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20 September 2013

Dear Councillor

I am now able to enclose, for consideration at the **EXTRAORDINARY** meeting of the **COUNCIL** on Wednesday 25 September 2013 at 6.00 pm, the following report that was unavailable when the agenda was printed.

4 **HOUSING REVENUE ACCOUNT BALANCES** (Pages 2 - 32)

The Cabinet at its meetings on 24 September 2013 and 25 September 2013 and the Scrutiny (Policy and Performance) Committee at its meeting on 24 September 2013 considered the attached report of the Director of Finance, Housing and Community upon the Housing Revenue Account Balances.

The recommendations will be circulated at the meeting.

Yours sincerely

Chief Executive

Subject:	**HOUSING REVENUE ACCOUNT BALANCES**
Meeting and Date:	**Special Cabinet – 24 September 2013** **Scrutiny (Policy & Performance) Committee – 24 September 2013** **Special Cabinet – 25 September 2013** **Extraordinary Council – 25 September 2013** **Governance – 26 September 2013 (Members are requested to bring this report to the Governance meeting, as the attachments to this report may be referred to in the discussion on the 2012/13 outturn report and statement of accounts).**
Report of:	**Mike Davis, Director of Finance, Housing and Community**
Portfolio Holder:	**Councillor Sue Chandler, Portfolio Holder for Housing, Children's Services and Safeguarding, Youth and Community Safety and Councillor Mike Conolly, Portfolio Holder for Corporate Resources and Performance**
Decision Type:	**Non-Key**
Classification:	**Unrestricted**
Purpose of the report:	To approve the transfer of £12.5m of credit balances in the Council's 2012/13 accounts from the Housing Revenue Account (HRA) to the General Fund (GF).
Recommendation:	That Cabinet recommend that Council approve the transfer of £12.5m of credit balances from the HRA to the GF, in the Council's 2012/13 accounts, in accordance with Schedule 4, Part III, paragraph 2 of the Local Government and Housing Act. That Council approve the transfer of £12.5m of credit balances from the HRA to the GF, in the Council's 2012/13 accounts, in accordance with Schedule 4, Part III, paragraph 2 of the Local Government and Housing Act.

1. Summary

1.1 The introduction of HRA self-financing in 2012/13 was accompanied by the abolition of housing subsidy in the HRA. Schedule 4, Part III, paragraph 2 of the 1989 Local Government and Housing Act has always provided as follows:

1.2 *"A local housing authority to whom no Housing Revenue Account subsidy is payable for any year may carry the whole or part of any credit balance shown in their Housing Revenue Account for that year to the credit of some other revenue account of theirs".*

1.3 The advice of the Council's Treasury Management advisers, Capita (formerly known to Members as Sector), and the Solicitor to the Council, is that it would be permissible to make a transfer from the HRA to the GF, in the 2012/13 accounts of some, or all, of the accumulated credit balance in the HRA as at 31st March 2013 (see Appendix 1).

1.4 The ability for English housing authorities to make this transfer will cease as from 1st October 2013, following the coming into force of the Localism Act 2011 (Commencement No. 9) Order 2013.

1.5 Therefore the Council has a short period, ending on 30th September 2013, during which it can decide whether to make a transfer from the HRA to the GF.

1.6 In view of the potential implications and opportunities created by such a transfer, and the fact that it would be outside of the current budget and policy framework, this is a matter for Council to consider and decide.

1.7 As at 31st March the HRA (as shown in the accounts to be presented to Governance for approval on 26th September) had a balance of £13.1m.

1.8 In considering this matter, Members will need to decide:

(a) Should the Council make any transfer of the HRA balances to the General Fund? And

(b) If so, how much should be transferred?

2. Introduction and Background

2.1 The HRA is currently a ring-fenced account.

2.2 The bulk of the properties within the HRA were constructed from public funds before the HRA was "ringfenced" by the Local Government and Housing Act 1989. Before ringfencing, the HRA and GF were not separated in the same way, and the HRA would frequently receive financial support from the GF. In addition, a significant proportion of the balances have accrued from rental income supported by Housing Benefit funded from general taxation.

2.3 After ring-fencing many HRA's ran at a deficit, and received support by way of housing subsidy from central government. This was funded, in part, by "negative subsidy" paid by the HRA's that were in surplus. Overall, the system was balanced or supported by central government funds. The advice from Capita at Appendix 1 provides more detailed background on these issues.

2.4 However, in recent years, a large proportion of the HRA's, including Dover's, moved to a position of "negative subsidy", where they made payments to government and the system, at a national level, was in surplus – with government using the surplus for other purposes.

2.5 This arrangement came to a close with the introduction of "self financing" from 2012/13. Authorities paying a negative subsidy to government were required, by government, to pay a significant sum to government as a means of buying themselves out of the annual negative subsidy payments.

2.6 In Dover's case, for 2011/12, the last year of the subsidy system, DDC paid £5.9m to government, and this figure was increasing annually. In contrast, after borrowing £90.4m from the PWLB and paying it to government, the HRA now has to pay £4.7m per annum to the PWLB to service the new debt. The HRA is circa £1.2m per annum better off under the new system.

3. **Sustainability of the HRA**

3.1 Any consideration as to the amount (if any) that should be transferred from the HRA to the GF needs to take into account the HRA's current and future position.

3.2 The 2012/13 unapproved accounts[1] circulated to Governance currently show an HRA balance of £13.1m[2]. In addition the HRA budget for 2013/14 forecasts a further £1.7m surplus and the HRA business plan forecasts generally increasing surpluses for the coming years.

3.3 In order to project the impact of transferring balances to the general fund, modelling has been undertaken, to demonstrate the impacts of transferring £12.5m to the general fund (see Appendix 2). To test for sensitivity this has also been modelled with transfers of £11.5m and £13.0m.

3.4 These show that, other than the level of balances held, and a very small difference in the interest receivable, all three options are sustainable in the short, medium and long term.

3.5 In this modelling the following factors have been taken into account with regard to the HRA revenue budget:

(a) Rent Increase

The assumed rent increases are CPI+1% in accordance with recent government proposals.

(b) General Inflation

This has been assumed at 2.5%.

(c) Rent collection rates and bad debt provision

Rent collection has been assumed to be maintained at broadly the current levels, but with an assumed increase in bad debt provision to allow for the possible effects of welfare reform. The plan therefore provides for bad debts of £250k per annum. In 2012/13 bad debt provision was £64k.

(d) Interest on cash balances

An initial loss of interest on cash balances has been assumed, following the transfer. This has then been re-introduced to reflect the re-establishment of HRA balances through future surpluses.

[1] To be presented to Governance for approval on 26th September 2013.

[2] This currently comprises £5m in the earmarked Housing Initiatives Reserve and £8.1m in general balances. There is also £250k in the Tenants Compact Reserve, but this has not been included in the current proposals, and will remain at the tenants' disposal.

(e) Debt repayments

The debt repayments (of combined capital and interest) on the borrowing required for self-financing are fixed in cash terms over the 30 year term, and therefore as rental income increases, the HRA's financial position is expected to improve.

(f) Basis of assumptions and projections

The data in Appendix 2 are forecasts and projections, not budgets. Accordingly, they cannot be developed with precision, therefore a prudent and conservative approach has been taken, with expenditure assumed to be at the higher end of expected ranges, and income at the lower end.

(g) Impairment

Members should be aware that, from 01/04/2012, regulations were introduced requiring local authorities to charge impairment losses on revaluation of HRA assets against revenue balances where they cannot be absorbed by past upward revaluations. The regulations exclude HRA dwellings for a period of five years and for the interim period affect HRA non-dwelling assets such as garages and shops only.

From 01/04/2017 impairment losses on dwellings will be included and with a property portfolio of circa 4,400 properties, a loss of value averaging just £1,000 per property, would lead to an impairment charge of £4.4m.

Where this can be absorbed by the revaluation reserve, if it has previously benefited from increases in value, the issue is not a problem. Where this is not the case, then the impact would be charged to the HRA balances.

House prices are currently at a comparatively low point in their cycle (certainly within the Dover district). It follows that any short term price movement is expected to be upwards. If this happens the increased valuations will be posted to a "revaluation reserve", where they will remain. If there are subsequent reductions in values, they will simply erode the revaluation reserve balance.

Therefore, any impairment will only start to impact on the HRA if values fall below their current level, as carried on the Council's balance sheet. This, together with the robust position of the HRA and the rate at which reserves will be rebuilt, all place DDC's HRA in a stronger position to deal with impairment than many HRAs.

Members should also note that this is purely an accounting entry and if it is seen to be creating unsustainable problems to HRAs generally, it is difficult to envisage a situation where the requirement will not be removed by the DCLG.

(h) Overall variation in the baseline for 2013/14

The current 2013/14 surplus is forecast to be £1.72m. The (prudent) re-working of the 2013/14 budget shows a forecast of £1.143m.

