
Meeting: Executive
Date: 15 July 2014
Subject: **March 2013/14 Housing Revenue Account Budget Monitoring Provisional Outturn Revenue and Capital Report (Subject to Audit)**
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) provisional outturn revenue and capital position as at March 2014.

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 March 2013/14 provisional outturn Housing Revenue Account (HRA) revenue and capital report will be considered by the Corporate Resources Overview and Scrutiny Committee on 29 July 2014.

RECOMMENDATIONS:**Executive is asked to :-**

- (1) approve the Revenue outturn which is a balanced budget with a contribution to HRA Reserves of £6.958m, thus strengthening the Council's ability to invest and improve its stock of Council Houses;**
- (2) approve the Capital outturn which is £0.103m lower than the revised position approved by Council in February and the deferred capital spend of £2.503m into 2014/15;**
- (3) note that Right to Buy sales increased significantly as a result of changes to discounts, resulting in a year end balance of unapplied capital receipts of £2.346m; and**

(4) note that the net increase in reserves is £5.336m, so that , at the year end, the HRA has £20.710m of reserves available, of which £2.0m is identified as a minimum level of HRA Balances.

PURPOSE OF REPORT

11. The report presents the 2013/14 provisional 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 Executive to consider the overall financial position of the HRA.

EXECUTIVE SUMMARY

12. The 2014/15 HRA budget report and Housing Service Business Plan was approved by Full Council on 20 February 2014 and presented a revised position for the 2013/14 budget. Whilst the commentary below focuses on the changes to that revised position, it is worth noting that there is an improvement of £2.152m in the contribution to reserves against the 2013/14 original budget of £4.806m. This was due to savings within operational budgets, increased rental income, lower interest costs from self financing debt and a reduction in direct revenue financing of the capital programme. The table under paragraph 22 sets out these variances.
13. The provisional outturn suggests a transfer to reserves of £6.958m, an adverse variance of £0.154m against the revised forecast position.
14. This position results from adverse variances in Corporate recharges (£0.197m), lower than anticipated interest income from the General Fund and marginally higher Direct Revenue Financing of the Capital Programme.
15. The adverse variances are offset by lower than anticipated expenditure in Housing Management (£0.161m) and increased income in Asset Management from the recharge of officer time to the traveller sites (£0.048m).
16. Due to the changes in Right to Buy discounts, the Council achieved a higher level of capital receipts (£1.889m against a revised budget of £1.500m), which has enabled a year end balance of unapplied capital receipts of £2.346m.
17. The provisional outturn for the Capital programme is £7.597m (original budget £10.895m), a minor positive variance against the revised budget of £7.700m, primarily due to spend at Priory View in March being less than anticipated (£0.178m).
18. The provisional outturn indicates a year end balance in reserves of £20.710m. HRA Balances will remain at a contingency level of £2.000m, with the Extra Care Development Reserve increasing to £12.116m, the Strategic reserve will increase to £6.394m, and the Major Repairs Reserve (MRR) is reduced to £0.200m.

HRA REVENUE ACCOUNT

19. The original HRA annual expenditure budget was £22.572m and income budget was £27.378m, which allowed a contribution of £4.806m to reserves to present a net budget of zero. A subjective breakdown of budget, revised position and provisional outturn is shown below.
20. As described above, the key variances against the revised position in February relate to higher corporate recharges, reduced expenditure in Housing Management, a slight reduction from the forecast rental income and a marginal increase in Direct Revenue Financing of the capital programme.
21. A recharge for the use of corporate resources is made from the General Fund 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 £0.197m.

22.

	2013/14 Original Budget	2013/14 Revised Position (February Council)	2013/14 Provisional Outturn	Variance Provisional Outturn to Original Budget	Variance Provisional Outturn to Revised Budget Position
	£m	£m	£m	£m	£m
Total Income	(27.378)	(27.825)	(27.722)	(0.344)	0.103
Housing Management	4.152	4.130	3.969	(0.183)	(0.161)
Financial Inclusion	0.200	0.160	0.161	(0.039)	0.001
Asset Management	0.965	0.961	0.913	(0.052)	(0.048)
Corporate Resources	1.320	1.410	1.607	0.287	0.197
Maintenance	4.528	4.418	4.413	(0.115)	(0.005)
Debt related costs	0.119	0.156	0.148	0.029	(0.008)
Direct Revenue Financing	6.570	5.700	5.775	(0.795)	0.075
Efficiency Programme	(0.190)	(0.190)	(0.190)	0	0
Interest repayment	4.908	3.968	3.968	(0.940)	0
Principal repayment	0	0	0	0	0
TOTAL Expenditure	22.572	20.713	20.764	(1.808)	0.051
Surplus	(4.806)	(7.112)	(6.958)	(2.152)	0.154
Contribution to / (from) reserves	4.806	7.112	6.958	2.152	(0.154)
Net Expenditure	0	0	0	0	0

23. Reduced expenditure in Housing Management has resulted in savings of £0.161m against the February position. The savings are primarily due to lower than anticipated spend on the ECM (Electronic Content management) project and lower recharge from the MANOP (Meeting the Accommodation Needs of Older People) team for time spent on HRA related work.

