

## EXETER CITY COUNCIL

**REPORT TO:** PEOPLE SCRUTINY COMMITTEE  
**DATE OF MEETING:** 7 JUNE 2018  
**REPORT OF:** Chief Finance Officer  
**TITLE:** 2017/18 Budget Monitoring Report - Outturn

### 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 2018 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 note the content of this report in order to be satisfied that prudent steps have been taken during the year to address any areas with significant variances, as highlighted in this report, and note the actual cost of delivering services for the HRA in the 2017/18 financial year.**

#### 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 2017/18.

#### 4. What are the resource implications including non financial resources

The financial resources required to deliver services to Council tenants during 2017/18 are set out in the body of this report.

#### 5. Section 151 Officer comments:

The outturn performance demonstrates the impact that the capital programme has on budgeting for the Housing Revenue Account. Delays in significant projects have a significant impact on the Account. The medium term financial plan does provide for the working balance to reduce over the period.

#### 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 2018**

**8.1 Key Variations from Budget**

The 2017/18 financial year has ended with an overall net surplus of £1,644,790. This represents a significant movement of £4,132,405 compared to the budgeted deficit of £2,487,615 for 2017/18 with, most notably, £2,700,000 attributable to delays with the St Loyes Extra Care Scheme.

A projected under-spend of £3,667,716 has previously been reported Scrutiny Committee – People as part of the quarterly budget monitoring updates. The variances in the final quarter of the financial year have therefore resulted in further savings of £464,689, of which Executive approval to carry forward £335,000 into 2018/19 will be sought. The reasons for this and the main deviations from budget for the financial year are set out below. Please also refer to Appendix 1.

<b>MU Code</b>	<b>Management Unit</b>	<b>Quarter 3 Forecast Variance (Under)/Overspend</b>	<b>Actual Budget Variance (Under)/Overspend</b>	<b>Explanation of Actual Budget Variance</b>
	<b>Budgeted Deficit</b>		<b>£2,487,615</b>	
85A1	Management Costs	(£60,000)	(£75,233)	<ul style="list-style-type: none"><li>• (£48k) savings have arisen in respect of training on the new Housing Management System. Implementation of the new system will commence in 2018/19 following Executive approval in October '17 for temporary staff resources to manage the project in conjunction with Strata.</li><li>• (£23k) reflects a reduction in the provision for insurance excess payments in-line with current insurance claims.</li><li>• £70k additional recharge for Procurement, which reflects both Corporate Procurement and the appointment of a</li></ul>

				dedicated HRA Procurement Manager. Offset by a combination of savings; employee costs (£30k) due to vacant posts and (£40k) saving in tenant participation activities (e.g. STAR survey and annual conference).
85A2	Housing Customers	£20,400	£45,339	<ul style="list-style-type: none"> <li>£45k additional employee costs have been incurred in respect of covering maternity leave and long term sickness.</li> </ul>
85A3	Sundry Land Maintenance	(£101,000)	(£87,840)	<ul style="list-style-type: none"> <li>(£60k) tree inspections and works to trees identified as 'at risk' have been prioritised during 2017/18, including diseased trees, those in natural decline and those in unsuitable locations. Lower level remedial works are pending the appointment of a dedicated Tree Officer for Housing, within Public Realm, on a 12 month fixed term contract. A saving is therefore reported for this year.</li> <li>(£28k) saving in respect of the Garden Assistance Scheme and initial cultivation works, due to no inflationary increase in contract costs and a review of eligibility.</li> </ul>
85A4	Repairs and Maintenance Programme	(£644,000)	(£953,332)	<ul style="list-style-type: none"> <li>This represents a combination of savings, most notably due to:   <u>Asbestos Survey &amp; Removal (£220k)</u>  Reflects a lower than anticipated level of asbestos removal works originating from planned capital projects, most notably due to lower kitchen and bathroom</li> </ul>

