

BABERGH DISTRICT COUNCIL

TO: Cabinet	REPORT NUMBER: BCa/18/44
FROM: Councillor Jan Osborne, Cabinet Member for Housing	DATE OF MEETING: 8 November 2018
OFFICER: Gavin Fisk, Assistant Director, Housing Tricia Anderson, HRA Professional Lead	KEY DECISION REF NO. CAB74

HOUSING REVENUE ACCOUNT (HRA) FINANCIAL MONITORING 2018/19 – APRIL TO AUGUST 2018

1. PURPOSE OF REPORT

- 1.1 Based on the financial performance of the Council during April to August of this financial year (2018/19) and latest information, a reporting by exception approach has been adopted to reviewing income and expenditure budget variances in the first five months of the year.

2. OPTIONS

- a) Transfer funds of £425k from the Strategic Priorities reserve to support the deficit.
- b) At this early stage in the year, make no recommendation for the transfer of funds from reserves.

3. RECOMMENDATIONS

- 3.1 That the potential or likely variations in relation to the HRA both Revenue and Capital compared to the Budget be noted.
- 3.2 That, subject to any further budget variations that arise during the rest of the financial year, the shortfall in funds of £425k, referred to in section 5.5 of the report, be noted
- 3.3 That the revised 2018/19 Capital Programme referred to in Appendix A and section 5.9 be approved.

REASON FOR DECISION

To ensure that Members are kept informed of the current budgetary position for both the HRA and Capital Budgets.

4. KEY INFORMATION

Strategic Context

- 4.1 The financial position of the HRA for 2018/19 should be viewed in the context of the updated 30-year business plan. A balanced budget has been achieved for 2018/19 by reducing both capital and revenue budgets.
- 4.2 A fundamental review of the housing service was undertaken during 2017/18 to identify savings, efficiencies and income generation opportunities that will achieve a sustainable business plan into the future. The business plan, made possible by the change in funding for HRAs in April 2012, sets out the aspiration of the Council to increase the social housing stock by either buying existing dwellings or building new ones.
- 4.3 The Welfare Reform and Work Act 2016 includes a requirement for all social landlords to reduce rents by 1% each year from 2016 to 2019. However, following the announcement by the Government that rents can be increased by CPI +1% for five years from 2020/21 will reduce the impact of this on the 30-year plan.
- 4.4 With the Council's housing stock at 3,411 homes there will always be unplanned events that affect the level of income and expenditure in any one financial year. Members should therefore consider annual variances in the context of the medium-term outcomes that the Council wishes to achieve.

5. August Position

- 5.1 Based upon financial performance and information from April to August (with emerging trends extrapolated to the end of the financial year) and discussions with budget managers, key variations on expenditure and income compared to budget have been identified.
- 5.2 The report covers:
 - The Housing Revenue Account (HRA) Revenue Budget
 - The Housing Revenue Account (HRA) Capital programme
- 5.3 Budget monitoring is a key tool and indicator on the delivery of the council's plans and priorities for the year. There will, of course, always be reasons why there are variances such as:
 - Economic conditions and those services that are affected by demand
 - Base budgets being over or understated (a number were identified in the 2017/18 financial outturn report to Members)
 - Uncertainties relating to funding or other changes that were not known at the time the budget was approved.
- 5.4 Taking each area in turn, the position on key aspects of the 2018/19 budget is summarised below:

Revenue

- 5.5 The original budget set for the HRA for 2018/19 shows a surplus of £244k. The forecast position at August is a deficit of £181k, an adverse variance of £425k.
- 5.6 The table below shows the main items that are included in the overall net adverse variance of £425k. The forecast variances identified within this report will be taken into consideration when setting the budgets for 2019/20.

Explanation	May Amount (£,000) (Favourable) / Adverse	August Amount (£,000) (Favourable) / Adverse	Movement (£,000) (Favourable) / Adverse
Rental Income and Service Charges			
<ul style="list-style-type: none"> Following the decision to sell a higher number of properties as Shared Ownership, rather than keep them as 100% rental properties, a nominal decrease to income is expected. An adverse variance of £35k is anticipated. 	(23)	35	58
Management and Repairs			
<ul style="list-style-type: none"> Planned Maintenance - Heating is anticipated to show an adverse variance of £114k on the Whole House Servicing contract with Blueflame due to a high increase in material costs required to maintain the properties. This is an adverse movement of £115k from May. Asbestos Surveys are predicted to show an adverse variance of £65k for the year due to an increase in the requirement to undertake these surveys. As this is a statutory requirement we will review the Budget next year. Following advice from the Auditors all employee costs relating to the Capita System Support Team are now being treated as revenue costs, rather than capital as in previous years. This has led to an adverse movement of £132k. However, this has been offset by a favourable variance within Revenue Contribution to Capital (RCCO) as the ICT capital spend will reduce by £132k. Other minor adverse variances totalling £5k are predicted for the year 	(1)	317	318

