

REPORT TO: CABINET

DATE: 31 MARCH 2016

TITLE: HOUSING REVENUE ACCOUNT BUDGET
MONITORING QUARTER 3, 2015/16

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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:

- A** Cabinet acknowledges the projected outturn position set out in the report as at 3 January 2016 as follows:
- (i) A favourable variation against the original estimate on operational/controllable budgets of £1,489,000 representing 2.60% of the gross Housing Revenue Account (HRA) budget.
 - (ii) A total projected underspend of £6,632,000 representing 11.50% of the gross HRA budget.
- B** The forecast balances at 31 March 2016, of £10,777,000 in respect of the Housing Revenue Account and nil in respect of the Major Repairs Reserve (as identified in Appendix C) are noted.

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 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 at 29 November 2015 and provides an indication of the budget projection ahead of the financial year end.

ISSUES

3. The net HRA underspend against the original budget at 31 March 2016 is currently forecast to be £6,632,000, as at Quarter 3. This is an increased underspend of £3,771,000 from Quarter 2, reported to Cabinet in December 2015, and is due to a number of factors which are detailed in this report.
4. The principal adjustment is a decrease of £3,072,000 in direct revenue contribution in 2015/16 to support the Housing Capital Programme since the revised estimate. This follows the requirement to carry over £3.4m capital expenditure to 2016/17 largely in respect of external works. The carryover also means there is a reduction in income from leaseholders.
5. 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 recent Government announcements, including a mandatory rent reduction.

Variances

6. In the current financial year the operational variance against the original estimate totals £1,489,000 underspend (see Appendix A). The key issues driving this variation are:
 - a) There is currently a favourable variance of £332,000 from staffing vacancies and programme and project management fees in General Management. Recruitment is under way to fill vacant posts but this is unlikely to result in higher staffing levels until April 2016.
 - b) The schedule of work to Priority Estates has been revised, with Phase One expected to be fully decanted by 31 March 2016. Home loss payments and moving incentives arising from this process are estimated to be £170,000 less in 2015/16 than originally estimated.
 - c) Rental income from housing stock is £213,000 higher than estimated due to the Council holding more properties at year end and a lower

void rate. The higher stock level is mainly due to the delay in transferring properties as part of the priority estates regeneration programme.

- d) Net reductions in fuel costs result in an estimated saving of £190,000, however, this is offset by estimated lower recharges of £46,000 to tenants and leaseholders. The fuel savings identified result from the lower than estimated cost of gas and electricity for 2015/16 and are not only a saving to the HRA but will mean lower actual charges to tenants and leaseholders for the year.
- e) Savings of £109,000 in the provision of sheltered accommodation arising from lower fuel costs and reduced recharges from the General Fund.
- f) Savings of £242,000 from the garage repair and external garage programmes due to a reduced programme of repairs and review of garage strategy.
- g) The bad debt provision for 2015/16 was reduced to £200,000 (original estimate £360,000) due to the lower number of void properties currently held. Welfare Reform changes will be implemented later than was originally anticipated, from February 2016, for a restricted number of applicants.

7. Significant differences arising in the HRA since revised estimates (agreed by Council on 4 February 2016) are shown in the table below resulting in the increased balance anticipated at year end (further detail is contained in Appendix B).

Service	Original Estimate £000s	Revised Estimate £000s	Projection £000s	Variance to Rev'd Estimate £000s
General Management	12,363	11,685	11,472	(-)213
Special Management	5,635	5,391	5,347	(-)44
Repairs	9,417	9,246	9,196	(-)50
Direct Revenue contribution	12,110	10,498	7,426	(-)3,072
Dwelling Rents	(-)46,143	(-)46,184	(-)46,356	(-)172
TOTAL				(-)3,551

Causes of these variances are as follows:

- i. General Management: vacancy savings and lower tenant related expenditure.
- ii. Special Management: £30,000 carryover in respect of fire risk assessments in 2016/17 and other efficiencies.

