

Name of meeting Cabinet
Date 1 July 2014

Title of report: Housing Revenue Account (HRA) - Revenue Outturn 2013-14

| | |
|---|---|
| Is it likely to result in spending or saving of £250k or more, or to have a significant effect on two or more electoral wards? | No |
| Is it in the Council's Forward Plan? | No |
| Is it eligible for "call in" by Scrutiny? | Yes |
| Date signed off by Director of Place Is it signed off by the Director of Resources? It signed off by the Assistant Director of Legal and Governance? | Jacqui Gedman - 18.06.14 David Smith - 17.06.14 Julie Muscroft - 18.06.14 |
| Cabinet Member portfolio | Streetscene & Housing - Councillor Cathy Scott |

Electoral wards affected and ward councillors consulted: All

Public or private: Public

1. Purpose of report

- 1.1 To report on the revenue outturn of the Housing Revenue Account (HRA) for 2013-14 for member information; the second year of operation under self-financing.
- 1.2 To note the year end reserves position for the Housing Revenue Account.
- 1.3 Appendices 1&2 attached set out the summary HRA revenue outturn & reserves position as at year end 2013-14.
- 1.4 Members to note that Council treasury management policy underpinning the capital financing charges (interest and debt repayment) incurred by the HRA in 2013-14, forms part of the wider Council Treasury Management Strategy Report update also on this Cabinet's agenda.
- 1.5 Members to note that the HRA capital outturn position forms part of the wider Council capital plan outturn and rollover update report also on this Cabinet's agenda.

2. Key Points

2.1 Self-Financing

- 2.1.1 Self-financing for HRA's was implemented nationally from 2012-13 onwards. HRA's under self-financing will now have more confidence in being able to forecast what are intended to be more sustainable future annual rental income streams to help with business planning, than would have been the case under the previous national housing subsidy system.
- 2.1.2 Self-financing means the end of HRA subsidy grant. Government also set a fixed 'debt cap' ie a maximum amount that Kirklees HRA can effectively borrow for capital purposes. The fixed debt cap set for Kirklees HRA under self-financing, at the date of implementation was £247m. HRA debt figure (or capital financing requirement) as at 31 March 2014 was £203m; effective borrowing headroom potential of £44m and in accordance with the principles of self-financing, the cost of any borrowing against the headroom is met within the HRA, either through increased rents or cost reductions.
- 2.1.3 The HRA remains a statutory ring-fenced account under self-financing.
- 2.1.4 The HRA revenue outturn position for 2013-14 is set out in the following sections of this report, noting that the overall reported in-year deficit of £428k, (before transfer to balances), is equivalent to just 0.46% variance against an annual HRA turnover of £92.2m. In the context of the HRA business plan, the Council's HRA overall financial position remains positive over the longer term.

2.2 Summary - HRA Outturn 2013-14

- 2.2.1 The HRA outturn as set out in Appendix 1 shows revenue expenditure of £65.7m against revenue income of £91.4m, and interest charges of £10.3m (interest on HRA capital debt net of HRA cashflow interest earned). This has resulted in a net HRA surplus of £15.4m for the year, which is £428k less (£0.4m rounded, or 2.7%) than the budgeted surplus target for the year, which was £15.8m.
- 2.2.2 The key variances that have contributed to the outturn HRA net surplus being £428k less than budgeted, are set out in more detail in sections 2.2 to 2.5 of this Report.
- 2.2.3 The outturn £15.4m net surplus is derived from the fact that under self-financing, all the rental income generated from Kirklees tenants is retained locally, and the intention is that the annual HRA income streams, net of costs, will generate sufficient revenue resources to support capital expenditure needs over the longer term. HRA capital expenditure is funded mainly by a combination of Major Repairs Reserve (see also section 3 below & Appendix 2 attached) and revenue contribution to capital expenditure.
- 2.2.4 The outturn revenue contribution to capital expenditure in 2013-14 was £14.4m, which matches the approved budget. This is drawn down against the £15.4m net surplus, leaving a remaining net surplus for the year of £994k, and this was transferred to HRA balances at year end.

2.3 Key Variances

Repairs and Maintenance: £1.25m overspend (6%)

- 2.3.1 The overspend includes £909k due to an increased volume of responsive repairs and £1,285k empty home repairs, due to increased volume and cost of empty homes. These are offset in part by (£282k) due to capitalisation of environmental and tenant led works, (£300k) from the unplanned works contingency set aside, and (£441k) year end surplus refund from the Council's direct labour organisation, Building Services.
- 2.3.2 The approved HRA budget for 2014-15 had anticipated some of the above trends through in-year monitoring, factoring in an additional £623k budget requirement for empty homes revenue cost pressures.

