REPORT TO:	**CABINET**
DATE:	**18 JULY 2019**
TITLE:	**HOUSING REVENUE ACCOUNT OUTTURN 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 AND DEPUTY TO THE MANAGING DIRECTOR (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 I010135
The decision is not subject to Call-in Procedures for the following reason:
The recommendations are within the scope of the budget approved by Full Council in February 2018
This decision will affect no ward specifically.

RECOMMENDED that Cabinet**:**

A Acknowledges the Housing Revenue Account (HRA) outturn for 2018/19 as set out in the report as follows:

i) An unfavourable variation against the current budget adjusted for carryovers on operational/controllable budgets of £121,000 representing (-)0.23 per cent of the gross HRA budget.

ii) A total projected underspend of £3,367,000 representing 7.28 per cent of the gross HRA budget.

B Notes working balances at 31 March 2019 of £13,731,000 in respect of the HRA and nil in respect of the Major Repairs Reserve (MRR) are noted.

C Recognises the operational performance that has been achieved across all Council services during 2018/19.

REASON FOR DECISION

A To note the outturn against the Council’s approved 2018/19 HRA and acknowledge the operational variations in light of the challenges the Council has faced in this financial year and may do so in future years.

B To note the application of the Council’s MRR, highlighting its relationship with the Housing Capital Programme.

BACKGROUND

1. In April 2012 the HRA underwent significant changes following the introduction of self-financing. This created a closer link between housing revenue and capital expenditure and income.

2. This report sets out the Council’s financial performance against the agreed HRA Business Plan at 1 February 2018 updated with the approved revenue carryovers from 2017/18.

ISSUES/PROPOSALS

3. The objective is to maintain a minimum working balance of £4,000,000 as at 31 March 2019, and to ensure that the HRA Business Plan is sustainable over a period of thirty years.

4. The outturn at 2018/19 includes an overspend of £121,000 on operational budgets (attached as Appendix A to the report). The overall underspend for the year was £3,367,000 including non-operational adjustments at year end which included a lower than estimated direct revenue contribution in support of the Housing Capital Programme.

5. The HRA budget for 2018/19, including approved carryovers from 2017/18 of £222,000 and other approved adjustments, totalled £53,190,000. The operational overspend at 31 March 2019 represents a (-)0.23 per cent variance against the budget and a 7.05 per cent variation for non-operational adjustments, including a direct revenue contribution to the Capital Programme and year end financing changes.

6. The HRA supports the Housing Capital Programme through Direct Revenue Financing and by a contribution from the MRR. The non-operational variance for the year was(-)£3,488,000 due to a reduced direct revenue contribution to

Capital of (-)£1,963,000 and a lower depreciation charge of £10,362,000. There was an increase of £448,000 in income from major works on leaseholders' property. Full details are given in appendices A and B.

7. The HRA underpins the delivery of the modern homes programme requiring the acquisition of specialist asset management skills through a contract with Savills UK Ltd which includes investment planning, investment appraisal, and programme and project management to enable the implementation of the housing investment programme, publish information to tenants and to continue to maintain and invest in council dwellings.

8. Housing services including repairs and maintenance are carried out by HTS (Property and Environment) Ltd (HTS), a wholly owned subsidiary company of the Council.

9. In 2018/19 the depreciation charge of £10.362 million was used in full to support the Housing Capital Programme financed via the MRR (see below).

Operational Variances

10. In 2018/19 the operational variance against the original estimate totals £121,000 overspend (as shown in Appendix A to the report). The key issues driving this variation are detailed below.

11. A favourable variance of (-)£546,000 from staffing vacancies in General Management. It has proved difficult to recruit to some posts resulting in vacancies in certain areas and where appropriate posts have been covered by temporary staff. A planned approach to recruitment to key posts continues.

12. 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.

13. Budgets set aside to meet the cost of moving residents from the Priority Estates were not required in full resulting in an underspend of (-)£159,000. Similarly the budgets for tenant moving incentives and compensation underspent by (-)£162,000.

