

Akelius report package – an important tool for a controller

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Introduction

*Management is the profession of control*¹. Control in management means setting standards, measuring actual performance and taking corrective actions. An analysis of the operative management and indirectly inspection of the business operative processes is made by compiling the company's report package where the actual performance is measured according to budget. This is done four times a year when the closing of the books occurs. The report package is also used in the prognosis process once or twice a year.

By measuring the actual performance on a regular basis, you keep track on how the business is doing and get signals in time to take necessary actions. The report package is the main reporting tool in Akelius when evaluating the operative result. The package consist of both comments on the result in text and also a number of excel sheets showing more detailed economical information. To be able to compile all the region's report packages into a company report, you have to strictly follow the reporting template. In this essay I will guide you through our package which is included in appendix 1 and describe its information.

ADW – Akelius Data Warehouse

It is inevitable to mention ADW – Akelius Data Warehouse when describing our report package. Management accounting is performed in addition to financial accounting to supply more information in order to make the right decisions. Information from the financial accounting, from the rental system and from the invoice management system is linked together in a database which in Akelius is called ADW. ADW is, for the Swedish business, the main IT- based tool for controllers, property managers and regional managers.

Reports are set up in ADW which shows the result on each account and this sum up to the operative result on each property

¹ Definition of control by Stafford Beer (1926-2002) British theorist, consultant and professor at the Manchester Business School

and each portfolio of properties. By drilling down on each account, you find each booking that adds up to actual result. If the booking comes from an invoice, you can drill down and see the actual invoice in ADW. Besides showing operative result, ADW also shows information about all actual rental contracts at each given time.

Every time we start an investment project in our properties, we set up a project number. This portfolio of investment projects is shown in ADW, where you can follow up the reprocessing rate on each project according to granted investment. Our project leaders use this report when following up on their investment projects.

Besides all these reports, controllers and property managers use ADW, when register accrued costs each quarter, when allocating administration costs to each property and not least when doing our budget and prognoses.

ADW is also used for some accounting and calculations, but I will not go into this part since it concerns the financial accounting.

Akelius report package

The report package consist of 24 excel sheets with detailed economical information. Along with this we also describe the information in the package and the economical result in words by commenting on our performance. The report package is used for analysing the performance and for presenting it. When going through the information, you also indirectly in some way go through processes and routines concerning administration. Mistakes can be corrected and if necessary find more effective routines.

The following excel sheets are included in our report package.

1. Asset portfolio
 - a. Purchases
 - b. Sales
 - c. New production
 - d. Asset portfolio, identical
2. Net operating income
3. Net operating income, deviations
4. Net operating income, city
5. Net operating income, m2
6. Rental income, identical portfolio
7. Vacancy
 - a. Apartments
 - b. Commercial areas
8. Changes in commercial contracts

- a. Newly let commercial areas
 - b. Renegotiated commercial contracts
 - c. Move outs, commercial areas
9. Usage bond and running costs
 10. Maintenance
 11. Building lease
 12. Property tax
 13. Administration
 14. Investment projects
 - a. Completed investment projects
 - b. Ongoing investment projects
 15. Investments, follow up
 16. Energy consumption

In the following sections I will go through the package and describe the different reports and their information.

1 Asset portfolio

Changes in lettable area are shown in these first reports. Changes can be due to *purchases* of properties, *sales* of properties, *converting* from commercial area into residential area, completion of *new productions* and *other* minor area changes.

Detailed information concerning purchases such as area, number of apartments, handover date and purchase price is presented in sheet (1a). The estimated yield on a one year calculation would be good information to add on to this report.

In sheet (1b) we report more detailed information concerning sales, completed sales as well as ongoing sales, the total purchase price and costs involved in each transaction which ends up in a booked result.

Sheet (1c) shows our completed and ongoing new productions, deployed investments and estimated or actual date of completion. A possible “add on” to this report would be to show granted investment as well as estimated yield on each new production.

Finally sheet (1d) summarize the above and show the identical portfolio i.e. properties we have owned the entire budget year. In this report we show the identical portfolio in each city and vacant apartments as well as vacant commercial areas. A summary of economical information per city regarding income and net operating surplus both outcome and budget is also shown.

2-5 Net operating income

The next section in the report package includes information of the *net operating income*, the operative income statement for total and identical portfolio. Where do we find the deviations in our outcome compared to stated budget? Did we have higher or lower income compared to budget? What deviations did we have in our different costs? Did usage bond costs rise? How well did we follow our budget on maintenance? In ADW reports showing outcome compared to budget and deviations for each property and for each result item and account build up these reports in our package, sheet 2-5.

Sheet 3 shows how the deviations in outcome compared to budget are divided per result item and city for our identical portfolio.

Sheet 4 shows the outcome for each city's identical portfolio.

Sheet 5 shows the outcome, income and costs, per square meter for each city's identical portfolio. This is a way of making it more comparable, dividing income and costs per square meter.

