

## ROTHERHAM BOROUGH COUNCIL - REPORT TO MEMBERS

1.	<b>Meeting:</b>	<b>Self Regulation Select Commission</b>
2.	<b>Date:</b>	<b>27<sup>th</sup> October 2011</b>
3.	<b>Title:</b>	<b>Housing Revenue Account Balances 2011/12</b>
4.	<b>Directorate:</b>	<b>Neighbourhoods and Adult Services</b>

### 5. Summary

At the meeting of the 15<sup>th</sup> September 2011, Members of the Self Regulation Select Commission asked that a report be prepared outlining the current position on the Housing Revenue Account Balance and the management actions that have been taken to address the reduction in the Balance at the end of the financial year 2010/11.

As previously outlined to Members, the latest forecast outturn position for the HRA in 2011/12 projects a £4.876m surplus which would restore the Working Balance to £7.648m which is considered to be a prudent based on an assessment of the financial risks facing the HRA. Decisions on the future use of the Balance will be considered in the context of the new HRA Self Financing regime and the Council's 30 year Business Plan that is currently being drawn together.

Over the last 18 months the Council has been significantly altered the way in which housing services are delivered in the Borough in particular:

- By externalising the repairs and maintenance function, thereby ending the ongoing trading deficit of the In House Service Provider (ihsp) and securing significant savings on previous costs.
- By returning the management of all housing services back to the Council, and restructuring those services to reduce duplication, back office functions and bureaucracy and reinvesting resources in front line activities.

During this period the Decent Homes programme has also been successfully concluded. This programme saw over £318m invested in council housing across the borough.

Additional, one off costs associated with the management of these major change programmes and accounting code requirements (in recognising the financial closure of 2010 Rotherham Ltd) mostly contributed to the temporary, planned reduction in the 2010/11 year end balance (£2.772m).

### 6. Recommendations

Members of the Select Commission are asked to note the contents of this report.

## 7. Proposals and Details

### 7.1 Background

The Self Regulation Select Commission, at a meeting on the 15<sup>th</sup> September 2011, considered a report presented by the Strategic Director of Finance on the Council's Revenue Outturn 2010/11. Within that report, reference was made to the Housing Revenue Account (HRA) position and the reduction in the year end Balance.

Commission Members requested additional information in respect of the current forecast outturn position of the HRA and an understanding as to the prevailing circumstances that attributed to the reduction in the HRA Balance at the year ended 31<sup>st</sup> March 2011.

The Housing Revenue Account (HRA) is a statutory, ring fenced account and is subject to its own legislative, regulatory and accounting rules. It is not allowed to be in a deficit Balance position. As with the General Fund, the HRA needs to ensure that its level of Balance is sufficient to meet its known and potential future liabilities. The level of Balance is not prescribed; however, Council Members have previously considered that a Balance of between £150-£200 per property was a reasonable target.

### 7.2 Current Year Provision

The latest 2011/12 forecast outturn position for the HRA is that it will achieve a surplus of £4.876m which will lead to the HRA Balance to be carried forward into Self Financing being at £7.648m – see below:

Balance brought forward 2010/11	£2.772m
Forecast contribution to Balance 2011/12	<u>£4.876m</u>
Projected Total Working Balance 2011/12	£7.648m

Achieving this forecast outturn position will leave the HRA with a prudent level of Balance based on known and potential liabilities as the it moves into self financing and the implementation of the new 30 Year Business Plan for Housing Services that is currently being drawn together. Decisions on the future use of the Balance will need to be considered in the context of this Business Plan.

The positive forecast outturn position is in line with the original planned budget approved by Cabinet in February 2011 and is largely a reflection of the increased dwelling rents income resulting principally from rent convergence, maintaining high rent collection levels and minimising lost rent from empty houses (voids). In addition, the projected savings from reintegrating housing services to the Council is also contributing to this position.

### 7.3 Issues Arising from 2010/11

Over the last 18 months the Council has significantly altered the way in which housing services are delivered in the Borough in particular:

- By externalising repairs and maintenance functions, thereby ending the ongoing trading deficit of the In House Service Provider (IHSP) and securing significant savings on present costs.
- By returning the management of all housing services back to the Council, and restructuring those services to reduce duplication, back office functions and bureaucracy and reinvesting resources in front line activities.

During this period the Decent Homes programme has also been successfully concluded. This programme saw over £318m invested in council housing across the borough.

Additional, one off costs associated with the management of these programmes of change and accounting requirements (in recognising the financial closure of 2010 Rotherham Ltd) mostly contributed to the temporary, planned reduction in the 2010/11 year end balance (£2.772m).

