

REPORT TO: CABINET

DATE: 28 MARCH 2019

TITLE: HOUSING REVENUE ACCOUNT, QUARTER 3
FINANCE REPORT 2018/19

PORTFOLIO HOLDERS: COUNCILLOR MIKE DANVERS, PORTFOLIO
HOLDER FOR RESOURCES

COUNCILLOR MARK WILKINSON, DEPUTY
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This is not a Key Decision

It is on the Forward Plan as Decision Number I008581

The decision is not subject to Call-in Procedures for the following reason:

The recommendations are within the scope of the budget which has been approved by Full Council.

This decision will affect no ward specifically.

RECOMMENDED that Cabinet:

A Notes:

- i) An unfavourable variation against the approved Housing Revenue Account (HRA) operational /controllable budget of £435,000 representing 0.82 per cent of the gross HRA budget.
- ii) A favourable non-operational variance of £3,379,000 representing 6.83 per cent of gross HRA budget which includes adjustments to capital programme financing as a result of the re-alignment of budgets in the housing capital programme which reduces the anticipated direct revenue contribution required in 2018/19.

- B** Notes the forecast balances at 31 March 2019, of £13,307,000 in respect of the HRA and nil in respect of the Major Repairs Reserve (MRR).

REASON FOR DECISION

- A** To ensure that Cabinet reviews performance against the approved HRA Business Plan and acknowledges the operational variations in light of the challenges the Council may face in this financial year and future years.

BACKGROUND

1. This report sets out the Council's financial performance against the agreed 2018/19 HRA Budget and provides an indication of the outturn projection as at 31 March 2019.
2. The Council approved a minimum revenue balance of £4,000,000 in 2018/19, £1,500,000 of which is held as a provision against any additional expenditure required as a result of the Grenfell Tower Public Inquiry. Phase One of the Inquiry completed in December 2018 and Phase 2 is not anticipated to commence until Autumn 2019.
3. The 2018/19 HRA original estimate anticipated a working balance on the HRA of £4,755,000 at 31 March 2019. The current position which has been impacted by capital programme decisions and re-alignment of elements within it resulted in the actual opening balance at 1 April 2018 being £14,104,000 and the forecast balance at 31 March 2019 being £13,307,000.

ISSUES/PROPOSALS

Variances

4. The projected operational variance for 2018/19 is showing a £435,000 overspend, the key variations are detailed below with a more detailed analysis shown at Appendix A:
 - a) Rent income has been overstated in the 2018/19 budget due to an increase in the number of void properties received, and an increase in the number requiring major works which has resulted in longer void periods.
 - b) An unfavourable variance of £181,000 in respect garage income due to the number of void garages held. Unfortunately, the trend has continued over the last two to three years due to a reduced overall demand for garages in Harlow. The Garage Strategy and Improvement Plan identifies priorities for disposal, improvement, and management aligned to the Council's regeneration priorities. A review of the Garage Strategy and Improvement Plan is undertaken annually aligned with the

level of Housing Revenue Account Business Plan resources. On 24 January 2019, Cabinet approved the reduction of rents for those garages which are not in the 'Retain and Invest' category.

- c) Increases in forecast electricity and gas costs have resulted in additional costs in the HRA which are in part recoverable from tenants and leaseholders.
5. At 31 March 2018 there was a nil balance on the MRR. The estimated depreciation charge for 2018/19 following a review is anticipated to be £9,940,000 (original Estimate: £11,439,000) and is expected to be used in full to support the Housing Capital Programme.
 6. The regulations require that the MRR balance can be used either to finance the capital programme or to repay housing debt. The HRA Business Plan 2018-48 to be approved by Full Council in February 2019, states that external borrowing will be renewed on maturity in March 2026 and hence MRR is being applied to finance capital expenditure.

HRA Balances 2018/19

7. The Original Estimate for 2018/19 anticipated an opening working balance on 1 April 2018 of £8,272,000 and closing working balance at 31 March 2019 of £4,755,000. However, following the closure of the 2017/18 accounts, the actual working balance brought forward was £14,104,000, as reported to Cabinet on 19 July 2018. The increased balance was due to an under spend in the Housing Capital Programme in 2017/18 and therefore reduction in the direct revenue contribution required.
8. The balance on the HRA in 2018/19 is impacted by changes to the Housing Capital Programme during the year in response to changing priorities. This is reflected through the direct revenue contribution from the HRA to support capital work.

