

CABINET (HOUSING) COMMITTEE - 20 JUNE 2012

THE OVERVIEW AND SCRUTINY COMMITTEE – 9 JULY 2012

HOUSING REVENUE ACCOUNT 2011/12 OUTTURN

REPORT OF HEAD OF HOUSING SERVICES

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RECENT REFERENCES:

CAB2116 - Housing Revenue Account Budget and Rent Setting 2011/12 - 9 February 2011

CAB2193 (HSG) - Housing Revenue Account 2010/11 Outturn – 29 June 2011

CAB2261 (HSG) – Housing Revenue Account – Revised 2011/12 Budget – 6 December 2011

EXECUTIVE SUMMARY:

This report details the outturn for the Housing Revenue Account (HRA) for 2011/12. The final outturn results in a net surplus on the account of £0.668m, against a budgeted net surplus of £0.179m, resulting in a final year end balance of £1.957m (£0.489m more than budgeted). Significant variances are detailed in the report.

The report also recommends carry forwards to address areas of work where funds have been committed but works not yet completed. It also proposes a supplementary estimate to fund additional estate improvement works in Stanmore, funding from the additional surplus generated in 2011/12.

RECOMMENDATIONS:

That Cabinet (Housing) Committee:

- 1 Notes the financial performance information and considers whether further actions are required to address any areas of concern.
- 2 Recommends to Cabinet and Council the revenue carry forwards amounting to £75,780 as set out in paragraph 3.1 of the report.
- 3 Notes the decision of Cabinet at its meeting on 13 June 2012 for the Capital carry forwards amounting to £71,000 as detailed in paragraph 3.2 of the report.
- 4 Recommends to Cabinet and Council that a supplementary capital estimate of £300,000 be approved to fund Estate Improvement works on Stanmore and the associated Engineering resources required to deliver the programme.

That The Overview & Scrutiny Committee:

- 5 Considers whether to call-in the supplementary estimate referred to in recommendation 4 above and whether there are any matters of significance that it wants to draw to the attention of Cabinet, a portfolio holder or the Council.

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REPORT OF HEAD OF HOUSING SERVICES

DETAIL:

1 Introduction

- 1.1 The Housing Revenue Account (HRA) is a ring-fenced budget which funds all the Council's Housing Landlord services. The budget is funded directly by Housing rents and other income. Until March 2012, this income was offset by "negative subsidy", which is a payment back to Government to reflect what they consider to be the difference between the rent we collect and what providing our services should cost. In councils where the level of rent collected is less than the assessed cost of services, the Government paid subsidy (funded from the negative subsidy collected from councils such as Winchester). This report details the budget outturn for 2011/12 and also highlights some of the emerging issues facing the HRA.
- 1.2 With effect from April 2012, the national subsidy system has been replaced by the new "Self Financing" regime. As part of "dissolving" the old system, all stock holding councils have had to take on a share of the national debt attributable to social housing. The City Council's share was assessed as £167million and it was required to take on new external borrowing of £157million to fund this. CAB2287 (HSG) dated 1 February 2012 provides the detailed background on this.

2 HRA 2011/12 Outturn

- 2.1 With Rents and other income for 2011/12 totalling £24.644m, the HRA outturn is subject to a surplus of £0.668m (against a revised budgeted surplus of £0.179m). Reasons for this increases surplus of £0.489m are detailed below.
- 2.2 Actual expenditure and variances by service are detailed in Appendix 1. The key service summary variances include:
- a) Housing Management (General) – (£0.135m) – This relates mainly to reduced support service charges from other Council services. This is offset by increased charges to other HRA services (mainly Repairs Administration as a result of IT and Customer Service support service charges being more accurately charged to where the work has been completed). Also, a minor upgrade to the Tunstall Telecom Alarm system as approved in PHD402 was not completed within the year as

originally planned. A carry forward request for £16,000 to fund this work is included in this report.

