

REPORT TO: CABINET

DATE: 26 MARCH 2015

TITLE: HOUSING REVENUE ACCOUNT BUDGET
MONITORING QUARTER 3, 2014/15

PORTFOLIO HOLDER: COUNCILLOR ROD TRUAN

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 budget which has been approved by Full Council.

This decision will affect no ward specifically.

RECOMMENDED that Cabinet acknowledges the projected outturn position for the third quarter (October – December) of 2014/15 as follows:

- (i) The forecast net underspend of £5,435,000 comprised of operational variances of £749,000 and non-operational variances of £4,686,000 (as set out in Appendix A).
- (ii) The HRA budget for 2014/15 totals £51,383,730 (as set out in Appendix B) and the under spend therefore represents a variance of 10.58% of the total budget, with operational variances being 1.46% and non-operational variances being 9.12% of the total budget.
- (iii) The forecast balances at 31 March 2015, of £10,135,000 in respect of the Housing Revenue Account and nil in respect of the Major Repairs Reserve (as set out in Appendix C).

REASON FOR DECISION

- A** To ensure performance against the Council's approved 2014/15 Housing Revenue Account is reviewed.

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 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.
3. This report provides an update on the HRA budget to the end of December 2014 following revised estimates 2014/15 approved by Cabinet in December 2014. The housing capital programme is reported separately to this meeting.

ISSUES

4. The net HRA underspend at 31 March 2015 is currently forecast to be £5,435,000 (represented by a favourable variance of £0.749m for operational activity and a favourable variance of £4,686m in respect of non-operational activities). The short, medium and long-term priorities of the HRA Business Plan are being delivered, and the HRA budget for 2014/15 totals £51,383,730 (see Appendix B).

Operational Variances

5. The operational variance totals £749,000 underspend. This is detailed in Appendix A. The key issues which are driving this variation are:
 - (i) Acquiring the necessary specialist asset management skills through a contract with Savill's UK Ltd which includes 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 March 2015 (as reported to Cabinet, 26 September 2013). There is currently a variance of (-)£516,000 arising from vacancy savings to support this work offset by £322,000 from temporary staff and consultancy costs.
 - (ii) The vacancy savings have arisen in part due to the difficulty of recruiting staff, in particular surveyors, with the necessary level of expertise.
 - (iii) Rental income from housing stock is (-)£76,000 higher than estimated due to the Council holding more properties at year end and to a lower void rate. The higher stock level is in part due to the delay in demolishing properties as part of the regeneration programme.
 - (iv) Home Loss Payments and Moving Incentives totalling (-)£286,000, to

support the refurbishment of the Priority Estates, will be carried over to 2015/16 in line with the current programme of work. Identification of this carryover is subsequent to the approval of the Business Plan 2014-2044.

(v) There is a net variance of £27,000 from tenant and leasehold service charges due to lower than budgeted income from fuel charges and JVCo based services against an increase in income from recharges to tenants ((-)£42,000). In addition the number of right to buy properties expected in 2014/15 has been revised from 60 to 83.

(vi) Settlement of historical asbestos insurance claims amounting to £98,000 against the Council which will be offset by funding from reserves at year end.

Non-Operational Variances

6. At November 2014 there is a non-operational variance totalling (-)£4,686,000 due to a lower depreciation charge and increased direct revenue contribution, arising from the updated Garage and Hardstand Strategy. The updated Strategy entailed a stock condition survey and a review of the financial viability of all garage sites.
7. The stock condition survey resulted in the impairment to the value of garages by £5.8m which means there is a reduced depreciation charge to the HRA in 2014/15 of (-)£6,168,000. As a consequence in order to support the Housing Capital Programme there is a requirement to make a direct revenue contribution to capital in 2014/15 of £2,439,000, (original estimate £957,000).
8. At 31 March 2014 the balance on the (MRR) was £2,417,000, (original estimate £1,581,000) funding which will support the Housing Capital Programme in 2014/15.
9. 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.

HRA BALANCES 2014/15

10. In February 2014 the Council approved HRA Estimates for the current year that anticipated a Working Balance at 31 March 2015 of £4,126,000, The Operational/Working Balance at 31 March 2015 is now estimated to be £10,135,000. This increase results from a higher balance than predicted of £4,113,000 at the end of 2013/14 as reported to Cabinet on 17 July 2014, plus the forecast favourable variance for 2014/15 of £5,435,000 as a result of the variances reported above.

Details	Original Estimate £000's	Estimate with Carryovers £000's	Forecast Outturn £000's	Variance £'000s
Balance at 1 April 2014	(-)3,481	(-)3,481	(-)4,113	(-)632
Budgeted Deficit / (Surplus) 2014/15	(-)645	(-)587	(-)6,022	(-)5,435
Estimated Balance at 31 March 2015	(-)4,126	(-)4,068	(-)10,135	(-)6,067

MAJOR REPAIRS RESERVE BALANCES 2014/15

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 2014 the Council approved the HRA Business Plan which had estimated the MRR Balance at 31 March 2015 to be nil in the expectation that the full balance of £18,850,000 would be required to support the expenditure in the Housing Capital Programme in 2014/15. At December 2014 the MRR financing for the Housing Capital Programme has been revised down to £11,101,000 following the impairment of the garage stock, with an anticipated nil balance at March 2015, (See Appendix C and the Housing Estimates Report 2015-16).

