

REPORT TO CUSTOMER FOCUS SCRUTINY COMMITTEE

Date of Meeting: 6 FEBRUARY 2020

REPORT OF: Chief Finance Officer

TITLE: 2019/20 HRA Budget Monitoring Report – Quarter 2

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function?

Council

1. What is the report about?

- 1.1 To advise Members of the overall financial position of the HRA Revenue and Capital Budgets for the 2019/20 financial year after the first six months.

In addition to the budgetary over/under-spends reported to this committee, Appendix 1 also highlights further areas of risk, so that Members are aware that certain budgets have been identified as being vulnerable to factors beyond the control of the Council, which may result in potential deviations from budget, and are therefore subject to close monitoring, by officers.

2. Recommendations:

It is recommended the Executive note the report and Council notes and approves (where applicable):

- 2.1 **The HRA forecast financial position for 2019/20 financial year;**
- 2.2 **The revision of the HRA Capital Programme to reflect the reported variations detailed in Appendix 4**

3. Reasons for the recommendation:

- 3.1 To formally note the HRA's projected financial position and to approve the reported variations to the HRA Capital Programme.

The Housing Revenue Account is a statutory account and local housing authorities have a duty to keep an HRA in accordance with proper accounting practices and to review the account throughout the year. This is the second quarterly financial update in respect of the HRA for 2019/20

4. What are the resource implications including non-financial resources

- 4.1 The financial resources required to deliver both housing services to Council tenants and to invest in new and existing housing stock during 2019/20 are set out in the body of this report.
- 4.2 The impact on the HRA's available financial resources are set out in Appendix 3.

5. Section 151 Officer comments:

5.1 The contents are noted. There are no significant concerns to bring to the Councils attention at this stage.

6. What are the legal aspects?

6.1 The Housing Revenue Account is framed by the Local Government and Housing Act 1989. This Act created the ring-fence and the structure within which the HRA operates and covers the detailed operation of the HRA, including the credits (income) and debits (expenditure) which make up the account.

7. Monitoring Officer Comments:

The report raises no issues for the Monitoring Officer.

8. Report Details:

HRA BUDGET MONITORING – QUARTER 2

8.1 Background to the HRA

The Housing Revenue Account (HRA) records expenditure and income relating to council dwellings and the provision of services to tenants. Housing authorities have a statutory duty to maintain a HRA account, which is primarily a landlord account, in order to account to their tenants for income and expenditure on council housing separately from other functions and services of the Council.

8.2 Projected Surplus/Deficit

During this period the total budget variances indicate that there will be a net deficit of £417,315 in 2019/20. This represents a movement of £919,100 compared to the revised budgeted deficit of £1,336,415 for 2019/20. The key budget deviations are explained below. Please also refer to Appendix 2.

Budget Heading	Forecast Outturn Budget Variance at Quarter 1 (Under)/Overspend	Forecast Outturn Budget Variance at Quarter 2 (Under)/Overspend
Budgeted Deficit		£386,815
Supplementary budgets – Executive approved 10 July 2018		£949,600
Revised Budgeted Deficit		£1,336,415
Management Costs	(£75,000)	(£90,000)
Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets		
<ul style="list-style-type: none"> • (£45K) Forecast savings in employee costs, predominantly due to two vacant Older Person Property Services officers' posts. • (£45k) Saving to be made in respect of general management consultancy costs, in order to offset the additional cost of consultants appointed to undertake asset management procurement options. 		
Housing Customers	(£71,000)	(£34,000)
Officer Responsible: Service Lead – Housing Tenancy Services		
<ul style="list-style-type: none"> • (£24k) Forecast savings in employee costs, predominantly due to vacant posts within the 		

