

ROTHERHAM BOROUGH COUNCIL - REPORT TO MEMBERS

1.	Meeting:	Cabinet Member for Safe and Attractive Neighbourhoods
2.	Date:	Monday 5th March, 2012
3.	Title:	Housing Revenue Account Budget Monitoring Report 2011/12
4.	Directorate:	Neighbourhoods and Adult Services

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 January 2012.

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 £4.944m, which is an increase of £331k above the approved budget.

6. Recommendations

That Cabinet Member receives and notes the latest forecast outturn position.

7. Proposals and Details

- 7.1 This budget report is based upon actual income, expenditure and known commitments as at the end of January 2012 forecast to the end of the financial year to give a projected outturn position, compared to budget.
- 7.2 The report shows that there has been an overall reduction in net cost of service of £275k, when compared with the previous forecast.
- 7.3 Appendix A of this report provides the Budget Operating Statement for 2011/12 which shows the various income and expenditure budgets which make up the net cost of delivering the service. The latest forecast net cost of service is £5.719m which, together with interest received will result in an additional surplus of £331k to be transferred to working balance. This represents an increase of £275k from the previous forecast.
- 7.4 As previously reported, budget monitoring is primarily focussed on expenditure and income items which are considered to be controllable, i.e. income of £80.022m, repairs and maintenance (£14.658m) and supervision and management (£16.405m).

7.5 Budget Monitoring

- 7.5.1 Appendix A presents the projected outturn based upon spend and known commitments to the end of January 2012.
- 7.5.2 Overall it can be seen that the net cost of service is forecast to be £5.719m, a surplus of £331k as shown in the table below.

	Budget £000	Forecast £000	Variance £000
Expenditure	74,634	74,819	185
Income	-80,022	-80,538	-516
Net Cost of Service	-5,388	-5,719	-331

- 7.5.3 The table below highlights the main budget items forecasting a variance to approved budget:

	Budget £000	Forecast £000	Variance £000
Contribution to Housing Repairs	14,658	15,833	1,175
Supervision and Management	16,405	15,704	-701
Negative Subsidy Repaid to	16,162	16,354	192

Government			
Cost of Capital Charges	11,597	11,116	-481
Income	-80,022	-80,538	-516
Net Variance			-331

7.5.4 It can be seen that the forecast overspend on housing repairs £1.175m, is being offset by a reduction in the forecast cost of supervision and management of £701k, a reduction in the forecast outturn for Cost of Capital of £481k, and by an increase in income of £516k.

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

Total expenditure is forecast to outturn at £74.819m compared to a budget provision of £74.634m, an increase in spend of £185k. Appendix A provides further analysis of this position. The major changes are as follows:

7.6.1 Contributions to Housing Repairs

The forecast year-end spend on repairs is £15.832m compared to a budget provision of £14.658m an increase in spend of £1.174m. This projected overspend has reduced by £184k from the previous report. The change can be analysed as follows:

- **Voids.** The previous report identified that, due to the responsive nature of this service intense monitoring is in place and forecasts change as the actual number of void properties change throughout the year. It has previously been reported that the forecast number of voids was substantially higher than budget provision due to the introduction of the new build homes into the rental debit. 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 resulted in two, and on occasion, more void properties for every new home released.

All new properties have now been released and there has been an overall reduction in the forecast number of voids. Whilst the forecast is still greater than budget it now based upon an average of 35 voids per week (minor and major). This has resulted in a reduction of £385k to the previous forecast.

- **Contingency Sums**

In light of the reduction in the forecast overspend on void properties, a contingency budget of £200k was re-established, in line with good practice, to meet the costs of any unforeseen items of expenditure within the repairs budget. If this budget head is not called upon during the remainder of 2011/12, then it will be used to meet spend elsewhere, or transferred to Working Balance for use in 2012/13.

7.6.2 Supervision and Management

Based on expenditure and known commitments to date, total expenditure is forecast to outturn at £15.704m, a saving on budget of £701k.

The previous budget monitoring report forecast an under spend of £821k; therefore a reduction for this period. The main variances are as follows:-

- Forecast savings of £46k on salaries due to vacancies being held pending the current restructure.
- ICT savings of £70k due to the decommissioning of current Housing Repairs System.
- Support cost savings of £101k.
- Re-phasing of the implementation of the Housing Information Management System from 2011/12 to 2012/13 has resulted in savings of £223k in the current financial year.
- There is both a forecast under spend of £138k on the purchase of furniture within the Furnished Homes Service plus increased income of £286k as a result of more customers taking up this service.
- Additional staffing costs of £116k arising from the establishment of an Empty Homes and Adaptations Team to reduce both the number of voids and the turnover period.

7.6.3 Negative Housing Subsidy repaid to Government

The forecast year-end outturn of £16.355m compared to the budget of £16.162m, shows a cost of £193k. This is due to lower than anticipated interest and debt management charges calculated in the HRA Subsidy second advance claim. This results in the Council having to repay additional subsidy to Government given it is in Negative Subsidy.

7.6.4 Cost of Capital

The Cost of Capital is projected to outturn at £11.116m against a budget of £11.597m, a reduction of £481k. This is due to a revised Consolidated Rate of Interest calculation which is used to calculate the cost of capital and reflects the Council's Treasury Management Strategy.

7.6.5 In conclusion, when the forecast increased spend on repairs is offset against forecast savings on supervision and management and a reduction in the capital charges there is a net total increase in expenditure of £185k over budget. However, this net overspend can be contained within overall resources due to a forecast over recovery on income of £516k.

7.7 Income

7.7.1 The total forecast income collectable is £80.538m, an increase of £516k over and above the approved budget of £80.022m. This represents a minor reduction in forecast income of £79k from the previous forecast position. Appendix A provides further analysis of this position.

7.7.2 The main variations can be explained as follows:

- Dwelling rental income is projected to increase by £237k, rather than £327k previously forecast.
- Rent income foregone due to void dwellings still remains an issue with additional income of £80k forecast to be foregone.
- Charges for services and facilities are projecting to out-turn at £3.305m an over recovery against budget (£3.028m) of £277k. This is mostly due to additional income from the furnished homes scheme as a result of higher than anticipated customer take up.

7.8 Summary

In summary it can be seen in foregoing paragraphs 7.6 and 7.7 that the variance to budget of £331k 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, negative subsidy paid to government, cost of capital, 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 and cost of capital, 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 £4.944m, which is £331k higher than budget.

This is an increase of £275k when compared to the previous forecast which is mainly attributable to a reduction in the cost of capital charge.

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.

- **Repairs 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 is likely to impact on expenditure.

Mitigation: Ongoing monitoring and triangulation with contractors.

- **Cyclical Repairs Dispute**

Now mitigated.

- **Negative Subsidy repaid to Government**
Changes in property numbers and interest rates will have a bearing on final subsidy due to Government. Any changes are likely to 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 are likely to 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 Member Report 28th November 2011: Housing Revenue Account Budget Monitoring Report 2011/12
- Director of Financial Services and Director of Housing and Neighbourhood Services have been consulted on the preparation of this report.

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