Housing Management: £2.6m underspend (9%)

- 2.3.3 The underspend is mainly due to Excellent Homes for Life Private Finance Initiative (PFI) at (£1,884k). Budgeted costs (mainly payments to the contractor; capital financing and housing management) assumed a particular profile of PFI units being built and let through the year, compared to the actual profile of units built and let through the year. It is anticipated that from 2014-15 onwards (& as reflected in the approved budget for 2014-15), PFI cost and income streams (including PFI government grant contribution to the HRA to fund the financing costs charged by the contractor) will have achieved an intended break-even position within the overall HRA.
- 2.3.4 Other contributory factors to the overall housing management underspend include District Heating utility costs under budget by (£97k), Grounds Maintenance at (£102k), reduced recharges due to office closures and changes in payment methods (£176k), Central insurance at (£87k) due to a reduction in property liability costs, and a number of minor underspends across other council services bought in.
- 2.3.5 Kirklees Neighbourhood Housing Fee shows an overspend of £161k. In addition to the £13.1m fee paid direct from HRA revenue, there is also a budgeted fee contribution from HRA capital of £1.3m, for staff capitalisation. An in-year review of staff time between revenue and capital resulted in a year end adjustment; additional revenue fee costs of £194k but a corresponding reduction in KNH fee contribution from HRA capital; net neutral budget adjustment overall. This is offset by a number of variances across a number of headings.

Other Expenditure: £921k Overspend (5%)

- 2.3.6 Rents, Rates and Taxes; £365k overspend, largely due to the change in regulations on council tax charges on empty properties. Depreciation underspend of £153k, reflects current stock valuations compared to budget. Bad debt provision is £709k over budget. Bad debt provision requirements are re-evaluated on a regular basis and adjusted to reflect write-offs and current levels of debt. In-year monitoring had previously highlighted increased levels of current and former tenant arrears, and the 2014-15 approved HRA revenue budget increased the budgeted bad debt provision requirement by £557k to £2.2m in line with forecast trends at the time.

Income: £855k deficit (1%)

- 2.3.7 The main contributory factors include rent income less than anticipated by just over £1m (or 1.3%) against budget rental income of £81m; mainly due to void levels being higher than anticipated at £460k, slightly lower actual opening stock than budgeted assumptions by 70, contributing £250k, and other stock earmarked for de-cants at £120k. Elsewhere, £65k was due to slightly higher levels of right to buy properties, at 109 than the 75 assumed in the budget, and a further £85k relating to a revised profile of completed PFI units compared to budget (see also section 2.3.1 earlier).
- 2.3.8 The above was offset by slightly higher income from service and leaseholder charges at (£90k) and small land disposals at (£40k).

3. HRA Reserves

- 3.1 The HRA holds two ring-fenced reserves. General reserves or 'balances' are built up from accumulated surpluses from previous years, plus in-year movements between balances and HRA. These can be applied for both revenue and capital spend.
- 3.2 Major repairs reserve (or MRR) is funded by an annual depreciation charge to HRA, and can only be used to finance capital expenditure or repay debt. General and MRR reserves as at 31 March 2014, plus future year planned commitments against these, are summarised at Appendix 2. Each of the reserves is summarised below.

General Reserves or 'Balances' (see also - Appendix 2)

- 3.3 The closing balance at 31st March 2014 was £33.0m. Planned commitments in future years includes a prudent set aside for potential future business risks impacting on HRA ; mainly in anticipation of the government's proposed national rollout of universal credit which will mean direct payment of benefits to tenants. Earlier pilots with a small number of social landlords suggest that universal credit rollout will have a significant adverse impact on rent collection and associated bad debt provision requirements. The timescale for the national rollout of the universal credit scheme remains uncertain.
- 3.4 Elsewhere, members had previously approved £10m set aside from HRA balances to support Council priorities. To date, £700k of this has been set aside as a funding contribution for £1m capital investment in Care and Specialised Supported Housing Scheme at Denham Court (the balance of £300k to be met from capital receipts) and which fits with one of the wider Council priorities around early intervention and preventive activity for vulnerable adults.
- 3.5 The Council has also committed HRA revenue funding previously to help fund investment in the delivery of increased social housing stock through the Empty Clusters Scheme where town centre commercial properties are converted into 27 social housing units adding to town centre regeneration (£1.7m revenue funding commitment), and in Quality Social Housing for the provision of 9 new social housing units (£1m revenue funding commitment).

