



REPORT TO COMMUNITIES COMMITTEE – 15 FEBRUARY 2018

HOUSING REVENUE ACCOUNT (HRA) FINANCIAL MONITORING - 31 DECEMBER 2017

1 Recommendations

The Committee is recommended to:

1.1 Note the HRA revenue and capital budget monitoring at 31 December 2017

2 Background / Discussion

2.1 The Housing Revenue Account (HRA) budget for monitoring purposes for 2017/18 was approved by Council on 9 February 2017. It was agreed that any net surplus on the HRA would be used to fund the HRA Capital Programme, whilst maintaining a minimum working balance of £2m in reserves.

2.2 The HRA is a statutory earmarked account whereby all income generated from the rent and service charges levied on Council tenants is to be used to fund the maintenance and management of Council houses to the benefit of the tenants, as prescribed by the Housing Act 2001 and HRA Guidance issued in 2014. The income generated from Council tenants is also required to fund the HRA capital programme to ensure that it is self-financing. Any in-year surplus is used to fund the capital programme and therefore reduce the borrowing requirement and associated costs.

2.3 Future financial positions have been forecast based on housing budget managers' service knowledge together with the financial knowledge of the accounting team. The forecasts are reviewed by senior finance officers, the Head of Housing and Director of Infrastructure to ensure that any significant year end fluctuations are avoided. The overall HRA position is summarised in the table below:

Table 1: HRA Monitoring Position at 31 December 2017

	Original Budget £000	Revised Budget £000	Forecast £000	Variance £000
Revenue Expenditure	41,596	41,554	41,301	(253)
Revenue Income	(59,095)	(60,617)	(60,118)	499
CFCR	(17,499)	(19,063)	(18,817)	246
Capital Expenditure	34,794	36,465	30,761	(5,704)
<i>Funded by:</i>				
Borrowing	13,056	9,363	3,796	(5,567)
House Sales	2,000	2,000	2,150	150
Other Capital Income	2,239	6,039	5,998	(41)
CFCR	17,499	19,063	18,817	(246)
	34,794	36,465	30,761	(5,704)

Revenue Budget Monitoring

- 2.4 The HRA revenue budget is detailed in **Appendix 1**. The net expenditure on the HRA balances back to zero as any in year surplus is used to fund the capital programme as CFCR (Capital Funded from Current Revenue), as detailed in **Table 1** above.
- 2.5 The HRA overall is forecast to be £246,000 over budget, resulting in fewer funds being available to fund the capital programme. This is mainly due to a forecast increase in void costs (£494,000), a reduction in sheltered housing income (£129,000) and a reduction in income from recharges to tenants (£95,000). Lost rents associated with voids continues to rise due to a large number of properties being held at void to enable capital works to be carried out. Delays in the start of the Housing Improvement Plan (HIP) contract has led to these properties being void for longer than originally anticipated. Sheltered Housing Income from housing support charges is lower than budget and will be part of a review of overall charging in Sheltered Housing. These overspends are partly offset by a reduction in repairs and maintenance costs (£348,000) arising from the savings generated from the Council's new contract to deliver Hard FM across the Council. Rental income is also forecast to be £124,000 higher than budget due to there being fewer house sales in 2016/17 than anticipated at the end of the Right To Buy programme. Further details of these variances are provided in **Appendix 2**.

Capital Budget Monitoring

- 2.6 The HRA revised capital budget for the year 2017/18 is currently £36.465m. This budget figure may alter during the year to reflect changes to the profile of capital expenditure. The current capital forecast for 2017/18 is £30.761m. This is £5.704m lower than budget mainly due to delays in the Housing Improvement Plan contract which is due to start early 2018 (£5m) and the Council's new build programme (£3.1m). This is offset partly by overspends on windows and door contracts (£2.2m) as detailed in **Appendix 3**.
- 2.7 The capital programme is financed by a combination of capital receipts, capital funded from current revenue (CFCR), and self-financed borrowing as detailed in **Table 1** above. The level of borrowing is assessed through the Housing 30 year Business Plan to ensure affordability.
- 2.8 There are increasing pressures on the HRA as a result of legislation concerning the standards of housing provided, such as Energy Efficiency Standard for Social Housing (EESH) which is being managed by the service managers. In addition, there are requirements to keep rents at affordable levels for tenants. To ensure that the service can achieve the necessary quality targets, whilst keeping the HRA at a sustainable and affordable level, the HRA Business Plan is monitored throughout the year. A full review of this 30 year plan was carried out in 2015/16 and reported to Social Work and Housing Committee in December 2015. A further review has been carried out along with external consultants in response to significant capital investment required over the next 4 years. Affordability issues around this have been