The variation of £577k reflects the impacts of the transfer (primarily reduced interest on cash balances) and other variations as follows:

Variance Analysis	£k
Term maintenance – increased expenditure advised by EKH	50.0
Increased voids advised by EKH	100.0
Loss of interest	138.0
Increased EKH management fee	65.0
ICT Investment	28.0
Sheridan Road Play Area	48.0
Structural repairs	100.0
Other	48.0
Total	**577.0**

3.6 The following factors have been taken into account with regard to the HRA's capital and major projects.

(a) Whitfield

£2.5m was specifically allocated for development at Whitfield, and was to be used to build / commission 26 units of social housing to be retained within the HRA.

However, following further discussions with the developer, the Council has indicated that it intends to exercise its option to acquire the land at Whitfield and seek a development partner (probably an RSL) to build the 26 affordable units on the land, and to support this through a GF grant as gap funding, using a proportion of the reserves transferred from the HRA.

(b) Sheltered Housing Scheme

Funding of £1.8m has been allowed for the planned refurbishment and remodelling of one of the Council's sheltered housing schemes, and this investment accounts for the dip in the level of surplus in 2014/15.

(c) Single Housing ICT System

East Kent Housing are assessing the business case for the procurement of a single housing system for the EKH partnership. £350k has been included as the Council's estimated potential share of this project.

(d) Structural Repairs

An additional £100k per annum has been provided, including provision for reconstruction of retaining walls that are nearing the end of their life.

(e) Investment in the existing stock

The Council's current housing stock meets the decent homes standard and the current plan enables us to exceed this standard.

In addition, the council has signed up to the "green deal" providing tenants with access to loft and cavity wall insulation to address inefficiencies in the existing properties and mitigate fuel poverty.

The HRA business plan indicates that future balances will be generated, from which additional investments could be made.

(f) HRA Capital Headroom

As the HRA pays off circa £1.8m per annum of its outstanding debt in the early years, it is creating headroom for additional borrowing, should that be required. By the end of 2013/14, this headroom will be circa £3.6m, rising to £20m by 2022. If there is an urgent call for HRA capital resources, this could be provided by additional borrowing.

3.7 Overall, the revenue budget is robust and closely monitored. The capital programme is fully funded and also closely monitored, and therefore the HRA could sustain a transfer of £12.5m without undue risks.

4. **Benefits to the Council**

4.1 The primary benefits to the Council are flexibility and sustainability.

4.2 If the balances were to remain within the HRA then, after 30 September, they could only be used for the specific purposes of the HRA. By transferring the balances to the general fund, they can be applied to the whole range of General Fund purposes. These could include, but are clearly not limited to:

(a) The provision of additional housing, outside of the HRA, through direct construction / purchase or by financial assistance to Registered Social Landlords (RSLs);

(b) The potential to increase Disabled Facilities Grants;

(c) The maintenance of statutory services which could otherwise, in 3 – 4 years time, become unsustainable;

(d) The development of a financial strategy to sit above the Medium Term Financial Plan (MTFP), and to consider significant scale investment projects that would assist the council in working towards a sustainable model that could cope with total loss of the Revenue Support Grant (RSG) within 5 – 10 years.

5. **Financial Strategy**

5.1 In considering the development of a financial strategy, the Council will analyse its projected resource base and whether it should plan its baseline budget to be as self financing as possible, so as to prepare for potential further losses in RSG.

5.2 The Council also needs to take into account the additional uncertainty and volatility in its resourcing and expenditure as a result of reducing RSG, the Council Tax

Reduction Scheme, the Localisation of Business Rates, the top slicing of New Homes Bonus and the range of welfare reform initiatives.

5.3 In the light of these uncertainties, a higher level of balances, if achievable, would be prudent.

5.4 The 2013/14 budget shows:

Financing	2013/14 Budget £000	%
Revenue Support Grant (RSG)	3,481	23.7
NDR (Business Rates)	3,237	21.9
Council Tax Support Funding	1,218	8.3
Council Tax	5,822	39.5
New Homes Bonus	927	6.3
Collection Fund Surplus	37	0.3
Sub Total	**14,722**	**100.0**
Impact of Business Rates Redistribution	-243	
Total	**14,479**	

5.5 If the government do withdraw all RSG over the coming 5 – 10 years, then that would equate to a reduction of circa 23.7% in overall resourcing. From 2014/15, the Council Tax Support Funding will be rolled into the RSG, so if that is also withdrawn the reduction could be as high as 32%.

5.6 In addition, although the New Homes Bonus was originally presented as a secure, stable income stream, government now propose to top slice, and re-distribute via the LEP. Therefore the NHB available to DDC is likely to reduce and there is no certainty that NHB top sliced from DDC and paid into the LEP is spent in Kent, let alone East Kent or Dover.

6. Impacts upon the services provided to tenants

6.1 The HRA's baseline budget is robust and is operating at a surplus which, with rent convergence and capped debt charges to the PWLB, is forecast to be maintained and to grow.

6.2 Therefore, no detrimental service impacts to HRA tenants or additional rent increases will arise as a direct result of this proposal. This is supported by the advice from Capita – see paragraph 2.9 of Appendix 1.

7. What would happen to the balances after transfer to the General Fund

7.1 After transfer, the balances would still remain under the Council's control. Transfer does not imply authority to spend. The balances would remain under the same controls and budgetary processes as existing resources.

7.2 The 2014/15 budget and the Medium Term Plan 2014/15 – 2017/18 are being prepared. If the transfer is approved then they will be reflected in the budget and MTFP, together with a strategy for their use and detailed of any proposed specific applications. This will be subject to Cabinet and Council decisions and Scrutiny.

8. **Views of the Councils Auditors and Advisers**

8.1 Grant Thornton (GT), the Council's auditors, have been advised of the proposed transfer and are not minded to challenge it.

8.2 The auditors also confirm that the opportunity to make this transfer ends on 01/10/13 and advises that we have to satisfy ourselves that in exercising the discretion to make any transfer we can reasonably demonstrate that we have done so lawfully. In particular we need to adequately consider:

(a) The power to do so;

(b) The impact on the HRA and the HRA Business Plan;

(c) The risks;

(d) The year of account in which the entry should be made and whether the transfer is for the accumulated credit at the time of transfer, or the surplus for that year;

(e) Governance issues.

8.3 The Council's advisers, Capita, have also been consulted. Their advice and views are contained in Appendix 1. This report is consistent with their views.

9. **Terms and Conditions**

9.1 It is important that, in considering the transfer, Members understand that they cannot, at present, reverse the transfer, and this position is unlikely to change. They should also understand the limitations and flexibilities that will follow the transfer. In particular, once transferred, the funds cannot generally be used:

(a) To support continuing HRA activities;

(b) To support capital expenditure for HRA (although there may be some scope for flexibility around this point);

(c) For the purchase or construction of housing to be run by the council as part of any social housing scheme.

9.2 The funds <u>can</u> be used to:

(a) Provide grants to RSLs;

(b) Fund the construction of housing for sale or for commercial operation (ie not social housing);

(c) Fund any other general fund revenue purpose;

(d) Fund any other General Fund capital purpose.

10. Risks

10.1 Unexpected HRA deficit.

10.2 The HRA budgets and business plans have been robustly produced, and have proved reliable. Therefore this risk has been mitigated and the residual risk is regarded as low.

10.3 Urgent capital requirement

10.4 The HRA is forecast to remain in surplus, thus rebuilding its reserves, which will be available for capital purposes if required. However, the capital headroom for borrowing is increasing as the existing debt is repaid, creating capacity for additional capital funding if required.

10.5 Welfare reform

10.6 The impact, so far, of welfare reform, has been relatively modest. However, the future projections have included modelling the impact of a reduction in rent collection rates and an increase in bad debt provision. Nonetheless, the HRA is projected to remain in surplus.

10.7 Loss of budgetary control.

10.8 DDC staff have retained control over the HRA, and undertake continuous budget monitoring through the year, based on information from EKH, to ensure that any adverse and unsustainable trends are identified early and corrective action taken. The mitigated risk is considered low.

11. Identification and Evaluation of Options

11.1 First decision:

(a) Make a transfer

(b) Do not make a transfer

11.2 If the transfer is not made, the GF's ability to cope with its reducing resource base, and in particular, its ability to invest in transformational change, is severely limited. For this reason this is not the recommended option.

11.3 If the transfer is made, then the General Fund will have the flexibility and resources to invest in changes that will better enable the Council to operate within the more constrained resourcing level it faces. For this reason, this is the recommended option.

11.4 Second decision:

(a) £12.5m

(b) £11.5m

(c) £13.0m

11.5 Transferring £13.0m of balances would leave the HRA with minimal balances during 2013/14 to cope with any unexpected (albeit unlikely) additional pressures.

11.6 Transferring £11.5m does not maximise the opportunity available.

11.7 Transferring £12.5m provides the HRA with a reasonable cushion, but still maximises the opportunities available to the GF. For these reasons this is the recommended option.

