Meeting:	**Corporate Resources Overview and Scrutiny Committee**
Date:	**18 December 2012**
Subject:	**Q2 Housing Revenue Account (HRA) Revenue & Capital Report 2012/13**
Report of:	**Councillor Maurice Jones, Deputy Leader and Executive Member for Corporate Resources**
Summary:	The report provides information on the HRA Revenue & Capital position as at Q2 2012/13 and the forecast outturn position for 2012/13.

Advising Officer:	Charles Warboys, Chief Finance Officer
Contact Officer:	Charles Warboys, Chief Finance Officer
Public/Exempt:	Public
Wards Affected:	All
Function of:	Council

CORPORATE IMPLICATIONS

Council Priorities:

1. Sound financial management contributes to the Council's Value for Money and enables the Council to successfully deliver its priorities. The recommendations will contribute indirectly to all 5 Council priorities.

Financial:

2. The financial implications are set out in the report.

Legal:

3. None.

Risk Management:

4. None.

Staffing (including Trades Unions):

5. Any staffing reductions will be carried out in accordance with the Council's Managing Change Policy and in consultation with the Trades Unions.

Equalities/Human Rights:

6. Equality Impact Assessments were undertaken prior to the allocation of the 2012/13 budgets and each Directorate was advised of significant equality implications relating to their budget proposals.

Public Health

7. None.

Community Safety:

8. None.

Sustainability:

9. None.

Procurement:

10. None.

RECOMMENDATION(S):

The Committee is asked to:-

1. Consider and comment on the attached Executive report and associated appendices which was reviewed by the Executive on the 4th December 2012.

Executive Summary

11. The report sets out the HRA revenue & capital financial position for 2012/13 as at the end of September.

INTRODUCTION

12. The report sets out the financial position for 2012/13 as at the end of September. It sets out spend to date against the profiled revenue and capital budgets and the forecast financial outturn. Explanations for the variances are set out below in section 2. This report enables CMT to consider the overall financial position of the HRA.

KEY HIGHLIGHTS (Appendix A)

13. In Summary

- The change from subsidy to self-financing has released approximately £4m per year, which has initially been allocated to the earmarked reserve for Sheltered Housing Re-provision (SHR) and development of the Asset Management Strategy (£2.8m), and the existing capital programme (£1.2m).

- Current research into the provision of Extra Care accommodation is taking place alongside a review of existing Sheltered Housing stock to establish investment needs and finalise the Council's development objectives. Upgrading of the Sheltered stock could be financed from the SHR.

- The 2012/13 budget for the HRA anticipates a contribution to the Sheltered Housing Re-Provision reserve of £2.750m. The September financial position indicates that a contribution to reserves of £3.550m will be possible (£3.550m in August). This is due to enhanced rental income following more detailed work around the assumptions made in the budget build as against actual rental increases.

- Although this is a favourable position it is still necessary to undertake an assessment of the likely impact of small scale regeneration schemes and the challenging investment requirements of existing stock. Until this has been undertaken a final use for this additional revenue is still to be determined.

- The year end forecast outturn position is £0.410m higher than budget for the HRA Capital Programme (£0.410m in August). This is due to increased demand for disabled adaptations to Council properties.

- The Council has adopted a Treasury Management strategy that can be adapted to suit the needs of the Landlord Services Business Plan, so that debt repayment can be delayed to enable greater investment in the Capital programme to take place in the short to medium term.

- The interest rate for the HRA's variable rate debt is fixed on a six monthly basis, with the most recent change occurring at the end of September. This rate dropped from 0.62% to 0.54% and will not change again until the end of March 2013.

14. Forecast outturn variances

- It is projected that there will be a positive variance of £0.800m (£0.800m in August).

- This is due to enhanced rental income following more detailed work around the assumptions made in the budget build as against actual rental increases

- The overall impact of this will mean that the HRA is forecast to contribute £3.550m to reserves (£3.550m in August), as opposed to £2.750m anticipated in the original budget.

- The Capital programme is forecast to outturn at £0.410m above the budget (£0.410m in August), due to demand for disabled adaptations.

15. Year to Date (YTD) variances

    - There is a year to date positive variance in the HRA of £0.109m (£0.206m adverse variance in August). This variance comprises increased rental income (£0.376m), offset by the profile of payments for the stock condition survey (which was completed in the first quarter of the year but budgeted on an even profile over the whole year).

