REPORT TO:	**CABINET**
DATE:	**20 JULY 2017**
TITLE:	**HOUSING REVENUE ACCOUNT OUTTURN REPORT 2016-2017**
PORTFOLIO HOLDER(S):	**COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES** **COUNCILLOR MARK WILKINSON, PORTFOLIO HOLDER FOR HOUSING**
LEAD OFFICERS:	**CORPORATE MANAGEMENT TEAM** **SIMON FREEMAN, HEAD OF FINANCE (01279) 446228** **ANDREW MURRAY, HEAD OF HOUSING (01279) 446676**
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This is not a Key Decision
It is on the Forward Plan as Decision number I007281
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 2016
This decision will affect no ward specifically.

RECOMMENDED that Cabinet:

A Acknowledges the HRA outturn for 2016/17 as set out in the report as follows:

(i) a favourable variation against the original budget adjusted for carryovers on operational/controllable budgets of £1,173,000 representing 2.09 percent of the gross Housing Revenue Account (HRA) budget

(ii) A total projected underspend of £6,784,000 representing 12.08 percent of the gross HRA budget.

B The balances at 31 March 2017 of £12,975,000 in respect of the Housing Revenue Account and nil in respect of the Major Repairs Reserve are noted.

C Approve carryovers of £671,000 as detailed in paragraph *32* to meet commitments from 2016/17.

D Recognises the operational performance that has been achieved across all Council services during 2016/17.

REASON FOR DECISION

A To note the outturn against the Council's approved 2016/17 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 4 February 2016.

ISSUES

3. At year end 2016/17 as part of the revenue and capital financing requirements the overall HRA balance is maintained above the minimum required balance of £4,327,000 and is sustainable in the context of the approved HRA Business Plan.

4. The outturn at 2016/17 includes an underspend of £1,173,000 on operational budgets (Appendix A). The overall underspend for the year was £6,784,000 including non-operational adjustments at year end for depreciation and a lower than estimated direct revenue contribution in support of the Housing Capital Programme.

5. The Housing Revenue Account (HRA) budget for 2016/17, including approved carryovers of £315,000 and other approved adjustments, totalled £56,166,000. The operational underspend at 31 March 2017 represents a 2.09 percent variance against the budget and a 12.08 percent 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 (-)£5,611,000 due to higher depreciation charge (£277,000), and reduced direct revenue contribution to capital (-)£5,888,000. 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 the housing investment programme, publish information to tenants and to continue to maintain and invest in council dwellings.

8. At 31 March 2016 there was a nil balance on the Major Repairs Reserve (MRR). The depreciation charge of £11.054 million for 2016/17 was used in full to support the Housing Capital Programme.

OPERATIONAL VARIANCES

9. In 2016/17 the operational variance against the original estimate totals £1,173,000 underspend (see Appendix A). The key issues driving this variation are detailed below.

10. There is a favourable variance of (-)£464,000 from staffing vacancies and programme and project management fees 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. Restructuring of staff teams has also provided savings against salary budgets.

11. The schedule of work to Priority Estates was revised with Phase One fully decanted by 31 March 2016 and Phase Two by 31 March 2017. Home loss payments and moving incentives arising from this process are (-)£545,000 less in 2016/17 than originally estimated due to the difficulty of forecasting demand and uncertainty around tenant removal and home loss claims. The claims are in large part statutory and also demand led and will need to be carried over to 2017/18 to fulfil potential commitments. In addition, an overspend of £72,000 was incurred in order to maintain the security and cleanliness of the estates in this period of movement and demolition.

12. An underspend on general tenant moving incentives, compensation and removal costs of (-)£132,000 will in part (£100,000) be carried over to meet commitments in 2017/18.

13. 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. Part of the savings in utility costs in the HRA of (-)£37,000 arose from the change to gas heating at Tanys Dell.

14. 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 an overspend of £301,000 (original budget £267,000).

15. Reduction in the Supporting People transfer to the General Fund of (-)£70,000 due to lower staffing costs and direct costs, alongside higher income than

anticipated from dispersed alarms due to prudent assumptions made for the phasing of charges and the level of demand for alarms.

16. Rental income from housing stock is lower than estimated in part due to a higher level of right to buy sales and the subsequent realigning of the three year phasing for The Briars, Copshall Close and Aylets Field resulting in an adverse variance of £182,000. However, income from garages was (-)£34,000 more than estimated in line with higher garage usage and the garage strategy and improvement plans.

17. Adjustments to tenant and leasehold income from service charges in 2014/15 and a reduction in leasehold insurance premium resulted in an adverse variance of £187,000 less income than estimated. This was offset by increased income from management services and tenant recharges of (-)£61,000.

18. During 2016/17 accounting for leasehold contributions to major works was moved from Capital to HRA reporting. However, due to the reduced outturn on external works from issues reported in the Capital Outturn Report there was no significant income from leasehold contributions in 2016/17 (revised estimate £677,000).

19. Claims against insurance budgets were less than estimated resulting in a saving to the HRA of (-)£143,000.

20. The bad debt provision required for 2016/17 was £64,000 (against the original estimate of £200,000) due to the measures taken to minimise arrears and the delayed implementation of changes to the system of benefit payments in Harlow.

21. On 31 January 2017 the Joint Venture Contract which supports the Housing Service, providing housing maintenance, street scene and municipal services, came 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 2016/17 consultancy costs incurred in respect of this work have been financed by the drawdown of £219,000 from the provision established for this purpose. Other related costs are reported within General Management.

22. The original estimate for Right to Buy (RTB) sales in 2016/17 was 60 properties whereas actual sales totalled 84. 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 RTB’s (-) £40,000.