12. **Changes to the Accounts**

12.1 Appendix 3 contains changes to the accounts that would be made if the £12.5m transfer is approved. The changes would be identical, save for the specific amount, if some other transfer were approved.

12.2 It is proposed that Governance will approve the final accounts based on incorporation of Appendix 3 into the accounts.

13. **Equalities Impact Assessment**

13.1 The proposed transfer is an accounting entry that does not have a direct or immediate impact on the services provided by the council, nor does it provide authority to spend on any particular service.

13.2 The resources transferred could continue to be used to support the provision of social housing via an RSL, or for any other General Fund purpose.

13.3 The transfer does not prevent the Council from pursuing its objectives in compliance with the public sector equalities duty.

14. **Corporate Implications**

14.1 Comment from the Section 151 Officer: Finance have produced this report, and therefore have no comment to add.

14.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

14.3 Comment from the Equalities Officer: The Equality officer has been consulted during the development of this report and has no further comments to make other than to remind members that in discharging their responsibilities they are required to comply with the public sector equality duty as set out in section 149 if the Equality Act 2010 http://www.legislation.gov.uk/ukpga/2010/15

15. **Appendices**

Appendix 1 – Advice from Capita

Appendix 2 – Modelling of HRA Business Plan and Transfer Values

a) £12.5m

b) £11.5m

c) £13.0m

Appendix 3 – the changes to the 2012/13 accounts if the proposals are approved (assuming a transfer of £12.5m).

16. **Background Papers**

(a) Medium Term Financial Plan 2013/14

(b) HRA Business Plan

(c) 2012/13 Accounts

(d) Local Government Act 1988

(e) The General Consents under section 25 of the Local Government Act 1988 (Local Authority assistance for privately let housing) 2010

(f) 1989 Local Government and Housing Act

(g) Localism Act 2011 (Commencement No. 9) Order 2013.

Contact Officer: Mike Davis, Director of Finance, Housing and Community

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APPENDIX 1

CAPITA

Asset Services

Consideration of Issues in Connection with the Potential Transfer of HRA Credit Balances

Contents

1. Introduction

1.1 Capita Asset Services (Treasury solutions) has advised the Authority that there is a provision within the legislation that governs Housing Revenue Account (HRA) accounting requirements which provides housing authorities with an ability to transfer any credit balance on the HRA to any other revenue account, which will in essence be the Authority's General Fund (GF).

1.2 Under normal circumstances the HRA is a "ring fenced" account, whereby there are strict rules governing the manner in which expenditure and income for HRA services must be accounted for. In essence, these restrict an authority from charging, crediting or otherwise transferring money between their HRA and General Fund.

1.3 Following the introduction of HRA Self Financing, local authorities have ceased to qualify for the receipt of housing subsidy in the manner which applied until 31st March 2012. Consequently, a little appreciated provision within the governing legislation became operational, which allows the Authority to transfer any credit balance on their HRA to their GF.

1.4 This provision only has effect until 30th September 2013, after which time the provision is repealed.

2. Past Inequities between the General Fund and the HRA

2.1 Although the accounting requirements which have since 1989 governed HRA accounting have had the intention of ring fencing the costs and benefits which are considered to only have relevance to the social housing function, the accounting treatment of certain matters is known to cause, or have caused, significant financial disadvantage to authorities' General Funds both over many earlier years, and for the future.

2.2 The most recent factor concerns the treatment of capital receipts. All capital receipts have always been the property of GF, regardless of the asset from which they derive. This situation remains, as all assets are owned by the authority. However, a recent statutory change means that capital receipts arising from the sale of an asset previously held for housing purposes must in future be used for an HRA purpose if the authority wishes to avoid the prospect of having to increase their GF loan interest costs. There is no financial justification for such a change/cost increase for GF, as the cost of the assets which gave rise to the capital receipt has always been met from subsidy. HRA tenants have never borne any of the costs, but will in future receive benefits that were not envisaged as part of the HRA self financing settlement.

2.3 The extent to which GF was able to recharge the HRA in respect of that account's relevant proportion of loan interest has been inappropriately assessed over a number of years. The recharge arrangements were complex, but in essence the HRA did not bear its proper share of loan interest costs because of the manner in which the consolidated rate of interest was calculated. This anomaly has been recognised since the introduction of self financing, but there is no ability for earlier discrepancies to be adjusted for through the ongoing interest recharge process.

2.4 Further costs to the GF arose from the consequences of the statutory Right to Buy facility (RTB). Local authorities had borrowed long term over many years for an HRA debt liability which they assumed would always be covered by housing subsidy. However, the introduction and ongoing effect of RTB resulted in a reduction of the amount of housing debt liability which qualified for recharge/subsidy, and caused GF to be left with having to bear a greater share of higher interest loans under the recharge process in a market situation which was resulting in rapid reductions in interest rates.

2.5 The above mentioned reduction in HRA debt liability also caused additional premium (i.e. rolled up interest) costs to be borne by GF. Premium costs arise when loans are rescheduled with a view to achieving a reduction in annual revenue costs. Higher interest rate loans taken out to finance an increase in HRA capital debt liability were invariably only capable of being rescheduled a few years after the associated debt was offset by RTB amounts "set aside". Instead of the premium liability being borne by the HRA in relation to its debt liability at the time the loans were taken out, it was calculated in relation to the reduced amount following set aside during an intervening period.

2.6 In order to achieve a revenue interest cost reduction through rescheduling, the premium cost was capable of being spread over the period of replacement loans. However, until the premium was charged to revenue, there was an interest cost of financing it. The housing subsidy rules did not allow for the HRA share of these costs to qualify for subsidy, which almost always resulted in the whole of the premium financing cost being borne by GF, including the HRA element.

2.7 There were also many problems with the manner in which the 3 month LIBID factor was assessed within the CFR/earlier CC debt liability which become more complex to explain, but which in essence had the effect of increasing the GF share of loan interest in an inequitable manner.

2.8 In terms of the current level of HRA balances, these may or may not appear to be at a level which indicates a surplus over monies required for other HRA purposes. However, the nature of self-financing, and the manner in which future expenditures and income within the HRA have been assessed, is likely to result in considerable increases in HRA balances in future years. If, therefore, it is wished to recompense GF for past inequalities, it may be necessary to consider deferral of non priority HRA expenditures if this is a requisite to take advantage of this one off opportunity.

2.9 <u>Perhaps the key point to make is that the transfer of balances in this manner should not in any way cause tenant costs through rents to increase. Rent levels are controlled by statute, and are subject to pre-determined levels of increase.</u>

3. Statutory Provisions

3.1 The HRA accounting requirements are governed by the Local Government and Housing Act 1989, along with certain Determinations made under these legislative provisions.

3.2 Under Schedule 4 of the Act, a local housing authority to whom no housing subsidy is payable for any year may carry the whole or part of any credit balance shown in their HRA for that year to the credit of some other revenue account of theirs.

3.3 It appears likely that this provision was made in recognition of the fact that once an authority ceased to have the ability to influence the manner in which housing subsidy was distributed or redistributed, it could choose to benefit from any monies considered to be surplus to HRA requirements in cases where this was considered appropriate.

3.4 In recognition of the fact that housing subsidy arrangements have now ceased, a clause within the Localism Act 2011 has determined that the provision which allows for balances to be transferred in the manner explained above shall be repealed, effective from 1st October 2013.

3.5 Because the HRA represents essentially a landlord account for revenue transactions, it is only the particular provision of Schedule 4 which has enabled a transfer of balances to take place. Outside of this, the ring fence rules determine that it is not possible for a transfer of balances to be made back to the HRA, either now, or at any future date.

3.6 In terms of commenting upon the fact that the statutory wording relates to a transfer of balances "shown in their HRA for that year", under certain circumstances, an authority might assess the amount of its HRA credit balances at a year end, and decide at that time to transfer an amount of credit balances. Under such circumstances, the credit balances would not be credited to the HRA for the following year, in accordance with Schedule 4, Part I, Item 10. However, if this ability to transfer is not capable of being included within the accounts for 2012/13, the total amount of credit balances available at 31st March 2013 would be credited to the HRA on 1st April 2013. This would then represent an amount of HRA credit balance in respect of the whole of the 2013/14 financial year.

3.7 Although it is common practice for an authority to make certain determinations with regard to its balances when their amount is ascertained at the end of a financial year, this cannot detract from the authority's ability to consider and make such a transfer at any time. Legislation does not specify that this must be an end of year transaction, and it would be difficult to imagine that there should ever be such legislative intent, as it would not serve any particular purpose or objective.

3.8 We have however suggested that it would be necessary for an authority to demonstrate clearly that it has carried out any such transfer in accordance with a properly authorised decision of the authority, and for the appropriate accounting entry to be made recording the transaction before the 30th September 2013.

4. Other Matters

4.1 In terms of the appropriateness of the amount to be transferred. In general this is a matter for each authority, although the decision should clearly take careful account of the likelihood of the HRA remaining in balance for the foreseeable future. Much will depend upon whether present rent levels, and statutorily permitted levels of rent increase, along with other income, are likely to more than offset expenditure for each financial year.

