This Report will be made public on 11 October 2016

Folkestone
Hythe & Romney Marsh
Shepway District Council
www.shepway.gov.uk

Report Number **C/16/63**

To:	**Cabinet**
Date:	**19 October 2016**
Status:	**Non-Key Decision**
Head of Service:	**Pat Main, Interim Head of Finance**
Cabinet Members:	**Councillor Miss Susan Carey, Finance and Councillor Alan Ewart-James, Housing**

SUBJECT: **HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL BUDGET MONITORING 2016/17 – 2nd QUARTER 2016/17**

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 31 August 2016.

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/16/63.**

1. INTRODUCTION AND BACKGROUND

1.1 This report informs Cabinet of the likely projected outturn on HRA revenue and capital expenditure for 2016/17.

1.2 The projections are based on actual expenditure and income to 31 August 2016. 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 2016/17 – PROJECTED OUTTURN

2.1 The table below provides a summary of the projected outturn compared to the latest budget for 2016/17.

	Latest Budget £'000	Projection £'000	**Variance £'000**
Income	(16,113)	(16,180)	(67)
Expenditure	11,324	11,296	(28)
HRA Share of Corporate Costs	235	225	(10)
Net Cost of HRA Services	(4,554)	(4,659)	**(105)**
Interest Payable/Receivable etc	1,597	1,624	27
HRA Surplus/Deficit	(2,957)	(3,035)	**(78)**
Repayment of Debt	900	0	(900)
Revenue Contribution to Capital	5,885	1,624	(4,261)
Decrease/(Increase) to HRA Reserve	3,828	(1,411)	**(5,239)**

2.2 The table shows that overall at quarter 2 there is a projected decrease in net expenditure of £5,239k on the HRA.
The main reasons for this are as follows:-

	£'000
Increase in repairs and maintenance (see 2.3 below)	61
Decrease in interest and investment income	27
Increase in charges for services and facilities	8
Decrease in revenue contribution to capital (see 2.4 below)	(4,261)
Decrease in repayment of debt (see 2.5 below)	(900)
Decrease in supervision and management (see 2.6 below)	(90)
Increase in dwelling rents (see 2.7 below)	(69)
Decrease in HRA share of corporate costs	(10)
Increase in non-dwelling rents	(6)
Other minor variances	1
Total net projected Housing Revenue Account increase	**(5,239)**

2.3 The increase in repairs and maintenance relates to a £60k increase in void repairs due to the current level of higher category void works that are necessary to ensure properties are available to be re-let to tenants, a £25k increase in asbestos removal as full house surveys are being completed to comply with landlords responsibilities and a £13k reduction on planned maintenance.

2.4 The decrease in revenue contribution to capital relates to the slippage of the capital programme in 2016/17 and relates to the re-profiling of phase 1 and 2 of the Military Road new build programme. It is anticipated that the phase 1 deposit will be paid in 2016/17 however, the balance for phase 1 and the deposit for phase 2 will be paid in 2017/18 and then the balance for phase 2 will be made in 2018/19. The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisition programme.

2.5 The decrease in the repayment of debt relates to a change in strategy within the HRA Business Plan. The detailed HRA Business Plan went to Cabinet on 23 March 2016 and agreed to extend the payback of debt period by approx 5-7 years to ensure the council can continue to deliver the new homes programme.

2.6 The underspend within supervision and management relates to premises insurance and the stock condition survey.

Regarding the premises insurance this is following the re-tender for insurance, a competitive bid from our existing insurer and the low claims experience that has built up over the previous contract term, therefore the premium for HRA has been substantially reduced.

During 2016/17 EKH has commissioned a stock condition survey through Rand Associates for the four councils who are in the ALMO. This joint approach has provided a saving against the original budget.

2.7 The increase in dwelling rents income relates to guidance received from CLG regarding the 1% reduction in rents from April 2016. Within the budget setting process for 2016/17 the guidance stated that the 1% rent reduction in rents related to all properties within the HRA stock however, later guidance stated that sheltered accommodation was exempt from the reduction and could be increased in accordance with previous formula. Within the detailed budget report this was included as part of the recommendations, however there was not sufficient time to amend the detailed budgets in the report.

2.8 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.

2.9 Overall, the HRA reserve at 31 March 2017 is expected to be £7,276k compared with £2,037k in the latest budget.

3. HOUSING REVENUE ACCOUNT CAPITAL 2016/17 (see Appendix 2)

3.1 The latest approved budget for HRA capital programme in 2016/17 is £12,422k and the projected outturn for the year is £8,935k, an underspend of £3,487k on the capital programme. Appendix 2 outlines the current schemes contained within the programme.

3.2 The reasons for the increase in expenditure is as follows:-

	£'000
New Builds/acquisition programme (see 3.3 below)	(3,170)
Lift Replacement (see 3.4 below)	(180)
Fire Protection Works (see 3.5 below)	(116)
Heating Improvements (see 3.6 below)	(100)
Sheltered Scheme Upgrades (see 3.7 below)	80
Total decrease in expenditure 2016/17	**(3,487)**

3.3 The decrease in new build/acquisition programme relates to the re-profiling of phase 1 and 2 of the Military Road new build programme. It is anticipated that the phase 1 deposit will be paid in 2016/17 however, the balance for phase 1 and the deposit for phase 2 will be paid in 2017/18 and then the balance for phase 2 will be made in 2018/19.

3.4 The underspend on lift replacement is due to the requirement to procure a new lift contract during 2016/17. Therefore the originally planned lift replacements will not be completed until 2017/18. The monies carried forward for Phillipa House lift replacement will be completed in 2016/17.

3.5 The underspend on fire protection works is due to essential works identified following an independent fire risk assessment that was carried out by Savills Housing Consultants which identified the need for urgent and essential works to properties within the HRA stock. A large part of these works were carried out in 2015/16, therefore less expenditure is required for 2016/17.

3.6 The underspend on heating improvements is due to the number of boilers needing replacement being less than originally anticipated. The revised projection is based on a re-appraisal of the programme identifying suitable candidates for boiler replacements.

3.7 The budget required for sheltered scheme upgrades is due to the installation of a new mobility scooter store at Win Pine House. It has been identified through health and safety checks that the current storage is no longer suitable or fit for purpose.

3.8 The following table compares the resources required to finance the projected outturn for the HRA capital programme in 2016/17. 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	1,663	4,167	3,105	8,935
Approved Budget	2,614	6,387	3,421	12,422
Variation	(951)	(2,220)	(316)	**(3,487)**

4. RISK MANAGEMENT ISSUES

4.1 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 position.	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 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 2016/17 to 2017/18 capital programme will need to continue to be reviewed to take account of the capacity to manage the programme. 2016/17 planned expenditure will need to be reviewed to determine whether any expenditure will fall into 2017/18 and beyond.
Significant amendments having to be made to the financial results following audit.	High	Low	The formal accounts have been prepared in accordance with professional standards and best accounting practice.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 **Legal Officer's Comments** (DK)

There are no legal implications arising from this report.

5.2 **Finance Officer's Comments** (LH)

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

5.3 **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.

6. 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 31 August 2016

Appendix 2 Housing Revenue Account capital budget monitoring report at 31 August 2016