

REPORT TO: CABINET

DATE: 21 JULY 2016

TITLE: HOUSING REVENUE ACCOUNT OUTTURN REPORT, 2015-2016

PORTFOLIO HOLDER: COUNCILLOR MARK WILKINSON
COUNCILLOR MIKE DANVERS

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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 approved by Full Council in February 2015

This decision will affect no ward specifically.

RECOMMENDED that Cabinet:

- A** Acknowledges the HRA outturn for 2015/16 as set out in the report as follows:
- (i) a favourable variation against the original budget adjusted for carryovers on operational/controllable budgets of £2,305,000 representing 3.98% of the gross Housing Revenue Account (HRA) budget
 - (ii) A total projected underspend of £8,154,000 representing 14.06% of the gross HRA budget.
- B** Notes the balances at 31 March 2016, of £12,298,000 in respect of the Housing Revenue Account and nil in respect of the Major Repairs Reserve (as identified in Appendix C).

- C** Approves carryovers of £315,000 as detailed in paragraph 32 of this report to meet commitments from 2015/16.
- D** Recognises the operational performance that has been achieved across all Council services during 2015/16.

REASON FOR DECISION

- A** To note the outturn of the Council's approved 2015/16 Housing Revenue Account 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 Major Repairs Reserve (MRR), highlighting its relationship with the Housing Capital Programme.

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 28 February 2015.

ISSUES

3. At year end 2015/16 as part of the revenue and capital financing requirements, the overall HRA balance is maintained above the minimum required balance of £2,727,000 and is sustainable in the context of the approved HRA Business Plan.
4. The outturn at 2015/16 includes an underspend of £2,305,000 on operational budgets (Appendix A). The overall underspend for the year was £8,154,000 including non operational adjustments at year end for depreciation and a lower than estimated direct revenue contribution in support of the Housing Capital Programme. The movements are detailed in Appendix C.
5. The Housing Revenue Account (HRA) budget for 2015/16, including approved carryovers of £415,000 and other approved adjustments, totalled £57,974,000. The operational underspend at 31 March 2016 represents a 3.98% variance against the budget and a 14.06% variation after adjustments for non operational factors including a direct revenue contribution to the Capital Programme and year end financing changes.
6. The Housing Revenue Account supports the Housing Capital Programme

through Direct Revenue Financing and by a contribution from the Major Repairs Reserve (MRR). The outturn includes a non operational variance of (-)£5,849,000 due to a lower depreciation charge of (-)£165,000 and reduced direct revenue contribution to capital of (-)£5,684,000. 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 a five year work programme, publish information to tenants and to continue to maintain and invest in Council dwellings.
8. At 31 March 2015 there was a nil balance on the Major Repairs Reserve (MRR). The depreciation charge of £11.105m for 2015/16 was used in full to support the Housing Capital Programme.

OPERATIONAL VARIANCES

9. In 2015/16 the operational variance against the original estimate totals a £2,305,000 underspend (see Appendix A). The key issues driving this variation are detailed below.
10. There is a favourable variance of (-)£519,000 from staffing vacancies and programme and project management fees in General Management. Recruitment is underway to fill the vacant posts. In addition, a movement of agency costs from revenue to capital, to cover capital project work, increased the underspend.
11. The schedule of work to Priority Estates was revised with Phase One fully decanted by 31 March 2016. Home loss payments and moving incentives arising from this process are (-)£551,000 less in 2015/16 than originally estimated due to the difficulty of forecasting demand and uncertainty around tenant removal and home loss claims.
12. Services to tenants and leaseholders benefitted from lower than expected fuel costs and the continuing installation of smart meters resulting in greater accountability to the consumer for heating and lighting. Savings to the HRA for all services based on utility costs were (-)£162,000.
13. However, there was a net reduction in income of £144,000 from heating charges, due to lower fuel costs rechargeable to tenants and leaseholders.
14. Income from service charges to tenants and leaseholders including the management fee, repairs and maintenance and the adjustment for 2013/14

service charges is also a reduced by £154,000.