- b) HRA Contribution to Non Distributed Costs – (£0.158m) – This represents provision made for the cost of retirement benefits in line with International Financial Reporting Standards (IFRS), which are offset by “Balance Sheet Transfers” or “Appropriations” as detailed in Appendix 1 and 2.
- c) Repairs Administration - £0.191m – This variance relates to a significant increase in support service charges (partially offset by reduced charges to other services). IT charges to Repairs have increased but have decreased to the HRA overall. The cost of the Customer Service Centre for the management of repairs calls has increased by £52,000 (although the overall increase to the HRA amounted to £24,000).
- d) Central Control – £0.036m –. This relates to the annual maintenance charge for Tunstall alarm lines now being charged to this cost centre. It was previously charged to the repairs programme. This increase is offset by service charges which include provision for this maintenance agreement.
- e) Communal Services - £0.058m – This relates to increased costs of electricity resulting from an increase in tariff and for contract cleaning. The 2012/13 budget has been revised to ensure the budget reflects costs at specific buildings.
- f) Disabled Adaptations – (£0.041m) – Whilst the budget was fully committed for adaptations, costs of £45,000 in relation to one major scheme were recovered from Hampshire County Council as it supported the re-housing of an individual (and their carer) that they provide intensive support to.
- g) Estate Maintenance – (£0.027m) – This relates to provision for estate improvement work. Of the £250,000 budget for this work, £190,000 of schemes was completed. In addition to all completed work, a further total of £59,780 of work has been commissioned and a carry forward is required to cover the cost of this work and to ensure that a full programme is available for the current year. Support service costs have increased by £24,000 as a result of charges from the Engineering team for the management of parking schemes.
- h) Extra Care - £0.134m – This variance relates to increased employee costs of operating the Extra Care schemes at Victoria House and Matilda Place in Winchester. The increase has arisen due to the cost of salary enhancements and overtime and agency staff required to cover long term absences. The Council has been unable to operate this service within the grant levels that the County Council as

commissioners are prepared to pay and therefore a new provider will take this service on with effect from July 2012.

- i) Sewage Works - £0.074m – This relates to treatment costs, grounds maintenance and utilities and charges from the new Street Care team being more than originally budgeted. However, outturn in 2010/11 was similarly over budget and therefore this will be reviewed in detail and recommendations to revise the budget will be brought forward later in the year if considered appropriate.
- j) Sheltered Housing – (£0.151m) – This relates mainly to reduced employee costs, offset by the increased employee costs in Extra Care as detailed in g) above.
- k) Repairs Works – (£0.039m) – This variance relates to programming of works in the final quarter of 2011/12 and represents only 1% of the total budget.
- l) Subsidy Payable – (£0.135m) – Final subsidy payment was less than originally budgeted as a result of a number of issues relating to the cessation of the subsidy system in preparation for “Self Financing”.
- m) Depreciation, Revaluation and Valuation on Investments – These variances reflect a reduced provision for depreciation and reduced charges following a lower than projected stock and investment valuation. All items are offset by “Appropriations” detailed at the bottom of Appendix 1 and are included in the accounts in line with the requirements of the IFRS regime.
- n) Self Financing Settlement Payment - £156.722m – This charge was set by Government after the budget was agreed as was the decision to account for the whole process in the 2011/12 financial year. The charge is offset by accounting adjustments detailed in Appendix 1, which reflect resources received through external borrowing.
- o) Dwelling Rents – (£0.078m) – This relates to additional income received as new tenants move straight to target rents.
- p) Service Charges – (£0.029m) – As above, new tenants in communal housing pay full, uncapped service charges.
- q) Supporting People – (£0.048m) – This relates to increased income achieved through improved occupancy rates in relation to sheltered housing.
- r) Other Income – (£0.068m) –. This relates to income received in relation to non operational assets such as community facilities, leases with partner housing organisations, shops and commercial premises on HRA land.

- s) Sales Proceeds – (£0.383m) – This relates to income from sale of properties through the Right to Buy process. The income is offset by accounting adjustments and transfers as detailed at the end of the Resource Account in Appendix 1.
- t) Capital Expenditure funded by HRA – (£0.200m) – This relates to repairs work which was scheduled later than originally planned to allow for consultation (Winnall lifts) and also to IT investment where the upgrades of Orchard and installation of Keystone Asset Management system has yet to be completed. Carry forwards to the 2012/13 Capital programme of £71,000 are requested to meet the costs already incurred for these systems. CAB2342 which will be considered by Cabinet on 13 June 2012 also refers.

