ROTHERHAM BOROUGH COUNCIL - REPORT TO MEMBERS

1.	**Meeting:**	**Cabinet Member for Safe and Attractive Neighbourhoods**
2.	**Date:**	**19th September 2011**
3.	**Title:**	**Housing Revenue Account 2011/12. Budget Monitoring P04 – July 2011**
4.	**Programme Area:**	**Neighbourhoods and Adult Services**

5. Summary

This report presents progress to date as at the end of July (P04) on the HRA, together with a forecast to the end of the financial year.

Forecast outturn is that the HRA will outturn on budget with a transfer to Working Balance (HRA reserves) of £4.876m, this being £262k higher than the budget position.

6. Recommendations

That Cabinet Member receives and notes the content of this report.

7. Proposals and Details

Background Information – The Budget

7.1 This is the first budget monitoring report for the Housing Revenue Account (HRA) for the financial year 2011/12.

This report will therefore provide a summary of the budget" and the budget setting principles and then review the forecast outturn position at the end of 2011/12 based upon activity to the end of July (Period 04).

7.2 Appendix A of the report provides details of the Budget Operating Statement, i.e. "The Budget" for 2011/12. Column A illustrates the various budget lines which form the overall budget.

7.3 It can be seen that budgeted income of £80.022m is anticipated to be collected during 2011/12 and that this is offset by £74.634m of budgeted expenditure which represents the cost of delivering the service. As anticipated income is greater than the cost of delivering the service, the result is an overall net income to the service (£5.388m credit).

7.4 In addition, various other items of income and expenditure are charged to the HRA as follows:-

Minimal interest of £25k is anticipated on balances held within the HRA which increases that credit position to show net operating income of £5.413m.

The net operating account is then reduced as provision has been made within the budget to use £800k of the income generated to fund capital expenditure incurred through the Housing Investment Programme (HIP).

Accounting regulations allow revenue funding to be utilised in this way, and the use of revenue resources are referred to as Revenue Contribution to Capital Outlay (RCCO). This is shown as a charge (expenditure) in the HRA Revenue Account, and as a credit (income) in the HIP. This sum can be seen as a funding source in the HIP monitoring report which appears elsewhere on the Cabinet Member's agenda.

In addition, provision has been made to transfer £4.613m into reserves or "Working Balance".

The HRA is a statutory account and it is prohibited for the account to be in deficit. It is good accounting practice to establish a "Working Balance" which effectively is a provision for unforeseen items of expenditure which may fall due.

The Chartered Institute of Public Finance and Accountancy, the body which governs the accounting format, recommends that a Working Balance should allow a reasonable provision per property and current “industry standard” is that this should be in the region of £150 - £200 per property.

It may be noted that at the end of 2010/11 the closing balance on the Working Balance was £2.772M which was significantly higher than forecast at the time when the 2011/12 budget was set.

When this is added to the 2011/12 Working Balance budget, the total will be £7.385m which exceeds the £200 per property provision.

This has been factored into the 30 year Business Plan required from April 2012 under HRA Self Financing.

7.5 As a consequence of the additional charges to the net operating expenditure / income, and the budgeted transfer to reserves, the final position is a balanced budget whereby total costs are covered by income received.

7.6 Whilst Appendix A details various items of expenditure incurred in providing the service, several of these budget lines are either year end adjustments, (for example debt management costs of £226k) or are subject to external influence and therefore outside direct control, (for example cost of capital charges £11.596m). Budget Monitoring is therefore primarily focussed on expenditure and income which is within our control. Future reports will focus primarily upon income, the repair and maintenance budget of £14.658m and supervision and management budget of £16.405m.

7.7 However, in order to set the Monitoring framework, all budget lines will be reviewed in this report.

7.8 Budget Monitoring

7.8.1 Appendix A column B demonstrates the projected outturn on the various budget heads based upon activity up to the end of July (Month 4 P04).

Overall it can be seen that the net cost of service is forecast to be £5.650m as demonstrated in the table below.

	Budget	**Forecast**	**Variance**
Expenditure	£74.634m	£74.504m	-£130k
Income	£80.022m	£80.154m	-£132k
Net Cost of Service	**-£5.388m**	**-£5.650m**	**-£262k**

This is an improvement of £262k on the budgeted position which is also reflected within net operating expenditure.

As a consequence, the forecast transfer to Working Balance has increased from £4.613m up to £4.875m in order to maintain a balance budget. The following paragraphs review activity within the various sections of the budget.

7.8.2 Expenditure

Column B of Appendix A demonstrates that based upon expenditure and commitments to date the forecast expenditure is £74.504m, a minimal reduction of £130k against budget. The major changes are as follows:-

- Contribution to Housing Repairs Account

  This is the Repair and Maintenance Account with the majority of the works being delivered through the Repairs contracts with Willmott Dixon and Morrison.