				<p>replacements. Asbestos removal works are also pending the decant of tenants, for this reason Executive approval will be sought to carry forward £100k into 2018/19.</p> <p><u>General Maintenance (£208k)</u> of which (£93k) relates to savings in larger general reactive repairs (&gt;£10,000) and (£115k) relates to general reactive repairs. A minor backlog of repairs occurred in March due to contractor capacity, which were dealt with as a priority early in the new financial year. For this reason, Executive approval will be sought to carry forward £100k into 2018-19.</p> <p><u>Repairs to Void Properties (£102k)</u> Savings occurred in respect of void properties, which reflects the number of void properties and the condition that they were returned to the Council during 2017/18.</p> <p><u>Service Contracts (£143k)</u> Reflects a combination of savings in respect of service and maintenance contract costs including a £60k under-spend 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.</p>
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				<p><u>Low Maintenance and Painting (£132k)</u> Final accounts for previous year's contracts were settled at lower than provided for levels. Certain works instructed under the 2017/18 contract will be completed early in the new financial year, therefore Executive approval will be sought to carry forward £30k into 2018/19.</p>
85A5	Revenue Contribution to Capital	(£2,700,000)	(£2,700,000)	<p>• The amount of revenue monies required towards financing HRA capital expenditure in 2017-18 has reduced by £2.7m, from £6.5m to £3.8m.</p> <p>In March 2014 Executive approved a £2.7m contribution towards the St Loyes Extra Care scheme, but delays to the scheme mean that the contribution is not required in 2017/18. Officers are currently preparing a detailed report for committee with the outcomes of a recent tender process.</p>
85A6	Capital Charges	£64,684	£64,684	<p>• Depreciation charges are higher than budgeted due to a rise in the valuation of council dwellings.</p> <p>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.</p>
85A7	Housing Assets	(£127,800)	(£92,918)	<p>• (£57k) savings in employee costs due to vacant posts during the year.</p>

				<ul style="list-style-type: none"> <li>• (£53k) tenant decants from LAINGS properties were not required during 2017-18. Executive approved the budget for the demolish and re-build option on 9 January '18. A saving is therefore reported in 2017-18, as the cost of decanting tenants has been factored into next year's budgets.</li> <li>• The additional cost of settling an employer's liability insurance claim, was offset by savings in the consultant's budget. However, Executive approval will be sought to carry forward the consultant's budget (£45k) to support continuation of stock condition surveys in 2018/19.</li> </ul>
85A8	Rents	(£20,000)	(£227,509)	<ul style="list-style-type: none"> <li>• Rental income from council dwellings was higher than budgeted; representing a 1.1% variance. Partly attributable to a lower than anticipated number of empty properties for major works such as Rennes House and the LAINGS properties. Delays with the rollout of Universal Credit Full Service have also meant that rent arrears have remained stable during the year, resulting in only a minor change to the provision for bad debts.</li> </ul>
85B2	Interest	(£100,000)	(£105,596)	<ul style="list-style-type: none"> <li>• Reflects additional interest earned on HRA balances (Working Balance, Major Repairs Reserve and capital receipts). The revenue and capital under-spends in 2017-18 combined with retaining</li> </ul>

				right-to-buy receipts rather than surrendering them back to DCLG have resulted in higher balances.
	<b>Total budget variances</b>		<b>(£4,132,405)</b>	
	<b>HRA Surplus</b>		<b>(£1,644,790)</b>	<b>Transfer to the HRA Working Balance</b>

## 8.2 HRA Working Balance

The total budget variances for 2017/18 have resulted in a surplus of £1,644,790, 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.

<b>Movement</b>	<b>2017/18</b>
Opening HRA Working Balance, as at 1/4/17	£8,567,454
Surplus for 2017/18	£1,644,790
Balance resolved to be retained (HRA contingency)	(£4,000,000)
<b>Balance Available, as at 31/3/18</b>	<b>£6,212,244</b>

## 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:

<b>Movement</b>	<b>2017/18</b>
Opening Major Repairs Reserve, as at 1/4/17	£8,719,199
Revenue monies set aside during 2017/18	£3,000,614
Amount used to finance capital expenditure during 2017/18	(£550,801)
<b>Balance, as at 31/3/18</b>	<b>£11,169,012</b>

## 8.4 HRA Capital Programme

The 2017/18 HRA Capital Programme was last reported to Scrutiny Committee - People on 12 March 2018, since that meeting the following changes have been made that have reduced the programme.