14. The cost of services to tenants and leaseholders increased due in part to the uplift in the HTS contract during the year of 0.7 per cent but also to the increased cost of gas supplied which resulted in higher income due from tenants and leaseholders.

15. Insurance losses incurred were higher than estimated offset by savings on Policy Excesses, net £89,000.

16. The HRA supports homeless applicants who are identified by the Council as future tenants. Expenditure in respect of temporary and homeless prevention and accommodation was in line with the forecast, being £871,000 against an original budget of £885,000. In addition Flexible Homelessness grant income

was received from the Ministry for Housing, Communities and Local Government (MHCLG), of which £179,000 was apportioned to the HRA.

17. An unfavourable variance of £61,000 in respect of HTS pension arrangements due to a higher pension recovery rate than estimated.

18. Income from garages was £177,000 less than estimated due to an increase in void garages. However income to the HRA for the administration of the garages in the General Fund was (-)£142,000.

19. Income from tenant and leasehold service charges was (-)£78,000 offset by the adjustment from 2017/18 service charge income of £49,000. In addition income due for leasehold repairs and maintenance increased by (-)£109,000.

20. Income from major works schemes carried out within the Capital Programme (set out in the Capital Programmes Outturn Report 2018/19) resulted in additional income from leasehold contributions to major works of £448,000.

21. Interest on HRA balances held was higher than estimated due to the lower capital expenditure incurred in 2018/19.

22. The original estimate for bad debt provision was £300,000 in anticipation of rent arrears arising following the implementation of Universal Credit in Harlow. In 2018/19 the provision required was £205,000.

23. On 31 January 2017 the contract with Kier Harlow Ltd supporting the Housing Service, providing housing maintenance, street scene and municipal services, came to an end. As previously reported to Cabinet in September 2013, provision was included within the HRA budget to accommodate costs associated with the re-procurement of these services. During 2018/19 final costs incurred in respect of this work have been financed by the drawdown of £4,000 from the provision. The remaining balance of £54,000 was returned to the HRA.

24. The original estimate for Right to Buy (RTB) sales in 2018/19 was 50 properties. Actual sales totalled 44 with income from the administration of RTB's lower by £21,000.

Non-Operational Variances

25. Non-operational variances totalling a favourable £3,488,000 relate to a lower depreciation charge in the MRR of £10,362,000 (original estimate £11,439,000) and a decrease in the Direct Revenue Contribution to Capital of £3,950,000 (original estimate £5,914,000). The reduced contribution follows a lower than estimated outturn in the Housing Capital Programme (as set out in the Capital Programmes Outturn Report 2018/19).

26. However, capital work carried forward into 2019/20 will substantially affect the amount of financing required from the HRA.

Major Repairs Reserve

27. The MRR is a separate statutory account which is used to ensure adequate resources are set aside, such as depreciation, to cover housing capital expenditure. The MRR may also be used to repay housing debt. In the latter incidence the Council has a housing debt of £208.837 million. Repayment is not anticipated over the life of the HRA Business Plan.

28. The movement on the MRR is as follows:

Table 1 – Major Repairs Reserve

MAJOR REPAIRS RESERVE			
Details	Original Estimate £000's	Outturn £000's	Variance £'000s
Balance at 1 April 2018	0	0	0
Transfers in – deprecation (net)	(-)11,439	(-)10,362	1,077
Capital Spending on Housing Stock met by the Reserve	11,439	10,362	(-)1,077
Balance at 31 March 2019	**0**	**0**	**0**

HRA Working Balance

29. In February 2018 the Council approved HRA Estimates for the current year that anticipated a Working Balance at 31 March 2019 of £4,755,000. As a consequence of the 2017/18 year end outturn the working balance at 1 April 2018 was £14,104,000.

30. The movement in the HRA balance at 31 March 2019 is due in large part to the substantial reduction in anticipated expenditure in the capital programme.

31. The balance on the HRA will be impacted in 2019/20 by the capital carryovers requested of (£3,608,000) which will require financing from an increased direct revenue contribution from the HRA.

