

Corporate Governance and Standards Committee Report
Report of Director of Community Services and Director of Finance
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Housing Revenue Account Final Accounts 2017-18

Executive Summary

The Housing Revenue Account (HRA) records all the income and expenditure associated with the provision and management of Council owned dwellings in the Borough. The requirement to maintain a Housing Revenue Account is set out in the Local Government and Housing Act 1989 and the requirement to publish final accounts is set out in the Accounts and Audit Regulations 2003.

This report sets out the actual level of revenue spending on day-to-day services provided to tenants recorded in the HRA in 2017-18.

The actual net cost of revenue services in 2017-18 was £642,708 lower than budgeted (paragraph 3.1). This variation represents 1.99% of the total turnover of £32.25 million. The final outturn (subject to audit) shows a surplus for the year of £10.06 million compared to a budgeted surplus of £10.73 million. The HRA working balance at year-end remains £2.5 million.

The Chief Finance Officer, in consultation with the Lead Councillor for Housing and Environment and the Lead Councillor for Finance and Asset Management have used their delegated authority to transfer £2.5 million to the reserve for future capital programmes, with the balance of £7.56 million transferred to the new build reserve. This continues the policy adopted in previous years, whereby the year-end surplus is applied to each of the above two reserves.

At its meeting on 19 June 2018, the Executive will also consider this report and will be invited to note the final outturn position and endorse the decision, taken under delegated authority to transfer £2.5 million to the reserve for future capital, and £7.56 million to the new build reserve from the revenue surplus of £10.06 million in 2017-18.

Recommendation to Committee

The Committee is asked to submit any comments it wishes to make on the HRA Final Accounts for 2017-18 to the Executive.

Reason for Recommendation:

To allow the Statutory Statement of Accounts to be finalised and subject to external audit prior to approval by the Council.

1. Purpose of Report

- 1.1 To give this Committee and the Executive the opportunity to consider the draft Housing Revenue Accounts (HRA) for 2017-18 and agree any transfers to earmarked reserves before the Chief Finance Officer (CFO) signs the statutory Statement of Accounts.
- 1.2 It is a legal requirement that the CFO signs the draft Statement of Accounts by 31 May 2018 after which Grant Thornton, our External Auditors, will audit them. This Committee must approve the accounts on behalf of the Council, by 31 July 2018. We must also publish the accounts by 31 July 2018.
- 1.3 The HRA is an integral part of the Statement of Accounts.

2. Key Strategic Priorities

- 2.1 The Council remains the largest social housing landlord in the borough; our activities contribute to each of the Council's strategic priorities. The Council's Fundamental Theme of 'Place-making' contained in the Corporate Plan 2018-2023 includes a key priority to provide the range of housing that people need, particularly affordable homes. This report helps to achieve this priority.

3. Summary

- 3.1 The table below summarises the net cost of revenue services in 2017-18.

	Estimate 2017-18	Actual 2017-18
Net Cost of Services (per income & expenditure account, Appendix A)	(£15,823,450)	(£15,930,894)
Amortisation and revaluation gains & losses – reverse impact on services	£0	£44,323
IAS 19 Pension charge - reverse impact on services	£0	(£50,859)
Increase in depreciation charge – reverse impact on services	£0	(£528,728)
Total	£15,823,450	£16,466,158
Variance		(£642,708)

- 3.2 The operating surplus for the HRA account in 2017-18 is approximately £10.06 million.
- 3.3 The table below shows the main variances between the budgeted and actual operating surplus for 2017-18 under the key headings.

	£000
Budgeted HRA outturn (surplus) / deficit 2017-18	(10,731)

Variance from budgeted position

Employee Related	(254)
Investment Income and Interest charge payable	(160)
Rental Income (incl. dwellings, garages and shops)	(509)
Depreciation Charges	529
Voluntary Revenue Provision (Guildford Park, Paragraph 5.8)	640
Repairs and Maintenance	356
Other	66
Total	668

Operating (surplus)/deficit available to transfer to reserve in 2017-18	(10,063)
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3.4 Officers propose to transfer £2.5 million to the reserve for future capital, with the balance of £7.56 million transferred to the new build reserve.

