

Report to the Board**24 March 2016**

Title: Budget 2016-17

Report of: Head of Corporate Services

Purpose of Report

1. To approve the Company's budget for 2016/17.

Background

2. Following the submission of the Company's management fee paper, the Council has agreed to pay the Company fees totalling £32.328 million for the 2016/17 financial year. This consists of £13.749 million for the management and supervision fee and £18.579 million for the repairs and maintenance fee.
3. The management fee for 2016/17 has reduced from the £33.713 million provided in 2015/16 following agreement of £1m savings in relation to the management and supervision fee and £853k savings in relation to the repairs and maintenance fee. The council has agreed to pay additional management and supervision fee in relation to the legislative changes to National Insurance contributions (£265k) and additional repairs and maintenance fee in relation to budget pressures around the new lift maintenance contract (£23k), the new aids and adaptations contract (£41k), Construction Services overheads/profits (£39k) and Designing Out Crime and Neighbourhood Pride schemes (£100k).
4. A statement showing the proposed balanced budget for 2016/17 together with, for comparison purposes, the 2015/16 annual budget is attached at Appendix 1 to this report. Resources Committee scrutinised the proposed budget for 2016/17 at its meeting on 23rd February 2016 and recommended that it be approved by the TGHC Board.
5. At its meeting on 28th January 2016, Board agreed to the savings proposals in relation to both the management and supervision fee and the repairs and maintenance fee. The detailed savings proposals are attached at Appendix 2 to this report.

Proposed Budget – Management and Supervision

6. Whilst preparing the budget for 2016/17 we have undergone a zero based approach rebuilding the budget by focusing on the Company's key objectives from the TGHC Five-year Strategic Plan 2015-2020 and in consideration of the

£1m savings that were previously agreed at Board in order to support the overall HRA position.

7. We have produced a staffing budget based on the latest structure which includes all proposals agreed at Resources Committee meetings and the relevant impact of the savings proposals.
8. The additional management and supervision fee of £265k in relation to the costs associated with the change in National Insurance contributions has been included in the budgets against the relevant individual employee costs.
9. Any additional resource requirements identified in year will need to be met through service reviews and realigning our staffing structures. This may potentially redirect resources into areas that require additional resources to ensure we continue to provide services in line with our customers' needs.
10. The overhead budgets have been produced based on a number of assumptions. Some of the significant assumptions are as follows: -
 - We have included income received in relation to the running of Library Services at Wrekenton Hub.
 - We have increased the income budget for the management of properties on behalf of Keelman Homes for the increase in the number of properties currently being managed.
 - We have not allowed for inflationary increases as a matter of course – we have provided for an inflationary increase on electricity charges of 7%, water charges of 0.8% and building cleaning of 5.5% based on advice from Gateshead Council.
 - We have linked budgets relating directly to staff to changes in staff numbers (such as vehicle rental, car allowances and telephone costs) and revised prices in relation to the new mobile phone contract with O2.
 - We have agreed with the Council that the Service Level Agreement costs and building accommodation costs will be reduced by 15% in 2016/17 in line with savings proposals.
 - We have reduced telephone budgets following a review and subsequent consolidation of phone lines in use across the Company.
 - We have reduced the electricity budgets in multi-storey blocks that have undergone communal electric works due to savings that have been made by the installation of more energy efficient lighting.
 - We have increased the unmetered electricity budget following a full audit of all the unmetered electricity equipment in the communal areas of low rise blocks.
 - We have increased National Insurance budgets in relation to the increased costs incurred due to the cessation of contracted out NI rates by Central Government.
11. The 2016/17 Management and Supervision Budget has been set based on current staffing levels and service provision. Where future changes to the budget are required in relation to staff transfers, service reviews or service provision they will be taken to Resources Committee for approval.

