

Classification: UNCLASSIFIED

Internal Audit Report

Housing Revenue Account (HRA)

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**Limited
Assurance**

Date: 6 April 2021

EXECUTIVE SUMMARY

1. BACKGROUND

- 1.1 Local Authorities are required to keep a Housing Revenue Account (HRA) by law if they own two hundred or more social dwellings. Any Council dwellings built outside the HRA must have a direction to permit them to be held outside the HRA.
- 1.2 The HRA is a ring-fenced account within the Council's General Fund (GF), which reflects the statutory requirement to account separately for local authority housing provision. Items can only be included within the HRA if there is a statutory provision; similarly transfers between the HRA and GF can only occur in very specific cases.
- 1.3 HRA budgets must be set annually in the January or February before the start of the financial year. A deficit cannot be budgeted for and it is incumbent on the Council to take all reasonable steps to avoid a budget deficit.

2. OBJECTIVES & SCOPE OF THE AUDIT

- 2.1 The purpose of the audit was to review that there were appropriate controls in place in various areas of the HRA.
- 2.2 The review encompassed reviewing the arrangements in place for monitoring the Council's HRA viability including:
- There were clear policies, procedures and processes in place for monitoring financial viability, which were regularly reviewed and updated as necessary;
 - There were appropriately skilled staff and adequate resilience in place;
 - Assets and core services were known and ring-fenced;
 - There was regular review and update as appropriate;
 - Budget received appropriate review and approval;
 - There was regular reporting

This audit did not include consideration of recharges to the HRA.

- 2.3 This audit (and report) was undertaken in accordance with the Public Sector Internal Audit Standards ([PSIAS](#)).

3. CONCLUSIONS

- 3.1 The audit has flagged areas for improvement that need appropriate consideration and attention, decisions and implementation to be undertaken, to ensure that the Council is adequately responding to and addressing the various risks in this area.
- 3.2 The key area is the lack of a permanent HRA expertise to ensure that service teams are fully supported in their roles in relation to the HRA and ideally, this should not involve sole dependency on an external individual. However, it is accepted that recruitment has been difficult, and Finance have taken to developing inhouse expertise in this area.
- 3.3 It is also vital that there is a common understanding of policies, procedures and processes for the HRA 30-year model to support budget setting and monitoring within finance and service teams so that there is consistency both in-year and from year to year.

- 3.4 The 30-year business model produced for 2020/21 onwards was not appropriate to meet needs and resulted in a new model being commissioned for 2021/22 onwards. This does not represent value for money. However, now that there is a new 30-year HRA business model in place which is more “user-friendly”, it needs to be viewed as a live document that is updated as and when changes arise, highlighting their (likely) impact.
- 3.5 There needs to be clear alignment between details in service areas plans, the HRA 30-year model, the agreed HRA Medium-Term Financial Plan, annual budget and ongoing budget monitoring. Finance and Service Teams need to take a more integrated approach to budget setting and monitoring to ensure there is consistency of understanding.
- 3.6 A total of 6 recommendations have been made in respect of this review, of which 2 are considered high priority. The recommendations and corresponding management action plan are attached at Appendix 1.

APPENDIX 1

Management Action Plan					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
HRA POLICIES, PROCEDURES AND PROCESSES					
<i>RISK: Inconsistent processes followed, with budgets not subject to appropriate scrutiny and review, leading to poor value for money</i>					
1	<p>The process for HRA 30-year model, annual budget setting, budget monitoring and reporting should be confirmed and followed to ensure there is consistent practice. This needs to include input and appropriate ownership from the service.</p> <p>Relevant documentation should be retained to allow reconciliation to be conducted between the 30-year financial model and the relevant MTFP and annual budget.</p>	Priority 1	<p>We will ensure that the HRA processes and procedures are fully aligned to those of the General Fund.</p>	Director of Finance	30/06/2021
STAFF AND RESILIENCE					
<i>RISK: Lack of specialist HRA knowledge and expertise meaning legislative and other requirements are not met and possible increased risk of financial loss and associated reputational damage</i>					
2	<p>It needs to be ensured that there is appropriate finance resource, ideally with specialist knowledge of HRA (or developing this knowledge from within the organisation), in place. Where possible, this should also avoid over-reliance on a sole individual as this creates a single point of failure.</p>	Priority 1	<p>The need to improve specialist knowledge of the HRA within the Finance team will be addressed as part of the Finance Transformation Programme.</p> <p>The AD for Housing is currently recruiting a permanent business manager, who will have a particular responsibility for business planning. The HRA finance business partner will work closely with them on the 30-year financial plan. Although the business manager will not necessarily be an accountant, this will provide for some continuity in the development of the 30-year plan</p>	<p>Director of Finance</p> <p>AD for Housing</p>	<p>31/12/2021</p> <p>Subject to restructure sign-off and consultation, likely to be recruited Summer 2021</p>