4. Background

4.1 The Local Government and Housing Act 1989 requires the Council to keep a HRA that records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is heavily prescribed by statute and the Council is not allowed to fund any expenditure for non-housing related services from this account.

4.2 Since April 2012, the HRA has operated independently of the previous national income redistributive system. The Council made a one-off payment to the Government of £192.3 million as part of the settlement, which was funded through a portfolio of loans from the Public Works Loan Board.

4.3 The HRA Business Plan 2015-2045 seeks to maximise the advantages of the new financial environment and the associated flexibility it offers.

4.4 The business plan objectives are set out below.

- operate a sound and viable social housing business in a professional and cost effective manner.
- provide good quality homes in settled communities for as long as needed by a tenant and is consistent with our Tenancy Strategy
- continue to strengthen communities by making our estates places people value and want to live
- increase the supply of affordable homes including by direct provision where it is appropriate and viable to do so
- value and promote greater tenant involvement in decision making

- widen the range of housing options open for tenants, ensuring they are in a position to make informed choices

The 2017-18 budget reflected these objectives and priorities.

5. Outturn position and major variances

Revenue

- 5.1 Gross expenditure on services was 102.15% of the budgeted level, whilst income receivable totalled 101.57% of the budgeted level. The reasons for this are set out in paragraphs 5.4 to 5.9 below and summarised in **Appendix 1**.
- 5.2 The operating surplus for the HRA account in 2017-18 is approximately £10.06 million, which is significantly better than would have been the case under the previous redistributive regime. This surplus, however, makes no provision for the repayment of debt principal; in line with the approach set out in the HRA business plan approved by the Executive.
- 5.3 The HRA would still have an operating surplus if we had made provision to repay the debt over the 30-year plan period. To repay the debt over the 30-year plan period a sum in the region of £6.4 million would need to be set aside from the operating surplus each year, reducing the level of available capital to invest to a figure in the region of £3.7 million. This is an overly simplistic representation designed to highlight the underlying surplus. It ignores the impact of any premium and discounts arising on the early redemption of debt, and more significantly the impact inflation would have on the debt, which is fixed in cash terms and would erode in real terms as the result of inflation.
- 5.4 Rental income from dwellings was £517,000 (1.78%) higher than estimated (Appendix 1). This is the result of a combination of factors, which include the profiling of new build units coming on stream, reductions in void periods and Right to Buy (RTB) assumptions. In total, 16 properties were sold in 2017-18 as a result of RTB applications, with a further interest in the equivalent of 2.4 equity share properties sold.
- 5.5 Employee related expenditure was £254,000 lower than estimated. This saving is spread across a range of services.
- 5.6 Each year the Ministry of Housing, Communities, and Local Government sets a formula rent for each Council to apply to its housing stock along with a guideline rent increase. When our rents are higher than the prescribed "limit rent" then rent rebate subsidy limitation (RRSL) applies. RRSL is a mechanism that ensures that councils do not simply increase rents above the guideline level in the knowledge that the cost of doing so would fall on the Department for Work and Pensions (DWP) in higher housing benefit costs. The actual average rent for 2017-18 was below the prescribed limit rent; consequently, no RRSL charge has been applied to the HRA.
- 5.7 A lower than anticipated interest rate on the variable rate element of the loan portfolio financing the HRA has resulted in a saving of £139,000. Investment

income is £21,000 higher than anticipated as a result of a higher than profiled level of HRA reserves.