24. Income from rents is marginally lower than anticipated in the revised position in February. The increased income was £0.344m as opposed to £0.447m, a difference of £0.103m on a budget of £27.378m. The slight variation is due to reduced interest income from the General Fund and other minor variances.
25. The outturn in Asset Management indicates a positive variance of £0.048m compared to the February position due to increased recharges to the traveller sites for officer time.

HRA 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.
27. As part of the 2013/14 budget build the HRA revenue budget was reduced by £0.190m as part of the Council's efficiency programme. Despite adverse pressures from welfare reform and a significant increase in void properties, the efficiencies have been exceeded through a reduction in spend on financial inclusion (£0.039m), external decorations (£0.037m), communal central heating maintenance (£0.048m) and a reduction in void repair costs (£0.088m).

HRA ARREARS

28. Total current and former tenant arrears were £0.950m at the year end (£0.907m in 2012/13). Current arrears are £0.565m or 1.97% of the annual rent debit of £28.703m (£0.544m or 1.99% in 2012/13). The figure of 1.97% is a 0.03% positive variance against a target of 2.00%.
29. Performance on former tenant arrears is 1.34% of the annual rent debit, against a target of 1.00%, leaving a balance of £0.384m (1.33% with a balance of £0.363m in 2012/13). A total of £0.064m of tenant arrears were written off in 2013/14 (£0.128m in 2012/13).
30. In light of welfare reform housing management have implemented a pro-active approach to managing the impact on rent arrears. This includes early intervention, downsizing where necessary, increased contact with our residents, supporting tenants in making the right decisions regarding payment of rent and strong enforcement action when all other options have been exhausted.
31. The outturn position for arrears represents a significant achievement when considered in the context of the welfare reform measures which took effect from 1 April 2013. This reflects both the strategic approach described above and the commitment of staff within Housing Management.
32. The outturn position for non tenant arrears is £0.174m (£0.146m 2012/13), which comprises 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.

Debt Analysis - Tenant Arrears Year End 2013/14							
Description of debt	0-4 weeks	4-8 weeks	8-13 weeks	13-52 weeks	Over 1 yr	TOTAL	
	£M	£M	£M	£M	£M	£M	
Current Tenant	0.141	0.144	0.107	0.173	0.000	0.565	
Former Tenant						0.385	
						0.950	
Debt Analysis - Other Arrears							
Description of debt	From 15 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 365 days	Over 1 yr but not over 2 yrs	Over 2 yrs	TOTAL
	£M	£M	£M	£M	£M	£M	£M
Shops	0.025	0.005	0.001	0.002	0.003	0.026	0.062
Leaseholders	0.016	(0.012)	(0.001)	0.012	0.009	0.028	0.052
Void recoveries	0.002	0	0.005	0.016	0.020	0.016	0.059
Misc recoveries	0.001	(0.003)	0.003	(0.003)	0.005	(0.002)	0.001
	0.044	(0.010)	0.008	0.027	0.037	0.068	0.174

HRA CAPITAL PROGRAMME

33. The provisional outturn for the HRA's Capital programme indicates expenditure of £7.597m against a revised budget of £7.700m, and an original budget of £10.895m.
34. The variance in outturn position for the year end, against the revised position at February, reflects the lower than anticipated spend at Priory View during March.
35. The overall position for the year reflects the implementation of HAMS (Housing Asset Management Strategy), which incorporated a greater element of repairs led programmes as opposed to pre-planned improvements. This resulted in significantly reduced expenditure on General Enhancements, Garage Refurbishment, Roof Replacement, Central Heating, Communal Central Heating, Aids and Adaptations and Drainage and Water.
36. The end of year capitalisation of Kitchens and Bathrooms from Void properties has resulted in an increase of £0.075m from the revised position in February. This is primarily due to the significant increase in the number of voids and voids requiring replacement kitchens and bathrooms.
37. The outturn position for Central Heating varies from the February position by an increased spend of £0.050m. This is primarily due to the increased number of KFB (Kitchen Friendly Boiler) failures.
38. The above increases were partially offset by £0.060m as a result of fewer completions in the Aids and Adaptations programme than anticipated in the February budget report.
39. As agreed by Council the programme will be financed by the use of the HRA's Major Repairs Reserve (£6.569m), Direct Revenue Financing (£0.828m), and capital receipts (£0.200m).

