
Meeting: Executive
Date: 19 August 2014
Subject: **June 2014/15 (Q1) 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 2014/15 Housing Revenue Account (HRA) projected outturn revenue and capital position as at June 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 2014/15 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 June 2014/15 projected outturn Housing Revenue Account (HRA) revenue and capital report will be considered by the Corporate Resources Overview and Scrutiny Committee on 23 September 2014.

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

- (1) **that the Revenue forecast position is to achieve a balanced budget with a contribution to HRA Reserves of £6.684m, thus strengthening the Council's ability to invest and improve its stock of Council Houses;**
- (2) **that the Capital forecast position indicates an outturn on budget (£17.942m) which includes deferred works from 2013/14 relating to Priory View of £2.325m; 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 2014/15 HRA financial position as at the end of June 2014. 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 June 2014 projects a year end surplus of £6.684m compared to a budgeted surplus of £6.191m, an improvement of £0.493m.
13. The key positive variance is a forecast increase in income of £0.656m, offset by a forecast increased expenditure for Housing Management of £0.178m.
14. The forecast position for the HRA capital programme indicates an outturn position on budget; this includes deferred works on Priory View from 2013/14.
15. Galliford Try Partnerships commenced work on site at the Priory View Extra Care Development in April 2014 with an estimated completion date of Autumn 2015. It is predicted that in 2014/15 £10.575m will be spent, funded from the Extra Care Development Reserve.
16. The 2014/15 budget for the HRA anticipates a contribution to the Extra Care Development Reserve of £5.182m and a contribution to the Strategic Reserve of £1.009m. The year end forecast suggests a contribution to reserves of £6.684m, an improvement of £0.493m. This equates to a predicted total reserve balance of £16.819m as at 31 March 2014.

HRA REVENUE ACCOUNT

17. The HRA annual expenditure budget is £22.389m and income budget is £28.580m, which allows a contribution of £6.191m to reserves to present a net budget of zero. A subjective breakdown of budget, year to date position and forecast outturn is shown in Table 1 below.
18. There are a number of year to date variances across the HRA. Total income has an adverse variance of £0.310m with a full year forecast positive variance of £0.656m expected to be achieved. The negative income variance is due to a rent free week in May and the rent year beginning on the 7th April. The positive outturn forecast variance is predominantly accounted for by reduced void loss (£0.480m forecast against £0.746m in budget) and increased income from the rental of garages (£1.035m forecast against £0.861m in budget).

19. Housing Management is reporting a positive year to date variance of £0.108m. The variance is mostly due to out of profile expenditure within Supported Housing and Telecare, and a small number of staff vacancies following the restructure of the Housing Service. Ultimately it is predicted that a minor year end adverse variance will result from under achievement of the vacancy saving targets.
20. The maintenance budget is experiencing an unexpected pressure of £0.3m. This is due to a number of issues, including increased demand and higher tender rates. Work is being undertaken to understand and address the problem but the pressure may be carried through the year.

Table 1

	2014/15 Budget	Budget YTD	Actual YTD	Variance YTD	Full Year Forecast	Variance Full Year Forecast to Budget
	£m	£m	£m	£m	£m	£m
Total Income	(28.580)	(7.145)	(6.835)	0.310	(29.236)	(0.656)
Housing Management	4.642	1.161	1.053	(0.108)	4.820	0.178
Financial Inclusion	0.220	0.055	0.036	(0.019)	0.220	0
Asset Management	1.045	0.261	0.270	0.009	1.013	(0.032)
Corporate Resources	1.610	0.403	0.365	(0.038)	1.610	0
Maintenance	4.473	1.118	1.418	0.300	4.490	0.017
Debt related costs	0.119	0.030	0	(0.030)	0.119	0
Direct Revenue Financing	6.667	1.667	1.667	0	6.667	0
Efficiency Programme	(0.395)	0	0	0	(0.395)	0
Interest repayment	4.008	1.002	0.993	(0.009)	4.008	0
Principal repayment	0	0	0	0	0	0
TOTAL Expenditure	22.389	5.697	5.802	0.105	22.552	0.163
Surplus	(6.191)	(1.448)	^ (1.033)	0.415	(6.684)	(0.493)
Contribution to / (from) reserve (actioned at year end)	6.191	1.448	1.033	(0.415)	6.684	0.493
Net Expenditure	0	0	0	0	0	0
^ Included for balancing and illustrative purposes only						