- 5.8 A Voluntary Revenue Provision of £640,000 was made during 2017-18 in respect of land appropriated from the General Fund to the HRA at Guildford Park car park for the affordable housing part of the development. As the HRA has reached its debt cap, a voluntary revenue provision was made to reduce the Capital Financing Requirement to bring it back to the debt cap level.
- 5.9 Expenditure on repairs and maintenance exceeded the budget by £356,000 or 6.88% (Appendix 1). The budget provides for both planned and responsive repairs, so an element of demand driven cost is inherent in the expenditure. The impact of the winter weather also increased demand for services.
- 5.10 Total investment in the stock, including both revenue and capital funded maintenance and improvement works was £9.46 million.
- 5.11 A number of welfare reform changes have now taken effect, some of which will have had a cumulative effect on individual households. This, combined with the vulnerability of some tenants, is a cause for concern and will have an impact on our future income stream. A contribution of £275,000 towards the provision for bad debt is included in 2017-18. This is consistent with the approved business plan. Rent arrears remain low, in contrast to the overall housing sector, which is experiencing an increase in the level of arrears.
- 5.12 The table below sets out the outturn for the headline categories across the HRA.

Account	Budget £	Draft actual £	Variance £
Employee Related	3,294,800	3,040,604	(254,193)
Premises Related	5,108,250	5,465,809	375,559
Supplies and Services	1,237,360	1,199,371	(37,989)
Support Services	1,503,880	1,652,741	148,861
Transport Related	88,170	82,541	(5,629)
Income (including recharges)	(31,749,670)	(32,247,174)	(497,504)

Appendix 1 sets out the position across the main service areas in detail.

- 5.13 **Right to Buy sales and one-for-one receipts:** Under the Government's one-for-one homes replacement scheme, the Council is able to retain an element of the RTB capital receipt to invest in the provision of new dwellings (the amount retained in 2017-18 is shown in the table in paragraph 5.18 below)
- 5.14 A maximum of 30% of the overall cost of new home provision can be funded from the one-for-one receipts reserve. If the Council is unable to deliver new homes within the timeframe set by Government, the receipt must be returned with interest. As a result, the first source of funding for new homes provision will be the one-for-one receipt reserve, with the balance (70%) funded from the new build reserve or the reserve for future capital.
- 5.15 Sixteen properties were sold under RTB in 2017-18. In relation to the number of properties held by the HRA, this is not a material number. However, a continuation or acceleration in RTB sales, without the addition of new stock

replacing RTB losses is a cause for concern. Over a sustained period, net stock losses will increase the fixed overhead costs attributable to each unit of stock. This will reduce our ability to generate operating surpluses to support our development programme.

5.16 **Housing capital programme:** The Council delivered improvements to the value of £3.93 million to tenants' homes during the year.

5.17 **Reserves:** The HRA holds a number of reserves each for a specific purpose. They allow the Council to fund peaks in future years' projected expenditure and will be a key funding source for the Council's development programme.

5.18 Table 5 below shows the balance on each reserve at the start of 2017-18, along with the expenditure financed in year and the proposed transfers arising from the appropriation of the revenue surplus in 2017-18.

	Balance 01 April 2017	Transfer into reserve 2017-18	Used in 2017-18	Balance 31 March 2018	Proposed transfer into reserve from revenue surplus 2017-18	Closing balance 31 March 2018
	£000	£000	£000	£000	£000	£000

Reserve for future capital works	28,328	0	0	28,328	2,500	30,828
New build reserve	37,356	0	0	37,356	7,563	44,919
Major Repairs Reserve (MRR) #	6,395	5,529	(3,934)	7,990	0	7,990
Total Earmarked Reserves	72,079	5,529	(3,934)	73,674	10,063	83,737

Usable capital receipts (HRA Debt)	3,428	439	0	3,867	0	3,867
Usable capital receipts (1-4-1 receipts)	6,210	2,189	(1,307)	7,092	0	7,092
Usable capital receipts (housing and regeneration) – Pre 2013-14	14,861	0	(2,101)	12,760	0	12,760
Usable capital receipts (housing and regeneration statutory) – Post 2013-14	2,937	506	(3,022)	421	0	421
Total Capital Receipts Reserves	27,436	3,134	(6,430)	24,140	0	24,140

Total of all housing reserves	99,515	8,663	(10,364)	97,814	10,063	107,877
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5.19 **Use of operating surplus:** An operating balance of £2.5 million will be retained. This is a prudent approach and provides a degree of in-year flexibility.