4.2 It may be that the forecast amounts of net expenditure for each year are adequately supported by the authority's budget and business plan.

4.3 In the same manner as the ring fence applies to the transfer of GF revenue monies from the GF to the HRA, it is not possible for the authority to use GF credit balances to finance new capital expenditure that is for an HRA purpose.

4.4 Schedule 4 provides that amounts of capital expenditure may be debited to the HRA in respect of houses or other property within the account, but this expenditure may only be offset by statutorily authorised credits to the HRA. Essentially, this provision is referring to those items of HRA capital expenditure which an authority decides shall be financed directly from HRA revenue resources.

4.5 Other amounts of capital expenditure will be incurred by an authority as a whole. The Item 8 Determination provides that loan interest charges to the HRA shall be made in accordance with proper practice, after having regard to the amount of the HRA Capital Financing Requirement (CFR). The HRA CFR represents the HRA proportion of an authority's aggregate debt liability (i.e. aggregate CFR). New capital expenditure which is not financed from available resources has the effect of increasing the CFR and, in the case of capital expenditure in respect of houses and land accounted for within the HRA, the HRA CFR.

4.6 Although there is no direct means by which the Authority may pass revenue monies back to the HRA following a transfer of balances, there are a number of ways in which recharges may be properly rearranged so that the effect is the same.

4.7 We shall be happy to advise the Authority in greater detail in this respect should they so wish. But in general, there is scope within accepted practices for the manner in which loan charges are recharged to the HRA to be subject to a number of discretions. For example, in cases where amounts of HRA debt liability are effectively financed by the Authority itself under its overall treasury management policy, it is possible for a range of different interest rates to be used for the purpose of recharging the HRA.

4.8 Similarly with a range of other recharges. Costs associated with housing welfare services, grounds maintenance, shops, open spaces, community centres and playgrounds are examples of those which may be considered with regard to the wider benefits they may bestow. This is by no means a rigid accounting or statutory compliance area, and is capable of offering acceptable alternative accounting arrangements should an authority wish to pursue such opportunities in greater depth.

4.9 In terms of using monies transferred for new building purposes. It is not in our view possible for the Authority to use GF monies for the purpose of providing social housing. Although local authorities have been given a General Power of Competence under the Localism Act 2011, this power is constrained by any pre existing limitation.

4.10 Because there are clear powers within Part II of the Housing Act for the provision of social housing, and the manner in which this should be accounted for, we consider that any attempt to override this requirement, with the associated implications of avoiding RTB and HRA accounting and debt cap implications, could be construed as an abuse of power, and held to be *ultra vires*.

4.11 These comments would not, however, apply to the provision of market or other forms of commercial housing. We consider that such expenditures could be carried out in reliance upon the General Power of Competence. There is, however, a prospect that such action could only be carried out through the formation of a controlled company.

4.12 Similarly, the Authority would have the power to grant financial assistance to an RSL in accordance with, and subject to the limitations of, the power provided by S.24 of the Local Government Act 1988.

4.13 This report has, for expediency, been prepared in a manner which highlights the key matters that the Authority may wish to consider, without setting out in greater depth the underlying more detailed considerations which we consider would apply to matters such as providing financial assistance to an RSL, or transferring land at less than market value. These are matters that we would be happy to explain in greater depth should the Authority so require.

Dover District Council **Appendix 2**

Projection of Future HRA Surplus & Balances if Transfer of Proportion of Exsisting Balances to the General Fund

		Transfer of £12.5m (see Appendix 2a)		Transfer of £11.5m (see Appendix 2b)		Transfer of £13.0m (see Appendix 2b)	
		Surplus (£000's)	Balance (£000's)	Surplus (£000's)	Balance (£000's)	Surplus (£000's)	Balance (£000's)
B/f Balance After Transfer			658		658		658
2	2013.14	1,149	1,807	1,159	2,817	1,144	1,302
3	2014.15	801	2,608	811	3,628	796	2,098
4	2015.16	2,413	5,021	2,423	6,051	2,408	4,506
5	2016.17	2,520	7,541	2,533	8,584	2,513	7,019
6	2017.18	2,864	10,405	2,877	11,461	2,858	9,877
7	2018.19	3,459	13,864	3,472	14,933	3,453	13,329
8	2019.2	3,752	17,616	3,765	18,699	3,745	17,074
9	2020.21	3,974	21,590	3,987	22,686	3,967	21,041
10	2021.22	4,434	26,024	4,448	27,134	4,427	25,469
11	2022.23	4,921	30,944	4,937	32,071	4,912	30,381
12	2023.24	5,246	36,190	5,263	37,334	5,238	35,619
13	2024.25	5,583	41,773	5,600	42,934	5,574	41,193
14	2025.26	5,931	47,704	5,948	48,882	5,922	47,115
15	2026.27	6,291	53,995	6,309	55,191	6,282	53,397
16	2027.28	6,522	60,517	6,540	61,730	6,513	59,910
17	2028.29	6,903	67,420	6,921	68,652	6,894	66,804
18	2029.3	7,298	74,718	7,316	75,968	7,288	74,092
19	2030.31	7,705	82,423	7,724	83,692	7,696	81,788
20	2031.32	8,127	90,550	8,146	91,838	8,118	89,906
21	2032.33	8,592	99,142	8,611	100,449	8,582	98,488
22	2033.34	9,044	108,186	9,063	109,513	9,034	107,522
23	2034.35	9,511	117,697	9,531	119,044	9,501	117,023
24	2035.36	9,995	127,692	10,015	129,059	9,985	127,008
25	2036.37	10,495	138,187	10,515	139,575	10,485	137,493
26	2037.38	11,012	149,199	11,033	150,607	11,001	148,494
27	2038.39	11,546	160,745	11,567	162,175	11,536	160,030
28	2039.4	12,095	172,840	12,117	174,291	12,085	172,115
29	2040.41	12,666	185,506	12,688	186,979	12,655	184,770
30	2041.42	13,257	198,763	13,279	200,258	13,246	198,015

