

EXETER CITY COUNCIL
SCRUTINY COMMITTEE - COMMUNITY
3 SEPTEMBER 2013

HOUSING REVENUE ACCOUNT
BUDGET MONITORING TO JUNE 2013

1. PURPOSE OF REPORT

1.1 REVENUE BUDGET MONITORING

To advise Members of any major differences, by management unit, between the original budget and the outturn forecast for the first three months of the financial year up to 30 June 2013 in respect of the Housing Revenue Account and the Council's new build schemes.

1.2 CAPITAL BUDGET MONITORING

Budget monitoring updates in respect of the HRA Capital Programme are 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.

1.3 AREAS OF BUDGETARY RISK

Potential areas of budgetary risk are also highlighted in this report, so that Members are aware that certain budgets have been identified as being vulnerable to factors beyond the control of the Council, which may result in potential deviations from budget, and are therefore subject to close monitoring, by officers.

2. REVENUE BUDGET MONITORING TO JUNE 2013

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.

2.1 PROJECTED SURPLUS / DEFICIT

During this period the total budget variances indicate that there will be a net surplus of £583,238 in 2013-14. This represents a decrease of £1,128,922 when compared to the original budgeted surplus of £1,712,160 for 2013-14.

This reduction is predominantly due to Executive approval of building the next phase of social housing, COB Wave 2, and Executive approval for the purchase of flats at Dean Clarke House for use as social housing, both of which will be fully financed by the HRA and are explained in more detail below.

It is estimated that the working balance will stand at £6,873,535 at 31 March 2014.

2.2 VARIANCES FROM BUDGET AS AT JUNE 2013

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

£

2013-2014 ESTIMATED TRANSFER TO THE WORKING BALANCE (1,712,160)

85A1 MANAGEMENT

52,424

The forecast overspend in respect of HRA management reflects a review of staff time allocations from the Strategic Housing Service in accordance with proper accounting practices, which has resulted in a transfer of costs from the General Fund of £82,304.

Following a review of duties performed by officers within the Strategic Housing Service it was identified that a greater proportion of their time relates specifically to the HRA including; the development of new council housing, system review work, dealing with complaints and short-listing for empty council housing.

A corresponding saving in the cost of the Strategic Housing Service is therefore shown within the Community budget monitoring report, which is also presented to this committee.

Staff time allocations will continue to be monitored in order to ensure that costs are fairly apportioned between the HRA and General Fund, which may result in costs being transferred back to the General Fund in future financial years.

Savings resulting from a frozen Neighbourhood Manager post will help to partially offset this overspend, as recruitment to this post is pending the outcomes of a systems review.

85A3 SUNDRY LANDS MAINTENANCE

0

There are no overall variances from budget to report in respect of this management unit.

85A4 REPAIRS FUND CONTRIBUTION

1,049,908

The forecast overspend in this management unit is predominantly due to the additional revenue contribution to capital which will be required to finance the 2013-14 HRA Capital Programme.

COB Wave 2

On 5 February Executive approved an increase of £7.5 million to the HRA Capital Programme in respect of the next phase of building new council homes, COB Wave 2. The four sites are; Newport Road, Rennes House car park, Bennett Square and Whipton Methodist Church.

Based upon the latest cash-flow projections, it is anticipated that expenditure of £2,054,880 will be incurred during this financial year in respect of the four sites, which is planned to be financed by a £554,880 increased revenue contribution to capital and £1,500,000 from useable capital receipts.

Flats at Dean Clarke House

On 18 September 2012 Executive approved the purchase of five flats at Dean Clarke House at a cost of £212,550. These

were originally intended to be purchased in 2012-13 but a change of site ownership and subsequent planning amendments have led to delays with completion now expected in February/March 2014. The required revenue contribution to finance their acquisition has also reduced by £42,522 following Section 106 negotiations with the new owners, as four flats will now be purchased for £170,028 with the Council receiving a commuted sum of £112,001 instead.

Repairs and Maintenance Programme

In addition to making a revenue contribution to capital, this management unit also provides for the cost of annual repairs and maintenance to council dwellings.

