

REPORT TO: PEOPLE SCRUTINY COMMITTEE
DATE OF MEETING: 7 March 2019
REPORT OF: Chief Finance Officer
TITLE: 2018/19 HRA Budget Monitoring Report – Quarter 3

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 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 third 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:

There is a significant underspend now anticipated for the HRA. However, this is due to the timing of expenditure, which will now fall in 2019-20 rather than this financial year. There are no other 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:

The report raises no issues for the Monitoring Officer.

8. Report Details:

HRA BUDGET MONITORING – QUARTER 3

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

At Quarter 3, the forecast budget variances indicate that there will be a net deficit of £396,482 in 2018-19. This represents a significant movement of £3.7m compared to the revised budgeted deficit of £4.1m for 2018-19 with, most notably, £3.2m relating to a reduction in the revenue contribution required to finance in-year capital expenditure due to the extent of slippage in the programme. Delays with the Extra Care scheme and LAINGS refurbishment account for a large part of this year's capital slippage.

This means that the HRA is forecast to take out £0.4m from its Working Balance, rather than taking £4.1m out of its Working Balance, at the end of the financial year, in order to balance its revenue account.

The key budget deviations are explained below. Please also refer to Appendix 2.

Budget Heading	Forecast Outturn Budget Variance at Quarter 2 (Under)/Overspend	Forecast Outturn Budget Variance at Quarter 3 (Under)/Overspend
Approved Budgeted Deficit		£4,097,145
Forecast Budget Variances by Management Unit:		
Management Costs	£39,000	(£57,000)
<p>Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets</p> <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. • (£30K) 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 and a vacant Older Persons Property Services 		

Officer post.

- (£48k) Reduced legal services recharge to Housing General Management. However, this is offset by an additional legal services recharge to Housing Customers in accordance with timesheet information.
- (£30k) Staff training on the new Housing Management System will be deferred until next financial year, ahead of its planned implementation in November '19.
- (£30k) Budgets in respect of resident involvement are not expected to be fully spent this financial year, as significant spend has been pending a review of the existing Resident Involvement Strategy. The appointment of a temporary Resident Involvement Officer from mid-February will support the co-ordination, development and delivery of both resident involvement and community development services.
- (£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
- (£20k) Additional income from solar panel installations and letting of community rooms.

Housing Customers	(£62,000)	(£23,000)
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Officer Responsible: Service Lead – Housing Tenancy Services

- (£35k) Forecast savings in employee costs due to vacant posts and reduced working hours of a Neighbourhood Housing Assistant.
- (£25k) 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.
- £62k Additional recharge from legal services in respect of right-to-buy applications and tenancy management matters, which is partially offset by a reduction in time recharged to Housing General Management.
- (£25k) An amalgamation of various minor forecast savings including bank charges, communal cleaning costs and income from leaseholders.

Sundry Land Maintenance	(£65,000)	(£81,000)
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Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets

- (£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.
- (£21k) Savings are expected in respect of the Garden Assistance Scheme following lower inflationary rises in contract costs, a review of eligibility and a lower level of initial cultivations to prepare gardens in advance of moving to the scheme.

Repairs and Maintenance Programme	(£200,000)	(£360,000)
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Officer Responsible: Service Lead – Housing Assets

This represents a combination of forecast under/overspends, most notably due to:

- (£184k) Planned asbestos removal works to flats have been delayed, as two flats made available to temporarily decant tenants were required for other urgent tenant decants, including those affected by fire damage. A lower level of asbestos surveys have also been undertaken as they are largely driven by the kitchen and bathroom replacements programmes, which have been placed on hold for part of the year due to contractor issues.
- (£90k) Forecast savings in respect of routine service and maintenance contracts, which predominantly relates to savings in the gas servicing contract. Servicing and associated boiler repair costs have been saved, due to the extent of boiler replacements and that servicing will be due in 12 months' time.
- (£350k) 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 and mobilisation of the new contractor, for this reason a supplementary budget will be requested to carry forward the budget into 2019/20.
- £250K Forecast overspend in respect of general reactive repairs, which is predominantly due to a targeted reduction in overdue jobs (from 800 down to less than 200) and additional repairs identified by the Housing Customer Relation Officers following routine property inspections; both assisted by the recruitment to Surveyor posts to oversee the repairs.

Revenue Contribution to Capital	£0	(£3,196,550)
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Officer Responsible: Service Lead – Housing Assets

- The estimated amount of revenue monies required towards financing the HRA Capital Programme in 2018-19 has reduced by £3.2m, from £7.2m to £4m.