- 3.6 The Council is currently updating its general fund budget strategy to inform the 2015-18 Medium Term Financial Plan update, and this is set out in a separate report also on this Cabinet's agenda. The Council has continuing significant funding pressures on the general fund. Options will continue to be explored with members through 2014 regarding the Council's HRA and how it could work alongside and support the Council's review and intended re-shaping of Council general fund services, following a recent Council comprehensive spending review exercise.

Major Repairs Reserve (see also - Appendix 2)

- 3.7 Annual depreciation charges on HRA assets are credited to the Major Repairs Reserve (MRR). The MRR can only be used for capital related items, either new capital investment or repayments of existing capital debt.
- 3.8 The closing balance as at 31 March 2014 was nil, noting that £6.3m of MRR was applied in 2013-14 for debt repayment. The balance of debt outstanding on the HRA was £203m at year end. Kirklees HRA's 'debt cap' or absolute borrowing limit set by central government under self-financing is £247.7m.
- 3.9 The 'headroom' or new borrowing potential as at 31 March 2013 is therefore £44.7m (the difference between the debt cap and the actual debt outstanding). Every £10m of 'new' borrowing up to the debt cap, would cost the HRA an additional £730k per annum in capital debt charges, over an assumed 25 years, and at current market interest rates. The potential to be able to do this would need to be modelled through the HRA business plan in conjunction with other emerging HRA business opportunities, priorities and risks.

Adequacy of Reserves

- 3.10 Both the HRA balances and Major Repairs Reserves as set out in Appendix 2 attached have incorporated the re-profiling of future year commitments in line with the updated HRA capital plan, which is included as part of the Council's 2013-14 capital outturn, rollover and investment plan report, included as a separate item on this Cabinet agenda. For information, HRA capital outturn in 2013-14 was £32.6m against a budget of £35.7m; slippage of £3.1m which will roll forward into future years.
- 3.11 Forecast remaining HRA balances by the end of 2016-17 of £17.3m would be available for longer term revenue or capital investment in line with longer term HRA business plan resource requirement ; in particular the requirement for current housing stock to be maintained at a decency standard over the lifetime of the business plan (30 years).

4. Implications for the Council

- 4.1 Based on the overall HRA revenue and capital outturn positions, and current medium term plans, the HRA business plan maintains a positive longer term outlook, in terms of:

- i) sustaining landlord services to tenants at existing levels of service,

- ii) servicing existing capital debt (including prudent and affordable debt repayment), and
- iii) providing sufficient resources to maintain current housing stock to a decent standard over the longer term.

The HRA business plan will continue to be updated through the remainder of 2014, including exploring options that support future Council priorities; the latter in particular informed by the Council's recent comprehensive review of general fund spend that will inform the forthcoming budget round.

5. Consultees and their opinions

None

6. Officer recommendations and reasons

For members to note the 2013-14 year end HRA revenue outturn and reserves position as set out in this report.

7. Cabinet portfolio holder recommendation

Cllr Scott notes the report and agrees with the officer recommendation.

8. Contact officer and relevant papers

Helen Geldart , Head of Housing, Streetscene & Housing
helen.geldart@kirklees.gov.uk 07976 497659 (short code 04990)

Eamonn Croston, Strategic Council Finance Manager, Finance & Performance
Eamonn.croston@kirklees.gov.uk 07528 252390 (short code 04390)

9. Head of Service Responsible

Kim Brear, Assistant Director, Place Directorate
kim.brear@kirklees.gov.uk 07870 669805 (short code 00651)

