REPORT TO:	**CABINET**
DATE:	**13 SEPTEMBER 2018**
TITLE:	**HOUSING REVENUE ACCOUNT, QUARTER 1 FINANCE REPORT 2018/19**
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**
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This is not a Key Decision
It is on the Forward Plan as Decision Number I008564
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 £956,000 representing 1.8 percent of the gross HRA budget.

ii) An unfavourable non-operational variance of £4,104,000 representing 7.72 percent of gross HRA budget which includes adjustments to capital programme financing as a result of the carryovers from 2017/18 and other adjustments.

B Notes the forecast balances at 31 March 2019, of £5,304,000 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 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. The Inquiry is currently on-going and a final report is not expected in 2018/19.

3. The 2018/19 HRA original budget estimate anticipated a working balance on the HRA of £4,755,000 at 31 March 2019.

4. The carryovers to 2018/19 in the housing capital programme total £5,071,000 including external works, fire safety, electrical upgrades and HTS (Property and Environment) Ltd (HTS) schemes. This work will be funded by an increase in the revenue contribution from the HRA.

5. At 1 April 2018 the working balance on the HRA was £14,104,000 (original estimate £8,272,000). The forecast HRA balance at 31 March 2019 is £5,304,000.

ISSUES/PROPOSALS

Variances

6. The projected operational variance for 2018/19 is showing a £956,000 overspend, the key variations are detailed below with a more detailed analysis shown at Appendix A:

    a) Whilst dwelling rents are currently below the approved budget there is improvement in respect of the level of void dwellings when compared with the anticipated void numbers projected at the time of budget setting. The position remains under review and will be considered alongside the budget setting for 2019/20 and the refresh of the 30 year business plan later in the year; and

    b) An unfavourable variance of £156,000 in respect garage income due to the number of void garages held. Unfortunately, the trend has increased over the last two to three years in terms of demand for garages in Harlow. Records indicate there is higher demand in some areas than others which requires careful management. 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.

7. 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 £12,320,000 (original estimate £11,439,000) and 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 the MRR is being applied to finance capital expenditure.

HRA Balances 2018/19

9. The original estimate for 2018/19 approved by Full Council in February 2018 anticipated an opening balance of £8,272,000 and working balance at 31 March 2019 of £4,755,000. Following closure of the 2017/18 accounts the working balance brought forward was £14,104,000, as noted by 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.

10. The HRA in 2018/19 will be impacted by the additional direct revenue contribution required to fund the 2017/18 carryovers and additional expenditure incurred by the final settlement with Kier Harlow, plus reprioritisation of the capital programme. For details please refer to the Capital Programmes, Quarter 1 Finance Report 2018/19 which is item 13 on the agenda for this meeting.

Table 1 – HRA Projected Working Balance at 31 March 2019

	£'000
Original Estimated balance in hand 1 April 2018 (as at February 2018)	8,272
Increase in balance in hand reported at 17/18 Outturn	5,832
Actual balance in hand 1 April 2018	14,104
i) Original estimate deficit	(-)3,518
ii) Revenue Carryovers 2017/18	(-)222
iii) Capital Carryovers 2017/18	(-)5,071
Other service adjustments	11
Projected Working Balance at 31 March 2019	5,304

11. The anticipated Working Balance at 31 March 2019 is £5,304,000, against an estimate of £4,755,000, £549,000 higher due to year end carryovers and subsequent capital works identified, offset by additional funding from unapplied capital receipts and grant income.

Significant Risks/Opportunities

12. 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 Right to Buy (RTB) 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 Homeless Reduction Act 2017, which was implemented from April 2018, places a legal duty on Councils 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; and

    g) 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; and

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 RTB processes. Consultation on the White Paper closed 5 May 2017. A budget housing announcement is anticipated.

IMPLICATIONS

Place (Includes Sustainability)
None specific.
Author: Jane Greer, Head of Community Wellbeing on behalf of 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: Colleen O'Boyle, Interim Head of Governance

Appendices

Appendix A – HRA Operational Variances, Period 3
Appendix B – Housing Revenue Account Budget Summary 2018/19, Period 3

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

CPI – Consumer Price Index
HRA – Housing Revenue Account

HTS – HTS (Property and Environment) Ltd
MRR – Major Repairs Reserve
RTB – Right to Buy