In March 2014 Executive approved a £2.7m contribution towards the St Loyes Extra Care scheme, which was profiled to be required in 2018-19 but delays to the scheme will mean that significant spend will not take place until 2019/20.

Planned investment in existing stock is also lower than anticipated, predominantly due to delays in the LAINGS project, contractor issues and new contractor mobilisation.

Rents	£100,000	£100,000
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Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead Revenues, Benefits and Customer Access

- A £70k forecast 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, rental income will only be receivable in the late part of the financial year, as 8 units were let before Christmas and the remaining units are currently being let. The final Building Control inspection highlighted additional fire safety works, resulting in delays in commencing the lettings process.
- A £30k reduction in rents relates to garages that have been cleared in

readiness of the sites being sold to Exeter City Living Ltd. To date, the sale of two sites have completed; Thornpark Rise and Anthony Road. The sale of Bovemoors Lane is expected to complete in the new financial year.		
Capital Charges	£173,887	£173,887
Officer Responsible: not applicable (statutory accounting charge)		
<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	(£145,000)	(£147,000)
Officer Responsible: Service Lead – Housing Assets		
<ul style="list-style-type: none"> • (£28k) savings in employee costs are expected due to various vacant posts within the Housing Assets team during the year, including Service Lead – Housing Assets, two 18 month fixed term contract Fire Safety Implementation officers and an Electrician, partially offset by the recent appointment of a Void Surveyor and a Health & Safety Compliance Officer. • (£45k) Stock condition surveys will re-commence in the 2019/20 to supplement the extensive stock condition survey undertaken by consultants last year, in order to achieve 100% coverage. The condition surveys will be performed by the surveyors, rather than external consultants, enabling a saving to be reported. • (£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 in respect of decants from LAINGS properties, as works will be focused on those properties that are already empty, avoiding the need to decant tenants until later 2019. • (£18k) Reflects a reduced recharge from Legal Services and a delay in purchasing new office furniture whilst a procurement exercise is undertaken. 		
Interest	(£70,000)	(£110,000)
Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets		
<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	(£229,113)	(£3,700,663)
Projected HRA deficit		£396,482

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	(£396,482)
Balance resolved to be retained (HRA contingency)	(£4,000,000)
Balance Available, as at 31/3/19	£5,815,762

8.4 HRA Contingency

Since 2016-17 the HRA has resolved to retain a working balance at no less than £4 million, in order to help manage financial risks.

Up until August 2018, the risks included introduction of the High Value Assets Levy. The Housing and Planning Act 2016 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 August 2018, the Government announced that it will not bring the Higher Value Assets Levy into effect.

In October 2018 the Government also formally removed the HRA debt cap, which restricted the amount of borrowing stock-holding local authorities could have for the purposes of the HRA. The lifting of the 'debt cap' means that local authorities are now able to borrow for housebuilding in accordance with the Prudential Code.

In light of these significant changes, officers reviewed the HRA contingency, as part of the 2019/20 estimates process and it was considered prudent to maintain at a level of £4 million, over the medium term, whilst plans to embark on a programme of new build schemes are considered. The Director and Service Leads for the HRA are working with an advisory group of Members to develop plans for the HRA's new-build programme, to be approved through the normal decision making committee cycle.

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.

8.6 HRA Capital Programme

The 2018-19 HRA Capital Programme was last reported to Scrutiny Committee – People on 1 November 2018. Since that meeting the following changes have been made that have decreased the programme.

Description	2018/19	Approval / Funding
HRA Capital Programme	£17,327,852	
Budgets deferred to future financial years	(£2,450,000)	Executive 11 December 2018
Savings Declared	(£6,635)	Executive 11 December 2018
Revised HRA Capital Programme	£14,871,217	

8.7 Performance

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £7,431,100 compared to the £14,871,217 revised programme; a reduction of £7,440,117.

8.8 Capital Budget Variances

The details of key variances from budget are set out below. The Service Lead – Housing Assets will be able to provide further details in respect of these areas, if required.