Scheme Title	Existing 2013/14 Capital Budget	2013/14 Revised Position (february Council)	2013/14 Provisional Outturn	Variance	Slippage to 2014/15
	Net Expenditure	Net Expenditure	Net Expenditure		Net Expenditure
	£'000	£'000	£'000		£'000
General Enhancements	255	15	21	6	0
Garage Refurbishment	51	0	0	0	0
Paths & Fences siteworks	61	60	60	0	0
Estate Improvements	255	260	264	4	0
Energy Conservation	255	400	399	(1)	0
Roof Replacement	248	50	51	1	0
Central Heating Installation	1,071	861	911	50	0
Rewiring	347	465	462	(3)	0
Kitchens and Bathrooms	1,122	1,194	1,269	75	0
Central Heating communal	180	40	32	(8)	0
Secure door entry	357	335	330	(5)	0
Structural repairs	153	192	213	21	0
Aids and adaptations	887	500	440	(60)	0
Capitalised Salaries	350	350	332	(18)	0
Asbestos management	131	220	221	1	0
Stock Remodelling	458	500	507	7	0
Drainage & Water Supply	181	50	54	4	0
Plasticisation	408	408	409	1	0
Sheltered Housing Reprovision	4,125	1,800	1,622	(178)	(2,503)
HRA	10,895	7,700	7,597	(103)	(2,503)

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. As of the 1 April 2013 there was a bought forward balance of £0.657m in HRA Useable Capital Receipts, of which £0.290m was reserved for investment in new build.
42. During the financial year 2013/14, 30 properties have been sold compared to 19 in 2012/13, resulting in retained capital receipts of £1.889m.
43. £0.183m of this income relates to receipts modelled in the business plan calculations, and will contribute to the financing of the HRA Capital programme. This leaves £1.706m of receipts received as a result of the higher level of sales achieved following the changes to RtB discounts.
44. The sum of £1.706m includes £0.039m of transaction cost. £0.879m 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.
45. The remainder of £0.788m 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.

46. When added to the amount brought forward from 2012/13, there is a total of £1.078m retained for new build. 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 £3.593m on new build by 31 March 2017.
47. The use of these receipts is restricted to schemes that do not receive Homes and Communities Agency (HCA) funding. 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.
48. The HRA's Budget proposals for the period of the Medium Term Financial Plan (MTFP) propose significant investment in new build (in excess of £4.0m by 31 March 2017 excluding spend on Priory View).
49. The net total of retained receipts for the year referred to in the paragraphs above result in a balance of £2.546m. £0.200m is earmarked to fund part of the 2013/14 capital programme, leaving a balance carried forward of £2.346m. These funds will further enhance the resources available for the HRA's capital programme.
50. Current projections suggest RtB sales 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.
51. 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.

RESERVES

52. The total reserves available as at April 2013 were £15.374m, comprising £2.0m in HRA Balances and £8.653m in the Extra Care Development Reserve, £1.284m in the Strategic Reserve and £3.437m in the Major Repairs Reserve.
53. The provisional outturn indicates a year end balance in reserves of £20.710m. HRA Balances will remain at a contingency level of £2.000m, with the Extra Care Development Reserve increasing to £12.116m, the Strategic reserve will increase to £6.394m, and the Major Repairs Reserve (MRR) is reduced to £0.200m.
54. The opening balance in the MRR comprised £0.2m 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).
55. The year end outturn position indicates that this additional amount will contribute to the funding of the capital programme, reducing direct revenue financing by an equivalent amount. This allows an additional contribution to the Strategic Reserve, so that in total an amount of £5.110m is forecast to be transferred.

56. In total this equates to a contribution to reserves for the year of £6.958m, offset by spend from reserves of £1.622m to enable a net increase of £5.336m.
57. 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 was referred to in the HRA Budget Report that was approved by Council in February 2014.

Reserves					
Year End 2013/14					
Description	Opening Balance 2013/14	Spend against reserves	Release of reserves	Proposed transfer to Reserves	Proposed Closing Balance 2013/14
	£000	£000	£000	£000	£000
HRA Balances	2,000				2,000
Extra Care Development Reserve	8,653	(1,622)		5,085	12,116
Strategic Reserve	1,284			5,110	6,394
Major Repairs (HRA)	3,437	(3,237)		-	200
	15,374	(4,859)	-	10,195	20,710

Appendices :

Appendix A1 - Net Revenue Position Full Analysis