

HOUSING COMMITTEE

28 MARCH 2017

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Report Title	HOUSING REVENUE ACCOUNT (HRA) BUDGET MONITORING REPORT 2016/17 – REPORT 3
Purpose of Report	To inform members of the forecast 2016/17 outturn position on the Housing Revenue Account.
Decision(s)	The Committee RESOLVES: a) To note the projected outturn position on the HRA for 2016/17; b) To approve in principle the provisional capital slippage, as set out in Table 5 (subject to the final outturn position).
Consultation and Feedback	The report is based upon information provided by respective budget holders and contains a range of feedback and projections which they have provided to explain differences between budget and forecast outturn income and expenditure.
Financial Implications and Risk Assessment	The report highlights a further reduction in planned expenditure for the year of £2.082m with a corresponding increase in the projected level of HRA working balances by the end of the financial year. A significant element of the 2016/17 capital works budgets (£1.045m) are committed in the short-term with a need to review the longer term plans in terms of reprofiling and validating planned expenditure levels across the MTFP period. The report highlights the risk around the capital outturn forecast, given the current level of expenditure recorded on the council's financial system. David Stanley – Accountancy Manager Tel: 01453 754100 Email: david.staney@stroud.gov.uk
Legal Implications	This report has not been submitted to Legal Services prior to publication. The Legal Services Manager has advised that she will consider the report and update the Committee if there are any significant Legal Implications. Karen Trickey, Legal Services Manager and Monitoring Officer Tel: 01453 754356 Email: karen.trickey@stroud.gov.uk

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Performance Management Follow Up	Budgets will be monitored by budget holders, supported by Finance.
Background Papers/ Appendices	Appendices A and B

Background

1. This report provides the third financial update for the financial year. Its purpose is to notify members of any significant forecast variances to the budget, highlight any key issues and to inform members of any actions that are required to be taken.
2. The outturn forecasts are calculated based upon a combination of the actual financial performance up to the 31 January 2017 and assessments of anticipated financial performance by 31 March 2017.
3. **This report should be seen as an update following the revised estimates presented to the committee in January. Savings and deferred expenditure identified in the revised estimates have been reflected in the outturn forecasts contained within this report. The budget monitoring position also reflects a further projected underspend and slippage on a number of budget headings.**
4. **This is primarily due to slowing down several work streams and deferring some programmes into future years to ensure we deliver value for money and efficient use of available resources both financial and physical including natural efficiencies being achieved from a pragmatic approach to delivery.**

HRA Budget – forecast outturn position

5. The original HRA budget for 2016/17 was £30.229m gross expenditure less £28.563m of income and financing resulting in a transfer from (use of) balances of £1.666m. The revised budget, as approved by Council in February 2017 is £25.837 gross expenditure less £28.603m of income and financing resulting in a net transfer to (addition to) balances of £2.765m.
6. The current forecast outturn position is gross expenditure of £23.513m (£2.392m variation) less £28.361m of income and financing (£0.310m variation) resulting in a net transfer to (addition to) balances of £4.848m. **This represents a variation of £2.082m against the latest budget with £1.045m of this variation being capital slippage and will be carried into 2017/18.**
7. The variations are summarised in Table 1, with the greatest variances being underspends and slippage across capital works, revenue repairs and maintenance, and supervision and management budgets. Further information is outlined in the Report Headlines section below.

Table 1 – HRA budget position (summary)