15. Savings to Sheltered Accommodation properties resulted in a favourable variance of (-)£179,000, being a combination of a lower recharge from the general fund and reduced fuel costs.
16. Overheads and internal recharges showed a favourable variance at year end totalling (-)£172,000 from efficiencies within cost centres.
17. Under repairs and maintenance, savings of (-) £244,000 resulted from the garage repair and external garage programmes, due to review of garage strategy. In addition there was a favourable variance in respect of the cost of securing empty properties (-)£87,000 and in insurance claims (-)£174,000. However, unfavourable variances arose from the uplift in the JVCo contract £98,000 and the cost of asbestos monitoring and survey work £25,000. The latter is a statutory landlord duty.
18. Rental income from housing stock is £83,000 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.
19. The bad debt provision for 2015/16 was £123,000 (original estimate £360,000) due to the lower number of void properties currently held and Welfare Reform changes implemented later than was originally anticipated and for a restricted number of applicants.
20. On 31 January 2017, the Joint Venture Contract which supports the Housing Service, providing housing maintenance, street scene and municipal services, comes 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 2015/16 consultancy costs incurred in respect of this work have been financed by the drawdown of £77,000 from the provision established for this purpose. Other related costs are reported within General Management.
21. The original estimate for Right to Buy sales in 2015/16 was 60 properties, actual sales totalled 73. The continuing higher level of RTB sales was due to the Government policy on re-invigorating right to buy which encouraged tenants to purchase their properties through increased discounts and local marketing to tenants. This increased the income available from the administration of RTBs ((-)£15,000).

NON OPERATIONAL VARIANCES

22. Non-operational variances totalling a favourable £5,849,000 relate to a reduction in depreciation charge in the Major Repairs Reserve of (-)£165,000 and a decrease in the direct revenue contribution to capital of £5,684,000 (original estimate £12,110,000). The reduced contribution follows a lower than estimated outturn in the Housing Capital Programme, for more details refer to the Capital Outturn Report 2015/16.
23. New regulations were introduced with effect from 2012/13 regarding the recording of depreciation to the HRA. Depreciation is the writing down of the value of an asset over its remaining useful life, with a charge made to the income and expenditure account (i.e. the Housing Revenue Account). With effect from April 2012, councils have been required to account for depreciation for non-dwelling assets (garages etc.) in addition to dwellings. In 2015/16 the total depreciation charge was £11,105,000 which represented a statutory charge of £10,644,000 in respect of dwellings (original estimate £11,270,000) plus a further £461,000 in respect of non dwellings including garages.

MAJOR REPAIRS RESERVE

24. The Major Repairs Reserve (MRR) is a separate statutory account which is used to ensure adequate resources are set aside (e.g. 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 £208.837m. Following the Government's mandatory rent reduction from April 2016 repayment of this debt will now be re-scheduled as it falls due. Currently the MRR is used to finance capital expenditure alone.
25. In February 2015 the Council approved the HRA Business Plan which had estimated the MRR Balance at 31 March 2016 to be nil, with the expectation that MRR depreciation relating to 2015/16 would be used to finance the Housing Capital Programme The outturn depreciation in the MRR for 2015/16 was £11,105,000.
26. The movement on the Major Repairs Reserve is as follows (for further information refer to Appendix C):

MAJOR REPAIRS RESERVE			
Details	Original Estimate £000's	Outturn £000's	Variance £'000s
Balance at 1 April 2015	0	0	0
Transfers in – depreciation (net)	(-)11,270	(-)11,105	165

Capital Spending on Housing Stock met by the Reserve	11,270	11,105	(-)165
Balance at 31 March 2016	0	0	0

CAPITAL RECEIPTS RESERVE, 2015/16

27. As at 31 March 2015 the Council held £1,088,000 of housing capital receipts unapplied. These were utilised to support the Pathfinder scheme within the Housing Capital Programme to build new Council homes in 2014/15 and 2015/16.

HRA WORKING BALANCE

28. 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 £12,298,000 including the financing of carryovers from 2014/15 as set out below.
29. The increased HRA balance at 31 March 2016 is due in large part to the carryover in the Housing Capital Programme of £3,824m which reduced the direct revenue contribution from the HRA by £5,684,000 (original estimate of £12,110,000). In addition the depreciation charge for 2015/16 was £165,000 less than the original estimate (£11,270,000) in part from the re-allocation of depreciation (£92,000) in respect of garages attributed to the General Fund.
30. The balance on the HRA will be impacted in 2016/17 by revenue carryovers requested totalling £315,000, together with the capital carryovers (£3.824m) which will require financing from an increased direct revenue contribution from the HRA.

HOUSING REVENUE ACCOUNT 2015/16	
	£000's
Original Estimated balance	3,388
Increase reported at 2014/15 Outturn	1,172
Less 2014/15 carry forward requests approved July 2015	(-)415
Adjusted balance at 31 March 2016	4,145
Service Budget variations	2,305
Capital Programme variations	5,848
Latest balance at 31 March 2016	12,298

SUMMARY OF BALANCES AS AT 31 MARCH 2016

31. 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 £2,727,000, the HRA shows a balance of £12,298,000 as at 31 March 2016 and in line with the original estimate there is a nil balance Major Repairs Reserve. For more information see Appendix C and also the HRA Business Plan 2015-2045, paragraphs 6.2.1, 6.2.2 and 6.2.3, pages 36 and 37.