- iii. Repairs: anticipated savings to void security and garage programme and a revised insurance estimate for 2015/16.
 - iv. Direct revenue contribution to the Housing Capital Programme reduced due to lower projected outturn at Quarter 3, arising from a carryover of £3.4m offset by the increased outturn on the Pathfinder Project. Refer Housing Capital Report Quarter 3, paragraph 5.
 - v. Dwelling rents: higher rental income from additional stock held and improved void turnover.
8. At 3 January 2016 there is a favourable non-operational variance totalling £5,143,000. This is due to the lower than projected outturn on the Housing Capital Programme as reported in the Capital Programmes Quarter 3 report to Cabinet, elsewhere on the agenda for this meeting of Cabinet.
9. 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.
10. Regulations require that the MRR balance can be used either to finance the capital programme or to repay housing debt. The revised HRA Business Plan 2015-45, approved by Council on 4 February 2016, indicates that external borrowing will be renewed when it matures in March 2026 in the wake of recent Government announcements.

HRA BALANCES 2015/16

11. 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 (see Appendix C). The Working Balance at 31 March 2016 is now estimated to be £10,777,000 including the financing of the carryovers from 2014/15 as set out below.
12. Meanwhile the financing of work carried over to 2016/17 will subsequently draw upon this higher-than-budgeted projected balance as work commences in the new financial year.

	£ millions
Original Estimated balance	3.388
Increase reported at 2014/15 Outturn	1.172
Less 2014/15 carry forward requests approved July 2015	(0.415)
Adjusted balance at 31 March 2016	4.145
Service Budget variations	1.489
Capital Programme variations	5,143
Latest balance at 31 March 2016	10.777

CAPITAL RECEIPTS RESERVE, 2015/16

13. 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 Council's Pathfinder scheme.

SIGNIFICANT RISKS / OPPORTUNITIES

14. 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. This is subject to review as major government reforms and other external influences impact upon it.
15. The Government has 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 has challenged councils to make efficiencies in order to deliver sustainable services.
16. 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 15 above, but also the introduction from 2017 of the Government's "Pay to Stay" policy to charge households earning over £30,000 the market, or near market, rent.
 - (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 the revenue budget.
 - (v) Government policy regarding the sale of larger properties in support of Registered Social Landlord (RSL) Right to Buy proposals, for which the details of how this will operate and impact on the Council are still awaited.

IMPLICATIONS

Place Services (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, 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 (against Original Estimate)

Quarter 3

Item	Adverse £000s	Favourable £000s	Net £000s	Main contributing Factors to Variations
General Management		(-)332	(-)332	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		(-)170	(-)170	Re-scheduling of Home Loss Payments for Priority Estates due to re-phasing of the work and lower than expected payment claims.
General Management		(-)60	(-)60	Savings in respect of the low take up of the RTB Social Mobility scheme.
General Management		(-)65	(-)65	Reduction in estimated overhead costs in respect of lower insurance premiums and internal recharges.
Special Management		(-)190	(-)190	Electricity and gas savings due to lower prices from procurement efficiencies.
Special Management		(-)109	(-)109	Sheltered accommodation fuel savings due to lower prices due to procurement efficiencies and lower GF recharge.
Special Management	87		87	Increase in costs associated with the JVCo contract and changes to overhead apportionments.
Repairs		(-)242	(-)242	Reduced demand from external garage repairs and responsive repairs.
Repairs		(-)25	(-)25	Efficiencies gained from tendered works.
Repairs		(-)60	(-)60	Savings identified in expenditure on void shuttering.
Repairs		(-)21	(-)21	Lower anticipated insurance liability in respect of minor property and personal claims .
Dwelling Rents		(-)213	(-)213	Additional rental income due to more stock than budgeted and continued efficiencies identified from the turnaround of empty properties to 0.49% (revised estimate 0.70%) .
Garage Rents		(-)27	(-)27	Forecast level of available to let garages revised in line with updated garage strategy and improvement plans.
Charges for Services and Facilities	46		46	Reduction in income due from heating charges in respect of lower fuel and gas costs.

