

## EXETER CITY COUNCIL

### SCRUTINY COMMITTEE - COMMUNITY 4 MARCH 2014

#### HOUSING REVENUE ACCOUNT BUDGET MONITORING TO DECEMBER 2013

## 1. PURPOSE OF REPORT

### 1.1 REVENUE BUDGET MONITORING

To advise Members of any major differences, by management unit, between the approved budget and the outturn forecast for the nine months of the financial year up to 31 December 2013 in respect of the Housing Revenue Account and the Council's new build schemes.

### 1.2 CAPITAL BUDGET MONITORING

Budget monitoring updates in respect of the HRA Capital Programme are also incorporated into this report in order help provide a comprehensive financial update in respect of the Housing Revenue Account to this Committee.

### 1.3 AREAS OF BUDGETARY RISK

In addition to the budgetary over/under-spends reported to this committee, Appendix 1 also highlights further areas of risk, so that Members are aware that certain budgets have been identified as being vulnerable to factors beyond the control of the Council, which may result in potential deviations from budget, and are therefore subject to close monitoring, by officers.

## 2. REVENUE BUDGET MONITORING TO 31 DECEMBER 2013

### 2.1 PROJECTED SURPLUS / DEFICIT

During this period the total budget variances indicate that there will be a net deficit of £157,264 in 2013-14. This represents a decrease of £1,037,024 compared to the revised budgeted surplus of £879,760 for 2013-14; the main deviations from budget are set out below. Please also refer to Appendix 2.

<b>Movement</b>	<b>2013/14</b>	<b>Note</b>
Original Budgeted HRA Surplus	(£1,712,160)	Transfer to HRA Working Balance
Supplementary Budget for the Low Maintenance and Painting to Flats	£150,000	Executive approved 1 October 2013
Supplementary Budget for Revenue Contribution to Capital (towards financing COB Wave 2)	£554,880	Executive approved 10 December 2013
Supplementary Budget for Revenue Contribution to Capital (acquisition of flats at Dean Clarke House)	£127,520	Executive approved 10 December 2013
<b>Revised Budgeted HRA Surplus</b>	<b>(£879,760)</b>	
Forecast overspends already reported to this committee	£254,015	Reported to Scrutiny Committee – Community on 3 September 2013
	£588,860	Reported to Scrutiny Committee – Community on 12 November 2013

		<p>The budget variances already reported to this committee are mostly attributable to:</p> <p><u>Management Costs</u>  Costs in respect of the Housing Development Team have been transferred to the HRA in accordance with proper accounting practices, in order to reflect the time spent by the team in connection with the development of new council housing.</p> <p><u>Repairs and Maintenance Programme</u>  Two key areas of budget overspend have been reported;</p> <ul style="list-style-type: none"> <li>Higher than budgeted level of reactive repairs to council dwellings in order to meet patterns of demand (£400k).</li> </ul> <p>The potential for reactive repairs to exceed the £400k forecast overspend is highlighted as an area of budgetary risk, as recent wet weather has resulted in a rise in reported leaks and damp ingress. Please refer to Appendix 1 for more details.</p> <ul style="list-style-type: none"> <li>Higher than budgeted cost of repairs to void properties which reflects an increased number of empty properties, a higher proportion of properties requiring extensive work in order to return them to a lettable standard and implementation of the higher void standard in February 2012 (£500k).</li> </ul> <p><u>Garage rents</u>  Twenty three garages at Newport Road are planned to be demolished and the site cleared to facilitate the development of new council homes as part of COB Wave 2, as approved by Executive in February 2013. The empty garages have contributed to a reduction in rental income for 2013-14.</p>
Forecast overspends – as at December	£194,149	<p>Additional overspends reported to this committee mostly comprise:</p> <p><u>Management Costs</u>  A combination of factors are expected to result in additional management costs to the HRA these include;</p> <ul style="list-style-type: none"> <li>A redundancy payment following the restructure of resident involvement (approved by Executive 12 November 2013).</li> </ul>

