REPORT TO:	**CABINET**
DATE:	**23 MARCH 2017**
TITLE:	**HOUSING REVENUE ACCOUNT, QUARTER 3 FINANCE REPORT 2016/17**
PORTFOLIO HOLDER	**COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES** **COUNCILLOR MARK WILKINSON, PORTFOLIO HOLDER FOR HOUSING**
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This is not a Key Decision
It is on the Forward Plan as Decision Number I005997
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**:**

A Notes:

(i) A favourable variation against the approved Housing Revenue Account (HRA) operational/controllable budget of (-)£508,000 representing (-)0.90 percent of the gross HRA budget.

(ii) A favourable non-operational variance of (-) £3,588,000 representing (-)6.39 percent of gross HRA budget which includes adjustments to capital programme financing as a result of the revised outturn for 2016/17.

B Notes the forecast balances at 31 March 2017, of £10,287,000 in respect of the Housing Revenue Account and nil in respect of the Major Repairs Reserve.

REASON FOR DECISON

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.

BACKGROUND

1. This report sets out the Council’s financial performance against the agreed HRA Budget 2016/17 and provides an indication of the budget projection as at 31 March 2017.

2. The Council approved a minimum revenue balance of £4,327,000 in 2016/17.

3. The 2016/17 HRA original budget estimate anticipated a working balance on the HRA of £6,191,000 at 31 March 2017. The projected balance at quarter three is £10,287,000 which equates to a total variance of (-)£4,096,000 (-)7.29% of the gross HRA budget

ISSUES

Variances

4. The operational variance for 2016/17 against the original estimate totals (-)£508,000 underspend (see Appendix A). Key items driving this variation are:

   (i) A favourable variance of (-)£389,000 from staffing vacancies in General Management. It has proven 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 in the estimates which project the full year savings. Restructuring of staff teams has also provided savings against salary budgets.

   (ii) 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 £72,000 is required. This has not been budgeted for. Home loss payments and moving incentives of (-)£70,000 arising from this process are in large part statutory and also demand led and will need to be carried over to 2017/18 to fulfil potential commitments.

   (iii) Rental income from housing stock is lower than estimated in part due to a higher level of right to buy sales to date and the subsequent realigning of the three year phasing for The Briars, Copshall Close and Aylets Field.

   (iv) 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 £253,000 (original budget £267,000).

a) Savings against estimated insurance costs (-)£110,000 identified in the mid-year revised projections.

(v) Lower anticipated utility and contract costs have resulted in a reduction in estimated recharges to tenants and leaseholders of £273,000 in 2016/17.

(vi) Accounting for leasehold contributions to work carried out within the capital programme is now reported in the HRA. This, together with an increase in projected income from tenant recharges, results in a favourable variance of (-)£679,000.

5. There is a capital related variance totalling (-)£3,588,000. This is substantially due to a revenue contribution to capital of £3,670,000 to 2017/18 identified in the Housing Capital Programme and reported in the Capital Programmes Report to Cabinet 26 January 2017. The impact of the carryover and the consequent effect on leasehold contributions to capital financing results in a projected direct revenue contribution for 2016/17 of £7,713,000 (original estimate including funding of 2015/16 carryovers, £11,383,000).

6. At 31 March 2016 there was a nil balance on the Major Repairs Reserve (MRR). The estimated depreciation charge for 2016/17 of £10,859,000 (original estimate £10,777,000) 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 2016-46, approved by Council in February 2017, states that external borrowing will be renewed on maturity in March 2026 and hence MRR is being applied to finance capital expenditure.

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 £10,287,000 including the financing of the carryovers to 2016/17 as set out below.

	£ million
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	3.588
iii) Operational variations	0.508
Projected Working Balance at 31.3.2017	10.287

9. The HRA Business Plan 2016-2046 was approved at Council on 2 February 2017 with a projected working balance of £10,242,000 at 31 March 2017. It is now £10,287,000, which is £45,000 higher.

SIGNIFICANT RISKS / OPPORTUNITIES

10. 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 rent. Also, Essex County Council has reduced Housing Related Support to the Council.

    (ii) Rent income: The Government announced in July 2015 a legislative requirement for social landlords to decrease rents annually by one percent over four financial years (2016/17 – 2019/20). This challenged councils to make efficiencies in order to deliver sustainable services.

    (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 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.

    (v) Details of Government policy is still awaited in respect of the sale of larger properties in support of Registered Social Landlord (RSL) Right to Buy proposals.

    (vi) The result of the EU Referendum has brought uncertainties regarding the economy, with low interest rates and inflationary pressure on expenditure.

    (vii) It is anticipated that the Government's introduction of the Homeless Reduction Bill, will place a legal duty on Council's to take steps to prevent families from becoming homeless, with a key element being to intervene to prevent homelessness happening in the first place, rather than focusing on accommodating people who are already homeless. This will have financial implications for the Council due to the increased new duties that the Council would be expected to provide.

    (viii) The Government has introduced new plans to fix the 'broken housing market and build more homes across England'. This includes:

a) Measures to reduce the obstacles to house building and help local authorities, developers and small and medium sized builders build the homes Britain needs.

b) Measures to improve affordability and protections for renters and home purchasers.

(ix) Amongst many headlines, there is a view that Councils existing/new Housing Companies will be subject to Right to Buy processes. The consultation on the new Housing White Paper closes on 5 May 2017

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
HTS – HTS (Property & Environment) Ltd

Appendices

Appendix A - HRA Operational Variances (against Revised Estimate) and Non Operational Variances Period 9

Appendix B - Housing Revenue Account Budget Summary 2016/17 Period 9