



REPORT TO COMMUNITIES COMMITTEE – 08 NOVEMBER 2018

HOUSING REVENUE ACCOUNT (HRA) FINANCIAL MONITORING - 30 SEPTEMBER 2018

1 Recommendations

The Committee is recommended to:

- 1.1 Consider the HRA revenue and capital budget monitoring at 30 September 2018

2 Background / Discussion

- 2.1 The Housing Revenue Account (HRA) and Capital Expenditure budget for monitoring purposes for 2018/19 was approved by Council on 8 February 2018. 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 Services 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 30 September 2018

	Original Budget £000	Revised Budget £000	Forecast £000	Variance £000
Revenue Expenditure	41,698	41,698	42,030	332
Revenue Income	(60,744)	(60,744)	(60,731)	13
CFCR	(19,046)	(19,046)	(18,701)	(345)
Capital Expenditure	49,959	43,839	43,839	0
<i>Funded by:</i>				
Borrowing	29,475	21,932	22,277	345
House Sales	0	287	287	0
Other Capital Income	1,438	2,574	2,574	0
CFCR	19,046	19,046	18,701	(345)
	49,959	43,839	43,839	0

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 Gross HRA expenditure is budgeted at £60.744m with £19.046m budgeted to be used as CFCR. The CFCR forecast has reduced by £345,000 to £18.701m due to overspends in expenditure lines with the main variance being an increase in Lost Rents of £414,000.
- 2.6 **Appendix 2** gives more detail on the variances between budget and forecast.

Capital Budget Monitoring

- 2.7 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. The income generated from Council tenants is used to fund the HRA capital programme to ensure that it is self-financing. Any in-year surplus is used to fund the capital programme with any deficit in programmed capital expenditure met from additional borrowing.
- 2.8 The capital programme budget has been revised by the Property Service to take into account the outturn at 2017/18 with budgets reprofiled across current and future years based on expected completion. This exercise also considers projects that have been brought forward whilst ensuring funding allocated remains within the indicative HRA Capital budgets set at Communities Committee in March 2018 for years 2019/23. This ensures overall funding across the years remains within the approved funding set within the Housing 30 year Business Plan.
- 2.9 The revised HRA Capital Programme 2018/19 is provided in **Appendix 3**, which also gives details on any variances to forecast. The revised capital budget for the year 2018/19 is £43.839m with this revised down from the original budget of £49.959m. Reprofiling was focused in two main areas with updated future years budgets to be submitted to committee for approval as part of the 2019/20 budget setting process.
- New Build Programme – increased in year budget allocation of £2.845m due to underspend in 2017/18 of £2.058m with the balance of £787,000 relating to new build project brought forward from 2019/20 within current approved funding.
 - Housing Improvement Programme (HIP) – the budget allocation for the HIP programme has been reduced by £8.965m with this reprofiled to future years. This is due to delays in starting the main programme of works. Property are in regular discussions with contractors, who have provided cashflow forecasts which reflect increasing levels of work completions over the next 6 months, as the contractors move to the completion stage of the programme. These forecasts show that although £2.234m has been paid in the first 6 months, the contractors are expecting to increase the number of houses and jobs that they will be completing each week and the figures they have provided indicate total expenditure of £19.6m by the end of March 2019. This is based on all circumstances being favourable and so it is considered to be an optimistic figure which warrants further discussion with the contractors and close monitoring of their weekly performance to see if they do gear up to the levels of output that they maintain that they can achieve, which will be required in order to attain the forecasted expenditure of £19.6m over the next six months.

Cashflow forecasts and more detailed discussion on programme completion are

included in the HIP update report being provided by Property to this Communities Committee cycle. The Property Service, through discussions with the contractors, are confident that works delayed at the start of the programme can be rescheduled to later years with the overall spend on the programme remaining as per original levels.

- SCAPE Works – the HIP budget has been further reduced in year by £1.92m due to these works being transferred for completion through the SCAPE contract.
- 2.10 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. The revised borrowing required to fund the revised capital programme in 2018/19 is forecast at £22.277m in line with the reprofiled capital expenditure. Revised borrowing remains within the 5 year borrowing requirement approved for the HRA Capital programme and within the borrowing set out within the approved business plan.
- 2.11 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 and commitments made to increase the level of Affordable Housing. 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.
- 2.12 A full review of the 30-year plan was carried out in 2017/18 and reported to Communities Committee in February 2018. A rent consultation was initiated in order to consult on new rent strategies with the results of this to be reported to this cycle of the Communities Committee with the Business Plan to be updated with the new approved rental strategy as part of the budget setting process to be reported to committee in February 2019. The budget report to committee will also include an updated 5 year HRA Capital Programme which will reflect the reprofiling exercise on current year budgets.
- 2.13 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: Susan Donald, Accountancy Finance Manager,
Ruth Taylor, Principal Accountant,
Billy Wishart, Housing Accountant

