

**Name of meeting:** Cabinet 30 June 2015

**Title of report:** Housing Revenue Account (HRA) – Financial Outturn 2014-15

<b>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?</b>	No
<b>Is it in the <a href="#">Council's Forward Plan</a>?</b>	No
<b>Is it eligible for "call in" by <a href="#">Scrutiny</a>?</b>	Yes
<b>Date signed off by <u>Director</u> &amp; name</b>	David Smith, 17 June 2015
<b>Is it signed off by the Director of Resources?</b>	Yes
<b>Is it signed off by the Assistant Director – Legal, Governance &amp; Monitoring</b>	
<b>Cabinet Member <a href="#">portfolio</a></b>	Streetscene & Housing

**Electoral wards affected and ward councillors consulted: All**

**Public or private: Public**

## 1. Purpose of report

- 1.1 To report on the revenue & capital outturn of the Housing Revenue Account (HRA) for 2014-15 for member information; the third 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 2014-15.
- 1.4 Members to note that Council treasury management policy underpinning the capital financing charges (interest and debt repayment) incurred by the HRA in 2014-15, 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. The HRA debt figure (or capital financing requirement) as at 31 March 2015 was £196m; effective borrowing headroom potential of £51m. In accordance with the principles of self-financing, the cost of any borrowing against the headroom would be met by 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 2014-15 is set out in the following sections of this report, noting that the overall reported in-year surplus of £4.5m, (before transfer to balances), is equivalent to 4.8% variance against an annual HRA turnover of £94.2m. 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 2014-15

- 2.2.1 The HRA outturn as set out in Appendix 1 shows revenue expenditure of £68.2m against revenue income of £94.2m, and interest charges of £10.1m (interest on HRA capital debt net of HRA cashflow interest earned). This has resulted in an actual surplus of £15.9m for the year, which is £4.5m higher (40%) than budgeted, which was £11.3m.
- 2.2.2 The HRA surplus is transferred (appropriated) to HRA general reserves each year end it is intended that this, along with the major repairs reserve, will provide sustainable financial resources in particular to support capital expenditure requirements over the longer term, through a self-financed business plan.
- 2.2.3 The key variances that have contributed to the outturn HRA actual surplus being £4.5m than budgeted, are set out in more detail in sections 2.3 of this report.

## 2.3 **Key Variances**

### Repairs and Maintenance: £3.3m underspend (14%)

- 2.3.1 The underspend includes £1.6m within the cyclical maintenance programme ; includes deferral of some work on blocks of flats to meet new legal requirements for leaseholder consultation. As well, £1.1m re-allocation of surplus from the Council's Building Services trading operation, £500k on empty home repairs and £200k tenant led environmental works; partially offset by additional costs associated with responsive repairs at £348k.

### Housing Management: £1.4m underspend (4%)

- 2.3.2 The underspend is mainly due to reduced charges associated with Service Level Agreements (SLA's) totalling £635k of which central insurance charges show a reduction of £241k. Within Policy & Management the Private Finance Agreement (PFI) a further saving of £392k is identified with contract management charges underspent by £474k offset in part by additional costs; Excellent Homes for Life (EHL) Utilities £30k and Housing Ombudsman Subscriptions £47k.
- 2.3.3 Other contributory factors to the overall Housing Management underspend include Special Services at -£304k (mainly resulting from the delayed implementation of the Universal Credit), Communal Lighting at £102k (reduced energy costs), Grounds Maintenance at £93k and District Heating at £76k.
- 2.3.4 Kirklees Neighbourhood Housing Fee (KNH) shows an overspend of £131k which is largely due to elements budgeted as staff capitalisation being re-categorised as revenue. This is matched with a saving on capital expenditure.

### Other Expenditure: £60k Overspend

- 2.3.5 The overspend relates to additional depreciation charge £264k based on latest stock levels and revaluations, and additional costs associated with Rent Rates and Taxes at £58k resulting from increased costs for Council Tax Voids. This was offset in part by a reduction in bad debt provision at £221k resulting from the delayed implementation of the Universal Credit (and the consequent deferral of the anticipated increase in bad debt provision from increased rent arrears),

### Income: £212k under-collection (0.2%)

- 2.3.6 The overall budgeted income target of £94.4m was largely achieved within 0.2%, with an overall minor variance of only £212k ; the main variances including District Heating Income at £191k and HRA Service charges at £81k offset by additional Investment Income of £95k.

## 2.4 **HRA Reserves**

- 2.4.1 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.

2.4.2 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 2015, 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)

- 2.4.3 The closing balance at 31<sup>st</sup> March 2015 was £35.8m. 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. Universal credit is due to commence in the Kirklees area in July 2015.
- 2.4.4 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.
- 2.4.5 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).
- 2.4.6 The Council general fund budget plans for 2015-2018 reflect continuing financial challenges. Options will continue to be explored with members through 2015 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, and the direction of travel to 'New Council' over the next three years.