Housing Committee	2016/17 Latest Budget (£'000)	2016/17 Actual to Date (£'000)	2016/17 Qtrly Accruals (£'000)	2016/17 Actual + Accruals (£'000)	2016/17 Outturn Forecast (£'000)	2016/17 Outturn Variance (£'000)
Expenditure						
Supervision & Management	4,774	3,633	0	3,633	4,501	(273)
Sheltered Housing	1,021	645	0	645	955	(66)
Repairs and Maintenance	3,098	1,641	445	2,085	2,744	(354)
Sheltered Housing Modernisation	426	231	0	231	311	(115)
Queen's Court	0	128	0	128	128	128
Other Income and Expenditure	3,783	2,148	0	2,148	3,783	0
Support Service Charges	322	330	0	330	330	7
Subtotal Revenue Expenditure	13,424	8,755	445	9,200	12,751	(673)
Capital Expenditure NB&D	6,957	5,425	0	5,425	7,262	305
Capital Expenditure - Works	5,280	1,080	579	1,659	3,241	(2,039)
Capital Expenditure - SH Modernisation	176	18	0	18	89	(87)
Capital Expenditure - Queen's Court	0	170	0	170	170	170
Subtotal Capital Expenditure	12,413	6,693	579	7,272	10,762	(1,651)
Gross Expenditure	25,837	15,448	1,024	16,472	23,513	(2,324)
Income (Rents & Charges)	(22,231)	(17,063)	0	(17,063)	(22,319)	(89)
Net Housing Expenditure	3,606	(1,615)	1,024	(591)	1,194	(2,413)
Funding (Borrowing, Grants)	(6,372)	(131)	(839)	(970)	(6,042)	331
TOTAL HRA	(2,766)	(1,745)	185	(1,561)	(4,848)	(2,082)

(Table contains roundings.)

8. Table 1 (above) shows actual income and expenditure to 31 January 2017. For information, the table below shows the actual income and expenditure to 28 February 2017 and 15 March 2017 as recorded on the council's financial system (Agresso).

Table 2 – Actual income and expenditure as per Agresso

Housing Committee	Actual to 31/01/17 (£'000)	Actual to 28/02/17 (£'000)	Actual to 15/03/17 (£'000)
Expenditure			
Supervision & Management	3,633	3,842	4,040
Sheltered Housing	645	706	795
Repairs and Maintenance	1,641	1,843	1,884
Sheltered Housing Modernisation	231	233	251
Queen's Court	128	128	131
Other Income and Expenditure	2,148	2,211	2,211
Support Service Charges	330	330	330
Subtotal Revenue Expenditure	8,755	9,293	9,642
Capital Expenditure NB&D	5,425	5,883	5,886
Capital Expenditure - Works	1,080	1,444	1,575
Capital Expenditure - SH Modernisation	18	18	19
Capital Expenditure - Queen's Court	170	170	170
Subtotal Capital Expenditure	6,693	7,515	7,650
Reconciliation adjs		39	74
Gross Expenditure	15,448	16,848	17,367
Income (Rents & Charges)	(17,063)	(18,761)	(18,790)
Net Housing Expenditure	(1,615)	(1,914)	(1,424)
Funding (Borrowing, Grants)	(131)	(197)	(197)
TOTAL HRA	(1,745)	(2,111)	(1,621)

(Table contains roundings; reconciliation adjs balance the table above to Agresso records)

Report Summary

9. The HRA budget was significantly revised in the year in order to maintain HRA balances over the MTFP period. Reports to Housing committee in September 2016 outlined the approach taken to protect HRA balances in the current financial year and over the medium term. A number of projects and work streams have been deferred to future years based partially on the uncertainty of the financial position and also a more robust

validation of works being carried out on planned and cyclical areas. Due diligence has been demonstrated by disputing works from contractors that were incorrect and challenging suppliers to ensure that the money spent provides the best outcome for the Council and its tenants. It is also worth highlighting that this approach ensures that HRA resources are spent in a considered and planned manner to achieve best value for tenants and the council. Given the limited resources of the HRA over the medium term plan period, budgets may not always be fully spent in a given year just to achieve budgetary targets.