    - There is a year to date adverse variance of £0.535m (£0.773m in August) in the capital programme. This is partially due to the profile of works varying from the budget profile (£0.392m), for example a greater amount of wooden fascia boards being replaced with plastic boards during the summer months. In addition demand for disabled adaptations at Council properties has exceeded the budget profile by £0.143m.

BACKGROUND

16. In considering its Treasury Management Strategy in relation to self financing, the Council sought the greatest possible flexibility in terms of repaying the debt of £165m.

17. This has been achieved by taking the full portfolio of loans on a maturity (interest only) basis, with approximately a quarter of the loans (£44.995m) at a variable rate of interest.

18. The interest rate charged by PWLB on the HRA's variable rate debts is fixed on a 6 monthly basis. This rate dropped from 0.62% (March) to 0.54% (September), delivering a saving of £0.018m in interest costs.

19. As the variable rate has been fixed for the remainder of the financial year it is now possible to calculate the interest costs that will be payable for the whole financial year. The average rate of interest on HRA debt for 2012/13 will be 2.41% at a cost of £3.977m

20. The variable proportion of the debt can be repaid at any time without penalty, allowing the Council the flexibility to repay debt when it chooses.

21. This strategy has been designed to support the HRA Business Plan, which is used to forecast income, revenue and capital expenditure, debt related

costs and reserves over a 30 year period.

22. Due to the unique nature of the HRA under self-financing, where rental income is the predominant source of financing, all expenditures have to be paid either from rental income streams or existing reserves.

23. Released from the constraints of the former subsidy system, the Council has an opportunity to develop a new strategic approach for the HRA which will involve investment both in new build and redevelopment.

24. It is likely that a great proportion of this investment will be targeted at the needs of an ageing population, and appraisal work is currently underway to evaluate potential Extra Care schemes.

25. At the same time a new Asset Management Strategy is being developed so that the Council can assess the needs of its existing stock, which includes challenging investment requirements and Sheltered Housing schemes that are in need of improvement.

26. The results of the independent Stock Condition Survey have been received and validated, giving the Council assurance that the amounts set aside in the Business Plan are sufficient to maintain the stock in its current condition.

27. It is proposed that as part of its new strategy the Council will retain its commitment to maintaining the Decent Homes standard for its stock of Council houses, with funding provided in the HRA's Capital programme.

REVENUE COMMENTARY

28. The HRA annual expenditure budget is £22.670m and income budget is £25.420m, which allows a contribution of £2.750m to the Sheltered Housing Re-Provision Reserve (SHR) to present a net budget of zero. A subjective breakdown of budget, year to date position and forecast outturn is shown below.

	2012/13 Budget	Budget YTD	Actual YTD	Variance YTD	Full Year Forecast	Variance Full Year Forecast to Budget
	£m	£m	£m	£m	£m	£m
Total Income	**(25.420)**	**(12.710)**	**(12.813)**	**(0.103)**	**(26.256)**	**(0.836)**
Housing Management	4.255	2.128	2.149	0.021	4.301	0.046
Asset Management	0.864	0.432	0.476	0.044	0.918	0.054
Corporate Resources	1.272	0.635	0.659	0.024	1.298	0.026
Maintenance	4.681	2.341	2.465	0.124	4.690	0.009
Debt related costs	0.169	0.085	0	(0.085)	0.119	(0.050)
RCCO*	5.942	2.971	2.971	0	6.352	0.410
Efficiency Programme	(0.400)	(0.200)	(0.200)	0	(0.400)	0
Interest repayment	4.739	2.369	2.065	(0.304)	3.977	(0.762)
Principal repayment / Set aside	1.148	0.574	0.744	0.170	1.451	0.303
TOTAL Expenditure	**22.670**	**11.335**	**11.329**	**(0.006)**	**22.706**	**0.036**
Contribution to / (from) reserve (actioned at year end)	(2.750)	(1.375) ^	(1.484) ^	(0.109) ^	(3.550)	(0.800)
Net Expenditure	**0**	**0**	**0**	**0**	**0**	**0**

* Revenue Contribution to Capital Outlay   ^ Included for balancing and illustrative purposes only

29. The Revenue Contribution to Capital Outlay (RCCO) shown above represents the funding of the HRA's Capital programme from Revenue. Further detail on funding of the Capital programme is shown in section 7.