Explanation	May Amount (£,000) (Favourable) / Adverse	August Amount (£,000) (Favourable) / Adverse	Movement (£,000) (Favourable) / Adverse
Property Services			
<ul style="list-style-type: none"> The voids project was implemented in November 2017 to reduce the number of days that Council Houses remain empty and to ensure that we maximise our potential lettings income. To ensure this happens, it was necessary for BMBS to use external contractors to carry out essential works to those properties involved. Due to timing differences the actual costs were recharged to Property Services Voids in the current period and were lower than expected. A favourable variance of £48k is now anticipated. <p>As at the time of this report being written the overall number of voids days has reduced by 37 days, from 54 in September 2017 to 17 days in August 2018.</p> <ul style="list-style-type: none"> Other minor adverse variances totalling £29k are predicted for the year 	(27)	(55)	(28)
BMBS			
<ul style="list-style-type: none"> A favourable movement of £110k has resulted between May and August due to efficiencies made within the BMBS administration team, along with 3 summer interns, to close a number of outstanding jobs (2,000) since May. This has resulted in costs, mainly voids, being recharged to Property Services. 	298	188	(110)
Sheltered Management			
<ul style="list-style-type: none"> As a result of the fire at Sydney Brown Court higher than anticipated Fire Prevention work and repairs, has led to an adverse variance of £72k for the year. 	4	72	68

Explanation	May Amount (£,000) (Favourable) / Adverse	August Amount (£,000) (Favourable) / Adverse	Movement (£,000) (Favourable) / Adverse
Revenue Contribution to Capital (RCCO)			
<ul style="list-style-type: none"> Capital ICT Projects expenditure is anticipated to underspend by £132k following the reallocation of staff costs to revenue. 	-	(132)	(132)
TOTAL ADVERSE VARIANCE	251	425	174

5.6 The net £425k adverse position means that the total HRA balances as at 31 March 2019 are forecast to be £12.474m. This includes a minimum working balance of £1m, £11.474m in the Strategic Priorities Reserve and £100k 'Big 20' earmarked reserve as approved by Cabinet in March 2018.

Capital

5.7 Use of capital and one-off funds is critical and need to be linked into our future delivery plans. A zero based approach was adopted for the capital programme for 2018/19 to ensure that resources are aimed at delivering the council's strategic priorities.

5.8 With complex capital schemes it is difficult to accurately assess the level of payments that will be made during the financial year. The Council continues to embark on new projects e.g. building new homes where it is difficult to accurately predict at the planning stage how payments will fall. Members should therefore focus on whether overall outcomes are being achieved as a result of the capital investment rather than variances against the plan for a particular year.

5.9 Actual capital expenditure for the period April to August 2018 totals £2.2m, against a revised programme (including carry forwards) of £14m, as set out in Appendix A.

We are currently predicting an underspend of £132k for ICT Projects following the movement in staff costs to revenue. All other projects remain on budget.

6. LINKS TO JOINT STRATEGIC PLAN

6.1 Ensuring that the Councils make best use of their resources is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan. Specific links are to financially sustainable Councils, managing our corporate and housing assets effectively, and property investment to generate income.

7. FINANCIAL IMPLICATIONS

7.1. These are detailed in the report.

8. LEGAL IMPLICATIONS

8.1 There are no specific legal implications.

9. RISK MANAGEMENT

9.1 This report is closely linked with risk numbers 5e and 5f of the Council's Significant Risk Register – If we do not understand our financial position and respond in a timely way, then we will be unable to deliver the entirety of the Joint Strategic Plan. Other key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If the forecast savings and efficiencies are not delivered, then it will have a detrimental impact on the resources available to deliver services and the strategic priorities	3 - Probable	2 - Noticeable	Monitored throughout the year by Finance Teams, Corporate Managers and Assistant Directors
If economic conditions and other external factors change for the worse then it could have an adverse effect on the Councils financial position	3 - Probable	2 - Noticeable	Focus is on monitoring key income and expenditure streams – but Government changes and economic conditions continue to affect costs and income for a number of services
If the Capital Programme delivery is not on target, then the strategic priorities will not be delivered as anticipated	3 - Probable	2 - Noticeable	Regular monitoring by key officers

10. CONSULTATIONS

10.1 Consultations have taken place with Assistant Directors, Corporate Managers and other Budget Managers as appropriate

11. EQUALITY ANALYSIS

11.1 An equality analysis has not been completed because there is no action to be taken on service delivery as a result of this report.

12. ENVIRONMENTAL IMPLICATIONS

12.1 There are no specific environmental implications.

13. APPENDICES

Title	Location
APPENDIX A – Capital Programme	Attached

14. BACKGROUND DOCUMENTS

20 February 2018 Budget Report 2018/19 – BC/17/29

9 August 2018 Quarter 1 Housing Revenue Account Financial Monitoring 2018/19 – BCa/18/23

Appendix A

BABERGH CAPITAL PROGRAMME 2018/19	Project Sponsor	Original Budget	Carry Forwards	Current Budget	Actual Spend Apr - Aug	Full Year Forecast	Full Year Forecast LESS Budget
HOUSING REVENUE ACCOUNT		£'000	£'000	£'000	£'000	£'000	£'000
Housing Maintenance							
Planned maintenance	H Worton	4,587	1,875	6,462	1,380	6,462	0
ICT Projects	H Worton	300	59	359	17	227	-132
Environmental Improvements	H Worton	50	0	50	0	50	0
Disabled Facilities work	H Worton	200	59	259	76	259	0
Horticulture and play equipment	H Worton	23	0	23	0	23	0
New build programme inc acquisitions	A Bennett	3,415	3,426	6,841	730	6,841	0
Total HRA Capital Spend		8,575	5,419	13,994	2,203	13,862	-132