

**REPORT TO:** CABINET

**DATE:** 10 DECEMBER 2015

**TITLE:** HOUSING REVENUE ACCOUNT BUDGET  
MONITORING QUARTER 2, 2015/16

**PORTFOLIO HOLDER(S):** COUNCILLOR ROD TRUAN

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**This is not a Key Decision**

**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** Acknowledges the projected outturn position set out in the report as at the end of the second quarter of 2015/16 as follows:
- (i) A favourable variation on operational/controllable budgets of £790,000 representing 1.38% of the gross Housing Revenue Account (HRA) budget.
  - (ii) A total projected underspend of £2,861,000 representing 4.95% of the gross HRA budget.
- B** Notes the forecast balances at 31 March 2016, of £7,006,000 in respect of the Housing Revenue Account and nil in respect of the Major Repairs Reserve (as identified in Appendix C).

## **REASON FOR DECISION**

- A To ensure that Cabinet reviews performance against the approved HRA Business Plan and acknowledges the extremely small operational variations in light of the challenges the Council may face in the later part of this financial year and future years.

## **BACKGROUND**

1. In April 2012 the Housing Revenue Account (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 and is the second report in the formal reporting process for the 2015/16 financial year.

## **ISSUES**

3. The net HRA underspend against budget at 31 March 2016 is currently forecast to be £2,861,000. This is a substantial change from the previous report to Cabinet in September 2015 and is due to a number of factors which are detailed in this report.
4. Although the short to medium term priorities of the HRA Business Plan are currently being delivered, the report also highlights the risks in the medium to longer term as a result of the Government announcements relating to a legislated rent reduction, welfare reform changes, right to buy for housing association tenants and the "Pay to Stay" initiative for families earning over £30,000.
5. Already these changes have required the original key principles on which the HRA Business Plan was based to be reviewed and a report to Cabinet in October 2015 has fundamentally changed the principles for future years.
6. It is currently projected that a £5 Million pressure will be created over the period 2016/17 to 2019/20 as a result of the rent changes alone and that there will be a longer term shortfall of over £280million by 2045.
7. A wide range of proposals including efficiencies and the re-profiling and slowing the level of capital investment in the housing stock are being considered as measures to ensure that the HRA Business Plan can remain in balance over the medium to long term.
8. Further planned changes including the extension of the right to buy to housing association tenants and the proposal that Council HRA's contribute to make up for the lost income this will create for the associations is very likely to significantly affect the long term business plan and the HRA financial position

even further.

## **Operational Variances**

9. In the current financial year the operational variance totals £790,000 underspend and more detail is provided in Appendix A to this report. The key issues driving this variation are:
  - There is currently a favourable variance of £348,000 from staffing vacancies and consultancy costs in General Management.
  - The schedule of work to Priority Estates has been revised with Phase One to be fully decanted by early December 2015. Home loss payments and moving incentives arising from this process are estimated to be £136,000 less in 2015/16 than originally estimated.
  - Rental income from housing stock is £41,000 higher than estimated due to the Council holding more properties at year end and to a lower void rate. The higher stock level is mainly due to the delay in demolishing properties as part of the priority estates regeneration programme.
  - Significant reductions in fuel costs resulting in a saving of £82,000 however this is off set by the lower recharges to tenants and leaseholders.
  - The bad debt provision for 2015/16 was reduced to £200,000 (OE £360,000) due to the lower number of void properties currently held and the advice that Welfare Reform changes will be implemented from February 2016 and then for a restricted number of applicants.
10. At September 2015 there is a favourable non-operational variance totalling £2,071,000. This is due to the lower projected outturn on the Housing Capital Programme as reported in the Capital Programme Period 6 report to Cabinet elsewhere on this agenda.
11. At 31 March 2015 there was a nil balance on the Major Repairs Reserve (MRR) and the depreciation charge of £10,811m for 2015/16 is expected to be used in full to support the Housing Capital Programme.
12. The rules require that the MRR balance can be used either to finance the capital programme or to repay housing debt. The Council does not plan any repayment of debt until March 2026 at the earliest and may then defer due to recent Government announcements having an adverse effect on future HRA balances.

