

NOTTINGHAM CITY HOMES

REPORT OF THE DIRECTOR OF FINANCE

THE BOARD
22 JANUARY 2009

2009/10 BUDGET

1 SUMMARY

- 1.1 This report is to present to the Board the latest proposals for the 2009/10 budget for consideration. The final NCH budget cannot be agreed until after NCC has agreed the HRA budget which includes the amount of fee budget paid to NCH.
- 1.2 This years budget position is finely balanced, for the current position to be financially viable it relies on a 6.4% rent increase. Significant budget reductions have already been made and any further reductions would have a real impact on the delivery of front line services and repairs to tenants homes.

2 RECOMMENDATIONS

It is recommended that the Board:

- 2.1 note the contents of this report; and
- 2.2 approve the general principles which are being adopted in the formulation of Nottingham City Homes budget.

3 THE HOUSING REVENUE ACCOUNT (HRA)

- 3.1 At the last meeting the Board was made aware of the publication of the draft HRA Subsidy Determination and the implications that had on HRA resources and for potential rent increases.
- 3.2 The final HRA Subsidy Determination was issued on 18 December 2008 and it contained very few changes from the draft determination. The amount of subsidy received increases by approximately £30k due to additional allowances and the Government confirmed its proposal to delay the full implementation of rent restructuring until 2023/24. The implications for Nottingham of implementing rent restructuring over this period would be a 6.4% rent increase in 2009/10.
- 3.3 The final decision on the HRA budget will be taken by the City's Executive Board Meeting on 17 February 2009.
- 3.4 Since previous budget discussions NCH has also received a favourable inspection result from the audit commission as a result of its November inspection. This will release capital funding of £165m over the next five years. As a result of this it should not be necessary to prudentially borrow to support the 2008/09 capital programme, this will reduce the estimated

cost of borrowing in the 2009/10 budget and the next 20 years.

- 3.5 The draft HRA budget is shown at Appendix 1. These figures assume a 6.4% rent increase, a 5% increase in service charges and do not reflect the revised housing subsidy position or the reduced costs of borrowing as a result of not prudentially borrowing in 2008/09.
- 3.6 The repairs budget within the HRA has been increased by 3.6% to £19.8m, the majority of this work is spent on responsive repairs and repairs to empty properties. Responsive repair works, void repairs and the out of hours service are completed by NCH's repairs and maintenance service, if this budget was to be significantly reduced there would be an impact on NCH's workforce.

4 PROJECTED OUTTURN 2008/09

- 4.1 The HRA budget figures at Appendix 1 also show the projected outturn figures for 2008/09 which are broadly in line with the budgeted figures. The increase in the NCH fee reflects the original fee payment of £33.1m plus the approved balances brought forward of £1.1m and an additional £0.6m of expenditure to improve estates.
- 4.2 NCH is projecting a breakeven position by March 2009. A balanced budget position is projected by making significant savings in the region of £1.5m in the current financial year. This has been achieved by thoroughly reviewing all recruitment and other expenditure budgets. Detailed budget monitoring information will be considered by P&R Committee on 10 February.

5 KEY FEATURES OF THE 2009/10 AND MAIN VARIANCES

- 5.1 NCH budgets were prepared based on the current staffing structure for 2009/10 and included a full and detailed review of all running cost budgets.
- 5.2 This calculation of the 2009/10 NCH budget indicated that a budget of £36.8m was needed. A budget bid of £34.8m (plus £1m for spend to save initiatives) was submitted to NCC on 31 October 2008. Savings of £2.0m were required to balance the 2009/10 budget.
- 5.3 Each 1% rent increase for tenants equates to £790k of additional income. Conversely for each 1% below the 6.4% proposed rent increase which were to be agreed by the City savings of £790k would need to be found from across the HRA. The most significant budgets within the HRA are those either paid to or managed by NCH, the management fee and the repairs budget. If further reductions were to be made to these budgets then there would be a direct impact on the front line delivery of services.
- 5.4 Each Director within NCH was required to identify savings of 6, 8 and 10% across their Directorate and present these savings to the Executive Management Team. This exercise has identified £2m of savings.
- 5.5 The 2009/10 staffing budget for NCH includes a 3% vacancy factor, this

was first introduced into the 2008/09 budget in order to balance the budget. The vacancy factor is not applied to craft workers or caretakers. A 3% vacancy factor equates to approximately 18 vacant posts across the organisation at any one time. A further 28 posts which are currently vacant have been identified that they could be left vacant during 2009/10 without affecting service delivery. The savings achieved from leaving 28 posts vacant is £730k.

