

Report to: **Executive**  
Date: **5 February 2008**  
Report of: **Executive Member for Resources**  
Subject: **General Fund/Housing Revenue - 2007/2008 Monitoring Statement**  
Ward: **All**

## **1.0 Purpose of Report**

1.1 To advise members on the financial position at the end of the 3<sup>rd</sup> quarter covering the period 1st April to 31<sup>st</sup> December 2007.

## **2.0 Consultation**

2.1 Consultation has taken place with the Director of Finance and Corporate Services, the Chief Executive of East Durham Homes, the Council's Head of Housing and through the process, budget holders. The Management Team has considered the key issues within the report.

## **3.0 Process**

3.1 Budget holders are required to carry out a monthly exercise of examining their spending and the attached appendices/statements reflect the forecasted position to the 31<sup>st</sup> March 2008.

## **4.0 Revised Forecast Position - General Fund**

4.1 There are no material changes to the overall surplus reported at the end of October. Appendix 1 shows the projected position on a directorate basis with the variations outlined in the footnotes.

4.2 Members are referred to appendix 1/2, which shows a general fund surplus of £1.426m for the period. (Item B). The analysis below that figure indicates that: -

- £450,960 (Item C) was due to re-profiling 'use of reserves' initiatives with some elements of the programme being advanced and others delayed.
- A further £281,450 (Item D) of the under-spend refers to revenue support to the Capital Programme.
- £693,456 (Item E) is attributable to the 2007/8 base budget the reasons being explained below. This has increased by just over £60,000 since the last report and is largely as a result of reserves being utilised with under-spends on items C and D reducing.

*It is worth mentioning at this point that even though a significant element of expenditure is financed from specific reserves the costs must be included in the overall budget requirement. In monitoring the overall position we need to keep this in mind differentiating between the base budget and use of reserves.*

### ***Use of Reserves Initiatives - £1.5m (Item C)***

4.3 This element of the under-spend refers to the programme of projects where approval was given to use £1.5m of reserves in November 2005. The initiatives were profiled

# Item no.

over 3 years 2008/9 being the final year. The under-spend is due to schemes being re-profiled or carried forward to 2008/9.

Further details of the progress of the initiatives will be included in the next report.

## *Revenue Support to the Capital Programme (Item D)*

- 4.4 When the capital programme is considered each year a number of initiatives are identified to support the programme where expenditure is of a revenue nature. An example could be the cost relating to a study to determine whether it is feasible to develop and progress a capital scheme. Revenue expenditures of this nature are therefore included in the annual budget and medium term plan.
- 4.5 However members will be aware, particularly where activity is linked to regeneration schemes which lever in external funding, that timescales have to be flexible to ensure resources are in place before expenditure is incurred.
- 4.6 Item D in the report refers to budgets of the nature described above which are likely to be incurred in future years. It is important to note that the finance is secured.

## *Base Budget 2007/8*

- 4.7 In terms of the current base budget the material under-spends at this stage are as follows:

Under-spends/savings: -

- |                                                                    |           |
|--------------------------------------------------------------------|-----------|
| • Economic development (savings on vacant posts)                   | £95,910   |
| • Increase in investment income                                    | £385,000= |
| • Democratic Services – Savings on vacant posts and election costs | £98,000   |

- 4.8 The increase in interest rates and the improved position on balances at the end of March has seen forecasted investment income increasing by £385,000. It is important to note that this return is heavily influenced by market rates of interest and we have seen the base rate, which currently stands at 5.5%, fluctuate over the last 12 months or so.
- 4.9 The directorate budgets, which exclude items such as investment income, show an under-spend of £315,676 after adjusting for re-profiling the reserve initiatives.

Item A	£1,048,086
Less: Item C	£450,960
Less: Item D	£281,450
	<u>£315,676</u>

This compares to just over £264,000 at the end of the first quarter.

## *Variance against budget*

- 4.10 In summary the overall base budget for the period is showing a net surplus of £693,546 equating to a variance of just over 3.4% of the agreed budget. This will be slightly reduced in future as costs of the local government review feed in. The variance on directorate budgets equates to around 1.7%.

## *Support Services*

- 4.11 The support service information set out in Appendix 2 is presented slightly differently this year. The statement is split into 2 parts under headings 'use of specific reserves' and 'rechargeable to services.' The reason for the change is that where specific reserves are used to fund support services there will be no re-charge to front line services and therefore these service need to be shown separately.
- 4.12 The lower part of the statement is showing a potential over-spend of £40,270 a large proportion of which, relates to the insurance function of democratic services. (£31,760) This arose following a reduction in recharges to East Durham Homes when they assumed responsibility for arranging and negotiating their insurance. Although this position could be mitigated by the end of the financial year should the position remain unchanged then the shortfall will be met from the insurance fund or support service reserve..

## **5.0 General Fund Balance/Reserve**

- 5.1 Appendix 3 illustrates the effects of the above on the reserve position. In considering the statement members are reminded that the revised forecast reflects the out-turn position for 2006/7 which also took account of the review of reserves. Within the statement members will see the transfer of earmarked reserves (Use of Reserves), which refers to programmes from the first release of reserves in November 2005.
- 5.2 The revised forecasted balance to the 31<sup>st</sup> March 2008 is £3.9m. The balance reflects the review of reserves reported to Council in December but clearly does not reflect the 2008/9 budget plans, which will be presented to members in due course.

