

Corporate Governance and Standards Committee

Ward(s) affected: n/a

Report of Director of Community Services and Director of Finance

Author: Philip O'Dwyer and Claire Morris

Tel: 01483 444318 / 444827

Email: philip.odwyer@guildford.gov.uk

Lead Councillor responsible: Angela Goodwin

Tel: 01483 824616

Email: angela.goodwin@guildford.gov.uk

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Housing Revenue Account Final Accounts 2018-19

Executive Summary

The Housing Revenue Account (HRA) records all the income and expenditure associated with the provision and management of Council owned residential 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 requirements 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 2018-19.

The actual net cost of revenue services in 2018-19 was £369,394 lower than the budget of £14,406,490 (paragraph 3.1). This variation represents 1.15% of the total turnover of £31.991 million. The final outturn (subject to audit) shows a surplus for the year of £10.350 million, compared to a budgeted surplus of £9.746 million, after taking into account various accounting adjustments. The HRA working balance at year-end remains £2.5 million.

The Chief Finance Officer, in consultation with the Lead Councillor for Housing 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 £7.85 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 18 June 2019, the Executive will be asked 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 £7.85 million to the new build reserve from the revenue surplus of £10.350 million in 2018-19

Recommendation to Committee

The Committee is asked to submit any comments it wishes to make on the HRA Final Accounts for 2018-19 to the Executive.

Reason(s) 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 the Executive the opportunity to consider the draft Housing Revenue Accounts (HRA) for 2018-19 and agree any transfers to earmarked reserves before the Chief Finance Officer signs the statutory Statement of Accounts.
- 1.2 It is a legal requirement that the Chief Finance Officer (CFO) signs the draft Statement of Accounts by 31 May 2019 after which Grant Thornton, our External Auditors, will audit them. Corporate Governance and Standards Committee must approve the accounts on behalf of the Council, by 31 July 2019. We must also publish the accounts by 31 July 2019.
- 1.3 The HRA is an integral part of the Statement of Accounts.

2. Key Strategic Priorities

- 2.1 The Council is 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 2018-19.

Surplus on provision of revenue services – As per Executive Summary above	(£369,394)		
Represented by:			
	Estimate 2018-19	Actual 2018-19	Variance 2018-19
Net Cost of Services (per income & expenditure account, Appendix 1)	(£14,406,490)	(£14,933,989)	(£527,499)
Amortisation and revaluation gains & losses – reverse impact on services	£0	£45,515	£45,515
IAS 19 Pension charge - reverse impact on services	£0	(£748,521)	(£748,521)
Decrease in depreciation charge – reverse impact on services	£0	£861,111	£861,111
Net cost of revenue services	(£14,406,490)	(£14,775,884)	(£369,394)

- 3.2 The operating surplus for the HRA account in 2018-19 is approximately £10.350 million.

- 3.3 The table below shows the main variances between the budgeted and actual operating surplus for 2018-19 under the key headings.

	£000
Budgeted HRA outturn (surplus) / deficit 2018-19	
<i>Represented by the <u>budgeted</u> contribution to the Reserve for Future Capital and the New Build reserve (£2.500m + £7.246m)</i>	(9,746)
Variance from budgeted position (major variances)	
Employee Related	(159)
Investment Income and Interest charge payable	369
Capital adjustments (depreciation, revaluation, REFCUS)	(936)
Premises (Repairs & maintenance, utilities, cleaning etc)	504
Allowance for impairment	(236)
Rental income from land and wayleaves	(95)
Other	(51)
Total	(604)
Operating (surplus)/deficit available to transfer to reserve in 2018-19	
<i>Represented by the proposed contribution to the Reserve for Future Capital and the New Build reserve (£2.500m + £7.850m)</i>	(10,350)

- 3.4 Officers propose to transfer £2.5 million to the reserve for future capital, with the balance of £7.850 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 residential 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, this was funded through a portfolio of loans from the Public Works Loan Board.
- 4.3 The HRA Business Plan 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, viable housing business in a professional and cost-effective manner
- provide good quality homes in settled communities for as long as needed by tenants, consistent with our Tenancy Strategy
- increase the supply of affordable homes, including by direct provision where it is appropriate and viable to do so
- continue to strengthen communities by making our estates places people value and want to live
- value and promote tenant involvement in decision making
- widen the range of housing options open to tenants, ensuring they are in a position to make informed choices.

