

REPORT TO: CABINET

DATE: 13 MARCH 2014

TITLE: HOUSING REVENUE ACCOUNT, QUARTER
3 FINANCE REPORT, 2013/14

PORTFOLIO HOLDER: COUNCILLOR TONY DURCAN

LEAD OFFICERS: CORPORATE MANAGEMENT TEAM

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This is not a Key Decision

This decision is not subject to Call-in procedures for the following reasons:

The recommendations are within the scope of the original budget approved by Full Council in February 2013.

This decision will affect no Ward specifically.

RECOMMENDED that:

- A** The forecast net underspend of £988,000 (as identified in Appendix A) is noted. The HRA budget for 2013/14 totals £52,815,130 (Appendix B) and the under spend therefore represents a variance of 1.87% of the total budget.
- B** The forecast balances at 31 March 2014, of £4,012,000 in respect of the Housing Revenue Account and £3,004,000 in respect of the Major Repairs Reserve (as identified in Appendix C) are noted.

REASON FOR DECISION

- A** To ensure performance against the Council's approved 2013/14 Housing Revenue Account is reviewed.

BACKGROUND

1. Detailed budget monitoring reports are formally reviewed each month and

reported quarterly to Cabinet in order to maintain strong control over the Council's finances.

2. In April 2012 the Housing Revenue Account (HRA) underwent significant changes following the introduction of self-financing. This created a closer link between housing revenue and capital expenditure and income. New rules were also introduced concerning the treatment of depreciation within the HRA and the use of the Major Repairs Reserve (MRR). These changes were brought about by a revision of the CIPFA Code of Practice 2012/13 and the CIPFA Financial Advisory Network paper 'HRA Depreciation, Impairment and Valuation Losses (England)'
3. This report provides an update on the HRA budget and highlights consequential changes to MRR expenditure and income.

ISSUES

4. The net HRA underspend at 31 March 2014 is currently forecast to be £988,000 (represented by a favourable variance of £1.33m for non-operational activity and an adverse variance of £0.342m in respect of operational activities). The short, medium and long-term priorities of the HRA Business Plan are being delivered, and the HRA budget for 2013/14 totals £52,815,130 (see Appendix B).

Operational Variances

5. The operational variance is a £342,000 overspend. This is detailed in Appendix A. The key issues which are driving this variation are:
 - I. Acquiring the necessary specialist asset management skills for investment planning, investment appraisal, and programme and project management to enable the implementation of a five-year investment programme, publish information to tenants, and meet its short term priorities to meet Decent Homes targets by April 2015 (as reported to Cabinet, 26 September 2013).
 - II. Increased costs of £155,000 associated with removal of asbestos which is a statutory requirement.
 - III. The increase in the number of properties sold under Right to Buy has resulted in a cost to the HRA with a net loss of rental income of £96,000. This takes into account a reduction in the number of void properties in 2013/14 where the turnaround rate is 0.71% at end of December 2013 (estimate 0.85%).
 - IV. There is an adverse variance of £330,000 due to a reduction in anticipated repair costs being recharged to leaseholders and the over-recovery of service charge in 2011/12 being a cost to the HRA in 2013/14.

- V. The cost of environmental works for Ward improvements in the Town for which a budget of £110,000 was included in the HRA is expected to underspend by £75,000.
- VI. Additional costs have been offset in large part by savings identified in other areas of the HRA.

Non Operational Variances

- 6. Non-operational variances totalling £1,330,000 have occurred as a direct result of regulatory changes, which were confirmed following approval of the HRA Business Plan, relating to capital expenditure and asset accounting. New regulations were introduced with effect from 2012/13 regarding the recording of depreciation to the HRA. Depreciation is the writing down of the value of an asset over its remaining useful life, with a charge made to the income and expenditure account (i.e. the Housing Revenue Account). With effect from April 2012 Councils have been required to account for a charge for depreciation for non-dwelling assets (garages etc.). These charges are in addition to the statutory transfer, already budgeted, in respect of the depreciation of its houses and flats (dwellings).
- 7. This charge for non-dwellings depreciation, estimated at £6.6m, is made by debiting the HRA and crediting the Major Repairs Reserve. A further transfer of £41,000 is necessary in respect of dwellings depreciation. This means that the charge for depreciation to the HRA / transfer from the HRA to the MRR will rise by £6.641m (from £10.177m to £16.818m).
- 8. The rules require that the MRR balance can be used either to finance the capital programme or to repay housing debt. (The Council does not plan any repayment of debt until March 2026). To mitigate the effect of the additional charge to the HRA (and credit to MRR), no transfer will be made at the year-end between the MRR and HRA. Additionally the capital programme will not be financed directly from the HRA.
- 9. The combined effect of the adverse operational variance or net effect of these transactions will be a reduction in HRA expenditure (increase in HRA balances) of £1,330,000. This is summarised in Appendix A as non-operational variances.

