

MID SUFFOLK DISTRICT COUNCIL

TO: Cabinet	REPORT NUMBER: MCa/19/53
FROM: Councillor John Whitehead, Cabinet Member for Finance	DATE OF MEETING: 9 March 2020
OFFICER: Gavin Fisk, Assistant Director, Housing Sharon Bayliss, Senior Finance Business Partner	KEY DECISION REF NO. CAB142

HOUSING REVENUE ACCOUNT FINANCIAL MONITORING 2019/20 – QUARTER 3

1. PURPOSE OF REPORT

- 1.1 Based on the financial performance of the Council's Housing Revenue Account during April to December of this financial year and latest information, a review of income and expenditure to date and other factors have identified several budget variances.

2. OPTIONS CONSIDERED

- 2.1 The options that have been considered are;

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 in-year shortfall in funds of £218k, referred to in section 5.5 of the report, be noted.
- 3.3 The 2019/20 Capital Programme position referred to in Appendix A and section 5.10 be noted.

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 2019/20 should be viewed in the context of the updated 30-year business plan. A balanced budget has been achieved for 2019/20 by reducing both capital and revenue budgets and withdrawing money from reserve.

- 4.2 A fundamental review of the housing service was undertaken during 2018/19 to identify savings, efficiencies and income generation opportunities that will achieve a sustainable business plan into the future. The business plan 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 requiring all social landlords to reduce rents by 1% each year ends in March 2020. This means rents can increase by Consumer Price Index (CPI) +1% for five years from April 2020, which will reduce the impact of the 1% reduction on the 30-year plan.
- 4.4 With the Council's housing stock at 3,299 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. Quarter 3 position

- 5.1 Based upon financial performance and information between April 2019 to December 2019 (with trends extrapolated to the end of the financial year) and discussions with budget managers/Senior Leadership Team, a number of 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 2018/19 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 2019/20 budget is summarised below:

Revenue

- 5.5 The original budget set for the HRA for 2019/20 shows a deficit of £419k, which would be met by reserves to achieve a balanced budget position. The forecast position at the end of December is a deficit of £637k, an adverse variance of £218k, as detailed in the table below.

The forecast variances identified within this report have also taken into consideration when setting the budgets for 2020/21.

- 5.6 The main items that are included in the overall adverse variance of £218k are detailed in the text and tables below:

	Budget 2019/20	Full Year Forecast	Full Year Forecast Variance to Budget (favourable) / adverse
	£'000	£'000	£'000
Total Income	(15,230)	(15,185)	45
Housing Management	2,995	2,995	-
Property Services - Planned Maintenance	1,284	1,319	35
Responsive Repairs and Maintenance	1,836	2,114	278
Bad Debt Provision	86	86	-
Interest Payable	2,912	2,912	-
Depreciation	3,709	3,709	-
Revenue Contribution to Capital Outlay	2,827	2,687	(140)
Debt Repayment	-	-	-
Total Expenditure	15,649	15,822	173
TOTAL (Surplus)/Deficit	419	637	218

Income – an adverse variance / income shortfall of £45k

- **Dwelling rents** - are anticipated to be £17k (0.12%) below the budget of £14.2m due to slightly higher voids than anticipated.
- **Non-dwelling income mainly refers to garage rental income** – an income shortfall of £23k due to higher than anticipated voids and a delay in the project to look at how these can be reduced. Additionally, work will take 2020/21 to look at alternative use for under-utilised sites.
- **Other Income** – a small adverse variance of £5k based on current trends.

Property Services – an adverse variance of £35k.

- Asbestos surveys - an adverse variance of £72k is expected.
- Both surplus income from heating incentives (£15k) and a favourable variance for the Whole House Servicing contract (£18k) can help to mitigate the adverse variance mentioned above.

Repairs and Maintenance – an adverse variance of £278k

- The majority of the adverse variance can be attributed to expenditure in relation to the use of sub-contractors. This is to ensure work was completed on time and to a satisfactory standard. Work continues to reduce our reliance on sub-contractors through the effective management and performance of the existing workforce.

Revenue Contribution to Capital – a favourable variance of £140k

- The anticipated slippage in the 2019/20 HRA Capital Programme as detailed in sections 5.8 to 5.10 below, has consequently resulted in a reduced financing requirement.

5.7 The net £637k adverse position means that the total HRA balances as at 31 March 2020 are forecast to be £4.797m. This includes a minimum working balance of £1.209m, £3.568m in the Strategic Priorities Reserve and £20k in the Building Council Homes programme earmarked 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 2019/20 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 a particular 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 2019 to December 2019 totals £1.319m, against the budget (including carry forwards) of £12.935m, as set out in Appendix A. We are currently forecasting that the annual spend in 2019/20 will result in an underspend of £7.9m as summarised below:

- **New Build and Acquisitions Programme** – a carry forward £7.8m is currently anticipated. This includes a number of schemes where we are expected to be on site within the next few months.
- **Capital Planned Maintenance programme** – several schemes in this category vary from the current year budget but in overall terms, spend to the revised capital works programme is as budget.
- **IT Systems** - £140k due to delays in project delivery.

6. LINKS TO THE CORPORATE 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 Corporate 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 most closely linked with the Council's Significant Risk No. 13 – We may be unable to respond in a timely and effective way to financial demands and also Corporate Risk No. SE05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered. 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.	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 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 CIPFA Prudential Code which states Capital investment plans must be affordable, prudent and sustainable.
If Brexit has a negative impact on the Economy, then interest rates/inflation/house prices and demand/jobs could be impacted.	Probable - 3	Bad - 3	Understanding and acting on intelligence from the Local Government Association (LGA) and CIPFA.

Risk Description	Likelihood	Impact	Mitigation Measures
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 With the Council's ambition to become carbon neutral by 2030, all budget holders will need to consider the environmental implications of how their revenue and capital budgets are spent.

13. APPENDICES

Title	Location
APPENDIX A – Capital Programme	Attached

14. BACKGROUND DOCUMENTS

21 February 2019 Housing Revenue Account (HRA) Budget and Four-year Outlook Report 2019/20 – MC/18/39

28 August 2019 Housing Revenue account (HRA) Financial Monitoring - Quarter 1 MCa/19/15

12 December 2019 Housing Revenue account (HRA) Financial Monitoring - Quarter 2 (sent electronically)

Capital Programme

MID SUFFOLK CAPITAL PROGRAMME 2019/20	Original Budget	Carry Forwards	Current Budget	Actual Spend	Full Year Forecast - Dec 19	Full Year Forecast Variance to Budget (favourable) / adverse	Explanation of movement
HOUSING REVENUE ACCOUNT	£'000	£'000	£'000	£'000	£'000	£'000	
Planned maintenance	3,073	609	3,682	2,052	3,682	-	Reduction in requirements for new IT expenditure
ICT Projects	200		200	-	60	(140)	
Environmental Improvements	30		30	7	30	-	
Council Housing Adaptations	200	66	266	195	266	-	
New build programme inc acquisitions	8,757		8,757	(935)	994	(7,763)	
Total HRA Capital Spend	12,260	675	12,935	1,319	5,032	(7,903)	