

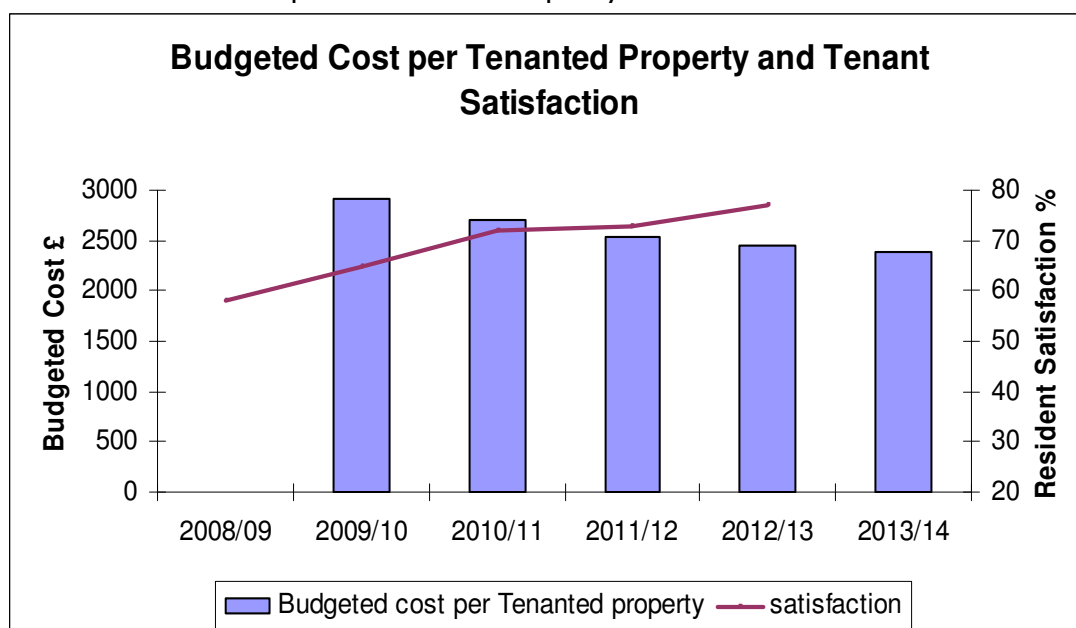
Title: THH Company Budget report 2013/14.	Meeting: The Board	
Report authorised by: Les Warren, Director of Finance & Customer Services	Date of the meeting: 19 February 2013	Item No: 7
Report author: Peter Quick, Management Accounts & Reporting Manager	Classification: Open	Report type: Decision
Business Priorities: Spending wisely: Deliver genuine organisational efficiencies to be reinvested into customer facing services.		
Impact for Customer: This report addresses the financial effects of services delivered to residents. Strong financial management and budgetary control ensure that unplanned reductions to THH services can be avoided.		
Diversity Impact: The plans outlined in the report underpin our approach to diversity which is embedded in the way we deliver services.		
Cost and Income Implications: This report makes clear how we plan to disburse expenditure and how we are intending to manage our reserves.		
Risk Management: This report addresses the following risk from the Strategic Risk Register: 4. Financial sustainability: Securing decent homes funding and ensuring robust financial management.		
Summary: The Management Fee payable to THH for 2013/14 has been proposed to Cabinet for approval at its meeting on the 13 February 2013 at £32.429m. The 2013/14 budget will deliver £1.33m of savings compared to 2012/13, and gears up to deliver year three decent homes by allocating an additional £1.15m of resources to its management and delivery.		
Recommendations That the Board: <ul style="list-style-type: none"> • Note the 2013/14 management fee payable by LBTH of £32.429m • Note the HRA medium term outlook • Approve the company budget in appendix 1 • Approve the minimum reserve level of £2m indicated in section 9 • Note the 2013/14 delegated budget in section 10 		

1. Background

- 1.1 This report sets out the company budget proposed for 2013-14 and also highlights the key elements of HRA income and expenditure budgets delegated to Tower Hamlets Homes.
- 1.2 THH has a strong record of driving efficiency and improving service since it was formed in July 2008.
- 1.3 The organisation has delivered savings over £1m every year since 2009/10.
- 1.4 The table below lists the management fee savings delivered each year. The percentage reduction shown represents the savings as against the previous year's management fee. The table excludes reductions in management fee resulting from services which were transferred back to the Council over the years such as the Council's letting service (which used to be part of THH) and the tenancy support unit.
- 1.5 Cumulative savings on the base management fee have been £6.642m, (16.9%) Most years have not included a full inflationary uplift so the saving in real or inflation-adjusted terms is even more.