Date: 16 October 2018

Appendix 1

SUMMARY OF REVENUE MONITORING 2018/19 TO 30/09/2018 - COMMUNITIES COMMITTEE

	Original Budget 2018/19 £000	Approved Virements 2018/19 £000	Virements to be approved 2018/19 £000	Revised Budget 2018/19 £000	Forecast 2018/19 £000	Variance £000	Funded from Reserves £000	Net Variance £000
COMMUNITIES COMMITTEE								
<u>Culture</u>								
- Arts Development	353	7	94	454	354	(100)	(8)	(108)
- Grant Aid	271	(47)	(33)	191	191	0	0	0
- Libraries	4,676	(29)	(10)	4,637	4,589	(48)	0	(48)
- Museums	660	1	0	661	667	6	0	6
- Visitor Attractions	242	1	0	243	232	(11)	0	(11)
	6,202	(67)	51	6,186	6,033	(153)	(8)	(161)
<u>Sport and Physical Activities</u>								
- Active Communities	114	2	105	221	229	8	(14)	(6)
- Sports & Leisure Management - Client	4,901	(39)	393	5,255	5,407	152	0	152
- Sport & Leisure Management Trading Account	(243)	125	0	(118)	354	472	0	472
	4,772	88	498	5,358	5,990	632	(14)	618
<u>Housing</u>								
- Affordable Housing	230	23	0	253	298	45	(49)	(4)
- Homeless Persons	3,213	(32)	875	4,056	3,785	(271)	(18)	(289)
- Improvement & Repair Grants	923	(20)	0	903	953	50	(62)	(12)
- Gypsies/Travellers	79	0	0	79	83	4	0	4
- Housing Support	321	56	0	377	428	51	0	51
- Community Safety	446	(20)	0	426	356	(70)	0	(70)
	5,212	7	875	6,094	5,903	(191)	(129)	(320)
<u>Integration Joint Board Contribution</u>	107,306	0	(75)	107,231	107,231	0	0	0
<u>Tackling Poverty and Inequalities</u>	1,141	(23)	0	1,118	1,141	23	(27)	(4)
NET EXPENDITURE FOR COMMUNITIES COMMITTEE	124,633	5	1,349	125,987	126,298	311	(178)	133

APPENDIX 2

ABERDEENSHIRE COUNCIL

Housing Revenue Account Revenue Monitoring Notes for the period ended 30/09/18

Number	Variance (£000)	Variance Notes >£100,000
HRA 1	(178)	Salaries and Wages Salaries and Wages are £178,000 lower than budget due to vacancies across Housing Options, Sheltered Housing, Strategy and Tenancy Services Teams. This is not anticipated to be recurring as all posts are being recruited.
HRA 2	414	Lost Rents Lost Rents arising from voids are forecast to be £414,000 higher than budget. The increase is due to higher numbers of voids with longer void periods held for Internal Wall Insulation (IWI) improvement works but with these delayed due to delays in the start of the new Housing Improvement Plan (HIP) contract. The level of voids is expected to reduce once the HIP programmed works start with the housing service looking at options to accelerate the release of some of these voids through completion of works via the inhouse IWI Repairs team.
HRA 2	(345)	Capital From Current Revenue Capital Funded from Current Revenue (FCFR) is the balancing figure on the HRA. Any net surplus during the year is used to fund the capital programme. Due to increased costs in other areas as explained in these variance notes, £353,000 less revenue funding is available to help fund the capital programme.

HRA Capital Programme

	Approved Budget £000	Reprofiled Budget £000	Sept 2018 £000	Forecast £000	Notes
New Build Programme	9,614	12,459	6,002	12,459	Budget of £787,000 has been brought forward from 2019/20 to facilitate purchase of 6 new build units at Kingseat, Inverurie. This is part of the programme to deliver a further 250 units over the next three years per the business plan expenditure programme approved by committee.
<u>Stock Improvements (Legacy Projects):</u>					
Kitchens, Bathrooms, Windows, Doors, Roofing, Insulation	530	530	3	530	
Reactive Heating	1,400	1,400	458	1,400	
Sheltered Housing Upgrades (Sprinklers, Lifts, Boilers)	1,630	1,630	121	1,630	
Scape Projects	1,280	3,200	239	3,200	Works totalling £1,920k have been issued through the SCAPE contracts with kitchens and bathrooms to be completed on units where Internal Wall Insulation is already approved for installation with these works transferred from the HIP framework.
Stock Improvements (non-HIP)	1,475	1,475	176	1,475	
Housing Improvement Plan (HIP)	30,545	19,660	2,234	19,660	See 'Scape Projects' above. The reduction in the reprofiled budget and forecast is due to the delay in the start of the main contract works. This will be reprofiled across the future years of the contract, as it is anticipated there is sufficient scope to still complete all works over the four year contract term.
Capital Works done at Void (Housing Repairs)	2,000	2,000	1,258	2,000	
Housing Repairs Service Allocation	460	460	230	460	
Total Stock Improvements	39,320	30,355	4,719	30,355	
Staff Recharges	665	665	333	665	
Other	360	360	87	360	
Total Capital Programme	49,959	43,839	11,141	43,839	