The 2018-19 budget reflected these objectives and priorities.

5. Outturn position and major variances

Revenue

- 5.1 Gross expenditure on services was 102.64% of the budgeted level, whilst income receivable totalled 100.24% of the budgeted level. The reasons for this are set out in paragraphs 5.4 to 5.10 below and summarised in **Appendix 1**.
- 5.2 The operating surplus for the HRA account in 2018-19 is approximately £10.35 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 £3.2 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 £80,070 (0.27%) below the estimate (Appendix 1). The service has seen rent loss due to voids, but overall collection levels remain good.
- 5.5 Employee related expenditure was £159,110 lower than estimated. This saving is spread across a range of services.
- 5.6 Each year the Ministry of Housing, Communities and Local Government (MHCLG) sets a formula rent for each Council to apply to its housing stock along with a guideline rent increase/decrease. 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 of Work and Pensions (DWP) in higher housing benefit costs. The

actual average rent for 2018-19 was below the prescribed limit rent; consequently, no RRSI charge has been applied to the HRA.

- 5.7 Investment income is £348,280 lower than the estimate as a consequence of the application of a lower risk interest rate on HRA reserve balances, reflecting the allocation of risk between the general fund and the HRA.
- 5.8 Expenditure on repairs & maintenance exceeded the budget by £427,210 or 8.1% (Appendix 1). The budget provides for both planned and responsive repairs, so an element of demand driven cost is inherent in the expenditure. The service has seen expenditure on void properties increase in 2018-19. Void units typically incur additional repair and improvement expenditure in order to prepare them for reletting.
- 5.9 Total investment in the stock, including both revenue and capital funded maintenance and improvement works was £10.072 million.
- 5.10 Rent arrears remain at consistent levels, in contrast to the overall housing sector, which is experiencing an increase in the level of arrears. Although a number of welfare reform changes have now taken effect, the delay in the roll out of universal credit has deferred any potential impact on arrears levels. As a result, a contribution of £64,000 has been made to the impairment allowance in 2018-19. The budgeted contribution for 2018-19 was £300,000.
- 5.11 The table below sets out the outturn for the headline categories across the HRA.

Account	Budget £	Draft actual £	Variance £
Employee related	3,099,400	2,940,290	-159,110
Premises related	5,300,820	5,804,985	504,165
Supplies and services	1,301,550	1,048,603	-252,947
Support services	1,540,630	1,503,494	-37,136
Transport related	92,250	82,596	-9,654
Total	11,334,650	11,379,968	45,318
Income (including recharges)	-31,916,130	-31,991,396	-75,266
Sub Total 1	-20,581,480	-20,611,428	-29,948

Comparison to net cost of services in Appendix 1			
Depreciation	6,500,000	5,638,889	-861,111
Recharge to general fund for Housing Advice service	-350,380	-337,670	12,710
IAS 19 pension adjustment	0	421,229	146,398
Revaluation and other capital items	0	-45,515	-45,515
Other minor items	25,370	506	-24,864
Sub Total 2	-14,406,490	-14,933,989	-527,499

Account (continued from above)	Budget £	Draft actual £	Variance £
Comparison to budgeted reserve contribution variance			
Corporate & democratic core charge	251,530	258,720	7,190
Investment income	-804,490	-456,206	348,284
Interest payable	5,138,210	5,159,240	21,030
Transfer to reserve: Pension contribution	0	-421,229	-421,229
Transfer to reserve: Revaluation	0	76,058	76,058
Transfer from reserve: Intangible assets	0	-30,543	-30,543
Transfer from reserve: Income from sale of assets	0	-1,750	-1,750
Revenue funded from capital (REFCUS – specific item)	75,000	0	-75,000
Total	-9,746,240	-10,349,699	-603,459