Management Action Plan					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
ASSETS AND CORE SERVICES					
<i>RISK: Statement of Accounts does not show a true and fair view of HRA and General Fund</i>					
3	Finance should ensure that the transfer of 4 sites from the GF to the HRA is recognised in Oracle Fusion.	Priority 2	These transfers will be actioned in the finance system as part of 2020/21 closing processes.	Financial Planning & Strategy Manager	21/05/2021
REVIEW AND UPDATE OF THE MODEL					
<i>RISK: Model does not reflect changing circumstances, leading to continued over- or under-spending</i>					
4	<p>The 30-year business plan needs to be viewed as a working model that requires updating as and when the situation changes. There needs to be a clear link from changes that are agreed to ensure the model is up to date and reflects the current position.</p> <p>Where possible, information included within the model need to be agreed with the service. Figures provided in the model need to have supporting evidence/workings so it is clear how the final figure has been arrived at.</p>	Priority 2	Agreed.	Financial Planning & Strategy Manager	30/09/2021
5	Consideration should be given to conducting reviews of various areas (such as service charges and cleaning services) with a view to obtaining improved value for money.	Priority 2	Reviews will be considered during the course of 21/22, subject to workload.	AD for Housing	31/03/2022

MANAGEMENT ACTION PLAN					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
MONITORING AND REPORTING					
<i>RISK: Significant variation of spend to budget are not identified and addressed, leading to continued over- or under-spending</i>					
6	<p>There needs to be a common understanding regarding agreed budget, coding of expenditure and overhead allocation between finance and service teams.</p> <p>Reports need to be comprehensive, user friendly, automated where possible, and have clear line of sight between the agreed budget and that shown on budget monitoring reports. Regular reconciliations need to be conducted between reports and service plans to ensure that they are aligned.</p>	Priority 2	<p>Tighter monitoring of business partner meetings with budget managers began for period 10 of 2020/21. The presentation of Budget Monitoring reports and Budget Setting reports will be aligned to ensure consistency. The council's virement policy will be followed exactly for the HRA.</p>	Strategic Business Partner	For the first monthly reports in 2021/22 (i.e. in June 2021)

APPENDIX

4. FINDINGS

4.1 POLICIES, PROCEDURES AND PROCESSES

- 4.1.1 There should be clear policies, procedures and processes in place for monitoring HRA financial viability, including relating to the 30-year plan, annual budget setting and budget monitoring to ensure consistent understanding and application across service areas.
- 4.1.2 Overall details of budget setting, monitoring and reporting were provided in the Financial Regulations, which form part of the Council's Constitution, and were last updated in 2015.
- 4.1.3 Discussion identified that the processes for budget setting, monitoring and reporting for the HRA should mirror those for the General Fund. However, it was noted that there appeared to be a lack of consistent understanding in relation to this, including whether the HRA should undergo CMT and Members' Challenge prior to presentation to Policy Committee and Council for review and approval (Rec 1).
- 4.1.4 Whilst the draft 2020/21 - 2022/23 HRA Medium Term Financial Plan (MTFP) and 2020/21 annual budget were received at a Members' Challenge session in October 2019, this had not occurred in the current year for the draft 2021/22 - 2023/24 HRA MTFP and 2021/22 draft HRA annual budget (Rec 1). It was also noted that relevant documentation was not always saved in a central location (i.e. they were located on personal drives so were unable to be accessed by all who may require them).
- 4.1.5 A model had been developed by an external company to produce the 30-year HRA financial plan from 2020/21. It was planned that service areas would be able to change various sensitivities as circumstances changed and see the resultant impact. However, the model produced was too complex to allow for this and was not utilised other than to help to produce the 30-year plan and associated 2020/21 - 2022/23 MTFP and 2020/21 annual budget.
- 4.1.6 As a result, a consultant was engaged to produce a new model for the 30-year plan and associated 2021/22 - 2023/24 MTFP and 2021/22 budget which was more user-friendly and allowed service areas to review sensitivities and use the model as a more interactive tool. This represents poor value for money as the original model was unable to be used as intended and has resulted in a new one being designed and used.
- 4.1.7 In addition, this audit review of the process that was followed for 2020/21 and 2021/22 budget setting identified that the 30-year financial model (used to produce the 2020/21 - 2022/23 Medium Term Financial Plan (MTFP) and

2020/21 annual budget) could not be reconciled to the final 2020/21 budget (Rec 1). Discussion with the consultant identified that the model was not saved at various points in time when the budgets were produced, making reconciliation between the two difficult.

