

EXETER CITY COUNCIL

REPORT TO: SCRUTINY COMMITTEE - COMMUNITY
DATE OF MEETING: 9 JUNE 2015
REPORT OF: ASSISTANT DIRECTOR FINANCE
TITLE: HOUSING REVENUE ACCOUNT FINAL ACCOUNTS 2014-15

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 2015 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 of Scrutiny Committee – Community assure themselves that Officers review areas with significant variances and undertake the necessary actions to address the issues that the variances may cause.

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 2014-15.

4. What are the resource implications including non financial resources

The financial resources required to deliver services to Council tenants during 2014-15 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 2015, 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. Monitoring Officer comments:

The report raises no issues of concern to the Monitoring Officer.

8. Report Details:

HRA Final Accounts to 31 March 2015

8.1 Key Variations from Budget

The 2014-15 financial year has ended with an overall net surplus of £1,809,184. This represents an increase of £3,183,734 compared to the budgeted deficit of £1,374,550. A projected under-spend of £2,629,576 has previously been reported to this committee as part of the quarterly budget monitoring updates, therefore the variances in the final quarter of the financial year have resulted in further savings of £554,158.

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

Budget Heading	Actual Budget Variance (Under)/Overspend	Explanation
Budgeted Deficit	£1,374,550	
Management Costs	£20,001	• Reflects additional employee costs incurred in respect of redundancy and pension strain costs following the restructure of housing services.
Sundry Land Maintenance	(£11,468)	• A saving has been achieved in respect of the Garden Assistance Scheme following re-tendering of the contract.
Repairs and Maintenance Programme	(£2,169,069)	<p>• As reported during the financial year significant savings have been achieved in respect of routine service and maintenance budgets as follows:</p> <p><u>Re-pointing</u> (£47K) the annual budget for ad hoc re-pointing works has under-spent as such works will be undertaken as part of resolving damp ingress.</p> <p><u>Asbestos Removal</u> (£40k) saving in respect of asbestos survey costs due to a lower than budgeted number of void properties.</p> <p>(£134k) saving in respect of the removal of low level asbestos as this work is now integrated within the General Maintenance contract.</p> <p><u>General Maintenance</u> (£258k) saving in respect of reactive repairs to council dwellings due to a reduction in the number of reported faults compared to</p>

the previous financial year.

Repairs to Voids

(£640k) saving in respect of repairs to void properties. The saving is a result of implementing an action plan to address this area of budgetary pressure, specifically the formation of a dedicated voids team, referral of kitchen and bathroom replacements to the capital programme and pre-void inspections; coupled with lower numbers of void properties.

Electrical Testing/Repairs

(£41k) saving in respect of electrical repairs following periodical testing. Works have been delayed whilst asbestos surveys are undertaken.

Service Contracts (£415k)

As previously reported, significant savings have been achieved following the commencement of a new gas service and maintenance contract in July (£260k). The overall saving also reflects an amalgamation of smaller service contract under-spends, including:

- (£32k) works to UPVC windows and extractor fans is now demand led in response to reported faults, rather than through a routine inspection regime.
- (£20k) Servicing smoke detectors was not necessary during 2014-15 as a programme of smoke detector replacements was incorporated into the new gas servicing contract.
- (£30k) the inspection of ducts for warm air units in communal areas has also been incorporated into the new gas servicing contract.

Low Maintenance and Painting

(£221k) As previously reported, external painting of properties affected by damp ingress was postponed until Executive approval was secured for the larger scheme of damp ingress works. Other planned works at Church St have also been delayed due to road closure notice periods. For these reasons Executive approval will be sought to carry forward the under-spend into 2015-16.

Damp Ingress

Full spend of the £500k damp ingress budget was highlighted as a budgetary risk,

		as works in this financial year have been prioritised to; the worse affected properties, on medical grounds and to properties that are already programmed to have external painting works. In order to gain cost efficiencies remaining properties will be dealt with as part of a contract of works in 2015-16. For this reason Executive approval will be sought to carry-forward the £370k under-spend into 2015-16.
Revenue Contribution to Capital	(£855,855)	As previously reported, the amount of revenue monies required towards financing the HRA Capital Programme in 2014-15 has reduced from £6.2m to £5.3m. This reflects a reduction in the level of capital expenditure in this financial year compared to the original capital programme.
Capital Charges	£83,386	Depreciation charges are higher than budgeted due to a rise in the valuation of council dwellings. Depreciation is a real cost to the HRA as it represents the amount of money which needs to be set aside in the Major Repairs Reserve to provide for the cost of future capital works or to repay debt.
Rents	(£220,580)	<p>A reduction in the number of void properties coupled with shorter void periods and moving rents to convergence levels upon a change of tenancy have each contributed to a higher than budgeted level of rental income (+ 1.1%).</p> <p>Throughout the year the amount of rental income from dwellings has been highlighted as a budgetary risk due to the range of factors that can affect income levels.</p> <p>As previously reported, additional rental income (£10k) from garages has also been generated. Several sites previously identified for re-development have remained occupied until the financing for COB Wave 3 has been secured.</p>
Interest	(£30,149)	Reflects additional interest earned on HRA balances (Working Balance, Major Repairs Reserve and capital receipts). The significant revenue and capital savings in 2014-15 have resulted in higher than anticipated HRA balances.
Total budget variances	(£3,183,734)	
HRA Surplus	(£1,809,184)	Transfer to HRA Working Balance
	Actual	

