

EXETER CITY COUNCIL

REPORT TO: PEOPLE SCRUTINY COMMITTEE
DATE OF MEETING: 1 JUNE 2017
REPORT OF: CHIEF FINANCE OFFICER
TITLE: HOUSING REVENUE ACCOUNT FINAL ACCOUNTS 2016-17

Is this a Key Decision

No

Is this an Executive or Council Function?

Council

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 2017 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 People Scrutiny Committee 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 2016-17.

4. What are the resource implications including non financial resources

The financial resources required to deliver services to Council tenants during 2016-17 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 2017, 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:

This report raises no issues for the Monitoring Officer.

8. Report Details:

HRA Final Accounts to 31 March 2017

8.1 Key Variations from Budget

The 2016-17 financial year has ended with an overall net surplus of £1,498,784. This represents a decrease of £1,640,919 compared to the budgeted deficit of £142,125. A projected under-spend of £958,178 has previously been reported Scrutiny Committee – People 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 £682,731.

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	£142,125	
Management Costs	(£24,635)	<ul style="list-style-type: none"> • Redundancy costs following the senior management restructure and the restructure of the Neighbourhood Warden service have been incurred, however the costs have been more than offset by savings across the management unit including; • Staff training in respect of the new housing management system did not take place, as the new system is now scheduled for implementation during 2017-18. A saving is reported in the current financial year as the cost of staff training has been factored into next year's budgets. • An under-spend in respect of introducing mobile working in housing services. Hand held devices have been purchased during the year, but the installation of wi-fi access in communal areas is planned for 2017-18. For this reason Executive approval will be sought to carry forward the under-spend. • The hosting of a tenant and leaseholder conference was deferred whilst the future format for the event is considered. • Vacant posts have resulted in savings in employee costs.
Housing Customers	(£42,356)	<ul style="list-style-type: none"> • Reflects an under-spend in utility costs, mostly attributable to a backdated refund in respect of communal lighting, due to over-estimated accounts.

		<ul style="list-style-type: none"> The under-spend also reflects a nil inflationary increase agreed with the cleaning contractor.
Sundry Land Maintenance	(£86,304)	<ul style="list-style-type: none"> Significant progression of tree maintenance works is pending the appointment of a Housing Tree Officer in 2017-18, following Executive approval on 10 January 2017. For this reason, a supplementary budget will be sought to carry forward £46k of these monies into 2017-18.
Repairs and Maintenance Programme	(£843,967)	<ul style="list-style-type: none"> This represents a combination of savings, most notably due to: <ul style="list-style-type: none"> <u>Asbestos Removal (£215k)</u> Reflects a reduction in asbestos survey costs following a change in contractor and a lower than anticipated level of asbestos removal works originating from planned capital projects and void properties. <u>General Maintenance (£283k)</u> A saving in respect of reactive repairs to council dwellings has occurred. Relatively mild weather conditions during the winter has kept the level of repairs stable. A potential underspend was reported as a budgetary risk in December, as allowance was made for adverse weather conditions. <u>Service Contracts (£100k)</u> Reflects a combination of savings in respect of service and maintenance contract costs including a £50k underspend in fire risk assessment costs. The appointment of a main contractor is pending the procurement process, in the interim priority fire risk assessments have been undertaken including sheltered sites. <u>Low Maintenance and Painting (£164k)</u> This is Year 1 of a new 7 year cyclical programme and survey results identified a lower than anticipated level of external repairs to properties scheduled for 2016-17. Savings have also arisen in scaffolding costs, whereby a wash programme was completed from ground level on blocks at Bennett Square, Manston Rd and Prince Charles Rd. Some slippage in the programme occurred; manufacturing delays in the windows for Weirfield House and outstanding works at Tabernacle Court. For this reason Executive approval will be sought to carry

		forward £60k into 2017-18.
Capital Charges	£64,822	<ul style="list-style-type: none"> • Depreciation charges are higher than budgeted due to a rise in the valuation of certain components of housing assets. 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
Housing Assets	(£221,063)	<ul style="list-style-type: none"> • Reflects an £80k saving in respect of the stock condition survey following the outcomes of a tender process. • The decant of tenants in ten LAINGS properties was not required during 2016-17. Higher than budgeted tender prices for the refurbishment of the properties have necessitated an options appraisal and caused a delay in the project timetable. A saving is reported in 2016-17, as the cost of decanting tenants in 2017-18 has been factored into next year's budgets. • A consultancy budget was set aside for a review of operating models in respect of this service, but significant progression is pending the appointment of a new Director. For this reason Executive approval will be sought to carry forward the budget. • Vacant posts have resulted in savings in employee costs.
Rents	(£360,334)	<ul style="list-style-type: none"> • Rental income from council dwellings was higher than budgeted, but represents only a 1.6% variance. Partly attributable to a lower than anticipated number of empty properties for major works such as Rennes House and the LAINGS properties. • Reflects additional income from garages due to a reduced level of voids.
Interest	(£127,072)	<ul style="list-style-type: none"> • Reflects additional interest earned on HRA balances (Working Balance, Major Repairs Reserve and capital receipts). The revenue and capital under-spends in 2016-17 combined with retaining right-to-buy receipts rather than surrendering them back to DCLG have resulted in higher balances.
Total budget variances	(£1,640,909)	
HRA Surplus	£1,498,784	Transfer to the HRA Working Balance

8.2 HRA Working Balance

The total budget variances for 2016-17 have resulted in a surplus of £1,498,784, which will be transferred to 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	2016-17
Opening HRA Working Balance, as at 1/4/16	£7,068,670
Surplus for 2016-17	£1,498,784
Balance resolved to be retained (HRA contingency)	(£4,000,000)
Balance Available, as at 31/3/17	£4,567,454

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	2016-17
Opening Major Repairs Reserve, as at 1/4/16	£6,310,319
Revenue monies set aside during 2016-17	£2,721,773
Amount used to finance capital expenditure during 2016-17	(£312,893)
Balance, as at 31/3/17	£8,719,199

8.4 HRA Capital Programme

The 2016-17 HRA Capital Programme was last reported to Scrutiny Committee - People on 2 March 2017, since that meeting the following changes have been made that have reduced the programme.