		<ul style="list-style-type: none"> <li>• Additional superannuation payments to Devon County Council following a review of the pension fund.</li> <li>• Agency staff cover for long term sickness and vacant posts.</li> </ul> <p><u>Repairs and Maintenance Programme</u></p> <ul style="list-style-type: none"> <li>• A saving of £150k is expected in respect of asbestos removal costs, as much of this work will now be undertaken within the General Maintenance contract in accordance with contractual obligations.</li> <li>• A recent analysis of properties returned to the Council shows a rise in the projected number of void properties for 2013-14 since September, which could result in a further overspend of £250k (bringing total overspend expressed as a percentage to 75%). The number of abandoned properties has increased and the number of tenants seeking transfers has increased which is partly attributable to tenants wishing to downsize as a result of the welfare reforms.</li> </ul> <p><u>Revenue Contribution to Capital</u> The acquisition of flats at Dean Clarke House will now not take place until next financial year as the developer has advised they are unlikely to be completed until May 2014. The revenue contribution to finance their acquisition will therefore not be required until 2014-15.</p> <p><u>Depreciation</u> A higher than budgeted depreciation charge is expected to be made in respect of HRA assets following a review of replacement costs of key components (e.g. kitchens and bathrooms). Depreciation is a real cost to the HRA as it represents the amount of money which needs to be set aside in the Major Repairs Reserve to provide for the cost of future capital works or to repay debt.</p>
<b>Total forecast overspends</b>	<b>£1,037,024</b>	
<b>Forecast HRA deficit</b>	<b>£157,264</b>	Met from a transfer out of the HRA Working Balance

## 2.2 IMPACT ON HRA WORKING BALANCE

The HRA Working Balance represents amounts set aside to help facilitate service improvements, repay debt or to provide investment in the stock in future financial years.

The forecast balance, as at 31 March 2014, is set out below. Please also refer to Appendix 3 which sets out the total HRA capital resources over the next 3 years, of which the HRA working balance forms a significant part.

<b>Movement</b>	<b>2013/14</b>
Opening HRA Working Balance, as at 1/4/13	£6,290,296
Projected HRA Deficit for 2013/14	(£157,264)
Balance resolved to be retained (HRA contingency)	(£3,000,000)
<b>Total Forecast Balance Available, as at 31/3/14</b>	<b>£3,133,032</b>

### 3. COUNCIL OWN BUILD (COB) BUDGET MONITORING TO DECEMBER 2013

The Council's own build properties at Rowan House and Knights Place form part of the overall Housing Revenue Account, but separate income and expenditure budgets are maintained in order to ensure that they are self-financing.

#### 3.1 PROJECTED SURPLUS / DEFICIT

During this period the total budget variances indicate that there will be a net surplus of £33,390 achieved in 2013-2014, which will be transferred to the COB working balance. This represents a minor decrease of £680 compared to the budgeted transfer to the working balance of £34,070.

3.2 The main variations are detailed below, please also refer to Appendix 2:

<b>MU Code</b>	<b>Management Unit</b>	<b>Forecast Overspend / (Underspend)</b>	<b>Explanation</b>
85B5	COB	£680	Rental income has been lost this financial year as properties have remained empty at Knights Place whilst snagging issues are resolved. This will form part of a claim to the main contractor and is highlighted as an area of budgetary risk.  However, savings are expected to be made in respect of revenue repair and maintenance costs, as most works relate to the snagging issues.

### 4. CAPITAL BUDGET MONITORING TO DECEMBER 2013

The 2013-14 HRA Capital Programme was last reported to this Committee on 12 November 2013, since that meeting the following changes have been made that have reduced the programme. Please also refer to Appendix 4.

<b>Description</b>	<b>2013/14</b>	<b>Approval / Funding</b>
<b>HRA Capital Programme, reported as at 12 November</b>	<b>£10,764,050</b>	
Budgets deferred to future financial years	(£1,659,620)	Executive 1 October 2013
Overspends declared	£454,000	Executive 1 October 2013
Acquisition of 28 Mortimer Court	(£200)	Reduced acquisition cost upon completion

<b>Revised HRA Capital Programme</b>	<b>£9,558,230</b>	
--------------------------------------	-------------------	--

