

## REPORT BY THE DIRECTOR OF FINANCIAL SERVICES

TMO BOARD – 9<sup>th</sup> March 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 31<sup>st</sup> January 2006.

**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 January, and take into account known spending trends and committed expenditure.
- 2.2. The TMO Company set a net deficit budget of £86k. The January budget monitor forecasts a £177k surplus before tax (£126k surplus after tax), an improved position of £211k to budget (after tax). This represents an improved position of £81k in comparison to the previous report.

#### 3. **TMO Company Budgets**

##### 3.1. ***People Costs***

- 3.1.1. People costs' forecast an underspend of £14k (0.2%) against expenditure budgets of £8.769m. The main variances are:
- £171k (2.0%) 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 and consultants.
  - £158k (900%) 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 the HRA business plan.
- 3.1.2. The overall underspend of £14k represents a reduction of £32k in the underspend reported in December. The movement mainly arises from the incorporation of updated information on starters and leavers for salary and agency costs.

### 3.2. **Establishment Costs**

3.2.1. Establishment costs forecast an overspend of £155k (7.8%) against expenditure budgets of £1.992m. The main variances are:

- £297k on the estimated one-off costs of the office move to Charles House. The reported position assumes that the full cost will be recognised in 2005/06 as opposed to amortising the expenditure over the 5 year lease period. This accounting treatment will need to be discussed and agreed with the auditors;
- £77k (9.5%) net underspend on supplies and services budgets, excluding the costs of the office move, mainly due to underspends on telephone costs, photocopying/printing costs and legal costs;
- £10k (2.5%) underspend on premises costs, mainly due to an underspend on premises security (Neighbourhood South), offset by an overspend on cleaning and domestic supplies (Neighbourhood North);
- £57k (7.0%) underspend on administration and accommodation costs, mainly due to lower than anticipated central support recharges from the Council.

3.2.2 The overall overspend of £155k is £129k below the overspend position reported previously. This movement mainly arises from a £41k reduction in the projection on premises costs due to more accurate information on the costs of premises security and a £74k reduction in the projection on supplies and services. The supplies and services variance is largely due to a lower profile of expenditure in December and January, when compared to previous months.

### 3.3. **Service Delivery Costs**

3.3.1. Service delivery costs forecast an underspend of £66k (5.9%) against expenditure budgets of £1.121m. The main variances are:

- £92k (14.8%) underspend on the Legal Services SLA;
- £18k (8.9%) overspend on Valuers SLA,;
- £8k (3.8%) overspend on central finance recharges.

3.3.2 The overall underspend of £66k is £30k greater than the underspend position reported previously. The variance results from factoring into the outturn projection the third quarter actual central support charges from the Council.

### 3.4. **Support Costs**

3.4.1. Support costs forecast an underspend of £230k (26.1%) against expenditure budgets of £879k. The main variances are:

- £77k (15.5%) underspend on IT support costs mainly due to lower level of software purchases and equipment maintenance in light of the office move;

- £86k (47.2%) under budgeted depreciation on capital expenditure mainly due to the decrease in spend on IT and communication equipment in light of the office move;
- £53k (37.4%) underspend on training costs due to lower than budgeted staff usage of training facilities;
- £14k (23.6%) underspend on central human resources costs due to lower than budgeted recharges from the council.

3.4.2 The overall underspend of £230k is in line with that reported in the previous month.

### 3.5. ***Income***

3.5.1. The total income is forecast to be £108k (0.9%) higher than the income budgets of £12.676 m. The main variances are:

- £81k (271%) 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;
- £46k (45.9%) less than budgeted income from the provision of services to the landlord in respect of Right to Buy properties due to decreased number of completed RTB applications;
- £10k (2.6%) more than budgeted income from Community Alarm Services due to a net increase in clients being billed for the service;
- £15k (134%) more than budgeted miscellaneous income from Social Services and leasehold enquiry fees.

3.5.2 The overall favourable variance of £108k is in line with that reported in the previous month.

## 4. **Capital Programme**

4.1 The Capital expenditure forecast of £21.346m, is £2.630m down from the revised budget position of £23.975m. This represents an increased underspend position of £483k from that reported in the previous month. The main reasons behind this reduced forecast are as follows:

- reduction of £82k on the forecast for Trellick Tower Phase 1: shear wall strengthening. Delays in decanting, related to problems in finding suitable temporary accommodation for residents, have delayed the project;
- increase of £174k on the projection for World's End Estate: walkways and chutes. This arises from an increase in the agreed final account price for phases 2 and 3 of the project, which was above the latest projection, although not above the original project budget and from the bringing forward

of project works on phases 4 and 5 of the project, as the contractor was able to move ahead with the works faster than originally anticipated;

- reduction of £757k on the Decent Homes Partnering Contract for internal refurbishment. The forecast has been reduced because of a decision made to change the project specification in light of a potential overspend on the project as a whole. The decision is due to be considered by the Property Management Committee at which point a further revision in the forecast may be required;
  - the remaining net increase of £182k results from a number of adjusted projections which are each individually less than £50k in total value (or 0.2% of the total capital programme).
- 4.2 Many of the projects progressing at present are schemes that were planned to start on site towards the later part of the financial year and as such explains the variance between current spend and forecasted spend to the end of the year. Officers will be meeting with consultants with the aim of ensuring all valuations are up to date and invoiced prior to the year end timetable as per previous years.

