

REPORT TO: CABINET

DATE: 17 JULY 2014

TITLE: HOUSING REVENUE ACCOUNT OUTTURN REPORT 2013/2014

PORTFOLIO HOLDER: COUNCILLOR ROD TRUAN

LEAD OFFICERS: CORPORATE MANAGEMENT TEAM / HEADS OF SERVICE (01279) 446004

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 budget approved by Full Council in February 2013.

This decision will affect no ward specifically.

RECOMMENDED that:

- A** Cabinet acknowledges the HRA outturn at 2013/14 of an underspend of £654,000 on operational budgets representing a 1.24% variance against the budget (Appendix A). The overall underspend for the year was £1,089,000 including accounting adjustments in respect of the Housing Capital Programme representing a 2.06% variation.
- B** The Housing Revenue Account working balance of £4,113,000 and the Major Repairs Reserve Balance of £2,417,000 at 31 March 2014 be noted.
- C** Cabinet recognises the operational performance that has been achieved across all Council services during 2013/14.

REASON FOR DECISION

- A** To note the outturn against the Council's approved 2013/14 Housing Revenue Account.
- B** To note the outturn against the Council's Major Repairs Reserve (MRR), highlighting its relationship with the Housing Capital Programme.

BACKGROUND

1. Detailed budget monitoring reports are formally reviewed each month by the Council's Corporate Management Team and Heads of Service and reported quarterly to Cabinet in order to maintain strong control over the Council's

financial position.

2. In April 2012, the Housing Revenue Account (HRA) underwent significant changes following the introduction of self-financing. As part of self-financing there is a requirement to monitor the long-term sustainability, the current position, future progress and development of the housing landlord service through a 30 year HRA Business Plan.

SUMMARY

3. The outturn position shows that the Council was able to manage within the resources agreed at Council in February 2013 and was successful in managing costs arising from the provision of the Housing Service.
4. At year end 2013/14 as part of the revenue and capital financing requirements, the overall HRA balance is maintained above the minimum required balance of £2,637,000 and is sustainable in the context of the approved HRA Business Plan.
5. The outturn at 2013/14 shows an underspend of £654,000 on operational budgets (Appendix A). The overall underspend for the year was £1,089,000 including accounting adjustments in respect of the Housing Capital Programme. The movements are detailed below in Appendix C.
6. The Housing Revenue Account (HRA) budget for 2013/14 totalled £52,815,000. The operational underspend at 31 March 2014 represents a 1.24% variance against the budget and a 2.06% variation after adjustments for non operational factors including a direct revenue contribution to the Capital Programme and year end financing changes.

ISSUES

7. The delivery of the modern homes programme required the acquisition of specialist asset management skills through a contract with Savills UK Ltd which includes investment planning, investment appraisal, and programme and project management to enable the implementation of a five year work programme, publish information to tenants and to meet short term priorities to achieve Decent Homes targets by April 2015 (as reported to Cabinet on 26 September 2013).
8. On 31 January 2017 the Joint Venture Contract which supports the Housing Service, providing housing maintenance, street scene and municipal services, comes to an end. As previously reported to Cabinet at its meeting in September 2013 provision was included within the HRA budget to

accommodate costs associated with the re-procurement of these services and as such a reserve of £500,000 has been established. In this report it is shown within the line "General Management".

OPERATIONAL VARIANCES

9. Operational variances in 2013/14 were a favourable £654,000.
10. Savings in employee costs including vacancies totalling £412,000 were made to offset the additional cost of agency and contract staff of £152,000 to ensure the delivery of the modern homes programme.
11. Delays in commencing work to Priority Estates led to underspends on relocation and removal expenses totalling £347,000.
12. The original estimate for Right to Buy sales in 2013/14 was 30 properties, however, actual sales in 2013/14 totalled 86. This increase was due to the Government's Policy on re-invigorating Right to Buy which encouraged tenants to purchase their properties through increased discounts. This increased the income available from the administration of RTB's ((-)£75,000) but reduced total rent receivable by £31,000, including losses from void properties which made up 0.65% of the total rent due.
13. Services to tenants and leaseholders benefitted from lower than expected fuel costs and the introduction of smart meters ensuring more accurate billing for the consumer and a saving to the HRA of £122,000.
14. However, there was a net reduction of £265,000 from services charges due to a reduction in the management and repair and maintenance costs recharged, and the over-recovery of service charges in 2011/12, being a cost to the HRA in 2013/14.
15. There were additional costs of £159,000 relating to asbestos surveys and inspections which are a statutory duty for the Council.
16. In addition to reduced rental income from dwellings, income from garage and other sites reduced by £73,000 in line with the strategy to demolish derelict sites and build affordable dwellings, either managed by the Council or made available to a suitable developer.
17. Overall the savings achieved in cost centres led to reduced central establishment charges to the HRA and an underspend for 2013/14.

