

REPORT TO: PEOPLE SCRUTINY COMMITTEE
DATE OF MEETING: 1 November 2018
REPORT OF: Chief Finance Officer
TITLE: 2018/19 HRA Budget Monitoring Report – Quarter 2

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 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 second 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:

The HRA financial position remains relatively unchanged. There are no significant issues to highlight to Members at this time.

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:

8. Report Details:

HRA BUDGET MONITORING – QUARTER 2

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 £3,868,032 in 2018-19. This represents a movement of £229,113 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	Forecast Outturn Budget Variance at Quarter 2
	(Under)/Overspend	(Under)/Overspend
Approved Budgeted Deficit	£4,097,145	
Forecast Budget Variances by Management Unit:		
Management Costs	£35,000	£39,000
Officer Responsible: Housing Lead – Tenancy Services, Service Lead – Housing Assets, Service Lead Performance, Strategy & Resources		
<ul style="list-style-type: none">• £130K additional consultancy costs in respect of procurement, as part of a Council-wide action plan to strengthen procurement arrangements. A temporary HRA Procurement Manager has developed a procurement strategy focused on housing assets including full compliance of all contracts and contract management capacity building within existing teams.• (£24K) Forecast savings in employee costs, partly due to two 23 month fixed term IT 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.• (£30k) Staff training on the new Housing Management System will be deferred until next financial year, ahead of its planned implementation in November '19 and will be factored into next year's budget setting process.• (£15k) A saving in the cost of updating a range of tenant and leaseholder handbooks is forecast as the work will be undertaken in-house, rather than by external consultants		

<ul style="list-style-type: none"> • (£20k) Additional income from solar panel installations and letting of community rooms. 		
Housing Customers	(£7,000)	(£62,000)
<p>Officer Responsible: Housing Lead – Tenancy Services</p> <ul style="list-style-type: none"> • (£27k) Forecast savings in employee costs due to vacant posts and reduced working hours of a Neighbourhood Housing Assistant. • (£30k) A £40k supplementary budget was approved for decanting tenants from flats to enable asbestos removal works to be undertaken. A saving is reported, as two flats have been set up to enable a rolling decant to take place in-line with planned works, rather than decanting all tenants simultaneously. 		
Sundry Land Maintenance	(£65,000)	(£65,000)
<p>Officer Responsible: Housing Lead – Tenancy Services</p> <ul style="list-style-type: none"> • (£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. • (£5k) Savings are expected in respect of the Garden Assistance Scheme following lower inflationary rises in contract costs and a review of eligibility. 		
Repairs and Maintenance Programme	(£200,000)	(£200,000)
<p>Officer Responsible: Service Lead – Housing Assets</p> <ul style="list-style-type: none"> • (£200k) A new contractor for external painting and low maintenance works in respect of flats was appointed from 1 October. Slippage in the programme is forecast to reflect a transition period between the main contractors. 		
Rents	£0	£100,000
<p>Officer Responsible Housing Lead – Tenancy Services and Service Lead - Finance</p> <ul style="list-style-type: none"> • A £70k reduction in rents relates to delays in letting the new units at Chester Long Court. It was anticipated that the units would be fully let during 2018/19, however lettings are now expected to commence at the end of the year. The final Building Control inspection highlighted additional fire safety works, which are planned to be completed in week commencing 5 November, reflecting the lead-in time for the required components. • A £30k reduction in rents relates to garages that have been cleared in Thornpark Rise, Bovemoors Lane and Anthony Road in readiness of the sites being sold to Exeter City Living Ltd, following Council approval of its formation and Year 1 business plan on 24 July 2018. 		
Capital Charges	£187,682	£173,887
<p>Officer Responsible: not applicable (statutory accounting charge)</p> <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	(£70,000)	(£145,000)
Officer Responsible: Service Lead – Housing Assets		
<ul style="list-style-type: none"> • (£65k) savings in employee costs are expected due to various vacant posts within the Housing Assets team in the first few months of the year, including Service Lead – Housing Assets and two 18 month fixed term contract Fire Safety Implementation officers. • (£25k) Stock condition surveys will re-commence in November to supplement the extensive stock condition survey undertaken by consultants last year, in order to achieve 100% coverage. This work will continue into 2019/20, a saving is therefore reported this year reflecting the November start and will be factored into next year's estimates process. • (£48k) £8k per property was budgeted for the decant of tenants in ten LAINGS properties to facilitate a major demolish and re-build programme. Two properties have naturally become void since the budgets were approved resulting in a £16k saving. A further saving of £32k is reported reflecting the tenant decants planned to take place after April '19, which will be factored into next year's estimates process. Works are planned to start on site in November, starting on the empty properties and avoiding the need to decant tenants until early 2019. 		
Interest	(£0)	(£70,000)
Officer Responsible: Housing Lead – Tenancy Services, Service Lead – Housing Assets, Service Lead Performance, Strategy & Resources		
<ul style="list-style-type: none"> • Reflects additional interest receivable on HRA balances (Working Balance, Major Repairs Reserve and capital receipts). Combined forecast revenue and capital underspends in 2018-19 will result in higher than anticipated HRA balances. 		
Total budget variances	(£119,318)	(£229,113)
Projected HRA deficit		£3,868,032

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:

Movement	2018/19
Opening HRA Working Balance, as at 1/4/18	£10,212,244
Forecast deficit for 2018/19	(£3,868,032)
Balance resolved to be retained (HRA contingency)	(£4,000,000)
Balance Available, as at 31/3/19	£2,344,212

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 Bid for Additional Borrowing

In June 2018 the Government invited local authorities to bid for additional borrowing headroom from 2019/20 to 2021/22 to enable them to build new homes. The opportunity was taken to submit bids, by the 30 September deadline, for 11 sites in order to increase the supply of council housing. An update will be provided to this committee once the outcomes of the bid process are known and if successful, Council approval will be sought for the required budgets and funding arrangements.