| HOUSING REVENUE ACCOUNT | | For the year 1st April 2013 to 31st March 2014 | | | |
|---|--------------------------------------|---|---|--------------------------------------|--|
| | | Year End Position | | | |
| Statement | | | | | |
| | Full Year Budget £000 | Full Year Projection £000 | Variance Under/over £000 | Variance Under/over % | |
| Repairs and Maintenance | | | | | |
| Planned Maintenance | 6,099 | 5,402 | (697) | 11.4 % | |
| Unplanned Works | 14,308 | 16,254 | 1,946 | (13.6)% | |
| sub-total | 20,407 | 21,657 | 1,250 | (6.1)% | |
| Housing Management | | | | | |
| Policy & Management | 10,291 | 8,154 | (2,137) | 20.8 % | |
| Council Services Bought In | 2,816 | 2,182 | (634) | 22.5 % | |
| KNH Fee | 13,142 | 13,303 | 161 | (1.2)% | |
| Special Services (Communal Facilities) | 1,834 | 1,843 | 9 | (0.5)% | |
| sub-total | 28,083 | 25,483 | (2,600) | 9.3 % | |
| Other Expenditure | | | | | |
| Rent, Rates and Taxes | 221 | 587 | 366 | (165.2)% | |
| HRA Share of Corporate & Democratic Core | 369 | 369 | (0) | 0.1 % | |
| Depreciation Charge (trans to MRR) | 15,427 | 15,274 | (153) | 1.0 % | |
| Bad Debt Provision | 1,606 | 2,316 | 709 | (44.2)% | |
| sub-total | 17,624 | 18,545 | 921 | (5.2)% | |
| Total Expenditure | 66,114 | 65,685 | (429) | 0.6 % | |
| Income | | | | | |
| Dwellings Rent Income | (81,094) | (80,068) | 1,026 | 1.3 % | |
| Non-Dwellings Rent Income | (648) | (657) | (8) | (1.3)% | |
| Tenant Charges for Services & Facilities | (1,741) | (1,801) | (60) | (3.5)% | |
| Leaseholder Charges for Services & Facilities | (150) | (180) | (30) | (19.9)% | |
| Private Finance Initiative Grant | (7,912) | (7,912) | 0 | 0.0 % | |
| Contribution From General Fund | (157) | (156) | 1 | 0.6 % | |
| Contribution towards Exp - Rechargeable Repairs | (502) | (534) | (33) | (6.6)% | |
| Land Bank Sales | 0 | (40) | (40) | | |
| Total Income | (92,204) | (91,348) | 856 | 0.9 % | |
| Net Income (before interest charges) | (26,090) | (25,663) | 426 | 1.6 % | |
| Interest | | | | | |
| HRA Share of Interest Payable on Capital Debt | 10,506 | 10,418 | (88) | 0.8 % | |
| HRA Investment Income (includes HRA Balances) | (230) | (140) | 90 | 39.2 % | |
| Total for Interest | 10,276 | 10,278 | 2 | (0.0)% | |
| (Surplus)/Deficit for the year | (15,814) | (15,386) | 428 | 2.7 % | |
| Revenue Contribution to Capital Schemes | 14,392 | 14,392 | (0) | 0.0 % | |
| Transfer to/(from) HRA balances | 1,422 | 994 | (428) | | |
| Total for Housing Revenue Account | (0) | 0 | (0) | | |
| Memo Item : | | | | | |
| (Surplus) / deficit for the year; 428k, as a percentage of annual budgeted HRA turnover (Total Income), of £92.2m : | | | | 0.46% | |

| HRA balances | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|--|-----------------|-----------------|-----------------|-----------------|
| | £000 | £000 | £000 | £000 |
| balances as at 1 April | (32,022) | (33,016) | (16,042) | (10,058) |
| Year end transfer from Income & expenditure account | (994) | | | |
| Planned (MTFP) transfers from Income & expenditure account | | 6,274 | (3,316) | (7,208) |
| Total Reserves available | (33,016) | (26,742) | (19,358) | (17,266) |
| Commitments | | | | |
| Set aside to support Council priorities | | 700 | 9,300 | |
| Set aside for business risks | | 8,500 | | |
| Working Balance | | 1,500 | | |
| total commitments | 0 | 10,700 | 9,300 | 0 |
| | | | | |
| Closing balance | (33,016) | (16,042) | (10,058) | (17,266) |

| HRA Major Repairs Reserve | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|-----------------|-----------------|-----------------|-----------------|
| | £000 | £000 | £000 | £000 |
| Reserves as at 1 April | (8,400) | | 0 | 0 |
| Contribution from HRA (Depreciation charge) | (15,274) | (15,302) | (15,608) | (15,920) |
| Total Reserves available | (23,674) | (15,302) | (15,608) | (15,920) |
| Commitments | | | | |
| Capital debt repayment | 6,259 | 6,749 | 4,173 | 6,259 |
| Capital investment requirement 2013-17 | 17,415 | 8,553 | 11,435 | 9,661 |
| total commitments | 23,674 | 15,302 | 15,608 | 15,920 |
| | | | | |
| Closing balance | 0 | 0 | 0 | 0 |