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

Date: **22 October 2013**

Subject: Q1 Housing Revenue Account (HRA) Budget Monitoring Report 2013/14

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 Q1 Housing Revenue Account projected outturn position for 2013/14 for both revenue and capital.

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 2013/14 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 24th September 2013.

Executive Summary

11. The report sets out the projected financial outturn Housing Revenue Account (HRA) revenue and capital position for 2013/14 as at Quarter 1.

Explanations for the variances are set out in the report below. This report enables the Committee to consider the overall financial position of the Council and agree any further actions to deliver as a minimum a balanced financial year end.

PURPOSE OF REPORT:

11. The report presents the 2013/14 HRA financial position as at the end of June 2013. It sets out spend to date against the profiled revenue and capital budgets, the forecast financial outturn, and provides explanations for any variations. This report enables the Executive to consider the overall financial position of the HRA.

EXECUTIVE SUMMARY:

12. The revenue forecast position as at the end of June 2013 projects a year end surplus of £6.661m compared to a budgeted surplus of £4.805m, an improvement of £1.856m.

13. There are four key positive variances arising from increased income (£0.567m), lower interest costs from the self financing debt (£0.843m), reduced maintenance costs (£0.234m), and reduced contributions to the HRA capital

programme (£0.366m). These are offset by other minor adverse variances that in total amount to £0.154m.

14. The 2013/14 budget for the HRA anticipates a contribution to the Sheltered Housing Re-Provision reserve of £3.912m and a contribution to the Strategic Reserve of £0.893. The analysis above enables a total contribution to reserves of £6.661m.

15. The forecast position for the HRA capital programme indicates an under spend of £1.291m, with an outturn of £9.604m against a budget of £10.895m.

16. Planning approval for the Dukeminster Extra Care facility was granted on 19 June 2013. At that point approval was also granted for preliminary works to be progressed, so that construction works on site could commence by the end of November 2013, subject to the use of a framework order. There is still some uncertainty as to the achievement of this timeframe, but progress will be monitored carefully and reported monthly.

17. On the current timeframe, it is predicted that £3.200m (£4.125m budget) will be spent from the budget set aside for the Dukeminster project, the balance of £0.925m will roll forward into 2014/15. This expenditure will be financed from the Sheltered Housing Re-provision Reserve.

18. The remainder of the capital under spend is as a result of the change in approach to capital investment as set out in the Housing Asset Management Strategy. Any surplus resources will be rolled forward to support future investment plans.

19. As a result, the year end balance in the Sheltered Housing Re-provision Reserve is now predicted to be £10.716m, with £5.919m available in the Strategic Reserve and £2.200m in contingencies. This equates to a predicted total reserve balance of £18.835m.

20. Forecast figures at the end of June are subject to variations as the revenue and capital programmes evolve over the course of the year.

HRA REVENUE ACCOUNT

21. The HRA annual expenditure budget is £22.572m and income budget is £27.377m, which allows a contribution of £4.805m to reserves to present a net budget of zero. A subjective breakdown of budget, year to date position and forecast outturn is shown below.

22.

	2013/14 Budget	Budget YTD	Actual YTD	Variance YTD	Full Year Forecast	Variance Full Year Forecast to Budget
	£m	£m	£m	£m	£m	£m
Total Income	**(27.377)**	**(6.844)**	**(6.915)**	**(0.071)**	**(27.944)**	**(0.567)**
Housing Management	4.152	1.038	0.892	(0.146)	4.191	0.039
Financial Inclusion	0.200	0.050	0.039	(0.011)	0.200	0.000
Asset Management	0.965	0.241	0.235	(0.006)	0.990	0.025
Corporate Resources	1.320	0.330	0.354	0.024	1.410	0.090
Maintenance	4.528	1.132	1.000	(0.132)	4.294	(0.234)
Debt related costs	0.119	0.030	0.000	(0.030)	0.119	0.000
Direct Revenue Financing	6.570	1.643	1.551	(0.092)	6.204	(0.366)
Efficiency Programme	(0.190)	(0.048)	(0.048)	0.000	(0.190)	0.000
Interest repayment	4.908	1.227	0.988	(0.239)	4.065	(0.843)
Principal repayment	0.000	0.000	0.000	0.000	0.000	0.000
TOTAL Expenditure	**22.572**	**5.643**	**5.011**	**(0.632)**	**21.283**	**(1.289)**
Surplus	(4.805)	(1.201)	(1.904)	(0.703)	(6.661)	(1.856)
Contribution to / (from) reserve (actioned at year end)	4.805	1.201	^ 1.904	0.703	6.661	1.856
Net Expenditure	**0**	**0**	**0**	**0**	**0**	**0**
^ Included for balancing and illustrative purposes only						