Major Repairs Reserve (see also - Appendix 2)

- 2.4.7 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.
- 2.4.8 The closing balance as at 31 March 2015 was nil, noting that £6.7m of MRR was applied in 2014-15 for debt repayment. The balance of debt outstanding on the HRA was £196m at year end. Kirklees HRA's 'debt cap' or absolute borrowing limit set by central government under self-financing is £247.7m.

2.4.9 The 'headroom' or new borrowing potential as at 31 March 2015 is therefore £51.7m (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

2.4.10 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 2014-15 capital outturn, rollover and investment plan report, included as a separate item on this Cabinet agenda. For information, HRA capital outturn in 2014-15 was £24.03m against a budget of £29.04m; slippage of £5.01m which will roll forward into future years.

2.4.11 Forecast remaining HRA balances by the end of 2017-18 of £21.68m 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).

### **2.5 Summary Capital Outturn 2014/2015**

2.5.1 The summary HRA Capital Outturn, detailed in Appendix 3, reports an outturn position of £24m against a budget of £29m leaving net underspend of £5m or approximately 17%, mainly funded from General and the Major Repairs Reserve.

### **2.6 Key Variances**

#### Decent Homes (-£490k)

2.6.1 Heating Programme (-£640k) There was a large number of refusals to the scheme due to no access. One of the major schemes for the year (Windybank) has been delayed into 2015/16 to tie in with rewires and other Maintaining Decency works.

2.6.2 Maintaining Decency (+£656k) Two large schemes at Dalton (£1.5m) and Thornhill (£1.4m) which include the Cyclical Maintenance Costs, this is reflected in reduced spend on cyclical works in revenue

2.6.3 Working at Heights (-£226k) A large scheme at Schools estate was moved into 2015-16 as it contains a large number of leaseholders. There have been numerous issues regarding current tenancies, freeholders and garage ownership which have had to be resolved before the scheme could begin.

### Estate Regeneration (-£1,921k)

- 2.6.4 Deighton Brackenhall Initiative (DBI) (-£1,077k) subject to delays with the procurement process. Initial costing returned was significantly above the allocated budget. New procurement exercise has been developed, the work is now out to tender.
- 2.6.5 Tenant Led Environmental (-£460k) schemes were placed on hold pending the outcome of a review of the budget.

### Health, Safety & Miscellaneous (-£5,949k)

- 2.6.6 Photovoltaic (PV) programme (-£3,057k) Works commenced in early 2015 due to the need for formal Cabinet Approval, which took place in September, and the need for an EU compliant procurement exercise for materials, the spend in this financial year was £238k resulting in the installation of 80 units.
- 2.6.7 Private Finance Initiative (PFI) (-£1,203) – Capital expenditure on the PFI scheme is now largely complete, £100k of this underspend will be rolled forward to support future works. A total of 51 PFI units were completed.
- 2.6.8 The High Cost Voids (Empty Homes) (+£1,068k). The average cost of a high cost capital empty home has increased in comparison to last year. This overspend has been controlled since quarter 2 by reducing rewires.

### Over programming (+£3,359k)

- 2.6.9 The 2014/2015 capital plan totals £29m, but it is deemed prudent to assume over programming to allow for slippage and other eventualities. The gross capital plan totalled £32.4m with a budgeted over programming of £3.4m (£29m).

## **2.7 Longer Term Issues**

- 2.7.1 The 5 year HRA capital plan approval at full Council on 18 February 2015, included a number of strategic HRA priorities aimed to prioritise housing growth over the next 3 -5 years to maximise the use of available financial resources and inward investment to increase the supply of homes across all tenures.
- 2.7.2 In conjunction with the above, officers will continue to explore funding opportunities across all service sectors to maximise the overall benefits for the both the HRA and all wider service providers, and will report back to Cabinet later in the year on more detailed options to support the HRA strategic priorities.

## **3. Implications for the Council**

- 3.1 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 decency standard over the longer term.

3.2 The HRA business plan will continue to be updated through the remainder of 2015, including exploring options that support future Council priorities; including HRA strategic priorities as set out in the capital plan, and as well in terms of supporting the overall direction of travel to a New Council.

