

NOTTINGHAM CITY HOMES

REPORT OF THE INTERIM DIRECTOR OF FINANCE

THE BOARD
10 JANUARY 2008

BUDGET STRATEGY 2008/09

1 SUMMARY

- 1.1 The report sets out the financial background for Nottingham City Council's Housing Revenue Account (HRA), the delays by the government in publishing the 2008/09 HRA Subsidy Determination and the impact on the resources available to Nottingham City Homes for 2008/09, based on the draft determination. The budget proposals are not yet fully complete as a result of the subsidy delays on the part of the government and an update will be provided at the meeting. Further consideration is given to the medium term financial plan for the Company and amended budget proposals for the Company for the next financial year.

2 RECOMMENDATIONS

It is recommended that -

- 2.1 The Board agrees the principles set out in this report.
- 2.2 Detailed analysis of the budget is considered at the next Performance and Regulatory Committee.
- 2.3 The Chair and the Chief Executive agree the budget as soon as the Management Fee and delegated repairs budgets can be finalised with Nottingham City Council.
- 2.4 A further report is brought to the next Board meeting.

3 HRA AND SUBSIDY

- 3.1 Communities and Local Government published for consultation the draft HRA Subsidy Determination on 23rd November 2007. Comments were required by no later than 9th January 2008.
- 3.2 The date of publication of the draft determination was later than in previous years with the result that for the first time ever the final subsidy data was not available to local authorities before the Christmas break.
- 3.3 The draft determination indicates that Nottingham will lose £5m in subsidy, of which £2.7m is due to withdrawal of Rental Constraint Allowance. This element of subsidy has been available to local authorities to compensate them for restricting rent increases to a

maximum of 5% for the 2006/07 and 2007/08 financial years. Clearly the withdrawal of such a substantial amount of funding has a very serious impact on Nottingham's HRA which can only be countered by reducing expenditure or increasing rents by a significant amount.

- 3.4 On 12th December the Minister for Housing announced a review of the Housing Revenue Account subsidy system and this is referred to within the Chief Executive's report elsewhere on the Board agenda.
- 3.5 The final report from the HRA review will be published in Spring 2009 and will set out a way forward for the subsidy system, rents policy across social housing and spending needs for council housing. The findings will be subject to a period of consultation and then considered in the next spending review. Inevitably this will impact upon the medium term financial plan.

4 NOTTINGHAM CITY HOMES' COSTS AND BENCHMARKING

- 4.1 The Housemark benchmarking data shows that Nottingham City Homes' costs are within the bottom quartile for the majority of the housing management activities. Senior managers within the Company are fully aware of this, as are Nottingham City Council.
- 4.2 Further analysis has shown that there is significant scope to reduce these costs and that there are some irregularities that have been revealed in some areas of the analysis. Work is currently in progress to evaluate the impact of restructuring for 2007/08 and to project this through to 2008/09. A report will be considered by the next meeting of the Performance and Regulatory Committee.
- 4.3 The overall financial planning process takes into account the need to work more efficiently and reduce costs whilst continuing to improve services.
- 4.4 In particular the medium term plan reflects -
- cost reductions through renegotiating service level agreements with the Council or procuring those services elsewhere;
 - working with the Council to ensure that non-HRA work is fully and appropriately funded;
 - reductions in back office costs through minimising the reliance on consultants and having a well focused, high calibre corporate support function;
 - implementing the Company's Accommodation Strategy, which will bring about reduced running costs after an initial investment in 2008/09;
 - the need to invest in IS and ICT to ensure that services can be delivered more efficiently and effectively.

- 4.5 We have included within the Delivery Plan a target to move our management costs from fourth quartile to third quartile in the current year and to move to second quartile in 2008/09.

5 PROJECTED OUTTURN 2007/08

- 5.1 There have been substantial pressures on our resources during the current year. The two most significant of these have been costs associated with restructuring and repairs spending.
- 5.2 Whilst we are unable to forecast exactly the costs of the restructuring across the Company we do have a strong indication that our budget provision will be exceeded to the extent that HRA balances will be called upon to meet a portion of the associated costs.
- 5.3 The Company continues to strive for improved efficiencies and in recognition of this, reduced its budgets for 2007/08. As it also continues to improve the quality of service it provides, containing service costs within those budgets has proved difficult. In particular the repairs service has found that improving services, meeting enhanced performance targets and carrying out more communal repairs to raise the standard of our estates has put additional strain on the budget.
- 5.4 We are therefore forecasting an overspend of £250,000 against the combined management fee and delegated repairs budget of £52,710,770, or 0.47%. Efforts will continue to reduce this amount and the next Performance and Regulatory Committee will receive details of progress.