Year	£	
2008/09 - annualised base	39,253,000	
	Saving	%
2009/10	1,144,000	2.9%
2010/11	1,078,000	2.8%
2011/12	1,753,000	5.0%
2012/13	1,335,000	4.2%
2013/14	1,332,000	4.3%
Cumulative since 2008/09	6,642,000	16.9%

Table 1 - THH Cost per Tenanted Property and Tenant Satisfaction



Source (tenant satisfaction): Star Status Survey 2012

- 1.6 Table 1 shows that since the ALMO was formed in July 2008, the budgeted cost per tenanted property has consistently reduced year on year. In like for like terms costs are expected to continue to reduce.
- 1.7 Budgeted costs per tenanted property in 2011/12, 2012/13 and 2013/14 all have changes to management fee - based on the respective size of each years capital programme - stripped out for more accurate comparison. The figures for 2009/10 and 2010/11 still include capital fees.
- 1.8 During the same period tenant satisfaction has increased from 58% in 2008/09 to 77% in 2012/13, so THH have delivered better service for less cost.

2. Business Context

- 2.1 2011/12 benchmarking against other London ALMOs in Housemark showed that while our costs are reducing more quickly than most other London ALMO's, we are still relatively expensive. This report was reviewed in detail at the December 2012 Finance & Audit Committee.
- 2.2 The Business Plan will be considered elsewhere on the agenda for the February 2013 Board meeting. The proposed budget is intended to support the delivery of that plan and in particular, the business priorities. Those business priorities are:
 - ❖ Older and vulnerable residents
 - ❖ Unlocking potential of our workforce
 - ❖ Decent Homes
 - ❖ Customer services
 - ❖ Delivering better value for residents
 - ❖ Reducing overcrowding through optimising stock
- 2.3 The THH budget reflects the additional resources needed for delivery of the expanded year 3 and year 4 decent homes programme. This is in addition to the planned maintenance capital programme of £6m.

3. Medium Term Budget Outlook

- 3.1 From April 2012, the LBTH HRA – the envelope of housing related funding and expenditure within which THH operates - moved to a self-financing model in line with all other English Local Authority HRAs.
- 3.2 The LBTH 30 year HRA business plan meets its long term obligation of being self financing as long as it builds reserves in the first few years to help finance capital works in later years. This assumes that the main income source - tenant rents – continues to increase in line with rent restructuring. If rents were to increase at a slower

rate, or other pressures develop that are not in the 30 year plan, then the compound effect of this over 30 years could be enormous.

- 3.3 The 30 year business plan for the HRA allows reserves to grow in the medium term. There are a number of pressures on the overall HRA in 2013/14, 2014/15 and 2015/16. These pressures include:
- Risks attached to welfare benefit reform mean that LBTH are increasing the provision for bad debts to 3% of tenant rental income.
 - Changes to right to buy discounts from £16k to £75k maximum. Current planning assumptions are 100 sales per year for the next three years, though there have not been enough sales to indicate a clear trend yet. Each sale leads to a net loss of around £5k of income per year.
 - The building of at least 100 new homes adjacent to Poplar Baths and on the Dame Colet House site.