2.3 With regard to the Subjective Summary detailed in Appendix 2, significant variances (other than those that relate to Balance Sheet Transfers referred to in 2.2 above), include:

- a) Premises – (£0.026m) – This results mainly from reduced costs of Repairs, partially offset by increased utilities costs.
- b) Supplies and Services – £0.083m – This relates to a number of variances across a range of services, including Central Control as described in 2.2 d) above.
- c) Transfer Payments – (£0.135m) – This relates to a lower than budgeted negative subsidy and includes additional subsidy was paid to cover debt costs resulting from being forced to borrow for self financing four days prior to the end of the subsidy system.
- d) Support Services - £0.110m – This increase relates mainly to charges from the Street Care team in relation to Sewage Works, which was previously contracted out and funded from “Premises” budgets. As reported in 2.2 i) above, overall costs for sewage treatment is higher than budgeted and this will be reviewed and revised later in the year if considered appropriate.
- e) Income – (£0.720m) – This relates to increased income from rents, service charges, Supporting People grant and also from asset sales (right to buy), which are offset by accounting adjustments as detailed in 2.2 s) above.

3 Proposals for Carry Forwards

3.1 As detailed in 2.2 a) (Housing Management General), 2.2 g) (Estate Maintenance) and 2.2 t) (Capital Expenditure funded by the HRA), there are four areas where work has been committed but not wholly completed within the financial year. It is therefore recommended that the carry forwards totalling £75,780 be approved to fund these programmes in the 2012/13 budget. Whilst the Orchard upgrade and new Keystone Asset Management

systems are capital projects, they are funded directly from revenue and so provision within the HRA is required to meet the cost of the projects. The four schemes which make up the total of the revenue carry forward requests are detailed in the table below:

Project	Carry Forward	Reason
Tunstall Alarm System Upgrade (REVENUE)	£16,000	System upgrade as detailed in PHD402.
Estate Improvements (REVENUE)	£59,780	Various estate improvement schemes started on site but not completed by March 2012
Orchard Upgrade (CAPITAL)	£20,000	Final module to go live in May 2012
Keystone Asset Mgt System (CAPITAL)	£51,000	Project commenced and due for completion August 2012

- 3.2 In addition to approving the revenue funding implications for the Orchard and Keystone projects, it is also necessary to seek approval for carry forward the provision for these projects in the Capital programme, totalling £71,000, and therefore a separate recommendation for this is included in this report. CAB2342 which will be considered by Cabinet on 13 June 2012 also refers.

4 Supplementary Estimate in Relation to Estate Improvements

- 4.1 As stated in 2.2 g) above, the Estate Improvement programme has proved a very successful initiative, achieving a wide range of aesthetic and practical improvements on housing estates, most of which have received little investment in recent years. The 2012/13 programme is over subscribed with proposals from members and tenants groups and focuses mainly on Highcliffe and Winnall and parking improvements across the district.
- 4.2 Additional significant proposals have been received in relation to the Stanmore area, aimed at addressing parking problems on housing land and on improving key areas of the estate, particularly around communal housing blocks. The proposals are currently being costed and assessed by officers and members, although cannot be funded from the 2012/13 capital programme. It is therefore proposed that a supplementary estimate to the capital programme of £250,000 be approved, funded from the additional surplus detailed in Appendix 2 to this report to support this additional work. If approved, the Council's Engineering team would require a temporary resource to facilitate design, procurement and commissioning work and an additional supplementary estimate of £50,000 to the capital programme is recommended to fund this also.

- 4.3 Whilst costing a potential £300,000 in total, a major programme of estate improvements to one of the Council's priority areas would make a significant contribution to the Stanmore Community Plan. It would also mean that more resource will be available to fund projects in other priority areas in 2013/14, rather than the programme for that year being wholly dominated by Stanmore proposals. This can all be achieved whilst maintaining HRA balances at £1.5m, which is in line with projected balances detailed in the HRA Business Plan.

OTHER CONSIDERATIONS:

5 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

- 5.1 Preparation of the budget had regard to the Community Strategy. Monitoring of income and expenditure and review of the final position is an intrinsic part of measuring whether the Strategy's objectives have been achieved.

6 RESOURCE IMPLICATIONS:

- 6.1 These are contained in the detail of the report.

7 RISK MANAGEMENT ISSUES

- 7.1 The potential risks associated with the operation of the HRA are assessed in detail through a formal risk assessment process to determine targets for retained balances. The HRA outturn set out in this report complies with the targets set through that risk assessment.

8 TACT COMMENT

- 8.1 We are pleased to note that the surplus on the budget is more than predicted. We will however want to see that this additional surplus is used to support further improving services to tenants in the next year. We are pleased to note the proposals for more money to fund estate improvements in Stanmore. TACT will want to be assured that all housing areas will receive such benefits over time.

