

**REPORT TO:** CABINET

**DATE:** 6 DECEMBER 2018

**TITLE:** HOUSING REVENUE ACCOUNT, QUARTER 2  
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

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

ALISON CURTIS, SENIOR SERVICE  
ACCOUNTANT (01279) 446211

**This is a Key Decision**

**It is on the Forward Plan as Decision Number I008740**

**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 HRA operational /controllable budget of £867,000 representing 1.63 per cent of the gross Housing Revenue Account (HRA) budget.
- ii) A favourable non-operational variance of £660,000 representing 1.24 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 increases the anticipated direct revenue contribution required in 2018/19.

**B** Notes the forecast balances at 31 March 2019, of £10,157,000 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. The Inquiry is currently ongoing 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 totalled £5,071,000, which included external works, fire safety, electrical upgrades and HTS schemes. Further re-alignment of budgets in 2018/19 results in an expected carryover at year end of £5,297,000. Anticipated capital work will be funded by an increase in the revenue contribution from the HRA of £6,724,000 (Original Estimate: £5,914,000).
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 now £10,157,000.

## **ISSUES/PROPOSALS**

### **Variances**

6. The projected operational variance for 2018/19 is showing a £867,000 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. 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.
  - b) An unfavourable variance of £173,000 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.

- c) Issues arising from changes in electricity and gas contracts have made it difficult to estimate with accuracy expenditure in 2018/19. However, these issues are being resolved and will be reflected in subsequent reports.
7. At 31 March 2018 there was a nil balance on the Major Repairs Reserve (MRR). The estimated depreciation charge for 2018/19 following a review is anticipated to be £9,969,000 (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 therefore the MRR is being applied to finance capital expenditure.

#### **HRA Balances 2018/19**

9. 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. Following closure of accounts, 2017/18, 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 offset by the subsequent carryovers to 2019/20 identified. In addition, expenditure was incurred by the final settlement with Kier Harlow, plus reprioritisation of the capital programme (Cabinet 13 September 2018).

**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
Forecast Balance in hand 31.3.19	10,364
Appendix A:	

Operational variances	(-)867
Non Operational variances	660
Projected Working Balance at 31 March 2019	10,157

11. The anticipated Working Balance at 31 March 2019 is £10,157,000, against an estimate of £4,755,000.

### **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) Outcomes from national housing policy relating to the sale of larger properties in support of Registered Social Landlord (RSL) Right to Buy (RTB) 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) 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 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; 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;
- ii) Publish a consultation paper on the reforming of RTB Receipts, which will allow councils to hold receipts for longer than the three years which is currently allowed and which is currently out to consultation; and
- 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: 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 6

Appendix B – Housing Revenue Account Budget Summary 2018/19, Period 6

## **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

HTS – Harlow Trading Services (Property & Environment) Ltd

MRR – Major Repairs Reserve.

RSL – Registered Social Landlord

RTB – Right to Buy