These additional cost pressures are summarised below, together with a brief description of how service improvements will give better control and accountability and reduce the need to utilise current and future years' balances.

- **Completion of the Decent Homes Programme (£1.533m)** – in completing the £318m Programme and taking the decision to reintegrate housing services, the Council (that is, the HRA) had to financially recognise the net assets and liabilities of 2010 Rotherham Limited in its year ended 31 March 2011 Statutory Accounts, even though the Company was still operational until 30th June. Because the formal decision was not taken until February 2011, such costs were not recognised in the budget forecasts. These additional costs comprised of:
  - Accounting recognition of Decent Homes contractor final retention payments (£1.2m) that only become due for payment in 2011/12.
  - Additional contribution (£0.330m) to meet one-off costs associated with completing the Decent Homes Programme in particular related to ad hoc (pepper potted) capital works on houses / estates across the borough. Such works led to higher than expected cost variations (as the efficiencies which accrue from a programme of works on properties located in close proximity to each other, were not achievable).
- **Additional Repairs and Maintenance (R&M) Investment (£1.2m)** - until 1<sup>st</sup> November 2010 all R&M works were undertaken by 2010 Rotherham's IHSP. The IHSP had incurred significant losses over several years. In the year 2009/10 these losses exceeded £900k, and were projected (should

nothing change) to be in the region of £2m each year by 2011/12. These losses resulted principally from reduced work programmes. As a means of addressing this, 2010 Rotherham Ltd Cabinet agreed in July 2010 to externalise R&M from 1<sup>st</sup> November 2010. In preparation for externalisation the IHSP, there was a need to address a series of backlog responsive and batched repair work. In addition, the Council working with 2010 Rotherham Ltd, sought to minimise the time lag in reletting empty houses (voids) as well as addressing an increase in the churn rate of properties.

Under the new contracts:

- planned work is let on a scheme by scheme basis with a fixed price agreed before the start of work. Any changes to the scope of work or the value requires specific client approval.
- Responsive and cyclical work has therefore been awarded through the externalised service on an agreed Price Per Property (PPP). This means that all works carried out will be covered by one yearly payment regardless of the number and cost of work undertaken, so long as it is within the defined scope of works.

This approach gives greater transparency and control of both works and costs and therefore accuracy in financial forecasting. As a result no financial losses were incurred on R&M activity once the service was externalised.

- **Increase in subsidy payment (£1.162m)** - this position arose, due in the main, to reduced interest charges and debt management costs payable by the HRA than those forecast in the year resulting from treasury management decisions taken at the year end on behalf of the Council (not just the HRA) – this resulted in the Council receiving a reduced Government Subsidy entitlement. The introduction of the HRA Self Financing regime in 2011/12 will end the current subsidy system and the HRA will become responsible for its own treasury management and borrowing strategy.

- **Increase in the management fee amounting to £3.109m -**

2010 Rotherham Ltd transferred back to the Council at midnight on 30<sup>th</sup> June 2011. At this point, the net assets and liabilities (£3.109m) of the Company had to be transferred to the Council in line with professional accounting standards. Cumulatively these net liabilities reflect the financial position of the IHSP and additional one off costs resulting from management actions related to the externalisation and reintegration of services back to the Council. In disclosing this financial relationship, the Council in conjunction with its external auditors, (KPMG LLP), agreed that the item should be shown as ‘an increase in the management fee’.

The above cost pressures were in part offset by:

- Less than expected supervision and management costs (£417k) due to downsizing
- Increased rental income of £713k due to minimising rent losses from empty homes and sustaining the high rent collection rates achieved.

This enabled the HRA to also reduce the forecast bad debt provision required by £117k.

## **8. Finance**

The financial details are contained within the body of this report.

## **9. Risks and Uncertainties**

Paragraph 7.1 states that a contribution to Working Balance of £4.876m has been forecast for the 2011/12 budget.

Any budget pressures or unforeseen items not provided for during 2011/12 may have to be met from Working Balance.

## **10. Policy and Performance Agenda Implications**

The HRA supports the new Corporate Plan Priorities and is central to the long term Housing Strategy:

- Making sure no community is left behind.
- Helping to create safe and healthy communities.
- Improving the environment

## **11. Background Papers and Consultation**

- Revenue Account Outturn Report (2010/11), 15<sup>th</sup> September 2011
- Budget and Council Tax Setting Report 2011/12, March 2011
- Director of Strategic Finance and Director of Housing and Neighbourhood Services have been consulted on the preparation of this report.
- Cabinet Report: 2010 Rotherham Ltd repair and maintenance externalisation (confidential) 21.07. 2010

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