

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
TENANT MANAGEMENT ORGANISATION

REPORT BY THE DIRECTOR OF FINANCIAL SERVICES

TMO BOARD – 12th January 2006

BUDGET MONITORING 2005/2006

1. **Purpose**

- 1.1. To inform the TMO Board of the forecast of the financial position of the TMO company budgets and the TCC managed budgets based on the budget monitoring for the period ended 30th November 2005.

FOR INFORMATION

2. **Background**

- 2.1. The forecasts contained within this report for the TMO Company budgets are based on the actual expenditure to the end of November, and take into account known spending trends and committed expenditure.
- 2.2. The TMO Company set a net deficit budget of £86k. The November budget monitor forecasts a £145k surplus before tax and £85k surplus after tax, an improved position of £231k to budget.

3. **TMO Company Budgets**

3.1. ***People Costs***

- 3.1.1. People costs' forecast an underspend of £189k (2.2%) against expenditure budgets of £8.769m. The main variances are:
- £302k (3.6%) net underspend on salary – agency budgets. This is mainly due to the level of vacant posts within the organisation that are currently supported by agency staff;
 - £124k (709%) overspend on consultancy budgets. This is mainly due to the use of consultants in Technical Services due to the skill gap and various projects e.g. City West Homes bid, preparation of HRA business plan;
 - £11k (4.18%) underspend on general staffing costs, an increase of £3k savings compared with the projection reported previously. This is mainly due to lower than expected costs of recruitment advertising.

3.2. **Establishment Costs**

3.2.1. Establishment costs forecast an overspend of £328k (16.4%) against expenditure budgets of £1.992m. The main variances are:

- £297k estimated cost of the office move to Charles House;
- £9k overspend on general administration costs mainly due to higher than budgeted photocopying and printing costs offset by savings on postage and subscriptions;
- £9k overspend on conference and away days costs;
- £62k overspend on customer services equipment purchase and maintenance offset by £29k savings on telephone costs;
- £24k underspend on legal costs;

3.3. **Service Delivery Costs**

3.3.1. Service delivery costs forecast an underspend of £36k (3.2%) against expenditure budgets of £1.121m, an additional £8k savings compared with previous report.

3.4. **Support Costs**

3.4.1. Support costs forecast an underspend of £206k (23.4%) against expenditure budgets of £879k. The main variances are:

- £79k (16.0%) underspend on IT support costs mainly due to lower level of software purchases and equipment maintenance in light of the office move;
- £66k (36.4%) under budgeted depreciation on capital expenditure mainly due to the decrease in spend on IT and communication equipment in light of the office move;
- £48k (12.6%) underspend on training costs due to lower than budgeted staff usage of training facilities;
- £13k (21.2%) underspend on central human resources costs due to lower than budgeted recharges from the council.

3.5. **Income**

3.5.1. The total income is forecast to be £110k (1.0%) higher than the income budgets of £12.7m. The main variances are:

- £86k (286.8%) more than budgeted income from bank interest receivable generated by higher level of cash balance;
- £47k (63.1%) more than budgeted income from water rates collection commission due to higher level of utility costs;
- £48k (47.5%) less than budgeted income from capital receipt of Right to Buy properties due to decreased number of completed RTB applications;
- £18k (4.5%) less than budgeted income from Community Alarm Services due to the termination of provision of services to the council's Social Services;
- £24k more than budgeted miscellaneous income from leasehold enquiry fees and Innovation Into Action (IIA) grant.

4. **Capital Programme**

4.1. The capital programme is forecast to over spend during 2005/6 by £1.158m (5.4%) against a capital budget of £21.514m. However this is £1.100 million lower than last month. The reduction in the forecast represents the balance of fluctuations affecting all of the projects contained within the programme including some projected end of year spend increases. The most significant end of year spend reductions are as follows:

