BABERGH DISTRICT COUNCIL

TO:	**Cabinet**	**REPORT NUMBER: BCa/19/3**
FROM:	**Cabinet Member for Finance**	**DATE OF MEETING: 13 June 2019**
OFFICERS:	**Gavin Fisk, Assistant Director, Housing Tricia Anderson, HRA Accountant**	**KEY DECISION REF NO. CAB122**

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 auditors' 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 £6.169m 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 £491k, being the HRA surplus for the year (£247k more than planned) per paragraph 5.5, to the Strategic Priorities Reserves be noted.

3.3 That the HRA Capital carry-forward requests referred to in paragraph 5.14 of this report totalling £6.169m 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 Babergh 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 favourable 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 3,425 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 surplus of £244k, which would be transferred to reserves to achieve a balanced budget position. The final figure for 2018/19 is a surplus of £491k, resulting in a net favourable variance of £247k 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	(16,656)	(16,557)	99
Repairs and Maintenance	1,736	2,404	668
Property Services	968	1,215	247
Housing Management	2,414	2,420	6
Sheltered Housing	947	970	23
Depreciation and impairment	2,721	3,530	809
Capital Financing Costs	2,847	2,831	(16)
Debt Repayment	500	500	0
Net transfers (to)/from reserves inc revenue contributions to Capital	4,124	2,196	(1,928)
Bad Debt Provision	155	0	(155)
(Surplus) for Year	**(244)**	**(491)**	**(247)**
Reserves			
Balance at 1 April 2019	(12,655)	(12,655)	0
(Surplus) for year (as above)	(244)	(491)	(247)
Transfers to Earmarked Reserves	0	(20)	(20)
Balance at 31 March 2019	**(12,899)**	**(13,166)**	**(267)**
Working Balance 31 March 2019	(1,000)	(1,000)	0
Strategic Priorities Reserve 31 March 2019	(11,799)	(12,046	(247)
"Big 20" Reserve	(100)	(100)	0
“Building Council Homes Programme” Reserve	0	(20)	(20)

5.7 The table below explains the key items included in the net favourable variance of £247k.

Explanation	**December 2018 (£'000) (Favourable) /Adverse**	**Outturn Amount (£'000) (Favourable) /Adverse**	**Movement (£'000) (Favourable) /Adverse**
Rental Income and Service Charges			
• Rental Income –higher than anticipated voids has led to an adverse variance of £29k (0.18%). This is a favourable movement of £15k since the last report. • A review of the Homeless rents has identified £42k of rental income to be moved to the General Fund at year end leading to a further adverse variance. This is the same as reported in the last report. • Garage Rents are showing an adverse variance of £24k for the year, an adverse movement of £3k since the last report. This is due to higher than anticipated voids.	105	99	(6)

Explanation	December 2018 (£'000) (Favourable) /Adverse	Outturn Amount (£'000) (Favourable) /Adverse	Movement (£'000) (Favourable) /Adverse
Rental Income and Service Charges cont'd • Interest received shows a favourable variance of £9k for the year due to higher than anticipated interest rates. • Other minor adverse variances total £13k, an adverse movement of £15k since the last report.			
Repairs and Maintenance			
The net adverse variance can mainly be attributed to the following; • Voids Repairs - a favourable variance of £85k for the year, an adverse movement of £40k since the last report. This was mainly due to the reallocation of costs between revenue and capital. • Responsive Repairs - an adverse variance of £147k 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 £22k since 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 is showing an adverse variance of £606k for the year, an adverse movement of £94k from the last report, which has been partially offset by the £22k 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 the relevant service area. 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 March 2019.	556	668	112
Property Services			
• Planned Maintenance - heating - an adverse variance of £138k 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.	174	247	73

Explanation	December 2018 (£'000) (Favourable) /Adverse	Outturn Amount (£'000) (Favourable) /Adverse	Movement (£'000) (Favourable) /Adverse
Property Services cont'd • Planned Maintenance – external painting - an adverse variance of £27k for the year and adverse movement since the last report. This is due to higher than anticipated works being carried out. • Asbestos Surveys - an adverse variance of £93k for the year. This is an adverse movement of £13k 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 favourable variances total £11k in the year, a favourable movement of £5k since the last report.			
Housing 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, the same as reported in the last report. • Employee Costs - a favourable variance of £73k, has been offset by an adverse variance of £52k on Agency fees to give an overall favourable variance of £21k for the year. This is an adverse movement of £11k since the last report. • Pension Fund Contribution – a favourable variance of £41k for the year and movement since the last report. • Professional and Consultancy Fees - a favourable variance of £40k following the recruitment of permanent staff to vacant posts. This is a £5k adverse movement from the last report. • Following a decision to reduce the reserves carried forward there is a favourable variance of £49k, a £19k favourable movement from the last report.	32	6	(26)

