

NOTTINGHAM CITY HOMES**PERFORMANCE AND REGULATORY COMMITTEE****5 FEBRUARY 2008****REPORT OF THE
DIRECTOR OF FINANCE****2008/09 BUDGET****1 SUMMARY**

- 1.1 This report is to present to the Performance and Regulatory Committee the draft budget for 2008/09. The last meeting of the Committee considered an outline draft but revisions have been made since then, principally because of the significant reduction in HRA resources available for 2008/09. The result of this is that budgets have been tightened considerably.

2 RECOMMENDATIONS

- 2.1 To approve the draft Nottingham City Homes budget.

3 THE HOUSING REVENUE ACCOUNT (HRA)

- 3.1 Publication of the HRA Subsidy Determination was extremely late this year. Normally this is available before Christmas and local authorities are able to finalise proposals about spending plans and rent levels early in January. However, this year such proposals have been delayed until much later in the month.
- 3.1 More significantly, the subsidy settlement for 2008/09 has resulted in a reduction of HRA resources of £5.6m 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.
- 3.2 The lateness of the settlement and the knock-on effect on progress with negotiating the level of the management fee for 2008/09 with Nottingham City Council has resulted in delays to the preparation of the updated Medium Term Financial Plan. This is currently being prepared, taking full account of the 2008/09 budget position, the medium term forecast for Nottingham's HRA resources, mock inspection feedback, benchmarking data, review of the Service Improvement Plans and the STATUS survey results. The Plan will now be submitted to Board in March for approval.

4 BUDGET 2008/09

- 4.1 The agenda includes a separate report on the current year spending position, but in considering the 2008/09 budget it is useful to restate that

the 2007/08 budget included the following –

- A provision for liabilities arising from the District Audit investigation
- A general provision to cover the implications of restructuring
- A general provision to allow for the implications of job evaluation
- Development funding of £1.5m, subject to submission of business cases for individual elements.

5 KEY FEATURES OF THE 2008/09 AND MAIN VARIANCES

- 5.1 Whilst the outcome of the repairs and maintenance tender process is still unknown at this stage, the Company will continue to manage the repairs and maintenance function irrespective of whether the provider is an external contractor or the in-house organisation. Hence there are no significant changes assumed in the costs of repairs and maintenance for 2008/09. Nevertheless, the Company believes that efficiency gains would result from the in-house bid being successful.
- 5.2 The key assumptions made in developing the budget are as follows -
- Inflation assumptions are that pay costs will increase by 2.5%, specific contract provisions that include for named inflation indices are included as per those contracts and that other non pay costs will not increase as we make efficiency savings to offset inflation.
 - This means that inflation increases are generally in line with those used by NCC Corporate Finance.
 - General provisions are included to cover:-
 - implications of restructures,
 - increased investment in IS/ICT to meet the Company's requirements for the future,
 - enhancements to estate services,
 - development of the Accommodation Strategy.
- 5.3 Because of the tendering of the repairs and maintenance service, significant changes in the way that work is charged and paid for require a reworking of the way in which costs are captured and analysed. If the Company's tender is successful a separate trading account will be maintained. Financial performance of the direct labour organisation will then be closely monitored and reported to this Committee quarterly.
- 5.4 At this stage the Property Services budget is presented at a summary level only. A more detailed analysis will be presented to the next Committee once the changes have been fully implemented.
- 5.5 Stock movements and inflation provided for a management fee in 2008/09 of £34,015,404, compared to £33,617,650 (excluding £1.5m Development Funding) for 2007/08. A draft budget based on that amount was presented to the last Committee. However, the impact on the HRA of the reduction in subsidy is such that further savings are proposed in order that a balanced HRA budget can be achieved by Nottingham City Council without an unacceptable level of rent increase.
- 5.6 Nottingham City Council's Executive Board will meet on 19th February to consider the Housing Revenue Account budget and rent increase. An

indicative HRA, including the rent increase is attached at Appendix A. the final draft for consideration by the Executive Board may be slightly different to this version.

- 5.5 The revised management fee bid is now £32,899,840. This has been achieved through the following –
- Further tightening of salary budgets, which will require managing vacancies to an overall level of 3%, no specific budgets for agency staff and meeting maternity leave costs from within the salary budgets. This will contribute £565,000.
 - Efficiency savings within the repairs budget amounting to £0.5m.
 - Reworking of some budget provisions, on a risk basis, where accurate estimates were unknown but global provisions had been allowed on a very prudent basis. This has brought about a reduction of £140,000.
 - Delaying the introduction of the enhancements to the Caretaking service to August. It is still regarded as essential that these improvements to the service are implemented during the year, but this will save just under £100,000 in 2008/09.

5.6 It is therefore important to note that the management fee has moved from £33.567m in 2007/08 to £32.900m in 2008/09 and that this has been managed without cutting back on front line services.

5.7 Appendix B provides a summary of income and expenditure by directorate. Appendix C provides a more detailed analysis of the Company's planned income and expenditure across the services.

6 IMPLICATIONS FOR NOTTINGHAM CITY HOMES OBJECTIVES

6.1 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 that will achieve at least a 2 star rating.

7 VALUE FOR MONEY & EFFICIENCY ISSUES

7.1 Some of the cost savings in line with the Value for Money & Efficiency Strategy have been factored into the draft budget targets. However, the Strategy is being reviewed currently and will be brought back to the Board for approval at a later date.

7.2 It will be essential for all budgets to be monitored very closely to ensure that expenditure stays within targets and corrective action is taken promptly when required.

8 EQUALITY & DIVERSITY IMPLICATIONS

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

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

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

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