- 4.1.8 It was also observed that it was difficult to reconcile budgets provided in budget monitoring reports to Policy Committee back to those agreed by Council prior to the start of the year (Rec 1).
 - 4.1.9 Discussion with service teams identified that key information from their areas, such as in relation to the works programme, had not fed into the MTFP or annual budget for 2020/21 as reviewed and agreed by Policy Committee and Council (Rec 1). This had led to a discrepancy between the budget that the services were working to and that one agreed by Council of circa £5.5m.
 - 4.1.10 Similarly, the model used to produce the draft 2021/22 budget could not be reconciled by Internal Audit to the draft annual budget. As per para 4.1.7 above discussion identified that the model was not saved at various points in time when the budgets were produced, making reconciliation between the two difficult (Rec 1). This had now been rectified, although the latest version of the budget as per the model was not used to produce the version presented to Policy Committee for approval in February 2021.
 - 4.1.11 Further discussion with various officers also identified that despite projections being requested from services and provided for the 2021/22-23/24 MTFP and 2021/22 annual budget, these had not fed into the 30-year HRA model and hence the draft versions presented to Policy Committee in December 2020. This had led to a difference of circa £3m between what was detailed in the works programme and what was submitted to Policy Committee, which had only been identified in February, leading to the works programme budget for 2021/22 being reduced to bring it in line.
 - 4.1.12 It is clear that there is a lack of clarity of roles, responsibilities and coordination both within and between finance and the service teams to ensure consistent understanding and information in relation to various 30-year models, the MTFP and annual budget.
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4.2 STAFF AND RESILIENCE

- 4.2.1 It was identified early in the audit process that staffing responsibilities around the accounting of HRA was a key issue. HRA is a specialist area, which ideally requires expert knowledge and expertise. There has been over-reliance on a sole individual for specialist knowledge in this area and a lack of HRA knowledge within the Council's permanent staff.
- 4.2.2 The position of HRA Accountant was originally filled on a temporary basis by an external consultant with HRA knowledge and expertise until the role could be filled on a permanent basis. A permanent appointment was subsequently made, and the consultant then left. However, the permanent postholder did not have prior knowledge of or a background in HRA and the consultant returned to provide support to them and develop the HRA business model for the 30-year plan. The consultant then recently left again, leaving the HRA without specialist HRA finance knowledge and support, including in relation to the 30-year HRA model (Rec 2). It is understood a process is now in train to address this knowledge gap.
- 4.2.3 In addition, the DEGNS Finance Strategic Business Partner left and was not replaced, with the DACHS Business Partner also covering DEGNS. This has recently been resolved on an interim basis, however, with an interim DEGNS Finance Strategic Business Partner now in post, and an experienced interim HRA accountant has been appointed to the role since audit testing with the postholder now on secondment to the Technical Accounting Team.
- 4.2.4 It is noted that the service has recognised the lack of expertise and resource in relation to the HRA and there are plans for a Business Manager to be appointed as part of a service redesign to oversee the HRA business plan.
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4.3 ASSETS AND CORE SERVICES

- 4.3.1 HRA assets and services need to be identified and ring-fenced on the basis that they benefit the tenants rather than the population as a whole.
 - 4.3.2 HRA income and expenditure is separately identified on Oracle Fusion, the Council's finance system, within the cost centres commencing 59XX.
 - 4.3.3 There was a recent transfer of four sites from the General Fund to the HRA for consideration for the development of new Council housing. Initially only three sites were recognised in the 30-year HRA model although this has since been rectified. However, this transfer has yet to be reflected on Oracle Fusion (Rec 3).
 - 4.3.4 Discussion identified that whilst the transfer was linked to a proposal to develop new sheltered housing and accommodation and support services for older people and vulnerable adults, provision of this accommodation falls within the remit of the HRA and therefore can be recognised within it.
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4.4 REVIEW AND UPDATE OF MODEL

- 4.4.1 As part of good business practice, processes should be reviewed and updated, as appropriate, on a regular basis to ensure they reflected current practice and that any changes were appropriately reflected.
- 4.4.2 As detailed earlier in section 4.1.5, the 30-year model on which the MFTP and annual budget was based, was intended as a dynamic tool which could be updated to reflect changing circumstances and assumptions updated so their impact could be seen. However, due to the complex nature of the model created for the 2020/21 annual budget and associated MTFP, it was only updated for budget setting purposes (Rec 4).
- 4.4.3 As detailed above, the 2021/22 annual budget and associated MTFP was based on a new model produced by an external consultant. Issues identified during testing, such as a lack of accounting for inflation on major works and only recognising the transfer of 3 sites from the General Fund rather than four (as detailed in 4.3.3), had been addressed. However, it was noted that, in some areas, services had not provided detailed information to be included (such as rents and service charges) so figures were based on those from the previous year and inflated, and there was a lack of detail in some areas as to how final figures in the model had been arrived at (Rec 4).