The actual Working Balance at 31 March 2014 was £2,417,000,

Details	Original Estimate £000's	Forecast Outturn £000's	Variance £'000s
Balance at 1 April 2014	(-)1,581	(-)2,417	(-)836
Depreciation Charge 2014/15	(-)17,269	(-)11,101	6,168
Capital Financing	18,850	13,518	5,332
Estimated Balance at 31 March 2015	0	0	0

CAPITAL RECEIPTS RESERVE, 2014/15

13. As at 31 March 2014 the Council held £2,552,000 of housing capital receipts unapplied. These will be utilised to support the housing capital programme and the Pathfinder scheme to build new council homes in 2014/15 and 2015/16.

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. This 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: **Jane Greer, Interim 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		(-)194	(-)194	Staff vacancy savings.
General Management		(-)286	(-)286	Tenant "home loss" payments for Priority Estates (The Briars, Copshall Close, and Aylets Field) originally scheduled for draw down in Quarter 3 2014/15, now planned for Quarter 1 2015/16.
Repairs and Maintenance		(-)26	(-)26	Efficiencies arising from savings to support minor structural repairs and fencing programme.
Special Management		(-)122	(-)122	Savings on JVCo contract due to reduction in annual uplift.
Special Management		(-)156	(-)156	Lower internal recharges for supporting people/careline work.
Dwelling Rents		(-)76	(-)76	Additional rental income due to efficiencies from the turnaround of empty properties and higher level of housing stock than estimated.
Garage Rents		(-)12	(-)12	Forecast level of available to let garages revised for 2014 in line with updated garage strategy and improvement plans
Charges for Services and Facilities	27		27	Reduction in income from tenant and leaseholder service charges due to lower than budgeted utility price changes.
Rents, Rates, Taxes and Other Charges		(-)27	(-)27	Invoiced Council tax on voids currently less than estimated.
Insurance Appropriation	98		98	Historical asbestos settlement to be funded from reserves
Other minor variances	26		26	
	151	(-)899	(-)749	

Non-Operational Variances				Main contributing Factors to Variations
Item	Adverse £000's	Favourable £000's	Net £000's	
Major Repairs Reserve		(-)6,168	(-)6,168	Change in the MRR contribution for 2014/15
Direct Revenue Financing	1,482		1,482	Net changes in capital funding of the Housing capital programme.
Deficit/ (Surplus) for year	1,482	(-)6,168	(-)4,686	

HRA Operational variance	(-) £749,000
HRA Non-Operational variance	(-)£4,686,000
Total HRA underspend	(-)£5,435,000

APPENDIX B

HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2014/15

PERIOD 9

	2013/14	2014/15	Projection	Variance
	Actuals	Budget*	to Year	to Original
	£		End	£
			£	
<u>EXPENDITURE</u>				
General Management	10,111,174	10,920,385	10,652,310	(-)268,075
Special Management	5,429,272	5,643,179	5,333,281	(-)309,898
Repairs	9,703,567	9,336,196	9,337,434	1,238
Rents Rates Taxes & Other Charges	15,809	46,700	20,000	(-)26,700
Provision for Bad & Doubtful Debts	282,921	360,000	300,000	(-)60,000
Supporting People Transitional Arrangements	8,978	6,000	7,041	1,041
Major Repairs Reserve	10,398,717	17,269,000	11,101,000	(-)6,168,000
Debt Management Expenses	12,636	20,900	13,770	(-)7,130
Interest Charges	6,825,421	6,824,370	6,822,000	(-)2,370
Direct Revenue Contribution	7,313,836	957,000	2,439,000	1,482,000
	50,102,331	51,383,730	46,025,836	(-)5,357,894
<u>INCOME</u>				
Dwelling Rents	44,811,714	45,662,000	45,738,434	(-)76,434
Garage Rents	2,498,551	2,467,340	2,479,246	(-)11,906
Other Rents	20,432	25,000	22,000	3,000
Charges for Services & Facilities	3,867,684	3,794,453	3,767,660	26,793
Interest Receivable	48,813	22,000	40,000	(-)18,000
	51,247,193	51,970,793	52,047,340	(-)76,547
Balance in hand at 1 April	2,968,382	3,480,674	4,113,244	632,570
Surplus / (Deficit) for year	1,144,862	587,063	6,021,504	5,434,441
Balance in hand at 31 March	4,113,244	4,067,737	10,134,748	6,067,011

* 2013/14 carryovers included in 2014/15 budget

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 2014	(-)4,113	(-)2,417	(-)2,552	(-)9,082	0
Deficit/(Surplus) for the year (Original Estimate)	(-)645	1,581		936	0
	(-)4,758	(-)836	(-)2,552	(-)8,146	0
Carry Forwards (Capital)					1,101
Operational Variances (Appendix A)	(-)749			(-)749	-2,837
Non-Operational Variances:					
Reduced DRF 2014/15	1,482			1,482	-1,482
Total Non-Operational Variances (Appendix A)		0			
Difference between depreciation in MRR original to revised estimate		-5,332		-5,332	
HRA Operational Carryovers 2013/14	58			58	
Additional support to Capital Programme from MRR (per Capital Programme Report, Table 1)	-6,168	6,168		-0	-3,218
Net movement in support to Capital Programme			1,443	1,443	
Balance in hand, 31 Mar 2015	(-)10,135	0	(-)1,109	(-)11,244	0

From 2014/15 Original Estimate

Balance in hand 1 Apr 2014	(-)3,481	(-)1,581	(-)2,199	(-)7,261
Deficit/(Surplus) for the year	(-)645	1,581	(-)353	583
Balance in hand 31 Mar 2015	(-)4,126	0	(-)2,552	(-)6,678