This Report will be made public on 4 December 2018

Folkestone & Hythe District Council

Report Number **C/18/54**

To:	**Cabinet**
Date:	**12 December 2018**
Status:	**Non-Key Decision**
Head of Service:	**Charlotte Spendley, Assitant Director – Finance, Customer & Support Services**
Cabinet Members:	**Councillor Malcolm Dearden, Finance and Councillor Alan Ewart-James, Housing**

SUBJECT: **HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL BUDGET MONITORING 2018/19 – 2nd QUARTER**

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 2018.

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 and be informed of the final 2018/19 position.

RECOMMENDATIONS:

1. **To receive and note Report C/18/54.**

1. INTRODUCTION

1.1 This report informs Cabinet of the likely projected outturn on HRA revenue and capital expenditure for 2018/19.

1.2 The projections are based on actual expenditure and income to 30 September 2018. Some caution therefore needs to be exercised when interpreting the results due to the early stage of the financial year, however, a thorough budget monitoring exercise has been carried out.

2. HOUSING REVENUE ACCOUNT REVENUE 2018/19 (see Appendix 1)

2.1 The table below provides a summary of the projected outturn compared to the latest budget for 2018/19.

	Latest Budget	Projection	Variance
	£'000	£'000	£'000
Income	(15,829)	(15,960)	(131)
Expenditure	10,994	9,766	(1,228)
HRA Share of Corporate Costs	226	201	(25)
Net Cost of HRA Services	(4,609)	(5,993)	(1,384)
Interest Payable/Receivable etc	1,499	1,499	0
HRA Surplus/Deficit	(3,110)	(4,494)	(1,384)
Revenue Contribution to Capital	6,748	2,754	(3,994)
Decrease/(Increase) to HRA Reserve	3,638	(1,740)	(5,378)

2.2 The table shows that overall at quarter 2 there is a projected decrease in net expenditure of £5.378m on the HRA.

The projection has moved favourably by £5.145m since Quarter 1. The key factors affecting the movement from Q1 to Q2 is the revenue contribution to capital being reduced as a result of a change in profiling of the new build/acquisition programme and a change in accounting treatment of depreciation on HRA dwellings.

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

	£'000
Decrease in revenue contribution to capital (see 2.3 below)	(3,994)
Decrease in depreciation charges of fixed assets (see 2.4 below)	(1,014)
Decrease in repairs and maintenance (see 2.5 below)	(162)
Increase in dwelling rents (see 2.6 below)	(160)
Decrease in supervision and management (see 2.7 below)	(52)
Decrease in HRA Share of Corporate and Democratic costs	(25)
Decrease in charges for services and facilities (see 2.8 below)	29
Total net projected Housing Revenue Account decrease	**(5,378)**

2.3 The decrease in revenue contribution to capital largely relates to the new build/acquisition programme being reprofiled into 2019/20 and 2020/21.

The overall delivery of the programme remains the same, however the timing of delivery has been adjusted and these changes reflected within the projection for the current financial year.

2.4 The decrease in depreciation is due to a change in accounting treatment of depreciation on HRA dwellings, whereby the real depreciation cost has to be charged to the HRA instead of using the Major Repairs Allowance as a proxy which has been allowed in previous years. The budget for 2018/19 was set before the accounting changes were implemented.

2.5 The decrease in repairs and maintenance relates to a delay in procuring a new contractor for the provision of internal and external decorations.

2.6 The increase in dwelling rents is due to faster void turnarounds and an increase in affordable properties at affordable rent.

2.7 The decrease in supervision and management relates to there not being so many feasibility studies required for 2018/19.

2.8 The decrease in charges for services and facilities relates to heating charges being lower than anticipated due to a change of supplier.

2.9 Overall, the HRA reserve at 31 March 2019 is expected to be £9.787m compared with £4.409m in the latest budget.

3. HOUSING REVENUE ACCOUNT CAPITAL 2018/19 (see Appendix 2)

3.1 The latest budget for the HRA capital programme in 2018/19 is £13.673m and the projected outturn for the year is £6.476m, an underspend of £7.197m.

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

	£'000
New Builds/Acquisitions (see 3.3 below)	(5,839)
Fire Protection Works (see 3.4 below)	(631)
Re-roofing (see 3.5 below)	(390)
Re-wiring (see 3.6 below)	(235)
Sheltered Scheme Upgrades (see 3.7 below)	(95)
External Enveloping (see 3.8 below)	(70)
Thermal Insulations (see 3.9 below)	(40)
Garage Improvements	(15)
Treatment Works	(5)
EKH Single System (see 3.10 below)	93
Lift Replacement (see 3.11 below)	30
Total decrease against Original Budget	**(7,197)**

3.3. The decrease in revenue contribution to capital relates to the slippage of the capital programme in 2018/19 and relates to the re-profiling of new build schemes that will commence in 2019/20 and 2020/21. The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisition programme.

3.4 The decrease in fire protection works is due to the original programme of works identified being higher than necessary after further surveys were carried out, therefore, the estimated figures have been revised to reflect the works now required.

3.5 The decrease in re-roofing is due to the current supplier going into liquidation so a new roofing contractor needs to be procured.

3.6 The decrease in re-wiring is due to the works only being completed if required when a new kitchen or bathroom is being installed.

3.7 The decrease in sheltered scheme upgrades is due to the cost of the new scooter stores being lower than anticipated.

3.8 The decrease in external enveloping is due to the procurement of a new contract being delayed and the need to identify a programme of works to be undertaken.

3.9 The decrease in thermal insulations is due to a new contract needing to be procured, however, fire precaution works have taken priority so this will be delayed until 2019/20 with only urgent works being carried out for the remainder of the year.

3.10 EKH requested an additional loan amount of £92,500 to help complete the Single IT System project, payment was made in 2018/19. The decision to loan EKH a further sum was taken by Cabinet in report C/17/57 on the 15 November 2017.

3.11 The increase in lift replacement is due to the lift at Mittel Court needing to be replaced due to regulation and legislation changes.

3.12 The following table compares the resources required to finance the projected outturn for the HRA capital programme in 2018/19. The variation shown below corresponds to the figure in section 3.1, above.

2018/19 HRA	1-4-1 Capital Receipts	Revenue Contribution	Major Repairs Reserve	Total
	£'000	£'000	£'000	£'000
Projected Outturn	1,107	2,754	2,615	6,476
Approved	2,859	6,748	4,066	13,673
Variation	(1,752)	(3,994)	(1,451)	(7,197)

4. CONCLUSION

4.1 The HRA revenue outturn projection for 2018/19 forecasts £5.378m lower expenditure than the latest approved budget.

4.2 The HRA capital outturn projection for 2018/19 forecasts £7.197m lower expenditure than the latest approved budget.

4.3 The projected outturn for both the HRA revenue expenditure and capital programme for 2018/19 reflects the position based on actual expenditure and forecasts at 30 September 2018.

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 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 2018/19 to 2019/20 capital programme will need to continue to be reviewed to take account of the capacity to manage the programme. 2018/19 planned expenditure will need to be reviewed to determine whether any expenditure will fall into 2019/20 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** (LW)

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

6.3 **Diversities and Equalities Implications** (DA)

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

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Cheryl Ireland, Chief Accountant
Tel: 01303 853213 Email:cheryl.ireland@folkestone-hythe.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 2018
Appendix 2 Housing Revenue Account capital budget monitoring report at 30 September 2018