Proposed Budget – Repairs and Maintenance

12. The 2016/17 repairs and maintenance fee has been agreed with the Council as a reduction on the 2015/16 fee of £19.229 million to £18.579 million. The reduction is in relation to £853k savings that are required to support the overall HR position, partially offset by agreed increases required of £203k due to budget pressures identified around the new lift maintenance contract (£23k), the new aids and adaptations contract (£41k), Construction Services overheads/profits (£39k) and Designing Out Crime and Neighbourhood Pride schemes (£100k).
13. The majority of the repairs fee is spent on works which fall under the repairs and maintenance contract. The repairs budget is therefore primarily based on the contractual arrangements with MEARS and the proposed level of works required with Construction Services and other contractors.
14. The following budgets are linked to the MEARS contract – Responsive Repairs, Relets, Gas Servicing, Solid Fuel Testing, Electrical Circuit Testing and the Painting Programme. Construction Services and other contractors carry out works mainly in relation to Responsive Repairs, Relets, Cyclical Repairs, Water Hygiene Testing, Lift Maintenance, Environmental Works, Security, Energy Performance Certificates, Aids and Adaptations and the Painting Programme.
15. We will be managing the repairs budgets closely to ensure that we bring these budgets in on target.
16. A copy of the repairs budget for 2016/17 is attached at Appendix 1 to this report.

Link to values

17. This report is in line with the following values of the Company:
 - Fair
 - Customer Focused
 - Open and Honest
 - Accountable
 - Innovative
 - Passionate about what we do

Impact on tenants

18. Whilst this report does not impact on tenants directly, appropriate financial monitoring and control will ensure efficiencies are maximised and redirected to services that impact directly on tenants

Risk Management Implications

19. Regular and accurate monitoring will ensure that that the strategic risk within the business plan (failure to manage the company's finances) is effectively controlled and that savings are achieved in order to mitigate the potential risk of overspends against the agreed budget.

Financial Implications

20. The financial implications are contained within the report and appendices.

Health implications

21. There are no health implications arising from this report.

Equality and Diversity Implications

22. There are no equality or diversity implications arising from this report.

Value for Money implications

23. Regular financial monitoring and control will ensure efficiencies are maximised and then utilised in the most appropriate manner.

Environmental implications

24. There are no environmental implications arising from this report.

Consultation carried out

25. Tenants have assisted in the setting of next year's budget and savings proposals which provides a link from the company's strategic objectives to our tenant's priorities via this financial framework.

Recommendations

26. The Board is asked to approve the management and supervision and repairs and maintenance budgets for 2016/17.

APPENDIX 1
TGHC Overall Budget 2016/17

TGHC Budget	2015/16 Budget	Savings	Budget Changes	2016/17 Budget	Notes
Management and Supervision					
Management Fee	-13,484	1,000	-1,265	-13,749	As agreed with the Council, including £1m savings, Officer Costs now amalgamated & NI increases
Officer Costs	-1,000	0	1,000	0	Now included in the overall management fee above
External Funding	-164	0	-26	-190	Income for the management of Keelman Homes and Other Misc Income
Total Income	-14,648	1,000	-291	-13,939	
Employee Costs	9,795	-775	239	9,259	Based on the current structure and including savings
Overhead Costs	4,853	-225	52	4,680	Based on zero based budget approach and including savings
Total Expenditure	14,648	-1,000	291	13,939	
Management (Surplus)/Deficit	0	0	0	0	
Repairs and Maintenance					
Management Fee	-19,229	853	-203	-18,579	As agreed with the council, including £853k savings
Capitalisation	-2,145	0	145	-2,000	In line with the budgeted 2016/17 capital programme
Total Income	-21,374	853	-58	-20,579	
Repairs Revenue Expenditure	19,229	-853	203	18,579	Based on breakdown of repairs expenditure
Repairs Capital Expenditure	2,145	0	-145	2,000	Based on expected repairs that require capitalisation
Total Expenditure	21,374	-853	58	20,579	
Management (Surplus)/Deficit	0	0	0	0	