Description	2016-17	Approval / Funding
HRA Capital Programme, reported as at 2 March	£12,143,470	
Budgets deferred to future financial years	(£5,765,978)	Executive 11 April 2017
Savings declared	(£94,832)	Executive 11 April 2017
Revised HRA Capital Programme	£6,282,660	

8.5 HRA Capital Expenditure

The total amount of HRA capital expenditure for 2016-17 was £5,620,062, which equates to 89.5% 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	3,436,285
Capital investment in the provision of new council homes	2,183,777
Total HRA Capital Expenditure	5,620,062

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
Adaptations	£60,694	A combination of pressures arising from an ageing population and a drive to minimise waiting times has resulted in a budget overspend. Adaptations are undertaken to help the elderly and disabled remain in the homes for longer. The cost of adaptations will form part of a procurement review in 2017-18 in order to help identify potential cost efficiencies.
Programmed Re-roofing	£16,906	On a spend to save basis, the replacement of roofs at Taunton Close and Wellington Road were completed during the year in order to minimise repair costs due to their poor condition.
Kitchen Replacement Programme	£113,153	A net overspend in replacement kitchens and bathrooms has occurred which reflects the levels of void properties requiring replacements prior to being let.
Bathroom Replacement Programme	(£79,272)	
Replacement Housing Management System	£19,380	The budget for the new OPENHousing system has been re-aligned with the contract value.
COB Wave 2 – Whipton Methodist Church	(£20,648)	A saving is reported following settlement of the final accounts. In total, 14 new properties were built to passiv haus standards on these two council own build sites (Silverberry Close and Barberry Close)
COB Wave 2 –Bennett Square		

Scheme	Budget to be deferred to 2017-18	Explanation
Rennes House Structural Works	£17,413	Significant progression of this scheme is pending an options appraisal including potential grant funding for energy conservation measures. In the meantime the replacement of the lifts has been prioritised for 2017-

		18.
Common Area Footpath/Wall Improvements	£14,371	Major works planned at Meadow Way will extend into 2017-18 and the budget has been profiled accordingly.
Electrical Re-wiring	£345,297	The main contractor for planned electrical works were appointed in July '16, slippage of the budget has occurred due to the later start date.
COB Wave 2 – Rennes House Car Park	£517,952	The installation of a new substation, asbestos removal works and freezing temperatures affecting the laying of blockwork have resulted in a minor slippage of the scheme with the forecast completion date moving by one month (September 17 to October 17).
St Loyes Extra Care Scheme	£41,571	Both the budget and project timetable for this scheme are pending the outcomes of the latest tender return and value engineering exercise. A separate report will be prepared for Executive on 13 June and Council on 25 July to update Members and seek approval for any budgetary changes.
Acquisition of Social Housing	(£141,458)	The Council successfully completed on the acquisition of 4 x 3 bedroom properties at Hill Barton Vale before the end of the financial year, earlier than anticipated (3,5,7 and 9 Elsie Place). On the flipside, acquisition of 8 Membury Crescent will now complete in 2017-18 after final inspections have taken place.

8.7 HRA Capital Financing

The total HRA capital expenditure for 2016-17 will be financed as follows:

HRA Capital Finance	£
Major Repairs Reserve	312,893
Revenue Contribution to Capital	4,689,075
Capital Receipts	111,562
External Grants/Contributions	506,532
Total HRA Capital Financing	5,620,062

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 2017, 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 2017

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 2016-17 financial year has ended with an overall net surplus of £39,054, which will be transferred to the COB working balance. This represents a minor increase of £1,034 compared to the budgeted transfer to the working balance of £38,020.

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	(£1,034)	Lower than budgeted level of general repairs at Rowan House

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?

It is not permissible for the HRA to go into an overall financial deficit position, it is therefore important to ensure that an adequate level of HRA balances is maintained as a contingency against risks.

A key risk that officers are aware of relates to the High Value Assets Levy, which may require the Council to make a payment to the Government in respect of its 'high value' housing. Due to the uncertainty regarding the definition of 'high value' and calculation of the levy payable, it is considered prudent to increase the HRA contingency from £3,000,000 to £4,000,000 over the medium term.

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?

The revenue service costs for the year have helped the HRA provide tenancy management services and maintain the condition of council dwellings, which has a positive impact on the health and well-being of Council tenants. In the delivery of services, housing officers are able to identify and manage issues relating to safe-guarding, vulnerabilities and community safety.

In terms of capital expenditure, the 2016-17 capital programme has enabled enhancements to existing dwelling stock to be undertaken and helped support the provision of new housing, both of which will have a positive impact on those in housing need.

13. Are there any other options?

No

Chief Finance Officer

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

Background papers used in compiling this report:

None

Contact for enquiries:

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