

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

REPORT BY THE DIRECTOR OF FINANCIAL SERVICES

TMO BOARD – 6th April 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 28th February 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 February, and take into account known spending trends and committed expenditure.
- 2.2. The TMO Company set a net deficit budget of £86k. The February budget monitor forecasts a £120k surplus before tax (£85k surplus after tax), an improved position of £170k to budget (after tax). This represents a reduction of the surplus of £41k in comparison to the previous report.

3. **TMO Company Budgets**

3.1. ***People Costs***

- 3.1.1. People costs' forecast an underspend of £4k (0.0%) against expenditure budgets of £8.769m. The main variances are:
- £186k (2.1%) 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.
 - £183k (1043%) overspend on consultancy budgets. This is mainly due to the use of consultants in Technical Services due to a skills gap and various projects e.g. City West Homes bid, preparation of the HRA business plan.
- 3.1.2. The overall underspend of £4k is not materially changed from that reported in January.

3.2. **Establishment Costs**

3.2.1. Establishment costs forecast an overspend of £187k (9.4%) against expenditure budgets of £1.992m. The main variances are:

- £326k 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. The projection has increased by £29k from that reported in the previous month due to additional works agreed in the course of the move;
- £64k (8.0%) 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;
- £18k (4.9%) 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 £187k is £32k above that reported in the previous month, due principally to the increased costs of the office move.

3.3. **Service Delivery Costs**

3.3.1. Service delivery costs forecast an underspend of £55k (4.9%) 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; and,
- £9k (12.2%) overspend on tenant participation costs.

3.3.2 The overall underspend of £55k is not materially changed from the underspend position reported previously.

3.4. **Support Costs**

3.4.1. Support costs forecast an underspend of £225k (25.5%) against expenditure budgets of £879k. The main variances are:

- £76k (15.3%) underspend on IT support costs mainly due to lower level of software purchases and equipment maintenance in light of the office move;
- £86k (47.1%) under budgeted depreciation on capital expenditure mainly due to the decrease in spend on IT and communication equipment in light of the office move;
- £49k (34.6%) 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 £225k 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 (45.8%) 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;
- £12k (3.0%) more than budgeted income from Community Alarm Services due to a net increase in clients being billed for the service;
- £14k (123%) 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 £20.861m, is £3.114m down from the revised budget position of £23.975m. This represents an increased underspend position of £485k from that reported in the previous month. A verbal update will be provided at the meeting but indications at the time of publishing this report suggests that the original budget of £21.514m will now be achieved or slightly exceeded.

The main reasons behind the reduction of £485k in the forecast are as follows:

- reduction of £131k on the forecast for Individual Heating Replacements as a result of a higher number of refusals and inaccessible properties than originally anticipated ;
- further reduction of £541k on the Decent Homes Partnering Contract for internal refurbishment. The forecast has been reduced because of a prudent decision made to change the project specification in light of a potential overspend on the Decent Homes internal programme as a whole. The decision has now been ratified by the Property Management Committee;
- increase of £90k on the projection for Cremorne Low Rise Refurbishment stages 3 and 4 due to a faster progression of works and consequent valuations than included within the revised budget position;
- the remaining net increase of £97k 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 are meeting with consultants with the aim of ensuring all valuations are up to date and invoiced prior to the year end timetable.

5. **TCC Managed HRA Budgets**

From February the forecast outturn position is reported against the revised 2005/06 budget which was agreed in the Housing Revenue Account – Rent Report 2006/07.

The TCC Managed HRA budgets are summarised in the schedules attached. The overall forecast for this month is net income of £22.970m, a variance of £145k from the revised budget for net income of £23.115m.

5.1 Income Summary

An overall reduction of £425k (1.0%) income is forecasted against the revised budget of £39.854m. The reasons for this variance are explained below.

5.1.1 Rent and Other Charges Receivable

Reduced rent and other charges income of £209k (0.7%) is forecast against a revised budget of £32.259m. This represents a £3k increase in forecast income in comparison to the January report.