Table 2 – Housing Revenue Account 2018/19 Summary

HOUSING REVENUE ACCOUNT 2018/19	
	£000's
Adjusted balance at 31 March 2018: current budget	**14,104**
Estimated deficit for 2018/19	(-)3,740
Variance to deficit	3,367
Balance at 31 March 2019	**13,731**

Summary of Balances as at 31 March 2019

32. Changes to the regulations under self-financing mean changes in capital financing locally create different balances on the HRA and MRR than originally budgeted. Instead of the minimum working balance of £4,000,000, the HRA shows a balance of £13,731,000 as at 31 March 2019 and in line with the original estimate there is a nil balance on the MRR. For more information refer to the HRA Business Plan 2018-2048.

Carry Forwards

33. The Capital Programme report shows a requirement to carry forward work to 2019/20 totalling £3,608,000 to meet outstanding commitments.

34. The impact of capital carry forwards on the HRA budget will be reported throughout 2019/20 as part of the budget monitoring process.

Significant Risks/Opportunities

35. The Council developed a 30 year Business Plan as a result of the changes introduced in 2012 and the move to self-financing, in order to ensure the long-term sustainability of the HRA. This is subject to on-going review.

36. The Welfare Reform and Work Act 2016 required social landlords to decrease rents annually by one per cent over the next four financial years (2016/17 – 2019/20). This has challenged councils to make efficiencies in order to deliver sustainable services.

37. As a responsible social landlord, the Council has no greater asset management priority than ensuring the health, safety and welfare of its tenants via full compliance with its statutory, regulatory and legal obligations across the full range of issues related to fire, gas, electrical and water safety as well as asbestos management.

38. The following risks 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 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 per cent 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) 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.

d) 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.

e) 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.

f) 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 local authorities to hold receipts for longer than the three years which is currently allowed and which is currently out to consultation.

   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: Andrew Bramidge, Project Director – Enterprise Zone and Interim Head of Planning

Finance (Includes ICT)
As contained within the report.
Author: Simon Freeman, Head of Finance and Deputy to the Managing Director

Housing
As outlined in 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: Simon Hill, Head of Governance

Appendices

Appendix A – HRA Operational Variances
Appendix B – HRA Budget

Background Papers

None.

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

APPENDIX A

HRA Operational Variances

Item	Adverse £000's	Favourable £000's	Net £000's	Main contributing Factors to Variations
General Management		(-)546	(-)546	Net vacancy savings on salaries based on a planned approach to recruitment and staff reorganisation.
General Management	61		61	Additional HTS pension contribution.
General Management		(-)159	(-)159	Compensation provision for payments to Priority Estates tenants not required.
General Management	65		65	Cost of Council House Building Officer for 2018/19 and proportion of cost of the Energy Manager to the HRA.
General Management		(-)162	(-)162	Tenant moving incentives not required.
General Management	107		107	Increase in central establishment overhead costs based on staff and other direct costs.
General Management	51		51	Legal costs identified in year.
Repairs and Maintenance	90		90	HTS Contract BMI increase of 0.7% effect on Repairs and Maintenance and Service Charges.
Repairs and Maintenance	449		449	Movement of capital saving on surveyors to revenue under the TUPE transfer.
Repairs and Maintenance		(-)33	(-)33	Lower expenditure than budgeted on maintenance of lifts.
Repairs and Maintenance	89		89	Net cost of insurance losses and policy excesses.
Special Management		(-)24	(-)24	Saving on the estimated cost of the provision of temporary accommodation to potential tenants.
Special Management	30		30	Increase in costs of Supporting People in the General Fund.
Special Management	33		33	Additional cost of fuel to Sheltered heating schemes.
Special Management	26		26	Additional cost of compliance work to fulfil Landlord health and safety obligations.
Special Management		(-)21	(-)21	Lower cost of communal lighting than estimated.
Special Management	41		41	Impact of gas price rises on cost of communal heating.
Charges for Services and Facilities		(-)45	(-)45	Additional income from heating, lighting and other service charges.

