Meeting:	**Executive**
Date:	**10 December 2013**
Subject:	**September 2013/14 Housing Revenue Account Budget Monitoring Revenue and Capital Report**
Report of:	**Cllr Carole Hegley, Executive Member for Social Care, Health and Housing and Cllr Maurice Jones, Deputy Leader and Executive Member for Corporate Resources**
Summary:	The report provides information on the 2013/14 Housing Revenue Account (HRA) projected outturn revenue and capital position as at September 2013.

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:	Executive
Key Decision	Yes
Reason for urgency/ exemption from call-in (if appropriate)	Not applicable

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.

Overview and Scrutiny:

10. The September 2013/14 projected outturn Housing Revenue Account (HRA) revenue and capital report will be considered by the Corporate Resources Overview and Scrutiny Committee on 17 December 2013.

RECOMMENDATION:

Executive is asked to approve:-

1. **that the Revenue forecast position is to achieve a balanced budget with a contribution to HRA Reserves of £7.131m, thus strengthening the Council's ability to invest and improve its stock of Council Houses;**
2. **that the Capital forecast position indicates that expenditure will be £2.345m less than the budget. This is due to lower than anticipated expenditure on the Dukeminster project and implementation of Housing Asset Management Strategy; and**
3. **that Right to Buy sales will be monitored for the possible impact on predicted surpluses in the medium to longer term.**

PURPOSE OF REPORT

11. The report presents the 2013/14 HRA financial position as at the end of September 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 CMT to consider the overall financial position of the HRA.

EXECUTIVE SUMMARY

12. The revenue forecast position as at the end of September 2013 projects a year end surplus of £7.131m compared to a budgeted surplus of £4.806m, an improvement of £2.325m.

13. There are four key positive variances arising from increased income (£0.592m), lower interest costs from the self financing debt (£0.940m), reduced maintenance costs (£0.214m), and savings in direct revenue financing of the capital programme (£0.720m). These are offset by other minor adverse variances that in total amount to £0.141m.

14. There are variances within the individual capital projects as a result of the change in approach to capital investment as set out in the Housing Asset Management Strategy (HAMS). This reflects the change in focus from planned maintenance to repairs led maintenance on certain projects.

15. The 2013/14 budget for the HRA anticipates a contribution to the Extra Care Development Reserve of £3.912m and a contribution to the Strategic Reserve of £0.893. The analysis above enables a total forecast contribution to reserves of £7.131m.

16. The forecast position for the HRA capital programme indicates an underspend of £2.345m, with an outturn of £8.550m against a budget of £10.895m.

17. Planning approval for the Dukeminster Extra Care facility was granted in June 2013. At that point approval was also granted for preliminary works to be progressed, so that the site could be cleared in readiness for construction works. The tendering process is currently under way, with 2 companies requesting an extension to the tender deadline. Allowing for this delay it is now anticipated that building work could commence in January 2014, subject to the appointment of a contractor in December 2013.

18. During July it was confirmed that the Council will receive £1.703m of funding towards the Dukeminster project from the Homes and Communities Agency (HCA), following a bidding process. This allocation is dependent on achieving a timescale for the build, which will see completion in the summer or early autumn of 2015.

19. On the current timeframe, it is predicted that £2.500m (£4.125m budget) will be spent from the budget set aside for the Dukeminster project in 2013/14. This expenditure will be financed from the Extra Care Development Reserve.

20. As a result, the year end balance in the Extra Care Development Reserve is now predicted to be £11.416m, with £6.389m available in the Strategic Reserve and £2.200m in contingencies. This equates to a predicted total reserve balance of £20.005m.

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

HRA REVENUE ACCOUNT

22. The HRA annual expenditure budget is £22.572m and income budget is £27.378m, which allows a contribution of £4.806m to reserves to present a net budget of zero. A subjective breakdown of budget, year to date position and forecast outturn is shown below.

23.

