

EXETER CITY COUNCIL

REPORT TO: SCRUTINY COMMITTEE - COMMUNITY
DATE OF MEETING: 17 JUNE 2014
REPORT OF: ASSISTANT DIRECTOR FINANCE
TITLE: HOUSING REVENUE ACCOUNT FINAL ACCOUNTS 2013-14

Is this a Key Decision?

No

Is this an Executive or Council Function?

No

1. What is the report about?

To advise Members of any major differences, by management unit, between the approved budget and the outturn for the financial year up to 31 March 2014 in respect of the Housing Revenue Account and the Council's new build schemes.

An outturn update in respect of the HRA Capital Programme is also incorporated into this report in order to help provide a comprehensive financial update in respect of the Housing Revenue Account.

2. Recommendations:

That Members note the content of this report.

3. Reasons for the recommendation:

The Housing Revenue Account is a statutory account and local housing authorities have a duty to keep an HRA in accordance with proper accounting practices and to review the account throughout the year. Members are presented with a quarterly financial update in respect of the HRA and this is the final report for 2013-14.

4. What are the resource implications including non financial resources

This is the second financial year that the HRA has operated since the introduction of self-financing in April 2012. Self-financing enables stock holding authorities to retain the income they collect from rents for local re-investment, so that they are in a position to support their own stock from their own income.

Self-financing provides a clearer relationship between the rent a landlord collects and the services they provide. The financial resources required to deliver services to Council tenants during 2013-14 are set out in the body of this report.

5. Section 151 Officer comments:

This report has been prepared on behalf of the Section 151 Officer to set out the financial position of the Housing Revenue Account, as at 31 March 2014, ahead of their inclusion in the Council's annual Statement of Accounts.

6. What are the legal aspects?

The Housing Revenue Account is framed by the Local Government and Housing Act 1989. This Act created the ring-fence and the structure within which the HRA operates and covers the detailed operation of the HRA, including the credits (income) and debits (expenditure) which make up the account.

7. Report Details:

HRA Final Accounts to 31 March 2014

7.1 Key Variations from Budget

The 2013-14 financial year has ended with an overall net deficit of £327,077. This represents a decrease of £1,206,837 compared to the revised budgeted surplus of £879,760, of which a projected overspend of £1,037,024 has previously been reported to this committee as part of the quarterly budget monitoring updates.

Summarised below are the main deviations from budget for the financial year. Please also refer to Appendix 1.

Budget Heading	Budget Variance Reported in December (Under)/Overspend	Actual Budget Variance (Under)/Overspend	Explanation
Budgeted Surplus	(£879,760)	(£879,760)	
Management Costs	£81,194	£104,895	<ul style="list-style-type: none"> • Costs in respect of the Housing Development Team have been charged to the HRA in accordance with proper accounting practices, in order to reflect the time spent by the team in connection with the development of new council housing. • A higher than budgeted recharge in respect of the Contracts Unit was made for 2013-14. This partly relates to additional housing stock condition work undertaken during the last quarter of the financial year in order to better inform HRA asset management plans • Reflects redundancy costs associated with the restructure of resident involvement following Executive approval in November 2013.
Sundry Land Maintenance	£12,000	£15,564	<ul style="list-style-type: none"> • Increased weed control costs as the number of weed sprays of housing estate land increased from 2 to 3 per year with additional sites added. • Additional works to trees required in the wards surveyed during

			2013-14 including; Alphington, St Thomas, St James, Priory and Topsham. Works to trees with storm damage was also required in the last quarter of the financial year.
Repairs and Maintenance Programme	£891,000	£974,245	<ul style="list-style-type: none"> • The cost of general maintenance to council dwellings exceeded the budget by £630k. As reported to this committee during the year, this is due to a rise in the number of reactive repairs reported during the financial year. The prolonged wet weather and high winds also contributed to the pressure on this budget head due to an increase in the number of reported leaks, damp ingress and roof repairs in the last 3 months of 2013-14. This was highlighted as a budgetary risk in December. • An overspend of £680k occurred in respect of repairs to void properties which reflects an increased number of empty properties along with a higher proportion of properties requiring more extensive work in order to return them to a lettable standard. The increased number of void properties is believed to be, in part, linked to the welfare reforms, with more tenants seeking to downsize in response to the 'bedroom tax'. This pattern has been experienced across the social housing sector.