NON OPERATIONAL VARIANCES

23. Non-operational variances totalling a favourable £5,611,000 relate to an increase in depreciation charge in the Major Repairs Reserve of £277,000 and a decrease in the Direct Revenue Contribution to Capital of £5,888,000 (original estimate £11,383,000). The reduced contribution follows a lower than

estimated outturn in the Housing Capital Programme. For more details refer to the Capital Outturn Report 2016/17.

24. 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 such as garages, in addition to dwellings. In 2016/17 the total depreciation charge was £11,054,000 which represented a statutory charge of £10,690,000 in respect of dwellings (original estimate £10,777,000) plus a further £364,000 in respect of non-dwellings.

MAJOR REPAIRS RESERVE

25. The Major Repairs Reserve (MRR) is a separate statutory account which is used to ensure adequate resources are set aside 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 £208.837 million. 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.

26. In February 2016 the Council approved the HRA Business Plan which had estimated the MRR Balance at 31 March 2017 to be nil with the expectation that MRR depreciation relating to 2016/17 would be used to finance the Housing Capital Programme The outturn depreciation in the MRR for 2016/17 was £11,054,000.

27. The movement on the Major Repairs Reserve is as follows:

MAJOR REPAIRS RESERVE			
Details	Original Estimate £000's	Outturn £000's	Variance £'000s
Balance at 1 April 2016	0	0	0
Transfers in – deprecation (net)	(-)10,777	(-)11,054	277
Capital Spending on Housing Stock met by the Reserve	10,777	11,054	(-)277
Balance at 31 March 2017	**0**	**0**	**0**

HRA WORKING BALANCE

28. 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 £12,975,000 including the financing of carryovers from 2015/16 of £315,000 as set out below.

29. The increased HRA balance at 31 March 2017 is due in large part to the carryover in the capital programme of £6.455 million which reduced the direct revenue contribution from the HRA by £5,888,000 (Original estimate of £7,559,000 plus carryovers of £3,824,000). In addition the depreciation charge

for 2016/17 was £277,000 more than the original estimate (£10,777,000) and takes account of the re-allocation of depreciation (£181,000) in respect of garages attributed to the general fund.

30. The balance on the HRA will be impacted in 2017/18 by revenue carryovers requested totalling £671,000 together with the capital carryovers (£2.855 million) which will require financing from an increased direct revenue contribution from the HRA.

HOUSING REVENUE ACCOUNT 2016/17	
	£000's
Original Estimated balance at 31 March 2017	**5,257**
Increase reported at 2015/16 Outturn	5,072
Less 2015/16 carry forward requests approved July 2016	(-)4,140
Adjusted balance at 31 March 2016	**6,189**
Service Budget variations	1,173
Capital Programme variations	5,613
Balance at 31 March 2017	**12,975**

SUMMARY OF BALANCES AS AT 31 MARCH 2017

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 £4,327,000, the HRA shows a balance of £12.975 million as at 31 March 2017 and in line with the original estimate there is a nil balance Major Repairs Reserve. For more information please see the HRA Business Plan 2016-2046, paragraphs 6.2.1, 6.2.2 and 6.2.3, pages 33 and 34.

CARRY FORWARDS

32. It is proposed that the following items are carried forward to be spent in 2017/18:

Home loss Payments Priority Estates:	£49,000
Moving Incentives, Priority Estates:	£70,000
Compensation Payments Priority Estates:	£425,000
Tenant Moving Incentives	£50,000
Tenant Other Compensation	£50,000
Redecoration Allowances	£12,000
Legal Fees	£15,000
Total	£671,000

33. The proposed carryovers will facilitate the continuing work on Priority Estates

in 2017/18 and ensures that the Council will not be in breach of its policy to pay compensation and other costs to tenants who are downsizing.

34. In addition, the capital programme report shows a requirement to carry forward work to 2017/18 totalling £2,855,000 to meet outstanding commitments.

35. The impact of revenue and capital carry forwards on the HRA budget will be reported throughout 2017/18 as part of the budget monitoring process.

SIGNIFICANT RISKS/OPPORTUNITIES

36. The 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 one percent over the next four financial years (2016/17 – 2019/20). This has challenged councils to make efficiencies in order to deliver sustainable services.

38. As a responsible social landlord, the Council has no greater asset management priority than ensuring the health, safety and welfare of its tenants via full compliance with its statutory, regulatory and legal obligations across the full range of issues related to fire, gas, electrical and water safety as well as asbestos management.

39. The Council's continued focus upon its compliance (health and safety) obligations is reflected within the substantial £1.3 million) funding allocation to this area of work during 2017/18.

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

    b) 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 to 2019/20). This challenged councils to make efficiencies in order to deliver sustainable services.

    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) 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 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.

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

g) 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 in terms of the increased new duties that it will be expected to provide.

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

   i) measures to reduce the obstacles to house building and help local authorities, developers and SME builders build the homes Britain needs; and

   ii) measures to improve affordability and protections for renters and home purchasers.

   Amongst many headlines, there is a view that Councils existing/new "Housing Companies" will be subject to "Right to Buy" processes. Consultation on the new Housing White paper closes 5th May 2017.

i) The impact of the General Election on 8 June 2017 on Government policy.

41. The end of the Kier Harlow contract and the move to HTS (Property and Environment) Limited from 1 February 2017 was accommodated within existing budgets in 2016/17.

IMPLICATIONS

Place (includes Regeneration)
None specific.
Author: **Graeme Bloomer, Head of Regeneration**

Finance (Includes ICT)
As contained within the report.
Author: **Simon Freeman, Head of Finance**

Housing
As outlined in the body of the report.
Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)
As contained within the report.
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

Appendices
Appendix A – HRA Operational Variances
Appendix B – Housing Revenue Accoun