

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

OVERVIEW AND SCRUTINY COMMITTEE ON HOUSING, ENVIRONMENTAL HEALTH AND ADULT SOCIAL CARE – 12 JULY 2006

REPORT BY THE EXECUTIVE DIRECTOR FOR HOUSING, HEALTH AND ADULT SOCIAL CARE AND THE TMO CHIEF EXECUTIVE

HOUSING REVENUE ACCOUNT OUTTURN REPORT 2005/2006

This report is to inform the OSC of the outturn position on the Housing Revenue Account (HRA) for 2005/2006.

FOR INFORMATION

1. Introduction

1.1. This report sets out the position on the HRA and HRA Working Balance now that the final outturn position on the HRA for 2005/2006 has been established, although this is still subject to external audit. The working balance of £2.552 million at the end of 2005/2006 compares with the projected working balance of £2.702 million.

2. Background

2.1. The Council's HRA for the financial year 2005/2006 has now been closed. This report sets out the final end of year position and includes details of:

- The HRA budgets still managed directly by the Council, which include budgets for capital charges, housing subsidy and rent rebates;
- The Managed Tenants Consultative Committee budgets which are managed by the TMO;
- The TMO and Lancaster West EMB Management Fee. This report does not cover the detail of the TMO's company accounts - that will be reported to the TMO Board in a separate paper.

- The closure of the accounts for 2005/2006 was achieved a month earlier than in previous years in line with revised statutory guidelines.

3. Movement in HRA working balance

- 3.1. The revised estimates for the HRA for 2005/2006 were reported to the TMO Board, the Tenants Consultative Committee and the Overview and Scrutiny Committee on Housing, Leisure, Arts and Regeneration in January and February 2006.
- 3.2. The balance of £2.552 million at the end of the year compares with the target working balance of £2.702 million projected in the January 2006 revised estimates as part of the rent setting process. The changes are summarised in the table below and explanations of the variations are set out in section 4. A further detailed analysis is shown in Appendices 1, 1a and 1b.

	Revised Estimate £000	Actual £000	Variance £000
Working Balance 1 April 2005	(2,699)	(2,699)	0
Net (Surplus)/Deficit for the year	(3)	147	150
Working Balance 31 March 2006	(2,702)	(2,552)	150

4. Variations

- 4.1. The variations from the revised estimates are detailed in **Appendix 1**.
- 4.2. The most significant variations on TCC managed budgets (detailed in Appendix 1a) are:-
- Repairs and Maintenance – The £189,000 underspend includes:
 - A £289,000 underspend on planned maintenance principally arising from slippage in maintenance programmes in comparison to the revised budget position, largely on the external decorations programme (due to Section 20 consultation delays).
 - A £132,000 overspend on response repairs due to an overall increase in demand/activity compared to that incorporated within

the revised budget position. Responsive works are by their nature demand driven, and variances against the budget cannot be fully avoided.

- An underspend of £32,000 on planned response repairs.
- Electricity, Heating and Hot Water - The £76,000 underspend largely derives from a greater proportion of recovered/refunded bills than anticipated within the revised budget.
- Provision for Bad & Doubtful Debts – There is an underspend of £225,000. This is following the year-end review of the required bad debt provision against the outstanding debt as at 31 March 2006, according to the methodology previously agreed with the Council's auditors
- Miscellaneous budgets – the overspend of £70,000 includes:
 - An overspend of £92,000 on General Management resulting from the under recovery of water rate charges to tenants (£200,000) offset by underspends against the NNDR, Right to Repair and Legal Costs budgets.
 - An overspend of £41,000 on the Notting Hill Carnival
 - An underspend of £51,000 on the pest control contract.
 - Other minor variations
- Dwellings Rents/ Charges for Services and Facilities/Grants - The position on dwelling income, charges for services and facilities and grants needs to be taken together. The overall income is £171,000 lower than revised budget. This is mainly due to adjustments to leaseholder major works invoices as a result of amendments made due to charging limitations within leases. These amendments were not accounted for in the revised estimate. The Supporting People grant income has been disaggregated from these budgets and shown under Grants and contributions.
- Miscellaneous - The income for Heating and Hot Water is £174,000 lower than revised budget. A review of this income stream identified a budget error of £140,000 due to the duplication of income in the revised budget.

4.3 The most significant variations on Council managed budgets (detailed in Appendix 1b) are:-

- A decrease in charges for Capital of £85,000 arising from an adjustment to the Capital Financing Requirement.
- An overspend on Support Service Recharges of £297,000. This mainly relates to:

- An overspend of £99,000 on legal charges. The budget for legal was only £23,500. The total spend includes to £48,000 on general advice, £21,000 relating to discretionary sales and £9,000 on contracts. This reflects an increase in advice needed during the year.
- An overspend of £128,000 on departmental charges. This partly relates to the costs of consultants and also the cost of welfare support which had not been reflected correctly in the revised budget.
- An overspend of £25,000 on Central Support Service charges for Corporate Finance. This is the HRA share of the overspend on the Public and Employers Liability Insurance.
- Other minor variations on Support Service recharges.