APPENDIX 1
TGHC Overheads Budget 2016/17

Overheads Costs	2015/16 Budget	Savings	Budget Changes	2016/17 Budget	Notes
Service Level Agreements	800	-111	23	712	Saving MS12 Reduction in SLA/Office Accommodation
Utilities	642		-18	624	Decommissioned Sites
Rent	731	-109	35	657	Saving MS12 Reduction in SLA/Office Accommodation
Council Tax re: Voids	400			400	
ICT	416	-5	9	420	
Building Cleaning and Cleaning Materials	242		-5	237	
Vehicles, Car Allowances and Travel	202		11	213	Mileage for employees formerly with lease cars
Insurance	350			350	
NNDR	4			4	
Telephones	106		-15	91	Review of BT phone lines
Legal Services	175			175	
Publicity, Promotion and Design	77			77	
Training	61		-1	60	
Postage	107		1	108	
Depreciation	50			50	
Equipment	65		-5	60	
Giro Collection Stationery	90			90	
Supplies and Services	57		-6	51	
Subscriptions and Searches	38		1	39	
Tenant Involvement	41			41	
Community Fund Administration	44		1	45	
HR and Admin	13			13	
External Audit fee	26		2	28	Inflationary increase
Stationery	45		-1	44	
Board of Directors Payments	22			22	
Catering and Room Hire	6		-1	5	
Cash Collection Services	12			12	
Equality and Diversity	12			12	
Consultancy	11		12	23	Repairs contract and stock options
Building Costs	8		9	17	Provision for minor office moves/adjustments
Total Overheads Budget	4,853	-225	52	4,680	

APPENDIX 1
TGHC Management and Supervision Budget 2016/17

Management and Supervision	2015/16 Budget	Savings	Budget Changes	2016/17 Budget	Notes
Income					
Management Fee	-13,484	1,000	-1,265	-13,749	As agreed with the Council, including £1m savings, Officer Costs now amalgamated & NI increases
Officer Costs	-1,000	0	1,000	0	Now included in the overall management fee above
External Funding	-164	0	-26	-190	Income for the management of Keelman Homes and Other Misc Income
Total Income	-14,648	1,000	-291	-13,939	
Employee Costs					
Neighbourhood Services	3,865	-306	109	3,668	Savings MS 5-7 Housing Management
Customer Services	3,279	-157	122	3,244	Savings MS 2-4 Lettings and Voids, Former Tenant Arrears and Repairs
Investment and Development Services	949	-169	-37	743	Savings MS 1 Asset and Investment Team
Corporate Services	1,702	-143	45	1,604	Savings MS 8-11 ICT, Performance, Administration and Communication
Total Employee Costs	9,795	-775	239	9,259	Based on the current structure and including savings
Overhead Costs					
Customers and Communities	1,207	0	-60	1,147	
Corporate Services	3,646	-225	112	3,533	Saving MS12 SLA Reduction
Total Overhead Costs	4,853	-225	52	4,680	Based on zero based budget approach and including savings
Total Expenditure	14,648	-1,000	291	13,939	
Management (Surplus)/Deficit	0	0	0	0	

