



## REPORT TO COMMUNITIES COMMITTEE – 21 FEBRUARY 2019

### HOUSING REVENUE ACCOUNT (HRA) FINANCIAL MONITORING – 31 DECEMBER 2018

#### 1 Recommendations

The Committee is recommended to:

- 1.1 Consider the HRA revenue and capital budget monitoring at 31 December 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 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 2018**

	<b>Original Budget £000</b>	<b>Revised Budget £000</b>	<b>Forecast £000</b>	<b>Variance £000</b>
Revenue Expenditure	41,698	41,698	42,788	1,090
Revenue Income	(60,744)	(60,744)	(60,963)	(219)
<b>CFCR</b>	<b>(19,046)</b>	<b>(19,046)</b>	<b>(18,175)</b>	<b>(871)</b>
<b>Capital Expenditure</b>	<b>49,959</b>	<b>34,335</b>	<b>34,335</b>	<b>0</b>
<i>Funded by:</i>				
Borrowing	29,475	13,458	14,329	871
House Sales	0	287	287	0
Other Capital Income	1,438	1,544	1,544	0
CFCR	19,046	19,046	18,175	(871)
	<b>49,959</b>	<b>34,335</b>	<b>34,335</b>	<b>0</b>

## 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 £871,000 to £18.175m due to overspends in expenditure lines with the main variance being an increase in Lost Rents arising from voids of £617,000.
- 2.6 Voids will be the subject of a report to Communities Committee in March and this will positively confirm our change of approach of how we manage Internal Wall Insulation (IWI) and changes we plan to make as part of our Rapid Rehousing Transition Plans (RRTP).
- 2.7 **Appendix 2** gives more detail on the variances between budget and forecast.

## Capital Budget Monitoring

- 2.8 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.
- 2.9 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.
- 2.10 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 £34.335m with this revised down from the original budget of £49.959m. Reprofiling has taken place in the following 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 £2.186m due to underspend in 2017/18 of £2.058m with an additional £787,000 relating to a new build project at Kingseat, Inverurie brought forward from 2019/20, whilst £659,000 has slipped back into 2019/20 for two other projects in Stonehaven and Peterhead.
  - Stock improvements (Legacy) – Reactive Heating – The 2018/19 budget allocation has been reduced by £190,000 due to a reduced number of reactive heating upgrades being identified.
  - Stock Improvement (Legacy) – Sheltered Housing Upgrades – the 2018/19 budget allocation has been reduced by £1.030m due to a delay in the sprinkler installation contract for Fraserburgh.

- 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.
- Stock Improvements (non-HIP) – The 2018/19 budget allocation has been reduced by £875,000 due to a delay in the Macrae House Type tender due to changes in the specification of external cladding.
- Housing Improvement Programme (HIP) – the 2018/19 budget allocation for the HIP programme has been reduced by £17.545m with this reprofiled to future years. This was initially due to delays in starting the main programme of works. However, the four contractors have found difficulties in stepping up the resourcing of the on-site construction, in order to redress the earlier delays and to date they have been unable to deliver on the works programmes to the levels that they have assured are achievable. Property are in regular discussions with contractors, who have provided cashflow forecasts which reflect increasing levels of work completions over the final three months of the financial year, as the contractors move to the completion stage of the first year of the programme. These forecasts show that although £7.681m has been paid in the first nine months, the contractors are planning to increase the number of houses and jobs that they will be completing each week.

The Property service have scrutinised the information that has been provided by the contractors on their planned works programme, for completion of the Year 1 works and they are content that this level of increased output should be achievable assuming that the contractors provide adequate resources. However, this is based on all circumstances being favourable and so it is considered to be an optimistic figure, with a fairly high risk that the final figure will be considerably lower. Property have therefore taken a view on whether the contractors will actually deliver on their revised works programme, and they have recommended a further reduction to forecast based on the contractor's latest performance.

The Property Service, through discussions with the contractors, are still content 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.

- 2.11 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 £14.329m 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.
- 2.12 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.

- 2.13 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.
- 2.14 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**