## **6.0 Housing Revenue Account (HRA)**

### ***Overall Position***

- 6.1 The position on the HRA is very positive but has to be considered in the context of a report to Council last September, which highlighted the need to address a deficit of £1.9m in respect of East Durham Homes.
- 6.2 Members will recall that in that report a support package was approved to right-size the company and provide further support to achieve a 2 star rating from the Audit (Housing) Inspection service. Linked to that the Council agreed that it was essential to address the deficit in the current year and ensure the Company was financially viable from 2008/9. The latter issue will be considered as part of the 2008/9 budget process.
- 6.3. Although there is still a quarter left in the current financial year I'm pleased to report that following a joint exercise over the period the deficit has reduced to around £715k. The reduction has broadly been achieved by fast tracking the right-sizing exercise, bringing forward capital investment in addition to the Company achieving budget reductions.
- 6.4 Whilst work will continue it is prudent at this stage to assume the gap is likely to remain at the level indicated above, however it is pleasing to report that there is now an option to meet the deficit from within the 2007/8-budget framework.
- 6.5 At the end of December the HRA is forecasted to return a surplus of just over £902k for the reasons set out below: -
- Windfall rent income relating to an extra collection week in this financial year. (Reported in budget report last February). Around £400k.

# Item no.

- Additional in year rental income due to the estimates reflecting a higher stock disposal rate. Right to buy applications are slowing down with more houses and therefore rent being retained. In addition there have been improvements in void turnaround and rent recovery. The increase in rent income amounts to over £400.
  - Increased income from care services - £45k.
  - Housing subsidy and interest receipts - £57k.
- 6.6 Although the deficit position will continue to be monitored as the year progresses it is inevitable that the Company will experience cash flow problems over the next 2 months and as discussed at Council last September there is a need to address the financial position.
- 6.7 In view of the above it is proposed that the Director of Finance and Corporate Services continues to monitor the position and addresses the deficit by the transfer of funds utilising HRA surplus in the current year. Should the deficit vary significantly from that indicated above then a further report will be submitted. The final transaction will be reported through the Out-turn report at year end.

### ***Expenditure relating to Voids/Empty Properties***

- 6.8 The Company's void performance has historically been poor (lower quartile); this has led to a high number of voids, poor turnaround performance leading to lengthy void periods and significant rental loss. Budgetary issues have considerably hampered performance.
- 6.9 The new Chief Executive targeted voids performance as an area where significant improvements could, and needed to be made. The result has been a significant reduction in the number of re-lettable voids from 118 at 29.06.07 to 61 as at Friday 18 January and a reduction in void turn around time from 60 days at the end of 2006/7 to 29 days at the end of the 3<sup>rd</sup> quarter. In December alone the turnaround reduced from 45 days to 29.
- 6.10 This significant improvement has resulted in the company being able to re-house people from the waiting list more quickly and generate increased rental income for the HRA, as well as contributing to the improved appearance of our estates.
- 6.11 The increased effort and activity in this area together with in year cost pressures has to some degree reduced financial flexibility within the Company resulting in the voids budget being exhausted. Whilst in normal circumstances budget discipline would dictate any further work being delayed until the new financial year when further funds become available there is an option to use the surplus in the HRA to maintain momentum in this area improving performance even further. There would be financial benefits in the longer term as rental streams increase. As an example the reduction of 59 lettable voids outlined above will generate increased rental income of around £120,000 per annum.
- 6.12 East Durham Homes have indicated that a further £100,000 would enable them to continue work to the end of this financial year and with the average cost of a void repair being in the region of £2000 to £2500 around 40 voids could be tackled, which would maintain the improvement in performance. In next financial year the Company will prioritise voids realigning resource from the 2008/9 management fee. The Head of Housing has also agreed that this would be worthwhile in view of the improvements we are seeing.
- 6.13 Given the nature of the work and the benefit to tenants it is further proposed to utilise £100,000 from the HRA surplus in the current year to continue the voids initiative.

## *Position on reserves*

- 6.14 Referring to appendix 4 the projected reserve position at year end is estimated to be around £2.074m, however if the proposals outlined above are agreed then that figure will reduce to around £1.26m, still in excess of the prudent balance of £1m.

## **7.0 Implications**

- 7.1 **Policy**  
None

- 7.2 **Financial**  
Any financial implications are included above but broadly the report is for information.

- 7.3 **Legal**  
None

- 7.4 **Risk**  
The risks are included in the overall financial issues facing the Council and will be mitigated through regular monitoring of the position.

- 7.5 **Communications**  
None

- 7.6 **Corporate Plan and Priorities**  
The proposals are aligned to the Council's objectives and agreed priorities.

**Priority:** Decent homes for all.

**Outcome DH1:** - All East Durham Homes meet the decent homes standard and are part of sustainable communities.

- 7.7 **Performance Management and Scrutiny**  
The outcomes are reflected in service plans and will be monitored through the Council's performance management process.

- 7.8 **E Government**  
None

- 7.9 **Procurement**  
None.

- 7.10 **Equality and Diversity**  
None

## **8.0 Recommendations**

- 8.1 The Committee is requested to agree the following recommendations:-

8.1.1 To note the contents of the overall monitoring position.

8.1.2 To delegate authority to the Director of Finance and Corporate Services to manage the £715k deficit in conjunction with East Durham Homes for the remainder of the financial year and transfer an element of the HRA surplus for 2007/8 to the Company as required.

8.1.3 To utilise £100k of the HRA surplus for 2007/8 to enable the Company to maintain progress in the reduction and turnaround of voids.

**Background Papers**

Budget/Cost tabulations - Financial Management System – 2007/8.

Statements from Budget Holders

Final Accounts Information 2006/7 - Working Papers

Budget Report - Council Extraordinary Meeting 25/02/2006 & 21/02/2007.

Report to District Council - Use of General Fund Reserves – 5/11/2005

THBbudmonoct2007