BABERGH DISTRICT COUNCIL

TO:	**Cabinet**	**REPORT NUMBER: BCa/18/72**
FROM:	**Councillor Jan Osborne, Cabinet Member for Housing**	**DATE OF MEETING: 7 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 £299k to the Strategic Priorities reserve.

b) At this stage in the year, make no recommendation for the transfer of funds to 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 increase in funds of £299k, referred to in section 5.6 of the report, be transferred to 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, 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.

4.3 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. 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 surplus of £244k, which was met by reserves to achieve a balanced budget position. The forecast position at December is a surplus of £543k, a favourable variance of £299k.

5.6 The table below shows the main items that are included in the overall net favourable variance of £299k. 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 9 properties as Shared Ownership, rather than keep them as 100% rental properties, together with higher than anticipated voids has led to an adverse variance of £42k (0.26%). This is an adverse movement of £24k from the August report. • A review of the Homeless rents has identified £42k of rental income to be moved to the General Fund at the end of the year leading to a further adverse variance. • Garage Rents are predicted to show an adverse variance of £21k for the year, an adverse movement of £4k. This is due to higher than anticipated voids.	35	105	70
Property Services			
• Planned Maintenance - heating is anticipated to show an adverse variance of £100k on the Whole House Serving contract with Blueflame due to a high increase in material costs and work carried out to maintain the properties. This is a favourable movement of £14k from the August report. • Asbestos Surveys are predicted to show an adverse variance of £80k 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 £15k from the August report. As this is a statutory requirement, we have increased the Budget for next year.	161	174	13

Explanation	August Amount (£'000) (Favourable) / Adverse	December Amount (£'000) (Favourable) / Adverse	Movement (£'000) (Favourable) / Adverse
• Other favourable variances total £6k in the year, an adverse movement of £12k.			
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. • Voids repairs – following a review and subsequent reallocation of costs to Capital we are now anticipating a favourable variance for the year of £125k. This is a favourable movement of £58k from the August report. • Responsive repairs – we are anticipating an adverse variance of £169k for the year, an adverse movement of £134k. This is due to an increase in material costs and the number of repairs anticipated to be 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 £512k is expected which is an adverse movement of £324k 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	156	556	400

Explanation	August Amount (£'000) (Favourable) / Adverse	December Amount (£'000) (Favourable) / Adverse	Movement (£'000) (Favourable) / Adverse
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 34 days, from 54 in September 2017 to 20 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 movement of £2k since the August report. • Employee Costs - Due to vacant posts not being filled a favourable movement of £42k is anticipated, however this has been partially offset by an adverse movement of £10k on Agency fees to give an overall favourable variance of £32k for the year. • Professional and Consultancy Fees - A favourable variance of £45k is anticipated following the recruitment of permanent staff to vacant posts. This is also a £45k movement from the August report. • 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 £5k, an adverse movement of £4k from the August report.	133	32	(101)
Sheltered Management			
• Employee costs – Due to vacant posts not being filled and corrections of salaries costs a favourable variance of £40k is predicted for the year. This is also a £40k movement from the August report. • Lower than anticipated repairs has led to a favourable movement of £64k since August, an adverse variance of £8k for the year.	72	(43)	(115)

Explanation	August Amount (£'000) (Favourable) / Adverse	December Amount (£'000) (Favourable) / Adverse	Movement (£'000) (Favourable) / Adverse
• Other minor favourable variances total £11k for the year, a favourable movement of £1k from August.			
Revenue Contribution to Capital (RCCO)			
• Capital ICT Projects expenditure is anticipated to show a favourable variance of £134k on salaries, a favourable movement of £2k from the August report. • A favourable variance of £145k is anticipated for the year, which has been identified since the previous report. This is due to the reallocation of Consultant fees amounting to £46k and Asbestos Inspections amounting to £87k from Capital to revenue. • Capital Maintenance is anticipated to require a reduction of £774k in contribution from the revenue account per note 5.10. This is a favourable variance for the year and movement from the August report. • Following the increase in Depreciation of £514k capital maintenance funding from the Major Repairs Reserve will be increased by the same amount leading to a further reduction of £514k from the required RCCO. This is a favourable variance for the year and movement from the August report.	(132)	(1,567)	(1,435)
Depreciation			
• A review of the depreciation charged has resulted in an increase of the provision leading to an adverse variance of £514k for the year. The 2019/20 Budget has been increased to reflect this.	0	514	514
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 £70k within the year. The 2019/20 Budget has been reduced to reflect this.	0	(70)	(70)
TOTAL ADVERSE VARIANCE	**425**	**(299)**	**(724)**

5.7 The net £543k favourable position means that the total HRA balances as at 31 March 2019 are forecast to be £13.2m. This includes a minimum working balance of £1m and £12.2m 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 £3.8m, against a revised programme (including carry forwards) of £14m, as set out in Appendix A.

We are currently predicting an underspend of £279k for ICT Projects following the movement of staff, consultant and asbestos survey costs to revenue. Capital maintenance costs are anticipated to show an underspend of £742k. Other projects are anticipated to underspend by £43k in the year.

New Build – we are currently anticipating a spend of £3.6m during the year, a favourable variance of £3.2m, due to a review of our Capital Development programme in September 2018. This has allowed us to set accurate Budgets for 2019/20 to 2021/22, which has allowed us to release the carry forward amounts from previous years. We are anticipating the addition of 36 new homes to our housing stock in 2018/19.

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

9.1 This report is closely linked with risk number 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/serious – 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 reviewed.
If we fail to spend retained Right to Buy receipts within 3-year period, then it will lead to requirement to repay to Government with an additional 4% interest.	Unlikely - 2	Bad/serious - 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/serious – 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	Probable - 3	Bad/serious – 3	Understanding and acting on intelligence from Local Government Associations (LGA), CIPFA.
If Capital data is inaccurate it could lead to problems with treasury management debt and cashflows.	Unlikely - 2	Bad/serious – 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 – BC/17/29

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

8 November 2018 Housing Revenue Account Financial Monitoring 201819 – April to August 2018 BCa/18/44

Appendix A

BABERGH 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
Housing Maintenance							
Planned maintenance	H Worton	4,587	1,875	6,462	2,709	5,720	-742
ICT Projects	H Worton	300	59	359	16	81	-279
Environmental Improvements	H Worton	50	0	50	0	30	-20
Disabled Facilities work	H Worton	200	59	259	129	258	-0
Horticulture and play equipment	H Worton	23	0	23	0	0	-23
New build programme inc acquisitions	A Bennett	3,415	3,426	6,841	959	3,627	-3,214
Total HRA Capital Spend		**8,575**	**5,419**	**13,994**	**3,813**	**9,716**	**-4,278**