	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	**(27.378)**	**(13.689)**	**(13.773)**	**(0.084)**	**(27.970)**	**(0.592)**
Housing Management	4.152	2.076	1.793	**(0.283)**	4.192	**0.040**
Financial Inclusion	0.200	0.100	0.066	**(0.034)**	0.150	**(0.050)**
Asset Management	0.965	0.483	0.473	**(0.010)**	1.026	**0.061**
Corporate Resources	1.320	0.660	0.728	**0.068**	1.410	**0.090**
Maintenance	4.528	2.264	2.247	**(0.017)**	4.314	**(0.214)**
Debt related costs	0.119	0.059	0	**(0.059)**	0.119	**0**
Direct Revenue Financing	6.570	3.285	2.925	**(0.360)**	5.850	**(0.720)**
Efficiency Programme	(0.190)	(0.095)	(0.095)	**0**	(0.190)	**0**
Interest repayment	4.908	2.454	1.987	**(0.467)**	3.968	**(0.940)**
Principal repayment	0	0	0	**0**	0	**0**
TOTAL Expenditure	**22.572**	**11.286**	**10.124**	**(1.162)**	**20.839**	**(1.733)**
Surplus	(4.806)	(2.403)	(3.649)	(1.246)	(7.131)	(2.325)
Contribution to / (from) reserve (actioned at year end)	4.806	2.403	3.649	1.246	7.131	2.325
Net Expenditure	**0**	**0**	**0**	**0**	**0**	**0**
^ Included for balancing and illustrative purposes only						

24. There are a number of year to date variances across the HRA. Total income has a positive variance of £0.084m (positive £0.076m August). A proportion of service charge income is not posted on a monthly basis; once this is taken into account, income is forecast to achieve a full year positive variance of £0.592m. The positive income variance is accounted for by increased rental income (£0.682m), offset by reduced investment income (£0.148m), and other minor positive variances (£0.058m).

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 £0.283m (£0.197m August). This is due to actual cost being incurred slightly out of budget profile for Stock Condition Survey (£0.128m) and insurance premiums (£0.050m), reduced utility costs due to decentralisation (£0.030m) of gas boilers, and other minor variances. The full year forecast is projecting a minor adverse variance of £0.040m, reflecting a slight increase in the staffing costs and an increase in spend on maintaining furniture and equipment at sheltered accommodation.

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 final year end calculation is undertaken.

28. The Maintenance budget has a year to date positive variance of £0.017m (adverse £0.058m August). The full year forecast is projecting savings of £0.214m. As a consequence of the changes initiated by the HAMS, external decorations have been rescheduled from a 5 year to a 7 year cycle. This is forecast to deliver savings of £0.037m. In addition further savings are anticipated from a reduction in expenditure on the maintenance of communal central heating systems (£0.033m), a reduction in forecast void costs (£0.070m), and other minor variances. Although savings are forecast in these areas, there is an element of uncertainty due to the unpredictability of responsive maintenance.

29. In respect of the debt costs, a saving of £0.940m is projected due to lower than budgeted interest costs. The average interest rate achieved on the Council's self-financing debt for 2013/14 is 2.40%, 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 0.57%. 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 2013. This rate rose from 0.55% to 0.57% and will not change again until the end of March 2014.

31. Since the variable rate for the second half of the year has been set in September 2013, an average variable rate of 0.56% has been achieved for the year 2013/14 as opposed to the variable debt budgeted rate of 2.65%.

32. The forecast revenue position for the financial year would allow a total transfer to reserves of £7.131m, an additional amount of £2.325m 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 a reduction in spend on financial inclusion, external decorations, communal central heating maintenance and reduced void maintenance 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 £1.064m at the end of September (£0.992m at September 2012). Current tenant arrears are £0.697m or 2.44% of the annual rent debit of £28.772m (£0.579m or 2.12% at September 2012). A total of £0.057m of HRA rent arrears debt was written off to September 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 60% of rental income is received from housing benefit payments.

38. Performance on former tenant arrears is 1.28% of the annual rent debit against a target of 1.00%, leaving a balance of £0.367m (1.52% with a balance of £0.413m at September 2012).

39. There are currently £0.122m of arrears non tenant arrears (£0.147m August), 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.

40. The HRA owns 26 Shops, 10 of which are on a long lease, 14 are on rental agreements, and 2 are vacant and available to let. Arrears from HRA shops are £0.048m (£0.52m August). There is one tenant who has an outstanding debt of £0.023m. Payment of this debt is actively being pursued through solicitors. The average arrears at the other HRA shops is £1,666.

HRA CAPITAL RECEIPTS

41. 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.