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

- 5.12 **Right to Buy (RTB) 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 2018-19 is shown in the table in paragraph 5.17).
- 5.13 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.
- 5.14 12 properties were sold under RTB in 2018-19. 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 cause for concern. Over a sustained period, net stock losses will increase the fixed overhead costs attributable to each unit of stock. This would reduce our ability to generate operating surpluses to support our development programme.
- 5.15 **Housing capital programme:** The Council delivered improvements to the value of £4.4 million to tenants' homes during the year.
- 5.16 **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.
- 5.17 Table 5 below shows the balance on each reserve at the start of 2018-19, along with the expenditure financed in year and the proposed transfers arising from the appropriation of the revenue surplus in 2018-19.

	Balance 01 April 2018	Transfer into reserve 2018-19	Used in 2018-19	Balance 31 March 2019	Proposed transfer into reserve from revenue surplus 2018-19	Closing balance 31 March 2019
	£000	£000	£000	£000	£000	£000
Reserve for future capital works	30,828	0	0	30,828	2,500	33,328
New build reserve	44,919	0	(2,083)	42,836	7,850	50,686
Major Repairs Reserve (MRR)	7,990	5,639	(4,395)	9,234	0	9,234
Total Earmarked Reserves	83,738	5,639	(6,478)	82,898	10,350	93,248
Usable capital receipts (HRA Debt)	3,867	85	0	3,952	0	3,952
Usable capital receipts (1-4-1 receipts)	7,093	1,653	(1,465)	7,281	0	7,281
Usable capital receipts (housing and regeneration) – Pre 2013-14	12,760	0	(3,201)	9,559	0	9,559
Usable capital receipts (housing and regeneration statutory) – Post 2013-14	422	3,327	(3,749)	0	0	0
Total Capital Receipts Reserves	24,142	5,065	(8,415)	20,792	0	20,792
Total of all housing reserves	107,880	10,704	(14,893)	103,690	10,350	114,040

- 5.18 **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.
- 5.19 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 useable 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, Willow Way, Ladymead and various former garage sites.
- 5.20 With this in mind, officers are proposing that £7.85 million is transferred to the new build reserve.
- 5.21 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 2018-19 depreciation charge was £5.64 million and the cost of maintaining the stock £4.4 million. We would normally expect to fully utilise this depreciation charge in the year with an additional contribution from the reserve for future capital to fund the difference, but in 2018-19, we used £1.24 million less than the calculated charge, leaving a balance of £9.23 million in the major repairs reserve, as shown in the table in paragraph 5.17. The major repairs reserve (MRR) is ring fenced for improvements to existing stock.

- 5.23 The outcome of recent stock condition surveys indicates, 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 Chief Finance Officer (CFO) by 31 May 2019. 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 25 July 2019.
- 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 £10.35 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

- HRA Budget Report 2018-19 and 2015-2045 HRA Business Plan
- Code of Practice on Local Authority Accounting
- Account and Audit Regulations 2015