Explanation	December 2018 (£'000) (Favourable) /Adverse	Outturn Amount (£'000) (Favourable) /Adverse	Movement (£'000) (Favourable) /Adverse
Housing Management cont'd • Overheads - £56k higher than Budget for the year, a £29k adverse movement since the last report. This is mainly due to higher than anticipated ICT costs and Insurance Premiums. • 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 favourable variances total £13k, an adverse movement of £9k from the last report.			
Sheltered Housing			
• Employee costs – a favourable variance of £22k is predicted for the year, an adverse movement of £18k since the last report. This is mainly due to an increase in Out of Hours agency staff being required to ensure tenants safety at our very sheltered schemes following the fire at Sydney Brown Court. • Repairs and maintenance – an adverse variance of £24k for the year and adverse movement of £16k from the last report due to higher than anticipated legionella testing on Elizabeth Court. • Overheads are showing a £27k adverse variance for the year and adverse movement since the last report. This is mainly due to higher than anticipated ICT costs and Insurance Premiums. • Other minor favourable variances total £6k for the year, an adverse movement of £5k.	(43)	23	66
Depreciation			
• Depreciation charged has resulted in an adverse variance of £809k for the year, an adverse movement of £295k since the last report. 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.	514	809	295

Explanation	December 2018 (£'000) (Favourable) /Adverse	Outturn Amount (£'000) (Favourable) /Adverse	Movement (£'000) (Favourable) /Adverse
Capital Financing Costs			
• Lower than anticipated interest charged on loans has resulted in a favourable variance of £16k for the year.	0	(16)	(16)
Net transfers (to)/from Reserves including Revenue Contribution to Capital (RCCO)			
• RCCO - The reduction in the funding required from revenue amounts to £1,948k, a favourable movement of £381k from the last report. This is due to the Capital underspend of £599k per note 5.11 and an increase in funding of £1,349k from the Major Repairs reserve, as mentioned in Depreciation, and capital receipts. • Transfers to Earmarked Reserves – an adverse movement of £20k following the transfer of funds to the BCHP reserve mentioned above under Housing Management.	(1,567)	(1,928)	(361)
Bad Debt Provision			
• The implementation of Universal Credit has not had the impact on Bad Debts anticipated when setting the 2018/19 Budget. This, together with a 92% recovery of outstanding arrears, has led to no Bad Debt Provision being required for the year, resulting in a favourable variance of £155k for the year, a £85k favourable movement from the last report.	(70)	(155)	(85)
TOTAL ADVERSE/(FAVOURABLE) VARIANCE	**(299)**	**(247)**	**52**

5.8 The net position means that the total HRA balances as at 31 March 2019 amount to £13.166m. This includes a minimum working balance of £1m, £12.046m in the Strategic Priorities Reserve, £20k in the BCHP earmarked reserve and £100k in the 'Big 20' earmarked reserve.

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 The level of capital investment undertaken during 2018/19 amounted to £5.601m. Further details are shown in Appendix A. The outturn shows a net favourable variance of £599k (after carry forward requests) as summarised in the table below and is described further in paragraph 5.12.

	£'000
Capital Programme	**13,994**
Actual expenditure	5,601
Contractual commitments as at 31 March 2019 (see paragraph 5.13 (below)	1,625
Carry forward requests (see paragraph 5.14 below)	6,169
Total expenditure, commitments and carry- forward requests	**13,395**
Net capital programme favourable variance	**599**

5.12 The favourable variance of £599k can be attributed to a number of items as follows;

- Planned maintenance - a favourable variance of £73k due to less work being carried out than anticipated. This is an adverse movement of £669k since the last report and is mainly due to a capital programme of fire prevention works being identified as required, and an increased cost when conducting Electrical works due to changes in standards.

  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 - £344k 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 £65k from the last report.

- Environmental Improvements – a favourable variance of £19k due to less work being carried out than anticipated.

- Disabled adaptions to council dwellings – a small favourable variance of £1k.

- New build and Acquisitions – a favourable variance of £162k. This is a reduction of £3.1m since the last report following the carry forward of funds to be utilised against developments that will be completed in 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	166
Disabled adaptions to council dwellings	2
New Build programme including acquisitions	1,457
Total	**1,625**

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)
New Build programme including acquisitions	3,325
Planned maintenance	2,712
Environmental Improvements	29
Horticulture and Play equipment	23
Disabled adaptions to council dwellings	80
Total	**6,169**

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 – **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**

7 March 2019 Housing Revenue Account Financial Monitoring 2018/19 – April to December 2018 – **BCa/18/72**

APPENDIX A

CAPITAL PROGRAMME

HRA

BABERGH CAPITAL PROGRAMME 2018/19 HOUSING REVENUE ACCOUNT	Original Budget £'000	Revised Budget incl Carry Forwards £'000	Actual Spend Apr - Mar £'000	Variance - revised budget LESS actual spend £'000	Contractual Commitments £'000	Uncommited Carry Forwards £'000	Full Year Forecast LESS Budget £'000
Housing Maintenance							
Planned maintenance	4,587	6,466	3,515	(2,951)	166	2,712	(73)
ICT Projects	300	359	16	(344)	0	0	(344)
Environmental Improvements	50	50	2	(48)	0	29	(19)
Disabled adaptions to council dwellings	200	258	175	(83)	2	80	(1)
Horticulture and play equipment	23	23	0	(23)	0	23	0
New build programme inc acquisitions	3,415	6,837	1,893	(4,945)	1,457	3,325	(162)
Total HRA Capital Spend	**8,575**	**13,994**	**5,601**	**(8,394)**	**1,625**	**6,169**	**(599)**