considered by officers and options will be reported to a special meeting of this Committee on 22 February 2018.

- 2.9 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.

3 Scheme of Governance

- 3.1 The Committee is able to take a decision on this item in terms of Section D.1.1 (d) of the List of Committee Powers in Part 2A of the Scheme of Governance as it relates to resource matters within agreed budgets relating to Housing.

4 Implications and Risk

- 4.1 An equality impact assessment is not required because the report deals with the monitoring of expenditure against budgets which have been approved previously and does not have a differential impact on any of the protected characteristics.
- 4.2 There are no staffing implications. The financial implications are inherent in the report.
- 4.3 The following Risks have been identified as relevant to this matter on a Corporate Level:
- Budget Pressures – as detailed in 2.8 above, there is increasing pressure on the HRA Business Plan over the long term to manage and maintain existing stock whilst delivering a substantial capital programme and keep rents at an affordable level for tenants. Any revenue overspends during the year will reduce the amount of CFCR available to fund the capital programme which will increase the requirement to borrow and the costs associated with this. Similarly, any overspends on the capital plan will also increase the borrowing requirement. This risk is being monitored through the review of the business plan and the options around deliverability will be reported to a special meeting of this Committee (date to be confirmed), together with quarterly monitoring reports.
 - Changes in Government Policy, legislation and regulation – the Council is required to adhere to relevant regulations and standards as set out by Scottish Government, including achieving EESSH by 2020. There are risks associated with not achieving these standards balanced with the risks associated with the high cost of delivering the works. The deliverability of these standards are being monitored through the Housing Improvement Programme which has been established to deliver these targets over the next 4 years.

- Working with other organisations – the capital programme is largely dependent on external contractors delivering on contracted works. There is the risks associated with this in terms of external organisations being able to deliver the required programme in the required timescales and budget. The risk is monitored by the property service through the tendering process. There is also the risk to the deliverability of the programme in terms of the availability of external contractors.
- Environmental Challenges – deliverability of the capital programme may be at risk due to adverse weather conditions which delay works meeting completion deadlines. This is largely out of the Council's control but is taken into account during the planning and costing of projects to reduce any impact on deliverability of projects.

The following Risks have been identified as relevant to this matter on a Strategic Level:

- Affordable Housing – to increase the supply of affordable housing across all tenures. There is a risk that the Council will be unable to meet Affordable Housing targets due to the availability of suitable land and the budget implications of new build on the business plan. These risks are being monitored through the review of the business plan and any implications for future new build will be included in a separate report to this Committee (date to be confirmed).

4.4 A Town Centre Impact Assessment is not required for this report as the report deals with the monitoring of expenditure against budgets which have been approved previously, and the reprofiling of some expenditure.