APPENDIX 1

TGHC Repairs and Maintenance Budget 2016/17

Repairs and Maintenance	2015/16 Budget	Savings	Budget Changes	2016/17 Budget	Notes
Income					
Management Fee	-19,229	853	-203	-18,579	As agreed with the council, including £853k savings
Capitalisation	-2,145	0	145	-2,000	In line with the budgeted 2016/17 capital programme
Total R&M Fee	-21,374	853	-58	-20,579	
Expenditure					
Fixed Costs - Mears	3,810			3,810	
Fixed Costs - Construction Services	606		39	645	Prelims/Overheads increase
Responsive Repairs - Mears	4,494	-35	-5	4,454	Savings RM1 TILs and RM2 Toilet Seats/Shower Curtains
Responsive Repairs - CS	1,575			1,575	
Responsive Repairs - External Specialist	102			102	
Responsive Repairs - Other	230	-156		74	Savings RM3 Decoration Vouchers
Relets - Mears	3,003		-84	2,919	Reduced Capitalisation required
Relets - Construction Services	1,679		-56	1,623	Reduced Capitalisation required
Relets - Other	394			394	
Gas Servicing - Mears	1,956	-30		1,926	Saving RM4 Gas Servicing
Painting Programme - Mears	714	-105		609	Saving RM5 Reduce Painting Programme
Painting Programme - CS	800	-120		680	Saving RM5 Reduce Painting Programme
Cyclical Repairs Servicing - CS	357	-54		303	Saving RM6 Cyclical Repairs
Cyclical Repairs Remedial Works - CS	102	-15		87	Saving RM6 Cyclical Repairs
Water Hygiene Testing - CS	153			153	
Electrical Circuit Testing - Mears	102			102	
Solid Fuel Testing - Mears	2			2	
Lift Maintenance - Other	102		23	125	Lift Maintenance Tender increase
Security - Other	102			102	
Environmental Works - CS	230	-75		155	Saving RM7 Pest Control
Energy Performance Certificates	46	-10		36	Saving RM8 EPC's
Aids & Adaptations - Other	153		41	194	Aids and Adaptations Tender increase
Software Development - Other	50	-50		0	Saving RM9 Software Development
Designing Out Crime/Neighbourhood Pride	0		100	100	Transfer from the Capital Programme
Repairs Contingency - Other	612	-203		409	Saving RM10 Contingency
Expenditure Total	21,374	-853	58	20,579	
Management (Surplus)/Deficit	0	0	0	0	

Appendix 2 - TGHC Proposed Savings

2016/17 Management Fee (£1m less from April 2016)

Ref	Area	Comments	Amount	Impact on customers / stakeholders	FTE reduction by 31 March 2016
MS1	Pre-contract development work	Review the Asset and Investment Team.	£171k	No impact on customers. Impact on service provision/employees. Reductions linked to proposed capital programme budgets and priorities as well as the associated pre-contract development activity.	4.5
MS2	Lettings & Voids	Redesign of the Voids Team.	£28k	In line with current high performance on right first time increased responsibility on repairs partners to bring properties to lettable standard.	1
MS3	Former Tenant Arrears	Reduction in Former Tenant Officers.	£50k	Impact on collection of former tenant debt – recovery – collection rates likely to reduce	2
MS4	Repairs	Reduction in Repairs Management posts	£77k	Impact on customer service and repair service delivery.	2.5
MS5	Housing Management	Reduce the management of the ASB Service.	£48k	Frontline impact on the customer and service response times, including legal sanctions.	1.2
MS6	Housing Management	Reduction in Sheltered Housing Service management.	£17k	Impact on older, more vulnerable customers.	0.4
MS7	Housing Management	Relocate some Housing Teams and close two Housing Offices.	£238k	Relocate the teams currently providing housing services at Dunston and Felling Housing Offices and close these service points - subject to Councillor & Customer consultation	11.21
MS8	Corporate Services	Review ICT Service 1.25 FTE posts	£41k	Reduction in response times where there are system issues and increased downtime. Impact on frontline services, income collection, access to customer information and employees productivity.	1.25
MS9	Corporate Services	Review Performance Service 1 FTE post	£28k	Reduction in current level of performance and benchmarking information provided to customers, TGHC Boards and	1