10. Furthermore, the HRA delivery plan considered by Housing committee in January 2017, set out the key priorities of the HRA. The approach taken outlined above ensures that resources are directed to the priority areas.
11. The revised budget reduced the overall level of net expenditure by £4.4m. The latest outturn forecast suggests a further reduction in net expenditure of £2.082m.
12. The main variations identified in the report relate to Supervision & Management, Sheltered Housing Modernisation Project, Capital Works and Repairs and Maintenance budgets. A brief overview of the reason for these variations is set out below.
13. Expenditure of £3.241m is forecast on the Capital works budgets, significantly less than the budgeted amount. **Capital slippage of £1.045m** has been identified and will be taken into 2017/18 to ensure funding is available to support the delivery commitments already in place.
14. **Supervision and Management** forecast to **underspend by a net £273k** (£523k before a proposed transfer to a workforce planning reserve of £250k). The net £273k underspend is largely due to the recruitment freeze in the first half of the year (£100k) and challenging recruitment market for key positions. A significant element of the variation has been the difficulty to recruit competent and skilled staff to technical positions, especially within our salary structure. Given the overall level of savings in this area, it is anticipated that an HRA Workforce Planning reserve of £250k is established to help mitigate potential future costs associated with the workforce.
15. The overall variation is a mix of pay and non-pay variations (£220k staffing, £300k contingency and non-pay budgets). Certain non-pay budgets have not been spent due to the recruitment situation, with training, IT budgets and supplies and services budgets comprising the majority of the variation.
16. This variation should be seen in the context of service delivery achievements in the year. There is a need to invest in the staffing structure to ensure performance can continue in the future and the HRA Delivery plan realised. The variation in 2016/17 is a result of a recruitment freeze and difficulty in recruiting to key technical posts. Whilst the workload of the teams has been managed despite the vacancies, it is not sustainable in the longer term. Therefore, whilst there are likely to be some savings released across the MTFP period, further investment in staff, processes, and IT systems will be required.

17. **£305k additional expenditure on New Build** as a result of a number of large schemes with large monthly contract payments that span over two financial years. Work has also progressed more quickly on the Top of Town Scheme and at Chapel Street, Cam due mainly to the good weather and contractors delivering more quickly than they had anticipated.
18. **£354k underspend on revenue Repairs and Maintenance budgets** which has been achieved by a combination of: robustly changing the culture with officers instructed not to spend simply to meet a budget target and instead to spend wisely on works that are assessed and considered necessary, and putting some works into planned programmes to ensure we are carrying out more sustainable repairs at a more controlled cost. Additionally, we have introduced a strong approach to contract management including disputing and challenging suppliers and contractors specifically regarding variations to works orders.
19. It should also be noted that we have had a very light winter season which has reduced some of what we would expect in terms of expected work streams. £354k underspend on revenue Repairs and Maintenance budgets (£154k overspend on responsive repairs, £296k underspend on planned/cyclical, £120k underspend on Gas)
20. **Sheltered Housing** - variations include there being no call on out tree surgery budget and savings on the equipment and grounds maintenance budgets within Sheltered Housing during 2015/16.
21. **Financing variation** due to reduced level of expenditure across the HRA capital programme, changes in Queens Court buy-back profile from earmarked reserves, projected utilisation of HCA grant balances and gross income from renewable heating schemes.

Table 3 – Impact on HRA balances over MTFP (projected)

	2016/17 Revised	2016/17 Bud Mon (£'000)	2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)
HRA BALANCES						
General Fund Balance b/f	1,938	1,938	6,786	3,698	3,584	3,580
Change in Balances	2,766	4,848	(3,088)	(114)	(4)	851
General Fund Balance c/f	4,703	6,786	3,698	3,584	3,580	4,431
Reductions in expenditure, or increases in income, to maintain balances at £1.5m			0	0	0	0
General Fund Balances as % of Net Revenue Budget	18.16%	26.19%	13.99%	16.37%	16.49%	20.56%

22. There is a significant change in the level of balances purely as a result of the outturn forecast across the MTFP period. These are stated prior to any allocation from balances for carry forwards.
23. The table above also does not take into account the treatment of capital slippage at year end. It may be more prudent (depending on the final level of capital expenditure) to transfer capital slippage to the Major

Repairs Reserve alongside the Item 8 calculation of depreciation. This would reduce the transfer to HRA working balances and ensure adequate capital financing is available to support spend in 2017/18. Based on the provisional capital slippage requested in the report, the HRA working balance would be £1.045m lower in each year than shown in the table above.