  Whilst Appendix A demonstrates that it is anticipated that expenditure will be contained within the budget provision of £14.658m the following pressure points are highlighted for information:-

- ➢ Based upon the level of spend at the end of July, forecast outturn on minor voids would be £2.789m against budget provision of £2.558m, a potential overspend of £231k. This is as a result of high value variation orders for works ordered over and above the specification within the contract. A review is currently ongoing to assess the reasoning behind the variation levels and it is anticipated that values will reduce. Current forecasts are based upon anticipated minor voids of 1496 in year. If this figure changes there will be a consequential impact on budget which may need to be managed through a reduction in other planned works.

- ➢ Based upon spend to date cyclical works delivered through Willmott Dixon are forecast to out turn within budget provision.

  However, negotiations are currently ongoing around various Change Orders – that is applications for payment outside the contract sum – which were raised in March 2011 in relation to gas servicing and repairs and other cyclical items. The Change Orders have a bearing on expenditure incurred last year and likely expenditure in 2011/12. An "accrual" or provision was made in the 2010/11 accounts of £100k, and additional budget provision of £472k has been made in 2011/12.

  Legal advice is currently being sought regarding these demands and a verbal update will be made at the meeting.

  Through the negotiation process if the "best case scenario" was achieved, i.e. the applications were rejected, the provisions identified above (£572k) would be released for spend elsewhere within the programme; if the worst case scenario i.e. all the contractor demands are met, this would result in a budget pressure of £148k re 2010/11 and £290k in 2011/12, whilst the "mid point" scenario would result in savings of £72k re 2010/11 and £119k re 2011/12 being available for redistribution.

- Supervision and Management

  Based upon spend and commitment to the end of July the forecast outturn on this budget head is £16.275m, a minor underspend of £130k against the budget provision of £16.405m.

  Such a minor forecast under spend at this point in the financial year is not unusual as this budget is primarily salaries and related costs such as supplies and services, transport etc. along with central establishment charges and spending patterns have yet to be established. As the year progresses and actual costs are incurred forecasting will become more refined. In addition, in-depth monitoring with individual budget holders will be stepped up to better inform the forecasts. Based upon the position to date, spending within supervision and management is in line with expectations.

  Actual forecast savings to date are primarily salary costs as a result of vacancies within the service.

- ALMO Management Fee. This budget sum of £1.892m was fully utilised to meet the costs incurred by the former 2010 Rotherham Ltd. in the period April to June prior to the reintegration with the Council.

- Rents, Rates and Taxes. This budget of £74k is forecasting to outturn on budget.

- Negative Housing Subsidy Repaid to Government. This item of expenditure netted off against the subsidy receivable (Major Repairs Allowance (MRA)) is:

Negative Subsidy	16.162m
Subsidy Receivable	13.120m
Subsidy due to Government	**£3.042m**

  This is based upon the estimated subsidy position which will remain in place until the second advance claim is made in October and highlights the fact that in excess of £3m is forecast to be repaid to the government through the existing subsidy system.

- Provision for Bad Debts

  The forecast outturn position for the write off of irrecoverable debt (rents and rechargeable repairs) is £500k in line with budget provision.

- Cost of Capital Charge

  This budget (£11.597m) provides for the cost of repaying interest on HRA loans for capital works and is based upon an average interest rate of 4.12%.

  Whilst this budget is forecast to outturn on budget any changes in rates will impact on charges incurred, albeit offset in part by subsidy.

- Depreciation of Fixed Assets

  As highlighted in the income section this is, in effect, the transfer of the MRA to fund capital investment.

- Debt Management Costs

  This budget of £226k is the Treasury Management costs associated with the management of the HRA debt portfolio of £268m.

  The debt portfolio is the collection of loans raised in the past to fund capital investment in HRA properties. Treasury management deliver the strategy to effectively manage the loans to ensure that the most advantageous rates of interest are paid on the outstanding Debt.

7.8.3 Income

Based upon performance to Month 04, total income is forecast at £80.154m, an increase of £132k on budget. The major changes are as follows:-

- Dwelling Rents. The forecast outturn is a minor shortfall of £65k against budget. However, it should be noted that whilst overall rental income forecast is an increase of £203k, this is offset by an increased loss of income through voids and miscellaneous income. The number of void properties was higher than normal at the beginning of the financial year as both external contractors had a backlog of properties. Whilst contractors have increased productivity on voids to address the backlog, they are also receiving an increased number of voids following the release of new build properties, therefore , whilst turnaround times have improved at the end of July, there is still a need to improve further This issue is currently being addressed through the end to end review of the voids process an an update will be provided to Cabinet Member at the completion of the review.