6 Rental Income

What builds up the outcome of our *rental income* on our identical portfolio? What was the result of the annual rental negotiations compared to estimations in the budget? How much did converted areas bring in? Did we have any rental losses or did we leave any discounts? How much did we lose due to vacancies?

The same thing applies to the income on our commercial areas. How much did we renegotiate? How much did our newly signed commercial contracts bring in?

Answers to the questions above and more detailed information of our income are shown in sheet 6.

7 Vacancy

The next section in our report package, sheet 7a-7b, deals with our vacant areas and how much is lost due to *vacancies*. Here we want to show per city how many vacant apartments and vacant commercial area we have had in the beginning of the year as well as at the end of the year. What would we lose if all these existing vacant apartments / commercial areas had been vacant the whole year (financial vacancy)? We also show the actual outcome compared to budget on the year's vacant apartments / vacant areas.

Moreover we measure the turnover rate on movements among our residential tenants. How much cost for modification due to

these movements do we have, and what is the cost per movement? The same thing applies for our commercial areas, how much cost for modification have we deployed? The later is very much dependable on the time structure on our commercial contracts, when the existing contracts expire and have to be renegotiated.

8 Changes in commercial contracts

In section 8 we list our five largest commercial contracts (seen upon annual rent) that has been *newly signed* during the year (sheet 8a), have been *renegotiated* (sheet 8b) and those who have decided to *move out* and end the contract (sheet 8c). Here we list contract period, contracted annual rent, total and per square meter compared to budget or previous annual rent. What cost of modification and/or investment have we put in due to these new agreements? What do we loose in annual rent and income during the budget year due to these move outs?

9-10 Usage bond, running costs, maintenance

To make our costs for *usage bond* (water, heating, electricity and waste disposals), *running*, and *maintenance costs* more comparable, we divide these per square meter. These costs per square meter along with our energy consumption per square meter, and cost per kWh or m³ are reported in sheets 9, 10 and 16.

Does the rise in cost depend on higher rates and/or higher consumption? The energy suppliers act more or less under monopoly, which gives you little space of affecting the price. Therefore you constantly have to work to keep the consumption on a low and effective level. The environment benefits as well, when keeping energy consumption on a low level, which should be everyone's concern these days.

There is a distinction between different costs of maintenance, *running maintenance* which is urgent in nature, as opposed to *planned or regular maintenance*. *Cost for modification* in apartments as well as in commercial areas are due to movements among residential tenants or renegotiated commercial agreements. More about the differences between these and other types of property related costs can be read in the essay "Key ratios".

Regular maintenance fluctuates more over the years than running maintenance, which makes it more difficult to compare between properties the first type of cost. The same thing applies to cost for modification on commercial areas, which fluctuates with the timeframe of the different commercial contracts. The

costs for modification in apartments follow the turnover rate in residential tenant movements. Relatively, the turnover rate does not fluctuate much over time, which further stabilizes this cost.

11-12 Building lease and Property tax

Which properties are situated on ground that we lease? When do the existing *lease agreements* expire and have to be renegotiated? This information is shown in sheet 11.

The outcome and budget regarding *property tax* per city / region is shown in sheet 12.

13 Administration

We divide our *administration costs* into *local*, *regional* and *collective*. Rental staff and property managers i.e. people working directly towards the tenants and/or properties are included in the local administration, where as regional managers, controllers and analysts are included in the regional administration. Centralised departments such as accounting, HR, purchasing, marketing, IT etcetera are included in the collective administration.

Almost all administrative costs are allocated on our properties with area (m²) as key factor. Most of the administrative costs are salaries which are not VAT liable. As soon as a property is owned by a legal company other than the company with the employees (administration costs), you sell your services “in-house”. This selling of services is VAT liable. Since most of our properties are residential, you can not deduct the VAT from this administrative cost. Packaging properties in many different legal companies is, in this case, cost consuming because of the non deductible VAT.

Sheet 13 shows our administrative costs before and after allocating on our properties.

14 Investment projects

A granted investment application is the starting point for our investment projects. We give each project a project number, which is the “key” for following up. In sheet 14a, we report all projects that have been *completed* during the reporting period. A comparison is made between deployed in each project and granted. The same applies on our *ongoing projects*, which are shown in sheet 14b.

15 Investment follow up

One very important report is the *investment follow up*, sheet 15. How did our acquisitions and larger investment projects turn out compared with calculations? Did the yield the first year reach the level we expected? In this report we list the previous year's acquisitions and completed projects and compare the granted one year calculation and yield with the actual first year outcome and yield.

Closing

As mentioned previously in this essay, the report package is an important tool for measuring the actual performance every third month with the budget as well as when doing prognoses. Are we following our plan? What changes have occurred and why? What do we have to do differently, more effectively or even stop doing? Along with this reconciliation, we more regularly follow up on vacancies (twice a month), energy consumption (once a month), all changes in commercial contracts (once a month), transactions affecting our liquidity (once a month), investment projects reprocessing rate and not least the value of our property portfolio.

The report package is a "living" material and when the business demands it, changes have to be incorporated in our reporting system.

Appendix 1

Akelius report package – template for actual performance compared to budget.