- 5.6 Savings of £0.5m have been identified from the planned repairs budgets which are included within the NCH fee. The release of the decent homes funding from the Government means that the majority of properties within Nottingham will benefit from new uPVC windows, this will deliver savings from the painting programme.
- 5.7 The remaining savings have been identified from running cost budgets across the organisation. A review of all funding given to external organisations is being undertaken to ensure that our contributions offer value for money at a time of reducing resources. A review of contributions made to external organisations was also recommended by the audit commission.
- 5.8 The current NCH budget includes £1.9m of income from the capital programme. This represents the costs which will be incurred within NCH to deliver the capital programme. Based on the current estimates for the capital programme a £1.9m management fee represents 3.3% of the total capital programme. We are working hard to identify efficiencies within this and all other budgets in order to deliver increased services to tenants.
- 5.9 Appendix B provides a summary of income and expenditure for NCH.

6 SPEND TO SAVE INITIATIVES

- 6.1 The management fee bid for 2009/10 to NCC includes £1m for spend to save initiatives which will help to re engineer the business.
- 6.2 Although we don't have an up to date medium term financial plan for the Housing Revenue Account we know that resources are being withdrawn from the system on an annual basis. The Government issued indicative proposals for the 2010/11 budget settlement within this years housing subsidy determination, they may be reviewed due to the economic downturn and the revised projections on inflation but they indicate a continuing reduction in resources.
- 6.3 Within NCH we have recognised that some of our systems and processes are outdated and inefficient, we also recognise that resources within the HRA will continue to reduce and that we are aiming to be a three star excellent organisation when the audit commission return in three years time, all these issues mean that we need to invest in our business now so that we are fit for purpose in the future.
- 6.4 Fully costed proposals are being developed on how the £1m would be spent but an indication of the areas are as follows
- Financing of restructuring

- IT – Repairs & Maintenance, Choice Based Lettings, Electronic Document Management, CRM, React, HR and financial systems, handhelds, leasehold services and IT equipment generally
- LEAN system reviews and
- Single status

6.5 The spend to save initiatives will link to NCH's vision for the future and achieving excellence.

7 COMMUNITY CHEST

7.1 The Board have in the past indicated that they would like to establish a community chest budget which can be used to support projects within the Community. The current budget position within NCH and the HRA has been explained elsewhere in this report and the establishment of a community chest budget is unaffordable at this time.

7.2 NCH is currently completing a tender exercise to appoint partner contractors to deliver the decent homes programme over the next five years. It is intended to include within these contract documents that partners will be expected to contribute on an annual basis to a community chest budget. The amounts contributed will be determined on the value of work placed with each contractor but could be in the region of £5k to £10k per contractor per year.

7.3 Further details of the community chest budget will be provided to future meetings and a procedure for the approval of expenditure will need to be formulated which will include a panel of Board Members to approve expenditure.

8 IMPLICATIONS FOR NOTTINGHAM CITY HOMES OBJECTIVES

8.1 A robust financial budget incorporating the impact of Value for Money and efficiency savings is essential to support NCH objectives of providing good quality, affordable and well managed housing.

9 VALUE FOR MONEY & EFFICIENCY ISSUES

9.1 The savings and efficiencies identified within the medium term financial plan and annual efficiency statement will be included within the 2009/10 budget.

9.2 The value for money strategy assumes that NCH will continue to deliver 3% efficiencies in each financial year covered by the medium term financial plan. These efficiencies will not all be cashable and the cashable ones will be reinvested into improving front line services and improvements to tenants' homes.

10 EQUALITY & DIVERSITY IMPLICATIONS

10.1 The budget provides adequate resources for the Company to implement its equality and diversity strategies.

**11 BACKGROUND MATERIAL AND PUBLISHED DOCUMENTS
REFERRED TO IN COMPILING THIS REPORT**

- 11.1 HRA Working Papers
HRA Subsidy Determination
NCH Budget Working Papers

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