11. Appendices

Appendix 1: HRA Summary statement: Draft actual 2018-19

HRA Summary statement

Draft actual 2018-19

2016-17 Actual £	2017-18 Actual £	Analysis	2018-19 Estimate £	2018-19 Draft Actual £
		Borough Housing Services		
654,594	613,565	Income Collection	695,740	738,104
1,004,169	948,978	Tenants Services	959,890	1,036,217
71,395	64,128	Tenant Participation	137,940	81,030
68,906	68,808	Garage Management	72,390	69,865
62,795	64,083	Elderly Persons Dwellings	63,930	59,064
489,812	524,075	Flats Communal Services	433,580	584,036
473,413	432,181	Environmental Works to Estates	541,170	423,867
5,088,818	5,523,575	Responsive & Planned Maintenance	5,249,470	5,676,678
149,529	120,028	SOCH & Equity Share Administration	138,690	121,665
8,063,430	8,359,422		8,292,800	8,790,527
		Strategic Housing Services		
393,556	360,623	Advice, Registers & Tenant Selection	349,880	419,543
199,230	210,368	Void Property Management & Lettings	191,190	217,026
10,098	9,142	Homelessness Hostels	9,700	9,700
200,681	142,418	Supported Housing Management	164,170	155,194
593,967	392,915	Strategic Support to the HRA	425,970	426,311
1,397,533	1,115,468		1,140,910	1,227,774
		Community Services		
822,862	911,190	Sheltered Housing	779,380	938,878
		Other Items		
6,703,540	5,528,728	Depreciation	6,500,000	5,638,889
2,661,783	(44,323)	Revaluation and other Capital items	0	(45,515)
147,485	165,468	Debt Management	160,590	163,276
154,218	280,328	Other Items	635,960	343,578
19,950,851	16,316,281	Total Expenditure	17,509,640	17,057,407
(32,623,860)	(32,247,174)	Income	(31,916,130)	(31,991,396)
(12,673,009)	(15,930,894)	Net Cost of Services(per inc & exp a/c)	(14,406,490)	(14,933,989)
259,861	264,207	HRA share of CDC	251,530	258,720
(12,413,148)	(15,666,687)	Net Cost of HRA Services	(14,154,960)	(14,675,269)
(508,072)	(384,996)	Investment Income	(804,490)	(456,206)
5,022,423	5,004,072	Interest Payable	5,138,210	5,159,240
(7,898,797)	(11,047,611)	(Surplus)/Deficit for Year on HRA Services	(9,821,240)	(9,972,235)
	627,309	REFCUS - Revenue funded from capital	75,000	0
2,500,000	2,500,000	Contrib to/(Use of) RFFC	2,500,000	2,500,000
7,966,069	7,563,162	Contrib to/(Use of) New Build Reserve	7,246,240	7,849,699
121,431	309,017	Tfr (fr) to Pensions Reserve	0	(421,229)
	640,110	Tfr (from)/to CAA re: Voluntary Revenue Provision	0	0
(2,648,007)	71,504	Tfr (from)/to CAA re: Revaluation	0	76,058
(25,420)	(627,309)	Tfr (from)/to CAA re: REFCUS	0	0
(13,775)	(27,181)	Tfr (from)/to CAA re: Intangible assets	0	(30,543)
(1,500)	(9,000)	Tfr (from)/to CAA re: rev. inc. from sale of asset	0	(1,750)
(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)

2016-17 Actual £	2017-18 Actual £	Analysis	2018-19 Estimate £	2018-19 Draft Actual £
		Borough Housing Services		
(29,850,855)	(29,579,133)	Rent Income - Dwellings	(29,314,780)	(29,236,342)
(213,964)	(207,228)	Rent Income - Rosebery Hsg Assoc	(209,980)	(208,349)
(194,263)	(199,874)	Rents - Shops, Buildings etc	(194,300)	(206,530)
(677,827)	(699,962)	Rents - Garages	(730,000)	(718,083)
(30,936,909)	(30,686,197)	Total Rent Income	(30,449,060)	(30,369,304)
(345,764)	(316,404)	Supporting People Grant	(82,000)	(140,122)
(961,529)	(937,611)	Service Charges	(1,008,040)	(1,023,033)
(5,155)	(21,432)	Legal Fees Recovered	(28,840)	(9,144)
(40,025)	(44,698)	Service Charges Recovered	(76,310)	(51,614)
(334,477)	(240,832)	Miscellaneous Income	(271,880)	(398,179)
(32,623,860)	(32,247,174)	Total Income	(31,916,130)	(31,991,396)