NON OPERATIONAL VARIANCES

18. Non-operational variances totalling a favourable £435,000 relate to changes in the Major Repairs Reserve of £1,502,000 and a reduction in the Direct Revenue Contribution to Capital of £1,937,000cr..
19. 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 depreciation for non-dwelling assets (garages etc.) in addition to dwellings. In 2013/14 the total depreciation charge was £10,399,000 which represented £10,218,000 as a statutory amount for dwellings (original estimate £10,177,000) plus a further £181,000 in respect of non dwellings.
20. Ordinarily under these rules, the Council would have expected non dwelling depreciation to be £6,394,000. However, a year end revaluation of garages and other non dwellings meant that depreciation which would usually be chargeable was adjusted. This resulted in an insufficient transfer to the Major Repairs Reserve to fund the Housing Capital Programme.
21. To ensure that the Housing Capital Programme was properly financed, and to ensure that the Major Repairs Reserve retained an adequate balance, the amount that would have otherwise been funded from the Major Repairs Reserve was subject to direct revenue financing from the HRA.
22. Direct Revenue Financing was £7,314,000 (original estimate £9,215,000) representing £6,213,000 as a proxy for non dwellings depreciation plus £1,101,000 for Housing Capital Programme expenditure carried forward, which although unspent in 2013/14 would require capital receipts carried over to meet the expenditure.

MAJOR REPAIRS RESERVE:

23. The Major Repairs Reserve (MRR) is a separate statutory account which is used to ensure adequate resources are set aside (e.g. depreciation) to cover housing capital expenditure. The MRR may also be used to repay housing debt. In the latter incidence Harlow Council has a housing debt of £208.837m, the first repayment of which is scheduled in 2026. Currently therefore the MRRR is used to finance capital expenditure alone.
24. The movement on the Major Repairs Reserve is as follows:
(For further information refer to Appendix C)

MAJOR REPAIRS RESERVE			
Details	Original Estimate £000's	Outturn £000's	Variance £'000s
Balance at 1 April 2013	(-)2,544	(-)4,424	(-)1,880
Transfers in – depreciation (net)	(-)10,177	(-)10,399	(-)222
Capital Spending on Housing Stock met by the Reserve	11,457	12,406	949
Balance at 31 March 2014	(-)1,264	(-)2,417	(-)1,153

HRA WORKING BALANCE

25. The surplus for 2013/14 was £1,145,000 giving a total year-end balance on the account of £4,113,000 (see Appendix B). This represents an increase of £1,502,000 on the original estimate which was approved in February 2013. The table below illustrates the operational variances (detailed above), non operational variances (detailed above), as well the improvement in balances on outturn 2012/13.

HOUSING REVENUE ACCOUNT 2013/14	
	£
Operational underspend in HRA – ref. Appendix A	(-)654,000
Non Operational variances – Appendix B	(-)435,000
Movement/overspend for the year (Appendix B)	(-)1,089,000
Improvement in balance at 31.3.13	(-)413,000
HRA Surplus for the year	(-)1,502,000

HRA WORKING BALANCE			
Details	Original Estimate £000's	Outturn £000's	Variance £000's
Balance at 1/4/13	(-) 2,555	(-) 2,555	0
Surplus 2013/14	(-) 56	(-) 1,145	(-) 1,089
Additional Surplus 2012/13	0	(-) 413	(-) 413
Balance at 31 March 2014	(-) 2,611	(-) 4,113	(-) 1,502

SUMMARY OF BALANCES AS AT 31 MARCH 2014

26. Changes to the regulations under self-financing mean changes in capital financing locally create different balances on the HRA and MRR than originally budgeted. Instead of the minimum working balance of £2,637,000, the HRA shows a balance of £4,113,000 as at 31 March 2014 and in place of the expected credit balance £1,264,000 on the Major Repairs Reserve, there now a credit balance of £2,417,000. For more information see Appendix C and also the HRA Business Plan 2013-2043, paragraph 6.48, pages 28 to 31.