24. Further detailed work will need to be undertaken to work through the impact on each year of any rephrasing/reprofiling of expenditure across the MTFP period and modeled within the 30 year financial plan.

Areas of risk and uncertainty

25. Whilst there will clearly be lower net expenditure this year, there remains some risk and uncertainty in the outturn forecast:
 - a. The forecast outturn position on Capital budgets require additional spend or creditor accruals of £3.1m over the remainder of the financial year (£1.666m capital works, £1.376m New Build). Whilst it is expected that some of the difference between actual spend to date and the outturn forecast can be accounted for in delays in supplier invoicing, there nevertheless remains some risk that the outturn forecast will not be achieved.
 - b. The revised budget assumes 40 right to buy sales would be completed by the end of the financial year. To date (15 March 2017), 22 sales have been achieved, although there will be applications progressing. Whilst this will not impact on the level of RTB receipts being applied to the HRA New Build and Development programme, it will affect the level of rent loss predicted in subsequent years in the MTFP. These assumptions will be reviewed when the MTFP is updated in the first half of 2017/18.

HRA Capital Programme

26. The HRA Capital programme for 2016/17 is shown in Table 3 below. For clarity, the budgets are split between work on new homes, sheltered housing modernisation programme, and capital works on existing stock. Underspends and capital slippage totaling £1.822m is expected leaving expenditure of £10.592m in the year against the revised budget of £12.413m.

Table 4 – HRA Projected Capital Outturn 2016/17

Housing Committee Capital Schemes	2016/17 Latest Budget (£'000)	2016/17 Actual to Date (£'000)	2016/17 Qtrly Accruals (£'000)	2016/17 Actual + Accruals (£'000)	2016/17 Outturn Forecast (£'000)	2016/17 Outturn Variance (£'000)
New Build & Development						
Minchinhampton	0	9	0	9	10	10
Woolaways Refurbishment	0	(2)	0	(2)	(2)	(2)
Berkeley	2	(4)	0	(4)	2	0
Chapel Street, Cam	1,112	701	0	701	1,161	49
Hillside, Coaley	352	277	0	277	359	7
Littlecombe	41	4	0	4	41	0
Southbank, Woodchester	0	1	0	1	1	1
The Corriett	110	93	0	93	131	21
Wharfdale Way	23	1	0	1	1	(22)
Development - Leonard Stanley	2,027	1,991	0	1,991	2,208	181
Development - Top of Town Phase 1	47	(22)	0	(22)	52	5
Development - Top of Town Phase 2	1,352	1,328	0	1,328	1,361	9
Development - Top of Town Phase 3	1,320	1,006	0	1,006	1,537	217
Development - Top of Town	0	(3)	0	(3)	(3)	(3)
Development - Top of Town Phase 4	360	29	0	29	365	5
Fountain Crescent	0	15	0	15	15	15
Stonehouse - Former Ship Inn site	0	0	0	0	23	23
Contingency	211	(0)	0	(0)	0	(211)
TOTAL	6,957	5,425	0	5,425	7,262	305

Housing Committee Capital Schemes	2016/17 Latest Budget (£'000)	2016/17 Actual to Date (£'000)	2016/17 Qtrly Accruals (£'000)	2016/17 Actual + Accruals (£'000)	2016/17 Outturn Forecast (£'000)	2016/17 Outturn Variance (£'000)
Central Heating	670	86	0	86	536	(134)
Disabled Adaptations	300	93	0	93	171	(129)
Estate Works	0	(0)	0	(0)	(0)	(0)
Kitchens and Bathrooms	1,240	503	0	503	936	(304)
Major Voids	500	249	0	249	350	(150)
Professional Fees	110	112	0	112	25	(85)
Roofing	0	(3)	0	(3)	(3)	(3)
Asbestos / Radon	250	130	0	130	150	(100)
Doors and Windows	500	318	0	318	408	(92)
Electrical Works	200	118	0	118	202	2
Damp Works	90	0	0	0	0	(90)
Renewable Heating	0	(579)	579	0	0	0
Non-Traditional Properties	100	26	0	26	63	(37)
Gas In-House Provider	0	1	0	1	1	1
Door entry	200	25	0	25	25	(175)
External Works	1,100	1	0	1	377	(723)
Lifts	20	0	0	0	0	(20)
TOTAL Other Schemes	5,280	1,080	579	1,659	3,241	(2,039)
Sheltered Housing Modernisation	176	18	0	18	89	(87)
Queen's Court	0	0	170	0	0	170
TOTAL Capital Expenditure	12,413	6,522	579	7,102	10,592	(1,822)

(The table contains roundings.)

