

## ROTHERHAM BOROUGH COUNCIL - REPORT TO MEMBERS

1.	<b>Meeting:</b>	<b>Cabinet Member for Safe and Attractive Neighbourhoods</b>
2.	<b>Date:</b>	<b>Monday 28<sup>th</sup> November 2011</b>
3.	<b>Title:</b>	<b>Housing Revenue Account Budget Monitoring Report 2011/12</b>
4.	<b>Directorate:</b>	<b>Neighbourhoods and Adult Services</b>

### 5. Summary

This report presents the forecast outturn position on the 2011/12 Housing Revenue Account (HRA) based upon activity as at the end of October 2011.

This report will demonstrate that a forecast increase in Repairs and Maintenance expenditure, due in the main to increased activity in empty homes turnover rates, can be contained within existing resources as a result of savings within supervision and management costs, together with a forecast increase in income.

The overall forecast is that the HRA will outturn on budget with a transfer to working balance (reserves) of £4.669m which is a slight increase of £56k above the approved budget.

### 6. Recommendations

- That Cabinet Member receives and notes the latest financial projection.
- The forecast savings on supervision and management are utilised to meet the projected increased spend on repair and maintenance.

## 7. Proposals and Details

- 7.1 This budget report is based upon actual income, expenditure and known commitments as at the end of October 2011 forecast to the end of the financial year to give a projected outturn position, compared to budget.
- 7.2 The report shows that whilst there has been an overall minimum change in the net projected cost of service, when compared with the previous forecast at the end of July, there have been changes across a number of budget heads.
- 7.3 Appendix A of this report provides the Budget Operating Statement for 2011/12 which shows the various income and expenditure budgets lines which make up the net cost of delivering the service. The latest forecast shows a surplus of income over service expenditure of £5.444m which, together with interest received will result in an overall surplus of £56k to be transferred to working balance over that originally budgeted for - this represents a reduction of £206k from the previous forecast.
- 7.4 The previous budget monitoring report identified that several of the budget heads contained within the Operating Statement are either year end adjustments (for example debt management costs £226k) or are subject to external influence and therefore outside direct control, (for example capital charges £11.596m).

Budget Monitoring is therefore focussed upon expenditure and income which is within control, i.e. income of £80.022m, the repair and maintenance budget of £14.658m and supervision and management of £16.405m. Other budget heads as seen within Appendix A are currently being forecast to outturn in line with budget.

### 7.5 Budget Monitoring

- 7.5.1 Appendix A, column B demonstrates the projected outturn based upon activity to the end of October 2011.
- 7.5.2 Overall it can be seen that the net cost of service is forecast to be -£5.444m, a slight surplus of £56k over the original budget as shown in the table below.

	<b>Budget £000</b>	<b>Forecast £000</b>	<b>Variance £000</b>
Income	-80,022	-80,617	-595
Expenditure	74,634	75,173	539
<b>Net Cost of Service</b>	<b>-5,388</b>	<b>-5,444</b>	<b>-56</b>

**7.5.3** The table below highlights the budget lines forecasting a variance to approved budget:

	<b>Budget £000</b>	<b>Forecast £000</b>	<b>Variance £000</b>
<b>Contribution to Housing Repairs</b>	14,658	16,018	+1,360
<b>Supervision and Management</b>	16,405	15,584	-821
<b>Income</b>	-80,022	80,617	-595
<b>Net Variance</b>			<b>-56</b>

**7.5.4** It can be seen that the forecast overspend on housing repairs £1.36m, is being offset by a reduction in the forecast cost of supervision and management of £821k and by an increase in income of £595k.

**7.5.5** The balance of this report will focus on the main variations to budget and will also identify the main reasons for the movement from the previous monitoring report.

## **7.6 Expenditure**

Column B of Appendix A demonstrates that based upon expenditure and commitments to date, total expenditure is forecast to outturn at £75.173m compared to a budget provision of £74.634m, an increase in spend of £539k. The major changes are as follows:

### **7.6.1 Contributions to Housing Repairs**

Appendix A demonstrates that the forecast year-end spend on Repairs and Maintenance is £16.018m against a budget provision of £14.658m, increased spend of £1.360m. The major areas of movement are as follows:-

**7.6.2 Increased spend on Empty Homes** - the previous monitoring report identified a potential overspend of £231k on void properties due to high value variation orders for works over and above contract specification. It also highlighted the fact that if the actual number of voids changed from the 1,496 voids budgeted for, this would also have a consequential impact on the forecast.

**7.6.3** As a result of the end to end review of the voids process, it has now emerged that the release of the recently completed, new build homes has had a substantial bearing on the number of empty homes being generated. As each new property has been released, the opportunity has been taken to implement the government's agenda to incentivise

tenants to downsize from existing properties to smaller homes to meet current housing needs. This has resulted in two and, on occasion, more void properties for every new home released.

The forecast void turnover rate has increased from the budgeted 1,496 in year, up to 1,811, an increase of 315 (+21%).

The increase in volume, together with increased works has resulted in a forecast increased spend of £970k.

Due to the responsive nature of empty homes, it is difficult to make accurate forecasts of the actual number in year and this forecast is considered to be "prudent". Monitoring continues on a weekly basis together with the review around increased works. If turnover on voids reduces there will be a reduction in the increased spend.