<b>Description</b>	<b>2017/18</b>	<b>Approval / Funding</b>
<b>HRA Capital Programme, reported as at 12 March</b>	<b>£10,497,645</b>	
Budgets deferred to future financial years	(£2,807,720)	Executive 10 April 2018
Savings declared	(£275,404)	Executive 10 April 2018
<b>Revised HRA Capital Programme</b>	<b>£7,414,521</b>	

## 8.5 HRA Capital Expenditure

The total amount of HRA capital expenditure for 2017/18 was £6,264,876, which equates to 84.5% of the revised approved capital programme (as set out above). The nature of capital investment in the financial year comprised:

<b>HRA Capital Expenditure</b>	<b>£</b>
Capital investment in existing stock	3,264,077
Capital investment in the provision of new council homes	3,000,799
<b>Total HRA Capital Expenditure</b>	<b>6,264,876</b>

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:

<b>Scheme</b>	<b>Overspend / (Underspend)</b>	<b>Explanation</b>
Kitchen Replacement Programme	(£68,409)	A saving is reported in respect of both programmes which reflects a lower level of kitchen and bathroom replacements in void properties and the scaling down of the programmes to one contractor, ahead of a procurement exercise in 2018/19.
Bathroom Replacement Programme	(£51,462)	
Electrical Re-wiring	(£113,007)	A saving is reported in respect of electrical re-wires, whilst officers review demand arising from electrical testing and planned capital works (e.g. kitchen replacements). The outcomes will be factored into future budget setting cycles.
Central Heating Programme	(£25,464)	Higher than budgeted boiler failures and parts for certain boilers now obsolete resulted in additional boiler replacements. However, the overspend is partially offset by savings in respect of the central heating programme, due to a lower level of systems required in void properties.
Boiler Replacement Programme	£57,919	

<b>Scheme</b>	<b>Budget to be deferred to 2018/19</b>	<b>Explanation</b>
LAINGS Refurbishments	£245,580	Following Executive approval on 9 January for the demolish and re-build option, the budget has been re-profiled in accordance with the latest project cash-flow forecasts.



Balcony Walkway Improvements	£60,000	It has not been possible to advance these works during 2017/18 as it is pending contract procurement. This programme will form part of procurement priorities for the new financial year.
Re-roofing Works Shilhay	£164,800	The re-roofing of 70 properties together with vertical tile hanging is expected to complete by mid-June resulting in slippage of the budget into 2018/19. This represents a minor delay, in part due to the time required to deal with asbestos and adverse weather conditions.
Replacement Housing Management System	£175,096	Implementation of the new IT system will commence in 2018/19 following Executive approval in October '17 for temporary staff resources to manage the project in conjunction with Strata.
COB Wave 2 – Rennes House Car Park	£271,500	The new social housing development, Chester Long Court, was officially opened on 16 March. However, final snagging issues, commissioning of equipment and external works were undertaken in April and May, resulting in minor slippage of the budget into 2018/19.
Acquisition of Social Housing - Market	(£145,000)	A property formerly used for temporary accommodation has been appropriated into the HRA for use as social housing during 2017/18 at a market value of £220k, but the planned acquisition of a shared ownership property is not expected to complete until 2018/19 (£75k). The net effect is £145k has been accelerated from next year's approved budget for property acquisitions.
Estate Regeneration	£88,162 (across all sites)	In March 2017 the Council received £1.295m Estate Regeneration funding. The grant is to be used across four HRA sites to progress them to the pre-construction stage. The overall forecast costs remain at £1.295m, but

		spend of the grant has now been profiled in accordance with the project timetables, which run into 2018/19.
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## 8.7 HRA Capital Financing

The total HRA capital expenditure for 2017/18 will be financed as follows:

HRA Capital Finance	£
Major Repairs Reserve	550,801
Revenue Contribution to Capital	3,796,640
Capital Receipts	1,117,568
External Grants/Contributions	799,867
<b>Total HRA Capital Financing</b>	<b>6,264,876</b>

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 2018, 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 2018

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 2017/18 year has ended with an overall net surplus of £48,846, which will be transferred to the COB working balance. This represents an increase of £12,876 compared to the budgeted transfer to the working balance of £35,970.

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

Management Unit	Quarter 3 Forecast Variance (Under)/Overspend	Actual Budget Variance (Under)/Overspend	Explanation
COB	(£7,000)	(£12,876)	Lower management costs due to vacant posts combined with lower maintenance costs.

## 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 2017/18 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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