

**THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA  
TENANT MANAGEMENT ORGANISATION**

**REPORT BY THE DIRECTOR OF FINANCIAL SERVICES**

**TMO BOARD – 12<sup>th</sup> October 2006**

**BUDGET MONITORING 2006/07  
(PERIOD 5, AUGUST 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 HRA Managed Budgets based on the budget monitoring for the period ended 31st August 2006.

**FOR INFORMATION**

2. **Background**

- 2.1 The 2006/07 TMO Company Budget and TCC HRA Managed Budget reported in this paper are as per the 2006/07 Rent Report which was presented to the TMO Board on the 12<sup>th</sup> January 2006 and subsequently agreed by Council.

3. **TMO Company Budgets (Revenue) Annex 1**

- 3.1 The Company is forecast to generate an overspend of £623k, in comparison to the budgeted surplus of £67k. The reasons for the deficit are summarised below.

- 3.2 People Costs - £337k overspend. The main reasons for this overspend are analysed below:

- Salary Costs - £214k. This is primarily due to the additional cost of temporary staff covering permanent positions, some of whom have been involved in inspection related projects. There is a continuing review of the assumptions made regarding temporary staff with budget holders, to confirm the accuracy of projections.
- Consultants costs - £168k. This includes costs incurred in preparation for the Inspection, along with consultants currently working on on-going projects.
- These are offset by minor underspends in other areas.

- 3.3 Support Costs - £266k overspend. This is due to an error in the depreciation budget. The budget error arose from inaccuracies in the fixed assets, on which the depreciation budget was calculated. This overspend includes an estimated £132k for IT fixed assets, and £119k for the amortisation of relocation costs.

- 3.4 Establishment Costs - £47k overspend. This includes an estimated overspend of £15k for the introduction of the Asbestos Register, the costs of data input onto the register, and £13k year to date NNDR costs.

#### 4. **TCC HRA Managed Budgets (Revenue) Annex 2**

##### 4.1 Summary

The overall forecast for 2006/07 is for net income of £25,131k against the original net income budget of £26,830k. This represents a projected under recovery of income of £1,699k or 6%, an improvement of £80k from the previous report. The majority of this movement arises from a lower forecast for finance expenditure (see 4.3.1 below).

##### 4.2 Income

###### 4.2.1 Rents Receivable/Service Charges - Tenants

The projected net under recovery of £193k on rents receivable and service charges to tenants represents just 0.6% of the combined budgets. The variance arises principally because rents and service charges raised at the end of February 2006, as driven by the rent restructuring model, are marginally lower than those anticipated at the time the original budget was calculated.

###### 4.2.2 Major Works Charges – Leaseholders (Annex 3)

The current annual forecast for Major Works Charges is £3,023k which represents an under recovery of income of £1,284k from the original budget and a £907k variance from the revised budget that arose from the reprofiling of the capital programme. The forecast has not materially changed from the previous month's report. The major variances are set out at *Annex 3*.

###### 4.2.3 Heating & Hot Water Charges (Annex 3)

In the light of the projected cost increase in electricity, heating & hot water expenditure, as previously reported, an increase in charges to tenants to recover these additional costs has now been approved by the Council. Charges are set to increase for relevant tenants from the beginning of October. *This results in a £213k increase in projected income compared to the original budget.*

##### 4.3 Expenditure

###### 4.3.1 Finance

Finance expenditure is projected to be £131k below the budget. This represents an improved performance of £101k compared to the previous month's report. The two major movements are as follows:

*Provision for Bad & Doubtful Debts* – performance on debt collection for tenants and leaseholders for the first quarter of 2006/07 has now been reviewed and results in a projected under spend of £196k against the total budget of £650k.

*Water & Sewerage Rates* – a Key Decision Report has now been approved by the Council which accepts an in-year increase in water & sewerage rates charged to tenants. The proposal accepted will result in an estimated under recovery of rates charged to tenants of £107k in 2006/07 and this loss is now recognised within the annual forecast.

#### 4.3.2 Planned Maintenance

The annual forecast for planned maintenance is for expenditure of £5,851k as reported previously. Within this forecast the main issues arising are:

*External Decorations* – there is a projected £50k overspend against the budget of £1,574k due to the slippage of some works from 2005/06 into 2006/07 and the inclusion of two additional schemes (at Cornwall Crescent and Mulberry Place) which were not taken account of in the original budget.

