

MID SUFFOLK DISTRICT COUNCIL

FOR: Cabinet	REPORT NUMBER: MCa/19/4
FROM: Cabinet Member for Finance	DATE OF MEETING: 12 June 2019
OFFICER: Gavin Fisk, Assistant Director, Housing Tricia Anderson, HRA Accountant	KEY DECISION REF NO. CAB121

HOUSING REVENUE ACCOUNT FINANCIAL OUTTURN 2018/19

1. PURPOSE OF REPORT

- 1.1 This report summarises the 2018/19 financial outturn for the Housing Revenue Account and Capital Programme.
- 1.2 This is subject to the external auditor's report on the Statement of Accounts for the year, which will be presented to the Joint Audit and Standards Committee later in the year once the audit is complete.

2. OPTIONS CONSIDERED

- 2.1 The option that has been considered is;
 - a) To recommend the carry forward of £675k HRA Capital costs.

3. Recommendations

- 3.1 That the 2018/19 financial outturn as set out in this report be noted.
- 3.2 That the transfer of £495k, being the HRA deficit for the year (£167k less than planned) per paragraph 5.5, from the Strategic Priorities Reserve be noted.
- 3.3 That the HRA Capital carry-forward requests referred to in paragraph 5.14 of this report totalling £675k be approved.

REASON FOR DECISION

To ensure that Members are kept informed of the outturn position for both Housing Revenue and Capital and to approve the carry forward requests.

4. KEY INFORMATION

Strategic Context

- 4.1 In February 2018 Mid Suffolk District Council approved the Joint Medium-Term Financial Strategy (MTFS). This confirms the direction of travel, in that the Council has been developing a new business model to respond to the financial challenges.

- 4.2 The financial position of the HRA for 2018/19 should be viewed in the context of the updated 30-year business plan. The adverse position on both revenue and capital for the HRA in 2018/19 is as a result of decisions taken during the year to assist with the 30-year position. 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 stipulated that Council rents for 2016/17 and the following three years would need to be reduced by 1% per annum. The previously agreed rent strategy was based on applying the maximum level of rent increase to support the business plan, whilst keeping our average rent level within the limit rent. The overall impact of the change is substantial; however, this will be reduced following the announcement by the Government that we can increase rent by a maximum of CPI + 1% for five years from 2020/21.
- 4.4 With the Council's housing stock at 3,285 homes there will always be unplanned events that affect the level of income and expenditure in any one financial year.

5. 2018/19 Outturn Position

- 5.1 Based upon financial performance and information from April to March 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 showed a deficit of £662k, which would be met by reserves to achieve a balanced budget position. The final figure for 2018/19 is a deficit of £495k, resulting in a net favourable variance of £167k for the year representing an increase in resources available for investment.
- 5.6 The outturn compared to budget is shown in the table below.

	Budget YTD	Actual YTD	Variance (Favourable) / Adverse
	£'000	£'000	£'000
Income	(15,068)	(15,023)	45
Repairs and Maintenance	1,716	2,388	672
Property Services	1,174	1,320	146
Housing Management	2,302	2,306	4
Sheltered Housing	845	956	111
Depreciation and impairment	3,401	3,761	360
Capital Financing Costs	2,754	2,693	(61)
Net transfers (to)/from reserves inc revenue contributions to Capital	3,393	1,944	(1,449)
Bad Debt Provision	145	150	5
Deficit/ (Surplus) for Year	662	495	(167)
Reserves			
Balance at 1 April 2019	(5,202)	(5,202)	0
Deficit /(Surplus) for year (as above)	662	495	(167)
Transfers to Earmarked Reserves	0	(28)	(28)
Balance at 31 March 2019	(4,540)	(4,735)	(195)
Working Balance 31 st March 2019	(1,209)	(1,209)	0
Strategic Priorities Reserve 31 st March 2019	(3,331)	(3,498)	(167)
“Building Council Homes Programme” Reserve	0	(20)	(20)
“Leaseholder repairs” Reserve	0	(8)	(8)

5.7 The table below explains the key items included in the net favourable variance of £167k.

Explanation	December 2018 (£'000) (Favourable) /Adverse	Outturn Amount (£'000) (Favourable) /Adverse	Movement (£'000) (Favourable) /Adverse
Rental Income and Service Charges			
<ul style="list-style-type: none"> Rental Income – higher than anticipated voids has led to an adverse variance of £57k (0.26%). This is an adverse movement of £34k since the last report. Service Charges - an adverse variance of £4k for the year, which is a favourable movement of £6k from the last report. This is mainly due to the £8k overpayment of Leaseholder’s service charges which has been transferred to a Leaseholder repairs earmarked reserve. 	18	45	27

