

REPORT TO: SCRUTINY COMMITTEE - PEOPLE
DATE OF MEETING: 1 March 2018
REPORT OF: Chief Finance Officer
TITLE: Housing Revenue Account Budget Monitoring – 3rd 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 third 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 - People 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 third 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 third 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 issues for the Monitoring Officer.

8. Report Details:

HRA BUDGET MONITORING – 3rd QUARTER

8.1 Projected Surplus/Deficit

During this period the total budget variances indicate that there will be a net surplus of £1,180,101 in 2017-18. This represents a significant movement of £3,667,716 compared to the 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. This means that the HRA is forecast to transfer over £1m into its Working Balance, rather than taking £2.5m out of its Working Balance, at the end of the financial year.

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 reported at 2 nd Quarter	(£203,176)	Scrutiny Committee – People 2 November 2017
Budget variances to be reported at 3rd Quarter:		
Management Costs	£20,800	• An additional recharge is forecast in respect of Corporate Procurement, following the appointment of a temporary HRA Procurement Manager in November 2017.
Housing	(£5,600)	• A saving is forecast in respect of communal

Customers		lighting electricity costs, partly due to the extent of credit notes for overestimated accounts.
Sundry Land Maintenance	(£16,790)	<ul style="list-style-type: none"> Forecast expenditure on works to HRA trees has decreased to reflect potential delays to works in February and March, as a result of early signs of bird nesting and poor ground conditions.
Repairs and Maintenance Programme	(£289,000)	<ul style="list-style-type: none"> This represents a combination of forecast savings, most notably due to: <ul style="list-style-type: none"> - A projected £120k saving in respect of asbestos survey costs, which reflects the lower level of kitchen and bathroom replacements. - A projected £100k saving in respect of repairs to void properties, which reflects current monthly expenditure trends and the transfer of certain capital works to the Capital Programme. - Capacity to undertake remedial works following electrical testing has been impacted by a vacant Electrician post, with urgent health and safety works taking priority, resulting in a forecast £70k underspend. However, a period of catching up will commence in February following the appointment of a new Electrician in mid-January.
Housing Assets	£59,000	<ul style="list-style-type: none"> Reflects revised employee cost projections following the recruitment to multiple vacant posts within Housing Assets, including; Planned Repairs Lead, Reactive Repair Lead and Surveyors. Reflects settlement of an employer's liability insurance claim.
Interest	(£20,000)	<ul style="list-style-type: none"> Reflects additional interest receivable on HRA balances (Working Balance, Major Repairs Reserve and capital receipts). The significant forecast revenue and capital savings in 2017-18 will result in higher than anticipated HRA balances.
Total budget variances	(£251,590)	
Projected HRA surplus	(£1,180,101)	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	£1,180,101
Balance resolved to be retained (HRA contingency)	(£4,000,000)
Balance Available, as at 31/3/18	£5,747,555

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 2 November 2017. Since that meeting the following changes have been made that have reduced the programme.

Description	2017/18	Approval / Funding
HRA Capital Programme	£11,722,625	
Budgets deferred to future financial years	(£1,169,430)	Executive 12 December 2017
Savings declared	(£134,000)	Executive 12 December 2017
Social Housing Acquisitions	£78,450	Delegated Powers
Revised HRA Capital Programme	£10,497,645	

8.5 Performance

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £7,414,521 compared to the £10,497,645 revised programme, a decrease of £3,083,124.

8.6 Capital Budget Variances

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

Scheme	Forecast Overspend / (Underspend)	Explanation
Kitchen Replacement Programme	(£42,500)	A saving is reported in respect of both kitchen and bathroom replacements in void properties. Lower than
Bathroom Replacement Programme	(£71,500)	

		anticipated numbers of void dwellings have required replacements prior to re-letting in the first 9 months.
Electrical Re-wiring - Domestic	(£136,000)	A saving is forecast in respect of electrical works to dwellings, as lower than anticipated level of electrical re-wires required following electrical inspection
Central Heating Programme	(£80,000)	This budget provides for ad hoc central heating installations to dwellings where tenants have previously refused. The opportunity to install is taken upon the property becoming void, however numbers have been lower than anticipated in the first 9 months.
Scheme	Budget to be deferred to 2018/19	Explanation
Programmed Re-roofing	£300,300	It has not been possible to advance these works during 2017/18 as it is pending contract procurement. This programme will form part of procurement priorities for the new financial year.
LAINGS Refurbishments	£390,000	Following Executive approval on 9 January for the demolish and re-build option, the budget has been re-profiled in accordance with the latest project cash-flow forecasts.
Kitchen Replacement Programme	£200,000	In advance of re-tendering the contract for these works in 2018/19, the programmes have been scaled down to one contractor. The forecast spend reflects 4 kitchen replacements and 5 bathroom replacements planned per week up to March 2018.
Bathroom Replacement Programme	£130,000	
Communal Areas	£40,000	Planned improvements to flooring in communal areas has been delayed due to issues with the floor adhesive. Officers are currently working with the contractor to resolve the issue before rolling out planned works.
Common Area Footpath / Wall Improvements	£142,370	A significant project to replace Meadow Way

		retaining wall is expected to complete this financial year. The remaining budget will be carried forward and amalgamated with next year's provision.
Fire Risk Assessment Works	£413,000	Significant works have been pending the adoption of a new Fire Safety Management Policy and securing funding for additional storage areas and staff resources, which were approved by Executive in September '17 and November '17. Fire compartmentation assessments have been instructed, which will help inform works for 2018/19.
Window Replacements	£246,000	It has not been possible to advance these works during 2017/18 as it is pending contract procurement. This programme will form part of procurement priorities for the new financial year.
St Loyes Extra Care Scheme	£116,719	Officers are currently preparing to go back out to tender in respect of this scheme and are planning to present a detailed report to committee later this year with the outcomes of the tender process. In the meantime minor expenditure will be incurred in respect of consultancy fees, with the remaining budget carried forward and amalgamated with future year's budget provisions.
Estate Regeneration	£668,095 (across all sites)	In March 2017 the Council received £1.295m Estate Regeneration funding. 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, but spend of the grant has now been profiled in accordance with the project timetables, which run into

		2018/19.
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9. COUNCIL OWN BUILD BUDGET MONITORING – 3rd 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)	<p>Lower management costs due to vacant posts combined with lower maintenance costs.</p> <p>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.</p>

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:

Democratic Services (Committees)

Room 2.3

(01392) 265275