6 BUDGET FOR 2008/09

- 6.1 Performance and Regulatory Committee on 30th October considered a report that set out a draft budget for Nottingham City Homes. At that time the draft Housing Subsidy Determination had not been issued and therefore the shortfall in HRA resources was not known.
- 6.2 The draft determination proposes a £5m reduction in HRA subsidy from 2007/08 to 2008/09, requiring a rent increase of above 6.5% to make up that shortfall alone, before taking into account any inflationary pressures on costs. Nottingham City Council will set housing rents at the February meeting of the Executive Board, but we have made a working assumption that the level of increase will be around the government rent guideline increase of 5.8%.
- 6.3 We have been working closely with the Council to address the serious HRA budget issues and this forms a part of the partnership working approach that we are developing with the Council, jointly led by the Company's Chief Executive and the Council's Deputy Chief Executive.
- 6.4 Detailed work is continuing with officers from the Council and for their part they are currently looking at the level of HRA balances required, the bad debt provision, the retained HRA budget requirement and the calculation of interest on balances.

6.5 Since Nottingham City Homes, through the delegated repairs budgets and the management fee, spends most of the controllable resources within the HRA, we have closely examined the management fee proposal that was submitted in October and come up with a package of reductions so that a revised bid can be submitted. We have currently identified £1.1m in addition to improving the level of rent income as a result of reducing the timescales in reletting void properties.

6.6 It must be emphasised that at the time of writing this report further budget savings are still required to produce a satisfactory HRA budget proposal. These must come from the HRA as a whole and not necessarily from Nottingham City Homes.

6.7 The package particularly focuses on –

- the cost of SLAs with the Council
- back office costs
- staffing costs across the Company

6.8 At the same time, we must not lose sight of the acute investment needs that exist and the issues that we must address as we work towards our objectives. The Delivery Plan will contain full details of these, but in particular we must invest in –

- customer access through completing the Accommodation Strategy and implementing the findings,
- business improvement through continuing to improve value for money, with an early focus on the SLAs,
- asset management,
- tenancy and estates, particularly by extending the caretaking service,
- improving the income management service and reducing rent arrears,
- building on the improvements in voids performance by reducing rent losses and repairs costs,
- training our workforce to ensure all staff are properly equipped to deliver the levels of service we aspire to,
- improving and developing the Company's IT,
- improving risk management across the Company.

Our fee bid therefore recognises the need for an appropriate level of

investment in those areas without compromising the key objectives of the Company.

- 6.10 At this stage the Company's submission in respect of the repairs tender is not finalised and for this reason detailed budget figures for the Property Services directorate are not included with this report.

7 CAPITAL PROGRAMME

- 7.1 The detailed capital programme is still being completed in liaison with Nottingham City Council, based upon the data included within the approved Asset Management Strategy. This includes assumed resources for the first tranche of decent homes funding (£13.5m), conditional upon a successful outcome to the inspection.

- 7.2 The completed capital programme will be considered by the next Performance and Regulatory Committee.

8 MEDIUM TERM PLANNING

- 8.1 Local authorities had been expecting the 2008/09 subsidy determination to be the first part of a two year settlement. However, the government decided against doing this; coupled with the Minister's announcement on 12th December, this makes HRA planning beyond 2008/09 very difficult.

- 8.2 Nevertheless, there is a certainty that across the organisation we must continue to strive for increased efficiency and value for money. A draft five year plan will therefore be brought back to the next Board, which will include the final 2008/09 and proposals for the following four years based upon the best information on funding levels that is available.

9 DIRECTOR OF FINANCE OBSERVATIONS

- 9.1 The Director of Finance is the author of this report and has worked closely with Nottingham City Council's Strategic Director of Finance on the HRA budget implications.

10 IMPLICATIONS FOR NOTTINGHAM CITY HOMES OBJECTIVES

- 10.1 The proposed approach to the budget is considered to be the most appropriate for the Company's objectives, given the level of HRA funding available.

11 VALUE FOR MONEY & EFFICIENCY ISSUES

- 11.1 The Company must continue to drive forward the efficiency agenda. Substantial progress has been made to date, but the financial position of the Council's HRA is such that more must be done to continue to reduce costs and improve performance. The Board will be kept apprised of VFM issues as they are developed.

12 EQUALITY & DIVERSITY IMPLICATIONS

- 12.1 There are no specific equality and diversity issues as a result of this report. However, it should be noted that, in recognition of the very small amount of funding that had previously been provided for equality and diversity work, the budget proposals do allow for additional resources to be targeted towards this area.

13 BACKGROUND MATERIAL AND CONFIDENTIAL DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- 13.1 Report to Performance and Regulatory Committee 30 October 2007
Budget Working Papers

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