

REPORT TO CABINET

DATE: 22 MARCH 2018

TITLE: HOUSING REVENUE ACCOUNT, QUARTER 3
FINANCE REPORT 2017/18

PORTFOLIO HOLDERS: COUNCILLOR MIKE DANVERS, PORTFOLIO
HOLDER FOR RESOURCES

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This is not a Key Decision

It is on the Forward Plan as Decision Number I007302

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 £266,000 representing 0.5 percent of the gross HRA budget.
- ii) A favourable non-operational variance of £5,094,000 representing 9.62 percent of gross HRA budget which includes adjustments to capital programme financing as a result of an updated outturn position for 2017/18 and reflecting the reprioritised programme.

B Notes the forecast balances at 31 March 2018, of £15,022,000 in respect of the HRA and nil in respect of the Major Repairs Reserve (MRR).

REASON FOR DECISION

- A** To ensure that Senior Management Board 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. 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 Senior Management Board and the impact of the revised outturn in the capital programme advised in the Quarter Three Capital report, the revised forecast for the HRA balance at 31 March 2018 is £15,022,000.

ISSUES

Variances

6. The projected operational variance for 2017/18 is showing a £266,000 overspend, the key variation are detailed below with a more detailed analysis shown at Appendix A:
 - a) A favourable variance of (-)£324,000 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. Recruitment was also postponed due to reprogramming in respect of the Technical Services review.
 - b) Rental income from housing stock is projected to be £262,000 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 £267,000 in respect of HTS (Property and Environment) Ltd (HTS) pension arrangements due to a higher pension recovery rate than estimated.
 - d) A favourable variance of (-)£404,000 in respect of estimated savings as the Priority Estates programme ends at 31 March 2018.
 - e) The demand for homeless accommodation has increased (estimated variance £400,000). The Council received additional Government funding to support prevention work from which £50,000 has been allocated to the HRA.
7. At 31 March 2017 there was a nil balance on the MRR. The estimated depreciation charge for 2017/18 of £11,440,000 (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 2017-47 approved by Full Council in February 2018, 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 £15,022,000 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	(-)266
Non Operational variances	5,094
Projected Working Balance at 31 March 2018	15,022

10. The HRA Business Plan 2017-2047 was approved at Council on 1 February 2018 with a projected working balance of £8,272,000 at 31 March 2018. It is now £15,022,000, £6,750,000 higher due to the outturn on the capital programme requiring an anticipated reduction in the level of funding in 2017/18.

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 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) The Homeless Reduction Act 2017, which will be implemented from April 2018, 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 small and medium enterprise 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 (Includes Sustainability)

None specific.

Author: Graeme Bloomer, Head of Place

Finance (Includes ICT)

As contained within the report.

Author: Simon Freeman, Head of Finance

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: Amanda Julian, Legal Services Manager

Appendices

Appendix A – HRA Operational Variances, Period 9

Appendix B – Housing Revenue Account Budget Summary 2017/18, Period 9

Background Papers

None.

Glossary of terms/abbreviations used

CPI – Consumer Price Index

HRA – Housing Revenue Account

HTS – Harlow Trading Services (Property and Environment) Ltd

MRR – Major Repairs Reserve

Appendix A
Period 9

HRA Operational Variances (against Current Estimate)				
Item	Adverse £000's	Favourable £000's	Net £000's	Main contributing Factors to Variations
General Management		(-)324	(-)324	Net vacancy savings on salaries due to delays in recruitment and staff reorganisation.
General Management	267		267	Change in HTS pension contributions
General Management	31		31	Additional legal fees required due to the JVCo demobilisation and other contractual changes.
General Management	49		49	Increase in overhead costs for the year.
General Management		(-)404	(-)404	Phase 3 Priority Estate properties decanted early to meet the timescale for refurbishing properties.
Dwelling Rents	262		262	Rent impacted by Phase 3 Priority Estate properties decanted early to meet the timescale for refurbishing properties.
General Management		(-)50	(-)50	Provision for statutory regulation fee no longer required.
Special Management	400		400	Unavoidable costs due to increased demand in Temporary Accommodation due to a 35% increase in homeless approaches both nationally and locally.
Charges for Services and Facilities		(-)50	(-)50	HRA Proportion of Homelessness Grant received in respect of prevention work.
Special Management	32		32	Increase estimated cost of communal lighting.
Special Management		(-)23	(-)23	Estimated effect of the change to the Lift Contract in multi storey flat blocks.
Special Management		(-)26	(-)26	Savings in estimated cost of gas to communal heating schemes
Garage Rents	15		15	Lower income from garage rents due to a higher level of void garages.
Charges for Services and Facilities	85		85	Income due from tenant heating less than estimated due to adjustment for 2015/16 service charges
Charges for Services and Facilities	24		24	Tenant service charge adjustment in respect of 2015/16.
Rent Rates and Taxes	69		69	Mainly due to delayed receipt of 2016/17 council tax invoices in respect of Priority Estate properties.
Bad debt provision		(-)100	(-)100	Reduced provision required for anticipated bad debts.

Other minor variances	7		7	
Deficit/ (Surplus) for year	1,242	(-)976	266	<i>Net adverse</i>

Item	Non Operational Variances			Net £000's	
	Adverse £000's	Favourable £000's			
Direct Revenue Financing of Capital Expenditure		(-)5,654	(-)5,654		Reduction in funding required due to revised outturn in the Housing Capital Programme particularly in respect to external works.
Leaseholder Income	48	0	48		Reduction of income consequential on revision of the Housing Capital Programme.
Major Repairs Reserve (depreciation)	512		512		Increase in estimated depreciation 2017/18
Variance	560	(-)5,654	(-)5,094		<i>Net favourable</i>

HRA Operational Variance	£ 266,000
HRA Non Operational Variance	(-)£5,094,000
TOTAL Projected HRA Underspend	(-)£4,828,000

Appendix B

HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2017/18

PERIOD 9

	2017/18 Current Budget revised for carryovers*	Forecast Outturn	Variance
	£	£	£
EXPENDITURE			
General Management	12,128,124	11,711,321	(-)416,803
Special Management	6,709,837	7,108,654	398,817
Repairs	9,936,724	9,961,100	24,376
Rents Rates Taxes & Other Charges	46,000	115,000	69,000
Provision for Bad & Doubtful Debts	300,000	200,000	(-)100,000
Supporting People Transitional Arrangements	5,100	5,300	200
Major Repairs Reserve	10,928,000	11,440,000	512,000
Debt Management Expenses	16,520	16,520	0
Interest Charges	6,765,000	6,763,000	(-)2,000
Direct Revenue Financing of Capital Programme	6,136,000	482,000	(-)5,654,000
	52,971,305	47,802,895	(-)5,168,410
INCOME			
Dwelling Rents	44,210,000	43,948,000	(-)262,000
Garage Rents	1,103,000	1,088,000	(-)15,000
Other Rents	55,210	77,110	21,900
Charges for Services & Facilities	4,776,360	4,682,292	(-)94,068
Interest Receivable	47,000	55,075	8,075
	50,191,570	49,850,477	(-)341,093
Balance in hand at 1 April	12,974,857	12,974,857	0
Surplus / (Deficit) for year	(-)2,779,735	2,047,582	4,827,317
Balance in hand at 31 March	10,195,122	15,022,439	4,827,317

*Budget 2017/18 includes revenue carryovers from 2016/17, £671,000 and direct revenue funding relating to capital carryovers from 2016/17.