8.2 HRA Working Balance

The total budget variances for 2014-2015 have resulted in a surplus of £1,809,184, which will be transferred into 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	2014/15
Opening HRA Working Balance, as at 1/4/14	£5,963,219
Surplus for 2014/15	£1,809,184
Balance resolved to be retained (HRA contingency)	(£3,000,000)
Balance Available, as at 31/3/15	£4,772,403

8.3 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	2014/15
Opening Major Repairs Reserve, as at 1/4/14	£3,783,727
Revenue monies set aside during 2014/15	£2,439,776
Amount used to finance capital expenditure during 2014/15	(£1,066,500)
Balance, as at 31/3/15	£5,157,003

8.4 HRA Capital Programme

The 2014-15 HRA Capital Programme was last reported to this Committee on 3 March 2015, since that meeting the following changes have been made that have reduced the programme.

Description	2014/15	Approval / Funding
HRA Capital Programme, reported as at 3 March	£12,723,080	
Budgets deferred to future financial years	(£2,731,250)	Executive 14 April 2015
Underspends declared	(£219,480)	Executive 14 April 2015
Revised HRA Capital Programme	£9,772,350	

8.5 HRA Capital Expenditure

The total amount of HRA capital expenditure for 2014-15 was £9,173,770, which equates to 94% of the revised approved capital programme (as set out above). The nature of capital investment in the financial year comprised:

HRA Capital Expenditure	£
Capital investment in existing stock	5,983,736
Capital investment in the provision of new council homes	3,190,034
Total HRA Capital Expenditure	9,173,770

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

8.6 Capital Variances from Budget

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

Scheme	Overspend / (Underspend)	Explanation
MRA Fees	(£9,054)	A lower than budgeted recharge has been made in respect of the Quantity Surveyors for capital contracts as more time has been spent on revenue contracts this year including the new damp ingress contract.
Programmed Re-roofing	£7,259	This budget provides for the ad hoc re-roofing of council dwellings. During the year a higher than budgeted number of roofs were replaced in order to resolve problems with multiple leaks.
Fire Alarms at Sheltered Accommodation	(£14,592)	The programme of replacing fire alarms at Sheltered sites was completed in 2014-15 with a saving.

Scheme	Budget to be deferred to 2015/16	Explanation
COB Wave 2 – Whipton Methodist Church	£130,397	Completion of the 8 x 3 bedroom houses is almost complete with some slippage into 2015/16 to allow finishing off of external finishes.
COB Wave 2 – Bennett Square	£158,279	Completion of the 6 x 3 bedroom houses is almost complete with some slippage into 2015/16 to allow finishing off of external finishes.
St Loyes Design Fees	£42,350	Spend of this budget will now commence in 2015-16 following the recent appointment of a Project Manager.
Acquisition of Social Housing	£166,818	Practical completion of the four units to be acquired at Dean Clarke House was expected in February '15 but this has slipped to July '15 due to delays on site.

8.7 HRA Capital Financing

The total HRA capital expenditure for 2014-15 will be financed as follows:

HRA Capital Finance	£
Major Repairs Reserve	1,066,500

Revenue Contribution to Capital	5,339,345
Capital Receipts	2,690,034
External Grants/Contributions	77,891
Total HRA Capital Financing	9,173,770

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

8.8 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 2015, the amount of debt attributable to the HRA remains up to its 'debt cap' of £57,882,413.

9. Council Own Build (COB) Final Accounts to 31 March 2015

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.

9.1 Key Variations from Budget

The 2014-15 financial year has ended with an overall net surplus of £24,482, which will be transferred to the COB working balance. This represents a minor increase of £1,812 compared to the budgeted transfer to the working balance of £22,670.

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

MU Code	Management Unit	Budget Variance Overspend / (Underspend)	Explanation
85B5	COB	(£1,812)	<p>Low interest rates have resulted in a lower than budgeted interest charge in respect of the borrowing required to finance the build costs of these two sites.</p> <p>The budgets for 2014/15 factored in a reduction in rental income due to properties remaining empty whilst snagging issues at Knights Place are resolved. This will form part of a claim to the main contractor.</p>

10. 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.

11. 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.

12. 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

13. 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