Table 2 - Medium Term Financial Strategy

Housing Revenue Account	2013/14	2014/15	2015/16
	Draft Budget £'000	Draft Budget £'000	Draft Budget £'000
INCOME			
Dwelling & non dwelling rents	(68,953)	(71,229)	(72,959)
Tenant & Leaseholder service charges	(17,249)	(17,680)	(18,122)
Investment Income received	(160)	(160)	(160)
General Fund contributions	(115)	(115)	(115)
GROSS INCOME	(86,477)	(89,184)	(91,356)
EXPENDITURE			
Repairs & Maintenance	21,795	22,343	23,154
Supervision & Management	23,458	23,813	23,801
Special Services, Rents rates & taxes	16,072	16,859	17,422
Increased/(Decrease) provision for bad debts	1,900	1,400	900
Capital Financing charges	18,741	18,604	19,136
GROSS EXPENDITURE	81,966	83,018	84,413
NET COST OF HRA SERVICES	(4,510)	(6,166)	(6,944)
Appropriations			
Revenue Contribution to Capital Outlay (RCCO)	6,062	7,757	8,574
NET POSITION	1,552	1,591	1,630
Balances			
Opening balance	(15,003)	(15,003)	(15,003)
Revenue Contributions from Major Repairs Reserve	(1,552)	(1,591)	(1,630)
(Surplus/ Deficit on HRA	1,552	1,591	1,630
Closing balance	(15,003)	(15,003)	(15,003)

4 2013/14 Budget Assumptions

4.1 The assumptions used in setting this budget are:

- 1% inflation on salaries
- 0% inflation on the remaining management fee except a 2.6% uplift on the non-staff portion of the repairs element of the budget (£1.7m.)
- Redundancy costs where applicable will be met from company budgets without recourse to LBTH.

5 The 2013/14 Management Fee

5.1 The Mayor in Cabinet approved the 2013/14 HRA budget and THH management fee in February 2013. The £32.429m management fee represents the in-year resources available to the company.

5.2 Calculation of the 2013/14 Management Fee

Description	Total Fee £'000
Base Budget 2012/13	32,215
2013/14 savings to mitigate against risks (RTB & Welfare Reform)	-1,332
Fee to reflect increased capital programme in 2013/14*	955
Inflation on salaries (1%)	201
Inflation on repairs element of management fee	45
Additional items –lease costs, Welfare Reform & HR Self-Service	255
TMO management cost (transferred from delegated budget)	90
Indicative Management Fee 2013/14	32,429

5.3 Tenanted stock numbers are budgeted in the HRA to reduce by 150, being 100 during 2012/13, and a further 100 with a part year effect in 2013/14. The reduction is based on assumed right to buy sales which may materialise, but certainly completions in 2012/13 will be 10-15.

5.4 2013/14 reductions in the underlying management fee fall into two categories:

- £1,332k savings delivered through the savings plan, (the balance being in the delegated budget.)

- No inflation has been added to the management fee apart from an element of the fee treated as repairs in the Council's books and 1% uplift on salaries

6 The 2013/14 THH Company Budget

6.1 Summary of THH Company Budget Changes (£000's)

£000's	2012/13	Inflation	Savings	Growth	Capital	Transfers	2013/14
Salaries & Agency Staff	20,498	201	-677	200	571	214	21,006
Non Staff Costs	4,928	45	-195	160	583	-323	5,199
SLAs	6,789		-460	15			6,344
Total	32,215	246	-1,332	375	1,154	-109	32,549

Management Fee	32,429
Once Off Growth funded from Reserves	-120

6.2 Details relating to each of the figures in table 6.1 are given as follows:

- 2012/13 and 2013/14 overall budget in appendix 1
- Inflation items in table 5.2 above, £201k for 1% inflation on permanent salary costs and £45k for 2.6% inflation on the non-staff part of the repairs element of the management fee
- £1.332m savings per the savings plan in table 7.1
- £375k growth per table 8
- £1,154m additional cost of delivering the 2013/14 capital programme, (£0.955m management fee received based on the existing formula, the rest funded internally)
- Transfers between staff and non staff costs better reflect anticipated expenditure and service delivery, they are separate to savings and growth but in some cases are influenced by them.

