55's whilst freeing up housing for social applicants, we are reviewing the details for this product and arrangements are being put in place to undertake consultation with local stakeholder groups which represent older persons, including Age Concern early in January 2017. Local estate agents are also being consulted to better understand house market conditions and the options available to older people wishing to downsize their properties. Finally, the Council's Lettings Policy will be looked at as part of the review to determine whether greater flexibility is required to make the Older 55's option a realistic opportunity for older persons. The finding of the consultation exercise will be presented to Board in February 2017.

Proposals for Operational Performance Management reporting

Attached to this report as Appendix 1 is a draft format for an operational performance report going forward. It is proposed that this becomes a standard agenda item at each Board meeting and is designed to give Board members the assurances that operational performance for NEWH's is on track and that corrective action is being taken if performance dips below acceptable levels.

Operational targets will be set where appropriate and the traditional traffic light system of red amber and green will be used to give an easy indication of where performance is for each particular indicator. The indicators have been set in line with best practice

	and with regard to the standards within the Welsh Rent Smart code of practice.
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2.00	RESOURCE IMPLICATIONS
2.01	There are no resource implications directly associated with this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	Not applicable for this report.

4.00	RISK MANAGEMENT
4.01	Headline financial and operational risks only and any changes to risk profile since last report

5.00	APPENDICES
5.01	Appendix One: Draft Operational Performance report template

DRAFT NEW Homes Operational Performance Template Report for period xx – xx

Section 106 units

Narrative on any variances and corrective actions

	In period	Year to date	Target	Performance
Total in management				
Total let				
Applicants				
Voids				
% available to let				
Average re let time				
terminations				
Average rent charged				
% rent collected				
% customer satisfaction				

Managed units

	In period	Year to date	Target	Performance
Total in management				
Total lets				
Applicants				
voids				
% available to let				
Average relet time				
terminations				
Average rent charged				
% management fees				

collected				
% rent collected				
% customer satisfaction				

Narrative on any variances and corrective actions

All stock in management

	In period	Year to date	Target	Performance
Total in management				
% income collected against income due				
Management costs per property				
Average rent charged				
% available to let				
Average relet time				
number of voids				
% repairs completed in time				
% properties with LGSR				
% properties with carbon monoxide monitor				
% properties with smoke detector				
% properties with EPC				
% property inspections completed				
number of complaints				

received				
% complaints responded to in time				

Narrative on any variances and corrective actions

Update on business growth projects

Brief update here on any projects that are being developed to grow the business in line with NewHomes strategic objectives.