

## South Holland District Council

### Financial Report for the quarter ending September 2015

#### Housing Revenue Account

#### Revenue Budget

Total Budget requirement for the year is £391,000, £147,000 as approved by Council on 20<sup>th</sup> February 2015 and £244,000 of capital expenditure carried forward from the 2014/15 programme approved by council on 24<sup>th</sup> June 2015.

Forecast out turn for 2015/16 is nil and main variances are analysed in Table 1

**Table 1: HRA Major Variances**

	Expenditure £'000	Income £'001	Total £'002	Comments
Approved HRA net expenditure	147		147	
C/F of capital budgets from 14-15	244		244	Capital programme 14-15 c/f into 15-16 (approved Q4)
<b>Revised budget</b>	<b>391</b>		<b>391</b>	
Service Charges	52	747	799	Recharges deleted
Supervision & Management	150		150	Revised Central services costs
Revised Corporate & Democratic Core costs	75		75	in line with management & members changes since 2011/12.
Contribution to Members Budgets	19		19	Contribution to area wide improvements
Debt Management	75		75	Treasury Activity including investments
Supervision & Management	(37)		(37)	Vacancy management
Property maintenance	(973)		(973)	Revised Position in line with 2014/15 Out turn and informed by a mid year review of all work streams
Bad debt provision	(273)		(273)	Revised provision in line with 2014/15 Out turn and informed by a mid year review of collection performance
Revenue contributions to Capital Expenditure	(166)		(166)	Revised capital programme & Future investment
London Consortium share		(75)	(75)	Framework agreement for Capital Expenditure
Financing Charges	(52)	(9)	(61)	HRA share of additional investment income & Revised Borrowing costs
Rent Income - Non Dwellings		(24)	(24)	Improved usage of assets
Rent Income - Dwellings		100	100	Impact of increased RTB sales in 2014/15 & 2015/16 (20 units per year).
			0	
<b>Forecast Outturn</b>	<b>(739)</b>	<b>739</b>	<b>0</b>	
<b>Forecast Variance to revised budget</b>	<b>(1,130)</b>	<b>739</b>	<b>(391)</b>	

Treatment of expenditure and income in the HRA are prescribed by statute and the annual statement of accounts is compiled on the basis that each item is identified separately. No amalgamation of items or netting off is permissible and the management accounts have been compiled on this basis for consistency

The annual budget was compiled using the 30 year business plan as a reference. However some planning assumptions whilst valid over a 30 year period are not valid on an annual basis. Several areas of the budget were set this way and the forecast resets the position back to normal operating parameters.

Property maintenance costs in the budget include costs of services provided to clients other than the HRA. Priory road offices responsive repairs are an example. The use of recharges in the Budget has led to confusion and this position has now been regulated.

The statutory accounts presentation is shown in Table 2 to clarify the position in respect of individual costs & incomes. Repairs & Maintenance costs for example are £973k below budget but are £363k higher than the 2014/15 actual cost. Asbestos management costs (£373k) have been included in the 2015/16 forecast but were shown as capital expenditure in the 2014/15 accounts giving an overall reduction in 2015/16 costs of £10k when compared to previous actual costs.

**Table 2: HRA Statutory Accounts Comparison**

	2014-15	2015-16		
	Actual	Budget	Forecast	Variance
	£ 000's	£ 000's	£ 000's	£ 000's
Rent Income - Dwellings	(15,490)	(15,562)	(15,462)	100
Rent Income - Non Dwellings	(156)	(132)	(156)	(24)
Charges for Services & Facilities	(1,085)	(1,204)	(934)	270
Contributions to Expenditure	(149)	(569)	(89)	480
Other income	(25)	0	(78)	(78)
<b>Total Income</b>	<b>(16,905)</b>	<b>(17,467)</b>	<b>(16,719)</b>	<b>748</b>
Repairs & Maintenance	2,670	4,006	3,033	(973)
Supervision & Management	2,492	2,542	2,824	282
Service charge costs	1,343	1,173	1,225	52
Depreciation (MRA)	1,595	1,596	1,595	(1)
Provision for Doubtful Debts	106	393	120	(273)
<b>Total Expenditure</b>	<b>8,206</b>	<b>9,710</b>	<b>8,797</b>	<b>(913)</b>
<b>Contribution from Operations</b>	<b>(8,699)</b>	<b>(7,757)</b>	<b>(7,922)</b>	<b>(165)</b>
Financing charges	2,298	2,370	2,310	(60)
Revenue Contributions (RCCO)	4,268	5,778	5,612	(166)
<b>Net operating (Surplus) / Deficit</b>	<b>(2,133)</b>	<b>391</b>	<b>0</b>	<b>(391)</b>

Rent income Dwellings reduction of £100k is due to the cumulative effect of additional right to buy sales since the regulations were reinvigorated in 2012 and discounts offered to tenants increased.