- 7.6.4** In addition to the position on empty homes, there has been a marked increase in vandalism and metal thefts across the borough resulting in additional costs in the region of £130k which must be met in this financial year.
- 7.6.5** Finally, within the Repair and Maintenance Budget, an estimated £200k of batched works had been put on hold due to budgetary constraints. In light of the £277k savings identified through the re-phasing of the introduction of the Housing Management Information System as identified in the Supervision and Management paragraphs below, it is proposed to release this work in order to meet customer expectations.
- 7.6.6** The previous Budget Monitoring report identified a potential key pressure point with regard to payments outside of the contracted sum by Willmott Dixons. These negotiations have now been concluded within existing provision and the pressure risk has now been mitigated.
- 7.6.7** Whilst increased expenditure of £1.360m is forecast against Repairs and Maintenance, it is proposed that the increased spend is reduced by savings identified within supervision and management as follows:-

#### Supervision and Management

Column B of Appendix A demonstrates that based upon expenditure and commitment to date, total expenditure is forecast to outturn at £15.584m, a saving on budget of £821k.

The previous budget monitoring report forecast an under spend of £130k; this latest forecast identifies additional savings of £691k. The main variances are as follows:-

- Forecast savings of £88k on salaries due to vacancies being held pending the current restructure.

- IT savings of £70k due to the decommissioning of ROCC.
- Support cost savings of £89k.
- Re-phasing of the implementation of the Housing Information Management System from 2011/12 to 2012/13 has resulted in savings of £277k in the current financial year.
- a forecast under spend of £189k on the purchase of furniture within the Furnished Homes Service plus increased income of £180k as more clients take up the option of this service.

**7.6.8** In conclusion, when the forecast increased spend on repairs is offset against forecast savings on supervision and management there is a net total increase in expenditure of £539k over budget. However, this net overspend can be contained within overall resources due to a forecast over recovery on income of £595k.

## **7.7 Income**

**7.7.1** Column B of Appendix A shows that based upon income received to date the total forecast income collectable is £80.617m, an increase of £595k over and above the approved budget of £80.022m.

The previous budget monitoring report forecast income collectable of £80.154m an increase over budget of £132k.

**7.7.2** The net movement between the two periods is therefore an increase in income of £463k, this can be explained as follows:-

Dwelling rental income is projecting an overall increase of £327k, compared with the previous forecast of a slight under-recovery of income of £65k. This is mainly due to increased rental income generated as the new build properties came on stream earlier than anticipated.

Within the above figure rental lost through voids still remains an issue with a forecast increased loss against budget of £224k, a slight increase of £24k against that reported previously.

Charges for services and facilities are projecting to out-turn at £3.290m against a budget provision of £3.028m, an over-recovery of 262k. This is a slight increase from the previous report due to increased income on the furnished homes schemes.

The overall movement can be summarised as increases over the following heads: rental income £392k, service charges £65k and miscellaneous income £6k.

## 7.8 Summary

In summary it can be seen in preceding paragraphs 7.6 and 7.7 that the variance to budget of £56k when comparing the forecast net cost of service against the budget of £5.388m is due to changes within repairs and maintenance, supervision and management together with income due.

Whilst it can be noted that there has been a marked forecast increase in spend within repairs and maintenance, the projected overspend can be off-set against forecast savings on supervision and management, together with forecast increased income thus containing the increased spend within budgeted resources.

## 8. Finance

Impact on Working Balance - The previous report identified that any deficit or surplus arising from the net cost of service would be transferred to the Working Balance which is reflected through the Appropriations section of the Operating Statement at Appendix A. Any forecast increase / decrease will be added to the budgeted sum shown under transfer to reserves.

Based upon the current forecast out-turn position on the net cost of service, the forecast transfer to balances will be £4.669m, which is £56k higher than budget.

This is a reduction of £206k when compared to the previous forecast which is as a direct result of forecast increased costs on repairs and maintenance.

## 9. Risks and Uncertainties

- **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. Whilst the current empty home forecast is considered to be a prudent projection based upon 1,811 minor voids, it should be noted that the final number of voids received and completed in year could change. Any change in numbers or values will impact on expenditure.  
**Mitigation:** Ongoing monitoring and triangulation with contractors.
- **Cyclical Repairs Dispute**  
Now mitigated.
- **Negative Subsidy Aid 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 levels 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 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
- Cabinet Report 19<sup>th</sup> September 2011: Housing Revenue Account 2011/12. Budget Monitoring P04 - July 2011.
- Director of Finance and Director of Housing and Neighbourhood Services have been consulted on the preparation of this report.

### Contact Name:

Maureen Gatt, Finance Director, Neighbourhoods & Adult Services, RMBC  
(ext: 2288, email [Maureen.gatt@rotherham.gov.uk](mailto:Maureen.gatt@rotherham.gov.uk))

Mark Scarrott, Finance Manager, Neighbourhoods and Adult Services, Financial Services, Business Partnering, ext: 22007, email [mark.scarrott@rotherham.gov.uk](mailto:mark.scarrott@rotherham.gov.uk)