*Individual Heating, District Heating & Central Programmed Heating* – these planned budgets total £2,199k. Based on expenditure to date and known commitments there is potential for an estimated 10% underspend across these budgets. However officers are presently awaiting the results of a major condition survey and decent homes survey (due in September) which may impact upon future commitments. Additionally, given the condition of the plant and in advance of the winter heating period (when plant failures may occur) it is felt that it would not be prudent to reflect an underspend at this stage of the financial year.

*Disability Discrimination Act* – there is an estimated £90k potential overspend in relation to the commissioning of an audit/survey required as a result of the TMO's responsibilities under this act. This was not taken into account at the time the original budget was set. It may be possible to capitalise all or part of this cost but this is contingent upon the results of the audit/survey and whether it leads to works of a capital nature.

The net effect of the above is an estimated over spend on planned maintenance expenditure of £44k in comparison to the budget of £5,807k.

#### 4.3.3 Responsive Maintenance

Responsive Maintenance expenditure is forecast to under spend by £33k in comparison to the budget of £4,588k. As reported previously there is an estimated under spend on the Disrepair budget of £50k, which is now partly offset by a projected overspend on the commercial property budget.

#### 4.3.4 Electricity, Heating & Hot Water (Annex 3)

As reported previously, the projected £575k (29%) overspend arises from the 54% increase in the price of gas per the new central boiler contract which has been agreed (runs from August 2006 to July 2007).

#### 4.3.5 Tenancy Management North

The projected overspend of £29k largely arises from anticipated costs in relation to the employment of security guards for the Notting Hill Carnival. In order to deliver this budget on target officers unsuccessfully sought to sell advertising space. A small reduction in the contract price for boarding was achieved.

#### 4.3.6 Area Revenue Works/Regeneration Schemes (Annex 3)

ARB's are projecting to spend a total of £917k in 2006/07 compared to total available funds for 2006/07 of £1,062k (£394k funded by the in-year budget, £273k from reserves and £250k from the TMO Regeneration allocation). This level of expenditure would give rise to an HRA reserves balance of £145k at 31 March 2007.

As reported previously, the major element of the anticipated reserves balance at 31 March 2007 relates to North Kensington where expenditure is forecast at £49k for 2006/07, in comparison to total available funds of £144k.

*[\[tbc – review of detailed scheme listing.\]](#)*

## 5.0 **HRA Capital Programme, Annex 4**

### 5.1 Summary

As at the end of August 2006 the forecast outturn position for the HRA Capital Programme is £23,804k, which represents a 6.7% or £1,711k under spend in comparison to the original budget of £25,515k. This forecast has taken account of all schemes that can be reasonably brought forward from subsequent years. In the interests of prudence £876k of expenditure that has been assessed as 'high risk' has been omitted from this forecast. Officers will, however, continue to press on with these projects and attempt to recover some of this underspend.

Significant variances from the previous report or items associated with the reporting of this position are commented upon below and detailed at *Annex 4*.

### 5.2 Decent Homes (Partnering Contracts, Internal Refurbishment, Tranches 1-3)

The current forecast includes anticipated expenditure of £6,421k on such schemes in 2006/07, which represents an overspend of £151k (2%) in comparison to the annual budget and a decrease of £487k from the previous forecast. This forecast largely arises from further revisions to the assumptions regarding the level of non-access to properties.

### 5.3 Decent Homes (Tranche 4)

Decent Homes, Phase 1 of Tranche 4 (some 600 properties) is now underway with an agreed maximum price approaching £4m against the budgeted expenditure this year of £5.2m. Even allowing for access problems, it is felt that sufficient work (subject to agreeing the procurement route) is available for the

spend target to be met this year. The main issue, once all the work is fully priced, is whether it can be contained within the total remaining Tranche 4 budget of £6.37m. This issue is being considered as part of the upcoming capital budgeting process.

#### 5.4 Elm Park Gardens – External Repairs

The forecast outturn of £4,696k represents a projected under spend of £967k against the annual budget of £5,663k. The under spend results from slippage in the programme due a number of factors, in particular problems with party wall agreements, structural faults and planning consent. The reduction in comparison to the previous report largely results from the removal of £500k of expenditure from the forecast which has been assessed as ‘high risk’ and liable to slippage.

#### 5.5 Trellick Tower (all phases)

The current forecast position assumes £640k of expenditure on all phases of this scheme in 2006/07. The revised strategy for the external works was ratified by the Council at the beginning of September. The delay in receiving this approval has resulted in work has being rescheduled to start on site next year.

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