

**EXETER CITY COUNCIL**  
**SCRUTINY COMMITTEE - COMMUNITY**  
**28 MAY 2013**

**HOUSING REVENUE ACCOUNT**  
**FINAL ACCOUNTS 2012-2013**

**1. PURPOSE OF REPORT**

**1.1 REVENUE BUDGETS**

To advise Members of any major differences, by management unit, between the original budget and the outturn for the financial year up to 31 March 2013 in respect of the Housing Revenue Account and the Council's new build schemes.

**1.2 CAPITAL BUDGETS**

A capital outturn update is now incorporated into this report, in order to improve financial reporting to this Committee and help to provide a more comprehensive financial update in respect of the Housing Revenue Account.

**2. HRA FINAL ACCOUNTS TO 31 MARCH 2012**

**2.1 HOUSING SELF-FINANCING**

This is the first financial year that the HRA has operated under the new self-financing regime.

The Government made significant reforms to council housing finance within the Localism Act 2011, which resulted in the commencement of self-financing and the abolition of the Housing Revenue Account subsidy system from 1 April 2012.

Under the HRA subsidy system rents were pooled and redistributed by central government. Exeter City Council was a net contributor to the central pot, whereby it paid more into the central pot than it received back in subsidy. Over the last few years we have paid around £4m per year to the Government and had an annual budgeted deficit on the HRA.

Self-financing enables each stock owning local authority to retain their own income collected from rents, service charges and other sources at a local level to deliver housing services to tenants and to maintain their housing stock. Under self-financing it is anticipated that local authorities will achieve a surplus each financial year, which will help facilitate service improvements, repay debt and to provide investment in the stock.

**2.2 HRA WORKING BALANCE**

The total budget variances for 2012-13 have resulted in a net surplus of £525,874 which will be transferred to the HRA working balance. This represents a decrease of £1,794,396 compared to the budgeted net surplus of £2,320,270. However, this is predominantly due to additional revenue contributions towards capital expenditure of £2.084 million in respect of the acquisition of 6 flats at the former Royal Navy Store site and an increase to the kitchen and bathroom replacement programmes, both of which were approved by Executive during the financial year.

After adding the surplus for 2012-13, the HRA working balance will stand at £6,290,297 at 31 March 2013.

### 2.3 MAJOR REPAIRS RESERVE

Under self-financing Councils are expected to set aside some of their income each year into the Major Repairs Reserve, in order to ensure appropriate provision is made towards financing future capital works or to repay debt.

After transfers into the reserve (monies set aside from revenue) and transfers out of the reserve (financing of capital expenditure) have been made in respect of the 2012-13 accounts, the balance on the Major Repairs Reserve will stand at £2,269,806 at 31 March 2013.

### 2.4 VARIANCES FROM BUDGET

The main variations by management unit are detailed below. Please also refer to Appendix 1.

	£
<b>2012-2013 BUDGETED TRANSFER TO THE WORKING BALANCE</b>	<b>(2,320,270)</b>
<b>85A1 MANAGEMENT</b>	<b>(233,717)</b>
Savings have been made in respect of employee costs due to a lower than budgeted pay award for 2012-13 and from the outcomes of the Senior Management Review. Further savings have been achieved in respect of a vacant Neighbourhood Manager post, as recruitment to this post is pending the outcome of the Housing systems review. Superannuation costs were also lower than budgeted due to a lower number of staff in the scheme.	
Unbudgeted redundancy costs have been incurred in respect of six posts during the financial year.	
Savings have been made in the cost of procuring new mobile working devices, as implementation of new mobile working systems in Housing Services are pending the outcome of the systems review.	
A refund was also received from South West Water in respect of water and sewerage charges at Magdalen Gardens. Water consumption levels by the 16 bungalows had been higher than usual due to a water leak, which has now been resolved.	
Additional income from solar panels installed on council dwellings was also generated. This income will be set aside to help finance future investment in energy efficient measures for other council dwellings.	
A lower than budgeted recharge from the Contracts Unit was made to this management unit for 2012-13, as more of their resources were deployed to the help deliver the HRA Capital Programme, which is therefore reflected in an increased Contracts Unit recharge to the HRA Capital Programme instead.	
<b>85A3 SUNDRY LANDS MAINTENANCE</b>	<b>4,144</b>
A minor overspend has occurred in the cost of Sundry Land Maintenance, which relates to the Garden Assistance Scheme.	

The Garden Assistance Scheme provides help to maintain the gardens of vulnerable, elderly and disabled tenants. During the financial year higher than budget initial cultivation costs were incurred, which relate to preparing gardens for transition on to the scheme, so that no gardens remained on the waiting list.

**85A4 REPAIRS FUND CONTRIBUTION**

2,516,468

As previously mentioned, additional revenue contributions to capital were approved during the year amounting to £2.084million and this is reflected within this management unit.

On the 18 September Executive approved an increase of £1.775million to the kitchen and bathroom replacement programmes and on the 4 December Executive approved the acquisition of 6 flats at the former Royal Navy Stores site at a cost of £309,000. Both of which were resolved to be financed by additional revenue contributions to capital.

