Meeting:	**Social Care, Health and Housing Overview and Scrutiny Committee**
Date:	**29 April 2013**
Subject:	**Quarter 3 Housing Revenue Account Revenue and Capital Report 2012/13**
Report of:	**Councillor Carole Hegley, Executive Member for Social Care, Health and Housing and Councillor Maurice Jones, Deputy Leader and Executive Member for Corporate Resources**
Summary:	The report provides information on the Housing Revenue Account revenue and capital position as at Quarter 3 and the forecast outturn position for 2012/13.

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. Not applicable

Risk Management:

3. Not applicable

Staffing (including Trades Unions):

4. Not applicable

Equalities/Human Rights:

5. Not applicable

Public Health:

6. Not applicable

Community Safety:

7. Not applicable

Sustainability:

8. Not applicable

Procurement:

9. Not applicable

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

Introduction

11. The report sets out the financial position to the end of December 2012.

Executive Summary

12. The change brought about by the new self-financing regime 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).

13. Within the operational aspect of the landlord business there are three key positive revenue budget monitoring variances for the HRA as at the end of December 2012 that generate a surplus budget of £1.9m. These relate to a higher predicted amount of income from rents (£0.838m), lower interest costs from the self financing debt (£0.762m), and reduced maintenance costs (£0.291m).

14. It is proposed to use the above surplus to finance increased Capital Programme costs as a result of increased demand for Disabled Facility Grants (£0.410m), increase the amount set aside for debt repayment (£0.705m) and finally increase the contribution to the Sheltered Housing Re-provision reserve (£0.800m).

15. The 2012/13 budget for the HRA anticipated 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.

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

BACKGROUND

19. 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.

20. The debt structure chosen has given the Council the flexibility to balance asset management and regeneration priorities against the need to make debt repayments.

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 full portfolio of self financing loans has been taken on a maturity (interest only) basis, with approximately a quarter of the loans (£44.995m) at a variable rate of interest.

23. 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.

24. 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.

25. 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. 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.

26. 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.

27. 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.

28. It is proposed 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, for example the Dukeminster site.

29. 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.

30. 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.

REVENUE COMMENTARY

31. The HRA annual expenditure budget is £22.670m and income budget is £25.420m, allowing 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)**	**(19.065)**	**(19.557)**	**(0.492)**	**(26.258)**	**(0.838)**
Housing Management	4.255	3.191	3.016	(0.175)	4.201	(0.054)
Asset Management	0.864	0.648	0.736	0.088	0.918	0.054
Corporate Resources	1.272	0.954	0.990	0.036	1.298	0.026
Maintenance	4.681	3.511	3.216	(0.295)	4.390	(0.291)
Debt related costs	0.169	0.127	0.062	(0.065)	0.119	(0.050)
RCCO*	5.942	4.457	4.764	0.307	6.352	0.410
Efficiency Programme	(0.400)	(0.300)	(0.300)	0	(0.400)	0
Interest repayment	4.739	3.554	2.944	(0.610)	3.977	(0.762)
Principal repayment / Set aside	1.148	0.861	1.258	0.397	1.853	0.705
TOTAL Expenditure	**22.670**	**17.003**	**16.686**	**(0.317)**	**22.708**	**0.038**
Surplus	(2.750)	(2.062)	(2.871)	(0.809)	(3.550)	(0.800)
Contribution to / (from) reserve	2.750	2.062 ^	2.871	0.809	3.550	0.800
Net Expenditure	**0**	**0**	**0**	**0**	**0**	**0**

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

32. 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 Capital Commentary.

33. As described above in the Executive Summary, the three key forecast variances relate to higher rental income, reduced debt and lower maintenance costs.

34. 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 £0.838m of income is predicted in this

financial year.

35. 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 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 from £4.739m to £3.977m, resulting in a saving of £0.762m.

36. Finally an additional £0.291m is available due to forecast under spend on the maintenance budget. This is the result of the new contracts for repairs and voids being negotiated at a better rate than anticipated in the budget build.

37. It is proposed that the above surplus is utilised to fund the additional costs on the Capital Programme (as set out below) by increasing the revenue contribution funding the capital programme (RCCO) by £0.410m.

38. It will also increase the amount set aside for debt repayment or contribution to reserves (£0.705m) and increase the contribution to the Sheltered Housing Re-provision reserve (£0.800m).

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

EFFICIENCIES

40. 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.

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

42. 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.

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

DEBTORS (Appendix B)

44. Total current and former tenant arrears were £0.993m at the end of December (£0.992 September). Current arrears are £0.613m or 2.24% of the annual rent debit of £27.322m (£0.579m or 2.12% September). The figure of 2.24% is over profile compared with the target for December of 2.16%.