Explanation	December 2018 (£'000) (Favourable) /Adverse	Outturn Amount (£'000) (Favourable) /Adverse	Movement (£'000) (Favourable) /Adverse
<p>Rental Income and Service Charges cont'd</p> <ul style="list-style-type: none"> Other income - a favourable variance of £13k for the year following higher than anticipated recovery of legal fees. This is the same as advised in the last report. 			
Repairs and Maintenance			
<p>The net adverse variance can mainly be attributed to the following;</p> <ul style="list-style-type: none"> Voids Repairs - an adverse variance of £91k for the year, which is an adverse movement of £49k from the last report. This is due to the additional work required to reduce the number of void days and timing delays in the recharges being made from BMBS. Responsive Repairs - an adverse variance of £55k for the year mainly due to an increase in material costs and the number of repairs being carried out. This is a favourable movement of £39k from the last report due to less work being carried out by BMBS than anticipated as it is difficult to predict how many repairs will be required. BMBS - an adverse variance of £526k for the year, an adverse movement of £91k from the last report, which has been partially offset by the £41k reduction in responsive repairs. This is mainly due to higher than expected external contractor work being carried out on the voids project to reduce the number of days and timing differences on jobs being carried out and recharged to relevant service area. <p>Note: At the time of writing, the overall number of voids days has reduced by 29 days, from 54 in September 2017 to 25 days in March 2019.</p>	571	672	101
Property Services			
<ul style="list-style-type: none"> Planned Maintenance - heating - an adverse variance of £119k for the year on the Whole House Servicing contract with Blueflame. This is an adverse movement of £38k from the last report mainly due to an increase in material costs and work carried out to maintain our properties. 	132	146	14

Explanation	December 2018 (£'000) (Favourable) /Adverse	Outturn Amount (£'000) (Favourable) /Adverse	Movement (£'000) (Favourable) /Adverse
<p>Property Services cont'd</p> <ul style="list-style-type: none"> Planned Maintenance - external painting - a favourable variance of £30k for the year following less work being carried out than anticipated. This is also a favourable moment of £29k from the last report Asbestos Surveys - an adverse variance of £50k for the year. This is an adverse movement of £1k since the last report and mainly due to an increase in remedial works, tenant friendly asbestos reports and asbestos surveys on planned works. We have also reallocated costs from capital for asbestos surveys that did not result in capital work being required. Other minor adverse variances total £7k in the year, an adverse movement of £4k since the last report. 			
Housing Management			
<ul style="list-style-type: none"> 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, the same as reported in the last report. Employee Costs - a favourable variance of £63k, has been partially offset by an adverse variance of £9k on Agency fees to give an overall favourable variance of £54k for the year. This is a favourable movement of £23k since the last report. Professional and Consultancy Fees - A favourable variance of £64k following the recruitment of permanent staff to vacant posts. This is a £16k favourable movement from the last report. Following a decision to reduce the reserves carried forward there is a favourable variance of £60k, a £30k favourable movement from the last report. 	26	4	(22)

Explanation	December 2018 (£'000) (Favourable) /Adverse	Outturn Amount (£'000) (Favourable) /Adverse	Movement (£'000) (Favourable) /Adverse
<p>Housing Management cont'd</p> <ul style="list-style-type: none"> Overheads - £36k higher than Budget for the year, a £35k adverse movement since the last report. This is mainly due to higher than anticipated ICT costs and Insurance Premiums. Legal Fees are showing an adverse variance of £16k for year, the same movement from the last report. No Budget was allocated to this cost. Surplus income from the late receipt of a Building Council Homes Programme Grant (BCHP) has led to a favourable variance of £20k. This has been transferred to the BCHP earmarked reserve. Other minor adverse variances total £16k, an adverse movement of £16k from the last report. 			
Sheltered Housing			
<ul style="list-style-type: none"> Employee costs - following the reallocation of salaries based on the sheltered units scheme managers support an adverse variance of £48k is showing for the year. This is an adverse movement of £45k since the last report. Repairs and maintenance - lower than anticipated repairs work carried out by BMBS has resulted in a favourable variance of £13k for the year, a favourable movement of £57k. Premises costs - an adverse variance of £46k for the year, which is an adverse movement of £52k. This is mainly due to utility costs which are difficult to predict due to timing differences between estimated and actual costs. Overheads are showing a £30k adverse variance for the year and a £27k adverse movement since the last report. This is mainly due to higher than anticipated ICT costs and Insurance Premiums. 	44	111	67

Explanation	December 2018 (£'000) (Favourable) /Adverse	Outturn Amount (£'000) (Favourable) /Adverse	Movement (£'000) (Favourable) /Adverse
Depreciation			
<ul style="list-style-type: none"> Depreciation charged has resulted in an adverse variance of £360k for the year. This is mainly due to the Budget being underestimated, which has been amended for 2019/20. The opposite effect of this will be to increase the funds available in the Major Repairs Reserve. 	0	360	360
Capital Financing Costs			
<ul style="list-style-type: none"> Lower than anticipated interest charged on loans has resulted in a favourable variance of £61k for the year. 	0	(61)	(61)
Net transfers (to)/from Reserves including Revenue Contribution to Capital (RCCO)			
<ul style="list-style-type: none"> RCCO - The reduction in the funding required from revenue amounts to £1,478k, a favourable movement of £1,145k from the last report. This is due to an increase in funding from the Major Repairs reserve, as mentioned above, and capital receipts. Transfers to Earmarked Reserves – an adverse movement of £28k following the transfer of funds mentioned above under Income and Housing Management. 	(333)	(1,449)	(1,116)
Bad Debt Provision			
<ul style="list-style-type: none"> The outstanding arrears balance has increased by £90k this year and the recovery of outstanding arrears has been lower than anticipated at 44%. This has led to a Bad Debt Provision of £150k being required for the year, an adverse movement of £50k from the last report. A project is being completed in 2019/20 to focus on reducing the amount of arrears. 	(45)	5	50
TOTAL ADVERSE/(FAVOURABLE) VARIANCE	413	(167)	(580)

