

REPORT TO: CABINET

DATE: 8 DECEMBER 2016

TITLE: HOUSING REVENUE ACCOUNT QUARTER
2 FINANCE REPORT, 2016/17

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This is not a Key Decision

It is on the Forward Plan as Decision Number I005999

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 not affect any ward specifically

RECOMMENDED that Cabinet notes:

- A** A favourable variation against the approved Housing Revenue Account (HRA) operational/controllable budget of £339,000 representing 0.60% of the gross HRA budget.
- B** A favourable non-operational variance of £2,620,000 representing 4.66% of the gross HRA budget which includes adjustments to capital programme financing as a result of the revised outturn for 2016/17.
- C** The forecast balances at 31 March 2017 of £9,150,000 in respect of the HRA and nil in respect of the Major Repairs Reserve.

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. This report sets out the Council's financial performance against the agreed HRA Budget 2016/17 and provides an indication of the projected outturn at 31 March 2017.
2. The Council approved a minimum revenue balance of £4.327million in 2016/17.
3. The 2015/16 HRA outturn report to Cabinet 21 July 2016 approved the balance on the HRA at 31 March 2016 of £12,298,000 and revenue carryovers of £315,000.

ISSUES

4. The operational variance for 2016/17 against the original estimate totals (-)£339,000 underspend (see Appendix A). Key items driving this variation are:
 - a) A favourable variance of (-)£318,000 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. This has been reflected at Period 6 with revised estimates projecting the full year savings. Restructuring of staff teams has also provided savings against salary budgets.
 - b) The schedule of work to Priority Estates was revised with Phase One fully decanted by 31 March 2016. In order to maintain the security and cleanliness of the estates in this period of movement and demolition, work estimated to total £69,000 is required, which was not budgeted for. Home loss payments and moving incentives arising from this process are in a large part statutory and also demand led.
 - c) Rental income from housing stock is lower than estimated in part due to the high level of right to buy sales in the first six months of the year and the subsequent realigning of the three year phasing for The Briars, Copshall Close and Aylets Field.
 - d) The HRA supports homeless applicants who are identified as future tenants by providing transitional funding. Due to rising demand for temporary and homeless accommodation there is a projected overspend of £133,000 (original budget £267,000).
 - e) Savings against estimated insurance costs of (-)£110,000 as mid-year projections were revised.

5. There is a capital variance totalling £2.620million. This is due to the carryover of £2.1million to 2017/18 identified in the Housing Capital Programme and reported in the Quarter 2 Capital Programmes Report. The impact of the carryover and the consequent effect on leasehold contributions to capital financing result in a projected direct revenue contribution for 2016/17 of £8,763,000 (original estimate including funding of 2015/16 carryovers, £11.383million).
6. At 31 March 2016 there was a nil balance on the Major Repairs Reserve (MRR). The estimated depreciation charge for 2016/17 of £10.777million is expected to be used in full to support the Housing Capital Programme.
7. 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 2015-45 approved by the Council in February 2016 states that external borrowing will be renewed on maturity in March 2026.

HRA BALANCES 2016/17

8. In February 2016, the Council approved HRA Estimates for the current year that anticipated a working balance at 31 March 2017 of £5,257,000. The working balance at 31 March 2017 is now estimated to be £9,150,000 including the financing of the carryovers to 2016/17 as set out below.

	£m
Revised approved balance in hand 1.4.16	7.226
Increase in balance in hand (July Cabinet)	5.072
Actual balance in hand 1.4.16	12.298
i) Deficit including carryovers 2015/16	(6,107)
ii) Capital variations	2,620
iii) Operational variations	0.339
Projected working balance at 31.3.2017	9.150

SIGNIFICANT RISKS / OPPORTUNITIES

9. The HRA Business Plan 2015-2045 is subject to review as major government reforms and other influences impact upon it.
10. The Government announced in July 2015 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 further efficiency savings in order to deliver sustainable services.
11. The following risks have been identified which could affect the HRA Business Plan:
 - a) Welfare Reform: the Government's reduction in benefits to non-working families may have an adverse impact on tenants' ability to pay.

