

REPORT TO: CABINET

DATE: 7 DECEMBER 2017

TITLE: HOUSING REVENUE ACCOUNT, QUARTER
2 FINANCE REPORT 2017/18

PORTFOLIO HOLDERS: COUNCILLOR MIKE DANVERS,
PORTFOLIO HOLDER FOR RESOURCES

COUNCILLOR MARK WILKINSON,
PORTFOLIO HOLDER FOR HOUSING

LEAD OFFICERS: SIMON FREEMAN, HEAD OF FINANCE
(01279) 446228

ANDREW MURRAY, HEAD OF HOUSING
(01279) 446676

CONTRIBUTING OFFICERS: ANDREW SMITH, FINANCE MANAGER
(01279) 446212

ALISON CURTIS, SENIOR SERVICE
ACCOUNTANT (01279) 446211

This is not a Key Decision

It is on the Forward Plan as Decision Number I007291

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 £486,000 representing 0.92 percent of the gross HRA budget.
- (ii) A unfavourable non-operational variance of £4,073,000 representing 7.69 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 £5,636,000 in respect of the Housing Revenue Account and nil in respect of the Major Repairs Reserve.

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 the later part of this financial year and future years.

BACKGROUND

1. This report sets out the Council's financial performance against the agreed 2017/18 HRA Budget and provides an indication of the outturn projection as at 31 March 2018.
2. The Council approved a minimum revenue balance of £4,436,000 in 2017/18.
3. The 2017/18 HRA original budget estimate anticipated a working balance on the HRA of £8,133,000 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 have confirmed that this remains the responsibility of local landlords.
5. Allowing for the pressures previously reported to Cabinet the revised forecasts for the HRA balance at 31 March 2018 is £5,636,000.

ISSUES

Variances

6. The projected operational variance for 2017/18 is showing a £486,000 overspend, the key variation are detailed below with a more detailed analysis shown at Appendix A:
 - a) A favourable variance of (-)£141,000 resulting from staffing vacancies in General Management. It has proved difficult to recruit into some vacant posts and where required posts have been covered by temporary staff.
 - b) Rental income from housing stock is projected to be £261,000 lower than estimated due to higher right to buy sales and the realigning of the three year phasing for The Briars, Copshall Close and Aylets Field,
 - c) An unfavourable variance of £118,000 from garage rental income due to a higher than anticipated level of void garages.
 - d) An unfavourable variance of £267,000 in respect of HTS (Property &

Environment) Ltd pension arrangements due to a higher pension recovery rate than estimated.

- e) A favourable variance of (-)£390,000 in respect of estimated savings as the Priority Estates programme ends at 31 March 2018.
 - f) The demand for homeless accommodation has increased. The Council is due additional Government funding which will need allocating between the General Fund and HRA.
7. At 31 March 2017 there was a nil balance on the Major Repairs Reserve (MRR). The estimated depreciation charge for 2017/18 of £10,950,000 (original estimate £10,928,000) 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 Full 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 2017/18

9. In February 2017, Full 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 £5,636,000 including the financing of the 2016/17 revenue carryovers 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
Forecast Balance in hand 31.3.18	10,195
Appendix A:	
Operational variances	(-)486
Non Operational variances	(-)4,073
Projected Working Balance at 31 March 2018	5,636

10. The HRA Business Plan 2016-2046 was approved at Council on 2 February 2017 with a projected working balance of £10,242,000 at 31 March 2017. It is now £5,636,000, £4,606,000 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) 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. It has now been announced that the uplift over the following five financial years will be CPI +1 percent.
- 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. Additionally, the County Council has 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/new “Housing Companies” will be subject to “Right to Buy” processes. Consultation on the new Housing White paper closed 5 May 2017. A budget housing announcement is anticipated.

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: **Amanda Julian, Legal Services Manager, on behalf of 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

DCLG – Department of Communities and Local Government

HRA – Housing Revenue Account

HTS – Harlow Trading Services (Property & Environment) Ltd

MRR – Major Repairs Reserve.

RSL – Registered Social Landlord

RTB – Right to Buy

SME – Small and Medium Enterprise

Appendices

Appendix A – HRA Operational Variances, Period 6

Appendix B – Housing Revenue Account Budget Summary 2017/18, Period 6