7 2013/14 Savings Plan

7.1 Gross budget savings for 2013/14 of £2.2m have been achieved, £1.332m being from the THH company budget.

Savings	2013-14 Saving £'000	proportion of Budget %
THH Company Budget		
Accommodation Savings in FM SLA from Anchorage House exit	350	18.7%
Review of Business Support Function	60	16.4%
Drainage team efficiencies and productivity	75	14.7%
Savings in Chief Executive Support Budget	45	14.2%
Customer access efficiencies - cost per call reduction and reduction in repeat repairs calls	110	13.8%
Reduction in in-house asbestos surveying activity	45	13.3%
Review of Risk and Probity function	50	9.3%
Investment Planning/Business Devel - moratorium of external commissioning	50	9.3%
Deletion of one vacant post in Human Resources	50	6.1%
Savings from reduction in the number of managers in the neighbourhood staffing structure	198	4.9%
Caretaking - increase in team leader span of control	199	2.9%
Deletion of temporary posts within neighbourhood structure	100	2.5%
	<u>1,332</u>	
Delegated budget		
Reduction in Energy Budget as 2012/13 unit costs lower than expected	500	8.5%
Caretaking - operating efficiencies with cleaning supplies	100	5.2%
Integration of external decorations into decent homes	250	1.7%
	<u>2,182</u>	

7.2 In December 2012, the Finance & Audit Committee (FAC) of the THH Board reviewed the 2011/12 Housemark results and noted that overheads were 20.11% of direct revenue costs. In particular they noted that premises costs and central overhead costs are forth quartile compared to other London ALMO's. They set a target of a 1% reduction per year as a proportion of direct costs, this equates to around a 5% reduction in overhead costs per year. Results for 2012/13 cannot largely be influenced now before 31 March 2013, however 2013/14 budget setting has addressed this target.

7.3 Budgeted Overhead costs in 2013/14.

	£000's	% Budget
Premises	350	16.0%
Central	212	5.0%
Total	562	5.9%

7.4 The table above shows that budget savings delivered in 2013/14 include reductions in premises and central overheads, and a reduction in total overheads over 5%. This equates to a 1% reduction in the proportion of direct costs, and assumes that all

other things are equal and that budgeted savings translate into real cost reductions. These savings in themselves will not be enough to move these two categories out of the forth quartile assuming consistency in the other London ALMO cost structures, but is a clear step forward.

8 Growth

Base Growth	£000's
Hartford Centre	160
Welfare Benefits Reform Officers x 2	80
HR Self service Fixed SLA	15
Total Base growth	255
Once Off Growth	
Tackling Illegal Occupancy	80
Exchanges and transfers pilot on over/under occupancy	40
Total Once Off Growth	120
Total Growth 2013/14	375

- 8.1 Total growth of £375k falls into two categories:
 - Growth to the base budget, (£255k)
 - Once off growth, (£120k), subject to LBTH approval
- 8.2 All three base growth items have been included in the calculation of the 2013/14 THH management fee.
- 8.3 The Hartford Centre item relates to the running the Hartford Centre as a consequence of the exit of Cheviot House in April 2013. THH will occupy a floor in the Hartford centre from that date. Cheviot House is owned by the Council and has been designated as being surplus to the Council's requirements. Cheviot House is currently one of the THH neighbourhood housing offices though LBTH has not charged THH for its use under the Facilities Management SLA, therefore there is no budget to transfer and a growth item arises when THH move into the Hartford Centre instead.
- 8.4 The Council has awarded growth in the management fee relating to the expected increase in workloads associated with the implementation of welfare reform. This is equivalent to two officers. While the growth awarded is welcome, the additional demands arising may well exceed this.
- 8.5 Finally an unavoidable growth item arises in respect of the HR SLA. This arises as a THH share of the ongoing cost of maintaining a new self-service HR module. This module will improve managers' ability to manage their staff primarily around attendance issues.
- 8.6 Once off growth items will be funded by THH Company reserves. The management agreement with LBTH only permits THH to spend reserves with approval from LBTH, so these items are subject to Client approval.

- 8.7 A small one off team is proposed to carry out illegal occupancy checks together with acting to evict where necessary in order to increase the target numbers of repossessions. This would support LBTH in managing increasing homelessness.
- 8.8 A project piloting mutuals, exchanges and transfers on over/under occupied estates is also proposed. There is a reference to doing this in the diversity strategy but no resources identified. One fte for one year is anticipated.