Lettings and Leasehold team.		
<ul style="list-style-type: none"> • (£10k) Amalgamation of various minor forecast underspends. 		
Sundry Land Maintenance	(£104,930)	(£104,930)
Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets		
<ul style="list-style-type: none"> • (£105k) A dedicated Tree Officer for Housing has been appointed and is due to start in November. Officers within Public Realm oversee the delivery of works to HRA trees and the works identified by the surveys are currently being prioritised. It is anticipated that slippage will occur in respect of works to HRA trees, whilst the programme of works are programmed and access issues resolved. 		
Repair & Maintenance Programme	£0	(£802,170)
<ul style="list-style-type: none"> • (£275k) Originally budgeted £475k for site clearance costs in order to facilitate new build development sites. Following the decision for the HRA development programme to progress the former ECL sites, the anticipated site clearance and enabling costs will be required at a later stage – 2020 and beyond. • (£400k) Forecast underspend in respect of the low maintenance and painting programme due to issues with the mobilisation of the new contractor, for this reason a supplementary budget will be requested to carry forward the budget into 2020-21, with the expectation that the contractor will catch-up next year. • (£120k) Forecast saving in respect of routine service and maintenance contracts, which predominantly relates to savings in the gas servicing contract following the appointment of a new contractor. 		
Capital Charges	£329,000	£329,000
Officer Responsible: not applicable (statutory accounting charge)		
<ul style="list-style-type: none"> • Depreciation charges are higher than budgeted due to a change in the assumed life expectancy of kitchens, from 30 years to 20 years, in line with Asset Management Plans. <p>Depreciation is a real cost to the HRA as it represents the amount of money which needs to be set aside in the Major Repairs Reserve to provide for future capital works or to repay debt.</p>		
Housing Assets	£39,000	(£107,000)
Officer Responsible: Service Lead – Housing Assets		
<ul style="list-style-type: none"> • £45k Forecast overspend predominantly relates to consultancy advice in respect of asset management procurement options, including the general maintenance and void maintenance contract arrangements. The additional cost has been offset by savings within the HRA's General Management consultancy budget, as reported above. • £30k Forecast overspend in respect of additional agency staff costs covering vacant posts. Recruitment is pending the outcomes of the proposed restructure of Housing Assets, as presented to Executive on 10 September 2019. • (£175k) Forecast spend for the financial year is now £75k comprising; production of an Employers Requirements document by ECL for the HRA to standardise new build developments and work by ECL to investigate the feasibility of adding additional floors to 		

some of the Council's blocks of flats.

With the HRA development programme commencing with sites that were originally to be developed by ECL, the requirement for site investigation work was already completed. As such, site investigation work will be required for the second phase of the development activity during 2020 and following years.

Interest	£0	(£110,000)
Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets		
<ul style="list-style-type: none"> • Reflects additional interest receivable on HRA balances (Working Balance, Major Repairs Reserve and capital receipts). Forecast underspends in both revenue and capital budgets are expected to result in higher than anticipated HRA balances and interest rates also increased. 		
Total budget variances	£117,070	(£919,100)
Projected HRA deficit		£417,315

8.3 Impact on HRA Working Balance

The HRA Working Balance represents amounts set aside to help facilitate service improvements, repay debt or to provide investment in the stock in future financial years.

The forecast balance, as at 31 March 2020, is set out below:

Movement	2019/20
Opening HRA Working Balance, as at 1/4/19	£10,025,355
Forecast deficit for 2019/20	(£417,315)
Balance resolved to be retained (HRA contingency)	(£4,000,000)
Balance Available, as at 31/3/20	£5,608,040

8.4 HRA Available Resources over the Medium Term

The forecast HRA available resources for delivering both housing services and capital investment are set out in Appendix 3 for the period to 2021/22.

8.5 HRA Debt

In October 2018 the Government formally removed the HRA debt cap, which restricted the amount of borrowing stock-holding local authorities could have for the purposes of the HRA. The lifting of the 'debt cap' means that local authorities are now able to borrow for housebuilding in accordance with the Prudential Code.

As at 31 March 2019, the HRA's borrowing remains at the former 'debt cap' level of £57,882,413, as no new borrowing has been undertaken.

Executive on 8 October 2019 approved the first Council House Building Programme, which will deliver 100 new homes into the HRA at a cost of £18 million. It is expected that these schemes will be funded using the new freedoms to borrow in conjunction with potential grant from Homes England and retained Right to Buy receipts, which will be determined on a site by site basis.

8.6 HRA Capital Programme

The 2019-20 HRA Capital Programme was last reported to Scrutiny Committee – People on 5 September. Since that meeting the following changes have been made that have increased the programme.

