This Report will be made public on 10 January 2017

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

Report Number **C/16/97**

To:	**Cabinet**
Date:	**18 January 2017**
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 – 3rd 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 30 November 2016.

REASONS FOR RECOMMENDATIONS:
Cabinet is asked to agree the recommendations set out below because Cabinet needs to be kept informed of the HRA position and take appropriate action to deal with any variance from the approved budget.

RECOMMENDATIONS:
1. **To receive and note Report C/16/97.**
2. **To receive a further update report on HRA Business Plan.**

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 30 November 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)	(16,177)	(64)
Expenditure	11,324	11,276	(48)
HRA Share of Corporate Costs	235	239	4
Net Cost of HRA Services	(4,554)	(4,662)	**(108)**
Interest Payable/Receivable etc	1,597	1,632	35
HRA Surplus/Deficit	(2,957)	(3,030)	**(73)**
Repayment of Debt	900	0	(900)
Revenue Contribution to Capital	5,885	4,184	(1,701)
Decrease/(Increase) to HRA Reserve	3,828	1,154	**(2,674)**

2.2 The table shows that overall at quarter 3 there is a projected decrease in net expenditure of £2,674k on the HRA.
The main reasons for this are as follows:-

	£'000
Increase in repairs and maintenance (see 2.3 below)	128
Decrease in interest and investment income	35
Increase in charges for services and facilities	6
Increase in HRA share of corporate costs	4
Decrease in revenue contribution to capital (see 2.4 below)	(1,701)
Decrease in repayment of debt (see 2.5 below)	(900)
Decrease in supervision and management (see 2.6 below)	(96)
Decrease in bad debts provision (see 2.7 below)	(81)
Increase in dwelling rents (see 2.8 below)	(65)
Increase in non-dwelling rents	(5)
Other minor variances	1
Total net projected Housing Revenue Account increase	**(2,674)**

2.3 The increase in repairs and maintenance relates to a £103k 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 £20k increase in asbestos removal as full house surveys are being completed to comply with landlords responsibilities and a £13k increase 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 was presented for approval to Cabinet on 23 March 2016. Cabinet 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 a proactive collaboration on the re-tender of insurance which was completed and started on 1 August 2015, a competitive bid from the 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 and this joint approach has provided a saving against the original budget.

2.7 The decrease in bad debt provision relates to there being minimal impact so far after the implementation of Universal Credit in January 2016.

2.8 The increase in dwelling rents income relates to guidance received from Department for Communities and Local Government (DCLG) 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 £4,711k 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 £8,918k, an underspend of £3,504k 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:-

	£'000
New Builds/acquisition programme (see 3.3 below)	(3,168)
Lift Replacement (see 3.4 below)	(222)
External Enveloping (see 3.5 below)	(139)
Re-roofing (see 3.6 below)	(75)
Treatment Works	(10)
Fire Protection Works (see 3.7 below)	50
Heating Improvements	30
Disabled Adaptations	15
New Paths	15
Total decrease in expenditure 2016/17	**(3,504)**

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.

3.5 The underspend on external enveloping, which is all items of the external property structure, is due to the demand on this budget being less than anticipated due to the generally good condition of the stock.

3.6 The underspend on re-roofing is due to 5 pitched roofs not being completed in 2016/17 as there has been a delay in obtaining the specifications for this work to be completed.

3.7 The overspend on fire protection works is due to major works being identified at Nailbourne Court and Romney Marsh House.

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	1,664	4,184	3,070	8,918
Approved Budget	2,614	6,387	3,421	12,422
Variation	(950)	(2,203)	(351)	**(3,504)**

4. HRA BUSINESS PLAN

4.1 The current HRA Business Plan was approved by Cabinet on 23rd March 2016. The plan covers 30 years and the period 2016 to 2046 and the overall principles for the plan are as follows:

- The repayment of the council's HRA debt by year 25 (instead of 18-20 years) of the business plan (by around 2040-41)
- The implementation of a fully funded Shepway Housing Standard Programme throughout the 30 year life of the Business Plan.
- The provision of resources for a new build and housing acquisition programme. Due to the recent policy changes announced by the Government, it has been necessary to reduce our deliver target of up to 300 homes over the next 10 years, to up to 200 homes over the next 10 years.
- A minimum balance of £2million to be retained within the HRA at all times.
- Minimum borrowing headroom of £2million to be retained at all times.
- The plan should provide sufficient resources to fund environmental improvements to the communal parts on the council's estate areas.
- A detailed review of the Business Plan should be completed every year (previously stated as every 5 years).

4.2 A report is planned to be brought back to Cabinet in March/April 2017 that sets out progress against the current Business Plan along with an update on proposed new development and investment initiatives.

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 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.

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 November 2016

Appendix 2 Housing Revenue Account capital budget monitoring report at 30 November 2016