9 Reserves Policy and Risks

- 9.1 It is a requirement of the company's financial regulations that the Director of Finance & Customer Services advises the Board on an appropriate level of reserves relating to the funds that the company directly manages.
- 9.2 Reserves are held for three main purposes:
 - As a working balance to help cushion the impact of uneven cash flows, especially in light of the fact that the company does not have an overdraft facility with its bank
 - As a contingency to cushion the impact of unexpected events or emergencies, including budget overspends
 - To hold funds for specific purposes or to meet known or predicted liabilities
- 9.3 In order to assess the adequacy of reserves, account needs to be taken of strategic, operational and financial risks facing the company. The level of general reserves is also just one of several related decisions in the formation of a medium terms financial strategy and the budget for a particular year. Factors affecting judgements about reserves include the key financial assumptions underpinning the budget and as assessment of the company's financial health, including:
 - Overall financial standing
 - The track record in budget management
 - Capacity to manage in-year budget pressures and savings
 - The strength of financial information and reporting arrangements
- 9.4 THH reserves at 31 March 2012 were £2.4m (7.5% of the total annual budget).
- 9.5 There is therefore no 'correct' level of reserves. As a general rule of thumb however, reserves need to be higher as financial risk increases, and may be allowed to become lower if risk reduces. The current LBTH reserves policy is that reserves will not fall below the range of 5% to 7.5% of the Council's gross expenditure, (excluding schools and housing benefits).

- 9.6 63% of costs relate to staff, so in an environment of ongoing savings it is always likely that some savings will need to be made from staff reductions. While our preference is to manage this through normal staff turnover this is not always possible. The precise quantum of efficiency savings to be delivered in the company over the medium term is difficult to predict. However, we do know as a minimum that additional management fees granted as a result of increases in the capital budget will reverse from 2015-16 onwards.
- 9.7 The table below presents a range for THH reserves and proposes that the level of reserves for 2013/14 should not fall below £2.0m.

Reserves

Range and Minimum level 2013/14

Management Fee – 2013/14	£32.429m
Reserves @ 5%	£1.6m
Reserves @ 7.5%	£2.4m
Mid point – Reserves not to fall below	£2.0m

- 9.8 The minimum reserves level will require annual review.

10 Delegated Budget

- 10.1 The delegated budget is approved in two parts: Tenant Rents and Service Charges were approved in January 2013, and the remaining HRA budget, (made up of the THH management fee, delegated budget, and LBTH retained budget), was approved in February 2013.
- 10.2 **The Tenant Rents budget** of £65.3m accounts for 73.5% of the delegated income budget for 2013/14. The average weekly rent has been calculated using the rent restructuring model and has increased by an average £4.39 per week. The budget has been calculated using previous right to buy assumptions:

Stock Number	12,518
less assumed rights to buy (12/13)	-100
less assumed rights to buy (13/14)	-50
Budgeted stock 2013/14	12,368
Average rent	£103.55
Rent per week £000's	1,281
No of weeks	52
Gross Annual Rent £000's	66,597
Less 2% void rate £000's	-1,332
Net Annual Rent £000s	65,265
Rounded for Budget £000s	65,300

- 10.3 Average tenant service charges have increased by 25p per week. The budget assumes the same right to buy numbers as for tenant rents in paragraph 10.2.

10.4 Leaseholder Income Budget

Leasehold Stock	8,937
Add assumed rights to buy (12/13)	100
Add assumed rights to buy (13/14)	50
Budgeted Leasehold Stock 2013/14	9,087
Budgeted Service Charge pppa	£1,115
Budgeted Total Service Charges £000's	10,132
Insurance £000's - 8670 Leaseholders	1,300
Ground Rents £000's - 8670 Leaseholders	90
less credit adjustments £000's	-1,000
Net Annual Service Charges £000's	10,522
Rounded for Budget £000s	10,500

- 10.4.1 The 2011/12 Housemark benchmarking - the most recent results available - found that Star status survey 2012 leaseholder satisfaction with the services offered by THH was 47%, (2nd of the 6 London ALMOs who submitted data.) The other five London ALMOs who submitted leaseholder satisfaction data were CityWest homes, Lewisham Homes, Redbridge Homes, Ascham Homes, and Hackney Homes.
- 10.4.2 Benchmarking information for leaseholder service charges levied by ALMOs, Local Authorities or Housing Associations is not collected nationally by Housemark, National Federation of ALMOs, CIPFA or government departments so far as we are aware. However, a Tower Hamlets Housing Forum benchmarking exercise undertaken in 2011-12 revealed that Tower Hamlets Homes leasehold service charges compare favourably with registered providers operating in the borough.