## 5. **TCC Managed HRA Budgets**

The TCC Managed HRA budgets are summarised in the schedules attached. The forecast for last month was net income of £23.303m and for this month is net income of £23.278m, a variance of £25k.

### 5.1 Income Summary

An overall reduction of £3.774m (8.7%) income is forecasted against a budget of £43.571m. The reasons for this variance are explained below.

#### 5.1.1 Rent and Other Charges Receivable

Additional rent and other charges income of £159k (0.5%) is forecast against budgets of £31.888m.

#### 5.1.2 Leaseholder Charges

A review of leaseholder charges has been undertaken, which has included identifying movements in the progress of major works schemes with charging implications and debtor account adjustments on Academy. The majority of the £3.964m (45.0%) variance from the original budget, as previously reported, stems from slippage on major works schemes and associated charges: in particular on Elm Park Gardens, Worlds End – Security Systems, Redecorations and Lighting, Trellick Tower and Balfour of Burghley Security.

An exercise has also been undertaken to review the charges scheduled to be raised in the final quarter of 2005/06, and subsequent quarters in 2006/07. This is to determine the proportion of charges which can be applied to the 2005/06 accounts. This review will be revisited in detail during the accounts closedown process and the methodology agreed with auditors, as appropriate.

#### 5.1.3 Commercial Income (Property Rents)

Based on current level of billing, rental income from commercial property is forecast £61k (3.3%) under budget, as reported in the previous month.

#### 5.1.4 Miscellaneous Income

Additional income of £93k (9.0%) is forecast against budgets of £1.030m, an increase of £39k compared with previous report. This largely arises from a one-off settlement of disputed gas charges relating to the Warwick Road site.

## 5.2 Expenditure Summary

The TCC Managed HRA expenditure budgets are summarised in the schedules attached. The January 2006 forecast position shows an underspend of £48k (0.3%) against a budget of £16.567m. The reasons for this variance are explained below.

### 5.2.1 Finance

The £250k (22.6%) underspend arises from the successful introduction of an improved bad debt provision methodology, as the established contingency provision is no longer required this will therefore be written back to revenue.

### 5.2.2 Technical Services

Technical Services forecast an overspend of £260k (2.1%) against expenditure budgets of £12.602m. The main variances are summarised below:

- £183k (3.3%) overspend on planned maintenance due to maintenance programmes being brought forward. This represents a reduced overspend of £33k in comparison to the previous report which results from a lower projection on external decorations;
- £113k (2.2%) underspend on response repairs mainly due to less than expected demand for building repairs. This represents a reduction in the underspend of £160k in comparison to the previous report which mainly arises from an additional £100k of savings on building repairs, offset by increased projections of £16k on electrical wiring, £22k on lifts, £100k on voids and £130k on minor works;
- £190k (9.8%) overspend on the supply of gas to central boilers due to higher than expected level of inflation. This represents a reduced overspend of £25k due to the decrease of the forecast on aids and adaptations.

The projected overspend has taken into account the expected income from the revenue capitalisation of £500k, which is currently forecast to be on target. As at the end of January £283k of expenditure has been capitalised, leaving a target for capitalisation in February and March of £217k.

### 5.2.3 Lancaster West EMB

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

### 5.2.4 Borough wide cleaning and Pest control

There is a projected £100k (5.0%) underspend on cleaning and pest control, against expenditure budgets of £2,014k. The overall underspend of £100k is £60k greater than the underspend position reported previously. The variance mainly arises from a £52k reduction in the outturn projection on pest control (responsive repairs). The reduction is as a result of the incorporation of a number of larger projects into capital works, as well as robust contract control.

#### 5.2.5 Tenancy Management North

Tenancy Management North area forecasts an overspend of £37k (34.7%) against expenditure budgets of £108k, which is unchanged from the previous report.

#### 5.2.6 Tenancy Management South

Tenancy Management South area forecasts an overspend of £6k (9.6%) against expenditure budgets of £59k, which is unchanged from the previous report.

#### 5.2.7 Customer Services

There are no changes to the forecast for customer services compared with previous report (a projected underspend of £1k).

### 6. Area Revenue Works (ARW)

6.1 A detailed exercise has been undertaken to validate proposed projects and related costs. Projected expenditure for 2005/06 is presently £683k, against total available funds of £976k in 2005/06 (£340k of this total was brought forward from prior years). This results in a forecast variance of £293k, comprised of £290k on the main HRA revenue budget, and £3k in relation to Council funded Regeneration projects.

As at the end of January £155k had been spent against the total projection of £683k, leaving a target for expenditure of £528k in February and March – see *summary table, below*.

Area Revenue Works	2005-6 Total Revenue Budget / Funding (£)	2005-6 Actual Expenditure as at 31-Jan-06 (£)	2005-6 Projected Expenditure as at 31-Mar-06 (£)	2005-6 Forecast Variance (£)
HRA Revenue Budget	692,266	-155,381	-402,433	289,833
Regeneration	258,856	0	-255,556	3,300
K.C.E.L	25,000	0	-25,000	0
	<b>976,122</b>	<b>-155,381</b>	<b>-682,989</b>	<b>293,133</b>



**Redmond Lee**  
**Director of Financial Services**