

NOTTINGHAM CITY HOMES

REPORT OF THE DIRECTOR OF FINANCE

THE BOARD
27 JANUARY 2010

2010/11 BUDGET

1 SUMMARY

- 1.1 This report is to present to the Board the latest proposals for the 2010/11 budget for consideration. The final NCH budget cannot be agreed until after NCC has agreed the HRA budget which includes the amount of management fee budget paid to NCH.
- 1.2 This year's budget position is finely balanced, for the current position to be financially viable it relies on a 2.7% rent increase, the introduction of a new service charge for digital aerials and £1.7m of savings.

2 RECOMMENDATIONS

It is recommended that the Board

- 2.1 note the contents of this report; and
- 2.2 give approval to 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, the draft subsidy determination for 2010/11 had not been issued. It was issued on the 10 December 2009 and the consultation period ends on the 25 January 2010.
- 3.2 The draft HRA Subsidy Determination was issued on 10 December 2009, the increase in management allowance was 2.3% and there was no increase in the maintenance allowance. Guideline rent was increased by 3.5% and the Government changed the date for the implementation of rent restructuring to 2012/13. The impact of these subsidy changes meant that Nottingham was paying an additional £2.4m back to the Government.
- 3.3 When the Government introduced its rent restructuring proposals in 2001 the guidance provided some protection for tenants from large rent increases. The increase in total charges to any tenant in any one week should not exceed RPI (Retail Price Index) (from the previous September) plus ½% plus £2 per week (based on 52 weeks). If Local Authorities apply this guidance but it results in them being worse off financially they are compensated by the Government through the housing subsidy system in the following financial year – this is called “caps and limits adjustment”. Nottingham and most other local authorities are affected by this guidance in this financial year.

- 3.4 If Nottingham followed the rent restructuring guidance then rents in Nottingham would increase by an average of 2.7% or £1.56 per week (over 50 weeks). Decisions on rent setting are completely at the discretion of each individual local authority and the information issued by the Government is purely guidance. The Government assumes that you follow its guidance when setting the HRA subsidy determination figures.
- 3.5 The final decision on the HRA budget and rent increases will be taken by the City's Executive Board Meeting on 16 February 2010.
- 3.6 NCC and NCH are working together on the latest HRA figures. NCC submitted a budget bid of £35.9m for management fee and this figure is currently included in the draft HRA and the latest estimate for the repairs budget remains unchanged at £18.2m. The latest figures indicate in order to balance the HRA and provide a prudent level of HRA balances a combination of increased rent and services charges and reductions in costs equating to £4.0m are required.
- 3.7 The following savings and efficiencies are being proposed to balance the HRA budget

	£000's
Rent increase (in accordance with Government guidance)	2,182
Increases in other charges	235
Efficiency Savings	
• Reduction in number of void properties	300
• Improvement in rent collection performance	200
• Retained Housing Services	200
• Reduction in SLAs (NCH budget)	270
• Reduction in Support Services costs (NCH budget)	288
• Housing Management efficiencies (NCH budget)	200
• Property Services efficiencies (NCH budget)	200
TOTAL	4,075

- 3.8 None of the savings proposals include any reduction within the responsive repairs budget of the HRA. This budget is mainly demand led and is a budget which is underfunded when compared with other Housing services and the maintenance allowance received in Housing Subsidy.

4 PROJECTED OUTTURN 2008/09

- 4.1 The HRA budget figures at Appendix 1 show the projected outturn figures for 2008/09 which are broadly in line with the budgeted figures. This should result in a HRA working balance of £2.8m as at 31 March 2010.
- 4.2 NCH is projecting a broadly breakeven position by March 2009. The financial challenges facing NCH are covered in further detail elsewhere on this agenda and will be discussed in detail at Finance & Audit Committee on 8 February.

5 KEY FEATURES OF THE 2010/11 BUDGET AND MAIN VARIANCES

- 5.1 NCH budgets were prepared based on the current staffing structure for 2010/11 and included a full and detailed review of all running cost budgets.
- 5.2 This calculation of the 2010/11 NCH budget indicated that a budget of £35.4m was needed. A budget bid of £35.9m (which includes £0.5m for spend to save initiatives) was submitted to NCC on 30 October 2009. Savings of £1.7m are required to balance the 2010/11 HRA budget (if rents are increased in accordance with Government guidance) and a large proportion of this will come from NCH management fee.
- 5.3 Each 1% rent increase for tenants equates to £840k of additional income. Conversely for each 1% below the 2.7% proposed rent increase which were to be agreed by the City savings of £840k 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 directorate within NCH is looking to achieve 20% savings over 3 years. The two major areas of business for NCH are Housing Management and Property Services. Both of these areas of the business are proposing fundamental changes during 2010/11. Within property services this is the implementation of the Better Practice Review and in Housing Management the Modernisation of TEM (Tenancy and Estate Management) further details of these changes are detailed elsewhere on this agenda. These changes will deliver significant efficiencies in both of these areas. As these are major reviews and will take time to fully implement quite modest savings targets have been set for both of these two areas in 2010/11. They each have a target of £200k for 2010/11. Support Services are required to find 20% savings over 3 years with a minimum of 5% in any one year at the same time recognising the fact that an enormous amount of support will be required for the frontline services to implement their modernisation programmes.
- 5.5 The 2010/11 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 2010/11 without affecting service delivery. The savings achieved from leaving 28 posts vacant is £730k.
- 5.6 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 2.7% (3.3% in 2009/10) 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.

5.7 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 £0.5m for spend to save initiatives which will help to re engineer the business.

6.2 Although Nottingham doesn'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.

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 two 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 £0.5m 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 IMPLICATIONS FOR NOTTINGHAM CITY HOMES OBJECTIVES

7.1 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.

8 VALUE FOR MONEY & EFFICIENCY ISSUES

8.1 The savings and efficiencies identified within the medium term financial plan and annual efficiency statement will be included within the 2010/11 budget.

8.2 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.

9 EQUALITY & DIVERSITY IMPLICATIONS

- 9.1 One of the key themes as identified in the 2009/10 delivery plan is a major push on equality and diversity. Consideration is to be given to budget implications of delivering the equality strategy including single status and this has been flagged within the areas identified for the spend to save initiatives budget (see above). Officers within the company are working together to ensure that there are sufficient budget resources to deliver the equality and diversity strategy.

10 BACKGROUND MATERIAL AND PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

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

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