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Date: 25 January 2019



	ACTUAL 2017/18 £'000	REVISED BUDGET 2018/19 £'000	ACTUAL TO DEC-18 £'000	%	REVISED FORECAST DEC-18 £'000	NOTES
<b>HRA SUMMARY</b>						
<b>Staff Costs</b>						
1 Salaries & Wages	8,405	8,761	6,345	72.42%	8,670	HRA 1
2 Superannuation	1,537	1,555	1,168	75.11%	1,591	
3 National Insurance	698	718	515	71.73%	712	
4 Supplementary Pensions	45	42	33	78.57%	42	
5 Other Staff Costs	4	10	38	380.00%	61	
6 Staff Recharges	348	338	253	74.85%	337	
7 Insurance - Non Property	50	59	55	93.22%	55	
	<b>11,087</b>	<b>11,483</b>	<b>8,407</b>	<b>73.21%</b>	<b>11,468</b>	
<b>Premises Costs</b>						
8 Rent & Rates	381	221	214	96.83%	288	
9 Insurances - Property	182	164	194	118.29%	194	
10 Heating & Lighting	1,714	1,674	1,268	75.75%	1,744	
11 Repairs & Maintenance	15,289	14,469	7,993	55.24%	14,469	
12 Accommodation Allocation	217	269	202	75.09%	269	
13 Cleaning	388	378	322	85.19%	429	
	<b>18,172</b>	<b>17,175</b>	<b>10,193</b>	<b>59.35%</b>	<b>17,393</b>	
<b>Administration Costs</b>						
14 Printing, Stationery & Postages	168	156	66	42.31%	160	HRA 2
15 Telephone Costs	58	80	33	41.25%	51	
16 Course Expenses	34	59	25	42.37%	59	
17 Lost Rents	1,360	1,200	1,188	99.00%	1,817	
18 Fees & Charges	167	166	127	76.51%	166	
19 Central Administration and Management Charge	2,826	2,832	2,124	75.00%	2,832	
	<b>4,613</b>	<b>4,493</b>	<b>3,563</b>	<b>79.30%</b>	<b>5,085</b>	
<b>Transport Costs</b>						
20 Travel & Subsistence	190	198	124	62.63%	179	
21 Internal Transport Costs	52	71	33	46.48%	54	
	<b>243</b>	<b>269</b>	<b>157</b>	<b>58.36%</b>	<b>233</b>	
<b>Supplies &amp; Services</b>						
22 Furniture & Equipment	113	174	101	58.05%	143	HRA 3
23 IT Costs	193	146	18	12.33%	198	
24 Community Alarm	136	132	88	66.67%	123	
25 Other Supplies & Services	71	45	35	77.78%	46	
26 Tenant Participation	64	60	24	40.00%	60	
27 Temporary Accommodation Units	500	409	379	92.67%	473	
28 Capital Funded from Current Revenue	18,140	19,046	17,162	90.11%	18,175	
	<b>19,217</b>	<b>20,012</b>	<b>17,807</b>	<b>437.59%</b>	<b>19,218</b>	
<b>Payments to Agencies</b>						
29 Payments to Outside Bodies	386	315	157	49.84%	248	
30 Internal Recharges	56	57	43	75.44%	57	
31 Payments to Tenants	16	40	30	75.00%	41	
	<b>458</b>	<b>412</b>	<b>230</b>	<b>55.83%</b>	<b>346</b>	
<b>Capital Financing Costs</b>						
32 Loans Funds	6,617	6,900	5,415	78.48%	7,220	HRA 4
	<b>6,617</b>	<b>6,900</b>	<b>5,415</b>	<b>78.48%</b>	<b>7,220</b>	
<b>Provisions</b>						
33 Increase/(Decrease) in Bad Debt Provision	550	0	0	0.00%	0	
	<b>550</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>	<b>0</b>	
<b>Gross Expenditure</b>	<b>60,957</b>	<b>60,744</b>	<b>45,772</b>	<b>75.35%</b>	<b>60,963</b>	
<b>Income</b>						
34 Council House Rents	(47,626)	(49,518)	(38,864)	78.48%	(49,518)	
35 Sheltered Housing Income	(3,643)	(3,678)	(2,748)	74.71%	(3,675)	
36 Other Rent & Charges	(1,479)	(1,569)	(1,145)	72.98%	(1,596)	
37 Staff Recharges	(2,926)	(3,205)	(2,132)	66.52%	(3,203)	
38 Interest on Revenue Balances	(38)	(4)	(27)	675.00%	(33)	
39 Other Income	(690)	(502)	(103)	20.52%	(446)	
40 Internal Recharges	(588)	(649)	(443)	68.26%	(590)	
41 Temporary Accommodation Units	(465)	(419)	(310)	73.99%	(402)	
42 New Build Funding	(3,502)	(1,200)	0	0.00%	(1,500)	
	<b>(60,957)</b>	<b>(60,744)</b>	<b>(45,772)</b>	<b>75.35%</b>	<b>(60,963)</b>	
<b>Total Income</b>						
<b>Current Year (Surplus)/Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>	<b>0</b>	
<b>Earmarked HRA Reserve b/f</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>	<b>0</b>	
<b>Earmarked HRA Reserve c/f</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	

**HRA SUMMARY**

**HRA Reserves**

HRA Working Balance (Min £2m maintained)  
Earmarked HRA Reserve c/f

**Capital Programme**

Capital Expenditure  
Funded by:  
Capital Receipts  
Capital Funded from Current Revenue  
Borrowing