This management unit also provides for the cost of annual repairs and maintenance to council dwellings and the remaining £432,468 overspend relates to this programme of works.

There were three main areas of budgetary overspend in 2012-13; general repairs, repairs to empty properties and legionella testing works. However, these overspends were partially compensated by savings in; electrical testing, service and maintenance of gas appliances and low maintenance of flats.

General Repairs

Compared to the previous financial year the number of day-to-day faults or problems reported by tenants in their council home rose by 24%, with the number of orders increasing from 14,154 in 2011-12 to 17,531 in 2012-13. The prolonged cold weather and extreme conditions (freezing and flooding) are believed to be contributing factors, as average repair costs and nature of repairs remained broadly constant. A projected overspend against this budget was reported to this committee in March.

Repairs to Empty Properties

The overspend in 2012-13 was largely due to two factors; the increased number of empty properties requiring major works and the impact of the new Void Standard.

It was projected that 22 kitchens and 10 bathrooms would need to be replaced in empty properties during 2012-13 however the actual replacement numbers rose to 130 and 88 respectively. Whilst some of the costs have been transferred to the capital kitchen and bathroom replacement programmes, this budget has borne the associated general repair costs such as; electrical repairs, re-plastering, re-decorations and internal carpentry. A projected overspend against this budget was also reported to this committee in March.

Legionella Testing Works

Additional legionella works to clean and disinfect showers heads in sheltered accommodation sites and to fit temporary

filters was undertaken in addition to the routine legionella testing, which resulted in an overspend.

#### Electrical Testing

Fewer electrical tests to council dwellings were instructed during the financial year, which has led to a budget saving. Properties requiring electrical re-wires have been identified as a consequence of the kitchen and bathroom replacement programme and also by an increase in inspections by Technical Officers, rather than through routine periodic electrical testing.

#### Maintenance and Servicing of Gas Appliances

The gas boiler replacement programme has resulted in a saving against this budget for 2012-13 as new boilers are installed with a 5 year warranty. Faulty gas boilers which are expected to cost more than £300 to repair are also accelerated for replacement, so fewer repair costs have been incurred. However, this approach has resulted in an overspend in the boiler replacement programme, which is explained further in this report.

#### Low Maintenance – Flats

This budget underspent in 2012-13, however Executive approval is being sought to carry forward the unspent balance into 2013-14 to meet outstanding commitments, such as the replacement of shed and outhouse doors.

<b>85A6</b>	<b>CAPITAL CHARGES</b>	0
	There are no variances from budget to report in respect of this management unit, which comprises the depreciation of HRA dwellings, garages, IT software, vehicles, plant and equipment.	
<b>85A8</b>	<b>RENTS</b>	(539,205)
	Over half a million pounds of additional rent has been collected during 2012-13 from council dwellings. This is due to a combination of factors, which include; acquisitions of new council dwellings, achieving earlier rent convergence on properties that have a change of tenancy and that many sales under the Right-to-Buy Scheme took place in the later part of the financial year.	
	In accordance with the Government's 'rent convergence' policy, the Council is required to increase its rents to guideline rent levels by 2015-16, so that council tenants and housing association tenants will pay similar rents for similar properties in similar areas. Upon a change of tenancy, the opportunity is therefore taken to amend the rent charged to Government guideline rent levels.	
	Additional income was also receivable from lease agreements relating to Rennes House.	
<b>85B2</b>	<b>INTEREST</b>	46,706
	Interest payable on the £56.884m loan with the Public Works Loan Board was higher than budgeted, due to a rise in interest rates between the time the budgets were set and the commencement of the loan on 28 March 2012.	

However, the additional interest costs have been partly offset by an increase in investment interest receivable on HRA balances.

**2012-2013 ACTUAL TRANSFER TO THE WORKING BALANCE** (525,874)

**3. COUNCIL OWN BUILD (COB) FINAL ACCOUNTS TO 31 MARCH 2013**

The Council's new properties at Rowan House and Knights Place form part of the overall Housing Revenue Account, but separate income and expenditure budgets are maintained in order to ensure that they are self-financing.

**3.1 COB WORKING BALANCE**

The total budget variances for 2012-13 have resulted in a net surplus of £45,292, which will be transferred to the COB working balance. This represents an increase of £27,722 compared to the budgeted transfer to the working balance of £17,570.

After adding the surplus for 2012-13, the COB working balance will stand at £73,498 at 31 March 2013.

3.2 The main variations are detailed below, please also refer to Appendix 1:

£

**2012-2013 BUDGETED TRANSFER TO THE WORKING BALANCE** **(17,570)**

**85B5 COB INCOME AND EXPENDITURE** **(27,722)**

Lower than budgeted repair and maintenance costs were incurred during the financial year, as outstanding snagging issues and defects are still being negotiated with the main contractor. A more detailed update in respect of the development of Rowan House and Knights Place is provided within the HRA Business Plan Update (Paragraph 17) which is also being presented to this committee.