Table 1 – Quarter 3 HRA Working Balance

	£'000
Actual balance in hand 1 April 2018	14,104
Original estimate deficit	(-)3,518
Revenue Carryovers 2017/18	(-)222
Appendix A:	
Q3 Operational variances	(-)435
Q3 Non Operational variances	3,379
Projected Working Balance at 31 March 2019	13,307

9. The anticipated Working Balance at 31 March 2019 is £13,307,000, against an original estimate of £4,755,000.

Significant Risks/Opportunities

10. The following risks (all of which are subject to review) have been identified which could affect the HRA Business Plan:

- a) The outcome of the Grenfell Tower Public Inquiry on landlords across the country.
- b) Outcomes from national housing policy relating to the sale of larger properties in support of Registered Social Landlord (RSL) Right to Buy proposals, and future rental income legislative parameters. The Government's Green Paper, 'A New Deal for Housing' (August 2018), proposes that this policy will be abandoned, and legislation will be repealed in due course. In July 2015, the Government announced a legislative requirement for social landlords to decrease rents annually by one percent over four financial years (2016/17 – 2019/20). This challenged councils to make efficiencies in order to deliver sustainable services. It has now been announced that the uplift over the following five financial years will be CPI +1 per cent.
- c) Welfare Reform: the Government's reduction in benefits to non-working families may have an adverse impact on tenants' ability to pay rent. Additionally, the County Council has reduced Housing Related Support to the Council.
- d) Continuing development of a Capital Programme to deliver decent homes in partnership with contractors, and the need to deal with unexpected outcomes, such as fire safety and regulation, especially in light of constraints arising from the reduction in rental income from 2016/17.
- e) The Homeless Reduction Act that was implemented on the 1 April 2018 increased the legal duties on Councils to take steps to prevent families from becoming homeless and to intervene at an earlier stage. The Act continues to have financial implications on the Council, in terms of the increased numbers and cost of Temporary Accommodation.
- f) The Government has introduced new plans to fix the "broken housing market and build more homes across England". This includes measures to:
 - i) Reduce the obstacles to house building and help local authorities, developers and Small and Medium Enterprise builders build the homes Britain needs.
 - ii) Publish a consultation paper on the reforming of Right to Buy Receipts, which will allow Local authorities to hold receipts for longer than the three years which is currently allowed and which is currently out to consultation.

- iii) Removing the Housing Borrowing Cap. The Government removed the cap in the Autumn Budget on 29 October 2018. Details of its application are to follow.

IMPLICATIONS

Place (Includes Sustainability)

None specific.

Author: Andrew Bramidge, Project Director – Enterprise Zone and Interim Head of Planning

Finance (Includes ICT)

As contained within the report.

Author: Simon Freeman, Head of Finance and Deputy to the Managing Director

Housing

As contained within the report.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

None specific.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

None specific.

Author: Simon Hill, Head of Governance

Appendices

Appendix A – HRA Operational Variances, Period 9

Appendix B – Housing Revenue Account Budget Summary 2018/19, Period 9

Background Papers

None.

Glossary of terms/abbreviations used

HRA – Housing Revenue Account

MRR – Major Repairs Reserve

APPENDIX A

HRA Operational Variances				Period 9
Item	Adverse £000's	Favourable £000's	Net £000's	Main contributing Factors to Variations
General Management		(-148)	(-148)	Net vacancy savings on salaries due to delays in recruitment and staff reorganisation
General Management	104		104	Additional forecast HTS pension contribution.
General Management		(-147)	(-147)	Reduction in compensation related payments to tenants for the Priority Estates project.
General Management	69		69	Estimated cost of Council House Building officer for 2018/19 and proportion of the cost of the Energy Manager to the HRA.
General Management		(-85)	(-85)	Anticipated tenant moving incentives not required.
General Management	164		164	Increase in Insurance premiums on Leasehold properties
General Management	90		90	HTS contract BMI uplift from 3% to 3.7% effect on Repairs and Maintenance and Service Charges.
Repairs and Maintenance	449		449	Movement of capital saving on surveyors to revenue under the TUPE transfer.
Special Management	40		40	Increase in costs of Supporting People in the General Fund and estimated income for HRS Support charges due to the HRA not achieved.
Special Management	76		76	Increase in estimated fuel costs for heating and communal lighting to Sheltered Properties
Special Management	48		48	Increase in anticipated cost of communal lighting.
Special Management	44		44	Impact of anticipated gas price rises on cost of communal heating due to new contract.
Repairs & Maintenance		(-37)	(-37)	Lower anticipated expenditure on the maintenance of lifts.
Dwelling Rents	288		288	Rental income reduced by increased number of void properties received that require major works.
Garage Rents	181		181	Lower income from garage rents due to a higher level of void garages.
Charges for Services and Facilities		(-170)	(-170)	Income from Insurance due to the higher than estimated premium for 2018/19
Charges for Services and Facilities		(-49)	(-49)	Income from Sheltered tenants due to estimated increase in fuel costs.
Charges for Services and Facilities		(-36)	(-36)	Increase in income due to estimated increase in electricity for lighting.
Charges for Services and Facilities		(-41)	(-41)	Income due from tenant and leasehold heating due to anticipated fuel price increases.