- Non Dwelling Rents. This budget head which covers garage rents, ground rents etc. is currently forecasting to outturn at £787k, a minimal under-recovery against budget.

- Charges for services and facilities has a forecast outturn of £3.225m, an improvement of £197k on the original budget sum offsetting the reduction on dwelling rent.

The increase in charges has resulted in a forecast increase in income generated through the Rotherham Furnished Home Scheme of £145k, together with an increase of £33k on District Heating (albeit this will be offset by increased running costs) plus other minor increases.

- Other Fees and Charges. This budget head for miscellaneous fees and income is currently forecasting an outturn of £183k, a minimal under-recovery against budget which offsets the reduction on non dwelling rents.

- HRA Subsidy Receivable – MRA. This is an indicative allowance paid to local authorities through the subsidy system to fund works of a capital nature which will keep properties in a good state of repair.

  The sum allocated is intended to meet the cost of "depreciation" of the properties, that is, the cost of all repairs to ensure that the value of the properties does not reduce (depreciation).

  The item is shown as income, as it is funding received. The income needs transferring out of the HRA into the capital programme – the HIP and this is facilitated through the expenditure line "Depreciation of fixed assets".

7.8.4 Net Operating Expenditure

Interest receivable on balances held within the HRA is forecast to be on budget which results in the following net operating expenditure:

	Budget	Forecast	Variance
Net cost of service per paragraph 7.8.1	-£5.388m	-£5.650m	-£0.262m
Interest Received	-£0.025m	-£0.025m	0
New Operating Income	**-£5.413m**	**-£5.675m**	**-£0.262m**

7.8.5 Appropriations

Appropriations are transfers out of the HRA budget and provision has been made for two actions.

- RCCO. Forecast expenditure is in line with the budget estimate of £800k

- Transfer to Reserves. The original budget sum to transfer into Working Balance was £4.613m. Based upon the forecast increase in the net operating income the contribution to Working Balance will increase by £262k to £4.875m.

7.8.6 Summary

Based upon activity to the end of July and forecast costs and income to March 2012, there is a forecast net increase in the level of the operating income of £262k, with a forecast outturn of £5.675m compared to a budget of £5.413m.

As a result of this increase the forecast in-year contribution to Working Balance now stands at £4.875m.

8. Finance

Use of Working Balance

Paragraph 7 of this report identifies the principles of establishing a Working Balance and the preceding paragraphs identify an uplift of £262k leading to a revised total of £4.876m.

It is worth noting that any downsizing costs associated with realignment of services following the reintegration of former 2010 Rotherham Ltd services will fall upon the HRA. Whilst provisions have been made within 2010 accounts (£230k) and within the 2010/11 HRA (£220k), it is anticipated at this stage that total costs will exceed this sum and the difference will be a call on Working Balance.

Work is currently ongoing to refine actual downsizing costs in light of the current round of voluntary severance.

9. Risks and Uncertainties

9.1 In line with good accounting practice the following risks are identified together with proposed mitigation.

- Inflation – Non Contractual
  The 2011/12 budget was formulated around an inflation assumption of nil, if inflation rises costs may exceed budget provision. (It should be noted that the inflationary increase on the repair and maintenance contract is locked in for the financial year at 5.5% and this has been provided for within the budget set).
  Mitigation: Ongoing monitoring

- Vacancy Factor
  Salaries budgets assume various levels of vacancies. If vacancies do not arise this could lead to salary costs in excess of budget.
  Mitigation: In depth monitoring and forecasting of salary budgets.

- Repair and Maintenance
  Voids. Budget provision reflects an anticipated 1496 number of minor voids in year. Any changes in number and/or average cost will impact upon expenditure.
  Mitigation: Ongoing monitoring and triangulation with contractors

- Cyclical Repairs Dispute
  Contractor change order requests exceed budget provision.
  Mitigation: Legal advice has been sought to determine extent of liability.

- Negative Subsidy Paid to Government
  Changes in property numbers and interest rates will have a bearing on final subsidy due to Government. Any changes will impact upon the contribution to Working Balance at the end of the year.

- Rental Income
  Net rental income has been calculated on the basis of 2% void loss. Any increase / decrease on the actual level of voids will impact on the level of income achieved.
  Mitigation: Ongoing monitoring

10. Policy and Performance Agenda Implications

10.1 The HRA supports the new Corporate Plan Priorities and is central to the long term Housing Strategy:.

- Making sure no community is left behind.

- Helping to create safe and healthy communities.

- Improving the environment

11. Background Papers and Consultation

- Budget and Council Tax Setting Report (2011/12) to Cabinet Member March 2011.
- Director of Strategic Finance and Director of Housing and Neighbourhood Services have been consulted on the preparation of this report.

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