Reduced interest costs in respect of borrowing undertaken towards the development costs have also led to a saving.

**2012-2013 ACTUAL TRANSFER TO THE WORKING BALANCE** **(45,292)**

**4. CAPITAL FINAL ACCOUNTS TO 31 MARCH 2013**

To report the 2012-13 outturn position in respect of the Housing Revenue Account Capital Programme and to update Members with any anticipated cost variances, acceleration of projects or slippage of schemes into future years.

**4.1 REVISIONS TO THE HRA CAPITAL PROGRAMME**

The 2012-13 HRA Capital Programme was last reported to Scrutiny Committee – Community on 5 March 2013. Since that meeting the following changes have been made to the programme:

Description	£	Approval / Funding
<b>HRA Capital Programme, as at 5 March 2013</b>	<b>9,333,880</b>	
Budgets deferred into 2013-14 HRA Capital Programme	(628,460)	Executive 9 April 2013

<b>Revised HRA Capital Programme</b>	<b>8,705,420</b>	
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#### 4.2 **VARIANCE FROM BUDGET**

The 2012-13 outturn position of the HRA Capital Programme is detailed in Appendix 2. The appendix shows a total spend of £8,945,266 for the financial year compared to the £8,705,420 budgeted programme. This represents additional expenditure of £239,846, of which a net total of £90,673 relates to capital works that have been accelerated from future years and will be deducted from next year's capital programme, leaving an in-year overspend of £149,177.

Below are explanations for the main variations from the approved programme:

- **MRA Fees (Budget £342,850)**  
This budget provides for the cost of the Contracts Unit support to help deliver the HRA Capital Programme, including quantity surveying, procurement and tendering services. As mentioned earlier in this report, the Contracts Unit deployed more staff towards key HRA capital schemes including the kitchen and bathroom replacement programmes and this has resulted in a higher than budgeted recharge.
- **Programmed Re-roofing (Budget £300,000)**  
In order to save reactive repair costs the roofs of four properties have been replaced in order to resolve problems with multiple leaks. This has resulted in an overspend of £20,654, but will result in future savings in the cost of programmed works.
- **Kitchen Replacement Programme (Budget £2,663,260)**  
Kitchens were replaced in 598 properties during 2012-13 compared to a target of 589. This was predominantly due to a higher than anticipated number of empty properties requiring new kitchens prior to re-letting. The average cost per kitchen has also increased due to additional plastering and electrical repairs. Both these factors have resulted in additional expenditure of £102,000 during the financial year which will be deducted from next year's budget. The impact on the number of kitchens that can be replaced within existing approved budgets will be assessed and reported back to this committee during 2013-14.
- **Bathroom Replacement Programme (Budget £887,350)**  
Bathrooms were replaced in 390 properties during 2012-13 compared to a target of 360. This was predominantly due to a higher than anticipated number of empty properties requiring new bathrooms prior to re-letting. The average cost per bathroom has also increased due to additional plastering works and a change to the specification of bathroom hardware. Both these factors have resulted in additional expenditure of £162,000 during 2012-13 which will be deducted from next year's budget. The impact on the number of bathrooms that can be replaced within existing approved budgets will be assessed in conjunction with the kitchens and reported back to this committee.
- **Electrical Re-wiring (Budget £510,000)**  
As a consequence of the kitchen and bathroom replacement programme a higher than budgeted number of properties requiring electrical re-wires have been identified by the contractors. An additional 100 properties had electrical re-wiring compared to the planned 300 properties, which has resulted in a £56,000 overspend. As these works are necessary in accordance with Health and Safety regulations, it is considered prudent to report an overspend rather than deduct from the 2013-14 budget, so that works are not curtailed next financial year.
- **Boiler Replacement Programme (Budget £260,000)**

An extra 40 boilers were replaced during 2012-13 in addition to the 196 planned replacements. This was largely due to a higher number of boiler breakdowns during the prolonged cold weather, which were replaced rather than repaired as it was deemed more cost effective, even though a £112,000 overspend has occurred.

As mentioned earlier in this report, compensating savings are achieved in annual service and maintenance costs, especially in the early years as the new boilers come with a 5 year warranty. The Council will continue to undertake annual servicing of the boilers, but most remedial repairs will be covered by the warranty.

5. **COUNCIL OWN BUILD CAPITAL PROGRAMME**

Following the completion of the Council Own Build (COB) sites at Rowan House and Knights Place, the Council is now commencing COB – Wave 2 and COB – Wave 3. Their associated capital budgets form part of the overall HRA Capital Programme.

5.1 **VARIANCE FROM BUDGET**

Expenditure incurred during 2012-13 relates to architects fees and ground investigation work in order to take identified housing development sites to the planning stage. A more detailed update in respect COB Wave 2 and 3 are provided within the HRA Business Plan Update which is also being presented to this committee.

6. **RECOMMENDATION**

6.1 That the Scrutiny Committee – Community note the content of this report

ASSISTANT DIRECTOR FINANCE

**Local Government (Access to Information) Act 1985 (as amended)**

**Background papers used in compiling this report:**

None