MID SUFFOLK DISTRICT COUNCIL

TO:	**Cabinet**	**REPORT NUMBER: MCa/18/67**
FROM:	**Councillor Jill Wilshaw, Cabinet Member for Housing**	**DATE OF MEETING: 4 March 2019**
OFFICER:	**Gavin Fisk, Assistant Director, Housing** **Tricia Anderson, HRA Accountant**	**KEY DECISION REF NO. CAB75**

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

1. PURPOSE OF REPORT

1.1 Based on the financial performance of the Council during April to December 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 nine months of the year.

2. OPTIONS

a) Transfer funds of £415k from the Strategic Priorities reserve to support the deficit.

b) At this stage in the year, make no recommendation for the transfer of funds from reserves.

3. RECOMMENDATIONS

3.1 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 £415k, referred to in section 5.6 of the report, be transferred from the Strategic Priorities reserve, as referred to in 2a).

REASON FOR DECISION

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

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.

4.2 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, 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.

4.3 With the Council's housing stock at 3,274 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. December Position

5.1 Based upon financial performance and information from April to December (with 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 deficit of £662k, which was met by reserves to achieve a balanced budget position. The forecast position at December is a deficit of £1,077k, an adverse variance of £415k.

5.6 The table below shows the main items that are included in the overall net adverse variance of £415k. The forecast variances identified within this report have been taken into consideration when setting the budgets for 2019/20.

Explanation	August Amount (£'000) (Favourable) / Adverse	December Amount (£'000) (Favourable) / Adverse	Movement (£'000) (Favourable) / Adverse
Rental Income and Service Charges			
• Rental Income – following the decision to sell 11 properties as Shared Ownership, rather than keep them as 100% rental properties, an adverse variance of £23k, which is less than 1% of budget, is anticipated. This is an adverse movement of £8k from the August report. • Service charges are anticipated to show an adverse variance of £11k following an increase in utility costs. • Other income is predicted to show a £16k favourable variance for the year, a favourable movement of £7k, following a higher than expected recovery of fees.	6	18	12
Property Services			
• Planned Maintenance - heating is anticipated to show an adverse variance of £81k on the Whole House Serving contract with Blueflame due to a high increase in material costs required to maintain the properties. This is a favourable movement of £19k from the August report. • Asbestos Surveys are predicted to show an adverse variance of £49k for the year due to an increase in remedial works, tenant friendly asbestos reports and the requirement to complete asbestos surveys on planned works before they can be carried out. This is an adverse movement of £11k from the August report. As this is a statutory requirement, we have increased the Budget for next year. • Other minor adverse variances total £3k, an adverse movement of £7k from the August report.	132	133	1
Repairs and Maintenance			
• To increase efficiencies a review of the responsibility for services provided within Property Services and BMBS was carried out in October 2018. As a result of this, responsibility for the overall responsive repairs and maintenance budget now lies with the Corporate Manager for BMBS. Planned maintenance remains the responsibility of the Property Services Corporate Manager.	375	571	196

Explanation	August Amount (£'000) (Favourable) / Adverse	December Amount (£'000) (Favourable) / Adverse	Movement (£'000) (Favourable) / Adverse
• Voids repairs – following a review and subsequent reallocation of costs to Capital we are now anticipating an adverse movement for the year of £42k. This is a favourable movement of £135k from the August report. • Responsive repairs – we are anticipating an adverse variance of £95k for the year. This is due to an increase in material costs and the number of repairs being carried out. However, these are always difficult to predict and may change if we have severe weather conditions in the final quarter of the year. BMBS • An adverse variance of £434k is expected which is an adverse movement of £236k since the August report. Long term sickness, data and training issues has led to an increase in the number of outstanding jobs not being closed. This has resulted in a more cautious approach when predicting income for the year. A major project to review and close the outstanding jobs will be undertaken in February and March 2019, which is anticipated will improve the situation. • The ongoing Voids project implemented in November 2017 to reduce the number of days that Council Houses remain empty and an unexpected increase in voids in December 2018 has meant we continue to rely on external contractors to carry out essential works to the properties involved. Due to timing differences these costs will not be recharged to voids until quarter 4, which could affect the forecast voids costs and BMBS income. Note: At the time of writing, the overall number of voids days has reduced by 33 days, from 54 in September 2017 to 21 days in December 2018.			
General Management			
• Following advice from the Auditors all employee costs and Agency Fees 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 variance of £134k, an adverse variance of £2k since the August report.	145	26	(119)

Explanation	August Amount (£'000) (Favourable) / Adverse	December Amount (£'000) (Favourable) / Adverse	Movement (£'000) (Favourable) / Adverse
• Employee Costs - Due to vacant posts not being filled a favourable movement of £60k is anticipated, however this has been partially offset by an adverse movement of £29k on Agency fees to give an overall favourable variance of £31k. • Professional and Consultancy Fees - A favourable movement of £48k is anticipated following the recruitment of permanent staff to vacant posts. • Following a decision to reduce the reserves carried forward a favourable variance of £30k is anticipated. This has been reflected in the 2019/20 Budget. • Other minor adverse variances total £1k for the year, a favourable movement of £12k from the August report.			
Sheltered Management			
• Higher than anticipated Fire Prevention work and repairs has led to an adverse variance of £44k for the year, an adverse movement of £15k since August.	29	44	15
Revenue Contribution to Capital (RCCO)			
• Capital ICT Projects expenditure is anticipated to show a favourable variance of £134k for the year, a favourable movement of £2k from the August report. • Further savings have been made following the reallocation of Consultant fees amounting to £47k and Asbestos Inspections amounting to £52k to revenue. This has resulted in a £99k favourable variance for the year since the August report. • Capital Maintenance is anticipated to require a reduction of £99k in contribution from the revenue account per note 5.10. This is a favourable variance for the year and movement from the August report.	(132)	(332)	(200)
Bad Debt Provision			
• The implementation of Universal Credit has not had the impact on Bad Debts anticipated when setting the 2018/19 Budget. This has led to a favourable variance of £45k within the year. The 2019/20 Budget has been reduced to reflect this.	0	(45)	(45)