Dover Council
HRA Business Plan
Operating Account Projection

Based on transfer to General Fund of £12.5m

Appendix 2a

		Income				Expenditure														
Year	Year	Net rent Income	Other income	Misc Income	Total Income	Managt.	Depreciation	Responsive & Cyclical	Other Revenue spend	HRA Cost of Rent Rebates	Misc expenses	Total expenses	Capital Charges	**Net Operating (Expenditure)**	RCCO	**Surplus (Deficit) for the Year**	**Surplus (Deficit) b/fwd**	**Interest**	**Surplus (Deficit) c/fwd**
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	**£,000**	£,000	**£,000**	**£,000**	**£,000**	**£,000**
1	2012.13	18,031	1,057	0	19,088	(3,732)	(4,867)	(3,481)	(93)	(55)	(405)	(12,632)	(3,032)	**3,424**	(598)	**2,826**	**10,216**	**116**	**13,158**
2	2013.14	18,328	1,098	0	19,427	(3,807)	(4,958)	(3,635)	(95)	(117)	(413)	(13,025)	(2,973)	**3,428**	(2,291)	**1,137**	**658**	**12**	**1,807**
3	2014.15	18,668	1,118	0	19,786	(3,883)	(5,043)	(3,373)	(97)	(39)	(421)	(12,856)	(2,913)	**4,018**	(3,239)	**779**	**1,807**	**22**	**2,608**
4	2015.16	19,074	1,139	0	20,213	(3,960)	(5,128)	(3,429)	(99)	0	(430)	(13,046)	(2,851)	**4,316**	(1,941)	**2,375**	**2,608**	**38**	**5,021**
5	2016.17	19,491	1,160	0	20,651	(4,040)	(5,215)	(3,471)	(101)	(3)	(438)	(13,268)	(2,786)	**4,597**	(2,156)	**2,442**	**5,021**	**78**	**7,541**
6	2017.18	20,022	1,181	0	21,203	(4,120)	(5,304)	(3,530)	(103)	0	(447)	(13,505)	(2,720)	**4,979**	(2,226)	**2,753**	**7,541**	**111**	**10,405**
7	2018.19	20,462	1,203	0	21,665	(4,203)	(5,395)	(3,590)	(105)	0	(456)	(13,749)	(2,651)	**5,265**	(1,957)	**3,309**	**10,405**	**151**	**13,864**
8	2019.20	20,912	1,225	0	22,137	(4,287)	(5,488)	(3,763)	(107)	0	(465)	(14,109)	(2,580)	**5,448**	(1,892)	**3,556**	**13,864**	**196**	**17,616**
9	2020.21	21,371	1,248	0	22,619	(4,373)	(5,582)	(4,112)	(109)	0	(474)	(14,649)	(2,506)	**5,463**	(1,733)	**3,730**	**17,616**	**244**	**21,590**
10	2021.22	21,837	1,271	0	23,108	(4,460)	(5,677)	(3,949)	(111)	0	(484)	(14,681)	(2,430)	**5,996**	(1,858)	**4,139**	**21,590**	**296**	**26,024**
11	2022.23	22,311	1,294	0	23,605	(4,549)	(5,773)	(3,838)	(114)	0	(494)	(14,768)	(2,351)	**6,486**	(1,990)	**4,496**	**26,024**	**424**	**30,944**
12	2023.24	22,794	1,318	0	24,113	(4,640)	(5,870)	(3,902)	(116)	0	(503)	(15,032)	(2,270)	**6,811**	(2,065)	**4,746**	**30,944**	**500**	**36,190**
13	2024.25	23,288	1,343	0	24,631	(4,733)	(5,970)	(3,967)	(118)	0	(513)	(15,302)	(2,185)	**7,144**	(2,142)	**5,002**	**36,190**	**580**	**41,773**
14	2025.26	23,792	1,367	0	25,160	(4,828)	(6,070)	(4,034)	(120)	0	(524)	(15,576)	(2,097)	**7,487**	(2,222)	**5,265**	**41,773**	**666**	**47,704**
15	2026.27	24,307	1,393	0	25,700	(4,924)	(6,173)	(4,101)	(123)	0	(534)	(15,855)	(2,006)	**7,839**	(2,305)	**5,534**	**47,704**	**757**	**53,995**
16	2027.28	24,832	1,418	0	26,251	(5,023)	(6,274)	(4,323)	(125)	0	(545)	(16,290)	(1,912)	**8,050**	(2,380)	**5,669**	**53,995**	**852**	**60,517**
17	2028.29	25,370	1,445	0	26,814	(5,123)	(6,377)	(4,395)	(128)	0	(556)	(16,578)	(1,814)	**8,422**	(2,472)	**5,951**	**60,517**	**952**	**67,420**
18	2029.30	25,918	1,471	0	27,389	(5,226)	(6,482)	(4,468)	(130)	0	(567)	(16,872)	(1,712)	**8,806**	(2,566)	**6,240**	**67,420**	**1,058**	**74,718**
19	2030.31	26,477	1,499	0	27,976	(5,330)	(6,588)	(4,542)	(133)	0	(578)	(17,171)	(1,606)	**9,199**	(2,663)	**6,536**	**74,718**	**1,170**	**82,423**
20	2031.32	27,049	1,526	0	28,575	(5,437)	(6,696)	(4,617)	(136)	0	(590)	(17,475)	(1,496)	**9,604**	(2,764)	**6,839**	**82,423**	**1,288**	**90,550**
21	2032.33	27,633	1,555	0	29,187	(5,546)	(6,805)	(4,652)	(138)	0	(602)	(17,743)	(1,382)	**10,062**	(2,883)	**7,180**	**90,550**	**1,412**	**99,142**
22	2033.34	28,228	1,583	0	29,812	(5,656)	(6,917)	(4,729)	(141)	0	(614)	(18,057)	(1,263)	**10,491**	(2,991)	**7,500**	**99,142**	**1,543**	**108,186**
23	2034.35	28,837	1,613	0	30,449	(5,770)	(7,030)	(4,808)	(144)	0	(626)	(18,377)	(1,140)	**10,932**	(3,102)	**7,830**	**108,186**	**1,682**	**117,697**
24	2035.36	29,458	1,642	0	31,100	(5,885)	(7,145)	(4,887)	(147)	0	(638)	(18,702)	(1,012)	**11,386**	(3,218)	**8,168**	**117,697**	**1,827**	**127,692**
25	2036.37	30,092	1,673	0	31,765	(6,003)	(7,262)	(4,968)	(150)	0	(651)	(19,033)	(879)	**11,853**	(3,337)	**8,516**	**127,692**	**1,979**	**138,187**
26	2037.38	30,739	1,704	0	32,443	(6,123)	(7,380)	(5,050)	(153)	0	(664)	(19,370)	(740)	**12,333**	(3,461)	**8,873**	**138,187**	**2,139**	**149,199**
27	2038.39	31,400	1,735	0	33,136	(6,245)	(7,501)	(5,134)	(156)	0	(678)	(19,713)	(595)	**12,827**	(3,588)	**9,239**	**149,199**	**2,307**	**160,745**
28	2039.40	32,075	1,768	0	33,843	(6,370)	(7,623)	(5,218)	(159)	0	(691)	(20,062)	(445)	**13,336**	(3,724)	**9,612**	**160,745**	**2,483**	**172,840**
29	2040.41	32,764	1,800	0	34,564	(6,498)	(7,747)	(5,304)	(162)	0	(705)	(20,416)	(289)	**13,859**	(3,860)	**9,999**	**172,840**	**2,668**	**185,506**
30	2041.42	33,467	1,834	0	35,301	(6,627)	(7,874)	(5,392)	(165)	0	(719)	(20,777)	(126)	**14,397**	(4,001)	**10,396**	**185,506**	**2,861**	**198,763**

Dover Council
HRA Business Plan
Operating Account Projection

Based on transfer to General Fund of £11.5m

Appendix 2b

		Income				**Expenditure**													
Year	Year	Net rent Income	Other income	Misc Income	Total Income	Managt.	Depreciation	Responsive & Cyclical	Other Revenue spend	HRA Cost of Rent Rebates	Misc expenses	Total expenses	Capital Charges	**Net Operating (Expenditure)**	RCCO	**Surplus (Deficit) for the Year**	**Surplus (Deficit) b/fwd**	**Interest**	**Surplus (Deficit) c/fwd**
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	**£,000**	£,000	**£,000**	**£,000**	**£,000**	**£,000**
1	2012.13	18,031	1,057	0	19,088	(3,732)	(4,867)	(3,481)	(93)	(55)	(405)	(12,632)	(3,032)	**3,424**	(598)	**2,826**	**10,216**	**116**	**13,158**
2	2013.14	18,328	1,098	0	19,427	(3,807)	(4,958)	(3,635)	(95)	(117)	(413)	(13,025)	(2,973)	**3,428**	(2,291)	**1,137**	**1,658**	**22**	**2,817**
3	2014.15	18,668	1,118	0	19,786	(3,883)	(5,043)	(3,373)	(97)	(39)	(421)	(12,856)	(2,913)	**4,018**	(3,239)	**779**	**2,817**	**32**	**3,628**
4	2015.16	19,074	1,139	0	20,213	(3,960)	(5,128)	(3,429)	(99)	0	(430)	(13,046)	(2,851)	**4,316**	(1,941)	**2,375**	**3,628**	**48**	**6,051**
5	2016.17	19,491	1,160	0	20,651	(4,040)	(5,215)	(3,471)	(101)	(3)	(438)	(13,268)	(2,786)	**4,597**	(2,156)	**2,442**	**6,051**	**91**	**8,584**
6	2017.18	20,022	1,181	0	21,203	(4,120)	(5,304)	(3,530)	(103)	0	(447)	(13,505)	(2,720)	**4,979**	(2,226)	**2,753**	**8,584**	**125**	**11,461**
7	2018.19	20,462	1,203	0	21,665	(4,203)	(5,395)	(3,590)	(105)	0	(456)	(13,749)	(2,651)	**5,265**	(1,957)	**3,309**	**11,461**	**164**	**14,933**
8	2019.20	20,912	1,225	0	22,137	(4,287)	(5,488)	(3,763)	(107)	0	(465)	(14,109)	(2,580)	**5,448**	(1,892)	**3,556**	**14,933**	**209**	**18,699**
9	2020.21	21,371	1,248	0	22,619	(4,373)	(5,582)	(4,112)	(109)	0	(474)	(14,649)	(2,506)	**5,463**	(1,733)	**3,730**	**18,699**	**257**	**22,686**
10	2021.22	21,837	1,271	0	23,108	(4,460)	(5,677)	(3,949)	(111)	0	(484)	(14,681)	(2,430)	**5,996**	(1,858)	**4,139**	**22,686**	**309**	**27,134**
11	2022.23	22,311	1,294	0	23,605	(4,549)	(5,773)	(3,838)	(114)	0	(494)	(14,768)	(2,351)	**6,486**	(1,990)	**4,496**	**27,134**	**441**	**32,071**
12	2023.24	22,794	1,318	0	24,113	(4,640)	(5,870)	(3,902)	(116)	0	(503)	(15,032)	(2,270)	**6,811**	(2,065)	**4,746**	**32,071**	**517**	**37,334**
13	2024.25	23,288	1,343	0	24,631	(4,733)	(5,970)	(3,967)	(118)	0	(513)	(15,302)	(2,185)	**7,144**	(2,142)	**5,002**	**37,334**	**598**	**42,934**
14	2025.26	23,792	1,367	0	25,160	(4,828)	(6,070)	(4,034)	(120)	0	(524)	(15,576)	(2,097)	**7,487**	(2,222)	**5,265**	**42,934**	**683**	**48,882**
15	2026.27	24,307	1,393	0	25,700	(4,924)	(6,173)	(4,101)	(123)	0	(534)	(15,855)	(2,006)	**7,839**	(2,305)	**5,534**	**48,882**	**775**	**55,191**
16	2027.28	24,832	1,418	0	26,251	(5,023)	(6,274)	(4,323)	(125)	0	(545)	(16,290)	(1,912)	**8,050**	(2,380)	**5,669**	**55,191**	**870**	**61,730**
17	2028.29	25,370	1,445	0	26,814	(5,123)	(6,377)	(4,395)	(128)	0	(556)	(16,578)	(1,814)	**8,422**	(2,472)	**5,951**	**61,730**	**971**	**68,652**
18	2029.30	25,918	1,471	0	27,389	(5,226)	(6,482)	(4,468)	(130)	0	(567)	(16,872)	(1,712)	**8,806**	(2,566)	**6,240**	**68,652**	**1,077**	**75,968**
19	2030.31	26,477	1,499	0	27,976	(5,330)	(6,588)	(4,542)	(133)	0	(578)	(17,171)	(1,606)	**9,199**	(2,663)	**6,536**	**75,968**	**1,189**	**83,692**
20	2031.32	27,049	1,526	0	28,575	(5,437)	(6,696)	(4,617)	(136)	0	(590)	(17,475)	(1,496)	**9,604**	(2,764)	**6,839**	**83,692**	**1,307**	**91,838**
21	2032.33	27,633	1,555	0	29,187	(5,546)	(6,805)	(4,652)	(138)	0	(602)	(17,743)	(1,382)	**10,062**	(2,883)	**7,180**	**91,838**	**1,431**	**100,449**
22	2033.34	28,228	1,583	0	29,812	(5,656)	(6,917)	(4,729)	(141)	0	(614)	(18,057)	(1,263)	**10,491**	(2,991)	**7,500**	**100,449**	**1,563**	**109,513**
23	2034.35	28,837	1,613	0	30,449	(5,770)	(7,030)	(4,808)	(144)	0	(626)	(18,377)	(1,140)	**10,932**	(3,102)	**7,830**	**109,513**	**1,701**	**119,044**
24	2035.36	29,458	1,642	0	31,100	(5,885)	(7,145)	(4,887)	(147)	0	(638)	(18,702)	(1,012)	**11,386**	(3,218)	**8,168**	**119,044**	**1,847**	**129,059**
25	2036.37	30,092	1,673	0	31,765	(6,003)	(7,262)	(4,968)	(150)	0	(651)	(19,033)	(879)	**11,853**	(3,337)	**8,516**	**129,059**	**2,000**	**139,575**
26	2037.38	30,739	1,704	0	32,443	(6,123)	(7,380)	(5,050)	(153)	0	(664)	(19,370)	(740)	**12,333**	(3,461)	**8,873**	**139,575**	**2,160**	**150,607**
27	2038.39	31,400	1,735	0	33,136	(6,245)	(7,501)	(5,134)	(156)	0	(678)	(19,713)	(595)	**12,827**	(3,588)	**9,239**	**150,607**	**2,328**	**162,175**
28	2039.40	32,075	1,768	0	33,843	(6,370)	(7,623)	(5,218)	(159)	0	(691)	(20,062)	(445)	**13,336**	(3,724)	**9,612**	**162,175**	**2,505**	**174,291**
29	2040.41	32,764	1,800	0	34,564	(6,498)	(7,747)	(5,304)	(162)	0	(705)	(20,416)	(289)	**13,859**	(3,860)	**9,999**	**174,291**	**2,689**	**186,979**
30	2041.42	33,467	1,834	0	35,301	(6,627)	(7,874)	(5,392)	(165)	0	(719)	(20,777)	(126)	**14,397**	(4,001)	**10,396**	**186,979**	**2,883**	**200,258**