Stephen Archer
Director of Infrastructure

Report prepared by Alison Tennant, Accountant
Date 12 January 2018

ABERDEENSHIRE COUNCIL - HOUSING REVENUE ACCOUNT

Appendix 1

	ACTUAL 2016/17	REVISED BUDGET 2017/18	ACTUAL TO DEC-17	%	REVISED FORECAST 2017/18	NOTES
HRA SUMMARY	£'000	£'000	£'000		£'000	
Staff Costs						
1 Salaries & Wages	8,397	8,595	6,280	73.07%	8,377	HRA 1.0
2 Superannuation	1,496	1,544	1,146	74.22%	1,540	
3 National Insurance	694	701	522	74.47%	693	
4 Supplementary Pensions	45	42	31	73.81%	42	
5 Other Staff Costs	11	10	3	30.00%	5	
6 Staff Recharges	329	262	249	95.04%	332	
7 Insurance - Non Property	57	58	50	86.21%	54	
	11,029	11,212	8,281	73.86%	11,043	
Premises Costs						
8 Rent & Rates	212	210	189	90.00%	225	
9 Insurances - Property	161	162	182	112.35%	182	
10 Heating & Lighting	1,540	1,742	872	50.06%	1,653	HRA 2.0
11 Repairs & Maintenance	16,299	14,821	8,599	58.02%	14,473	
12 Accommodation Allocation	237	266	200	75.19%	266	
13 Cleaning	399	375	291	77.60%	391	
	18,847	17,576	10,333	58.79%	17,190	
Administration Costs						
14 Printing, Stationery & Postages	155	156	78	50.00%	156	
15 Telephone Costs	64	80	33	41.25%	77	
16 Course Expenses	68	58	27	46.55%	58	
17 Lost Rents	864	858	959	111.77%	1,279	HRA 3.0
18 Fees & Charges	219	163	76	46.63%	159	
19 Central Administration and Management Charge	2,768	2,804	2,103	75.00%	2,804	
	4,139	4,119	3,276	79.53%	4,533	
Transport Costs						
20 Travel & Subsistence	208	198	149	75.25%	202	
21 Internal Transport Costs	65	71	36	50.70%	56	
	273	269	185	68.77%	258	
Supplies & Services						
22 Furniture & Equipment	128	173	77	44.51%	169	
23 IT Costs	160	145	77	53.10%	145	
24 Community Alarm	252	231	72	31.17%	146	
25 Other Supplies & Services	81	45	35	77.78%	40	
26 Tenant Participation	52	59	52	88.14%	59	
27 Temporary Accommodation Units	404	405	374	92.35%	478	
28 Capital Funded from Current Revenue	13,319	19,063	15,276	80.13%	18,817	HRA 4.0
	14,396	20,121	15,963	467.17%	19,854	
Payments to Agencies						
29 Payments to Outside Bodies	374	312	284	91.03%	304	
30 Internal Recharges	56	57	43	75.44%	57	
31 Payments to Tenants	20	51	9	17.65%	17	
	450	420	336	80.00%	378	
Capital Financing Costs						
32 Loans Funds	6,322	6,900	5,147	74.59%	6,862	
	6,322	6,900	5,147	74.59%	6,862	
Provisions						
33 Increase/(Decrease) in Bad Debt Provision	410	0	0	0.00%	0	
	410	0	0	0.00%	0	
Gross Expenditure	55,866	60,617	43,521	71.80%	60,118	
Income						
34 Council House Rents	(45,888)	(47,643)	(35,818)	75.18%	(47,767)	HRA 5.0
35 Sheltered Housing Income	(3,582)	(3,803)	(2,632)	69.21%	(3,674)	HRA 6.0
36 Other Rent & Charges	(1,416)	(1,491)	(1,146)	76.86%	(1,481)	
37 Staff Recharges	(3,081)	(3,155)	(2,148)	68.08%	(2,864)	HRA 7.0
38 Interest on Revenue Balances	(24)	(4)	(16)	400.00%	(16)	
39 Other Income	(858)	(578)	(342)	59.17%	(483)	
40 Internal Recharges	(559)	(710)	(433)	60.99%	(577)	HRA 8.0
41 Temporary Accommodation Units	(457)	(469)	(372)	79.32%	(492)	
42 New Build Funding	0	(2,764)	0	0.00%	(2,764)	
	(55,866)	(60,617)	(42,907)	70.78%	(60,118)	
Total Income	0	0	614	0.00%	0	
Current Year (Surplus)/Deficit	0	0	614	0.00%	0	
Earmarked HRA Reserve b/f	0	0	0	0.00%	0	
Earmarked HRA Reserve c/f	0	0	614		0	
HRA Reserves						
HRA Working Balance (Min £2m maintained)	(2,000)	(2,000)	(2,000)		(2,000)	
Earmarked HRA Reserve c/f	0	0	614		0	
	(2,000)	(2,000)	(1,386)		(2,000)	
Capital Programme						
Capital Expenditure	29,011	36,465	17,138	47.00%	30,761	
Funded by:						