Charges for Services and Facilities		(-)75	(-)75	Additional income from Leasehold repairs and maintenance offset by lower management fee than estimated.
Dwelling Rents	267		267	Rental income reduced by properties held pending refurbishment or disposal.
Garage Rents	177		177	Lower income from garage rents due to a higher level of void garages.
Interest receivable		(-)77	(-)77	Interest receivable on HRA balances.
Bad debt provision		(-)95	(-)95	Full provision not required in 2018/19
Other minor variances		(-)129	(-)129	
Deficit/ (Surplus) for year	1,487	(-)1,366	121	-0.23%

Non Operational Variances

Item	Adverse £000's	Favourable £000's	Net £000's	Main contributing Factors to Variations
Revenue Contribution to Capital Expenditure		(-)1,514	(-)1,514	Consequential movement to projected capital expenditure for the financial year.
		(-)449	(-)449	Movement of capital saving on surveyors to revenue under the TUPE transfer.
Major works income		(-)448	(-)448	Higher income resulting from external and other works in the Housing Capital Programme.
Major Repairs Reserve (depreciation)		(-)1,077	(-)1,077	Reduction in estimated depreciation for 2018/19 based on the latest valuation received.
Deficit/ (Surplus) for year	0	(-)3,488	(-)3,488	7.05%

HRA Operational Variance	£ 121,000
HRA Non Operational Variance	(-)£3,488,000
TOTAL HRA Underspend	(-)£3,367,000

APPENDIX B

	2017/18 Actual £	2018/19 Current Estimate* £	2018/19 Actual £	Current Estimate to Outturn Variance £'000
EXPENDITURE				
General Management	11,112,332	11,336,751	11,418,687	81,936
Special Management	6,787,566	7,353,273	7,227,420	(-)125,853
Repairs	9,906,904	10,121,085	10,303,821	182,736
Rents Rates Taxes & Other Charges	109,603	35,000	49,849	14,849
Provision for Bad & Doubtful Debts	85,242	300,000	204,873	(-)95,127
Supporting People Transitional Arrangements	5,295	5,300	4,981	(-)319
Major Repairs Allowance (Net Depreciation)	11,801,259	11,439,000	10,362,047	(-)1,076,953
Debt Management Expenses	16,520	16,520	8,534	(-)7,986
Interest Charges	6,778,765	6,669,000	6,695,520	26,520
Revenue Contribution to Capital Expenditure	1,503,339	5,914,000	3,950,317	(-)1,963,683
	48,106,824	**53,189,929**	**50,226,048**	**(-)2,963,881**
INCOME				
Dwelling Rents	43,883,886	43,175,000	42,907,526	(-)267,474
Garage Rents	987,963	1,142,000	964,614	(-)177,386
Other Rents	62,266	65,150	63,313	(-)1,837
Charges for Services & Facilities	4,213,291	5,005,995	5,779,310	773,315
Interest Receivable	88,104	62,075	138,828	76,753
	49,825,382	**49,450,220**	**49,853,590**	**(-)403,370**
Balance in hand at 1 April	**12,974,857**	**14,103,542**	**14,103,542**	**0**
Surplus / (Deficit) for year	**1,128,685**	**(-)3,739,709**	**(-)372,458**	**(-)3,367,251**
Balance in hand at 31 March	**14,103,542**	**10,363,833**	**13,731,084**	**3,367,251**
Figures based on:				
Housing Stock	*No.*	*No.*	*No.*	
Housing Stock at 1 April	*9,425*	*9,290*	*9,279*	
Less Disposals – RTB's	*(-)69*	*(-)50*	*(-)44*	
Other Disposals – Priority Estates	*(-)75*	*(-)55*	*(-)55*	
Other disposals	*(-)2*	*0*	*0*	
Other Additions: T/A	*0*	*0*	*1*	
Housing Stock at 31 March	*9,279*	*9,185*	*9,181*	
Weekly Charges				
Average Rent (per dwelling)	*£91.73*	*£90.74*	*£90.74*	
Average Service Charge (per dwelling)	*£1.95*	*£2.03*	*£2.17*	
Average Rent (per garage)	*£9.22*	*£9.68*	*£9.68*	

- Current estimate equals original budget plus carryovers as reported during 2018/19