8.6 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. Capital receipts from the disposal of three sites are reflected in the available resources to the HRA, as formal offers have been accepted.

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.

8.7 HRA Capital Programme

The 2018-19 HRA Capital Programme was last reported to Scrutiny Committee – People on 6 September 2018. Since that meeting the following changes have been made that have decreased the programme.

Description	2018/19	Approval / Funding
HRA Capital Programme	£19,168,652	
Budgets deferred to future financial years	(£1,538,076)	Executive 9 October 2018
Savings Declared	(£302,724)	Executive 9 October 2018
Revised HRA Capital Programme	£17,327,852	

8.8 Performance

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £14,871,217 compared to the £17,327,852 revised programme; a reduction of £2,456,635.

Deliverability of the planned investment in existing stock has been delayed pending the award of a substantial contract relating to windows, doors, painting and repair, fire doors, flat roofing and communal area upgrades. The contract for these works commenced on 1 October and negotiations will continue with the appointed contractor in relation to accelerated delivery for the remainder of 2018/19. The re-procurement of the kitchens and bathrooms contract will be completed by January 2019. The capital programme has been re-evaluated prior to the production of this Quarter 2 update and some slippage to 2019/20 has been identified.

8.9 Capital Budget Variances

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

Scheme	Forecast Overspend / (Underspend)
Officer Responsible – Reactive Repairs Lead Adaptations	(£50,000)
<ul style="list-style-type: none"> Based on current levels of referrals it is anticipated that an under-spend may occur. 	
Officer Responsible – Planned Works Lead Zebcat Project	(£30,000)
<ul style="list-style-type: none"> A saving is reported in-line with recent tender returns. The Council is undertaking a net zero energy whole building retrofit to six homes, as part of a project with five other delivery partners. 	
Officer Responsible – Service Lead Housing Assets COB Wave 2 – Rennes Car Park	£73,365
<ul style="list-style-type: none"> An overspend is forecast in respect of additional fire safety works identified as part of the final building control inspection. 	
Scheme	Budget to be deferred to 2019/20
Officer Responsible – Planned Works Lead Programmed Re-roofing	£180,000
<ul style="list-style-type: none"> A major programme of re-roofing is pending the outcomes of the additional stock condition surveys that are due to start in November, so that planned works can be based on 100% condition data. 	
Officer Responsible – Planned Works Lead Energy Conservation	£50,000
<ul style="list-style-type: none"> Further commitments against this budget are pending the outcomes of the net zero energy building retrofit demonstrations. 	
Officer Responsible – Planned Works Lead Balcony Walkway Improvements Communal Door and Screens	£100,000 £100,000
<ul style="list-style-type: none"> These works form part of a wider low maintenance contract awarded from 1 	

October. The budgets have been re-profiled to reflect the mid-year start on site, following completion of the tender process.	
Officer Responsible – Planned Works Lead Rennes House Structural Works	£140,000
<ul style="list-style-type: none"> A 10 month contract has been awarded in respect of the lift improvements at Rennes House, running from October '18 to July '19. The budget has been re-profiled accordingly. 	
Officer Responsible - Health, Safety & Compliance Lead Common Area Footpath/Wall Improvements	£100,000
<ul style="list-style-type: none"> Inspections of HRA footpaths and walls are being undertaken in order to inform a planned programme of improvement works with the budget re-profiled to allow for any identified health and safety works in the current financial year. 	
Officer Responsible – Health, Safety & Compliance Lead Fire Safety Storage Facilities	£90,000
<ul style="list-style-type: none"> The two Fire Safety Implementation Officers were appointed in August '18. The provision of new storage facilities will be co-ordinated by the officers and the budget has been re-profiled to reflect their mid-year start. 	
Officer Responsible – Health, Safety & Compliance Lead Fire Risk Assessment Works	£150,000
<ul style="list-style-type: none"> Slippage of £150K to 2019/20 due to the appointment of a new Fire Risk Assessment Contractor not commencing until 1st November 2018. Additionally, industry guidance on the technical specification for composite fire doors was only released in September 2018 so the associated works to complete the installation programme has been delayed. 	
Officer Responsible – Service Lead Housing St Loyes Extra Care Scheme	£1,500,000
<ul style="list-style-type: none"> The budget has been re-profiled in line with the latest cash-flow projections from external consultants. The projected spend for 2018/19 is less than their last assessment, due to an extended pre-construction phase to allow a value engineering process and some limited re-design work to be completed. 	

9. COUNCIL OWN BUILD BUDGET MONITORING – QUARTER 2

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 2. 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 2.

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

DAVE HODGSON
Chief Finance Officer

Author:
Michelle White

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