Scheme	Forecast Overspend / (Underspend)
Officer Responsible – Planned Repairs Lead Garage Upgrades	(£74,000)
<ul style="list-style-type: none"> A programme of garage upgrades is currently being formulated, in order to commence a procurement exercise early in 2019/20. The proposed capital programme for the next four years already provides for annual investment of £68,400 per annum, the budget for this year is therefore not required to be carried forward. 	
Officer Responsible – Planned Works Lead LAINGS Refurbishment	£150,000
<ul style="list-style-type: none"> Following drainage surveys it has been identified that many of the 17 LAINGS properties require drainage redirections, which has resulted in both additional costs and time delays to the project. A value engineering exercise has identified savings, which have helped reduce the budget shortfall from £280k to the reported £150k. 	
Officer Responsible – Planned Works Lead Whipton Barton House Water Mains	(£50,000)
<ul style="list-style-type: none"> It was originally planned that a separate water mains would be provided to Council owned bungalows, however the site is subject to a wider site housing development appraisal. A saving is reported whilst the future of the site is determined. Committee approval will be sought to reintroduce to the capital programme, if necessary. 	
Scheme	Budget to be deferred to 2019/20
Officer Responsible – Planned Works Lead LAINGS Refurbishment	£1,630,070
<ul style="list-style-type: none"> As explained above, the project to demolish and re-build 17 LAINGS properties has experienced significant delays due to surveying and designing major drainage diversions. The budget has been re-profiled in accordance with the latest cash-flow projections, with work expected to start on site in the next few weeks. 	
Officer Responsible – Planned Works Lead Kitchen Replacement Programme	£400,000
<ul style="list-style-type: none"> Issues with the current contractor have resulted in a hold on planned 	

<p>kitchen replacements. The contract is due for renewal and the procurement process for a replacement contractor is underway for an intended April start. In the interim, the opportunity to replace kitchens in void properties will continue to be undertaken by the contractor for response repairs.</p>	
<p>Officer Responsible – Planned Works Lead Bathroom Replacement Programme</p>	<p>£230,000</p>
<ul style="list-style-type: none"> • Issues with the current contractor have resulted in a hold on planned kitchen replacements. The contract is due for renewal and the procurement process for a replacement contractor is underway for an intended April start. In the interim, the opportunity to replace bathrooms in void properties will continue to be undertaken by the contractor for response repairs. 	
<p>Officer Responsible – Planned Works Lead Structural Repairs</p>	<p>£250,000</p>
<ul style="list-style-type: none"> • Forecast spend for 2018/19 relates to drainage repairs, whilst monitoring for structural movements continue. Major works are anticipated in the new financial year to repair structural damage to three fire affected properties, along with structural works planned at 19/21 Wilford Road and 1-6 Redlands Close. The budget has been re-profiled accordingly. 	
<p>Officer Responsible – Planned Works Lead Communal Doors & Screens Window Replacements Porch Canopies</p>	<p>£131,000 £793,000 £102,000</p>
<ul style="list-style-type: none"> • A combined contract was awarded in October and the new contractor started on site from November. However, it is currently mobilising their local multi-disciplined teams to increase to full scale operations in the spring. Window replacements at Flowerpot Lane and Hayes Barton Court are also subject to discussions with Planning. The budget has been re-profiled to reflect the period of contractor mobilisation along with time required to consult with planning. 	
<p>Officer Responsible – Health, Safety & Compliance Lead Fire Risk Assessment Works</p>	<p>£256,810</p>
<ul style="list-style-type: none"> • A new Fire Risk Assessment (FRA) Contractor started late 2018 and following a period of mobilisation, new FRAs have commenced. The works that will be identified through the assessments will follow and are likely to result in significant spent in the new financial year. 	
<p>Officer Responsible – Planned Works Lead Zebcat Project</p>	<p>£445,000</p>
<ul style="list-style-type: none"> • The Council is undertaking a net zero energy whole building retrofit to six homes, as part of a project with five other delivery partners. Delays in appointing the main contractor due to higher tender return prices, has necessitated a review of the contract specification. As a consequence, the original deadline for the European grant funding has lapsed and an extension is currently being sought. Spend of this budget is not therefore possible until confirmation that the European grant funding is secured. 	

Officer Responsible – Service Lead Housing Extra Care Scheme	£2,100,000
<ul style="list-style-type: none"> The budget has been re-profiled in line with the latest cash-flow projections. The value engineering work has completed and the contract sum is now close to agreement. Limited work started on site very late in 2018 including site set-up and further ground investigations. Major works are expected to start in late February/March. 	
Officer Responsible – Service Lead Housing & Service Lead – Housing Assets Acquisition of Social Housing – Open Market	£330,400
<ul style="list-style-type: none"> Further spend against this budget is pending the outcomes of an options appraisal in respect of acquiring property at the Vaughan Road site, in order to facilitate a potential wider site housing development. 	

9. COUNCIL OWN BUILD BUDGET MONITORING – QUARTER 3

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 significant variances to report at the end of Quarter 3. A net surplus of £17,040 is projected to be achieved during 2018-19, compared to a budgeted net surplus of £16,630. Please refer to Appendix 2 for more details.

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 3.

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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