CARRY FORWARDS

32. It is proposed that the following items are carried forward to be spent in 2016/17:

Home loss Payments Priority Estates:	£ 25,000
Moving Incentives, Priority Estates:	£ 10,000
Compensation payments Priority Estates:	£ 250,000
Repairs, compliance testing:	£ 30,000
Total	£315,000

33. The proposed carryovers will facilitate the continuing work on Priority Estates in 2016/17 and the compliance testing enables the Council to meet statutory requirements in respect of fire assessments to flat blocks.
34. In addition, the Capital Programmes report (elsewhere on the agenda for this meeting) shows a requirement to carry forward work to 2016/17 totalling

£3,824,000 to meet outstanding commitments.

35. The impact of revenue and capital carry forwards on the HRA budget will be reported throughout 2016/17 as part of the budget monitoring process.

SIGNIFICANT RISKS / OPPORTUNITIES

36. 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.
37. The Welfare Reform and Work Act 2016 required 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.
38. 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 37 above, but also the introduction from 2017 of the Government's "Pay to Stay" policy to charge higher earning households an increased rent, which will be passed to the Government.
 - (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) In the Housing Capital Programme there remains a high risk of finding and removing asbestos from properties, which in turn may increase removal and compensation costs in the HRA.
 - (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 (includes Regeneration)

None specific.

Author: **Graeme Bloomer, Head of Regeneration**

Finance (Includes ICT)

As detailed within the body of the report.

Author: **Simon Freeman, Head of Finance**

Housing

As detailed within 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

None

Glossary of terms/abbreviations used

HRA - Housing Revenue Account

RTB - Right to Buy

MRR – Major Repairs Reserve

DRC – Direct Revenue Contribution

APPENDIX A

HRA Operational Variances		Appendix A		
Item	Adverse £000's	Favourable £000's	Net £000's	Main contributing Factors to Variations
General Management		-519	-519	Net vacancy savings on salaries offset by agency costs.
General Management		-100	-100	Net saving in respect of the Right to Buy Social Mobility scheme due to lower demand for grant assistance than estimated.
General Management		-551	-551	Demand lower than forecast for Priority Estates home loss payments, compensation payments and moving Incentives, due in part to forward forecasting error and because of the complexity of forecasting payment claims.
General Management		-35	-35	Efficiencies achieved in central establishment recharges.
General Management		-137	-137	Savings in estimate of the cost of recharges to other services.
General Management		-15	-15	RTB admin income
Special Management		-90	-90	Electricity and gas savings to heating schemes due to lower prices from procurement efficiencies
Special Management		-31	-31	Carryover of budget following fire assessment work as statutory testing based on survey completed in January 2016 resulting in work required but not completed in 2015/16.
Special Management		-72	-72	Lower cost of landlords lighting due to more smart metering and procurement efficiencies.
Special Management		-179	-179	Review of re-charge from General Fund resulted in lower transfer plus Sheltered accommodation also benefitted from lower fuel costs.
Repairs and Maintenance	98		98	Uplift in JVCo contract costs in year and misstatement of original cost (£74,000).
Repairs and Maintenance	18		18	More demand to remedy damp problems than forecast.
Repairs and Maintenance		-244	-244	Reduced demand for garage repairs and external works.
Repairs and Maintenance		-25	-25	Tendered works revenue contribution required less than estimate

Repairs and Maintenance		-32	-32	Less demand than forecast for stair lift maintenance.
Repairs and Maintenance	25		25	More demand for to carry out asbestos monitoring and survey work which is a statutory requirement.
Repairs and Maintenance		-87	-87	Lower demand to secure empty properties.
Repairs and Maintenance		-174	-174	Fewer insurance claims and lower insurance contributions
Dwelling Rents		-83	-83	Additional rental income due to more stock than budgeted and continued efficiencies identified from the improved turnaround of empty properties than budgeted.
Garage Rents		-35	-35	Forecast level of available to let garages revised in line with updated garage strategy and improvement plans.
Rents, Rates, Taxes and other charges		-8	-8	Council tax on empty properties.
Charges for Services and Facilities	144		144	Reduced income from heating charges for tenants and leaseholders due to lower costs and smart metering.
Charges for Services and Facilities	154		154	Adjustment in income due from tenant and leasehold service charges for 2013/14 and reduction in insurance premium and therefore in recharge to leaseholders.
Charges for Services and Facilities		-10	-10	Income from management services and from sale of garages offset by lower income from homeless and sheltered services.
Interest Received		-30	-30	Internal interest receivable on HRA balances
Provision for Bad Debt		-237	-237	Reduced requirement for bad debt provision
Other		-48	-48	
Deficit/ (Surplus) for year	438	2,743	(-)2,305	

