

This Report will be made public on 7 November 2017

Folkestone

Hythe & Romney Marsh
Shepway District Council



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Report Number **C/17/57**

To: Cabinet
Date: 15 November 2017
Status: Non-Key Decision
Head of Service: Charlotte Spendley, Head of Finance
Cabinet Members: Councillor Malcolm Dearden, Finance and
Councillor Alan Ewart-James, Housing

SUBJECT: HOUSING REVENUE ACCOUNT REVENUE AND
CAPITAL BUDGET MONITORING 2017/18 – 2nd
QUARTER 2017/18

SUMMARY: This monitoring report provides a projection of the end of year financial position for the Housing Revenue Account (HRA) revenue expenditure and HRA capital programme based on net expenditure to 30 September 2017.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because Cabinet needs to be kept informed of the Housing Revenue Account position and take appropriate action to deal with any variance from the approved budget.

RECOMMENDATIONS:

1. To receive and note Report C/17/57.
2. Agree to make loan finance of £92,500 available to East Kent Housing for the Single IT System project, as set out in section 4.

1. INTRODUCTION AND BACKGROUND

- 1.1 This report informs Cabinet of the likely projected outturn on HRA revenue and capital expenditure for 2017/18.
- 1.2 The projections are based on actual expenditure and income to 30 September 2017. Some caution therefore needs to be exercised when interpreting the results. However, a thorough budget monitoring exercise has been carried out.

2. HOUSING REVENUE ACCOUNT REVENUE 2017/18 – PROJECTED OUTTURN

- 2.1 The table below provides a summary of the projected outturn compared to the latest budget for 2017/18.

| | Latest Budget £'000 | Projection £'000 | Variance £'000 |
|---|---------------------------|---------------------|-------------------|
| Income | (16,032) | (16,058) | (26) |
| Expenditure | 11,284 | 10,918 | (366) |
| HRA Share of Corporate Costs | 226 | 206 | (20) |
| Net Cost of HRA Services | (4,522) | (4,934) | (412) |
| Interest Payable/Receivable etc | 1,570 | 1,570 | 0 |
| HRA Surplus/Deficit | (2,952) | (3,364) | (412) |
| Revenue Contribution to Capital | 8,420 | 5,332 | (3,088) |
| Decrease/(Increase) to HRA Reserve | 5,468 | 1,968 | (3,500) |

- 2.2 The table shows that overall at quarter 2 there is a projected decrease in net expenditure of £3,500k on the HRA.

The main reasons for this are as follows:-

| | £'000 |
|---|-----------------------|
| Increase in charges for services and facilities | 14 |
| Decrease in revenue contribution to capital (see 2.3 below) | (3,088) |
| Decrease in repairs and maintenance (see 2.4 below) | (273) |
| Decrease in bad debt provision (see 2.5 below) | (70) |
| Increase in dwelling rents (see 2.6 below) | (38) |
| Decrease in supervision and management | (20) |
| Decrease in HRA share of corporate costs | (20) |
| Other minor variances | <u>(5)</u> |
| Total net projected Housing Revenue Account increase | <u>(3,500)</u> |

- 2.3 The decrease in revenue contribution to capital relates to the slippage of the capital programme in 2017/18 and relates to the re-profiling of schemes that will commence in 2018/19 and 2019/20. The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisition programme.
- 2.4 The decrease in repairs and maintenance relates largely to internal and external decorations being reduced by £237k due to an outstanding issue with the current supplier being resolved. It is therefore likely that a carry forward may be required in 2018/19 however, future monitoring reports will provide more detail. The asbestos removal budget is projected to underspend by £35k due to the level of works required being lower than originally anticipated.
- 2.5 The underspend within bad debt provision relates to there being minimal expected impact during 2017/18 since the phased implementation of Universal Credit in January 2016 and the full implementation expected in February 2018.
- 2.6 The increase in dwelling rents income relates to vacant properties being filled quicker than originally estimated.
- 2.7 The financial projections have been compared to the previous year's outturn and analysed in detail. These have been adjusted where genuine underspends have previously occurred or where there has been a change to current activity levels.
- 2.8 Overall, the HRA reserve at 31 March 2018 is expected to be £5,412k compared with £1,912k in the latest budget.