			<p>The extent of the overspend is £70k less than forecast in December.</p> <p>Implementation of the action plan to address this area of budgetary pressure, specifically the formation of a dedicated voids team to reduce void times and control costs, has helped reduce the level of overspend.</p> <ul style="list-style-type: none"> • Savings in asbestos removal costs (£210k) have been achieved as much of this work is now undertaken within the General Maintenance contract in accordance with contractual obligations. • An underspend of £86k also occurred in respect of external painting works to dwellings due to a combination of time taken to consult with leasehold flat owners and adverse weather over the last 3 months of 2013-14. These factors were highlighted as posing budgetary risks in December. A supplementary budget will be sought in order to carry forward the balance unspent into 2014-15.
Revenue Contribution to Capital	(£112,280)	(£112,275)	<ul style="list-style-type: none"> • The acquisition of four flats at Dean Clarke House will not be completed until 2014-15 as they form part of the site not scheduled for conversion until later this year. The associated revenue monies required to finance their acquisition will therefore not be required until next

			financial year.
Capital Charges	£136,110	£136,373	<ul style="list-style-type: none"> A higher than budgeted depreciation charge was made in respect of HRA dwellings for 2013-14 due to a change in the asset valuation. <p>For the HRA the depreciation charge represents the amount of monies required to be set aside in the Major Repairs Reserve to provide for the future cost of capital works to housing assets.</p>
Rents	£29,000	£91,494	<ul style="list-style-type: none"> Slightly less rental income from dwellings was received during the financial year which mostly related to the higher number of void properties, however this was partly mitigated by a lower than anticipated level of bad debts due to delays implementing Universal Credit. Lower than budgeted rental income from garages was received due to a higher level of void garages, including twenty three garages at Newport Road which were vacated during 2013-14 so that the site can be cleared to allow the development of new council homes as part of COB Wave 2.
Interest	£0	(£3,460)	<ul style="list-style-type: none"> Minor budget variance
Total budget variances	£1,037,024	£1,206,837	
HRA deficit	£157,264	£327,077	Transfer from HRA Working Balance
	December forecast	Actual	

7.2 HRA Working Balance

The total budget variances for 2013-2014 have resulted in a deficit of £327,077, which has been met by a transfer out of the HRA working balance, as set out below.

The HRA Working Balance represents amounts set aside to help facilitate service improvements, repay debt or to provide investment in the stock in future financial years.

Movement	2013/14
Opening HRA Working Balance, as at 1/4/13	£6,290,296
Deficit for 2013/14	(£327,077)
Balance resolved to be retained (HRA contingency)	(£3,000,000)
Balance Available, as at 31/3/14	£2,963,219

7.3 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. The balance held in the reserve at the end of the financial year is set out below:

Movement	2013/14
Opening Major Repairs Reserve, as at 1/4/13	£2,269,804
Revenue monies set aside during 2013/14	£2,323,273
Amount used to finance capital expenditure during 2013/14	(£809,353)
Balance, as at 31/3/14	£3,783,724

7.4 HRA Capital Programme

The 2013-14 HRA Capital Programme was last reported to this Committee on 4 March 2014, since that meeting the following changes have been made that have reduced the programme.

Description	2013/14	Approval / Funding
HRA Capital Programme, reported as at 4 March	£9,558,230	
Budgets deferred to future financial years	(£1,303,770)	Executive 1 April 2014
Underspends declared	(£141,000)	Executive 1 April 2014
St Loyes Design Fees	£45,000	Transfer from General Fund Capital
Acquisition of 1A North Lawn Court	£136,150	Delegated powers 9 December 2013
Revised HRA Capital Programme	£8,294,610	

7.5 HRA Capital Expenditure

The total amount of HRA capital expenditure for 2013-14 was £7,452,580, which equates to 90% of the revised approved capital programme (as set out above). The nature of capital investment for the financial year comprises:

HRA Capital Expenditure	£
Capital investment in existing stock	6,709,677
Capital investment in the provision of new council homes	742,903
Total HRA Capital Expenditure	7,452,580

A detailed list of HRA capital budgets and actual expenditure is set out in Appendix 2.