Project	Cost Reduction £	Explanation
Elm Park Gardens – Major Repairs	245,756	Delay to the programme due to the need to obtain permission to erect scaffolding on adjoining land to carry out additional work to chimneys and flank wall to block 58 to 62.
Balfour of Burleigh Phase 1	101,638	Delay to start on site due to the lowest tender significantly exceeding the budget and the Stock Investment Programme review (see HRA Capital Bid and Programme Report)
Edenham Way Windows and Doors	358,651	The compilation of the tender documentation has taken longer than expected and has caused delay to the project.
Silchester Estate Lift Lobbies	120,000	Delay to the project due to the presentation of the tender report to the PMC on 5 th December 05 rather than at the cancelled November meeting.
Wiltshire Close Lifts	56,000	Delay to the scheme due to the fact that none of the tenders appear to be acceptable. It is likely that new tenders may need to be invited. The scheme is also included in the Stock Investment Programme review.
World's End Estate External Decorations	380,124	Delay to the project because it took longer than anticipated to compile the tender documents. The PMC report was also

		delayed to the meeting on 5 th December 05
Decent Homes Internal Partnering Contracts	114,741	<p>The forecast has been amended to reflect the expectation that the final costs for some sections of the completed work will be lower than originally anticipated.</p> <p>There has also been a delay in authorising the constructors to commence the latest sections of the work due to concern regarding the overall final cost.</p>

4.2. As previously reported, the overspend is mainly due to the capital programme team increasing the volume of Decent Homes works in line with TCC and Council expectations.

5. **TCC Managed HRA Budgets**

5.1. The TCC Managed HRA income budgets are summarised in the schedules attached. The forecast for last month was £22.859m surplus and for this month is £23.293m surplus, an improved position of extra surplus of £434k. The main reasons for the movements are:

- The proposed write back of £250k from the contingency provision for bad debts;
- £203k extra savings on property repairs and maintenance costs;
- £19k less income from rental income and garage rent.

Income Summary

5.2. £3.735m (8.6%) less than budgeted income is forecasted against a budget of £43.571m. The reasons for this variance are explained below.

5.3. Rent and Other Charges Receivable

Additional rent and other charges income of £191k (0.6%) is forecast against budgets of £31.888m.

5.4. Leasehold Charges

The position of under recovery on leasehold charges has not changed since last report.

5.5. Commercial Property Rents

There are no forecast variances on Commercial Property Rents income budgets.

5.6. Miscellaneous Income

Additional income of £36k (3.5%) is forecast against budgets of £1.030m, a reduction of 16k compared with previous report. This relates to a revision of forecast income from garage rents.

Expenditure Summary

5.7. The TCC Managed HRA expenditure budgets are summarised in the schedules attached. The November 2005 forecast position shows a underspend of £24k (0.1%) against a budget of £16.567m. The reasons for this variance are explained below.

5.8. **Finance**

As stated in para. 5.1 the contingency provision for bad debts has been reduced by £250k from £3.125 million to £2.875 million. During the 2004/05 closing of accounts a contingency provision of £250k was included in the calculation of the rent and leasehold provision for bad debt. With the successful introduction on an improved bad debt provision methodology the contingency provision is no longer required and will therefore be written back to revenue.

5.9. **Technical Services**

Technical Services forecast an overspend of £224k (1.8%) against expenditure budgets of £12.6m. The main variances compared are summarised below:

- £212k (3.8%) overspend on planned maintenance due to maintenance programmes being brought forward;
- £214k (11.1%) overspend on the supply of gas to central boilers due to higher than expected level of inflation;
- £203k (4.0%) underspend on response repairs mainly due to less than expected demand for building repairs.

5.10. **Lancaster West EMB**

There are no forecast variances on the Lancaster West EMB expenditure budgets.

5.11. **Borough wide cleaning and Pest control**

There are not changes to the forecast for cleaning and pest control compared with previous report.

5.12. **Tenancy Management North**

Tenancy Management North area forecasts an overspend of £37k (34.7%) against expenditure budgets of £108k, an increase of £5k due to higher disturbance payments.

5.13. ***Tenancy Management South***

There are not changes to the forecast for cleaning and pest control compared with previous report.

5.14. ***Customer Services***

There are not changes to the forecast for cleaning and pest control compared with previous report.

5.15. ***Area Revenue Works (ARW)***

There are no forecast variances on the Area Revenue Works expenditure budgets.

Redmond Lee
Director of Financial Services