45. Performance on former tenant arrears is 1.39% of the annual rent debit, against a target of 1.00%, leaving a balance of £0.380m (1.52% with a balance of £0.413m September).

46. There are currently £0.149m of arrears (£0.147m in September), which relates to rents at shops owned by the HRA, service charges and ground rent relating to leaseholders who purchased flats via the Right to Buy scheme and property damage relating to existing and former tenants.

47. In the first 9 months of the financial year a total of £0.112m (£0.038m September) of tenant arrears were written off as bad debts.

HRA CAPITAL RECEIPTS

48. New Right to Buy (RtB) discounts and proposals for re-investing the capital receipts came into effect from April 2012, which increase the maximum discount available to tenants from £0.034m to £0.075m.

49. Central Government are keen to incentivise tenants to exercise their Right to Buy, as it is the intention to replace each property sold in this way with a new build property.

50. The self-financing settlement was based on the average amount of RtB sales in the 4 preceding financial years, and therefore did not take into account the changes to discounts. For Central Bedfordshire this amounted to an average of 6 sales per annum.

51. Government have altered the Housing Pooling regulations to compensate Local Authorities for this change, so that the proportion of debt attributable to those properties sold by RtB is deducted from the sale receipt prior to the calculation of the amount to be transferred (or “pooled”) to Central Government.

52. The calculation of pooling takes into account the receipts for the Council and Government as modelled into the self-financing calculations. The residual (or “surplus”) receipt is retained by the Council, under the strict condition that the Council facilitates new build on a one for one basis for each property sold.

53. For the additional properties sold as a result of increased discounts there is a resultant loss of rental income, which affects the 30 year cash flows in the HRA Business Plan. However there will also be a reduction in expenditure on each of these properties, which will vary depending upon the archetype and condition of each property. In the majority of cases, each property will add a financial value to the Business Plan so there is a loss experienced as a result of the extra RtB sales. The surplus receipt will mitigate this loss.

54. Up to the end of December 2012, 12 properties have been sold compared to 7 in the entire financial year 2011/12, resulting in capital receipts of £0.532m. The majority of this receipt occurred in the third quarter (10 sales).

55. £0.128m of this income relates to receipts modelled in the self-financing calculations, and will be used to finance the existing HRA Capital programme. This leaves £0.404m of receipts received as a result of the higher level of sales achieved following the changes to RtB discounts.

56. The sum of £0.404m is comprised of £0.288m that is a compensation for the debt attributable to the extra properties sold, and reflects the loss to the HRA of disposing of these properties. Whilst this amount is calculated as a proportion of self-financing debt there is no requirement to make debt repayment from it.

57. The remainder of £0.116m represents the proportion that is reserved for investment in new build. The Council has entered into an agreement with the Secretary of State to invest these receipts in new build.

58. The retained receipt can represent no more than 30% of the cost of the replacement properties, so the Council is committed to spend at least £0.386m on new build by 31 December 2015.

59. The HRA’s Budget proposals for the period of the Medium Term Financial Plan (MTFP) propose significant investment in new build (in excess of £12.000m by 31 March 2015) so the commitment above is very likely to be fulfilled.

60. There have been 55 RtB applications up to December (compared to 11 in the entire year 2011/12), but it is impossible to know how many of these will convert to sales by the year end. However it is quite likely that the total number of sales could be 20-25, resulting in a surplus of potentially £0.800m.

61. This surplus will further enhance the resources available for the HRA's capital programme.

62. Careful monitoring of RtB sales will be required. Current projections suggest that these will not have a material impact on the Business Plan, particularly if the number of new build properties exceeds the properties sold. However if annual RtB sales were to make up a significant percentage of the Housing Stock , such that it diminished by 10% or more over the period to 31 March 2017, then this would pose a threat to the surpluses predicted both in the medium to longer term.

CAPITAL COMMENTARY (Appendix C)

63. 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.

64. 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.

65. 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.

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

67. Demand for disabled adaptations for Council tenants has exceeded the profiled budget. In the first three quarters of the year 90 Disabled Facility Grants have been completed in Council properties (58 September). It is now anticipated that the outturn will be £0.870m (£0.870m in September) against a budget of £0.450m.

68. It is proposed to finance this spend from funding that has been set aside in the business plan for debt repayment.

69. A review is currently under way 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.

70. 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)

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

RISKS AND UPSIDES

72. There are no risks or upsides to report.

CONCLUSIONS

73. Work has concluded on the Asset Management Strategy, which is now under consultation.

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

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

Appendices:

None

Background Papers:

None