

## **BUDGET STRATEGY 2011/12**

Report of the Director & Company Secretary

### **1. SUMMARY**

This report sets out the budget preparation framework for 2011/12.

### **2. RECOMMENDATION**

- 2.1 To note the report and appendices.
- 2.2 To approve the budget framework for 2011/12.

### **3. MATTER FOR CONSIDERATION**

- 3.1 The Governance Arrangements for Derby Homes identify the operating budget as a matter reserved for Board approval.
- 3.2 On 2 June 2010 the Repairs Team and the Public Buildings Repair and Maintenance Team, which were previously part of the Derby City Council Environmental Services Department, were transferred to Derby Homes Ltd.
- 3.3 The 2011/12 operating budget will therefore include these transferred operations in addition to the ongoing operations of Derby Homes Ltd which are funded by the HRA management fee.
- 3.4 This report sets out the basis on which the operating budget will be prepared.

#### **Management Fee**

- 3.5 In February 2010 an indicative management fee in respect of the continuing operations of Derby Homes Ltd for 2011/12 was proposed by Council Cabinet as follows:

	<b>Anticipated 2011/12 £'000</b>
2010/11 base management fee	11,462
Adjustments to leasing costs	(53)
Inflation increase 1.0% on fee excluding leases	108
Increased cost of NI	107
Increased employer pension costs following triennial revaluation	100
Inspection fees	35
RTB Stock Adjustment	(11)
<b>Indicative Management Fee for 2011/12</b>	<b>11,748</b>

3.6 In addition Derby Homes generates income from other sources. These are:

	<b>Anticipated 2011/12 £'000</b>	<b>Budgeted 2010/11 £'000</b>
Capitalised Salary Fee inc Estates Pride	882	867
Council Tax Collection	30	25
Supporting People: Supported Living	745	738
Supporting People: Tenancy Support	276	273
Other Income	616	941
Management Services	526	488
Consultancy Services	12	12
<b>Total Other Income</b>	<b>3,087</b>	<b>3,344</b>
<b>Total indicative income for the management fee funded operations</b>	<b>14,835</b>	

3.7 The figures included above for the Capitalised Salary Fee and Supporting People (SP) income are based on inflated 2010/11 levels. However, the actual income achieved may be different from the level assumed.

3.8 Other income changes anticipated for 2011/12 include the potential loss of Family Intervention Project funding of £329,000 and other adjustments reducing miscellaneous income by £42,000 offset by additional income arising from the New Build development of 10 units completed in 2010/11 of £46,000.

3.9 Management Services anticipated for 2011/12 include £19,000 for management fees from Derby City Council for 33 new build units and 6 Primary Care Trust properties.

3.10 Proposed inflation increases in relation to management fee income and employee pay are subject to negotiation and may change in line with other economic factors.

3.11 Major changes to costs and overheads will result from the following:

#### **Family Intervention Project**

Due to the potential loss of income referred to in 3.7 above:

	<b>FTE</b>	<b>Savings in 2011/12 £'000</b>
Staff Costs	8.6	262
Overheads		48
<b>Total savings</b>		<b>310</b>

#### **DECATS**

3.12 In June 2010 a DECATS report was issued. The 2011/12 operating budget will incorporate a number of the savings and investment costs proposed in the report.

## **Repairs Team**

- 3.13 The Repairs Team transferred to Derby Homes with effect from 2 June 2010 and is being re-organised into new trading divisions which will help manage the service both operationally and financially.
- 3.14 The 2010/11 full year budget for Repairs Account and Capital Contracts is:

	<b>£'000</b>
Repairs Account	9,914
Capital Contracts	2,163
Total	12,077

This will be used as the base income for 2011/12 but will be subject to discussion and agreement with the Council.

- 3.15 The cost of providing the service will be calculated on a complete re-basing of both direct and indirect costs and overheads and a zero based budget will be prepared for employee costs.
- 3.16 This will result in a re-alignment of costs between the Repairs Team and the Management Fee costs.

## **Public Buildings**

- 3.17 The Public Buildings Repairs and Maintenance Team also transferred to Derby Homes Ltd with effect from 2 June 2010.
- 3.18 For 2010/11 a service level agreement is in place which states that all direct costs and an appropriate level of management and overhead costs will be recharged to the Council monthly.
- 3.19 The budget for 2011/12 will be constructed on a full year basis. The service is in the process of being re-tendered. If Derby Homes is unsuccessful in winning the tender, the workforce will TUPE transfer to the successful provider.

