

REPORT TO: PEOPLE SCRUTINY COMMITTEE
DATE OF MEETING: 6 June 2019
REPORT OF: Chief Finance Officer
TITLE: 2018/19 HRA Budget Monitoring Report – Outturn

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 for the financial year up to 31 March 2019 in respect of the Housing Revenue Account and the Council's new build schemes.

An outturn 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.

2. Recommendations:

That Members of People Scrutiny Committee note the content of this report in order to be satisfied that prudent steps are being taken to address any areas with significant variances, 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. Members are presented with a quarterly financial update in respect of the HRA and this is the final update for 2018-19.

4. What are the equality and diversity impacts of this decision?

As this report does not call for a decision, an Equality Impact Assessment is not required.

5. 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.

6. Section 151 Officer comments:

The outturn performance demonstrates the impact that the capital programme has on budgeting for the Housing Revenue Account. Delays in significant projects have a significant impact on the Account, however work is now underway on the major schemes. The medium term financial plan does provide for the working balance to reduce over the period.

7. 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.

8. Monitoring Officer Comments:

This report raises no issues for the Monitoring Officer.

9. Report Details:

HRA FINAL ACCOUNTS TO 31 MARCH 2019

9.1 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.

9.2 Key Variances from Budget

The 2018-19 financial year has ended with an overall net deficit of £186,889. This represents a significant movement of £3.9m compared to the 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.

A projected under-spend of £3.7m has previously been reported People Scrutiny Committee as part of the quarterly budget monitoring updates. The variances in the final quarter of the financial year have therefore resulted in further savings of £0.2m. The reasons for this and the main deviations from budget for the financial year are set out below. Please also refer to Appendix 1.

Budget Heading	Forecast Outturn Budget Variance at Quarter 3	Actual Budget Variance
	(Under)/Overspend	(Under)/Overspend
Approved Budgeted Deficit		£4,097,145
Budget Variances by Management Unit:		
Management Costs	(£57,000)	(£170,875)
Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets		
<ul style="list-style-type: none"> • £100K 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) savings in employee costs, partly due to two temporary 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. 		

- (£61k) Reduced support service recharges to Housing General Management. However, this is partially offset by an additional legal services recharge to Housing Customers in accordance with timesheet information.
- (£40k) Staff training on the new Housing Management System will be deferred until next financial year, ahead of its planned implementation in early 2020.
- (£45k) Saving in respect of resident involvement, 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.
- (£86k) Reflects a combination of smaller savings arising from; the updating of a range of tenant and leaseholder handbooks being deferred to 2019/20, additional income from solar panel installations and an accounting adjustment to the bad debt provision for sundry HRA debts.

Housing Customers	(£23,000)	(£86,573)
-------------------	-----------	-----------

Officer Responsible: Service Lead – Housing Tenancy Services

- (£38k) Savings in employee costs due to vacant posts within the Housing Customers team
- (£35k) The cost of decanting tenants to enable asbestos removal works to be undertaken were lower than anticipated, as two flats were 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.
- (£19k) An amalgamation of various minor forecast savings including bank charges, stationery and communal cleaning costs.
- (£57k) Additional income in respect of service charges from leaseholders and council tenants, right to buy administration fees, leasehold flat transfer fees and recovered court costs.

Sundry Land Maintenance	(£81,000)	(£107,270)
-------------------------	-----------	------------

Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets

- (£87k) A new Tree Manager and Technical Officer (Trees) started in August. Tree works in 2018/19 were therefore lower than budgeted due to the appointments mid-way through the year and allowing time for officers to prioritise works and resolve access issues.
- (£21k) Savings in respect of the Garden Assistance Scheme following lower inflationary rises in contract costs and a lower level of initial cultivations to prepare gardens in advance of moving to the scheme.

