

REPORT TO: SCRUTINY COMMITTEE - PEOPLE
DATE OF MEETING: 2 November 2017
REPORT OF: Chief Finance Officer
TITLE: Housing Revenue Account Budget Monitoring – 2nd Quarter 2017/18

Is this a Key Decision?

No

Is this an Executive or Council Function?

No

1. What is the report about?

To advise Members of any major differences, by management unit, between the approved budget and the outturn forecast at the second quarter stage of the financial year in respect of the Housing Revenue Account and the Council's new build schemes.

A budget monitoring update in respect of the HRA Capital Programme is also incorporated into this report in order to help provide a comprehensive financial update in respect of the Housing Revenue Account.

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. Recommendations:

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.

3. Reasons for the recommendation:

The Housing Revenue Account is a statutory account and local housing authorities have a duty to keep an HRA in accordance with proper accounting practices and to review the account throughout the year. This is the second quarterly financial update in respect of the HRA for 2017-18.

4. What are the resource implications including non financial resources

The financial resources required to deliver both housing services to Council tenants and to invest in new and existing housing stock during 2017-18 are set out in the body of this report.

5. Section 151 Officer comments:

This report has been prepared on behalf of the Section 151 Officer to set out the financial position of the Housing Revenue Account at the second quarter stage of the financial year.

6. What are the legal aspects?

The Housing Revenue Account is framed by the Local Government and Housing Act 1989. This Act created the ring-fence and the structure within which the HRA operates and covers

the detailed operation of the HRA, including the credits (income) and debits (expenditure) which make up the account.

7. Monitoring Officer Comments:

This report raises no concerns for the Monitoring Officer.

8. Report Details:

HRA BUDGET MONITORING – 2nd QUARTER

8.1 Projected Surplus/Deficit

During this period the total budget variances indicate that there will be a net surplus of £928,511 in 2017-18. This represents a significant movement of £3,416,126 compared to the revised budgeted deficit of £2,487,615 for 2017-18 with, most notably, £2,700,000 attributable to delays with the St Loyes Extra Care scheme. The key budget deviations are explained below. Please also refer to Appendix 2.

Budget Heading	Forecast Budget Variance (Under)/Overspend	Explanation
Budgeted Deficit	£2,303,775	
Supplementary budgets	£183,840	£20,000 for mobile working, £20,000 for consultancy re operating models, £12,000 for stock condition survey, £60,000 for low maintenance and painting, £46,000 for tree inspections and remedial works and £25,840 for water system risk assessments. Executive approved 11 July 2017
Revised Budgeted Deficit	£2,487,615	
Budget variances reported at 1 st Quarter	(£3,212,950)	Scrutiny Committee – People 7 September 2017
Budget variances to be reported at 2nd Quarter:		
Management Costs	(£48,100)	<ul style="list-style-type: none"> • Training in respect of the new Housing Management System is due to take place next financial year prior to the system going live in July 2019. A saving is therefore reported, as the cost will be factored into the budgets for 2018-19. • The biannual STAR survey (satisfaction survey of tenants and residents) will be undertaken in early 2018-19; a minor delay due to appointing to the vacant Performance and Resources Officer post.
Housing Customers	(£13,200)	<ul style="list-style-type: none"> • A saving is forecast in respect of communal lighting electricity costs, partly due to the

		extent of credit notes for overestimated accounts.
Sundry Land Maintenance	(£75,210)	<ul style="list-style-type: none"> It is anticipated that slippage will occur in respect of works to HRA trees. The undertaking of low level inspections and remedial works are pending appointment of a dedicated Tree Officer for Housing, within Public Realm, on a 12 month fixed term contract, as approved by Executive in January 2017. In the meantime, works to trees identified as 'at risk' are being prioritised to deal with both diseased trees and those in natural decline along with those in unsuitable locations.
Repairs and Maintenance Programme	(£80,000)	<ul style="list-style-type: none"> Savings are forecast following the letting of a new contract for monthly emergency light testing and weekly fire alarm testing. A saving is forecast in respect of the contingency sum for larger general reactive repairs (>£1,000).
Capital Charges	£64,684	<ul style="list-style-type: none"> Depreciation charges are higher than budgeted due to a rise in the valuation of council dwellings. <p>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 future capital works or to repay debt.</p>
Housing Assets	(£31,350)	<ul style="list-style-type: none"> The decant of tenants in ten LAINGS properties to enable a demolish and re-build scheme to be undertaken are not expected to take place this financial year. Higher than budgeted tender prices have necessitated an options appraisal and caused a delay in the project timetable. A saving is reported in 2017-18, as the cost of decanting tenants in 2018-19 will be factored into next year's budgets. A detailed report is planned to be presented to committee in respect of the LAINGS project.
Rents	(£20,000)	<ul style="list-style-type: none"> A lower level of voids in respect of garages is expected to result in additional rental income and a reduction in the waiting list.
Total budget variances	(£3,416,126)	
Projected HRA surplus	(£928,511)	Transfer to HRA Working Balance

8.2 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 2018, is set out below:

Movement	2017/18
Opening HRA Working Balance, as at 1/4/17	£8,567,454
Forecast surplus for 2017/18	£928,511
Balance resolved to be retained (HRA contingency)	(£4,000,000)
Balance Available, as at 31/3/18	£5,495,965

8.3 HRA Available Resources over the Medium Term

The forecast HRA available resources for delivering both housing services and capital investment have been significantly affected by the requirement to reduce social rents by 1% each year over the four financial years; 2016/17 to 2019/20.