23. There are a number of year to date variances across the HRA. Total income has a positive variance of £0.071m (adverse £0.159m May) as a result of timing differences in the application of housing benefits to the rental income profit centre.

24. The full year forecast is a positive income variance of £0.567m. The positive income variance is accounted for by increased rental income (£0.682m), offset by reduced investment income (£0.127m), and other minor positive variances (£0.012m).

25. The additional rental income is accounted for by an additional rent charging week in 2013/14. Rent is charged every Monday and in this rent year (1 April 2013 to 31 March 2014) there are 53 Mondays. Due to the infrequent nature of this circumstance, the additional revenue was not built into the original budget.

26. Housing management is reporting a positive year to date variance of £0.146m (£0.066m May). This is due to actual cost being incurred slightly out of budget profile for Stock Condition Survey (£0.064m) and insurance premiums (£0.025m), together with other minor variances. The full year forecast is projecting a minor adverse variance of £0.039m, reflecting a slight increase in the staffing costs.

27. Corporate recharges are forecast to outturn at £1.410m, an adverse variance of £0.090m. This reflects the outturn position from 2012/13, although the final recharge for 2013/14 will not be known until the year end calculation is undertaken.

28. The Maintenance budget has a minor year to date positive variance of £0.132m (£0.232m May). The full year forecast is projecting savings of £0.234m. This is primarily due to the re-scheduling of external decorations (£0.127m), the efficient approach taken in managing void properties within the existing budget and a reduction in average void periods (£0.100m).

29. In respect of the debt costs, a saving of £0.843m is projected due to lower than budgeted interest costs. The average interest rate expected to be achieved on the Council's self-financing debt for 2013/14 is 2.46%, as opposed to 2.97% in the budget build.

30. The lower average rate is a result of the Council's decision to take approximately a quarter of the self-financing debt on a variable rate, currently at 0.55%. 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 March 2013. This rate rose from 0.54% to 0.55% and will not change again until the end of September 2013.

31. The forecast for the year is that an average variable interest rate of 0.78% is achieved. This is based on a forecast interest rate on the variable debt of 1.00% in September. The uncertain nature of variable rates require a cautious approach when setting the budget, therefore variances in this area are likely.

32. The forecast revenue position for the financial year would allow a total transfer to reserves of £6.661m, an additional amount of £1.856m compared to the original budget.

HRA EFFICIENCY PROGRAMME

33. 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.

34. The HRA revenue budget for 2013/14 was reduced by £0.190m, as part of the Council's efficiency programme. This efficiency is being delivered through efficiencies in staffing, reduced void periods, increased rental income and reduced repairs costs.

35. The HRA efficiency programme is on target to be fully achieved in 2013/14.

HRA ARREARS

36. Total current and former tenant arrears were £0.997m at the end of June (£0.971m at June 2012). Current tenant arrears are £0.651m or 2.27% of the annual rent debit of £28.626m (£0.590m or 2.17% at June 2012). A total of £0.053m of HRA rent arrears debt was written off to June 2013.

37. An analysis of rent collection data from the Housing QL system has commenced, with a view to determining the impact of welfare reform on arrears. Once this is completed it will be possible to create a realistic profile of projected rent arrears throughout the rent year, so that the percentage figure referred to above can be cross referenced to a profiled target. Currently 57% of rental income is received from housing benefit payments.

38. Performance on former tenant arrears is 1.21% of the annual rent debit against a target of 1.00%, leaving a balance of £0.346m (1.40% with a balance of £0.381m at June 2012).