7.6 Capital Variances from Budget

The details of key variances from budget are set out below:

Scheme	Forecast Overspend / (Underspend)	Explanation
Re-pointing	(£17,599)	From 2014-15 these works have been re-classified as revenue expenditure in accordance with proper accounting practice. The unspent balance will therefore not be carried forward in the capital programme.
Communal Areas	(£36,705)	Further significant spend of this budget is pending the outcomes of a prioritisation process for the next phase of improvements to communal areas including the provision of new flooring, doors and glazing. The budget for 2014-15 is considered sufficient for the next phase of works.
Electrical Re-wiring	(£113,002)	A worst case scenario was adopted for the cost of electrical re-wires, whereby it was considered that a high proportion of electrical tests would identify a full property re-wire in accordance with health and safety regulations. However, a saving has occurred due to a lower number of necessary re-wires.
Central Heating Programme	(£61,074)	A saving has occurred following a lower than anticipated number of system replacements as recommended through the routine inspection regime.
Boiler Replacement Programme	(£60,729)	A saving has occurred following a lower than anticipated number of boiler breakdowns during the Winter months.
Scheme	Budget to be deferred to 2014/15	Explanation
COB Wave 2 – Newport Road	£95,993	It was previously reported that works on site were hoped to commence in January 2014. However, following the tendering process it was necessary to undertake a value
COB Wave 2 – Whipton Methodist Church	£64,798	
COB Wave 2 – Bennett Square	£73,029	

		engineering exercise to realign costs with approved budgets and this has resulted in a minor delay.
St Loyes Design Fees	£45,000	Design works to progress the Extra care scheme are pending the appointment of a project manager and other key consultants.

7.7 HRA Capital Financing

The total HRA capital expenditure for 2013-14 will be financed as follows:

HRA Capital Finance	£
Major Repairs Reserve	809,353
Revenue Contribution to Capital	5,607,605
Capital Receipts	821,651
External Grants/Contributions	213,971
Total HRA Capital Financing	7,452,580

The impact on the capital resources available to the HRA over the next 3 years is set out in Appendix 3.

7.8 HRA Debt

The Government have put a limit on the amount of borrowing the authority can have for the purposes of the HRA, called the 'debt cap'. As at 31 March 2014, the amount of debt attributable to the HRA remains up to its 'debt cap' of £57,882,413.

8. Council Own Build (COB) Final Accounts to 31 March 2014

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.

8.1 Key Variations from Budget

The 2013-14 financial year has ended with an overall net surplus of £30,014, which will be transferred to the COB working balance. This represents a minor decrease of £4,056 compared to the budgeted transfer to the working balance of £34,070.

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

MU Code	Management Unit	Budget Variance Overspend / (Underspend)	Explanation
85B5	COB	£4,056	Rental income has been lost this financial year as properties have remained empty at Knights Place whilst snagging issues are resolved. This will form part of a claim to the main contractor and has been highlighted as an area of budgetary risk throughout the financial year.

9. How does the decision contribute to the Council's Corporate Plan?

The Housing Revenue Account contributes to two key purposes, as set out in the Corporate Plan; help me find somewhere suitable to live and maintain our property assets.

- 10. What risks are there and how can they be reduced?**
Areas of budgetary risk are highlighted to committee as part of the quarterly budget monitoring updates. An action plan to address the key areas of budgetary risk in the HRA, namely voids and general (reactive) repairs, was reported in March 2014 and is attached as Appendix 4, for reference.
- 11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?**
No impact
- 12. Are there any other options?**
No

Assistant Director Finance

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

Contact for enquiries:

Democratic Services (Committees)

Room 2.3

(01392) 265275