Non Operational Variances				
Item	Adverse £000's	Favourable £000's	Net £000's	Main contributing Factors to Variations
Major Repairs Reserve (Net Depreciation)		-165	-165	Net depreciation charge reduced in part by transfer of depreciation relating to general fund garages.
Direct Revenue Contribution to Capital Outlay		-5,684	-5,684	Reduction in the outturn of the Housing Capital Programme reduced revenue financing required.
Deficit/ (Surplus) for year	0	(-5,849)	(-5,849)	

HRA Operational Variance	(-)£2,305,000
HRA Non Operational Variance	(-)£5,849,000
TOTAL HRA Underspend	(-)£8,154,000

APPENDIX B

HOUSING REVENUE ACCOUNT

	2014/15	2015/16	2015/16	2015/16	Variences 2015/16 Actual Vs 2015/16 Original £'000
	Actual £	Original £	Revised £	Actual £	
EXPENDITURE					
General Management	10,210,656	12,363,002	11,684,690	10,729,288	(-1,634)
Special Management	5,246,872	5,635,261	5,391,475	5,276,568	(-359)
Repairs	9,145,177	9,417,366	9,246,187	9,003,824	(-414)
Rents Rates Taxes & Other Charges	16,755	30,000	8,350	22,043	(-8)
Provision for Bad & Doubtful Debts	152,475	360,000	200,000	123,222	(-237)
Supporting People Transitional Arrangements	7,226	6,900	6,120	5,996	(-1)
Major Repairs Allowance (Net Depreciation)	11,003,990	11,270,000	10,811,000	11,105,061	(-165)
Interest Charges	10,676	13,770	13,770	6,832	(-7)
Debt Management Expenses	6,824,052	6,768,000	6,784,000	6,739,672	(-28)
Revenue Contribution to Capital Expenditure	2,533,185	12,110,000	10,498,000	6,426,115	(-5,684)
	45,151,064	57,974,298	54,643,592	49,438,620	(-8,536)
INCOME					
Dwelling Rents	45,769,430	46,143,000	46,184,000	46,226,033	(-83)
Garage Rents	2,482,126	957,000	974,000	991,950	(-35)
Other Rents	20,574	22,000	22,000	19,784	2
Charges for Services & Facilities	3,603,775	4,082,862	3,768,634	3,555,663	527
Interest Receivable	31,720	44,000	51,000	73,774	(-30)
	51,907,625	51,248,862	50,999,634	50,867,205	382
Balance in hand at 1 April	4,113,244	9,698,168	10,869,802	10,869,802	(-1,172)
Surplus / (Deficit) for year	6,756,561	(-6,725,437)	(-3,643,959)	1,428,585	(-8,154)
Balance in hand at 31 March	10,869,805	2,972,731	7,225,843	12,298,386	(-9,326)
<i>Figures based on:</i>					
<i>Housing Stock</i>	No.	No.	No.	No.	
<i>Housing Stock at 1 April</i>	9,715	9,617	9,637	9,637	
<i>Less Disposals</i>	-87-78	-60	-69	-73	
<i>Other Disposals</i>	-1	-65	-16	0	
<i>Plus Additions</i>	1	18	-21	19	
<i>Housing Stock at 31 March</i>	9,637	9,629	9,589	9,583	
<i>Weekly Charges</i>					
<i>Average Rent (per dwelling)</i>	£91.59	£93.60	£93.60	£93.54	
<i>Average Service Charge (per dwelling)</i>	£1.79	£1.92	£1.92	£1.92	
<i>Average Rent (per garage)</i>	£8.20	£8.36	£8.36	£8.36	

Appendix C: Relationship between HRA, MRR and Capital Programme

(+ = expenditure)

	HRA	Major Repairs Reserve	Capital Receipts Unapplied 2012/13	Total	Housing Capital Programme
	£000	£000	£000	£000	£000
01/04/2015 Balance in hand (cr is surplus)	-10,870	0	-1,088	-11,958	0
Deficit/(Surplus) for the year (Original Estimate)	6,310			6,310	0
	-4,560	0	-1,088	-5,648	0
Carry Forwards (Capital)					3,824
Operational Variances (Appendix A)	-2,305			-2,305	-9,144
Decreased Direct Revenue Financing 2015/16	-5,684			-5,684	5,684
Non Operational Variances					
Difference between depreciation in MRR original to revised estimate	-165			-165	
HRA operational carryovers 2014/15	415			415	
Additional support to Capital Programme from MRR (per Capital Programme Report, Table 1)					294
Net movement in support to Capital Programme			1,088	1,088	-658
	-12,298	0	0	-12,298	0
31/03/2016 Balance in hand					

**** see Capital Receipts Reserve below para 9 in the Housing Capital Outturn Report 2015/16**

From 2014/15 Original Estimate

01/04/2015	Balance in hand	9,698	-1,088	-10,786
	Deficit/(Surplus) for the year	-6,310	1,088	7,398
31/03/2016	Balance in hand	3,388	0	-3,388