HRA BALANCES 2013/14

- 10. In February 2013 the Council approved HRA Estimates for the current year that anticipated a working balance at 31 March 2014 of £2,611,000, after a transfer of £1,280,000 from the MRR due to an anticipated shortfall of income to the HRA. The working balance at 31 March 2014 is now estimated to be £4,012,000. This increase results from a higher balance than predicted at the end of 2012/13 as reported to Cabinet in July 2013, plus the forecast favourable variance for 2013/14 of £988,000 as reported above.

Details	Original Estimate £000s	Revised* Estimate £000s	Forecast Outturn £000s	Variance £000s
Balance at 1 April 2013	(-)2,555	(-) 2,968	(-)2,968	(-)413
Budgeted Deficit / (Surplus) 2013/14	(-)56	(-) 513	(-)1,044	(-)988
Estimated Balance at 31 March 2014	(-)2,611	(-)3,481	(-)4,012	(-)1,401

* Approved by Council 6 February 2014

MAJOR REPAIRS RESERVE BALANCES 2013/14

11. The Major Repairs Reserve (MRR) is the statutory account which holds the annual depreciation charge on HRA properties. The balance on the MRR can only be used to finance the Housing Capital Programme or for the repayment of debt.
12. In February 2013 the Council approved the HRA Business Plan which had estimated the MRR Balance at 31 March 2014 to be £1,264,000, after a transfer of £1,280,000 to the HRA. The Working Balance at 31 March 2014 is now estimated to be £3,004,000. This is due to the additional transfer to the MRR, outlined above, in paragraphs 7 to 9, offset by additional financing of the Housing Capital Programme (as summarised in Appendix C).

Details	Original Estimate £000s	Revised* Estimate £000s	Forecast Outturn £000s	Variance £000s
Balance at 1 April 2013	(-)2,544	(-)4,424	(-)4,424	(-)1,880
Budgeted Deficit / (Surplus) 2013/14	1,280	2,843	1,420	140
Estimated Balance at 31 March 2014	(-)1,264	(-)1,581	(-)3,004	(-)1,740

* Reported to Cabinet, 30 January 2014

CAPITAL RECEIPTS RESERVE, 2013/14

13. As at 31 March 2013 the Council held £844,000 of housing capital receipts unapplied. These will be utilised in support of the Housing Capital Programme in 2013/14 and will not impact the HRA or MRR.

SIGNIFICANT RISKS / OPPORTUNITIES

14. From April 2012 Councils with a housing stock became responsible for managing their own HRA expenditure and income without support from the Government. Harlow Council developed a 30-year Business Plan in order to

ensure the long-term sustainability of the HRA. The HRA Business Plan is continually updated to ensure that changes do not have a detrimental impact on the business.

15. The following risks have been identified which might affect the HRA Business Plan:

- (i) Rental income.
- (ii) Welfare Reform.
- (iii) Continuing development of a Capital Programme to deliver Decent Homes in partnership with contractors.
- (iv) The increased level of work in the Housing Capital Programme means there is a higher risk of finding and removing asbestos from properties, which in turn may increase removal and compensation costs in revenue.

IMPLICATIONS

Regeneration (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Regeneration**

Finance (Includes ICT)

As contained in the body of the report.

Author: **Simon Freeman, Head of Finance**

Housing

As contained in the body of the report.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)

None specific.

Author: **Lynn Seward, Head of Community Wellbeing**

Governance (includes HR)

None specific.

Author: **Brian Keane, Interim Head of Governance**

Background Papers

CIPFA Code of Practice 2012/13.

CIPFA Financial Advisory Network paper %HRA Depreciation, Impairment and Valuation Losses (England)+

Glossary of terms/abbreviations used

HRA . Housing Revenue Account.

MRR . Major Repairs Reserve.

APPENDIX A

HRA Operational Variances				Main contributing Factors to Variations
Item	Adverse £000's	Favourable £000's	Net £000's	
General Management	133		133	Additional costs of external support.
General Management		(-300)	(-300)	Requirement for removal /home loss payments not required this year. Priority Estates programme deferred until 2014.
General Management		(-69)	(-69)	Additional income from Pooling transactions costs due to increase in RTB sales in year.
Repairs and Maintenance		(-123)	(-123)	Deferred tendered works schemes due to revised specification required from leaseholder consultation and other communal works. Income scheduled to be received in 2014.
Repairs and Maintenance	155		155	Demand increased for statutory requirement to identify, sample, and remove asbestos.
Dwelling Rents	96		96	Increase in estimated Right to Buy sales from 30 to 87 by March 2014. Offset by continued efficiencies identified from the turnaround of empty properties to 0.71% (estimate 0.85%)
Garage Rents	33		33	Forecast level of available to let garages revised for 2013/14 in line with updated garage strategy and improvement plans
Charges for Services and Facilities	330		330	Reduced income expected for 2013/14 apportioned to leaseholders in respect of repairs and service charge adjustment in respect of 2011/12. Income expected in 2014/15 in line with Investment and Procurement plans.
Other minor variances	88		88	
Deficit/ (Surplus) for year	834	(-492)	342	