CARRY FORWARDS

27. It is proposed that the following items are carried forward to be spent in 2014/15:
- a. Ward Improvement budget : £55,000
 - b. Redecoration vouchers: £ 3,193
28. In addition the capital programme report shows a requirement to carry forward work to 2014/15 totalling £1,101,000 to meet outstanding commitments. This will be financed from retained capital receipts in 2014/15.
29. The impact of revenue and capital carry forwards on the HRA budget will be reported throughout the year as part of the budget monitoring process.

IMPLICATIONS

Regeneration (includes Sustainability)

None Specific

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

Finance (Includes ICT)

As detailed within the body of the report.

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

Housing

As detailed within the body of the report.

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

Community Wellbeing (includes Equalities and Social Inclusion)

None Specific

Author: **Graham Branchett, Chief Operating Officer**

Governance (includes HR)

None Specific

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

Background Papers

None

Glossary of terms/abbreviations used

HRA - Housing Revenue Account

RTB - Right to Buy

MRR – Major Repairs Reserve

DRC – Direct Revenue Contribution

APPENDIX A

HRA Operational Variances				
Item	Adverse £000's	Favourable £000's	Net £000's	Main contributing Factors to Variations
General Management	222		222	External specialist surveying costs to support delivery of the Modern Works Programme off set by vacancy savings.
General Management		(-)56	(-)56	Garage and Housing allowances.
General Management		(-)347	(-)347	Priority Estates relocation and Tenant removal expenses deferred to 2014/15.
General Management		(-)123	(-)123	Savings on Support Services charged through central establishment charges.
General Management		(-)75	(-)75	Recharge to capital for RTB admin cost of sales 2013/14, actual sales 86 against estimate of 30.
Special Management		(-)122	(-)122	Electricity lighting credits from improved management of meters and lower costs than estimated.
Special Management	4		4	Annual Service Charge variances arising from the renegotiated JVCo contract.
Special Management		(-)82	(-)82	Saving on highway maintenance and feasibility study not required.
Special Management		(-)189	(-)189	Reduced expenditure on Sheltered Services in respect of the non careline costs transferred from GF. Lower HRA GF costs including cost of gas supplied.
Special Management		(-)32	(-)32	Reduced departmental recharges and lower utility costs.
Repairs and Maintenance	107		107	Additional expenditure due to tendered works schemes carried over from 2012/13
Repairs and Maintenance	159		159	Additional asbestos testing expenses due to increased statutory duties.

Repairs and Maintenance		-115	(-115)	Transfers from insurance reserves in respect of asbestos claims.
Dwelling Rents	31		31	Losses due increased Right to Buy sales from 30 to 86 by March 2014 offset by void properties at 0.65% (estimate 0.85%).
Garage Rents	38		38	Reduced garage income in line with updated garage strategy and improvement plans.
Other Rents	35		35	Reduced income pending demolition of derelict properties previously used for temporary accommodation.
Rents, Rates, Taxes and other charges		(-37)	(-37)	Council tax paid on void properties lower than budgeted.
Charges for Services and Facilities	265		265	<i>Income recoverable reduced due to changes in the basis of apportionment in respect of repairs and maintenance and the management fee arising from additional work on RTBs. Savings under the JVCo contract on landscaping reduced income recoverable and lower than estimated utility costs compounded by over recovery of services charges from 2011/12 being a cost to the HRA in 2013/14.</i>
Interest Received (net)		(-19)	(-19)	Additional interest on HRA balances.
Debt Management Expenses		(-97)	(-97)	Anticipated treasury management costs not required.
Provision for Bad Debt		(-77)	(-77)	Reduced provision due to delayed implementation of further welfare reform.
Other		(-145)	(-145)	
Deficit/ (Surplus) for year	639	(-1,293)	(-654)	

Non Operational Variances

Item	Adverse £000's	Favourable £000's	Net £000's	Main contributing Factors to Variations
Major Repairs Reserve (Net Depreciation)	222		222	Adjustment to dwellings depreciation (£6,000) and non dwelling depreciation (£181,000).
Major Repairs Reserve	1,280		1,280	Transfer to HRA not required.
Direct Revenue Financing		(-)1,937	(-)1,937	Net changes to funding of the Housing capital programme.
Deficit/ (Surplus) for year	1,502	(-)1,937	(-)435	

