

BABERGH DISTRICT COUNCIL

COMMITTEE: Cabinet	REPORT NUMBER: BCa/19/42
FROM: Councillor John Ward, Cabinet Member for Finance	DATE OF MEETING: 12 March 2020
OFFICER: Gavin Fisk, Assistant Director, Housing Sharon Bayliss, Senior Finance Business Partner	KEY DECISION REF NO. CAB143

HOUSING REVENUE ACCOUNT FINANCIAL MONITORING 2019/20 QUARTER 3

1. PURPOSE OF REPORT

- 1.1 Based on the financial performance of the Council 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

- 2.1 The options that have been considered are;
- a) 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 £320k, referred to in section 5.6 of the report, be noted.
- 3.3 The revised 2019/20 Capital Programme referred to in Appendix A and section 5.9 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.

- 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, 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 requiring all social landlords to reduce rents by 1% each year ends in March 2020. This means rents can be increased by 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 3,443 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 from April to December 2019 (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 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 £193k, which was met by reserves to achieve a balanced budget position. The forecast position as at December 2019 is a deficit of £513k, an adverse variance of £320k, 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 £320k are detailed below:

	Budget 2019/20	Full Year Forecast	Full Year Forecast Variance to Budget (favourable) / adverse
	£'000	£'000	£'000
Total Income	(16,960)	(16,813)	147
Housing Management	3,116	3,101	(15)
Property Services - Planned Maintenance	1,136	1,237	101
Responsive Repairs and Maintenance	1,951	2,428	477
Bad Debt Provision	98	98	-
Interest Payable	3,117	3,117	-
Depreciation	3,313	3,313	-
Revenue Contribution to Capital Outlay	3,922	3,532	(390)
Debt Repayment	500	500	-
Total Expenditure	17,153	17,326	173
TOTAL (Surplus)/Deficit	193	513	320

Income – an adverse variance / income shortfall of £147k

- **Dwelling rents** - are anticipated to be £115k (0.71%) below the budget of £16m due to timing differences between actual and planned completion of new build units. The HRA Finance Business model assumed these would be completed in quarter one but the complex nature of New Build development projects means the actual delivery has varied from original project delivery plan.
- **Non-dwelling income mainly refers to garage rental income** – an income shortfall of £52k due to higher than anticipated voids and a delay in the project to look at how these can be reduced. Work will be undertaken in 2020/21 to look at alternative use of under-utilised sites.
- **Other Income** – a small favourable variance of £20k based on current income trends.

Property Services – an adverse variance of £101k

- Whole House Servicing Contract (WHS) - an adverse variance of £53k
- Asbestos surveys - an adverse variance of £80k
- External painting - work has not progressed as expected, resulting in an underspend of £20k. This can help to mitigate the adverse variances mentioned above.

Repairs and Maintenance – an adverse variance of £477k

- 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 - £390k

- 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 £513k adverse position means that the total HRA balances as at 31 March 2020 are forecast to be £12.428m. This includes a minimum working balance of £1m, £11.308m in the Strategic Priorities Reserve, £100k in the 'Big 20' earmarked reserve and £20k in the Building Council Homes programme earmarked reserves.

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 £7.670m, against the budget (including carry forwards) of £29.436m, as set out in Appendix A. We are currently forecasting that the annual spend in 2019/20 will result in carry forwards of £17.5m as summarised below:

- **New Build and Acquisitions Programme** – a carry forward £17.1m is currently anticipated. This includes Angel Court where we are expected to be on site within the next few months.
- **Capital Planned Maintenance programme** – an underspend of £253k, there are several minor variations currently expected across this category. Overall the delivery will be £253k under the current budget allocation of £7,638k and therefore the 2019/20 RCCO budget has reduced accordingly.
- **IT Systems** – a carry forward of £140k is expected as a result of delays with project delivery.

6. LINKS TO 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.
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

Risk Description	Likelihood	Impact	Mitigation Measures
			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 then 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

19 February 2019 Housing Revenue Account (HRA) Budget and Four-Year Outlook Report 2019/20 – BC/18/40

12 September 2019 Housing Revenue account (HRA) Financial Monitoring Quarter 1 – BCa/19/9

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

Capital Programme

BABERGH 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	4,923	2,715	7,638	3,872	7,385	(253)	Identified as spend not needed in planned maintenance programme
ICT Projects	200	-	200	-	60	(140)	Reduction in requirements for new IT expenditure
Environmental Improvements	500	29	529	17	529	-	
Council Housing Adaptations	200	80	280	146	280	(0)	
Horticulture and play equipment	-	23	23	-	23	-	
New build programme inc acquisitions	17,441	3,325	20,766	3,635	3,635	(17,131)	
Total HRA Capital Spend	23,264	6,172	29,436	7,670	11,912	(17,524)	