## **HRA BALANCES 2015/16**

13. In February 2015 the Council approved HRA Estimates for the current year

that anticipated a Working Balance at 31 March 2016 of £3,388,000 (Appendix C). The Working Balance at 31 March 2016 is now estimated to be £7,006,000 including the financing of the carryovers from 2014/15 as set out below.

|  | £ millions   |
|--|--------------|
| Original Estimated balance                             | <b>3.388</b> |
| Increase reported at 2014/15 Outturn                   | 1.172        |
| Less 2014/15 carry forward requests approved July 2015 | (0.415)      |
| Revised balance at 31 March 2016                       | <b>4.145</b> |
| Service Budget variations                              | 0.790        |
| Capital Programme variations                           | 2.071        |
| Revised Working Balance 31 March 2016                  | <b>7.006</b> |

### **CAPITAL RECEIPTS RESERVE, 2015/16**

14. As at 31 March 2015 the Council held £1,088,000 of housing capital receipts unapplied. The receipts have been fully applied to help finance the building of new council homes under the Councils Pathfinder scheme.

### **SIGNIFICANT RISKS / OPPORTUNITIES**

15. Harlow 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.
16. In the Summer Budget, the Chancellor of the Exchequer announced that there will be a legislative requirement for social landlords to decrease rents annually by 1% over the next four financial years (2016/17 – 2019/20) This announcement threatens the ability of the Council to deliver a sustainable HRA Business Plan over the medium term. This major change is being considered by officers and will be reported to Cabinet as part of the HRA budget setting process in January and February 2016. Officers are currently considering how efficiencies can be made to offset the reduced HRA income that the rent reduction will create.
17. In addition the following risks have been identified which could affect the HRA Business Plan:
- (i) **Welfare Reform:** the government's reduction in benefits to non-working families may have an adverse impact on tenants' ability to pay.
  - (ii) **Rent income:** see paragraph 12 above, but also the requirement for those tenants more financially able to pay the higher market rent rather than social rent from April 2017.
  - (iii) Continuing development of a Capital Programme to deliver decent homes in partnership with contractors, and the need to deal with unexpected outcomes especially in light of constraints arising from the reduction in rental income from 2016/17.

- (iv) The increased level of work in the Housing Capital Programme means there is a higher risk of finding and removing asbestos from properties, which in turn may increase removal and compensation costs in revenue.
- (v) Government policy regarding the sale of larger properties in support of Registered Social Landlord (RSL) Right to Buy proposals, to be announced shortly.

18. The HRA Business Plan report to Cabinet in October 2015 set out the impact of the announcements and proposed a revised set of key assumptions to underpin the development of the plan for 2016/17 and beyond.

## **IMPLICATIONS**

### **Place (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: **Brian Keane, Interim 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**

HRA: Housing Revenue Account.

MRR: Major Repairs Reserve.