30. Debt related costs are comprised of interest costs (£4.739m in the budget) and an amount set aside, either for debt repayment, reserves or investment purposes (£1.148m in the budget). At the time of the budget a prudent view

was taken on the average interest rate that would be payable during 2012/13, assuming a rate of 3.00%. The average interest rate actually achieved on the Council's self-financing debt for 2012/13 is 2.41%. This has resulted in a reduction in interest payments due from £4.739m to £3.977m.

31. This has released an additional £0.762m into the HRA. At the current time it is proposed that £0.410m will be used to increase RCCO with a further £0.303m added to funds being set aside, to make a total of £1.451m. The additional £0.049m is earmarked to offside other minor variances.

32. Proposals to confirm the use of the funds set aside will be formulated once the Asset Management Strategy is completed and approved.

EFFICIENCIES

33. As part of the 2012/13 budget build the HRA revenue budget was reduced by £0.400m as part of the Council's efficiency programme.

34. Since 2010 the Council has been using Housemark to provide a benchmarking service.

35. The analysis provided by Housemark has assisted the Council in identifying the areas where HRA budgets are higher relative to other stock retained authorities. This has enabled efficiencies in staffing, reduced void periods, increased rental income and reduced repairs costs to be identified.

36. The HRA efficiency programme is on target to be fully achieved in 2012/13.

DEBTORS (Appendix B)

37. Total current and former tenant arrears were £0.992m at the end of September (£1.060m August). Current arrears are £0.579m or 2.12% of the annual rent debit of £27.280m (£0.652m or 2.39% August). The figure of 2.12% is a 0.07% adverse variance against a target of 2.05%.

38. Performance on former tenant arrears is 1.52% against a target of 1.00%, leaving a balance of £0.413m (1.50% with a balance of £0.408m August).

39. In addition to tenant arrears clients are invoiced for rents at a small stock of shops owned by the HRA, leaseholders who purchased flats via the Right to Buy scheme are invoiced for service charges and ground rent, and tenants/former tenants are invoiced for damages they are responsible for. There are currently £0.147m of arrears (£0.137m August).

40. In the first half of the year £0.038m of tenant arrears were written off as bad debts.

CAPITAL COMMENTARY (Appendix C)

41. As a result of the change from the Subsidy system to Self-Financing an additional £1.2m was allocated to the 2012/13 HRA Capital Programme.

42. This additional budget is partially earmarked to replace wooden fascia boards with plastic boards (Plasticisation), which will create savings within the external decorations budget. The other element is earmarked for stock remodelling projects, which range from replacing flat roofing to solid wall insulation.

43. An over spend of £0.085m is predicted on the roof replacement budget, as the roofs identified for replacement in this year's programme involve a higher than average replacement cost.

44. This is offset by savings in the Drainage and Water Supply programme, partially due to changes in legislation regarding responsibility for waste drains.

45. Demand for disabled adaptations for Council tenants has exceeded the profiled budget. In the first half of the year 58 DFGs have been completed. It is now anticipated that the outturn will be £0.870m (£0.870m in August) against a budget of £0.450m.

46. It is proposed to finance this spend from funding that has been set aside in the business plan for debt repayment. As mentioned above this is subject to approval.

47. A review has been scoped to evaluate the DFG programme. The purpose of this review will be to ensure that those requiring such works are treated equitably and that the process provides Value for Money for the Council, tenants and council tax payers.

48. The budgeted HRA capital programme is financed predominantly from revenue contributions (£5.942m), with a small proportion funded by capital receipts from Right to Buy sales (anticipated to be a contribution of £0.200m).

RESERVES POSITION (Appendix D)

49. The total reserves available as at April 2012 were £4.105m and the current forecast indicates that an additional £3.550m (£3.550m in August) will be transferred to HRA reserves at the year end.

RISKS AND UPSIDES

50. There are no risks or upsides to report.

CONCLUSIONS

51. Work is concluding on the Asset Management Strategy that will crystallise the longer term aspirations of the HRA under Self-Financing.

52. A number of development opportunities are currently being considered, with an aspiration to provide Extra Care facilities whilst improving and developing existing assets.

53. In the meantime there is an increasing focus on Value For Money, incorporating efficiency savings and revenue optimisation.

Appendices:

Appendix A – Net Revenue Position Full Analysis

Appendix B – Debtors

Appendix C – Capital programme

Appendix D – Reserves

Background Papers:
None