5.1.2 Leaseholder Charges/Finance Income

Reduced leaseholder charges/finance income of £287k (3.3%) is forecast against a revised budget of £4.702m. The variance arises from the completion of a review of all leaseholder charges (major works and service charges) and adjustments for 2005/06. 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. £101k of forthcoming leaseholder service charges have been identified as applicable to 2005/06 and have been included in the outturn forecast. This accounting treatment will be revisited in detail during the accounts closedown process and the methodology agreed with auditors, where appropriate.

5.1.3 Commercial Income (Property Rents)

Rental income from commercial property is forecast £21k (1.2%) under the revised budget. This represents an increase in the forecast income of £58k in comparison to the previous report. The increase results from an assessment of final quarter bills to be raised which include additional income due from recent rent reviews, lease renewals and lettings.

5.1.4 Miscellaneous Income

Additional income of £92k (8.9%) is forecast against a revised budget of £1.031m. There is no change to the position reported in the previous month.

5.2 Expenditure Summary

The TCC Managed HRA expenditure budgets are summarised in the schedules attached. The February 2006 forecast position shows an underspend of £280k (1.7%) against a revised budget of £16.739m. The reasons for this variance are explained below.

5.2.1 Finance

There are no forecast variances on the Finance expenditure budgets.

5.2.2 Technical Services

Technical Services forecast an underspend of £256k (2.0%) against revised expenditure budgets of £13.036m. The main variances are summarised below:

- £208k (3.7%) underspend on planned maintenance due to slippage in maintenance programmes in comparison to the revised budget position. This represents a reduced outturn projection of £20k in comparison to the previous report which mainly arises from savings on door entry and CCTV repairs, individual heating and health and safety;
- £38k (0.7%) underspend on response repairs. This represents a reduction in the outturn projection of £80k in comparison to the previous report which mainly arises from savings on building repairs, district heating and door entry and CCTV repairs;
- £10k (0.5%) underspend on planned response. This represents an increased outturn projection of £17k in comparison to the previous report due to an increase in the forecast on aids and adaptations.

As at the end of February £8.750m had been spent on Technical Services against the total projection of £12.780m, leaving a target for expenditure of £4.030m in March.

The projection has also 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 February £283k of expenditure has been capitalised, leaving a target for capitalisation in 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 £66k (3.3%) underspend on cleaning and pest control, against revised expenditure budgets of £1,983k. The outturn projection is not materially changed from the position reported previously.

5.2.5 Tenancy Management North

Tenancy Management North area forecasts an overspend of £42k (39.1%) against expenditure budgets of £101k. The outturn projection is not materially changed from the position reported previously.

5.2.6 Tenancy Management South

There are no forecast variances on the Tenancy Management South expenditure budgets.

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 As reported previously, total funds available for 2005/06 is revised from £976k to £993k, made up of current year revised budget of £653k and reserves brought forward of £340k. Projected expenditure for 2005/06 is presently £662k, which results in total reserves of £331k available to be carried forward into next year (£328k on the main HRA revenue budget and £3k on the Regeneration programme).

This position represents a reduced outturn projection of £21k in comparison to the previous report which arises from minor reductions on the Sheltered and Lancaster West budgets.

As at the end of February £187k had been spent against the total projection of £662k, leaving a target for expenditure of £475k in March.

It is to be noted that the Carried Forward amount of £3k in respect of Regeneration needs to be agreed with the Council as they control that budget.

Area Revenue Works	Reserves / Allocation Brought Forward	2005-6 Total Revenue Budget	2005-6 Projected Expenditure as at 31-Mar-06	Under/(Over) Spend 05/06 Budget	Reserves Carried Forward
HRA Revenue Budget	296,396	413,408	-381,869	31,539	327,935
Regeneration	43,856	215,000	-255,556	-40,556	3,300

K.C.E.L	-	25,000	-25,000	-	-
	340,252	653,408	-662,425	-9,017	331,235

Redmond Lee
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