Charges for Services and Facilities		(-79)	(-79)	Anticipated increase in income due from repairs and maintenance and estimated management fee.
Charges for Services and Facilities		(-68)	(-68)	Anticipated increase in income from other service charges.
Rent Rates and Taxes	13		13	Council tax payable on voids including long term structural voids.
Bad debt provision		(-100)	(-100)	Anticipated reduction in provision required for 2018/19.
Interest Receivable		(-48)	(-48)	Due to higher working balance and carryover of capital programme.
Other minor variances		(-123)	(-123)	
Deficit/ (Surplus) for year	1,566	(-1,131)	435	Net adverse

<i>Item</i>	<i>Non Operational Variances</i>			
	<i>Adverse £000's</i>	<i>Favourable £000's</i>	<i>Net £000's</i>	
Direct Revenue Financing of Capital Expenditure		(-1,328)	(-1,328)	Consequential movement to projected capital expenditure for the financial year.
Direct Revenue Financing of Capital Expenditure		(-449)	(-449)	Movement of capital saving on surveyors to revenue under the TUPE transfer.
Major Repairs Reserve (depreciation)		(-1,499)	(-1,499)	Reduction in estimated depreciation for 2018/19 based on the latest valuation received.
Leasehold Income		(-103)	(-103)	Higher income resulting from external and other works in the Housing Capital Programme
Variance		(-3,379)	(-3,379)	Net favourable

HRA Operational Variance	£ 435,000
HRA Non Operational Variance	(-)£3,379,000
TOTAL Projected in year HRA Deficit	(-)£2,944,000

APPENDIX B

	2018/19	2018/19	2018/19	Variance
	Original	Current	Forecast	Current
	Estimate	Estimate*	Outturn	Estimate to
	£	£	£	Forecast
				Outturn
	£	£	£	£
EXPENDITURE				
General Management	11,148,750	11,336,751	11,674,244	337,493
Special Management	7,350,377	7,353,273	7,421,029	67,756
Repairs	10,090,160	10,121,085	10,246,355	125,270
Rent, Rates, Taxes	35,000	35,000	47,500	12,500
Provision for Bad & Doubtful Debts	300,000	300,000	200,000	(-)100,000
Supporting People Transitional Arrangements	5,300	5,300	5,300	0
Major Repairs Reserve	11,439,000	11,439,000	9,940,000	(-)1,499,000
Debt Management Expenses	16,520	16,520	16,520	0
Interest Charges	6,669,000	6,669,000	6,686,000	17,000
Direct Revenue Financing of Capital Programme	5,914,000	5,914,000	4,137,000	(-)1,777,000
	52,968,108	53,189,929	50,373,948	(-)2,815,981
INCOME				
Dwelling Rents	43,175,000	43,175,000	42,886,640	288,360
Garage Rents	1,142,000	1,142,000	960,785	181,215
Other Rents	65,150	65,150	66,150	(-)1,000
Charges for Services & Facilities	5,005,995	5,005,995	5,554,277	(-)548,282
Interest Receivable	62,075	62,075	110,011	(-)47,936
	49,450,220	49,450,220	49,577,863	(-)127,643
Balance in hand at 1 April	8,272,415	14,103,542	14,103,542	0
Surplus / (Deficit) for year	(-)3,517,888	(-)3,739,709	(-)796,085	(-)2,943,624
Balance in hand at 31 March	4,754,527	10,363,833	13,307,457	2,943,624

*Current Estimate 2018/19 includes revenue carryovers from 2017/18, £222,000.
Cabinet 19 July noted actual balance in hand at 1 April 2018.