Meeting: **Corporate Resources Overview and Scrutiny Committee**

Date: **30 July 2013**

Subject: Q4 Outturn Housing Revenue Account Report 2012/13

Report of: **Councillor Maurice Jones, Deputy Leader and Executive Member for Corporate Resources and Carol Hegley, Executive Member for Social care, Health & Housing.**

Summary: The report provides information on the Housing Revenue Account 2012/13 outturn revenue and capital position.

Advising 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.

RECOMMENDATIONS:

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 25th June 2013.

Executive Summary

11. The report sets out the Housing Revenue Account financial outturn position for 2012/13 revenue and capital..

Explanations for the variances are set out below. This report enables the Committee to consider the overall financial position of the Council.

PURPOSE OF REPORT:

12. The report presents the 2012/13 outturn for the HRA financial position. It sets out spend for the year against the original revenue and capital budgets, and against the revised position presented to February Council as part of the HRA budget report. The report also provides explanations for any variations, and enables the Executive to consider the overall financial position of the HRA.

EXECUTIVE SUMMARY:

13. The 2013/14 HRA budget report and Landlord Service Business Plan was approved by Full Council on 21 February 2013 and presented a revised position for the 2012/13 budget. Whilst the commentary below focuses on the changes to that revised position, it is worth noting that there is a positive variance against the 2012/13 original budget of £8.519m. This was due to savings within operational budgets, increased rental income, decision to finance the capital programme from the negative Capital Finance Requirement (CFR), reductions in interest charges and also to hold off repaying debt until later in the business plan. The table under paragraph 10 sets out these variances.

14. The provisional outturn suggests a transfer to reserves of £11.269m, an adverse variance of £0.479m against the revised forecast position.

15. This variance is accounted for by: adverse variances in Corporate recharges (£0.112m), the final interest calculation on Self Financing debt and interest received from the General Fund (GF) (£0.327m), and debt related costs (£0.056m). There were variances within both Housing Management and Housing Maintenance but these effectively have netted off.

16. Due to the changes in Right to Buy discounts, the Council achieved a higher level of capital receipts (£0.955m against a budget of £0.200m), which has enabled a year end balance of unapplied capital receipts of £0.657m (£0 in budget).

17. The provisional outturn for the Capital programme is £6.650m (original budget £6.142m), a minor adverse variance against the revised budget of £6.552m.

18. The reduction in the predicted revenue surplus has been offset by the additional balance of unapplied capital receipts, leaving a broadly neutral overall impact on the Landlord Services Business Plan.

19. The provisional outturn indicates that the HRA's reserves will be made up of £3.437m in the Major Repairs Reserve, £8.653m in the Sheltered Housing Re-Provision Reserve, £1.284m in the Strategic Reserve, and £2.0m in HRA Balances, making a total of £15.374m.

HRA REVENUE ACCOUNT

20. The original HRA annual expenditure budget was £22.67m and income budget was £25.42m, which allowed a contribution of £2.75m to the Sheltered Housing Re-Provision Reserve (SHRR) to present a net budget of zero. A subjective breakdown of budget, revised position and provisional outturn is shown below.

21.

	2012/13 Original Budget	2012/13 Revised Position (February Council)	2012/13 Provisional Outturn	Variance Provisional Outturn to Original Budget	Variance Provisional Outturn to Revised Budget Position
	£m	£m	£m	£m	£m
Total Income	**(25.420)**	**(26.260)**	**(26.028)**	**(0.608)**	**0.232**
Housing Management	4.255	4.305	3.980	(0.275)	(0.325)
Asset Management	0.864	0.918	0.918	0.054	0
Corporate Resources	1.272	1.298	1.410	0.138	0.112
Maintenance	4.681	4.390	4.699	0.018	0.309
Debt related costs	0.169	0.119	0.175	0.006	0.056
RCCO*	5.942	0	0	(5.942)	0
Efficiency Programme	(0.400)	(0.400)	(0.400)	0	0
Interest repayment	4.739	3.882	3.977	(0.762)	0.095
Principal repayment	1.148	0	0	(1.148)	0
TOTAL Expenditure	**22.670**	**14.512**	**14.759**	**(7.911)**	**0.247**
Surplus	(2.750)	(11.748)	(11.269)	(8.519)	0.479
Contribution to / (from) reserves	2.750	11.748	11.269	8.519	(0.479)
Net Expenditure	**0**	**0**	**0**	**0**	**0**

* Revenue Contribution to Capital Outlay

22. As described above in the Executive Summary, the three key variances relate to higher corporate recharges, interest paid and received, and the final debt related costs.

23. A recharge for the use of corporate resources is made from the GF to the HRA. The calculation is made at the year end so that the true service cost can be applied to the recharge calculation. The proportion chargeable to the HRA has increased, which has resulted in an adverse variance from the revised budget of £0.112m.

24. The final interest paid on Self Financing Debt resulted in an adverse variance of £0.095m.

25. Interest receivable on HRA cash balances was £0.125m less than

projected in the revised position, as a result of very low market rates of interest. Other minor income variances account for a further £0.107m.