#### 4.1 BUDGETS DEFERRED TO FUTURE FINANCIAL YEARS

It is forecast that £1,303,769 of the revised HRA Capital Programme will need to be deferred into 2014-15, as set out below:

<b>Scheme</b>	<b>Budget to be deferred to 2014/15</b>	<b>Explanation</b>
Rendering of Council Dwellings	£30,000	Adverse weather conditions and consultation with leasehold flat owners have led to minor delays
Other Works	£25,000	Noise abatement works to flats are pending the identification of suitable properties
Fire Precaution Works to Flats	£20,000	Consultation with leasehold flat owners have led to minor delays
Communal Areas	£75,000	Further significant spend of this budget is pending the outcomes of a prioritisation process for the next phase of improvements to communal areas including the provision of new flooring, doors and glazing
Structural Repairs	£120,000	Two semi-detached properties at Wilford Road require major structural repairs including underpinning. This work is currently being tendered with works not expected to start until 2014-15
Acquisition of Social Housing	£612,070	A large proportion of this budget is committed towards the acquisition of 12 new properties for use as social housing. However, the latest development schedules indicate that these properties will not be completed until 2014-15.
Property Entrance Improvements	£20,000	Properties that require door step/threshold alterations for health and safety reasons are currently being prioritised so that work can commence in 2014-15
COB Wave 2 – Newport Road	£124,638	The capital budgets have been re-profiled in accordance with the latest cash-flow forecasts for the development of new social housing at these sites, with
COB Wave 2 – Whipton Methodist Church	£137,338	
COB Wave 2 – Bennett Square	£139,723	

		contractors now forecast to start on site in March 2014
--	--	---

#### 4.2 EXPENDITURE VARIANCES

A net under-spend of £141,000 is currently forecast in respect of the HRA Capital Programme, as set out below.

Scheme	Forecast Overspend / (Underspend)	Explanation
Electrical Re-wiring	(£28,000)	The numbers of properties requiring an electrical re-wire are lower than previously estimated.
Boiler Replacement Programme	(£113,000)	The actual level of boiler breakdowns is lower than anticipated. Budget projections were previously based upon the number of boilers deemed likely to fail following routine gas servicing failing within 6 months but many boilers have exceeded this life expectancy.

#### 5. ACTION PLAN

Officers have taken the following actions to address the key areas of budget pressures in the HRA in respect of voids and general (reactive) repairs:

- The current voids standard has been reviewed by the new Assistant Director of Housing to ensure it does not represent an 'over-provision' of service. His view is that the standard is reasonable.
- A dedicated voids team has been set up to reduce void times and closely monitor costs.
- The cost of every void is now being scrutinised and challenged by a senior manager.
- A new 'pre-void' inspection regime has been put in place for all transfers between Council properties.
- A review of the existing contractual arrangements for voids work has been undertaken to achieve a reduction in decorating costs (a major component of voids expenditure) and to explore the option of a 'fixed price' contract for all voids work in 2014/15.
- Some works have been moved to the programmed works budget and re-tendered, which is reducing costs.
- Work has been done to understand the factors driving the budget position for both voids and reactive repairs and this in turn has led to a fundamental reappraisal of the way our tenants and assets are being managed. This will form the basis of a major restructuring of the landlord services function.
- Budgets for 2014/15 have been reset to reflect anticipated actual demand rather than simply being increased incrementally, which should significantly reduce budget variances.
- Council staff are now proactively visiting properties where we become aware of potential maintenance issues as a by-product of other contact with the property (by contractors or others).
- The level of reactive repair requests by property is currently being analysed and visits arranged to those properties that appear to be generating a disproportionate number of maintenance requests.
- Early discussions are taking place about a far more robust approach to debt recovery where unacceptable damage has been caused to our assets, but this work needs to be

done in conjunction with the 'one view of debt' team to ensure that we understand the wider implications for the Council.

**6. RECOMMENDATION**

- 6.1 That Members of Scrutiny Committee – Community assure themselves that satisfactory actions are being undertaken by Officers to address the key areas of budgetary pressure highlighted in this report.

**ASSISTANT DIRECTOR FINANCE**

**Local Government (Access to Information) Act 1985 (as amended)**

**Background papers used in compiling this report:**

None