Provisional Capital slippage

27. Capital slippage has been identified in the early part of the quarter, as shown in the table below.

Table 5 – Capital slippage

Capital Slippage	Capital slippage (£'000)
Damp Works/Insulation	90
Door Entry	175
External Works	723
Lift	20
Non-Traditional Properties	37
Total provisional slippage	1,045

Appendix A –Revenue and Financing variations

28. **Supervision & Management: £273k net underspend.** £523k before £250k is proposed to be allocated to a new earmarked reserve for workforce planning (as outlined in para 13). The overall variation is in addition to the HRA action plan salary savings and are predominantly due to difficulty in recruiting a number of technical posts in areas such as asbestos, mechanical & electrical and contract management across the service leading to the underspend. This is being addressed by reviewing roles and considering alternate methods of delivery in some cases
29. **Sheltered Housing: £66k net underspend** as a result of a significantly reduced call off responsive items, most significantly tree surgery, reduced grounds maintenance costs, with more of this being undertaken in house and a reduced call on the equipment budget for new purchases.
30. **Repairs & maintenance:** A robust approach to delivery has allowed efficiencies to be made across most work streams during the year. Notably we are starting to benefit from past years investments, we have changed the way works are delivered when properties become empty, and we have been more focused in the way the repairs and maintenance service is managed.
- a. **Cyclical and Planned maintenance - £297k underspend.** Cyclical painting has largely been deferred as the contract has been re-procured in year due to the performance of the incumbent contractor. We are taking the opportunity to realign this programme with future planned programmes of work to ensure synergy and value for money is achieved.
- b. **General Voids - £92k underspend.** This has been achieved by changing operating practices and moving some traditional void works into planned programmes as appropriate (unless the circumstances show otherwise, such as health and safety concerns) e.g. not replacing kitchens on voids because the programme indicates renewal, but instead assessing their condition on a case by case basis and moving them into the planned capital programme.
- c. **Gas In-House service - £120k underspend.** SDC Heating Services are showing significant efficiencies when benchmarked against the external market place. This has been achieved through greater partnership working with stakeholders, changes in working practices, negotiated improved materials costs and support servicing contract.
31. **Rent & charge income - £89k variation.** Rental and service charge income largely in-line with the revised budget, with a collection anticipated to involve a positive collection of an additional £89k over original budget.
32. This is a very pleasing outcome and can be attributed to the service's redesign where a specialist income team was formed and which has performed exceptionally well, and the impact of welfare reform changes

far less than predicted. It must be noted that major changes notably Universal Credit will be implemented during 2017/18.

33. This positive income performance is all the more reassuring, considering that the sheltered housing modernisation project has meant that two schemes are being closed, creating empty flats during 2016/17 and income loss as a result. Rent income collection is currently 98.7% which is not only higher than projected last year, but an improvement over previous years.
34. A further contribution factor to the positive variation is the delivery of new homes from the New Build programme, which are generally let at affordable rent levels.
35. **Sheltered Housing Modernisation:** The revenue variation is due to lower than forecast expenditure on decants.
36. **Queens Court:** Expenditure of £130k – See commentary in Appendix B.
37. **Funding:** There is a reduction in the level of financing from Capital receipts owing to the reduced level of expenditure within the HRA's capital programme. :
 - a. Shared ownership and other receipts - £449k variation
 - b. HCA grant received - £33k of unapplied grant from 2015/16 being utilised
 - c. Application of RTB receipts to be reviewed at year end once the final outturn position is certain.