- b) Rent income: the introduction of the Government's Higher Income Social Tenants (Pay to Stay) policy to charge households earning over £31,000 higher rents. Regulations have yet to be made by the Government.
- c) 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.
- d) The continuing 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.
- e) 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

TS: Harlow Trading Services (Property & Environment) Ltd

Appendices

Appendix A – HRA Operational Variances (against Revised Estimate) and Non Operational Variances

Appendix B – Housing Revenue Account Budget Summary 2016/17 Period 6

APPENDIX A

Period 6

HRA Operational Variances (against Revised Estimate)				Main contributing Factors to Variations
Item	Adverse £000's	Favourable £000's	Net £000's	
General Management		(-318)	(-318)	Savings in salaries due to delays in recruitment, as it has proved difficult to recruit to vacant posts. Revised forward forecast aligned to updated recruitment plan.
General Management	69		69	Unbudgeted cost of street cleaning and security in the remaining areas of the Priority Estates.
General Management		(-29)	(-29)	Savings in the cost of the contact centre identified after estimates approved.
General Management		(-21)	(-21)	Lower housing insurance premium than estimated.
General Management		(-50)	(-50)	Savills efficiency fee from participation in Catalyst Framework agreement.
General Management		(-51)	(-51)	Increased income from revised estimate of RTB sales.
Special Management	133		133	Increased demand for temporary accommodation which the HRA supports through transitional funding.
Special Management		(-58)	(-58)	Reduction in recharge from GF to HRA for supporting people work due lower costs and higher income than estimated.
Repairs		(-32)	(-32)	Mid year amendment of Kier repairs and maintenance contract in line with change in building maintenance contract.
Repairs		(-40)	(-40)	Reduction in anticipated revenue element of communal capital works.
Repairs / Insurance		(-110)	(-110)	Projected insurance costs lower than anticipated
Dwelling Rents	209		209	Revised estimate of rental income taking into account updated phasing programmes/demolition of Priority Estates. In addition, higher level of RTB sales in the first half of the year than anticipated.
Garage Rents		(-46)	(-46)	Higher income from garage rents due to lower void rates, improved maintenance, changes to lettings policy.
Charges for Services and Facilities	30		30	Changes to anticipated tenant and leasehold income including adjustment for 2014/15 service charges
Other minor variances		(-25)	(-25)	
Deficit/ (Surplus) for year	441	(-781)	(-339)	

Non Operational Variances			
Item			
Direct Revenue Financing of Capital Expenditure	0	(-)2,620	(-)2,620
Major Repairs Reserve (depreciation)	0		0
		0	0
Deficit/ (Surplus) for year	0	(-)2,620	(-)2,620

Reduced funding to the Housing Capital Programme due to carryovers to 2017/18.

HRA Operational Variance	(-)£ 339,000
HRA Non Operational Variance	(-)£2,620,000
TOTAL Projected HRA Underspend	(-)£2,959,000

APPENDIX B

HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2016/17

PERIOD 6

	2016/17 Revised Budget*	Forecast Outturn	Variance
	£	£	£
EXPENDITURE			
General Management	11,995,084	11,576,782	(-)418,302
Special Management	5,603,057	5,667,883	64,826
Repairs	9,477,990	9,305,126	(-)172,864
Rents Rates Taxes & Other Charges	30,000	40,000	10,000
Provision for Bad & Doubtful Debts	200,000	200,000	0
Supporting People Transitional Arrangements	6,100	5,500	(-)600
Major Repairs Reserve	10,777,000	10,777,000	0
Debt Management Expenses	16,520	16,520	0
Interest Charges	6,677,000	6,677,000	0
Direct Revenue Financing of Capital Programme	11,383,000	8,763,000	(-)2,620,000
	56,165,751	53,028,812	(-)3,136,939
INCOME			
Dwelling Rents	45,183,000	44,974,102	208,898
Garage Rents	1,005,000	1,050,900	(-)45,900
Other Rents	22,000	22,000	(-)0
Charges for Services & Facilities	3,791,197	3,776,664	14,533
Interest Receivable	57,000	57,000	0
	50,058,197	49,880,666	177,531
Balance in hand at 1 April	12,298,385	12,298,385	0
Surplus / (Deficit) for year	(-)6,107,554	(-)3,148,146	(-)2,959,408
Balance in hand at 31 March	6,190,831	9,150,239	2,959,408

*Budget 2016/17 includes revenue carryovers from 2015/16, £315,000 and direct revenue funding relating to capital carryovers from 2015/16.