Explanation	August Amount (£'000) (Favourable) / Adverse	December Amount (£'000) (Favourable) / Adverse	Movement (£'000) (Favourable) / Adverse
TOTAL ADVERSE VARIANCE	**555**	**415**	**(140)**

5.7 The net £1,077k adverse position means that the total HRA balances as at 31 March 2019 are forecast to be £4.1m. This includes a minimum working balance of £1.2m and £2.9m in the Strategic Priorities Reserve.

Capital

5.8 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.

5.9 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.

5.10 Actual capital expenditure for the period April to December 2018 totals £6.1m, against a revised programme (including carry forwards) of £10.6m, as set out in Appendix A.

We are currently predicting an underspend of £233k for ICT Projects following the movement of staff, consultant and asbestos survey costs to revenue. Capital maintenance costs are anticipated to show an overspend of £118k, however £217k of maintenance work will be funded by a grant from Suffolk County Council leading to a reduction in the requirement of revenue contribution of £99k. All other projects remain on budget.

New Build – we are currently anticipating a spend of £6.6m during the year, an adverse variance of £1.642m, due to a review of our Capital Development programme in September 2018. This has enabled us to accelerate the planned programme and add 16 new homes to our housing stock as at 31st December 2018 with a commitment to fund a further 20 new homes, 10 in Mendlesham and 10 in Needham Market, by the end of the financial year. This will be funded by new borrowing, the revenue effects of which has been included in the 2019/20 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 housing assets effectively, and property investment to generate income.

7. FINANCIAL IMPLICATIONS

These are detailed in the report.

8. LEGAL IMPLICATIONS

8.1 There are no specific legal implications.

9. RISK MANAGEMENT

8.1 This report is closely linked with risk numbers 5d of the Council's Significant Risk Register – we may be unable to respond in a timely and effective way to financial demands. Other key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If we do not consider the ongoing impacts of the Welfare and Funding Reforms, then it could lead to unpreparedness for further changes. This links to the Council's Significant Business Risks no. 5h.	Unlikely - 2	Bad – 3	Ensure adequate bad debt provision and that the Income Management Strategy seeks to mitigate the impact of the changes on residents, the Council's income streams and budgets.
If there are increases in inflation and other variables, then Council Housing self-financing could result in a greater risk to investment and service delivery plans.	Unlikely - 2	Noticeable – 2	Inflation and interest rate assumptions have been modelled in the HRA business plan. Capital receipts and capital programme funding are reviewed.
If we fail to spend retained Right To Buy (RTB) receipts within 3-year period, then it will lead to requirement to repay to Government with an additional 4% interest.	Unlikely - 2	Bad - 3	Provision has been made in the updated HRA Investment Strategy to enable match funding and spend of RTB receipts.
If we borrow too much to fund New Homes, we will not be able to pay the loan interest.	Unlikely - 2	Bad - 3	Follow the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code which states Capital investment plans must be affordable, prudent and sustainable.
Brexit could have an impact on interest rates/inflation/house prices and demand/jobs	Unlikely - 3	Bad - 3	Understanding and acting on intelligence from Local Government Association (LGA), CIPFA.
If Capital data is inaccurate it could lead to problems with treasury management debt and cashflows.	Unlikely - 2	Bad - 3	Work closely with treasury management when setting capital budgets and how this will be financed. Monitor the capital spend quarterly and raise any changes with treasury management.

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 – MC/17/35

26 July 2018 Housing Revenue Account Financial Monitoring 2018/19 – Quarter One MCa/18/19

5 November 2018 Housing Revenue Account Financial Monitoring 201819 – April to August 2018 MCa/18/38

Appendix A

MID SUFFOLK CAPITAL PROGRAMME 2018/19 HOUSING REVENUE ACCOUNT	Project Sponsor	Original Budget £'000	Carry Forwards £'000	Current Budget £'000	Actual Spend Apr - Dec £'000	Full Year Forecast £'000	Full Year Forecast LESS Budget £'000
Capital Projects							
Planned maintenance	H Worton	3,552	1,444	4,996	3,021	5,113	118
ICT Projects	H Worton	300	17	317	21	84	-233
Environmental Improvements	H Worton	40	0	40	0	40	0
Disabled Facilities work on council dwellings	H Worton	200	28	228	105	228	0
New build programme inc acquisitions	A Bennett	4,945	28	4,973	2,926	6,614	1,642
Total HRA Capital Spend		**9,037**	**1,516**	**10,554**	**6,073**	**12,080**	**1,526**