This Report will be made public on 20 March 2017

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

Report Number **C/17/88**

**To:** **Cabinet**
**Date:** **28 March 2018**
**Status:** **Non-Key Decision**
**Head of Service:** **Charlotte Spendley, Head of Finance**
**Cabinet Members:** **Councillor Malcolm Dearden, Portfolio Holder for Finance and**
**Councillor Alan Ewart-James, Portfolio Holder for Housing**

**SUBJECT:** **HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL BUDGET MONITORING 2017/18 – 4th 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 31 January 2018.

**REASONS FOR RECOMMENDATIONS:**
Cabinet is asked to agree the recommendations set out below because an understanding of the projected outturn of the Housing Revenue Account is essential in the good governance of the council and enables Cabinet to appropriate action to deal with any variance from the approved budget.

**RECOMMENDATIONS:**
1. **To receive and note Report C/17/88.**

## 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 31 January 2018, 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) | (16,043) | (11) |
| Expenditure | 11,353 | 10,847 | (506) |
| HRA Share of Corporate Costs | 226 | 206 | (20) |
| **Net Cost of HRA Services** | (4,453) | (4,990) | **(537)** |
| Interest Payable/Receivable etc. | 1,570 | 1,563 | (7) |
| **HRA Surplus/Deficit** | (2,883) | (3,427) | **(544)** |
| Revenue Contribution to Capital | 8,420 | 3,116 | (5,304) |
| **Decrease/(Increase) to HRA Reserve** | 5,537 | (311) | **(5,848)** |

2.2 The table shows that overall at quarter 4 there is a projected decrease in net expenditure of £5,848k on the HRA.

The projection has moved favourably by £676k since Quarter 3. The key factors affecting the movement from Q3 to Q4 is the revenue contribution to capital being reduced as a result of a change in forecast for heating improvement works and the purchase of land at Ship Street following an unsuccessful grant application (also reflected in the General Fund capital monitoring report).

The main reasons for the variance to budget are as follows:-

| | £'000 |
|---|---|
| Increase in charges for services and facilities | 16 |
| Decrease in revenue contribution to capital (see 2.3 below) | (5,304) |
| Decrease in repairs and maintenance costs (see 2.4 below) | (335) |
| Decrease in supervision and management (see 2.5 below) | (109) |
| Decrease in bad debt provision (see 2.6 below) | (70) |
| Increase in dwelling rents (see 2.7 below) | (31) |
| Decrease in HRA share of corporate costs | (20) |
| Other minor variances | 5 |
| **Total net projected Housing Revenue Account increase** | **(5,848)** |

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 £312k 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. The asbestos removal budget is projected to underspend by £45k due to the level of works required being lower than originally anticipated.

2.5 The decrease in supervision and management relates largely to HRA new builds being reduced by £79k due to both professional and planning advice not required during 2017/18 which fits with the profile of the new build and acquisition programme during the remainder of 2017/18.

2.6 The underspend within bad debt provision relates to there being minimal expected impact during 2017/18. The phased implementation of Universal Credit commenced in January 2016 however full implementation is now expected in May 2018.

2.7 The increase in dwelling rents income relates to vacant properties being filled quicker than originally estimated.

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 2018 is expected to be £7,669k compared with £1,843k 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 £9,582k, an underspend of £5,680k on the capital programme. Appendix 2 outlines the current schemes contained within the programme.

The projection has reduced by £542k since Quarter 3. The key factors affecting the movement from Q3 to Q4 were largely the heating contractors including revenue works within their forecasts/workflow for capital and Win Pine House and Halliday Court heating installs have been deferred until 2018/19 due to the need to procure the works, and the purchase of land at Ship Street has been deferred due to an unsuccessful grant application.

3.2 The reasons for the decrease in expenditure are as follows:-

| | |
|---|---|
| EKH Single System (see 3.3 below) | 93 |
| New build/acquisition programme (see 3.4 below) | (4,173) |
| Heating Improvements (see 3.5 below) | (345) |
| External Enveloping (see 3.6 below) | (310) |
| Fire Protection Works (see 3.7 below) | (209) |
| Re-roofing (see 3.6 below) | (200) |
| Environmental Works (see 3.8 below) | (172) |
| Void Capital Works (see 3.9 below) | (80) |
| Lift Replacement (see 3.10 below) | (74) |
| Windows and Doors (see 3.6 below) | (70) |
| Rewiring (see 3.11 below) | (40) |
| Thermal Insulations (see 3.6 below) | (35) |
| Sheltered Scheme upgrades (see 3.6 below) | (30) |
| Other movements | (35) |
| **Total decrease in expenditure 2017/18** | **(5,680)** |

3.3 EKH has requested an additional loan amount of £92,500 to help complete the Single IT System project, the decision to loan EKH a further sum was taken by Cabinet in report C/17/57 on the 15 November 2017.

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. The forecast also included £120k contribution to the purchase of land at Ship Street which has now not anticipated to be incurred during 2017/18 following an unsuccessful grant application.

3.5 The decrease in heating improvements is largely due to the contractors including revenue works in their forecasts/workflow for capital. Win Pine House and Halliday Court installs have been deferred until 2018/19 due to the need to procure the works.

3.6 There are a number of underspends due to contracts requiring re-procurement which has resulted in the work not being undertaken in 2017/18. This includes the projected underspend on external enveloping, re-roofing, windows and doors, thermal insulations and the new scooter store at Romney Marsh House, carry forward requests are anticipated for these budgets.

3.7 The decrease in fire protection works relates to works that will arise from the Fire Risk Assessment surveys requiring a new contract to be procured, which will not be possible in 2017/18 due to the remaining timescale.

3.8 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.

3.9 The decrease in void capital works is due to the demand for high category works required being lower than originally anticipated.

3.10 A programme of works was originally projected for 2017/18 of lift works at Mittel Court which included the refurbishment of two lifts, one has been completed with the second pending a carry forward request into 2018/19.

3.11 The decrease in rewiring is largely relating to the kitchens and bathroom replacements not requiring the anticipated level of works.

3.12 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 | Section 106 monies | **Total** |
|---|---|---|---|---|---|
| | £’000 | £’000 | £’000 | £’000 | **£’000** |
| Projected Outturn | 1,819 | 3,116 | 3,397 | 1,250 | **9,582** |
| Approved Budget | 3,445 | 8,420 | 3,397 | 0 | **15,262** |
| **Variation** | (1,626) | (5,304) | 0 | 1,250 | **(5,680)** |

## 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 2017/18 to 2018/19 capital programme will need to continue to be reviewed to take account of the capacity to manage the programme. |

## 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** (LW)

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

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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 December 2017

Appendix 2 Housing Revenue Account capital budget monitoring report at 31 December 2017