26. As a result of one off financing costs relating to the self financing debt settlement there is an adverse variance in debt related costs of £0.056m.

27. A further adverse variance has occurred against the maintenance budget (£0.309m), where the main contractor costs relating to repairs and maintenance were higher than anticipated.

28. This variance has been offset by reduced costs in housing management (£0.325m). This resulted from a positive variance in insurance related costs (£0.053m), utility expenses (£0.079m), furniture and equipment at the Homeless Hostels (£0.022m), lower tenancy sustainment costs (£0.108m), and other minor variances.

HRA EFFICIENCY PROGRAMME

29. 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.

30. 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.

31. The HRA efficiency programme has been fully achieved in 2012/13.

HRA ARREARS

32. Total current and former tenant arrears were £0.907m at the year end (£0.886m in 2011/12). Current arrears are £0.544m or 1.99% of the annual rent debit of £27.300m (£0.571m or 2.28% 2011/12). The figure of 1.99% is a 0.06% positive variance against a target of 2.05%.

33. Performance on former tenant arrears is 1.33% of the annual rent debit, against a target of 1.00%, leaving a balance of £0.363m (1.26% with a balance of £0.315m in 2011/12). A total of £0.128m of tenant arrears were written off in 2012/13.

34. There are currently £0.146m of arrears, 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 PROGRAMME

35. The provisional outturn for the HRA's Capital programme indicates expenditure of £6.65m against a revised budget of £6.552m, and an original budget of £6.142m.

36. The position for the year end reflects the demand for disabled adaptations for Council tenants. In the year 123 Disabled Facility Adaptations have been completed in Council properties. As a result the outturn for Aid and Adaptations is £0.790m against an original budget of £0.450m.

37. During the year savings were identified against the stock remodelling and drainage and water supply programmes, resulting in reduced expenditure of £0.489m. This released further funding for the kitchens and bathrooms programme resulting in additional installations. This has led to an outturn

of £1.6m against an original budget of £1.1m.

38. An over spend of £0.116m occurred in the roof replacement programme, as the roofs identified for replacement in this year's programme involved a higher than average replacement cost.

39. As agreed by Council the programme will be financed predominantly by the use of the HRA's negative CFR (£6.352m) and capital receipts of £0.298m.

HRA CAPITAL RECEIPTS

40. 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.

41. During the financial year 2012/13, 19 properties have been sold compared to 7 in 2011/12, resulting in retained capital receipts of £0.955m.

42. £0.150m of this income relates to receipts modelled in the self-financing calculations, and will contribute to the financing of the HRA Capital programme. This leaves £0.805m of receipts received as a result of the higher level of sales achieved following the changes to RtB discounts.

43. The sum of £0.805m includes £0.025m of transaction cost. £0.490m 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.

44. The remainder of £0.29m 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.

45. 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 £0.967m on new build by 31 March 2016.

46. 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).

47. Of the total retained receipts (£0.955m), £0.298m is earmarked to fund part of the 2012/13 capital programme. The residual amount will create an unapplied capital receipt balance of £0.657m. These funds will further enhance the resources available for the HRA's capital programme.

48. 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 in the medium to longer term.

49. If additional sales continue to represent a small percentage of the Council's stock, there is a significant benefit as retained receipts will provide the Council with additional funds for reinvestment. The balance of unapplied capital receipts in 2012/13 (£0.657m) is in addition to resources outlined in

the Business Plan presented to Full Council in February 2013.

RESERVES

50. The total reserves available as at April 2012 were £4.105m, comprised of £3.905m in HRA Balances and £0.2m contingency in the Major Repairs Reserve (MRR).

51. Given the changes brought about by the Self Financing regime, an updated risk assessment has been carried out and it has been agreed to reduce HRA Balances to a still prudent level of £2.0m, as a more suitable contingency. This removes the need to maintain a contingency within the MRR.

52. The provisional outturn indicates that £8.653m will now be transferred to the Sheltered Housing Re-provision Reserve comprised of £6.748m from the surplus on the HRA, together with £1.905m transferred from HRA Balances.

53. Technical adjustments are required between the MRR and Capital Adjustment Accounts. As a result of this, a year end transfer of £3.237m to the MRR has occurred leaving a balance of £3.437m.

54. The balance in the MRR can be used to finance capital expenditure or debt repayment, so can be considered to be equivalent to the purpose of the Strategic Reserve.

55. Full Council approved the creation of a Strategic Reserve to support the priorities for regeneration of the Council's portfolio, as set out in the Housing Asset Management Strategy (HAMS). The provisional outturn enables a transfer to the strategic reserve of £1.284m.

56. The combined total of these two reserves will be £4.721m, compared to the projection in the revised position of £5.0m

57. In total this equates to a contribution to reserves for the year of £11.269m, leaving a total balance of reserves of £15.374m.

58. Although the contribution to reserves is £0.479m lower than projected in the revised position, the Landlord Services Business Plan benefits from a balance of unapplied capital receipts of £0.657m that was not anticipated in the revised position.

Appendices

Appendix A – Net Revenue Position Full Analysis

Appendix B – Debtors

Appendix C – Capital programme

Appendix D - Reserves