Meeting:	**Executive**
Date:	**18 March 2014**
Subject:	**December 2013/14 (Q3) 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 December 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 2013/14 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 December 2013/14 projected outturn Housing Revenue Account (HRA) revenue and capital report will be considered by the Corporate Resources Overview and Scrutiny Committee on 8 April 2014.

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 £7.282m, thus strengthening the Council's ability to invest and improve its stock of Council Houses;

(2) a year end under spend of £3.120m is anticipated for the HRA Capital programme, £2.125m of which relates to lower than budgeted spend on Priory View. At the current time it is predicted that £2.000m will be spent on Priory View from the Extra Care Development Reserve. It is proposed that the under spend on Priory View will be carried forward as slippage to spend in the next financial year; 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 December 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 December 2013 projects a year end surplus of £7.282m compared to a budgeted surplus of £4.806m, an improvement of £2.476m.

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 (£0.219m), and savings in direct revenue financing of the capital programme (£0.995m). These are offset by an adverse variance in housing management of £0.196m and other minor adverse variances that in total amount to £0.074m.

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 £0.894. The analysis above enables a total forecast contribution to reserves of £7.282m.

16. The forecast position for the HRA capital programme indicates an under spend of £3.120m, with an outturn of £7.775m against a budget of £10.895m.

17. Planning approval for the Priory View Extra Care facility (formerly known as Dukeminster) was granted in June 2013. Following the approval of preliminary works, the site has been cleared and Gailford Try Partnerships have been appointed as the main contractor. Construction work is due to commence shortly.

18. During July it was confirmed that the council has been allocated £1.703m of funding towards the Priory View 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 £2.000m (£4.125m budget) will be spent from the budget set aside for the Priory View project in 2013/14, 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 £11.916m, with £6.540m available in the Strategic Reserve and £2.200m in contingencies. This equates to a predicted total reserve balance of £20.656m.

21. Forecast figures at the end of December 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)	(20.533)	(20.939)	(0.406)	(27.970)	(0.592)
Housing Management	4.152	3.114	2.886	(0.228)	4.348	0.196
Financial Inclusion	0.200	0.150	0.101	(0.049)	0.150	(0.050)
Asset Management	0.965	0.724	0.707	(0.017)	0.999	0.034
Corporate Resources	1.320	0.990	1.080	0.090	1.410	0.090
Maintenance	4.528	3.396	3.270	(0.126)	4.309	(0.219)
Debt related costs	0.119	0.089	0	(0.089)	0.119	0
Direct Revenue Financing	6.570	4.928	4.181	(0.747)	5.575	(0.995)
Efficiency Programme	(0.190)	(0.143)	(0.143)	0	(0.190)	0
Interest repayment	4.908	3.681	2.976	(0.705)	3.968	(0.940)
Principal repayment	0	0	0	0	0	0
TOTAL Expenditure	22.572	16.929	15.058	(1.871)	20.688	(1.884)
Surplus	(4.806)	(3.604)	(5.881)	(2.277)	(7.282)	(2.476)
Contribution to / (from) reserve (actioned at year end)	4.806	3.604	5.881^	2.277	7.282	2.476
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 £0.406m with a full year forecast positive variance of £0.592m expected to be achieved. 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 £0.228m (£0.397m November). This is due to actual cost being incurred slightly out of budget profile for Stock Condition Survey (£0.134m) and district wide management (£0.094m), reduced utility costs due to decentralisation (£0.063m) of gas boilers, and other minor variances.

27. The Housing Management full year forecast is projecting an adverse variance of £0.196m, reflecting a slight increase in the staffing costs and an increase in spend on maintaining furniture and equipment at sheltered accommodation. In addition a spend of £0.050m has been forecast on expenditure on the Electronic Document Records Management System (EDRMS) and additional recharges of £0.090m for insurance premiums.

28. 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.

29. The Maintenance budget has a year to date positive variance of £0.126m (adverse £0.091m November), with full year forecast projecting savings of £0.219m.

30. 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.

31. 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.

32. 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.

33. 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%.

34. The forecast revenue position for the financial year would allow a total transfer to reserves of £7.282m, an additional amount of £2.476m compared to the original budget.

HRA Efficiency Programme

35. 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.

36. 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.

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

HRA Arrears

38. Total current and former tenant arrears were £1.090m at the end of December (£0.993m at December 2012). Current tenant arrears are £0.701m or 2.44% of the annual rent debit of £28.740m (£0.613m or 2.24% at December 2012). A total of £0.059m of HRA rent arrears debt was written off to December 2013

39. 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 from 2014-15, 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.

40. Performance on former tenant arrears is 1.36% of the annual rent debit against a target of 1.00%, leaving a balance of £0.389m (1.39% with a balance of £0.380m at December 2012).

41. There are currently £0.142m of non tenant arrears (£0.121m November), 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.

42. 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 £0.039m (£0.32m November). There is one tenant who has an outstanding debt of £0.023m. Payment of this debt is actively being pursued through solicitors. The average arrear at the other HRA shop shops is £752 (£497 November).

Prompt Payment Indicator

43. The performance target for payment to suppliers, where there is no dispute over the amount invoiced, is 90% of invoices paid within 30 days of invoice receipt date. The HRA Performance for December was that 87% of 208 invoices were paid on time.

HRA Capital Receipts

44. 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.

45. Up to the end of December 2013, 20 properties have been sold compared to 19 in the entire financial year 2012/13.

46. As a result of the changes to housing pooling the council has a balance at the end of December of useable capital receipts of £1.982m (balance bought forward from 2012/13 £0.657m), of which £0.866m 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.

47. 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 £2.887m on new build by 31 December 2016.

48. The Priory View 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.

49. The HRA's Budget proposals for the period of the Medium Term Financial Plan (MTFP) propose significant investment in new build (in excess of £6.000m by 30 September 2016, excluding spend on Priory View).

50. There have been 40 RtB applications up to December. 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.

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

52. 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

53. There is a year to date adverse variance of £0.406m (£0.619m in November) for the HRA Capital Programme, with a forecast year end outturn of £7.775m against a budget of £10.895m.

54. 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, and significant out of profile expenditure on Priory View occurring up to December.

55. The Central Heating programme has a reduced forecast outturn due to a change in the timing of programme delivery as recommended by the HAMS. General Enhancements, Garage Refurbishment, Roof Replacement 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.

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

57. Earlier in the year a Business Case was 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 is being 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.

58. A year end under spend of £3.120m is anticipated for the HRA Capital programme, £2.125m of which relates to lower than budgeted spend on Priory View. At the current time it is predicted that £2.000m will be spent on Priory View from the Extra Care Development Reserve. It is proposed that the under spend on Priory View will be carried forward as slippage to spend in the next financial year.

59. There is a forecast saving on Aids and Adaptations of £0.250m for the year, which is due to the more robust assessment approach taken by Occupational Therapy (OT).

Reserves

60. 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.

61. The current position indicates a year end balance in reserves of £20.656m. HRA Balances are projected to remain at a contingency level of £2.000m, with the Extra Care Development Reserve increasing to £11.916m, the Strategic reserve increasing to £6.540m, and the Major Repairs Reserve (MRR) reducing to £0.200m.

62. 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).

63. 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 £5.256m is forecast to be transferred.

64. In total this equates to a forecast contribution to reserves for the year of £7.282m, offset by spend from reserves of £2.000m to enable a net increase of £5.282m.

65. 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.