Non Operational Variances				Main contributing Factors to Variations
Item	Adverse £000's	Favourable £000's	Net £000's	
Major Repairs Reserve	6,641		6,641	Additional depreciation charge to HRA: credited to MRR.
Major Repairs Reserve	1,280		1,280	Removal of financing from MRR to support HRA.
Direct Revenue Financing		(-9,251)	(-9,251)	Net changes in capital receipts/funding of the Housing capital programme.
Deficit/ (Surplus) for year	7,921	(-9,251)	(-1,330)	

HRA Operational variance	£342,000
HRA Non Operational variance	(-)£1,330,000

Total HRA underspend	£988,000
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APPENDIX B

**HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2013/14
PERIOD 9**

	2012/13	2013/14	Projection	Variance
	Actuals	Budget	to Year	to Original
	£		End	£
			£	
EXPENDITURE				
General Management	10,813,197	10,315,230	10,484,499	169,269
Special Management	5,531,269	5,885,300	5,825,110	(-)60,190
Repairs	9,647,817	9,839,250	9,788,887	(-)50,363
Rents Rates Taxes & Other Charges	(-)19,604	53,000	19,961	(-)33,039
Provision for Bad & Doubtful Debts	308,152	360,000	282,070	(-)77,930
Supporting People Transitional Arrangements	10,047	6,000	9,490	3,490
Major Repairs Reserve	16,541,505	10,177,000	16,818,000	6,641,000
Debt Management Expenses	9,386	109,250	21,000	(-)88,250
Interest Charges	6,802,035	6,819,100	6,819,100	0
Direct Revenue Contribution	0	9,251,000	0	(-)9,251,000
	49,643,804	52,815,130	50,068,116	(-)2,747,014
INCOME				
Dwelling Rents	42,500,762	44,843,000	44,747,231	95,769
Garage Rents	2,436,031	2,536,440	2,503,079	33,361
Other Rents	21,568	55,000	25,000	30,000
Charges for Services & Facilities	4,269,507	4,133,030	3,803,361	329,669
Transfer from Major Repairs Reserve	0	1,279,660	0	1,279,660
Interest Receivable	34,795	24,000	34,000	(-)10,000
	49,262,663	52,871,130	51,112,670	1,758,460
Balance in hand at 1 April	3,349,523	2,555,000	2,968,382	413,382
Surplus / (Deficit) for year	(-)381,141	56,000	1,044,554	988,554
Balance in hand at 31 March	2,968,382	2,611,000	4,012,936	1,401,936

Appendix C: Relationship between HRA, MRR and Capital Programme

(+ = expenditure)

	HRA	Major Repairs Reserve	Capital Receipts Unapplied	Total	Housing Capital Programme
	£000	£000	£000	£000	£000
Balance in hand at 1 Apr 2013	(-)2,968	(-)4,424	(-)844	(-)8,236	0
Deficit/(Surplus) for the year (Original Estimate)	(-)56	1,280		1,224	0
	(-)3,024	(-)3,144	(-)844	(-)7,012	0
Carry Forwards (Capital)					2,593
Operational Variances (Appendix A)	342			342	(-)111
Non Operational Variances					
Removal of financing from MRR to support HRA	1,280	(-)1,280		0	
Non Dwellings depreciation charge additional to original estimate	6,600	(-)6,600		0	
Dwellings Depreciation: additional charge	41	(-)41		0	
Remove Direct Revenue Financing of Capital Programme planned in Original Estimate	(-)9,251			(-)9,251	9,251
Non Operational Variances (Appendix A)	(-)1,330	(-)7,921			
Additional support to Capital Programme from MRR (per Capital Programme Report, Table 1)		8,061		8,061	(-)8,061
Additional support to Capital Programme from other sources			844	844	(-)3,672
Balance in hand, 31 Mar 2014	(-)4,012	(-)3,004	0	(-)7,016	0

From 2013/14 Original Estimate					
Balance in hand 1 Apr 2013	(-)2,555	(-)2,544	0	(-)5,099	
Deficit/(Surplus) for the year	(-)56	1,280	0	1,224	
Balance in hand 31 Mar 2014	(-)2,611	(-)1,264	0	(-)3,875	