42. Up to the end of September 2013, 14 properties have been sold compared to 19 in the entire financial year 2012/13.

43. As a result of the changes to housing pooling the Council has a balance at the end of September of useable capital receipts of £1.615m (balance bought forward from 2012/13 £0.657m), of which £0.731m 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 £2.435m on new build by 30 September 2016.

45. The Dukeminster project has been awarded £1.703m from the HCA, therefore the retained receipts from RtB sales reserved for new build cannot be used on this scheme.

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 £6.0m by 30 September 2016, excluding spend on Dukeminster).

47. There have been 27 RtB applications up to September. This compares to a total of 55 applications in 2012/13. It is quite likely that the total number of sales could be between 25 and 30 for the year, resulting in a residual receipt for the year of potentially £1.500m.

48. These funds will further enhance the resources available for the HRA's capital programme.

49. Careful monitoring of RtB sales will be required. Current projections suggest that these will not have a negative 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% (equivalent to approximately 500 properties) or more over the period to 31 March 2017, then this would pose a threat to the surpluses predicted both in the medium and longer term.

HRA CAPITAL PROGRAMME

50. There is a year to date positive variance of £0.323m (£0.128m in August) for the HRA Capital Programme, with a forecast year end outturn of £8.550m (£8.665m in August) against a budget of £10.895m.

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

52. The Central Heating programme has a reduced forecast outturn due to a change in the timing of programme delivery as recommended by the HAMS. The Roof Replacement, General Enhancements and Drainage and Water Supply programmes are also forecast to have a reduced outturn, due to the move towards more repairs led improvement works in these areas.

53. Stock Remodelling is predicted to outturn at £0.709m, an adverse variance of £0.251m. The increase in spend in this area reflects the priorities of the HAMS for remodelling and regeneration of the housing stock.

54. A Business Case has recently been approved for the transfer of a former Children's Home in Westfield Road, Dunstable, from the Council's General Fund (GF) to the HRA. The property will be converted into 2 two bedroom homes, which will enhance the Council's stock of properties. Refurbishment and conversion costs are anticipated to cost in the region of £0.112m, which will be financed from the Stock Remodelling budget.

55. A year end underspend of £2.345m is anticipated for the HRA Capital programme, £1.625m of which relates to lower than budgeted spend on the Dukeminster project. At the current time it is predicted that £2.500m will be spent on Dukeminster from the Extra Care Development Reserve. It is proposed that the underspend on Dukeminster will be carried forward as slippage to spend in the next financial year.

56. Two of the companies that are tendering for the contract have requested an extension to the tender period. Given the relatively low number of companies that have agreed to tender, a two week extension has been granted to 25 October 2013. The technical and financial evaluation processes, including presentations by shortlisted bidders, will take a further 2 weeks. This allows a proposal to be put to Executive in December. Mobilisation by the successful contractor is likely to be delayed by the Christmas holiday period, so the earliest anticipated commencement of works is now the second week of January.

57. There is a forecast saving on Aids and Adaptations of £0.100m for the year, which is due to the more robust assessment approach taken by Occupational Therapy (OT).

RESERVES

58. The total reserves available as at year end 2012/13 were £15.374m, comprised of £2.000m in HRA Balances, £8.653m in the Extra Care Development Reserve, £1.284m in the Strategic Reserve and £3.437m in the Major Repairs Reserve.

59. The current position indicates a year end balance in reserves of £20.005m. HRA Balances are projected to remain at a contingency level of £2.000m, with the Extra Care Development Reserve increasing to £11.416m, the Strategic reserve increasing to £6.389m, and the Major Repairs Reserve (MRR) reducing to £0.200m.

60. 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 (and not used to finance capital spend).

61. 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 £5.105m is forecast to be transferred.

62. In total this equates to a forecast contribution to reserves for the year of £7.131m, offset by spend from reserves of £2.500m to enable a net increase of £4.631m.

63. An investment strategy is currently being formulated, that will set out proposals for the use of the reserves that are forecast to materialise in the short to medium term. This strategy will be referred to in the HRA Budget Report going before Council in February 2014.

Appendices

Appendix A – Net Revenue Position Full Analysis

Appendix B – Debtors

Appendix C – Capital programme

Appendix D – Reserves