Repairs and Maintenance Programme	(£360,000)	(£348,218)
-----------------------------------	------------	------------

Officer Responsible: Service Lead – Housing Assets

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

- (£175k) Planned asbestos removal works to flats were 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.
- £197k Overspend in repair to void properties. Whilst the number of void properties for the year was below recent annual averages, a large number of properties required significant levels of work to return them to a lettable standard. Additionally, an increased level of asbestos survey and removal costs were incurred as the opportunity to carryout whilst properties are empty was taken.
- (£102k) Saving in electrical remedial works, partly due to two vacant Electrician posts. A contractor is planned to be appointed to undertake remedial works arising from electrical testing, which are planned to start in June.
- (£146k) Saving 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.
- (£400k) A new contractor for external painting and low maintenance works in respect of flats was appointed from 1 October. An underspend has occurred due to the 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 As reported at Quarter 3, an overspend in respect of general reactive repairs occurred due to a targeted reduction in overdue jobs (from 800 down to less than 100) 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	(£3,196,550)	(£3,196,550)
---------------------------------	--------------	--------------

Officer Responsible: Service Lead – Housing Assets

- The 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	£102,985
<p>Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead Revenues, Benefits and Customer Access</p> <ul style="list-style-type: none"> • A £70k reduction in dwelling 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, the final Building Control inspection identified additional fire safety works, which meant that lettings did not start until December 2018. All units are now let. • A £30k reduction in rents relates to garages at Thornpark Rise and Anthony Road that were cleared and sold to Exeter City Living Ltd during the year. Garages at Bovermoors Lane were also cleared ahead of their intended sale in 2019/20 to the new housing development company. 		
Capital Charges	£173,887	£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	(£147,000)	(£144,766)
<p>Officer Responsible: Service Lead – Housing Assets</p> <ul style="list-style-type: none"> • (£38k) savings in employee costs 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. • (£11k) Plans to undertake office improvements and purchase furniture are pending the outcomes of the agile working pilot. For this reason a supplementary budget will be requested in 2019/20 for implementing agile working within the HRA. 		
Interest	(£110,000)	(£132,876)
<p>Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets</p> <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 have resulted in higher than anticipated HRA balances and interest rates also increased from 0.90% to 0.95%.		
Total budget variances	(£3,700,663)	(£3,910,256)
2018/19 HRA deficit		£186,889

9.3 HRA Working Balance

The total budget variances for 2018-19 have resulted in a deficit of £186,889, which will be transferred from the HRA working balance, as set out below.

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.

Movement	2018/19
Opening HRA Working Balance, as at 1/4/18	£10,212,244
Deficit for 2018/19	(£186,889)
Balance resolved to be retained (HRA contingency)	(£4,000,000)
Balance Available, as at 31/3/19	£6,025,355

9.4 Supplementary Budgets

There is a requirement for supplementary budgets in 2019/20 as the HRA has identified at the end of the year a number of revenue budgets that have not been spent but where a commitment is required in the following financial year.

It is therefore proposed that supplementary budgets totalling £973,400 identified in Appendix 2 are submitted to Executive for approval and added to the 2019/20 budget.

9.5 Major Repairs Reserve

Under self-financing Councils are expected to set aside some of their income each year into the Major Repairs Reserve, in order to ensure appropriate provision is made towards financing future capital works or to repay debt. The balance held in the reserve at the end of the financial year is set out below:

Movement	2018/19
Opening Major Repairs Reserve, as at 1/4/18	£11,169,004
Revenue monies set aside during 2018/19	£3,180,337
Amount used to finance capital expenditure during 2018/19	(£94,109)
Balance, as at 31/3/19	£14,255,232

9.6 HRA Debt

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.

As at 31 March 2019, the HRA's borrowing remains at the former 'debt cap' level of £57,882,413, as no new borrowing has been undertaken.

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, which seeks to make use

of the new freedom to borrow and approval will be sought through the normal decision making committee cycle.

9.7 HRA Capital Programme

The 2018-19 HRA Capital Programme was last reported to Scrutiny Committee – People on 7 March 2019. Since that meeting the following changes have been made that have decreased the programme.

Description	2018/19	Approval / Funding
HRA Capital Programme	£14,871,217	
Budgets deferred to future financial years	(£7,458,417)	Executive 9 April 2019
Overspend Declared	£18,300	Executive 9 April 2019
Revised HRA Capital Programme	£7,431,100	

9.8 HRA Capital Expenditure

The total amount of HRA capital expenditure for 2018-19 was £6,197,257, which equates to 83.4% of the revised approved capital programme (as set out above). The nature of capital investment in the financial year comprised:

HRA Capital Expenditure	£
Capital investment in existing stock	4,115,327
Capital investment in the provision of new council homes	2,081,930
Total HRA Capital Expenditure	6,197,257

A detailed list of HRA capital budgets and actual expenditure is set out in Appendix 3.