Description	2019/20	Approval / Funding
HRA Capital Programme	£26,843,000	
Budgets deferred to future financial years	(£4,060,635)	Council 15 October 2019
Revised HRA Capital Programme	£22,782,365	

8.7 Performance

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £20,084,795 compared to the £22,782,365 revised programme; a reduction of £2,697,570.

8.8 Capital Budget Variances

The details of key variances from budget are set out below.

Scheme	Budget to be deferred to 2020/21
LAINGS Refurbishment	£880,000
Officer Responsible – Planned Works Lead	
<ul style="list-style-type: none"> Issues with the drainage design and finalising agreements with South West Water has taken significantly longer than anticipated. Full works have now recommenced on site and the budget has been re-profiled accordingly. 	
Programmed Re-roofing - Flats	£150,000
Officer Responsible – Planned Works Lead	
<ul style="list-style-type: none"> This work is predominantly lead by referrals from the Response Repairs team. We do not have a large scale re-roofing programme for blocks of flats due to delays in the Section 20 process relating to leaseholders. Major works to flats are being staggered in order to spread the costs incurred by leaseholders, which may otherwise cause financial hardship. 	
Programmed Re-roofing - Houses	£431,830
Officer Responsible – Planned Works Lead	
<ul style="list-style-type: none"> Slippage in the roofing programme in respect of houses is due to delays in the procurement of the contract, which is currently progressing with the Procurement Team. 	
Rennes House Structural Works	£500,000
Officer Responsible – Planned Works Lead	
<ul style="list-style-type: none"> The lift works have been completed and signed off. A full design team has been appointed for the rest of the refurbishment works and we are now in a period of survey and assessing design options prior to the appointment of a main contractor and cost finalisation. The budget has been re-profiled to reflect the deferral of significant works on site until 2020. 	

Soil Vent Pipe Replacement	£115,950
Officer Responsible – Planned Works Lead	
<ul style="list-style-type: none"> Slippage in the soil and vent pipe replacements is due to this work being tied up with the kitchen and bathroom contract procurement, which has been delayed as previously reported. 	
Loft and Cavity Insulation	£94,690
Officer Responsible – Planned Works Lead	
<ul style="list-style-type: none"> Slippage of the loft and cavity insulation budget is due to this work being tied up with the re-roofing programmes, as reported above. 	
Extra Care Scheme	£251,320
Officer Responsible – Service Lead Housing	
<ul style="list-style-type: none"> Works are progressing on site well on site with significant expenditure of £8.5m forecast for this financial year, however the latest cash-flow forecasts indicate some slippage into 2020/21 but with no impact on the overall contract length. The new scheme is expected to complete in September 2020. 	
Acquisition of Social Housing – Section 106	£240,000
Officer Responsible – Service Lead – Housing Assets	
<ul style="list-style-type: none"> The budget provision for acquiring homes at The Chase is no longer required. Heritage Homes refused to sell the properties to the Council because of technicality set out in the Section 106 requiring completion by 11 June 2019. The budget will be carried forward into 2020/21 whilst other opportunities are explored. 	

9. COUNCIL OWN BUILD BUDGET MONITORING – QUARTER 2

9.1 The Council's own build properties at Rowan House and Knights Place form part of the overall Housing Revenue Account, but separate income and expenditure budgets are maintained in order to ensure that they are self-financing.

9.2 Projected Surplus/Deficit

A minor forecast variance of £3,000 is forecast at the end of Quarter 2. The budgeted net surplus of £15,470 is therefore projected to be £18,470 during 2019/20, due savings in management costs.

10. How does the decision contribute to the Council's Corporate Plan?

The Housing Revenue Account contributes to two key purposes, as set out in the Corporate Plan; help me find somewhere suitable to live and maintain our property assets.

11. What risks are there and how can they be reduced?

Areas of budgetary risk are highlighted to committee as part of the quarterly budget monitoring updates. Appendix 1 sets out the risks identified, at Quarter 2.

12. Equality Act 2010 (The Act)

12.1 Under the Act's Public Sector Equality Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding

12.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

12.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

12.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because:

12.4.1 There are no significant equality and diversity impacts associated with this decision.

13. Are there any other options?

No

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

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