REPORT TO:	**CABINET**
DATE:	**14 SEPTEMBER 2017**
TITLE:	**HOUSING REVENUE ACCOUNT, QUARTER 1 FINANCE REPORT 2017/18**
PORTFOLIO HOLDERS:	**COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES** **COUNCILLOR MARK WILKINSON, PORTFOLIO HOLDER FOR HOUSING**
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This is not a Key Decision
It is on the Forward Plan as Decision number I007283
This decision is not subject to Call-in procedures for the following reasons:
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 £297,000 representing 0.56 percent of the gross HRA Budget.

(ii) An unfavourable non-operational variance of £3,801,000 representing (-)7.19 percent of the gross HRA Budget which includes adjustments to capital programme financing as a result of an updated outturn position for 2016/17 and reflecting the urgent need to reprioritise the programme.

B Notes the forecast balances at 31 March 2018, of £6,094,000 in respect of the Housing Revenue Account and nil in respect of the Major Repairs Reserve.

REASON FOR DECISON

A To ensure that the Corporate Management Team and Heads of Service review performance against the approved HRA Business Plan and acknowledges the operational variations in light of the challenges the Council may face in the later part of this financial year and future years.

BACKGROUND

1. This report sets out the Council's financial performance against the agreed HRA Budget 2017/18 and provides an indication of the budget projection as at 31 March 2018.

2. The Council approved a minimum revenue balance of £4.436 million in 2017/18.

3. The 2017/18 HRA original budget estimate anticipated a working balance on the HRA of £8.133 million at 31 March 2018.

4. The tragic fire at Grenfell Tower has placed a national focus on fire safety and regulation. Although the Council's high rise blocks are deemed inherently safe from fire risk, action is being proposed ahead of the Inquiry findings to mitigate concerns. The accompanying Capital Programme report sets out a revised Housing capital programme estimate for 2017/18. This additional work will need to be funded from revenue balances, as the Government has confirmed that this remains the responsibility of local landlords.

5. The estimated working balance at 31 March 2018 will be impacted by:

   a) The revenue carryovers of £671,000 requested;

   b) Capital carryovers to 2017/18 of £2.855 million; and

   c) A revision of the capital programme during 2017/18 which will require additional direct revenue funding from the HRA.

ISSUES

Variances

6. The operational variance for 2017/18, against the original estimate totals £297,000 overspend (see Appendix A). Key items driving this variation are:

   a) A favourable variance of (-)£56,000 from staffing vacancies in General Management. It has proven difficult to recruit to some posts, resulting in vacancies in certain areas. Where appropriate posts have been covered by temporary staff. This has been reflected in the estimates which project the full year savings.

   b) The schedule of work to Priority Estates was revised with Phase One fully decanted by 31 March 2016 and Phase Two by 31 March 2017. Home loss payments and moving incentives arising from this process are in large part statutory and also demand led resulting in a carry over to 2017/18 of £544,000 to fulfil potential commitments.

c) Rental income from housing stock is higher than estimated due to more stock being held at 31 March 2017 than anticipated, offset by a higher level of Right to Buy sales and the subsequent realigning of the three year phasing for The Briars, Copshall Close and Aylets Field.

d) An unfavourable variance of £106,000 from garage rental income due to a higher than anticipated level of void garages.

e) An unfavourable variance of £267,000 in respect of HTS (Property & Environment) Ltd pension arrangements due to a higher pension recovery rate than estimated.

f) An unfavourable variance of £72,000 for service charge income refunded in 2017/18 from over recovery of charges in 2015/16.

7. At 31 March 2017 there was a nil balance on the Major Repairs Reserve (MRR). The estimated depreciation charge for 2017/18 of £10.928 million is expected to be used in full to support the Housing Capital Programme.

8. 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 2016-46 approved by Council in February 2017, states that external borrowing will be renewed on maturity in March 2026 and hence MRR is being applied to finance capital expenditure.

HRA BALANCES 2016/17

9. In February 2017 the Council approved HRA estimates for the current year that anticipated a Working Balance at 31 March 2018 of £8,133,000. The Working Balance at 31 March 2018 is now estimated to be £6,094,000 including the financing of the carryovers to 2017/18 as set out below.

	£'000
Approved balance in hand 1 April 2017 (as at February 2017)	10,242
Increase in balance in hand (reported at July Cabinet)	2,733
Actual balance in hand 1 April 2017	12,975
i) Original estimate deficit	(-)2,108
ii) Revenue Carryovers 2016/17	(-)671
iii) Capital Carryovers 2016/17	(-)2,855
iv) Capital budget re-profiling: Additional Direct Revenue Financing	(-)1,216
v) Capital budget re-profiling: Additional Leaseholder Income	229
Operational variance	(-)260
Projected Working Balance at 31 March 2018	6,094

10. The HRA Business Plan 2016-2046 was approved at Council on 2 February 2017 with a projected working balance of £10.242 million at 31 March 2017. It is now £6.094 million, £4.148 million lower due to year carryovers and adjustments.

SIGNIFICANT RISKS / OPPORTUNITIES

11. 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) The outcome and communication of outstanding national housing policy imperatives relating to the sale of larger properties in support of Registered Social Landlord (RSL) Right to Buy proposals, and future rental income legislative parameters. 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. Details of how this will operate in the future and impact on the Council are still awaited following the General Election in June.

    c) HTS Pension adjustment –and re-valuation implications if appropriate.

    d) Welfare Reform: the Government's reduction in benefits to non-working families may have an adverse impact on tenants' ability to pay rent. The County Council has also reduced Housing Related Support to the Council.

    e) 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.

    f) The result of the EU Referendum has brought uncertainties regarding the economy, with low interest rates and inflationary pressure on expenditure.

    g) It is anticipated that the Government's introduction of the Homeless Reduction Bill, will place a legal duty on Council's to take steps to prevent families from becoming homeless, with a key element being to intervene to prevent homelessness happening in the first place, rather than focusing on accommodating people who are already homeless. This will have financial implications for the Council in terms of the increased new duties that it will be expected to provide.

h) 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 SME builders build the homes Britain needs.

(ii) Improve affordability and protections for renters and home purchasers. Amongst many headlines, there is a view that Councils existing and new Housing Companies will be subject to Right to Buy processes. Consultation on the new Housing White Paper closed on 5 May 2017.

IMPLICATIONS

Place Services (includes Regeneration)
None specific.
Author: **Graeme Bloomer, Head of Place Services**

Finance (Includes ICT)
As contained in the body of the report.
Author: **Simon Freeman, Head of Finance**

Housing
As contained in the body of 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: **Brian Keane, Head of Governance**

Background Papers
CIPFA Code of Practice 2012/13.
CIPFA Financial Advisory Network paper "HRA Depreciation, Impairment and Valuation Losses (England)".

Glossary of terms/abbreviations used

HRA: Housing Revenue Account.
MRR: Major Repairs Reserve.
RSL: Registered Social Landlord
CLG: Department of Communities and Local Government
RTB: Right to Buy

HTS: Harlow Trading Services (Property & Environment) Ltd
SME: Small and Medium Enterprise

Appendices

Appendix A – HRA Operational Variances (against Original Estimates) – Period 3
Appendix B – Housing Revenue Account Budget Summary 2017/18 – Period 3