Dover Council | **Based on transfer to General Fund of £13.0m** | **Appendix 2c**

HRA Business Plan

Operating Account Projection

		Income				**Expenditure**													
Year	Year	Net rent Income	Other income	Misc Income	Total Income	Managt.	Depreciation	Responsive & Cyclical	Other Revenue spend	HRA Cost of Rent Rebates	Misc expenses	Total expenses	Capital Charges	**Net Operating (Expenditure)**	RCCO	**Surplus (Deficit) for the Year**	**Surplus (Deficit) b/fwd**	**Interest**	**Surplus (Deficit) c/fwd**
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	**£,000**	£,000	**£,000**	**£,000**	**£,000**	**£,000**
1	2012.13	18,031	1,057	0	19,088	(3,732)	(4,867)	(3,481)	(93)	(55)	(405)	(12,632)	(3,032)	**3,424**	(598)	**2,826**	**10,216**	**116**	**13,158**
2	2013.14	18,328	1,098	0	19,427	(3,807)	(4,958)	(3,635)	(95)	(117)	(413)	(13,025)	(2,973)	**3,428**	(2,291)	**1,137**	**158**	**7**	**1,302**
3	2014.15	18,668	1,118	0	19,786	(3,883)	(5,043)	(3,373)	(97)	(39)	(421)	(12,856)	(2,913)	**4,018**	(3,239)	**779**	**1,302**	**17**	**2,098**
4	2015.16	19,074	1,139	0	20,213	(3,960)	(5,128)	(3,429)	(99)	0	(430)	(13,046)	(2,851)	**4,316**	(1,941)	**2,375**	**2,098**	**33**	**4,506**
5	2016.17	19,491	1,160	0	20,651	(4,040)	(5,215)	(3,471)	(101)	(3)	(438)	(13,268)	(2,786)	**4,597**	(2,156)	**2,442**	**4,506**	**72**	**7,019**
6	2017.18	20,022	1,181	0	21,203	(4,120)	(5,304)	(3,530)	(103)	0	(447)	(13,505)	(2,720)	**4,979**	(2,226)	**2,753**	**7,019**	**105**	**9,877**
7	2018.19	20,462	1,203	0	21,665	(4,203)	(5,395)	(3,590)	(105)	0	(456)	(13,749)	(2,651)	**5,265**	(1,957)	**3,309**	**9,877**	**144**	**13,329**
8	2019.20	20,912	1,225	0	22,137	(4,287)	(5,488)	(3,763)	(107)	0	(465)	(14,109)	(2,580)	**5,448**	(1,892)	**3,556**	**13,329**	**189**	**17,074**
9	2020.21	21,371	1,248	0	22,619	(4,373)	(5,582)	(4,112)	(109)	0	(474)	(14,649)	(2,506)	**5,463**	(1,733)	**3,730**	**17,074**	**237**	**21,041**
10	2021.22	21,837	1,271	0	23,108	(4,460)	(5,677)	(3,949)	(111)	0	(484)	(14,681)	(2,430)	**5,996**	(1,858)	**4,139**	**21,041**	**289**	**25,469**
11	2022.23	22,311	1,294	0	23,605	(4,549)	(5,773)	(3,838)	(114)	0	(494)	(14,768)	(2,351)	**6,486**	(1,990)	**4,496**	**25,469**	**416**	**30,381**
12	2023.24	22,794	1,318	0	24,113	(4,640)	(5,870)	(3,902)	(116)	0	(503)	(15,032)	(2,270)	**6,811**	(2,065)	**4,746**	**30,381**	**491**	**35,619**
13	2024.25	23,288	1,343	0	24,631	(4,733)	(5,970)	(3,967)	(118)	0	(513)	(15,302)	(2,185)	**7,144**	(2,142)	**5,002**	**35,619**	**572**	**41,193**
14	2025.26	23,792	1,367	0	25,160	(4,828)	(6,070)	(4,034)	(120)	0	(524)	(15,576)	(2,097)	**7,487**	(2,222)	**5,265**	**41,193**	**657**	**47,115**
15	2026.27	24,307	1,393	0	25,700	(4,924)	(6,173)	(4,101)	(123)	0	(534)	(15,855)	(2,006)	**7,839**	(2,305)	**5,534**	**47,115**	**748**	**53,397**
16	2027.28	24,832	1,418	0	26,251	(5,023)	(6,274)	(4,323)	(125)	0	(545)	(16,290)	(1,912)	**8,050**	(2,380)	**5,669**	**53,397**	**843**	**59,910**
17	2028.29	25,370	1,445	0	26,814	(5,123)	(6,377)	(4,395)	(128)	0	(556)	(16,578)	(1,814)	**8,422**	(2,472)	**5,951**	**59,910**	**943**	**66,804**
18	2029.30	25,918	1,471	0	27,389	(5,226)	(6,482)	(4,468)	(130)	0	(567)	(16,872)	(1,712)	**8,806**	(2,566)	**6,240**	**66,804**	**1,049**	**74,092**
19	2030.31	26,477	1,499	0	27,976	(5,330)	(6,588)	(4,542)	(133)	0	(578)	(17,171)	(1,606)	**9,199**	(2,663)	**6,536**	**74,092**	**1,160**	**81,788**
20	2031.32	27,049	1,526	0	28,575	(5,437)	(6,696)	(4,617)	(136)	0	(590)	(17,475)	(1,496)	**9,604**	(2,764)	**6,839**	**81,788**	**1,278**	**89,906**
21	2032.33	27,633	1,555	0	29,187	(5,546)	(6,805)	(4,652)	(138)	0	(602)	(17,743)	(1,382)	**10,062**	(2,883)	**7,180**	**89,906**	**1,402**	**98,488**
22	2033.34	28,228	1,583	0	29,812	(5,656)	(6,917)	(4,729)	(141)	0	(614)	(18,057)	(1,263)	**10,491**	(2,991)	**7,500**	**98,488**	**1,534**	**107,522**
23	2034.35	28,837	1,613	0	30,449	(5,770)	(7,030)	(4,808)	(144)	0	(626)	(18,377)	(1,140)	**10,932**	(3,102)	**7,830**	**107,522**	**1,672**	**117,023**
24	2035.36	29,458	1,642	0	31,100	(5,885)	(7,145)	(4,887)	(147)	0	(638)	(18,702)	(1,012)	**11,386**	(3,218)	**8,168**	**117,023**	**1,817**	**127,008**
25	2036.37	30,092	1,673	0	31,765	(6,003)	(7,262)	(4,968)	(150)	0	(651)	(19,033)	(879)	**11,853**	(3,337)	**8,516**	**127,008**	**1,969**	**137,493**
26	2037.38	30,739	1,704	0	32,443	(6,123)	(7,380)	(5,050)	(153)	0	(664)	(19,370)	(740)	**12,333**	(3,461)	**8,873**	**137,493**	**2,129**	**148,494**
27	2038.39	31,400	1,735	0	33,136	(6,245)	(7,501)	(5,134)	(156)	0	(678)	(19,713)	(595)	**12,827**	(3,588)	**9,239**	**148,494**	**2,297**	**160,030**
28	2039.40	32,075	1,768	0	33,843	(6,370)	(7,623)	(5,218)	(159)	0	(691)	(20,062)	(445)	**13,336**	(3,724)	**9,612**	**160,030**	**2,473**	**172,115**
29	2040.41	32,764	1,800	0	34,564	(6,498)	(7,747)	(5,304)	(162)	0	(705)	(20,416)	(289)	**13,859**	(3,860)	**9,999**	**172,115**	**2,657**	**184,770**
30	2041.42	33,467	1,834	0	35,301	(6,627)	(7,874)	(5,392)	(165)	0	(719)	(20,777)	(126)	**14,397**	(4,001)	**10,396**	**184,770**	**2,850**	**198,015**