APPENDIX B

HOUSING REVENUE ACCOUNT

	2012/13 Actual £	2013/14 Original £	2013/14 Revised £	2013/14 Actual £	Variences Act - Ori £'000
EXPENDITURE					
General Management	10,813,234	10,315,230	10,939,829	10,111,174	(-)204
Special Management	5,531,269	5,885,300	5,890,292	5,429,272	(-)456
Repairs	9,647,780	9,839,250	9,816,377	9,703,567	(-)136
Rents Rates Taxes & Other Charges	-19,604	53,000	19,961	15,809	(-)37
Provision for Bad & Doubtful Debts	308,152	360,000	200,000	282,921	(-)77
Supporting People Transitional Arrangements	10,047	6,000	9,490	8,978	3
Major Repairs Allowance (Net Depreciation)	16,541,505	10,177,000	16,818,000	10,398,717	222
Interest Charges	6,802,035	6,819,100	6,824,370	6,825,421	6
Debt Management Expenses	9,386	109,250	20,900	12,636	(-)97
Revenue Contribution to Capital Expenditure	0	9,251,000	0	7,313,836	(-)1,937
	49,643,804	52,815,130	50,539,219	50,102,331	(-)2,713
INCOME					
Dwelling Rents	42,500,762	44,843,000	44,745,890	44,811,714	31
Garage Rents	2,436,031	2,536,440	2,489,890	2,498,551	38
Other Rents	21,568	55,000	25,000	20,432	35
Charges for Services & Facilities	4,269,507	4,133,030	3,761,730	3,867,684	265
Transfer from Major Repairs Reserve	0	1,279,660	0	0.00	1,280
Interest Receivable	34,795	24,000	29,000	48,813	(-)25
	49,262,663	52,871,130	51,051,510	51,247,193	1,624
Balance in hand at 1 April	3,349,523	2,555,000	2,968,382	2,968,382	(-)413
Surplus / (Deficit) for year	-381,141	56,000	512,292	1,144,862	(-)1,089
Balance in hand at 31 March	2,968,382	2,611,000	3,480,674	4,113,244	-1,502
<i>Figures based on:</i>					
<i>Housing Stock</i>	No.	No.	No.	No.	
<i>Housing Stock at 1 April</i>	9,823	9,784	9,786	9,786	
<i>Less Disposals</i>	37	30	87	87	
<i>Plus Additions</i>			6	16	
<i>Housing Stock at 31 March</i>	9,786	9,754	9,705	9,715	
<i>Weekly Charges</i>					
<i>Average Rent (per dwelling)</i>	£83.95	£87.45	£87.45	£87.45	
<i>Average Service Charge (per dwelling)</i>	£2.03	£2.08	£1.81	£1.95	
<i>Average Rent (per garage)</i>	£7.96	£8.12	£8.12	£8.12	

Appendix C: Relationship between HRA, MRR and Capital Programme
(+ = expenditure)

March 2014

	HRA	Major Repairs Reserve	Capital Receipts Unapplied 2012/13	Total	Housing Capital Programme
	£000	£000	£000	£000	£000
01/04/2013 Balance in hand (cr is surplus)	-2,968	-4,424	-845	-8,236	0
Deficit/(Surplus) for the year (Original Estimate)	-56	1,280		1,224	0
	-3,024	-3,144	-845	-7,012	0
Carry Forwards (Capital)					2,593
Operational Variances (Appendix A)	-654			-654	-139
Non Operational Variances					
Removal of financing from MRR to support HRA	1,280	-1,280		0	
Non Dwellings depreciation charge additional to original estimate	0	0		0	
Dwellings Depreciation: additional charge	222	-222		0	
Direct Revenue Financing of Capital Programme planned in Original Estimate	-9,251			-9,251	
Actual Direct Revenue Contribution to Financing Capital Programme	7,314			7,314	7,314
	-435	-1,502			
Non Operational Variances (Appendix A)					
Additional support to Capital Programme from MRR (per Capital Programme Report, Table 1)		2,229		2,229	-2,229
Additional support to Capital Programme from other sources			466	466	-7,538
	-4,113	-2,417	-379**	-6,908	0

** see Capital Receipts Reserve below para 14 in the Housing Capital Outturn Report 2013/14

From 2013/14 Original Estimate

01/04/2013	Balance in hand	-2,555	-2,544	0	-5,099
	Deficit/(Surplus) for the year	-56	1,280	0	1,224
31/03/2014	Balance in hand	-2,611	-1,264	0	-3,875