

Meeting: Social Care, Health and Housing Overview and Scrutiny Committee
Date: 17 December 2012
Subject: Revenue and Capital Budget Management Report for period ended 30th September 2012 for Housing Revenue Account (HRA)
Report of: Cllr Carole Hegley, Executive Member for Social Care, Health & Housing.
Summary: The report provides information on the 2012/13 Housing Revenue Account revenue and capital position as at Quarter 2 and the forecast outturn position.

Advising Officer: Julie Ogley, Director of Social Care, Health and Housing
Contact Officer: Nick Murley, Assistant Director Business & Performance
Public/Exempt: Public
Wards Affected: All
Function of: Council

CORPORATE IMPLICATIONS

Council Priorities:

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:

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

Legal:

2. None.

Risk Management:

3. None.

Staffing (including Trades Unions):

4. 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:

5. 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:

6. None.

Community Safety:

7. None.

Sustainability:

8. None.

Procurement:

9. None.

RECOMMENDATION:

The Committee is asked to note the Housing Revenue Account financial position as at the end of September 2012.

Introduction

10. The report sets out the financial position to the end of September 2012.

Executive Summary

11. On 1 April 2012 the financing arrangements for the Housing Revenue Account (HRA) underwent radical reform. The Council is no longer required to make an annual contribution to a national scheme of redistribution (the Housing Subsidy scheme). This has been replaced by a system of Self-Financing, which has entailed the Council undertaking on debt of £165m.
12. The debt structure chosen has given the Council the flexibility to balance asset management and regeneration priorities against the need to make debt repayments.
13. 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).
14. The two key variances for the HRA as at the end of quarter two are due to a higher amount of income from rents (£0.800m) and lower interest costs from the self financing debt (£0.762m).
15. Under the rent restructuring guidelines the Council sets the rent levels based on the government determination in November, however in the past the rate of this increase has been reduced by government as late as March preceding the new financial year. In view of this the Council took a prudent view of the level of rental income when setting the 2012/13 budget. As the proposed increase was fully implemented an additional £0.800m of income is predicted in this financial year.
16. A further saving of £0.762m has been achieved due to lower than budgeted interest costs. The average interest rate actually achieved on the Council's self-financing debt for 2012/13 is 2.41%, as opposed to 3.00% in the budget build. The lower average rate is the result of the Council's decision to take approximately a quarter of the self-financing debt on a variable rate basis, at an average interest rate of only 0.58%.

17. It is proposed to use part of the above surplus budget to finance increased Capital programme costs (£0.410m) with the remainder to be used to offset minor operational budget variations (£0.049m), increase the amount set aside for debt repayment (£0.303m) and increase the contributions to reserves (£0.800m).
18. The 2012/13 budget for the HRA anticipates a contribution to the Sheltered Housing Re-Provision reserve of £2.750m. The analysis above shows that a contribution to reserves of £3.550m will be possible.
19. 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 against the need to repay debt. Until this has been undertaken a final use for this additional revenue is still to be determined.
20. The year end forecast outturn position is £0.410m higher than budget for the HRA Capital Programme (£0.000m in June). This is due to increased demand for disabled adaptations to Council properties.
21. 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.
22. 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.

Detailed Commentary

23. 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

24. 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 the Capital Programme update below.

25. 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.
26. 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.
27. Proposals to confirm the use of the funds set aside will be formulated once the Asset Management Strategy is completed and approved.
28. 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.
29. 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.
30. 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.
31. 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.
32. 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.
33. 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.

Treasury Management

34. 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.
35. 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.
36. 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.
37. 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

38. 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.
39. 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.

Revenue Virement Requests

40. There are currently no proposed virements over £0.100m to report.

Achieving Efficiencies

41. 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.
42. Since 2010 the Council has been using Housemark to provide a benchmarking service.
43. 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.
44. The HRA efficiency programme is on target to be fully achieved in 2012/13.

Reserves position

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

Debt Analysis

46. Total current and former tenant arrears were £0.992m at the end of September (£0.971m June). Current arrears are £0.579m or 2.12% of the annual rent debit of £27.280m (£0.590m or 2.17% June). The figure of 2.12% is a 0.07% adverse variance against a target of 2.05%.
47. Performance on former tenant arrears is 1.52% against a target of 1.00%, leaving a balance of £0.413m (1.40% with a balance of £0.381m June).
48. 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.
49. In the first half of the year £0.038m of tenant arrears were written off as bad debts (£0.034m up to June).

Risks and Upsides

50. There are no risks or upsides to report.

Status of Capital Programme

51. The following table summarises the position as at the end of September.

	Full Year Forecast Variance		
	Budget £'000	Forecast £'000	Variance £'000
General Enhancements	250	250	0
Garage Refurbishment	50	50	0
Paths & Fences Siteworks	60	60	0
Estate Improvements	250	250	0
Energy Conservation	250	250	0
Roof Replacement	240	325	85
Central Heating Installation	1,050	1,050	0
Rewiring	340	340	0
Kitchens and Bathrooms	1,100	1,100	0
Central Heating Communal	176	176	0
Secure Door Entry	350	350	0
Structural Repairs	150	150	0
Aids & Adaptations	450	870	420
Capitalised Salaries	343	343	0
Asbestos Management	58	128	70
Stock Remodelling	450	450	0
Drainage and Water Supply	175	10	(165)
Plasticisation	400	400	0
TOTAL	6,142	6,552	410

52. 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.
53. 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.
54. 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.
55. This is offset by savings in the Drainage and Water Supply programme, partially due to changes in legislation regarding responsibility for waste drains.

56. Demand for disabled adaptations for Council tenants has exceeded the profiled budget. In the first half of the year 58 Disabled Facility Grants (DFG) have been completed. It is now anticipated that the outturn will be £0.870m (on budget in June) against a budget of £0.450m.
57. 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.
58. 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.
59. 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).

Appendices: None

Background papers: None