Executive approval to carry forward £150,000 from 2012-13 is being sought for monies unspent last financial year in respect of the low maintenance and painting of flats programme. Unfortunately, it was not possible to complete the scheme of works to replace shed and out-house doors for tenants of flats as changes had to be made by the door manufacturer.

Repairs to Empty Properties

A £300,000 overspend is forecast in respect of repairs to empty properties following a change to the Void Standard. The Void Standard has resulted in properties being returned to a much higher standard prior to re-letting and this in turn has led to higher average costs per property and a longer turnaround time. It is proposed that a separate options report will be prepared for Scrutiny Committee – Community on 12 November and to Executive on 26 November to deal with this overspend and consider the future level of works to void properties.

Electrical Testing / Repairs

Savings of £125,000 are projected in respect of electrical testing and remedial repairs. It is not anticipated that any electrical tests will need to be instructed in respect of dwellings, as properties requiring re-wires are being identified by the kitchen and bathroom replacement contractors and also by property inspections by Technical Officers. Fewer remedial electrical repairs are also forecast as a result of the extent of electrical work being undertaken as part of the HRA Capital Programme.

85A6 CAPITAL CHARGES	This management unit bears the depreciation charge for HRA assets; dwellings, garages, IT software, vehicles, plant and equipment.	26,590
	Under self-financing each housing local authority is required to set aside an amount equivalent to depreciation into the Major Repairs Reserve, as this should reflect the level of expenditure required to maintain assets in a stable condition. The balance held on the Major Repairs Reserve is then available to cover the cost of future programmes of work or to repay debt.	
	For 2013-14 the depreciation charge in respect of council dwellings is £2,167,760 which is £26,590 higher than budgeted due to changes in the asset valuation of the stock.	
85A8 RENTS	No deviations from budgeted are projected in respect of rental income, at this stage. However, rental income for the first 12 weeks of the financial year is slightly behind profile and is therefore highlighted as an area of potential budgetary risk later in this report.	0
	It is anticipated that planned social housing acquisitions, collection of rental income during the two rent free fortnights and continued convergence to guideline rent levels upon a change of tenancy will each help return rental income to budgeted levels over the remainder of the financial year.	
85B2 INTEREST	There are no overall variances from budget to report in respect of this management unit.	0
	2013-2014 1st QUARTER FORECAST TRANSFER TO THE WORKING BALANCE	(583,238)
3. COUNCIL OWN BUILD (COB) BUDGET MONITORING TO JUNE 2013	The Council's own build 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	During this period the total budget variances indicate that there will be a net surplus of £30,390 achieved in 2013-2014, which will be transferred to the COB working balance. This represents a decrease of £3,680 compared to the budgeted transfer to the working balance of £34,070. It is estimated that the working balance will stand at £103,888 at 31 March 2014.	
3.2	The main variations are detailed below, please also refer to Appendix 1:	
		£
	2013-2014 ESTIMATED TRANSFER TO THE WORKING BALANCE	(34,070)
85B5 COB INCOME AND EXPENDITURE		3,680

Significant works have been required to resolve water penetration issues in the wet room of 15 Knights Place, which has resulted in the property being un-tenanted since the beginning of the financial year. A forecast reduction in rental income of £5,000 is therefore projected. The cost of resolving issues at Knights Place will be claimed from the main contractor and there may also be scope to recover lost rental income.

This reduction in income has been partially offset by a reduction in the depreciation charge attributable to the council own properties.