Table continued overleaf

Item	Adverse £000s	Favourable £000s	Net £000s	Main contributing Factors to Variations
Charges for Services and Facilities	159		159	Reduction in income due from service charges including the adjustment in income due from tenant and leaseholder service charges for 2013/14
Charges for Services and Facilities	15		15	Reduction in income from other recharges to tenants
Bad debt provision		(-160)	(-160)	Lower level of write-off due to a delay in Welfare Reform Implementation.
Other minor variances		(-122)	(-122)	
Deficit/ (Surplus) for year	306	(-1,795)	(-1,489)	Representing -2.60% of the original budget.

HRA Non-Operational Variances

Item	Adverse £000's	Favourable £000's	Net £000's	Main contributing Factors to Variations
Revenue Contribution to Capital Expenditure		(-4,684)	(-4,684)	Net changes in capital receipts/funding of the Housing capital programme
Major Repairs Reserve (depreciation)		(-459)	(-459)	Reduction in transfer to the Major Repairs Reserve due to lower estimated depreciation
Deficit/ (Surplus) for year	0	(-5,143)	(-5,143)	Representing -8.97% of the original budget.

Summary

HRA Operational Variance	(-)£1,489,000
HRA Non-Operational Variance	(-)£5,143,000
TOTAL Projected HRA Underspend	(-)£6,632,000

APPENDIX B

**HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2015/16
QUARTER 3**

	2014/15 Actuals £	2015/16 Budget* £	2015/16 Revised Budget* £	Projection to Year End £	Variance to Original £
EXPENDITURE					
General Management	10,210,656	12,363,002	11,684,690	11,472,173	(-)890,830
Special Management	5,246,872	5,635,261	5,391,475	5,347,419	(-)287,842
Repairs	9,145,177	9,417,366	9,246,187	9,196,302	(-)221,064
Rents Rates Taxes & Other Charges	16,755	30,000	8,350	8,350	(-)21,650
Provision for Bad & Doubtful Debts	152,475	360,000	200,000	200,000	(-)160,000
Supporting People Transitional Arrangements	7,226	6,900	6,120	6,100	(-)800
Major Repairs Reserve	11,003,990	11,270,000	10,811,000	10,811,000	(-)459,000
Debt Management Expenses	10,676	13,770	13,770	13,770	0
Interest Charges	6,824,052	6,768,000	6,784,000	6,784,000	16,000
Direct Revenue Contribution	2,533,185	12,110,000	10,498,000	7,426,000	(-)4,684,000
	45,151,064	57,974,298	54,643,592	51,265,113	(-)6,709,186
INCOME					
Dwelling Rents	45,769,430	46,143,000	46,184,000	46,355,625	(-)212,625
Garage Rents	2,482,126	957,000	974,000	984,038	(-)27,038
Other Rents	20,574	22,000	22,000	22,000	(-)0
Charges for Services & Facilities	3,603,775	4,082,862	3,768,634	3,759,282	323,580
Interest Receivable	31,720	44,000	51,000	51,000	(-)7,000
	51,907,625	51,248,862	50,999,634	51,171,945	76,917
Balance in hand at 1 April	4,113,244	9,698,168	10,869,805	10,869,805	1,171,637
Surplus / (Deficit) for year	6,756,561	(-)6,725,436	(-)3,643,959	(-)93,168	6,632,268
Balance in hand at 31 March	10,869,805	2,972,732	7,225,846	10,776,637	7,803,905

*Budget 2015/16 includes carryovers from 2014/15

Appendix C: Relationship between HRA, MRR and Capital Programme

(+ = expenditure)

	HRA	Major Repairs Reserve	Capital Receipts Unapplied	Total	Housing Capital 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 (Original Estimate)	6,310	0		6,310	0
	(-)4,560	0	(-)1,088	(-)5,648	0
Carry Forwards (Capital)					3,396
Operational Variances (Appendix A)	(-)1,489			(-)1,489	(-)8,352
Non Operational Variances:					
Decreased DRF 2015/16	(-)4,684			(-)4,684	4,684
HRA Operational Carryovers 2014/15	415			415	
Additional support to Capital Programme from MRR (per Capital Programme Report)	(-)459			(-)459	459
Net movement in support to Capital Programme			1,088	1,088	(-)187
Balance in hand, 31 Mar 2016	(-)10,777	0	0	(-)10,777	0
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	
Balance in hand 31 Mar 2016	(-)3,388	0	0	(-)3,388	