BACKGROUND DOCUMENTS:

Documents held in the Finance and Landlord Services teams.

APPENDICES:

Appendix 1 Summary of Service Budgets – Housing Revenue Account 2011/12

Appendix 2 Subjective Analysis – Housing Revenue Account 2011/12

Housing Revenue Account Outturn 2010/11 – Service Summary

HRA RESOURCE ACCOUNT				
Service Summary	2011/12 Revised Budget	2011/12 Outturn	Variance (favourable)/adverse	Notes
	£	£	£	
<i>Supervision and Management (net):</i>				
Housing Management - General	2,261,262	2,126,083	(135,179)	See para 2.2. a)
HRA Contribution to Non-Distributed Costs	184,010	26,222	(157,788)	See para 2.2 b)
Repairs Administration (Planning & Clerical Processing)	537,937	728,624	190,687	See para 2.2 c)
Total Supervision & Management	2,983,209	2,880,929	(102,280)	
<i>Special Services (net):</i>				
Central Control	119,054	154,571	35,517	See para 2.2 d)
Communal Services	(25,416)	33,058	58,474	See para 2.2 e)
Disabled Adaptations	371,173	329,732	(41,441)	See para 2.2 f)
Estate Maintenance	448,506	422,498	(26,008)	See para 2.2 g)
Extra Care	272,368	405,888	133,520	See para 2.2 h)
Homelessness	534	(19,836)	(20,370)	
Sewage Works	156,122	230,435	74,313	See para 2.2 i)
Sheltered Housing	1,072,274	921,468	(150,806)	See para 2.2 j)
Total Special Services	2,414,615	2,477,814	63,198	
Repairs Administration (Repairs Specification & Inspection)	338,699	319,069	(19,630)	
Repairs Works	3,473,965	3,435,075	(38,890)	See para 2.2 k)
HRA Negative Subsidy Payable	10,001,412	9,866,478	(134,934)	See 2.2. l)
Contribution to/from Bad Debt Provision	0	(2,630)	(2,630)	
Depreciation of Fixed Assets	3,765,354	3,950,858	185,504	See para 2.2 m)
Revaluation of Dwellings	0	5,725,673	5,725,673	See para 2.2 m)
Changes in Fair Valuation on Investments	0	0	0	
Debt Management Expenses	43,029	98,958	55,929	See para 2.2. n)
External Interest Payable	0	56,635	56,635	See para 2.2. n)
Self Financing Settlement Payment	0	156,722,000	156,722,000	See para 2.2. n)
Total Expenditure	23,020,283	185,530,858	162,510,575	
<i>Rents & Other Income:</i>				
Dwelling Rents	(21,930,000)	(22,007,816)	(77,816)	See para 2.2 o)
Garage Rents	(800,000)	(786,227)	13,773	
Sheltered Service Charges	(478,000)	(506,779)	(28,779)	See para 2.2 p)
Supporting People	(608,620)	(656,787)	(48,167)	See para 2.2 q)
Other Income	(235,000)	(303,235)	(68,235)	See para 2.2 r)
Sale Proceeds	0	(383,138)	(383,138)	See para 2.2 s)
Total Rents and Other Income	(24,051,620)	(24,643,982)	(592,362)	
NET COST OF SERVICES	(1,031,337)	160,886,876	161,918,213	
Interest Payable (Item 8)	73,450	82,596	9,146	
Amortised Premiums and Discounts	222,100	222,121	21	
Investment Income/Mortgage interest	(31,116)	(40,524)	(9,408)	
	264,434	264,193	(241)	
NET OPERATING EXPENDITURE	(766,903)	161,151,069	161,917,972	
Adjustments between accounting basis and funding basis under statute and transfers between reserves:				See para 2.2 m)
Transfer re Major Repairs Allowance	0	3,571,607	3,571,607	
Transfer re Depreciation	(193,747)	(3,947,223)	(3,753,476)	
Transfer re Intangibles	0	(3,635)	(3,635)	
Transfer re Impairment	0	0	0	
Reversal of Retirement Benefits	0	(350,134)	(350,134)	
Employers Pension Contributions in Year	0	458,477	458,477	
Transfer to Insurance Reserve	49,650	0	(49,650)	
Transfer from Insurance Reserve	0	0	0	
Capital Expenditure funded by Housing Revenue Account	732,000	532,166	(199,834)	
Reversal of Dwellings Revaluations	0	(5,725,673)	(5,725,673)	
Investment Property Revaluation	0	0	0	
Cost of Disposals	0	(249,312)	(249,312)	
Sale Proceeds	0	632,450	632,450	
Asset Disposal Administration	0	(4,880)	(4,880)	
HRA Financing Settlement	0	(156,722,000)	(156,722,000)	
Transfer in to Earmarked Reserve	0	(10,975)	(10,975)	
	587,903	(161,819,132)	(162,407,035)	
Net HRA -Surplus	(179,000)	(668,063)	(489,063)	

