

**REPORT TO:** PEOPLE SCRUTINY COMMITTEE  
**DATE OF MEETING:** 6 September 2018  
**REPORT OF:** Chief Finance Officer  
**TITLE:** 2018/19 HRA Budget Monitoring Report – Quarter 1

**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 first 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 People Scrutiny Committee assure themselves that satisfactory actions are being undertaken by Officers to address the key areas of budgetary pressure, as 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 first quarterly financial update in respect of the HRA for 2018-19.

**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 2018-19 are set out in the body of this report.

**5. Section 151 Officer comments:**

Overall, the HRA is broadly on track however there are some notable variances. Members may wish to assure themselves that the overall impact on service is not significant, where projects and work will not be completed as planned during the 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 – QUARTER 1

#### 8.1 Background to the HRA

The Housing Revenue Account (HRA) records expenditure and income relating to council dwellings and the provision of services to tenants. Housing authorities have a statutory duty to maintain a HRA account, which is primarily a landlord account, in order to account to their tenants for income and expenditure on council housing separately from other functions and services of the Council.

#### 8.2 Projected Surplus/Deficit

During this period the total budget variances indicate that there will be a net deficit of £3,977,827 in 2018-19. This represents a movement of £119,318 compared to the revised budgeted deficit of £4,097,145 for 2018-19. The key budget deviations are explained below. Please also refer to Appendix 2.

Budget Heading	Forecast Outturn Budget Variance at Quarter 1  (Under)/Overspend	Explanation
Budgeted Deficit	£3,762,145	
Supplementary budgets	£335,000	<ul style="list-style-type: none"> <li>Supplementary budgets comprise: £10,000 for staff training, £45,000 for continuation of stock condition survey, £40,000 for tenant decants to facilitate asbestos removal, £100,000 for asbestos removal costs, £30,000 for low maintenance and painting, £100,000 for general reactive repairs and £10,000 for monthly emergency lights and fire alarm testing.</li> </ul> <p>Executive approved 10 July 2018</p>
<b>Revised Budgeted Deficit</b>	<b>£4,097,145</b>	
Management Costs	£35,000	<ul style="list-style-type: none"> <li>£75K additional recharge is forecast in respect of Corporate Procurement, due to formation of a new Council-wide Procurement function and continuation of the temporary HRA Procurement Manager appointment.</li> <li>(£40K) Forecast savings in employee costs, partly due to two 23 month fixed term IT</li> </ul>

		System Officers starting in August, in order to help implement the new Housing Management system. Their contracts will now fall into 2020/21 and will be factored into the budget process for that financial year.
Housing Customers	(£7,000)	<ul style="list-style-type: none"> <li>• Forecast saving in respect of contract cleaning costs due to lower inflationary rises.</li> </ul>
Sundry Land Maintenance	(£65,000)	<ul style="list-style-type: none"> <li>• (£60k) Following the restructure of Public Realm, a new Tree Manager and Technical Officer (Trees) have been appointed and started in August. It is anticipated that slippage will occur in respect of works to HRA trees, whilst works are prioritised and access issues resolved.</li> <li>• (£5k) Savings are expected in respect of the Garden Assistance Scheme following lower inflationary rises in contract costs and a review of eligibility.</li> </ul>
Repairs and Maintenance Programme	(£200,000)	<ul style="list-style-type: none"> <li>• The contract for external painting and low maintenance works in respect of flats is currently being procured and a new contractor will be appointed in the summer. Slippage in the programme is forecast to reflect a transition period between contractors.</li> </ul>
Capital Charges	£187,682	<ul style="list-style-type: none"> <li>• Depreciation charges are higher than budgeted due to a rise in the valuation of council dwellings.</li> </ul> <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	(£70,000)	<ul style="list-style-type: none"> <li>• (£54k) savings in employee costs are expected due to various vacant posts within the Housing Assets team, of which several posts have recently been appointed to, including: Service Lead – Housing Assets and two 18 month fixed term contract Fire Safety Implementation officers.</li> <li>• (£16k) A budget provision of £8k per property was allowed for the decant of tenants in ten LAINGS properties whilst a major demolish and re-build programme is undertaken. Two properties have naturally become void since the budgets were approved and a saving is therefore reported.</li> </ul>

<b>Total budget variances</b>	<b>(£119,318)</b>	
<b>Projected HRA deficit</b>	<b>£3,977,827</b>	Transfer from HRA Working Balance

### 8.3 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 2019, is set out below:

<b>Movement</b>	<b>2018/19</b>
Opening HRA Working Balance, as at 1/4/18	£10,212,244
Forecast deficit for 2018/19	(£3,977,827)
Balance resolved to be retained (HRA contingency)	(£4,000,000)
<b>Balance Available, as at 31/3/19</b>	<b>£2,234,417</b>

### 8.4 Higher Value Assets Levy

Since 2016-17 the HRA has been reporting a financial risk in respect of the High Value Assets Levy, as the Government introduced legislation within the Housing and Planning Act 2016 to allow for its introduction. The Act enabled the government to define 'higher value' homes and place a duty on local authorities to make a payment to the Government in respect of its 'high value' homes. In order to help mitigate against this risk the HRA contingency was increased from £3,000,000 to £4,000,000 over the medium term (as set out above).