	ACTUAL 2017/18 £'000	REVISED BUDGET 2018/19 £'000	ACTUAL TO DEC-18 £'000	%	REVISED FORECAST DEC-18 £'000	NOTES
	(2,000)	(2,000)	(2,000)		(2,000)	
	0	0	0		0	
	<u>(2,000)</u>	<u>(2,000)</u>	<u>(2,000)</u>		<u>(2,000)</u>	
Capital Expenditure	31,604	34,335	20,829	60.66%	34,335	
Funded by:						
Capital Receipts	(7,721)	(1,831)	(1,831)	100.00%	(1,831)	
Capital Funded from Current Revenue	(18,140)	(19,046)	(17,162)		(18,175)	
Borrowing	(5,743)	(13,458)	(1,836)		(14,329)	
	<u>(31,604)</u>	<u>(34,335)</u>	<u>(20,829)</u>		<u>(34,335)</u>	



**ABERDEENSHIRE COUNCIL**

**Housing Revenue Account  
Revenue Monitoring Notes for the period ended 31/12/18**

Number	Variance (£000)	Variance Notes >£100,000
HRA 1	(91)	<p><b>Salaries and Wages</b> Salaries and Wages are £91,000 lower than budget. This is due to vacancies across Sheltered Housing, Strategy and Tenancy Services Teams with these vacancies being recruited. The forecast also includes payment of the budgeted 2% pay award therefore the forecast will change following the finalisation of the current year pay award with any award above 2% already built into budgets having a direct impact on the forecast</p>
HRA 2	617	<p><b>Lost Rents</b> Lost Rents arising from voids are forecast to be £617,000 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 Repaire team</p>
HRA 3	(871)	<p><b>Capital From Current Revenue</b> 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. Due to increased costs in other areas as explained in these variance notes, £871,000 less revenue funding is available to help fund the capital programme.</p>
HRA 4	320	<p><b>Loans Fund</b> The Loans Fund costs are forecast to be £320,000 higher than original budget due to changes in borrowing required to fund the capital programme. The Business Plan has been updated to include new borrowing levels which reflects the increase in forecast and reprofiled borrowing requirements. The forecast will reduce if current expenditure forecasts for the capital programme are not achieved.</p>
HRA 5	(300)	<p><b>New Building Funding</b> Funding of £300,000 from Affordable Housing which has been allocated to the New Build funding</p>

## HRA Capital Programme

	Approved Budget £000	Reprofiled Budget £000	Dec 2018 £000	Forecast £000	Variance £000	Variance Notes
New Build Programme	9,614	11,800	9,142	11,800	0	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. Delay in reaching agreement on cost with contractor for the project at Cameron Street, Stonehaven and delay by Scottish Water on the project at Clerkhill, Peterhead has reduced the forecast spend by £659,000 compared with the last quarter's figures.
Stock Improvements (Legacy Projects):						
Kitchens, Bathrooms, Windows, Doors, Roofing, Insulation	530	440	80	440	0	
Reactive Heating	1,400	1,210	712	1,210	0	0 Reduced number of reactive heating upgrades identified
Sheltered Housing Upgrades (Sprinklers, Lifts, Boilers)	1,630	600	128	600	0	0 Delay in sprinkler installation contract (Fraserburgh)
Scape Projects	1,280	3,200	638	3,200	0	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	600	362	600	0	Delay in Macrae House Type tender due to changes in specification of external cladding
Housing Improvement Plan (HIP)	30,545	13,000	7,681	13,000	0	Two of the contractors experienced difficulties with their design resource which impacted on performance. All four contractors have experienced difficulty in obtaining and maintaining the on site construction resource. The contract requires that all certificates and guarantees are in place for each property completed prior to payment. Although a large number of properties are complete on site, the lack of certificates and guarantee documents has reduced the spend. This is the case for all four contractors.
Capital Works done at Void (Housing Repairs)	2,000	2,000	1,112	2,000	0	
Housing Repairs Service Allocation	460	460	345	460	0	
<b>Total Stock Improvements</b>	<b>39,320</b>	<b>21,510</b>	<b>11,057</b>	<b>21,510</b>	<b>0</b>	
<b>Staff Recharges</b>	<b>665</b>	<b>665</b>	<b>499</b>	<b>665</b>	<b>0</b>	
<b>Other</b>	<b>360</b>	<b>360</b>	<b>132</b>	<b>360</b>	<b>0</b>	
<b>Total Capital Programme</b>	<b>49,959</b>	<b>34,335</b>	<b>20,829</b>	<b>34,335</b>	<b>0</b>	