5. **HRA Working Balance**

- 5.1 The policy adopted in recent years has been to maintain a HRA working balance comprising £1 million for general working balances and £1 million as a cushion against future loss of subsidy. Despite the net overspend of £147,000 for 2005/2006, the working balance has been maintained above this level.

6. **HRA Reserves**

- 6.1. The HRA has reserves of £18.951 million. A breakdown of the reserves is shown in **Appendix 2**.
- 6.2. The Capital and Major Works reserve of £18.012 million forms the majority of the HRA reserves of which the unused Major Repairs Allowance is £13.525 million. The use of this reserve is incorporated into the Capital Financial Plan. A further detailed breakdown of this reserve is shown in Appendix 2b.

7. **HRA Outlook**

- 7.1. A detailed review of the future position of the HRA has been conducted. It is anticipated that, without any action being taken to reduce costs, the HRA will be in deficit by the year 2010/11. The TMO and Council are reviewing options for action to be taken to prevent this deficit occurring.

8. **Financial, Legal Personnel and/or Race Equality Implications**

8.1. The Head of Resource Management's comments are included in the body of the report.

8.2. There are no Legal, Personnel or Race Equality implications.

FOR INFORMATION

Jean Daintith

Executive Director for Housing, Health and Adult Social Care

Gordon Perry

Chief Executive of the Tenant Management Organisation

Background Papers

Closure of Accounts Working papers

Officer Contact

Ella Newcombe – Housing Finance Manager.

Tel: 020 7361 2375

E-mail: ella.newcombe@rbkc.gov.uk

Appendix 1

Description	Revised Estimate	Actual	Variation	
	£000	£000	£000	
<u>EXPENDITURE</u>				
TMO and Lancaster West EMB Management Fee	12,020	12,020	0	
TCC Managed Budgets	17,152	16,751	(401)	Appendix 1a
Council Managed Budgets	20,395	20,580	185	Appendix 1b
<u>INCOME</u>				
TCC Managed Budgets	(39,354)	(39,036)	318	Appendix 1a
Council Managed Budgets	(9,716)	(9,707)	9	Appendix 1b
Capitalisation of Maintenance Spend	(500)	(461)	39	
NET (INCOME) / EXPENDITURE	(3)	147	150	
Transfer to / (from) Working Balance	(3)	147	150	

Appendix 1a

MANAGED TCC BUDGETS VARIATIONS TO ESTIMATE				
Item	Budget £000	Actual £000	Variance £000	Comment
EXPENDITURE				
Repairs & Maintenance	12,074	11,885	(189)	
Electricity, Heating and Water	1,959	1,883	(76)	
Provision for Bad Debts	623	398	(225)	
Cleaning Contracts	1,643	1,662	19	
Miscellaneous	853	923	70	
Total Expenditure	17,152	16,751	(401)	
INCOME				
Dwelling Rents	(30,367)	(28,380)	1,987	
Non Dwelling rents	(2,388)	(2,414)	(26)	
Charges for Services and Facilities	(5,619)	(7,051)	(1,432)	
Grants / Contributions	0	(384)	(384)	
Miscellaneous	(980)	(806)	174	
Total Income	(39,354)	(39,036)	318	
Revenue Capitalisation	(500)	(461)	39	
Net Managed TCC Budgets	(22,702)	(22,746)	(44)	

Appendix 1b

COUNCIL MANAGED BUDGETS VARIATIONS TO ESTIMATE				
Item	Budget £000	Actual £000	Variance £000	Comment
EXPENDITURE				
Transfer to Corporate for unsubsidised incentive area costs	70	43	(27)	
Support Service Recharges	1,016	1,313	297	
Debt Charges, Depreciation and Other	19,309	19,224	(85)	
Total Expenditure	20,395	20,580	185	
INCOME				
Government Grants	(8,804)	(8,779)	25	
Other	(912)	(928)	(16)	
Total Income	(9,716)	(9,707)	9	
Net Managed Council Budgets	10,679	10,873	194	

Appendix 2

HRA RESERVES	Balance as at 31st March 2005	In Year Movement	Balance as at 31st March 2006
	£000	£000	£000
Capital & Major Works Reserve (See Appendix 2b)	(14,451)	(3,561)	(18,012)
Controlled Repairs Reserve	(297)	(119)	(416)
Lancaster West Estate Management Board	(284)	(139)	(423)
IT Reserve	(87)	0	(87)
Allocations Reserve	(13)	0	(13)
TOTAL HRA RESERVES	(15,132)	(3,819)	(18,951)

Appendix 2b

CAPITAL & MAJOR WORKS RESERVE	Major Repairs Allowance	HRA Earmarked Reserves	Total
	£000	£000	£000
Balance as at 1 April 2005	(9,965)	(4,487)	(14,452)
Major Repairs Allowance	(6,182)	0	(6,182)
Use of Major Repairs Allowance	2,622	0	2,622
HRA Contribution	0	0	0
Capital Works	0	0	0
Balance as at 31 March 2006	(13,525)	(4,487)	(18,012)