HRA CAPITAL PROGRAMME

21. There is a year to date positive variance of £2.818m, with a forecast year end outturn of £17.942m against a budget of £17.942m. The budget includes deferred works of £2.325m from 2013/14 relating to the Priory View development.
22. The Priory View development accounts for £2.314m of the under spend to date. Major construction works are about to commence on site, which will result in a steep increase in monthly expenditure that is anticipated to result in an outturn for the year of £10.575m.
23. Further underspends relating to Kitchens and Bathrooms (£0.126m), Aids and Adaptations (£0.171m), Stock Remodelling and Stock Refurbishment (£0.268m) are due to out of profile spend where programmes for the year are being developed.

Table 2

Scheme Title	2014/15 Capital Budget	Full Year Forecast	Variance	Monthly Budget Monitoring June 2014		
				Profilled Budget YTD	Actual YTD	Variance
				Net Expenditure £'000	Net Expenditure £'000	Net Expenditure £'000
General Enhancements	100	100	0	25	8	(17)
Garage Redurbishment	31	31	0	8	0	(8)
Paths & Fences Siteworks	80	80	0	20	7	(13)
Estate Improvements	250	250	0	63	47	(16)
Energy Conservation	800	800	0	200	162	(38)
Roof Replacement	250	250	0	63	91	29
Central Heating Installation	1,000	1,000	0	250	340	90
Rewiring	372	372	0	93	65	(28)
Kitchens and Bathrooms	1,099	1,099	0	275	149	(126)
Central Heating communal	77	77	0	19	0	(19)
Secure Door Entry	281	281	0	70	103	33
Structural Repairs	156	156	0	39	69	30
Aids and Adaptations	905	905	0	226	55	(171)
Capitalised Salaries	357	357	0	89	95	6
Asbestos Management	150	150	0	38	55	18
Stock Remodelling	1,000	1,000	0	250	84	(166)
Drainage & Water Supply	51	51	0	13	3	(10)
Plasticisation	0	0	0	0	5	5
Sheltered Housing Reprovision	10,575	10,575	0	2,644	330	(2,314)
Stock Refurbishment (NEw)	408	408	0	102	0	(102)
HRA	17,942	17,942	0	4,384	1,668	(2,818)

24. The housing development team is still being recruited and is currently staffed on an interim basis. Both development and regeneration require significant initial investment of time and resources before a pipeline of schemes can be developed. Although work in both of these areas is underway it has been concurrent to the restructuring of the service and operational issues have, and continue to be, addressed.
25. The Garage Strategy continues to be refined with the development potential of the sites being refined. None of the sites are straightforward to develop, having poor access and often services running through them. Architects have been appointed and planning submission programmed for the first build of 4 new homes, a mix of shared ownership and social rent, with completion planned for the summer of 2015.
26. Other sites, primarily garage (and some recently identified infill) sites are being evaluated in detail, following the initial options appraisal. Support is being engaged to lead the buy back of privately owned garages and demolition of some of the Council's empty garages, in preparation for future development.
27. Architects have been appointed to complete designs on refurbishing one sheltered scheme, Croft Green, aiming for submission of planning permission in September 2014. The proposed scheme is supported by existing residents. Briefs are also being prepared for options appraisals to be drawn up for 4 other schemes that offer potential development opportunities, but will need the support of residents.
28. A review is being undertaken of all HRA land for development potential.
29. Amey Construction have been engaged to provide parking options in two areas where parking is particularly difficult. An options appraisal to review potential regeneration sites has been procured, with the initial findings expected in mid November 2014.

HRA 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.
31. The HRA revenue budget for 2014/15 was reduced by £0.395m, as part of the Council's efficiency programme. The Housing Service is working with Housemark, to determine areas where efficiencies can be delivered and to formulate a revised Value for Money Strategy.
32. Whilst the Strategy is being developed it is not possible to identify areas for efficiency, so the efficiency saving has been profiled over the last half of 2014-15.