CHANGES TO THE STATEMENT OF ACCOUNTS

Detailed below are the sections of the Statement of Accounts that will be changed as a result of the HRA balance transfer with the proposed changes highlighted. A fully amended set of accounts will be provided to Governance Committee for approval.

EXPLANATORY FOREWORD

GENERAL FUND REVENUE ACCOUNT

The General Fund Revenue Account shows the net cost of providing day-to-day services. The following paragraphs and tables provide details of actual General Fund spend compared to the budget on which the council tax was set. The presentation of information in the tables below has been simplified as far as possible, and so it is different to the accounting cost reflected within the financial statements – but they both reflect the Council's underlying financial position.

In March 2012 the Council set a net revenue budget of £14.320m. This was to be met by financing of £14.299m made up of central government grant of £7.24m, council tax income of £6.61m and New Homes Bonus of £0.45m. This resulted in a forecast deficit for the year of £21,000 to be met from the General Fund Balance.

During the year the forecast budget was revised to £14.305m, a reduction of £15,000 resulting in an anticipated deficit of £6,000 to be met from the General Fund Balance. The actual net revenue spend for the year was £14.274m, £31,000 less than the forecast position. The financing received in the year was £14.276m, a reduction of £23,000 from the forecast. Overall the year-end position resulted in a £2,000 surplus for the year.

The actual net spend compared to the original, revised budgets and prior year spend are shown below. These are shown by service area as used for the reporting in the annual budget & Medium Term Financial Plan. Details of the areas included under each directorate can be found in note 2 Segmental Reporting.

In addition Council on 25th September resolved to transfer £10m from the Housing Revenue Account balance and £2.5m from the Housing Initiatives Reserves to the General Fund balance. This transfer has been reflected in the accounts and is shown in the General Fund summary below and expanded further in note 24.

2011/12 Actual £000	GENERAL FUND BUDGET SUMMARY	2012/13 Original Budget £000	2012/13 Revised Budget £000	2012/13 Actual £000
	Director			
811	Chief Executive	921	843	858
2,379	Finance, Housing & Community	2,439	2,655	2,611
5,165	Regeneration & Development	2,661	2,612	2,490
6,697	Environment & Corporate Assets	6,698	7,009	9,670
1,258	Governance	1,312	1,404	1,256
60	Special Revenue Projects	9	80	190
0	Corporate Adjustments	(45)	(4)	0
(118)	Council Tax Second Homes Income	(118)	(113)	(113)
16,252	**Net Cost of Services**	**13,877**	**14,486**	**16,962**
(4,046)	Depreciation & Revaluations	(1,496)	(1,527)	(4,441)
1,352	IAS19 Pension Adjustments	1,457	1,148	1,114
(12)	Accrued Annual Leave Adjustment	0	0	(15)
58	River Stour Drainage Board	64	64	64
	Contribution to/(from) Reserves:			
471	- Special Projects & Events	(32)	(291)	(193)
167	- Periodic Operations	54	134	447
355	- Urgent Works	360	360	348
83	- Regeneration	(191)	(102)	(76)
215	- ICT Equipment & Servers	(29)	(50)	71
14,895	**Net Service Expenditure**	**14,064**	**14,222**	**14,281**
	Financing Adjustments			
(260)	Interest & Investment Income	(149)	(153)	(143)
406	Interest Payable & Loan Repayments	405	236	260
(59)	Deferred Charges	0	0	(86)
(115)	Soft Loan Adjustments	0	0	(38)
96	Transfer to Capital Grants Unapplied	0	0	0
14,963	**Total Budget Requirement**	**14,320**	**14,305**	**14,274**
	Financed by:			
(1,915)	Revenue Support Grant	(138)	(138)	(138)
(6,195)	NNDR	(7,104)	(7,104)	(7,104)
(8,110)	Total Government Grant	(7,242)	(7,242)	(7,242)
(6,395)	Council Tax	(6,608)	(6,608)	(6,608)
(160)	Council Tax Grant	0	0	0
0	New Burdens	0	0	(13)
(331)	New Homes Bonus	(449)	(449)	(413)
(14,996)	**Total Financing**	**(14,299)**	**(14,299)**	**(14,276)**
(33)	**Deficit/(Surplus) for the Year**	**21**	**6**	**(2)**
0	**Transfer of HRA Credit Balance**	**0**	**0**	**(10,000)**
0	**Transfer of Housing Initiatives Reserve**	**0**	**0**	**(2,500)**
(2,225)	**Opening General Fund Balance**	**(2,060)**	**(2,258)**	**(2,258)**
(2,258)	**Leaving Year End Balances of**	**(2,039)**	**(2,252)**	**(14,760)**

HOUSING REVENUE ACCOUNT (HRA)

The Council maintains a housing stock of 4,442 houses and flats. The income and expenditure from this account is included in the Comprehensive Income and Expenditure Statement, but is also reported separately from the General Fund and is maintained in an account called the Housing Revenue Account (HRA).

With effect from 1 April 2012 Housing Finance Reform brought the subsidy system to an end and replaced it with a self-financing system. This change required a one off payment to Central Government of £90,473k on 28 March 2012. To fund this payment the Council borrowed the same sum from the Public Works Loan Board on a 30 year repayment basis at a fixed interest rate. £1,839k was paid off the PWLB loan principle sum during 2012/13. The reform will provide additional funds to invest in existing stock and future housing initiatives.

In 2012/13 the HRA achieved an increase in the HRA balance of £3,293k compared to the original budget that forecast an increase of £534k. The main reasons for the variance are as follows:

- The effect of Housing Finance Reform (£1,923k additional surplus)
- An increase in dwelling rents due to reduced void levels and lower than budgeted right-to-buy sales;
- Reduced spend on the Capital Works Programme.

As detailed in the General Fund section above on 25th September Council resolved to transfer £10m from the Housing Revenue Account balance and £2.5m from the Housing Initiatives Reserves to the General Fund balance. This transfer has been reflected in the accounts and is detailed in note 24.

