Meeting:	**Corporate Resources Overview and Scrutiny Committee**
Date:	**30 April 2013**
Subject:	**Q3 Housing Revenue Account 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 (HRA) revenue and capital position as at Q3 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:

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

The Revenue forecast position is to achieve a balanced budget with a contribution to HRA Reserves of £3.550m, thus strengthening the Council's ability to invest and improve its stock of Council Houses.

The Capital forecast position indicates that expenditure will be £0.410m higher than the budget. This is due to a higher projected spend to adapt homes to meet the needs of disabled council tenants.

Introduction

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

EXECUTIVE SUMMARY:

12 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 and 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).

13 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).

14 The 2012/13 budget for the HRA anticipates a contribution to the Sheltered Housing Re-Provision reserve of £2.750m. The analysis above would enable a contribution to this reserve of £3.550m.

HRA REVENUE ACCOUNT

15 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.

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	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)
Revenue Contribution to Capital Outlay (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)	2.750	2.062	2.871	0.809	3.550	0.800

reserve (actioned at year end)		^				
Net Expenditure	**0**	**0**	**0**	**0**	**0**	**0**
* RCCO represents funding from the HRA revenue to capital spend. ^ Included for balancing and illustrative purposes only						

17 There are a number of year to date variances across the HRA. Proposed increased revenue contributions to fund the Capital programme of £0.307m and principal repayments/set aside £0.397m have been offset by lower maintenance and management costs of £0.470m, reduced interest costs £0.610m and increased income of £0.492m. This would still enable a year to date contribution to reserves of £0.809m, which is used as a balancing figure at this time.

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

19 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.

20. In respect of the debt costs, a 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%.

21. 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.

22. 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.

23. 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.

24 It will also increase the amount set aside for debt repayment (£0.705m) and

finally increase the contribution to the Sheltered Housing Re-provision reserve (£0.800m).

HRA EFFICIENCY PROGRAMME

25. 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.

26. Since 2010 the Housing service has been using Housemark to provide a benchmarking service. The analysis provided has assisted 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.

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

HRA ARREARS

28. Total current and former tenant arrears were £0.993m at the end of December (£1.069m November). Current arrears are £0.613m or 2.24% of the annual rent debit of £27.322m (£0.676m or 2.48% November). The figure of 2.24% is over profile compared with the target for December of 2.16%.

29. 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 (1.44% with a balance of £0.393m in November).

30. In the first 9 months of the financial year a total of £0.112m of tenant arrears were written off as bad debts.

31. There are currently £0.149m of arrears (£0.140m in November), 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.

HRA CAPITAL RECEIPTS

32. 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.

33. 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.

34. 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.

35. 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.

36. 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.

37. 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 nature of construction of the property 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.

38. 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).

39. £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.

40. 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.

41. 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.

42. 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.

43. The HRA’s Budget proposals for the period of the Medium Term Financial Plan (MTFP) propose significant investment in new build (in excess of £12.0m by 31 March 2015) so the commitment above is very likely to be fulfilled.

44. 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.

45. This surplus will further enhance the resources available for the HRA’s capital programme.

46. 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.

HRA CAPITAL PROGRAMME

47. There is a year to date adverse variance of £0.718m (£0.900m in November) for the HRA Capital Programme. This is predominantly due to the profile of works varying from the budget profile by £0.613m (£0.797m in November), for example a greater amount of wooden fascia boards being replaced with plastic boards and central heating installations occurring during the summer months. In addition demand for disabled adaptations at Council properties has exceeded the budget profile by £0.105m (£0.103m in November).

48. It is predicted that the year end outturn for the HRA Capital programme will be £6.552m against a budget of £6.142m.

49. The position for the year end reflects the demand for disabled adaptations for Council tenants and it is anticipated that the forecast will exceed budget. In the first three quarters of the year 90 Disabled Facility Grants have been completed in Council properties. It is now anticipated that the outturn will be £0.870m (£0.870m in November) against a budget of £0.450m.

50. 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.

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

52. As described above it is proposed to finance the programme over spend from the revenue budget surplus by increasing the Revenue Contribution to Capital Outlay (RCCO) by an additional £0.41m to fund the programme.

RESERVES

53. The total reserves available as at April 2012 were £4.105m and the current forecast indicates that an additional £3.550m (£3.550m in November) will be transferred to the Sheltered Housing Re-provision earmarked reserve at the year end, making a total of £7.655m.

Appendices

Appendix A – Net Revenue Position Full Analysis

Appendix B – Debtors

Appendix C – Capital programme

Appendix D – Reserves