39. There are currently £0.138m of arrears (£0.164m May), which is comprised of the following: 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

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

41. Up to the end of June 2013, 4 properties have been sold compared to 19 in the entire financial year 2012/13.

42. The first housing pooling return is due at the end of July, at which point it will be possible to ascertain how much of the receipt may be retained.

43. As a result of the changes to housing pooling the council has a bought forward balance of useable capital receipts of £0.657m, of which £0.290m 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. The use of these receipts

is restricted to schemes that do not receive Homes and Communities Agency (HCA) funding.

44. 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 £0.968m on new build by 31 March 2016.

45. The HRA's Budget proposals for the period of the Medium Term Financial Plan (MTFP) propose significant investment in new build (in excess of £16.0m by 31 March 2016) so the commitment above is very likely to be fulfilled.

46. There have been 11 RtB applications up to June. This compares to a total of 55 applications in 2012/13, some of which could progress to sales in this financial year. It is quite likely that the total number of sales could be 20-25 for the year, resulting in a residual receipt of potentially £0.800m.

47. 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 both in the medium to longer term.

HRA CAPITAL PROGRAMME

49. There is a year to date positive variance of £0.120m for the HRA Capital Programme, with a forecast year end outturn of £9.604m against a budget of £10.895m.

50. The year to date position for the HRA Capital Programme reflects the implementation of the Housing Asset Management Strategy, which incorporates a greater element of repair led programmes as opposed to pre-planned improvements.

51. The Central Heating and Kitchens and Bathrooms programmes have a reduced forecast outturn due to a change in the timing of programme delivery as recommended by the Stock Condition Survey. The Roof Replacement and Drainage and Water Supply programmes are also forecast to have a reduced outturn, due to the move towards more repair led improvement works in these areas.

52. Stock Remodelling has a year to date adverse variance of £0.085m and a year end outturn predicted at £0.859m, an adverse variance of £0.401m. The increase in spend in this area reflects the priorities of the Housing Asset Management Strategy for remodelling and regeneration of the housing stock.

53. Capitalised salaries has a year to date overspend against profile of £0.035m. This is due to the profile of Capitalised Salaries being in line with the rest of the capital

programme, where there is usually a slow start at the beginning of the year. Salary costs are capitalised on an identical profile of twelfths during the year. The variance will level out as the year progresses and the year end outturn is expected to be on budget.

54. A year end under spend of £1.291m is anticipated for the HRA Capital programme, most of which relates to lower than budgeted spend on the Dukeminster project, which is likely to materialise towards the year end although there is still uncertainty as to the timing of the initial construction phase. At the current time it is predicted that £3.200m will be spent on Dukeminster from the Sheltered Housing Re-provision reserve, although the balance of £0.925m will be rolled forward in to 2014/15.

RESERVES

55. The total reserves available as at year end 2012/13 were £15.374m, comprised of £2.000m in HRA Balances, £8.653m for Sheltered Housing Re-Provision, £1.284m for Strategic Reserve and £3.437m for Major Repairs Reserve.

56. The current position indicates a year end balance in reserves of £18.835m. HRA Balances are projected to remain at a contingency level of £2.000m, with the Sheltered Housing Re-Provision Reserve increasing to £10.716m, the Strategic reserve increasing to £5.919m, and the Major Repairs Reserve (MRR) reducing to £0.200m.

57. The opening balance in the MRR was comprised of a £0.200m contingency and an amount of £3.237m equivalent to depreciation in 2012/13. Due to the use of the Negative Capital Financing Requirement (CFR) to finance the capital programme in that year, the amount of £3.237m was retained in the MRR.

58. It is anticipated that at the year end 2013/14 this additional amount will contribute to the funding of the capital programme, reducing direct revenue financing by an equivalent amount. This will allow an additional contribution to the Strategic Reserve, so that in total an amount of £4.635m is forecast to be transferred.

59. In total this equates to a forecast contribution to reserves for the year of £6.661m, offset by spend from reserves of £3.200m to enable a net increase of £3.461m.

Appendices

Appendix A – Net Revenue Position Full Analysis

Appendix B – HRA Debtors

Appendix C – HRA Capital Programme

Appendix D – HRA Reserves