APPENDIX 3

MOVEMENT IN RESERVES STATEMENT

2012/13	Notes	General Fund £000	Housing Revenue Account £000	Earmarked Gen Fund Reserves £000	Earmarked HRA Reserves £000	Usable Capital Receipts £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 1 April		**2,258**	**7,365**	**4,228**	**2,846**	**1,361**	**625**	**18,683**	**72,600**	**91,283**
Comprehensive Income & Expenditure										
Surplus or (deficit) on the provision of services		(2,850)	2,132					(718)		(718)
Other comprehensive income & expenditure									1,179	1,179
Total Comprehensive Income & Expenditure		**(2,850)**	**2,132**	**0**	**0**	**0**	**0**	**(718)**	**1,179**	**461**
Adjustments between Accounting Basis & Funding Basis under Regulations										
Depreciation and amortisation of non-current assets	4	1,614	0		1,483			3,097	(3,097)	0
Impairment of non-current assets	4	2,597	5,681					8,278	(8,278)	0
Excess depreciation charged to the HRA over Major Repairs Allowance (MRA)	HRA 3	0	(3,390)		3,390			0	0	0
MRA transferred to fund capital expenditure		0	0		(4,873)			(4,873)	4,873	0
Capital grants and contributions	21	(588)	0				355	(233)	233	0
Changes in the value of Investment Properties	5	(51)	0					(51)	51	0
Revenue expenditure funded from capital under statute	11	86	0					86	(86)	0
(Gain) or loss on disposal of non-current assets	8	(431)	(443)			1,982		1,108	(1,108)	0
Revaluation gain	33	(7)	0					(7)	7	0
Adjustments under statutory provisions relating to soft loans	16	(250)	0					(250)	250	0
Loan Principal Repayments	13	(24)	0					(24)	24	0
Net charges made for retirement benefits	19	390	(76)					314	(314)	0
Council tax income regulatory adjustment	20	(43)	0					(43)	43	0
Capital expenditure charged to revenue	10	(66)	(610)					(676)	676	0
Employee benefits – accrued annual leave	22	15	0					15	(15)	0
Transfer from usable capital receipts equal to the amount payable into the housing capital receipts pool	23	207	0			(207)		0	0	0
Capital receipts applied	10	0	0			(320)		(320)	320	0
Net Increase or Decrease before Transfers to/from Earmarked Reserves		**599**	**3,294**	**0**	**0**	**1,455**	**355**	**5,703**	**5,242**	**461**
Transfers to or (from) earmarked reserves	25	(597)	0	541	(93)	0	0	(149)	149	0
Transfers to or (from) HRA Balances / reserves	24	12,500	(10,000)	0	(2,500)	0	0	0	0	0
Increase or Decrease in Year		**12,502**	**6,706**	**541**	**(2,593)**	**1,455**	**355**	**5,554**	**5,093**	**461**
Balance at 31 March		**14,760**	**659**	**4,769**	**253**	**2,816**	**980**	**24,237**	**67,508**	**91,745**

CONSOLIDATED BALANCE SHEET

Restated 31 March 2012 £000		Notes	31 March 2013 £000	31 March 2013 £000
153,563	Council dwellings		149,902	
57,226	Land and buildings		61,155	
1,118	Vehicles, plant and equipment		1,171	
7,665	Infrastructure assets		7,386	
204	Community assets		193	
1,606	Assets under construction		1,794	
0	Surplus assets not held for sale		495	
221,382	**Property, Plant and Equipment**	4		**222,096**
4,113	Heritage Assets	7	4,127	
2,567	Investment property	5	2,317	
66	Intangible assets	4	118	
415	Long term investments	12	362	
2,608	Soft loans	16	2,748	
392	Long term debtors	26	730	
(66)	Less provision for bad debts	26	(66)	
10,095	**Long Term Assets**			**10,336**
18,576	Short term investments	12	19,073	
137	Stocks in hand		165	
7,642	Short term debtors	26	7,501	
(2,059)	Less provision for bad debts	26	(2,136)	
2,097	Cash and cash equivalents	27	6,385	
987	Assets held for sale	6	0	
27,380	**Current Assets**			**30,988**
(1,078)	Short term borrowing	13	(2,070)	
(9,789)	Short term creditors	28	(9,320)	
0	Provisions	29	(33)	
(1,899)	Receipts in advance	30	(1,275)	
(12,766)	**Current Liabilities**			**(12,698)**
(96,785)	Long term borrowing	13	(93,954)	
(604)	Capital grants received in advance	32	(825)	
(57,419)	Pensions liability	19	(64,198)	
(154,808)	**Long Term Liabilities**			**(158,977)**
91,283	**Net Assets**			**91,745**
2,258	General Fund balance	24	14,760	
7,365	Housing Revenue Account balance	24	659	
4,228	Earmarked reserves	25	4,769	
2,846	Housing Revenue Account reserves	25	253	
1,361	Usable capital receipts reserve	23	2,816	
625	Capital grants unapplied	31	980	
18,683	**Reserves Available to Fund Services**			**24,237**
17,554	Revaluation reserve	35	24,836	
148	Available-for-sale financial instruments reserve	17	148	
113,779	Capital adjustments account	33	107,907	
(1,587)	Financial adjustments account	15	(1,337)	
207	Collection Fund adjustment account	20	250	
(82)	Employee adjustment account	22	(98)	
(57,419)	Pensions reserve	19	(64,198)	
72,600	**Reserves Unavailable to Fund Services**			**67,508**
91,283	**Net Worth**			**91,745**

24. GENERAL FUND AND HRA BALANCES

The introduction of HRA self-financing in 2012/13 was accompanied by the abolition of housing subsidy in the HRA. Schedule 4, Part III, paragraph 2 of the 1989 Local Government and Housing Act has always provided as follows:

"A local housing authority to whom no Housing Revenue Account subsidy is payable for any year may carry the whole or part of any credit balance shown in their Housing Revenue Account for that year to the credit of some other revenue account of theirs".

Council on 25th September resolved to transfer £10m from the Housing Revenue Account balance and £2.5m from the Housing Initiatives Reserves to the General Fund balance.

The primary benefits to the Council are flexibility and sustainability. If the balances were to remain within the HRA then they could only be used for the specific purposes of the HRA. By transferring the balances to the general fund, they can be applied to the whole range of General Fund purposes.

The HRA's baseline budget is robust and is operating at a surplus which, with rent convergence and capped debt charges to the PWLB, is forecast to be maintained and to grow. Therefore, no detrimental service impacts to HRA tenants or additional rent increases will arise as a direct result of this proposal.

Impact on Balances	**Opening Balance £000**	**Surplus in year £000**	**Transferred in year £000**	**Closing Balance £000**
General Fund	2,258	2	12,500	14,760
Housing Revenue Account	7,365	3,294	(10,000)	659
Total	**9,623**	**3,296**	**2,500**[1]	**15,419**

[1] £2.5m has been transferred to the General Fund Balance from the Housing Initiatives reserve as detailed below.

25. EARMARKED RESERVES

Housing Revenue Account:

	Opening Balance £000	**Receipts in year £000**	**Applied in year £000**	**Closing Balance £000**
Major Repairs Reserve	0	(4,873)	4,873	0
Tenant's Compact Reserve	(345)	0	92	(253)
Housing Initiatives	(2,500)	0	2,500	0
Total	**(2,845)**	**(4,873)**	**7,465**	**(253)**

Major Repairs Reserve –The Major Repairs Reserve is ring-fenced for HRA capital expenditure or debt repayment of a housing nature. Any unspent balance in a year can be carried forward to finance expenditure in future years.

Tenant's Compact Reserve – is a ring-fenced capital reserve which is a carry forward of any unspent capital budget not used in previous years.

Housing Initiatives Reserve – Council on 25th September resolved to transfer the balance on this reserve to the General Fund balance as detailed in note 24 above.

HOUSING REVENUE ACCOUNT

MOVEMENT IN THE HOUSING REVENUE ACCOUNT STATEMENT

2011/12			2012/13	
£000		£000	£000	£000
(8,608)	Balance on the HRA at the end of the previous year			**(7,365)**
91,997	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		(2,132)	
	Adjustments between Accounting Basis and Funding under Statute:			
(5,618)	Impairment of non-current assets	(5,681)		
(90,473)	Transfer of Self-Financing Determination to Capital	0		
1,741	Voluntary Excess depreciation over Major Repairs Allowance charged to the HRA	3,390		
67	Gain on disposal of non-current assets	443		
530	Net charges made for retirement benefits	76		
499	Capital expenditure funded by the HRA	610	(1,162)	
(1,257)	Net increase before transfers to or from reserves		(3,294)	
2,500	Transfers to earmarked reserves (note 5)		0	
0	Transfer to General Fund balance (note 4)		10,000	
1,243	(Increase) or decrease in year on the HRA Balance			6,706
(7,365)	**Balance on the HRA at the End of the Current Year**			**(659)**

NOTES TO THE HOUSING REVENUE ACCOUNT

4. **TRANSFER OF HRA BALANCE**

On 25th September Council resolved to transfer £10m from the Housing Revenue Account balance and £2.5m from the Housing Initiatives Reserves to the General Fund balance as detailed in note 24 to the main financial statements.

5. **OTHER EARMARKED RESERVES**

Tenants Compact

This reserve is earmarked for estate improvement works and had a balance of £253k at 31 March 2013 (£346k 31 March 2012).

Housing Initiatives

As detailed above on 25th September Council resolved to transfer the £2.5m balance on this reserve to the General Fund balance.