ABERDEENSHIRE COUNCIL - HOUSING REVENUE ACCOUNT

Appendix 1

HRA SUMMARY

Capital Receipts
Capital Funded from Current Revenue
Borrowing

ACTUAL 2016/17	REVISED BUDGET 2017/18	ACTUAL TO DEC-17	%	REVISED FORECAST 2017/18	NOTES
£'000	£'000	£'000		£'000	
(6,877)	(7,262)	(2,237)	30.80%	(8,148)	
(13,319)	(19,063)	(15,276)		(18,817)	
(8,816)	(10,140)	375		(3,796)	
<u>(29,011)</u>	<u>(36,465)</u>	<u>(17,138)</u>		<u>(30,761)</u>	

**Housing Revenue Account
Revenue Monitoring Notes for the period ended 31/12/17**

Number	Variance (£000)	Variance Notes >£100,000
1.0	(218)	Salaries and Wages Salaries and Wages are forecast to be £218,000 lower than budget due to vacancies within Sheltered Housing, Strategy and Asset Management Teams. This is not anticipated to be recurring as plans are in place for the service to appoint to these posts.
2.0	(348)	Repairs and Maintenance Repairs and Maintenance are forecast to be £348,000 lower than budget. This is a result of planned maintenance work being transferred to the new Council-wide Hard FM contract which has generated HRA savings of around £500,000. It is anticipated that these savings will be recurring throughout the term of the contract. These savings are offset by an increase in Housing Repairs costs due to an increase in the use of subcontractors to clear jobs from the old SAVE system in preparation for depots transferring to the new Northgate system.
3.0	421	Lost Rents Lost Rents arising from voids are forecast to be £421,000 higher than budget. The voids have continued to increase due to further delays in the start of the new Housing Improvement Plan contract which, due to the nature of the works, required properties to be vacant. Properties which have become void have been held for these works to avoid future disruption to tenants required to be decanted. This level of voids is expected to reduce over the next 18 months once the contract gets underway and the housing service are looking at options to reduce the impact of these voids by finding temporary alternative uses for the properties.
4.0	(246)	Capital Funded From Current Revenue Capital Funded from Current Revenue (CFCR) is the balancing figure on the HRA. Any net surplus during the year is used to fund the capital programme. The net overspend on the HRA of £246,000 as a result of other variances results in there being £246,000 less available for CFCR.
5.0	(124)	Council House Rents Council House Rents are forecast to be £124,000 higher than budget. This is due to there being less council house sales under the right to buy scheme in 2016/17 than expected, therefore a higher number of properties available to rent.
6.0	129	Sheltered Housing Income Sheltered Housing Income is forecast to be £129,000 lower than budget. The majority of this relates to lower than budgeted income from Housing Support charges to sheltered housing tenants. The charging of sheltered housing is under review.
7.0	291	Staff Recharges Staff Recharges income is forecast to be £291,000 lower than budget. As detailed in note 1 above, staff costs are forecast to be lower than budget. Consequently, the staff recharge to the General Fund and HRA Capital budgets is also forecast to be below budget.
8.0	133	Internal Recharges Internal recharges are forecast to be £133,000 lower than budget. This relates to income from the General Fund homelessness budget to fund the support provided in hostels. Hostel support costs are lower than anticipated therefore the funding required is also reduced.