5.20 The Council has clearly stated its ambition to increase the number of affordable homes in the borough and work is underway to bring forward a number of development opportunities. A combination of usable one-for-one receipts and capital receipts have been used to finance capital expenditure on the new build programme, including Guildford Park car park, Apple Tree pub site, Slyfield Green (corporation club), Willow Way and various former garage sites.

- 5.21 With this in mind, officers are proposing that £7.56 million is transferred to the new build reserve.
- 5.22 It is critical that we properly maintain our asset base to secure future income streams. A depreciation charge based on the value of the housing assets employed is made in the HRA. The 2017-18 depreciation charge was £5.5 million and the cost of maintaining the stock £3.93 million. We would normally fully utilise this depreciation charge in the year with an additional contribution from the reserve for future capital to fund the difference, but in 2017-18, we used £1.6 million less than the calculated charge, leaving a balance of £7.99 million in the major repairs reserve, as shown in the table in paragraph 5.18 above. The major repairs reserve (MRR) is ring fenced for improvements to existing stock.
- 5.23 The outcome of recent stock condition surveys indicates that, in the short term, the level of depreciation charge will significantly exceed the level of investment required in the existing stock. This will result in an increased balance on the MRR, which could be used to repay debt. Any recommendation to repay debt would be considered in the context of an updated HRA business plan, as well as by treasury management considerations at that time.

6. Financial Implications

- 6.1 The report covers the financial implications.

7. Legal implications

- 7.1 Under the provisions of the Local Government and Housing Act 1989, the Council must operate the HRA as a ring fenced landlord account. The Council can only account for specified transactions in the HRA and it must not operate at a deficit. There can be no cross subsidy between the HRA and General Fund in either direction.
- 7.2 We are required to prepare our accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the code). By adhering to the code, we meet our obligation under the Local Government Act 2003 Section 21 (3).
- 7.3 The Statement of Account must be signed by the CFO by 31 May 2018. After the accounts are audited, the CFO must re-certify the accounts before approval by an appropriate Committee of the Council. The Corporate Governance and Standards Committee will approve the accounts at its meeting on 26 July 2018.
- 7.4 The approved Statement of Accounts must be published, together with any certificate, opinion, or report issued by the external auditor.

8. Human Resource Implications

- 8.1 There are no human resource implications.

9. Conclusion

- 9.1 The HRA delivered an operating surplus of £10.06 million. No provision for the repayment of debt principal is included in this figure.
- 9.2 The HRA is better placed under the new financial regime than it was under the old national redistributive system.
- 9.3 The outturn is broadly in line with the assumptions set out in the approved 2015-45 HRA Business Plan. The HRA can support the initial development programme outlined in the development strategy and has the capacity to support material contributions to both the new build reserve and the reserve for future capital programmes.

10. Background Papers

Budget Book 2017-18 and 2015-2045 HRA Business Plan
Code of Practice on Local Authority Accounting
Account and Audit Regulations 2011