Charges for services variance to 2014/15 is a reduction of £151k which reflects the life-line service being transferred to Community Development.

The Contributions to Expenditure budget includes recharges in respect of property maintenance as explained above and charges in respect of life-line services (£64k) to private residents that has been transferred to Community Development.

Other income includes a surplus distribution from the London Consortium framework agreement which regulates the contracts for capital expenditure. This is a medium term settlement for 2014/15 and prior years and is not expected to be repeated in the near future.

### **Housing Revenue Account (HRA) Service Review (£319,000)**

A review of all services provided to the HRA has been completed as part of the Medium Term Financial Plan for 2016-17 to 2019-20

Compass Point Business Services activities in respect of: Rent income; rent accounting; responsive repairs & maintenance and Capital Programme accounting were examined as additional management activity is present in all these areas. Apportionment of costs was further examined as our partner Authority (East Lindsey District Council) no longer has an active HRA. Additional costs of approximately £150k were identified and the cost allocation model adjusted accordingly.

Treasury management, including debt management is an integral part of the function of the HRA. This was identified separately under the Housing Subsidy Regime but was omitted from the budget and Business plan approved under self financing regulations. Cost of £75k including treasury advisory service has been identified (£43k in 2011 before additional borrowing of £67m) and this is now being correctly charged to the HRA.

Corporate & Democratic core costs have not been reviewed since the inception of self-financing and have been charged at £335k without adjustment. Corporate management budgets and Members activities & costs have been reorganised during this time and an additional £75k approx. is to be charged to the HRA based on an officer assessment of management & member time required for strategic management of the service.

Member's budgets for Area wide improvements are currently funded entirely from the General fund and a £19k contribution from the HRA based on good Landlord practise has been identified.

Landlord services within the HRA are also being examined in respect of core / non-core activities. Life-line alarms are classified as non-core and therefore management of the function is to be transferred to Community Development. As part of this transfer £65k of income from services to private residents has been identified which will be subject to commercialisation in the future and accordingly will be accounted for in the Community Development Budget. Other potential community assets are currently being examined for inclusion in future commercialisation projects including garages / car parking spaces for rent.

Service charge costs in 2014/15 included £488k in respect of sewage treatment management costs and the 2015/16 forecast is set at £490k. However the Budget was set at £152k due to confusion in respect of recharges which has been resolved for the revised Medium Term Financial Plan. The total overspend in this budget area is £52k reflecting sewage treatment costs offset by reductions in Life-line costs due to the transfer of the function to Community Development.

Recovery of Sewage Treatment costs is approx. 58% due to limitations on charges present in Right to buy sales conveyancing documents from the 1980's and early 1990's. Various alternatives are being examined to find a solution to this annual shortfall of £205k which is charged to the HRA.

Provision for doubtful debts in the budget is based on 2.5% of total income including recharges. As this income has been adjusted the provision forecast of £120k is based on current collection rates (0.72% of £16,719k).

Revenue contributions to Capital Outlay are based on financing the annual Capital programme after applying any usable capital receipts and any balance in the Major Repairs Reserve (MRR). In 2015/16 it is likely that the transfer from the MRR will not fully extinguish the balance and it is estimated £2,409k will remain at year end. This will be notionally assigned to the proposed revised Affordable Housing programme which will need additional funds for financing purposes due to the medium term nature of the activity. Specifically 1 for 1 replacement funds applied at 30% of the build cost can only be used on completion of the unit (or completion of purchase).. Dwellings in progress at each year end will then need to be financed and the balance in the MRR will be used. These funds will also allow flexibility between purchases of units and new build to mitigate potential repayment of the 1 for 1 fund to central government.

Due to increased Right to buy sales of dwellings to 20 from 7 assumed in the HRA Business plan a portion of the receipts from these sales is available for capital expenditure in the Authority in respect of affordable housing or any other purpose as defined in s11 of the Local Government Act 2003 (as amended). It is recommended that the policy of the council be confirmed in accordance with the provisions of the act i.e. useable capital receipts can be applied to any legitimate capital purpose.