#### **4. Consultees and their opinions**

None

#### **5. Officer recommendations and reasons**

For members to :

- i) note the 2014-15 year end HRA revenue and capital outturn ;
- ii) note the year end HRA reserves position;
- iii) note the Council treasury management policy underpinning the capital financing charges incurred by HRA in 2014-15 which forms part of the wider Council Annual Report on Treasury Management also on this Cabinet agenda, and
- iv) note that the HRA capital outturn position forms part of the wider Council Capital plan outturn & rollover update report also on this Cabinet agenda

#### **6. Cabinet portfolio holder recommendation**

That the report be noted by Cabinet

#### **7 Next steps**

To forward this report to Cabinet for information

#### **8. Contact officer and relevant papers**

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#### **12. Head of Service Responsible**

David Smith, Director of Resources

Appendix 1

<b>Housing Revenue Account Year Ending 31 March 2015</b>				
	<b>Budget £'000</b>	<b>Outturn £'000</b>	<b>Variance £'000</b>	<b>Variance %</b>
Repairs & Maintenance	23,358	20,030	-3,328	-14.2%
Housing Management	31,443	30,061	-1,382	-4.4%
Other Expenditure	18,079	18,139	60	-
<b>Total Expenditure</b>	<b>72,880</b>	<b>68,230</b>	<b>-4,650</b>	<b>-6.4%</b>
<b>Income</b>	<b>-94,434</b>	<b>-94,222</b>	<b>212</b>	<b>-</b>
<b>Net Income</b>	<b>-21,554</b>	<b>-25,992</b>	<b>-4,438</b>	<b>-17.1%</b>
Interest	10,210	10,122	-88	-
<b>Surplus / Deficit for the year</b>	<b>-11,344</b>	<b>-15,870</b>	<b>-4,526</b>	<b>-39.9%</b>
<b>Appropriation To / From Reserves</b>	<b>11,344</b>	<b>15,870</b>	<b>4,526</b>	<b>-</b>



## Housing Revenue Account (HRA) Reserves

<b>HRA General Reserves</b>	<b>2014-15 £'000</b>	<b>2015-16 £'000</b>	<b>2016-17 £'000</b>	<b>2017-18 £'000</b>
<b>Reserves as at 1 April</b>	<b>(33,016)</b>	<b>(35,769)</b>	<b>(22,029)</b>	<b>(22,066)</b>
Planned appropriation from HRA	<b>(11,344)</b>			
Year End transfer HRA (surplus / deficit)	<b>(4,526)</b>	<b>1,515</b>	<b>(1,937)</b>	<b>(9,252)</b>
<b>Total Reserves Available</b>	<b>(48,886)</b>	<b>(34,254)</b>	<b>(23,966)</b>	<b>(31,318)</b>
<b>Commitments</b>				
Set aside to Support Council Priorities		<b>2,225</b>	<b>1,900</b>	<b>4,700</b>
Set aside for business risks		<b>8,500</b>		
To Support Capital Plan	<b>13,117</b>			
Working Balance		<b>1,500</b>		
<b>Total Commitments</b>	<b>13,117</b>	<b>12,225</b>	<b>1,900</b>	<b>4,700</b>
<b>Closing Balance</b>	<b>(35,769)</b>	<b>(22,029)</b>	<b>(22,066)</b>	<b>(26,618)</b>

<b>HRA Major Repairs Reserve</b>	<b>2014-15 £'000</b>	<b>2015-16 £'000</b>	<b>2016-17 £'000</b>	<b>2017-18 £'000</b>
<b>Reserves as at 1 April</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Contribution from HRA (Depreciation Charge)	<b>(15,566)</b>	<b>(15,600)</b>	<b>(15,912)</b>	<b>(16,230)</b>
<b>Total Reserves Available</b>	<b>(15,566)</b>	<b>(15,600)</b>	<b>(15,912)</b>	<b>(16,230)</b>
<b>Commitments</b>				
Capital debt repayment	<b>6,749</b>	<b>4,173</b>	<b>6,259</b>	<b>3,338</b>
Capital investment requirement 2015-19	<b>8,817</b>	<b>11,427</b>	<b>9,653</b>	<b>12,892</b>
<b>Total Commitments</b>	<b>15,566</b>	<b>15,600</b>	<b>15,912</b>	<b>16,230</b>

Closing Balance	0	0	0	0
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### Appendix 3

#### Housing Revenue Account (HRA) Capital Outturn

Capital Expenditure	Budget £'000	Outturn £'000	Variance £'000
Decent Homes	11,375	10,228	(1,147)
Estate Regeneration	2,731	760	(1,971)
Health, Safety & Miscellaneous	18,288	13,045	(5,243)
Over-Programming	(3,359)	0	3,359
<b>Net Plan Value</b>	<b>29,035</b>	<b>24,033</b>	<b>(5,002)</b>

HRA Capital Resourcing	Budget £'000	Outturn £'000	Variance £'000
General Reserves	17,750	13,115	(4,635)
Major Repairs Reserve	8,553	8,817	264
Grants	1,616	903	(713)
Capital Receipts	1,116	1,198	82
<b>Net Plan Value</b>	<b>29,035</b>	<b>24,033</b>	<b>(5,002)</b>