## **Budget Setting Process**

- 3.20 Appendix 1 sets out the principles that will be applied during the budget setting process.
- 3.21 The budget process will be cascaded throughout the organisation to include all budget holding employees.
- 3.22 The principles applied during 2010/11 will continue in the 2011/12 process with budget holders completing a budget preparation report for submission to the tier above. This will conclude with a presentation to the Budget Scrutiny Group. Budget holders will be supported in this process by members of the Accountancy Team.
- 3.23 The timetable for this process is set out in Appendix 2.
- 3.24 The proposed membership of the Budget Scrutiny Group is:

- Bob Osler (Chair of the Board)
- Paul Bayliss (Vice Chair of the Board)
- Denis Rees (Vice Chair of the Board)
- Any other member of the Board who would like to volunteer.

#### **4. CONSULTATION IMPLICATIONS**

Consultation events will be held and will take into account the feedback received during last year's budget setting process. This will enable stakeholders to provide input into areas of expenditure to be considered as priorities.

#### **5. FINANCIAL AND BUSINESS PLAN IMPLICATIONS**

- 5.1 Budget managers will be asked to link budget developments to the Delivery and Business Plan. Business objectives will be reviewed to ensure proposed budgets align with targets for 2011/12.
- 5.2 The budget process will support the strategic business objectives and the final approved budget will be incorporated into the long-term Financial Strategy, which will be extended up to 2016. This will contribute toward a Delivery and Business Plan target on Value for Money.

#### **6. POLICY REVIEW IMPLICATIONS**

The Budget Strategy is a key policy of Derby Homes and is included in the Key Policy Review Schedule. This policy will be reviewed annually.

**The areas listed below have no implications directly arising from this report**

- Legal and Confidentiality
- Personnel
- Environmental
- Equalities Impact Assessment
- Health & Safety
- Risk

**If Board members or others would like to discuss this report ahead of the meeting please contact the author, or the Chief Executive, [phil.davies@derbyhomes.org](mailto:phil.davies@derbyhomes.org) - Tel 01332 711010**

**Author:** Lorraine Watson, Director & Company Secretary, Telephone 01332 711014,  
Email [lorraine.watson@derby.gov.uk](mailto:lorraine.watson@derby.gov.uk)

**Background Information:** None.

**Supporting Information:** None.

## BUDGET PREPARATION FRAMEWORK 2011/12

### PAY INFLATION

Salary calculations	0.00 % (could be subject to change)
Employer's NI	Increases will be in line with pay inflation based upon the current effective rates.
Superannuation	16.91%, (2010/11, 14.70%).

### NON PAY INFLATION

1. No across the board inflation increases.
2. Contractual inflation increases will be included.
3. NNDR/CT inflation increases in line with 2010/11 actual increase.

### EFFICIENCIES AND DEVELOPMENTS

1. This budget will incorporate costs and savings arising from the implementation of the DECATS process and renegotiation of management fee.
2. All budget holders **must** identify an efficiency saving of 3% of their total budget and this may come from pay and/or non-pay items. These savings will be pooled for development consideration. Submissions will be rejected unless efficiency savings are identified.
3. Any shortfall on pay inflation will have first call on development pool.
4. Budget developments supporting Delivery and Business Plan objectives will be considered for the balance remaining.
5. At consolidation levels throughout the hierarchy budget managers will be required to complete a budget proposal summary and present to Budget Scrutiny Committee.

**Budget Timetable for 2011/12****Appendix 2**

Report to Board for approval of Budget Framework 2011/12	29 July 2010
Initial consultation with Housing Focus Groups	1-30 September 2010
Budget Preparation by budget holder supported by Accountancy team including consolidation of proposals and submission to 3 <sup>rd</sup> and 4 <sup>th</sup> management tier	By 30 September 2010
Discuss Budget proposals with SMT	October 2010
Final Consolidation of proposals by Senior Managers to be presented to Budget Scrutiny Group, Chief Executive, Director & Company Secretary	By 30 November 2010
Consultation events: <ul style="list-style-type: none"> <li>• Tenants:               <ul style="list-style-type: none"> <li>○ Housing Focus Groups</li> <li>○ Local Housing Board (North)</li> <li>○ Local Housing Board (South)</li> <li>○ City Housing Consultation Group</li> </ul> </li> <li>• Derby City Council</li> <li>• Trade Unions/ Employees</li> </ul>	26 October -30 November 2010 *2 Dec 2010 *10 Dec 2010 TBA December 2010 December 2010
Submission to Resources and Remuneration Committee of draft detailed operating budget for 2011/12 for recommending to Board	*6 January 2011
Board Approval for operating budget 2011/12	*27 January 2011
HRA and rent variation report approved by Derby City Council	By 1 March 2011
Draft Financial strategy updated and extended to 2015/16 presented to Resources and Remuneration Committee	*28 April 2011
Board Approval of Financial Strategy to 2015/16	*26 May 2011
* provisional dates	