## Balance Sheet

### HRA Reserve Balances

The HRA General reserve can be used for revenue or capital purposes and the MRR can be used for capital purposes including repayment of debt.

The current projection of balances in reserve as at 31<sup>st</sup> March 2016 is shown in Table 9

**Table 3: Projection of Reserve Balances**

Housing Revenue Account Reserves	Total £000's
Cumulative Working Balance	8,968
Budget 2015-16	(147)
Rollover of capital programme from 2014-15 approved	(244)
<b>Forecast outturn variance</b>	<b>391</b>
<b>Forecast balance on the HRA at 31.3.16</b>	<b>8,968</b>
Insurance Reserve	200
Major Repairs Reserve	2,409
<b>Total HRA reserves at 31.3.16</b>	<b>11,577</b>

### Housing Rent Collection (HRA)

At the end of September 2015 the collection rate was 97.2% against a collectable debit of £10.1m.

**Table 4: Rent collection performance**

Key performance Indicator	Collection performance 2014-15 Week26	Collection performance 2015-16 Week 26
<b>% of income collected</b>	99.08%	97.2%
<b>Bad Debt write off</b>	£7,160	£11,291

Average collection in the first half of the year over the last 4 years is 97.5%. 2014/15 performance was improved by a 53rd week in the rent system which was carried over from 2013/14.

## HRA Capital Programme

All works to stock activities have been examined and accounting treatment between revenue and capital redefined in line with component accounting regulations.

Planned maintenance is funded directly from revenue and includes items such as External Painting & Gas Servicing. Asbestos management was previously classified as capital expenditure but as no asset creation is present this has been re-classified as planned maintenance.

The Decent Homes replacement activities are based on information from the HRA Codeman asset management system. The system includes representative useful asset life assumptions and this in turn generates a forecast for replacement. The system has become unstable due to lack of support and a new system is currently being installed.

The current budget is based on this forecast data but the actual management system includes a further step which is to determine condition of the component.

In order to ensure that only assets that require replacement due to failure are actioned in the programme a change in useful life criteria is proposed. This will extend the replacement time for existing records which will allow individual component condition to be determined before replacement action is considered. The change will also reflect actual experience of asset life since the inception of self-financing to the HRA.

The projection shown in table 13 is after examining all existing Codeman forecast records in respect of condition to ensure that only assets that require replacement based on this criteria are in the programme.

**Table 5: Projected out Turn 2015/16**

	2015/16		
	Budget	Forecast	Variance
	£ 000's	£ 000's	£ 000's
<b>Planned Maintenance</b>	<b>1,673</b>	<b>1,265</b>	<b>(408)</b>
Decent Homes - Component Replacements	5,190	3,837	(1,353)
Major Area Works	358	358	0
IT / System Works	113	103	(10)
Aids & Adaptations	466	450	(16)
<b>Total Improvement Programme</b>	<b>6,127</b>	<b>4,748</b>	<b>(1,379)</b>
Affordable Housing	900	50	(850)
<b>Total Capital Programme</b>	<b>7,027</b>	<b>4,798</b>	<b>(2,229)</b>

**Table 6: Capital Funding**

Major Repairs Reserve	(1,596)	(1,595)	1
Capital Receipts - 1 for 1 fund	(126)	0	126
RCCO	(5,061)	(3,203)	1,858
Use of Reserves	(244)		244
<b>Total Capital Programme</b>	<b>(7,027)</b>	<b>(4,798)</b>	<b>2,229</b>
Revenue Budget	(1,673)	(1,265)	408
<b>Total Works to Stock</b>	<b>(8,700)</b>	<b>(6,063)</b>	<b>2,637</b>

Useful Life data for all Dwelling components was approved by Council in 2012 and it is recommended that the changes identified in Table 14 are adopted for all future programme replacements.

**Table 7: Useful life Criteria – HRA Dwelling components**

<b>Component</b>	<b>Existing Useful Life</b>	<b>Proposed Useful Life</b>	<b>Comments</b>
Roof	60	<b>72</b>	Concrete tiles
Kitchen	20	<b>25</b>	As near neighbours
Bathroom	25	<b>30</b>	As near neighbours

Further changes to life cycles may be necessary due to changes in technology in respect of Central Heating systems which are currently being examined.