RSL: Registered Social Landlord

CLG: Department of Communities and Local Government

RTB: Right to Buy

## APPENDIX A

| HRA Operational Variances           |                   |                      |               |  |
|-------------------------------------|-------------------|----------------------|---------------|--|
| Item                                | Adverse<br>£000's | Favourable<br>£000's | Net<br>£000's | Main contributing Factors to<br>Variations   |
| General Management                  |                   | (-348)               | (-348)        | Net vacancy savings on salaries offset by agency costs.  |
| General Management                  |                   | (-23)                | (-23)         | Revised income from recharges for garages appropriated to the general fund.  |
| General Management                  |                   | (-116)               | (-116)        | Re scheduling of Homeloss Payments for Priority estates due to rephasing of the work and lower than expected payment claims.                                     |
| General Management                  |                   | (-24)                | (-24)         | Lower demand for tenant moving incentives and removal expenses.  |
| General Management                  |                   | (-37)                | (-37)         | Net reduction in overheads for support services.   |
| Special Management                  |                   | (-80)                | (-80)         | Efficiencies relating to services provided particularly lower costs of gas, electricity and oil. This impacts on the service charge income as below:             |
| Charges for Services and Facilities | 123               |                      | 123           | Reduction in income from communal heating due to lower utility costs resulting in lower income from heating charges as above.                                    |
| Charges for Services and Facilities | 84                |                      | 84            | Lower insurance costs to leaseholders and adjustment in income due from over recovery of tenant and leaseholder service charges in 2013/14.                      |
| Charges for Services and Facilities | 15                |                      | 15            | Reduction in income in 2015/16 due from recharges to tenants which is a responsive/demand led income.  |
| Special Management                  |                   | (-82)                | (-82)         | Savings in fuel costs to Sheltered Accommodation due to lower utility costs and therefore lower charges to tenants.  |
| Special Management                  |                   | (-42)                | (-42)         | Reduced HRA GF recharges, in particular from costs arising in respect of non careline activity   |
| Repairs                             |                   | (-50)                | (-50)         | External garage work efficiencies.   |
| Repairs                             |                   | (-25)                | (-25)         | Reduction in revenue expenditure on tendered works   |
| Right to Buy                        |                   | (-6)                 | (-6)          | Increase in the number of expected RTB sales in 2015/16.   |
| Dwelling Rents                      |                   | (-41)                | (-41)         | Additional rental income due to more stock than budgeted and continued efficiencies identified from the turnaround of empty properties to 0.55% (estimate 0.85%) |
| Garage Rents                        |                   | (-17)                | (-17)         | Forecast level of available to let garages revised in line with updated garage   |

|                       |     |          |                                |   |
|-----------------------|-----|----------|--------------------------------|---|
|                       |     |          | strategy and improvement plans |   |
| Bad debt provision    |     | (-)160   | (-)160                         | Reduction in number of void properties and reduced provision for the expected impact of welfare reform in 2015/16 |
| Other minor variances | 38  |          | 38                             |   |
|                       | 260 | (-)1,050 | (-)790                         |   |

| Item  | Non Operational Variances |                      |               | Main contributing Factors to Variations                                  |
|---|---------------------------|----------------------|---------------|--|
|   | Adverse<br>£000's         | Favourable<br>£000's | Net<br>£000's |  |
| Revenue Contribution to Capital Expenditure |                           | (-)1,612             | (-)1,612      | Net changes in capital receipts/funding of the Housing capital programme |
| Major Repairs Reserve (depreciation)        |                           | (-)459               | (-)459        | Reduction in MRR depreciation to support the Housing Capital Programme.  |
| Deficit/ (Surplus) for year                 |                           | (-)2,071             | (-)2,071      |  |

|                              |                      |
|------------------------------|----------------------|
| HRA Operational variance     | (-)£790,000          |
| HRA Non Operational variance | £ 2,071,000          |
| <b>Total HRA underspend</b>  | <b>(-)£2,861,000</b> |