Housing Revenue Account 2010/11 Outturn – Subjective Summary

<u>Subjective Summary</u>	2011/12	2011/12	Variance	Notes
	Revised Budget	Outturn	(favourable)/adverse	
	£	£	£	
Employees-	3,032,361	3,055,342	22,981	
Employees-Retirement Benefit & IAS19 Pension Adjustment	184,010	66,039	(117,971)	See para 2.2b)
Premises	5,166,313	5,139,622	(26,691)	See para 2.3 a)
Transport	266,225	255,425	(10,800)	
Supplies and Services	404,522	487,810	83,288	See para 2.3 b)
Third Party Payments	41,000	37,686	(3,314)	
Transfer Payments	10,001,412	9,866,478	(134,934)	See para 2.3 c)
Depreciation & Impairment Costs	3,789,444	4,000,886	211,442	See para 2.2 m)
Self Financing Settlement Payment		156,722,000	156,722,000	See para 2.2 n)
Capital Financing Costs	0	56,635	56,635	
Revaluations-Dwellings & Investment Properties	0	5,725,673	5,725,673	See para 2.2 m)
Support Services	1,429,966	1,540,208	110,242	See para 2.3 d)
Expenditure Total	24,315,253	186,953,804	162,638,551	
Fees and Charges	(25,096,590)	(25,496,503.18)	(399,913)	See para 2.3 e)
Sale of Assets	0	(383,138)	(383,138)	See para 2.3 e)
Recharges to Capital	(250,000)	(187,287)	62,713	
Income Total	(25,346,590)	(26,066,928)	(720,338)	
Adjustments between accounting basis and funding basis under statute and transfers between reserves:				
Interest Payable	73,450	82,596	9,146	
Amortised Premiums and Discounts	222,100	222,121	21	
Investment Income/Mortgage interest	(31,116)	(40,524)	(9,408)	
Transfer re Major Repairs Allowance	0	3,571,607	3,571,607	
Transfer re Depreciation	(193,747)	(3,947,223)	(3,753,476)	
Transfer re Intangibles		(3,635)	(3,635)	
Transfer re Impairment	0	0	0	
Reversal of Retirement Benefits	0	(350,134)	(350,134)	
Employers Pension Contributions in Year	0	458,477	458,477	
Transfer to Insurance Reserve	49,650	0	(49,650)	
Transfer from Insurance Reserve	0	0	0	
Capital Expenditure funded by Housing Revenue Account	732,000	532,166	(199,834)	
Reversal of Dwellings Revaluations	0	(5,725,673)	(5,725,673)	
Investment Property Revaluation	0	0	0	
Cost of Disposals	0	(249,312)	(249,312)	
Sale Proceeds	0	632,450	632,450	
Asset Disposal Administration	0	(4,880)	(4,880)	
HRA Financing Settlement	0	(156,722,000)	(156,722,000)	
Transfer in to Earmarked Reserve	0	(10,975)	(10,975)	
	852,337	(161,554,939)	(162,407,276)	
Net HRA-Surplus	(179,000)	(668,063)	(489,063)	

<u>Working Balance</u>	2011/12	2011/12	Variance
	Revised Budget	Outturn	(favourable)/adverse
	£	£	£
HRA Working Balance			
1112 (Surplus)/Deficit	(179,000)	(668,063)	(489,063)
Balance Brought Forward HRA Working Balance	(1,289,295)	(1,289,295)	0
Balance Carried Forward HRA Working Balance	(1,468,295)	(1,957,358)	(489,063)
HRA Insurance Reserve			
	(70,177)	(70,177)	0
Balance Carried Forward Total HRA Reserves	(1,538,471)	(2,027,535)	(489,063)