5.8 The net position means that the total HRA balances as at 31 March 2019 amount to £4.735m. This includes a minimum working balance of £1.209m, £3.498m in the Strategic Priorities Reserve and £28k in Earmarked Reserves.

Capital

- 5.9 A zero-based approach was adopted for the preparation of the capital programme for 2018/19 to 2022/23, to ensure that resources are aimed at delivering the Council's strategic priorities.
- 5.10 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.
- 5.11 A substantial level of capital investment of £7.7m was undertaken during 2018/19. Further details are shown in Appendix A. The outturn shows a net adverse variance of £75k (after carry forward requests) as summarised in the table below and is described further in paragraph 5.12.

	£'000
Capital Programme	10,554
Actual expenditure	7,755
Contractual commitments as at 31 March 2019 (see paragraph 5.13 below)	2,199
Carry forward requests (see paragraph 5.14 below)	675
Total expenditure, commitments and carry-forward requests	10,629
Net capital programme adverse variance	75

5.12 The adverse variance of £75k can be attributed to a number of items as follows;

- Planned maintenance - a minor adverse variance of £12k is due to more work being carried out than anticipated. This is an improved position since the last report of £106k.

A 10-year capital programme was not available in 2018/19 however, following the appointment of two stock condition surveyors in March 2019, an informed programme of capital works will be developed in 2019/20.

- ICT and total mobile - £301k favourable variance due to salaries and asbestos surveys being transferred to revenue and savings on consultancy fees as a result of completing tasks in house combined with a reduction in the number of consultancy days needed from Capita on the Open Housing system. This is a favourable movement of £68k from the last report.
- Environmental Improvements – a favourable variance of £40k due to less work being required than anticipated. Some of these costs will be reflected in Planned maintenance as they are difficult to separate.
- Disabled adaptations to council dwellings – a favourable variance for the year and movement since the last report of £11k due to less work being carried out than anticipated.

- New build and acquisitions – an adverse variance of £415k. This is a favourable movement of £1.2m since the last report following delays in the development programme to 2019/20.

5.13 Contractual commitments are detailed in the table below. These funds were committed in 2018/19 and will be spent in 2019/20. Resources to finance the capital expenditure e.g. capital receipts will also transfer from 2018/19 into 2019/20.

Contractual Commitments as at 31 March 2019	(£'000)
Planned maintenance	199
Disabled adaptations to council dwellings	5
New Build programme including acquisitions	1,995
Total	2,195

5.14 The remainder represents plans or aspirations for investment, for which a carry forward to 2019/20 is requested along with the appropriate capital resources to fund this. It is proposed that the capital resources are carried forward into 2019/20 and reviewed as part of the Joint Strategic Plan to assess whether it meets the objectives to build new homes and make the best use of our existing assets.

Carry forwards as at 31 March 2019	(£'000)
Planned maintenance	609
Disabled adaptations to council dwellings	66
Total	675

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

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 number 5d of the Council's Significant Risk Register – If we do not understand our financial position and respond in a timely and effective 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 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 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 - 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	Probable - 3	Bad – 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 – 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 – HRA 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 2018/19 – April to August 2018 MCA/18/38

4 March 2019 Housing Revenue Account Financial Monitoring 2018/19 – April to December 2018 – MCA/18/67

APPENDIX A

CAPITAL PROGRAMME

HRA

MID SUFFOLK CAPITAL PROGRAMME 2018/19	Original Budget	Revised Budget incl Carry Forwards	Actual Spend Apr - Mar	Variance - revised budget LESS actual spend	Contractual Commitments	Uncommitted Carry Forwards	Variance after Carry Forwards (favourable)/ adverse
HOUSING REVENUE ACCOUNT	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Housing Maintenance							
Planned maintenance	3,552	4,996	4,200	(796)	199	609	12
ICT Projects	300	317	16	(301)	0	0	(301)
Environmental Improvements	40	40	0	(40)	0	0	(40)
Disabled adaptations to council dwellings	200	228	147	(81)	5	66	(11)
New build programme inc acquisitions	4,945	4,973	3,392	(1,580)	1,995	0	415
Total HRA Capital Spend	9,037	10,554	7,755	(2,799)	2,199	675	75