In August 2018, the Government announced that it will not bring the Higher Value Assets Levy into effect and will be seeking to repeal the legislation. Officers will therefore review the HRA contingency, as part of the 2019/20 estimates process, in order to consider the optimum prudent provision.

### 8.5 HRA Available Resources over the Medium Term

The forecast HRA available resources for delivering both housing services and capital investment are set out in Appendix 3 for the period to 2021/22.

Following Council approval for the establishment of Exeter City Living Limited, the Year 1 Business Plan provides for certain HRA sites in Heavitree to be disposed to the new development company at open market value. The capital receipts from these disposals are not yet reflected in the available resources to the HRA, whilst final offers are agreed.

Financial appraisals are undertaken to ensure that such disposals do not have a detrimental financial impact on the HRA over a 30 year period. The proposed disposals to date, with the inclusion of Vaughan Road, do not have a detrimental financial impact. Future disposals will continue to be appraised on a site by site basis.

### 8.6 HRA Capital Programme

The 2018-19 HRA Capital Programme was approved by Council on 20 February 2018. Since that meeting the following changes have been made that have increased the programme.

<b>Description</b>	<b>2018/19</b>	<b>Approval / Funding</b>
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<b>HRA Capital Programme</b>	<b>£18,177,220</b>	
Budgets carried forward from 2017/18 HRA Capital Programme	£2,807,720 £938,079	Executive 10 April 2018 Executive 10 July 2018
Budgets deferred to future financial years	(£2,754,367)	Executive 10 July 2018
<b>Revised HRA Capital Programme</b>	<b>£19,168,652</b>	

## 8.7 Performance

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £17,327,852 compared to the £19,168,652 approved programme; a reduction of £1,840,800.

Officers are aware that the planned investment in existing stock for 2018/19 is significant and the deliverability of key schemes (e.g. window, kitchen, bathroom and door replacements) is largely dependent upon the appointed contractor's ability to deliver the full-year programme in an accelerated time-frame, following their planned appointments in September. An update will be provided in the HRA budget monitoring report for Quarter 2.

## 8.8 Capital Budget Variances

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

<b>Scheme</b>	<b>Forecast Overspend / (Underspend)</b>	<b>Explanation</b>
LAINGS Refurbishments	(£11,000)	The contingency provision for this project has been reduced to offset additional employee costs being incurred in the revenue accounts. The Housing Community Partnership Officer is working additional contracted hours to assist with resident liaison and tenant decants.
Smoke/Fire Alarms – Older Persons	(£15,724)	This budget was carried forward from 2017/18 as a contingency sum for acquiring further dispersed alarm units. However, the project completed successfully without incurring any additional costs.
Electrical re-wiring	(£276,000)	The forecast saving comprises (£90k) in respect of re-wiring domestic properties and (£186k) re-wiring communal areas.  The move from 10 yearly electrical tests to 5 yearly has resulted in less extensive remedial works

		<p>being identified in domestic properties, due to the shorter repairs period.</p> <p>The saving in respect of communal areas relates to labour costs. The in-house electricians undertake these works, rather than sub-contractors, and therefore the budget only needs to provide for materials. The cost of the in-house team are held in the revenue accounts.</p>
<b>Scheme</b>	<b>Budget to be deferred to 2019/20</b>	<b>Explanation</b>
Adaptations	£75,000	Based on current levels of referrals it is anticipated that an under-spend may occur. However, any under-spend will be sought to be carried forward to provide resilience against a surge in referrals due to pressures of an aging population.
Rennes House Structural Works	£1,850,000	Lift improvements have been prioritised for the first stage of the refurbishment programme. The lifts will be upgraded, one at a time, in order to maintain service provision. Each lift is scheduled to take 16 weeks, all other works will follow and the budget has been profiled accordingly.
St Loyes Extra Care Scheme	(£776,924)	Council approved a revised scheme cost of £14m on 24 July, which has enabled the project team to progress the appointment of a main contractor. It is hoped that the contractor can start on site in Quarter 2 of 2018/19 and the budget has been profiled accordingly.
Acquisition of Social Housing – Section 106	£390,000	Due to the time-lag between Section 106 negotiations and new homes completing on site (often 2-3 years) it is forecast that slippage of the budget will occur, including £240k specifically for acquiring flats at The Chasse development.

## **9. COUNCIL OWN BUILD BUDGET MONITORING – QUARTER 1**

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**

There are no projected variances to report at the end of Quarter 1. The budgeted net surplus of £16,630 is still projected to be achieved during 2018-19.

## **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, at Quarter 1.

## **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?**

The budgeted revenue service costs for the year will help the HRA provide tenancy management services and maintain the condition of council dwellings, which has a positive impact on the health and well-being of Council tenants. In the delivery of services, housing officers are able to identify and manage issues relating to safe-guarding, vulnerabilities and community safety.

In terms of capital expenditure, the 2018/19 capital programme provides for enhancements to existing dwelling stock to be undertaken and help support the provision of new housing, both of which will have a positive impact on those in housing need.

## **13. Are there any other options?**

No

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**Local Government (Access to Information) Act 1972 (as amended)**  
**Background papers used in compiling this report:**  
None

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