	1 bed	2 bed	3 bed	4 bed
THH	900	1050	1100	1150
East End Homes	1050	1250	1300	1500
Poplar HARCA	950	1150	1100	1300

- 10.5 **The Repairs & Maintenance budget** of £15.539m accounts for 52% of the 2013/14 delegated expenditure budget, summarised as follows:

Mears - Repairs, Servicing, Overheads & Profit	10,863,000
Void Works	2,400,000
Capitalisations	-1,500,000
Specialist Contractors	3,436,000
Lift & Boiler House lines, Neighbourhood Action Budgets	340,000
Total R&M	15,539,000

- 10.6 THH have saved £250k from the external decorations budget for 2013/14 by integrating some of the works with Decent Homes year 3 which includes external works anyway. This will deliver better value for money to residents.
- 10.7 Resident satisfaction with repairs is a key factor in overall satisfaction so the 2013/14 repairs & maintenance budget includes £50k of budget for each of: Fire assessment works; fire safety and security improvements; additional communal works; action on condensation; and specialist contracts.
- 10.8 **The Energy budget** of £5.132m represents a further 17% of the delegated expenditure budget. Energy consumption is expected to be consistent with previous years.
- 10.9 Advice from the LBTH energy team is that 73% of 2013/14 gas and 83% of electricity has already been bought at a price increase of between 3.8% and 4.9%. The remaining proportion of energy to be bought is not expected to be more than highlighted in the table below.

Gas & Electricity	Forecast increase / decrease for 2013/14
Gas*	4.4 – 5.9%
Half Hourly Electricity**	4.9 – 5.4%
Non Half hourly Electricity***	3.81 – 6.78%
Unmetered supply****	1.4%

Appendix One

THH Company Budget Analysis for 2013/14 compared to 2012/13

<div> <div>%</div> <div>13/14</div> <div>Budget</div> </div>		12/13 Budget £	13/14 Budget £	Saving/ Increase £	% Saving	Comments
<u>EXPENDITURE</u>						
65%	Salaries & Agency costs	20,497,871	21,006,312	(508,441)	-2%	£677k savings
	Training, Recruitment, Insurance	480,700	474,200	6,500		£571k delivery of decent homes
66%	Employee	20,978,571	21,480,512	(501,941)	-2%	£80k base growth, Welfare Benefits Officers £120k Once off growth, illegal occupancy, exchanges £201 - 1% inflationary uplift plus reallocation of budget
	Rent, Rates, Energy & Water	116,922	237,922	(121,000)		Reallocation of budgets
	Other Accommodation Charges	139,986	139,986	-		£160k growth - rent for Harford centre plus reallocation of budgets
1%	Premises	256,908	377,908	(121,000)	-47%	-
1%	Transport	183,047	199,197	(16,150)	-9%	Reallocation of budgets
	Environmental Services Supplies	228,951	206,450	22,501		Reallocation of budgets
	Printing & Stationery	278,576	283,038	(4,462)		Reallocation of budgets
	External Professional Services	1,916,690	2,118,542	(201,852)		£195k savings: External commissioning, Neighbourhoods, Chief Executive
	Mobiles, Postage & IT supplies	330,263	323,383	6,880		£583k delivery of Decent Homes plus reallocation of budgets
	Cash Collection, Governance & Engagement	422,442	442,792	(20,350)		Reallocation of budgets
10%	Supplies & Services	3,176,922	3,374,205	(197,283)	-6%	
2%	Third Party Payments & Contingency	758,400	551,276	207,124	27%	£150k Reduction in Organisational contingency to depreciation below plus reallocation of budget
	Property downsizing Payments	72,000	71,750	250		"Larger to smaller" incentives
	Depreciation		150,000	(150,000)		Previously no allocated budget for depreciation of fixed assets
20%	SLA Charges	6,789,152	6,344,152	445,000	7%	Facilities Management SLA reduced £350k
20%	Other Expenditures	6,861,152	6,565,902	295,250	4%	Repairs contact centre SLA reduced £110k HR self service SLA added £15k
100%	TOTAL EXPENDITURE	32,215,000	32,549,000	(334,000)	-1%	
	THH Management Fee	32,215,000	32,429,000			
	Once off growth funded from reserves		(120,000)			