Appendix 3 sets out the total forecast HRA available resources up to 2020/21, which reflects this Government policy.

8.4 HRA Capital Programme

The 2017-18 HRA Capital Programme was last reported to Scrutiny Committee – People on 7 September 2017. Since that meeting the following changes have been made that have reduced the programme.

Description	2017/18	Approval / Funding
HRA Capital Programme	£19,999,900	
Budgets deferred to future financial years	(£7,454,091)	Executive 10 October 2017
Savings declared	(£938,184)	Executive 10 October 2017
Acquisition of 28 Gabriel Court	£115,000	Delegated Powers 20 September 2017
Revised HRA Capital Programme	£11,722,625	

8.5 Performance

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £10,429,195 compared to the £11,722,625 revised programme, a decrease of £1,303,430.

8.6 Capital Budget Variances

The details of key variances from budget are set out below.

Scheme	Forecast Overspend / (Underspend)	Explanation
Re-rendering	£6,000	A minor overspend following settlement of the 2015/16

		final account.
Energy Conservation	(£90,000)	It was originally planned for external wall insulation works to be undertaken, but following an options appraisal it was identified that cavity filling was more appropriate, resulting in significant savings.
Other Works	(£50,000)	This is a capital contingency budget, which is no longer required. Approval will be sought for any capital expenditure that falls outside planned works, in accordance with proper practice.
Scheme	Budget to be deferred to 2018/19	Explanation
Programmed Re-roofing	£100,000	Vacant Surveyor posts has placed a constraint on delivery of the programme of re-roofing houses and it is currently projected that works amounting to £100k will be deliverable.
Energy Conservation	£100,000	As reported above, an options appraisal of the optimum system of insulation has been undertaken which has led to delays. It is anticipated that works will commence next financial year.
Structural Repairs	£119,430	Following structural monitoring it has been identified that underpinning works are required at Redlands Close. These works will be scheduled for 2018-19 to allow time for any necessary tenant decants.
Rennes House Structural Works	£500,000	The latest pre-tender estimates for the major refurbishment of Rennes House indicate a budget shortfall of £1.3m. Significant spend of the budget will be delayed until approval has been secured for the latest project costings.
Electrical Re-wiring – Communal Areas	£300,000	Plans to upgrade emergency lighting in communal areas has been identified as a priority for 2017-18, other remedial works will be

		undertaken in 2018-19 due to officer capacity.
Whipton Barton House Water Mains	£50,000	It was originally planned that a separate water mains would be provided to Council owned bungalows, however the site is subject to an Estate Regeneration appraisal. It is therefore considered prudent to defer capital spend until the future of the site is known.
Estate Regeneration	(£133,410) – Heavitree £133,410 – South St	In March 2017 the Council received £1.295m Estate Regeneration funding from the Homes & Communities Agency. The grant is to be used across four HRA sites and providing the project deliverables set out in the grant bid are met, the grant funding can be applied fluidly across the sites. The overall forecast costs remain at £1.295m.

9. COUNCIL OWN BUILD BUDGET MONITORING – 2nd QUARTER

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.

9.1 Projected Surplus/Deficit

During this period the total budget variances indicate that there will be a net surplus of £42,970 achieved in 2017-18, which will be transferred to the COB working balance. This represents an increase of £7,000.

MU Code	Management Unit	Budget Variance Overspend / (Underspend)	Explanation
85B5	COB	(£7,000)	Lower management costs due to vacant posts combined with lower maintenance costs. The recovery of lost rental income and additional costs in previous financial years whilst snagging issues were resolved at Knights Place form part of a claim to the main contractor and have been highlighted as an area of budgetary risk.

10. How does the decision contribute to the Council's Corporate Plan?

The Housing Revenue Account contributes to two key purposes, as set out in the Corporate Plan; help me find somewhere suitable to live and maintain our property assets.

11. What risks are there and how can they be reduced?

Areas of budgetary risk are highlighted to committee as part of the quarterly budget monitoring updates. Appendix 1 sets out the risks identified, as at June.

In addition to individual areas of budgetary risk, the HRA is facing a broader financial risk in respect of the High Value Assets Levy, which may require the Council to make a payment to the Government in respect of its 'high value' housing. Due to the uncertainty regarding the definition of 'high value' and calculation of the levy payable, it is considered prudent to increase the HRA contingency from £3,000,000 to £4,000,000 over the medium term.

12. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

No impact

13. Are there any other options?

No

Chief Finance Officer

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

Contact for enquiries:

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