9.9 HRA Capital Financing

The total HRA capital expenditure for 2018-19 will be financed as follows:

HRA Capital Finance	£
Major Repairs Reserve	94,109
Revenue Contribution to Capital	4,000,000
Capital Receipts	524,625
External Grants/Contributions	1,578,523
Total HRA Capital Financing	6,197,257

The impact on the capital resources available to the HRA over the next 3 years is set out in Appendix 4.

9.10 Capital Variances from Budget

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 the capital programme, if required.

Scheme	Overspend / (Underspend)
Officer Responsible – Planned Repairs Lead Central Heating & Boiler Replacement Programme	£116,548
<ul style="list-style-type: none"> System failures rose sharply in the last three months and parts for certain boilers have become obsolete. In particular, Saunier Duval and Glow-worm boilers are failing earlier than previously anticipated. The life expectancy of 	

<p>boilers will be reviewed as part of the next budget setting cycle so that budgets can be realigned with patterns of demand. The reported overspend equates to an additional 92 boiler replacements during 2018/19 with a large number of these boilers in 3 and 4 storey buildings necessitating the need for scaffolding.</p>	
<p>Officer Responsible – Planned Works Lead COB Wave 2 – Rennes House Car Park</p>	<p>(£26,682)</p>
<ul style="list-style-type: none"> • A saving is reported following payment of the final account. The cost of the additional fire prevention works, as identified by the final building control inspection, were lower than expected including a saving in the cost of smoke vents and associated works. Along with savings in the main contract. 	
Scheme	Budget slipped to future years
<p>Officer Responsible – Planned Works Lead LAINGS Refurbishment</p>	<p>£216,732</p>
<ul style="list-style-type: none"> • The main contractor has been on site since February, removing asbestos and stripping out the ten empty properties ready for the demolition to commence. Drainage investigations are underway for the seven occupied properties that will form phase 2 of the project. The overall project is scheduled for completion in June 2020 and the budget has been re-profiled accordingly. 	
<p>Officer Responsible – Planned Works Lead Structural Repairs</p>	<p>(£60,694)</p>
<ul style="list-style-type: none"> • Additional structure repairs were undertaken in 2018/19 in respect of drainage repairs, whilst monitoring for structural movements continue. Enabling works resulting from fire damage were also undertaken, ahead of planned significant structural repairs to three fire affected properties in 2019/20. 	
<p>Officer Responsible – Service Lead Housing Extra Care Scheme</p>	<p>£625,187</p>
<ul style="list-style-type: none"> • The piled foundation work has been completed on site and the main contractor has now moved onto the substructures work, which will be completed in August 2019, before moving onto the installation of the concrete frame. The scheme is scheduled for completion in September 2020 and the budget has been re-profiled accordingly. 	
<p>Officer Responsible – Service Lead Housing & Service Lead – Housing Assets Estate Regeneration</p>	<p>£391,457</p>
<ul style="list-style-type: none"> • In March 2017 the Council received £1.295m Estate Regeneration funding, in order to progress four HRA sites to the pre-construction stage. The funding for two of the HRA sites has been spent and delivered the required outcomes, however the timetables for Vaughan Road and Clifford Close will run into 2019/20. 	

10. COUNCIL OWN BUILD FINAL ACCOUNTS TO 31 MARCH 2019

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.

10.1 Key Variances from Budget

The 2018-19 year has ended with an overall net surplus of £17,912, which will be transferred to the COB working balance. This represents a minor increase of £1,282 compared to the budgeted transfer to the working balance of £16,630. Please refer to Appendix 1 for more details.

11. 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.

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

It is not permissible for the HRA to go into an overall financial deficit position, it is therefore important to ensure that an adequate level of HRA balances is maintained as a contingency against risks. The HRA resolve to retain a working balance at no less than £4 million to mitigate against financial risks.

13. 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 revenue service costs for the year have helped 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 has enabled 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.

14. 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