## APPENDIX B

## HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2015/16

## PERIOD 6

|  | 2014/15<br>Actuals<br>£ | 2015/16<br>Budget*  | Projection<br>to Year End<br>£ | Variance<br>to Original<br>£ |
|--|-------------------------|---------------------|--------------------------------|------------------------------|
| <b>EXPENDITURE</b>                             |                         |                     |                                |                              |
| General Management                             | 10,210,656              | 12,363,002          | 11,752,295                     | (-)510,708                   |
| Special Management                             | 5,246,872               | 5,635,261           | 5,420,558                      | (-)214,703                   |
| Repairs  | 9,145,177               | 9,417,366           | 9,457,187                      | (-)60,179                    |
| Rents Rates Taxes & Other<br>Charges           | 16,755                  | 30,000              | 8,350                          | (-)21,651                    |
| Provision for Bad & Doubtful Debts             | 152,475                 | 360,000             | 200,000                        | (-)160,000                   |
| Supporting People Transitional<br>Arrangements | 7,226                   | 6,900               | 6,120                          | (-)780                       |
| Major Repairs Reserve                          | 11,003,990              | 11,270,000          | 10,811,000                     | (-)459,000                   |
| Debt Management Expenses                       | 10,676                  | 13,770              | 14,000                         | 230                          |
| Interest Charges                               | 6,824,052               | 6,768,000           | 6,784,000                      | 16,000                       |
| Direct Revenue Contribution                    | 2,533,185               | 12,110,000          | 10,498,000                     | (-)1,612,000                 |
|  | 45,151,064              | 57,974,298          | 54,951,509                     | (-)3,022,790                 |
| <b>INCOME</b>                                  |                         |                     |                                |                              |
| Dwelling Rents                                 | 45,769,430              | 46,143,000          | 46,184,000                     | (-)41,000                    |
| Garage Rents                                   | 2,482,126               | 957,000             | 974,000                        | (-)17,000                    |
| Other Rents                                    | 20,574                  | 22,000              | 22,000                         | 0                            |
| Charges for Services & Facilities              | 3,603,775               | 4,082,862           | 3,857,154                      | 225,708                      |
| Interest Receivable                            | 31,720                  | 44,000              | 50,000                         | (-)6,000                     |
|  | 51,907,625              | 51,248,862          | 51,087,154                     | 161,709                      |
| <b>Balance in hand at 1 April</b>              | <b>4,113,244</b>        | <b>9,698,168</b>    | <b>10,869,805</b>              | <b>1,171,637</b>             |
| <b>Surplus / (Deficit) for year</b>            | <b>6,756,561</b>        | <b>(-)6,725,436</b> | <b>(-)3,864,357</b>            | <b>2,861,080</b>             |
| <b>Balance in hand at 31 March</b>             | <b>10,869,805</b>       | <b>2,972,732</b>    | <b>7,005,449</b>               | <b>4,032,717</b>             |

\*Budget 2015/16 includes carryovers 2014/15

## Appendix C: Relationship between HRA, MRR and Capital Programme

(+ = expenditure)

|  | HRA             | Major<br>Repairs<br>Reserve | Capital<br>Receipts<br>Unapplie<br>d | Total           | Housing<br>Capital<br>Programme |
|--|-----------------|-----------------------------|--------------------------------------|-----------------|---------------------------------|
|  | £000            | £000                        | £000                                 | £000            | £000                            |
| Balance in hand at 1 Apr 2015  | (-)10,870       | 0                           | (-)1,088                             | (-)11,958       | 0                               |
| Deficit/(Surplus) for the year<br>(Original Estimate)                              | 6,310           | 0                           |                                      | 6,310           | 0                               |
|  | <b>(-)4,560</b> | <b>0</b>                    | <b>(-)1,088</b>                      | <b>(-)5,648</b> | <b>0</b>                        |
| Carry Forwards (Capital)   |                 |                             |                                      |                 | 1,976                           |
| <b>Operational Variances<br/>(Appendix A)</b>                                      | (-)790          |                             |                                      | (-)790          | (-)3,645                        |
| <b>Non Operational Variances:</b>  |                 |                             |                                      |                 |                                 |
| Decreased DRF 2015/16  | (-)2,071        |                             |                                      | (-)2,071        | 1,612                           |
| HRA Operational<br>Carryovers 2014/15  | 415             |                             |                                      | 415             |                                 |
| Reduced support to Capital<br>Programme from MRR (per<br>Capital Programme Report) |                 |                             |                                      |                 | 459                             |
| Net movement in support to<br>Capital Programme                                    |                 |                             | 1,088                                | 1,088           | (-)402                          |
| <b>Balance in hand, 31 Mar 2015</b>  | <b>(-)7,006</b> | <b>0</b>                    | <b>0</b>                             | <b>(-)7,006</b> | <b>0</b>                        |

### From 2015/16 Original Estimate

|                                    |                 |          |          |                 |  |
|------------------------------------|-----------------|----------|----------|-----------------|--|
| Balance in hand 1 Apr 2015         | (-)9,698        | 0        | 1,109    | (-)8,589        |  |
| Deficit/(Surplus) for the year     | 6,310           | 0        | (-)1,109 | 5,201           |  |
| <b>Balance in hand 31 Mar 2016</b> | <b>(-)3,388</b> | <b>0</b> | <b>0</b> | <b>(-)3,388</b> |  |