Ref	Area	Comments	Amount	Impact on customers / stakeholders	FTE reduction by 31 March 2016
				Committees and the Council. Impact on ability to ascertain and remedy poor performance.	
MS10	Corporate Services	Review of Administrative tasks - reduction in Clerical Assistants. Link to review of clerical across whole of TGHC.	£40k	Impact on customers and stakeholders as specialist staff time will be diverted to administrative tasks.	2
MS11	Corporate Services	Deletion of Communications Manager post and review of Communications provision across TGHC	£42k	Less information will be provided to tenants & leaseholders.	1
MS12	All	Reduction of 15% to ICT/Legal Services/Corporate Services/Financial Services and Office Accommodation SLA's with the Council	£220k	Reduction in Council overhead recovery from TGHC	0
Total All Savings 2016/17			£1.0m		28.06

2016/17 Repairs Fee (£853k less from April 2016)

Ref	Area	Comments	Amount	Impact on customers / stakeholders
RM1	Repairs	Stop providing Tenant Improvement Loans (TILS)	£15k	Customers will no longer have access to loans from TGHC to carry out work they wish to undertake to improve their home.
RM2	Repairs	Stop repairing and renewing toilet seats and shower curtains	£20k	In line with a number of local landlords this will result in the provision and repair of toilet seats and shower curtains as being a tenant responsibility. TGHC will continue to provide the service where the renewal or repair is part of an adaptation and will ensure that tenancies commence with a seat that is in good condition (although this will not necessarily have been replaced).
RM3	Relets	End the provision of decoration vouchers to tenants when they move into a property	£156k	Tenants are responsible for the decoration of their own homes. The wholesale provision of decoration vouchers for new tenants moving into their home will end. Linked to the marketing strategy, work will still be undertaken on a void where it is needed to enable letting (£50k budget for 2016/17 to account for vouchers already allocated to tenants in 2015/16).
RM4	Gas Servicing	Review provision of gas servicing and CO detectors	£30k	This will involve a review of gas servicing and access procedures with Mears. To be completed by 30 September 2016. No impact on customers.
RM5	Painting Programme	Reduce painting programme by 15%	£225k	The painting programme cycle will be extended and a review of the painting specification undertaken. By way of example: 14/15 actual spend £600k 968 properties complete 15/16 budget £1.5m 2,930 properties planned and in progress 16/17 budget reduction 15% leaving £1.275m available for works to 2,200 properties and planned internal painting of some communal areas.
RM6	Cyclical Repairs	Reduce cyclical repairs servicing and remedial works budgets by 15%	£69k	Weekly fire alarm testing will be undertaken by the Sheltered Scheme Officers as part of their role. No impact on customers.
RM7	Environmental Works	End the provision of free pest control services for properties	£75k	End the principle of a fully HRA subsidised pest control service. Tenants will be required to request and pay for pest control services via the customer services

Ref	Area	Comments	Amount	Impact on customers / stakeholders
		and gardens		unit. TGHC will continue to place orders for issues in communal areas, fumigation required in order to undertake works to a property, issues with woodworm (or similar wood boring, destructive insects) within a tenants property or communal areas, cockroaches and rats inside a property and birds/wasps nests that are causing blocked vents/blockages within the property.
RM8	Energy Performance Certificates	Review need and subsequent provision of energy performance certificates	£10k	No impact on customers. Reduced requirement identified as certificates in place increases.
RM9	Software Development	Remove the software development budget as BARIS has now gone live	£50k	No impact on customers. Reduced budget requirement.
RM10	Contingency	Reduce R&M contingency budget	£203k	Reduced flexibility in available budget for responsive repairs and relets, with works being held back, customer response times increased and potential budget overspend.
RM11	Electric Focal Point Fires	Following removal of a back boiler and gas fire work, no longer provide electric focal point fires as part of planned works or one off replacements.	Future R&M saving – need to implement in 16/17	Continue to repair existing focal point fires but change the current approach to always fitting a focal point electric fire following the removal of a back boiler and gas fire, during both one off and planned heating replacements. From 1/4/16 onwards, skim finish the living room wall, provide an electric point and retain the existing hearth. This would reduce the capital investment costs associated with back boiler replacement and reduce the ongoing need to repair electric focal point fires.
Total All Repairs Fee Savings 2016/17			£853k	