3. HOUSING REVENUE ACCOUNT CAPITAL 2017/18 (see Appendix 2)

- 3.1 The latest approved budget for HRA capital programme in 2017/18 is £15,262k and the projected outturn for the year is £10,446k, an underspend of £4,816k on the capital programme. Appendix 2 outlines the current schemes contained within the programme.
- 3.2 The reasons for the decrease in expenditure is as follows:-

| | |
|---|-----------------------|
| EKH Single System (see 3.3 below) | 93 |
| New build/acquisition programme (see 3.4 below) | (4,256) |
| External Enveloping (see 3.5 below) | (280) |
| Environmental Works (see 3.6 below) | (192) |
| Windows and Doors (see 3.7 below) | (130) |
| Lift Replacement (see 3.8 below) | (20) |
| Garages Improvements (see 3.9 below) | (18) |
| Play Areas | (10) |
| Treatment Works | <u>(3)</u> |
| Total decrease in expenditure 2017/18 | <u>(4,816)</u> |

- 3.3 EKH has requested an additional loan amount of £92,500 to help complete the Single IT System project as explained in section 4.
- 3.4 The decrease in revenue contribution to capital relates to the slippage of the capital programme in 2017/18 and relates to the re-profiling of new build schemes that will commence in 2018/19 and 2019/20. The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisition programme.
- 3.5 The underspend on external enveloping is due to the estimate for works being lower than originally anticipated.
It is therefore likely that a carry forward may be required in 2018/19 however, future monitoring reports will provide more detail.
- 3.6 The improvement works approved from The Shepway Tenant & Leaseholders Board are less than previously experienced and the anticipated use relating to the use on HRA land is no longer required due to the new build programme using larger non-HRA sites. There was a carry forward approved for Environmental Works from 2016/17 and these have all been completed.
- 3.7 The underspend on windows and doors is due to a new contract being procured relating to timber windows therefore Mila have been instructed to only undertake emergency works.
- 3.8 The underspend on lift replacement is due to the refurbishment of 2 lifts at Mittel Court being lower than originally anticipated.
- 3.9 The underspend on garage improvements is due to the estimate for completing works at Brook Lane Cottages being lower than originally anticipated.
- 3.10 The following table compares the resources required to finance the projected outturn for the HRA capital programme in 2017/18. The variation shown below corresponds to the figure in section 3.1, above.

| | 1-4-1 Capital Receipts | Revenue Contribution | Major Repairs Reserve | Total |
|-------------------|------------------------------|-------------------------|-----------------------------|----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Projected Outturn | 2,168 | 4,881 | 3,397 | 10,446 |
| Approved Budget | 3,445 | 8,420 | 3,397 | 15,262 |
| Variation | (1,277) | (3,539) | (0) | (4,816) |

4. EAST KENT HOUSING – SINGLE IT SYSTEM

4.1 To complete the project, EKH has requested to borrow an additional sum of £370,000 from the 4 councils therefore, £92,500 being our share. This includes the cost of mobile devices, but does not contain a contingency, and has been worked up against their project plan to date on the following terms:

(a) That the total loan remaining, (£743,333) plus the further £370,000, totalling £1,113,333, be repaid to the Councils interest free over seven years, by equal annual repayments to each council, with the first repayment being due on 1 April 2019.

(b) That the Councils identified systems budgets be transferred in full to EKH to support their repayment of the loan, with such transfers to take place when each Council decommissions its existing legacy system, or on 31 March 2018, whichever shall be the earlier.

4.2 EKH paid the first loan repayment on 1 March 2017, in line with the agreement, and has requested future repayments be re-profiled and extend the loan repayment term to seven years with future repayments to commence on 1 April 2019.

4.3 Therefore, the sum of £92,500 has been included within the attached report and the capital programme within appendix 2.

4.4 The business case from EKH has been discussed with all 4 councils and each Section 151 Officer and will be monitored throughout the programme.

5. RISK MANAGEMENT ISSUES

5.1 A summary of the perceived risks follows:

| Perceived risk | Seriousness | Likelihood | Preventative action |
|---|-------------|------------|---|
| The latest projection of the outturn could be materially different to the actual year end | Medium | Medium | Areas at greater risk of variances are being closely monitored and an update will be made to Cabinet if appropriate when this report is |

| | | | |
|---|--------|--------|---|
| position. | | | considered to allow action to taken. |
| Capital receipts (including right to buy sales) not materialising | Medium | Low | The capital programme uses realised capital receipts only. |
| Insufficient capacity to manage delayed expenditure along with new year programme | Medium | Medium | The 2017/18 to 2018/19 capital programme will need to continue to be reviewed to take account of the capacity to manage the programme. 2017/18 planned expenditure will need to be reviewed to determine whether any expenditure will fall into 2018/19 and beyond. |

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer's Comments (DK)

There are no legal implications arising from this report.

6.2 Finance Officer's Comments (LH)

This report has been prepared by Financial Services. There are no further comments to add.

6.3 Diversities and Equalities Implications

The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an Equality Impact Assessment.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Leigh Hall, Group Accountant
 Tel: 01303 853231 Email: leigh.hall@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

Budget projection working papers

Appendices:

[Appendix 1](#) Housing Revenue Account revenue budget monitoring report at 30 September 2017

[Appendix 2](#) Housing Revenue Account capital budget monitoring report at 30 September 2017