- 4.4.4 It was also identified during discussion that several areas within the HRA could benefit from review to see if better value could be obtained, for example, in relation to service charges, which had been frozen and did not reflect associated costs. Also, consideration could be given to reviewing services currently provided by the General Fund and recharged to the HRA as appropriate, such as cleaning, which could be provided for within the HRA and then recharged as appropriate to the General Fund (Rec 5).
- 4.4.5 There was some concern expressed about a lack of specific knowledge and support in relation to the new 30-year model, which could lead to issues in the future in relation to ensuring the model is kept up to date (Rec 2). It was however noted that the proposed new Business Manager role (see 4.2.4) will oversee the model and it is intended that the postholder will ensure that it is used as a dynamic tool, including being updated as and when necessary to reflect in-year changes.
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4.5 REVIEW AND APPROVAL OF BUDGET

- 4.5.1 As detailed earlier (4.1.3), the HRA budget should undergo the same review, challenge and scrutiny as that for the General Fund.
- 4.5.2 With the exception of Members' Challenge (discussed earlier in 4.1.4), review of the 2020/21 and 2021/22 budget setting process identified that they had followed the process as detailed in Council's Constitution and budget setting timetable, with both MTFPs having been received as drafts at Policy Committee's December meeting and approved for consultation. The former had then been received following completion of the consultation process by Policy Committee at their February Committee and recommended to Council, who approved it later that month. Prior to being received at the December Policy Committee meeting, the 2020/21-23 MTFP had been subject to Member Scrutiny, including presentation of business cases for proposed new revenue and capital schemes. The revised 2021/22-24 MTFP had recently been considered, endorsed and recommended to Council for approval at Policy Committee and subsequently approved by Council.
- 4.5.3 Whilst it was noted that the HRA budget set could not forecast a deficit, and that that proposed for 2021/22 had expenditure exceeding income, a balanced budget had been set by drawing from the reserves.

- 4.5.4 It was also noted that there was the same level of detail in the 30-year plan for current and recent future years and those at the end of the plan. However, sensitivities were the same across future years and likely to be more accurate for the immediate than the far future.
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4.6 MONITORING AND REPORTING

- 4.6.1 As per the budget setting process, the HRA budget should follow the budget monitoring process adopted for the General Fund, with monthly reporting being received by CMT, and quarterly reports progressing to the relevant briefing committee and finally Policy Committee. Evidence that this cycle of briefings and meetings had been followed was observed for both 2019/20 and 2020/21 budgets to date.
- 4.6.2 Review of the quarterly monitoring reports presented to Policy Committee for 2019/20 and 2020/21 financial years identified that the HRA revenue budget as detailed in the budget monitoring reports did not agree in consistent presentation to that approved by Council in March (Rec 6). However, HRA capital budgets in the monitoring reports agreed to the revised budget agreed by Policy Committee in July with agreed rolled forward balances from the previous year.
- 4.6.3 There should also be regular monitoring and reporting of in-year performance against the HRA budget to identify and address significant variations. Budget monitoring should occur on a monthly basis, with meetings held between services and finance. However, discussion with various staff identified that these meetings between services and finance had not always occurred on a regular basis during the year (Rec 6).
- 4.6.4 In addition, budget monitoring reports were not always viewed as being easy to understand, with manual processes carried out to produce detailed budget monitoring reports in some areas.
- 4.6.6 A discussion occurred with various service managers regarding the possible impact of the significant underspend on the capital programme in the current year (amounting to circa £15m at the end of Quarter 2), mainly attributable to delays in major works, planned maintenance and responsive repairs as a result of Covid-19. Planned bathroom and kitchen refits had been delayed due to access issues, but it was anticipated that the programme would catch up within the next two years, prioritising the most urgent first. (see 4.1.11) (Rec 6).

- 4.6.7 There had also been delays to low carbon trials, although this was still at an early stage in relation to the deadline to achieve carbon neutrality. It was noted that deadlines for government grants related to this had been extended.
- 4.6.8 A Housing Annual Report is supposed to be produced for all tenants on an annual basis, although it was noted that this year's had been delayed due to Covid-19. It is planned to provide a more regular, interactive communication in the future which would be available to tenants as and when they required it.
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APPENDIX V