HRA ARREARS

33. Table 3 shows a breakdown of the HRA Debt position at the end of June. Total tenant debt amounted to £1.047m compared to £1.001m at the end of May 2014. Current tenant arrears are £0.620m or 2.11% (£0.583m or 2.27% at May) of the annual rent debit of £29.311m, whilst former tenant arrears are at 1.46% with a balance of £0.427m against a target of 1% (1.63% with a balance of £0.418m at May). Housing Benefit payments account for 57% of the rental income received.
34. In light of welfare reform housing management have implemented a proactive 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.
35. There are currently £0.103m of non tenant arrears (£0.115m May), 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.

Table 3

Debt Analysis - Tenant Arrears							
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	0.192	0.154	0.129	0.145	0.000	0.620	
Former Tenant						0.427	
						1.047	
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	0.008	0	0	0.003	0.002	0.027	0.040
Leaseholders	(0.002)	0	0	(0.001)	0.010	0.028	0.036
Void recoveries	0	0	0	0.019	0.014	0.011	0.044
Misc recoveries	(0.010)	(0.002)	0	0	(0.003)	(0.002)	(0.017)
	(0.005)	(0.002)	0.000	0.021	0.024	0.064	0.103

PROMPT PAYMENT INDICATOR

36. 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 May was 63% of 225 invoices paid on time. Of the 83 invoices paid late, a significant proportion were of low value, with 29 under £100 and a further 35 under £1,000. 21 of the invoices related to utility bills, where in some cases the delay was caused by a query over the amount of the invoice.

HRA CAPITAL RECEIPTS

37. 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.
38. Up to the end of June 2014, 21 RtB applications were received with 9 properties being sold, compared to 11 Applications and 4 sales over the same period in 2013/14. It is currently projected that the number of RtB sales will be between 25 and 30 for the year, resulting in a residual receipt for the year of approximately £1.5m.
39. As a result of the changes to housing pooling the council has a balance at the end of June of useable capital receipts of £2.887m (balance bought forward from 2013/14 £2.546m), of which £1.253m is reserved for investment in new social housing. The Council has entered into an agreement with the Secretary of State to invest these receipts in new social housing. The use of these receipts is restricted to schemes that do not receive Homes and Communities Agency (HCA) funding.
40. 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 £4.178m on new build by 30 June 2017.
41. 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.
42. The HRA's Budget proposals for the period of the Medium Term Financial Plan (MTFP) propose significant investment in new build (in excess of £5.0m by 30 June 2017, excluding spend on Priory View).
43. 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 2018, then this would pose a threat to the surpluses predicted both in the medium and longer term.

RESERVES

44. The total reserves available as at year end 2013/14 were £20.710m, comprising £2.0m in HRA Balances, £12.116m in the Extra Care Development Reserve, £6.394m in the Strategic Reserve and £0.2m in the Major Repairs Reserve.
45. The current position indicates a year end balance in reserves of £16.819m. HRA Balances are projected to remain at a contingency level of £2.000m, with the Extra Care Development Reserve decreasing to £6.433m, the Strategic reserve increasing to £8.186m, and the Major Repairs Reserve (MRR) remaining at £0.200m.

46. In total this equates to a forecast contribution to reserves for the year of £6.684m, offset by spend from reserves of £10.575m to result in a net decrease of £3.891m.
47. 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.

Table 4

Reserves		Month: June 2014			
Description	Opening Balance 2014/15	Spend against reserves	Release of reserves	Proposed transfer to Reserves	Proposed Closing Balance 2014/15
	£000	£000	£000	£000	£000
HRA Balances	2,000	-	-	-	2,000
Extra Care Development Reserve	12,116	(10,575)	-	4,892	6,433
Strategic Reserve	6,394	-	-	1,792	8,186
Major Repairs (HRA)	200	-	-	-	200
	20,710	(10,575)	-	6,684	16,819

Appendices - Appendix A – HRA Net Revenue Position Full Analysis