2013-2014 1st QUARTER FORECAST TRANSFER TO THE WORKING BALANCE (30,390)

4. CAPITAL BUDGET MONITORING TO JUNE 2013

To report the current 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 2013-14 HRA Capital Programme was approved by Council on 26 February 2013. Since that meeting the following changes have been made that have increased the programme:

Description	£	Approval / Funding
HRA Capital Programme	9,090,030	
Budgets carried forward from 2012-13 HRA Capital Programme	523,820	Executive 9 April 2013 & Executive 1 July 2013
Acquisition of Social Housing – 1 Elaine Close	136,550	Delegated powers 14 February 2013
COB Wave 2	2,062,260	Executive 5 February 2013
Structural Repairs	120,000	Executive 1 July 2013
Energy Conservation	19,020	Secured external grant funding
Revised HRA Capital Programme	11,951,680	

4.2 PERFORMANCE

The current HRA Capital Programme is detailed in Appendix 2. The appendix shows a total forecast spend of £10,704,158 in 2013-14 with £1,190,000 of the programme expected to be deferred until 2014-15. Below are explanations for the main variations from the approved programme:

- **Smoke Detector Replacements (Budget £400,000)**

The replacement of smoke detectors in council dwellings is to form part of the gas installation servicing contract, which is due to be re-tendered in September 2013. It is hoped that the successful contractor will commence works in October/November, so that efficiency gains can be made from the contractor replacing smoke detectors in properties that also require gas installations to be serviced in one visit.

The in-house electricians will continue to test and replace smoke detectors in the interim and once the gas contractor is appointed they will revert to replacing smoke detectors in the 400 council properties that do not have gas.

It is anticipated that £200,000 of the budget will need to be carried forward into next financial year.

- **Acquisition of Social Housing (Budget £848,900)**

This budget includes £212,550 for the acquisition of 5 flats at Dean Clarke House for use as social housing. As explained earlier in this report, there has been a change of site ownership and subsequent planning amendments, which has resulted in a change to the Section 106 agreement. The Council is now due to purchase 4 flats for £170,028 and receive a commuted sum of £112,001 for 1 off site. This has resulted in a saving of £42,522 against the approved capital budget.

- **Rennes House Structural Works (Budget £1,000,000) and Rennes House Scooter Store (Budget £15,000)**

The proposed structural works at Rennes House have been integrated into the Council Own Build re-development plans for the Rennes House car park and a new project group has been set up to consider a site-wide solution.

The procurement of the proposed structural works have therefore been put on hold pending the outcome of a options appraisal exercise to determine the optimum long-term provision of social housing on the site. It is anticipated that by September 2013 there will be a defined project brief which will enable the Council to progress works in respect of this site.

Minimal capital expenditure is anticipated for 2013-14 and therefore £990,000 of the budget will be deferred to future years and re-profiled along with the £850,000 set aside in 2014-15 for the structural works. The provision of a scooter store at Rennes House is also reported as a saving, due to the uncertainties of its future use.

5. AREAS OF BUDGETARY RISK

Although no budget variances are being reported at this stage, a number of areas of budgetary risk have been identified within the HRA, as follows:

Budget Title	Approved Budget	Risk
General Maintenance	£1,530,000 (revenue)	Expenditure is dependent upon the number of repairs reported by tenants and can fluctuate significantly between financial years
Rental Income from Dwellings	£18,140,000 (revenue)	Right to Buy sales, number of new tenancies set at convergence rent levels, number of days lost through major works, rent lost in respect of void properties and welfare reform changes (for which an increased bad debt provision has been made) all impact on the annual rental income.
Kitchen Replacement Programme	£2,297,830 (capital)	The number of kitchens which can be replaced within approved budgets may vary dependent upon the cost of associated works such as electrical repairs and re-plastering, which varies per property. For 2013-14 it is currently forecast that 499 kitchens will be replaced.
Bathroom Replacement Programme	£867,990 (capital)	The number of bathrooms which can be replaced within approved budgets may vary

		dependent upon the cost of associated works such as re-plastering, which varies per property. For 2013-14 it is currently forecast that 322 bathrooms will be replaced.
Electrical Re-wires	£460,000 (capital)	The number of electrical re-wires identified during the year is currently affected by those referred from the kitchen and bathroom replacement programmes. Once identified the works are required to be completed in accordance with Health & Safety regulations

These areas of financial risk will be closely monitored and any projected deviations from budget identified in between the quarterly budget monitoring reports to this committee will be brought to the attention of the Strategic Management Team and Portfolio Holder for Housing for consideration.

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