APPENDIX 3 - HRA Capital Programme - 2017/18

	Revised Budget £000	Forecast £000	Variance £000	Notes
New Build Programme	11,851	8,710	(3,141)	Phase 6 of the Council's new build programme is currently underway to deliver 151 units in Huntly, Turriff, Peterhead, Oldmeldrum, Portlethen, Fraserburgh, Strichen, Inverurie, Laurencekirk and Stuartfield. There have been some delays at tender stage resulting in completion of some of these projects slipping into 2018/19. This committee receive regular separate progress reports for these developments.
Kitchens	28	128	100	Kitchen projects are within overall budget however there has been additional spend required following the final reconciliation of projects carried out by Muirfield following the company going in to administration
Bathrooms	2,821	3,294	473	Bathroom projects were completed earlier than anticipated resulting in them being within overall budget however there has been additional spend required following the final reconciliation of projects carried out by Muirfield following the company going in to administration
Windows & Doors	547	2,830	2,283	Windows and doors projects were within the approved tender cost. However additional spend was incurred to carry out additional works to ensure there would be no delay in the start of the Housing Improvement Plan contract.
Heating	1,713	2,199	486	This relates partly to an ongoing contract with Everwarm to deliver reactive heating replacements. The level of these replacements will reduce once HIP commences. An additional project to carry out electric heating installations that are required to be done before HIP commences.
Rewiring & Electrical	0	8	8 -	
Roofing	102	100	(2) -	
External Wall Insulation (EWI)	50	277	227	This relates to a contract with Everwarm to improve the energy efficiency of properties through installation of external wall insulation. This has increased due to additional properties being added to the contract
Internal Wall Insulation (IWI)	0	2	2 -	
Door Entry Systems	0	1	1 -	
Sheltered Housing	2,105	1,410	(695)	This budget comprises works at Modley House, heating/boiler replacements at Bonty Court and Skerryhall and Provost Lawrence Court. The underspend relates to sprinkler upgrades which have been delayed and are now due on site in March 2018. Requirements for lift replacements are currently being assessed but these works will also now be delayed into 2018/19.
Scape Projects	1,600	2,498	898	SCAPE is a national framework which can be called upon by Local Authorities for capital works. There are two contractors in the Aberdeenshire local area framework, one for contracts >£2m and one for contracts <£2m. This framework was initially intended to be used by the Council as a pilot of using one contractor to do various works to a property at the same time, to avoid future tenant disruptions. This will be replaced by the new HIP contract due to commence early 2018. Forecasts are higher than budget due to additional projects being added to the SCAPE framework..
Miscellaneous	1,626	234	(1,392)	This budget mainly comprises works to upgrade Macrae houses. The underspends is due to the tender being delayed resulting in works slipping to 2018/19.
Capital Works done at Void	2,000	2,200	200	Capital works, not included in an existing contract, that are required to be carried out when a property becomes void.
Swedish Timber Upgrades	400	560	160	Upgrade to Swedish timber properties at West Road, Fraserburgh. Dave/Ken – brief explanation of what this project was and why it is overspent.
Housing Improvement Plan (HIP)	10,000	5,000	(5,000)	The HIP is a new framework contract to deliver the HRA capital programme over the next 4 years, comprising all Business as Usual component replacement works as well as works to achieve compliance with EESSH. To date, approval of expenditure up to £23m in the first 12 months of the contract has been granted by Communities Committee. The contract was due to start on site in January 2018 but due to extra time being taken to set up resource and systems to ensure a smooth operation of a contract this size, the forecast expenditure for 2017/18 has been reduced to £5m.
Housing Repairs Allocation	460	414	(46)	This is the proportion of the cost of the Housing Repairs service attributed to capital based on the % of work carried out by the in-house service relating to capital.
Stock Improvements	23,452	21,155	(2,297)	
Staff Recharges	699	552	(147)	The allocations budget relates to the housing staffing costs associated with delivering the capital programme. The forecast underspend is due to vacancies within housing consequently resulting in a lower recharge to capital.
Other	463	344	(119)	Budget was provided for the acquisition of vans for in-house teams to deliver Internal Wall Insulation on void properties and replacement of rooves at Berryden shops. The underspend is due to the roof replacements being postponed pending the outcome of a wider review of shops being held on the HRA.
Total Capital Programme	36,465	30,761	(5,704)	