11. Appendices

Appendix 1: HRA Summary statement: Draft actual 2017-18

Appendix 1: HRA Summary statement: Draft actual 2017-18

DRAFT HOUSING REVENUE ACCOUNT SUMMARY - FOR THE YEAR ENDING 31ST MARCH 2018					
2015-16 £ Actual	2016-17 £ Actual	Analysis		2017-18 £ Estimate	2017-18 £ Draft Actual
		Borough Housing Services			
684,834	654,594	Income Collection		661,540	613,565
961,284	1,004,169	Tenants Services		935,150	948,978
94,149	71,395	Tenant Participation		139,110	64,128
71,964	68,906	Garage Management		71,080	68,808
63,133	62,795	Elderly Persons Dwellings		63,530	64,083
566,292	489,812	Flats Communal Services		410,770	524,075
414,610	473,413	Environmental Works to Estates		540,570	432,181
4,752,742	5,088,818	Responsive & Planned Maintenance		5,167,820	5,523,575
136,164	149,529	SOCH & Equity Share Administration		133,290	120,028
7,745,172	8,063,430			8,122,860	8,359,422
		Strategic Housing Services			
398,983	393,556	Advice, Registers & Tenant Selection		348,620	360,623
191,815	199,230	Void Property Management & Lettings		170,650	210,368
7,359	10,098	Homelessness Hostels		9,130	9,142
217,175	200,681	Supported Housing Management		202,710	142,418
430,396	593,967	Strategic Support to the HRA		387,900	392,915
1,245,728	1,397,533			1,119,010	1,115,468
		Community Services			
897,939	822,862	Sheltered Housing		875,690	911,190
		Other Items			
6,437,625	6,703,540	Depreciation		5,000,000	5,528,728
(1,156,635)	2,661,783	Revaluation and other Capital items		0	(44,323)
85,409	147,485	Debt Management		159,440	165,468
154,473	154,218	Other Items		649,220	280,328
15,409,711	19,950,851	Total Expenditure		15,926,220	16,316,281
(32,592,728)	(32,623,860)	Income		(31,749,670)	(32,247,174)
(17,183,017)	(12,673,009)	Net Cost of Services(per inc & exp a/c)		(15,823,450)	(15,930,894)
241,767	259,861	HRA share of CDC		238,230	264,207
(16,941,250)	(12,413,148)	Net Cost of HRA Services		(15,585,220)	(15,666,687)
(332,979)	(508,072)	Investment Income		(364,250)	(384,996)
5,173,010	5,022,423	Interest Payable		5,143,050	5,004,072
(12,101,219)	(7,898,797)	(Surplus)/Deficit for Year on HRA Services		(10,806,420)	(11,047,611)
		REFCUS - Revenue funded from capital		75,000	627,309
2,500,000	2,500,000	Contrib to/(Use of) RFFC		2,500,000	2,500,000
8,435,425	7,966,069	Contrib to/(Use of) New Build Reserve		8,231,420	7,563,162
0	0	CERA - Capital Expenditure from revenue		0	0
31,451	121,431	Tfr (from)/to Pensions Reserve		0	309,017
0	0	Tfr (from)/to CAA re: Voluntary Revenue Provision		0	640,110
1,165,390	(2,648,007)	Tfr (from)/to CAA re: Revaluation		0	71,504
0	(25,420)	Tfr (from)/to CAA re: REFCUS		0	(627,309)
(8,755)	(13,775)	Tfr (from)/to CAA re: Intangible assets		0	(27,181)
(22,292)	(1,500)	Tfr (from)/to CAA re: Rev. inc. from sale of asset		0	(9,000)
(0)	(0)	HRA Balance		0	0
(2,500,000)	(2,500,000)	Balance Brought Forward		(2,500,000)	(2,500,000)
(2,500,000)	(2,500,000)	Balance Carried Forward		(2,500,000)	(2,500,000)

2015-16 Actual £	2016-17 Actual £	Analysis		2017-18 Estimate £	2017-18 Draft Actual £
		Borough Housing Services			
(29,937,928)	(29,850,855)	Rent Income - Dwellings		(29,062,000)	(29,579,133)
(203,864)	(213,964)	Rent Income - Rosebery Hsg Assoc		(203,860)	(207,228)
(194,792)	(194,263)	Rents - Shops, Buildings etc		(181,000)	(199,874)
(661,341)	(677,827)	Rents - Garages		(730,000)	(699,962)
(30,997,925)	(30,936,909)	Total Rent Income		(30,176,860)	(30,686,197)
(300,297)	(345,764)	Supporting People Grant		(250,000)	(316,404)
(970,273)	(961,529)	Service Charges		(978,680)	(937,611)
(27,549)	(5,155)	Legal Fees Recovered		(28,000)	(21,432)
(39,590)	(40,025)	Service Charges Recovered		(54,550)	(44,698)
(257,094)	(334,477)	Miscellaneous Income		(261,580)	(240,832)
(32,592,728)	(32,623,860)	Total Income		(31,749,670)	(32,247,174)