

REPORT TO EXECUTIVE

Date of Meeting: 7 April 2020

REPORT TO COUNCIL

Date of Meeting: 21 April 2020

Report of: Chief Finance Officer

Title: 2019/20 HRA Budget Monitoring Report – Quarter 3

Is this a Key Decision?

No

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:

- 1.1. It is recommended the Executive note the report and Council notes and approves (where applicable):
- The HRA forecast financial position for 2019/20 financial year; and
 - The revision of the HRA Capital Programme to reflect the reported variations detailed in Appendix 4

3. Reasons for the recommendation:

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 a HRA in accordance with proper accounting practices and to review the account throughout the year. This is the third quarterly financial update in respect of the HRA for 2019/20.

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

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.

The impact on the HRA's available financial resources are set out in Appendix 3.

5. Section 151 Officer comments:

The current situation in the Country, with significant restrictions on work and movement will have a financial impact on the HRA. The HRA is in a strong position financially to cope with a short term reduction in rental income, as long as it does not lead to significant bad debts in the medium to long term. Any reduction in income received as a result of a significant increase in bad debts will result in the Capital programme for both existing stock and new build being reviewed in light of reduced available resources.

6. What are the legal aspects?

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's comments:

This report raises no issues for the Monitoring officer.

8. Report details:

HRA BUDGET MONITORING – QUARTER 3

8.2 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.

8.3 Projected Surplus/Deficit

During this period the total budget variances indicate that there will be a net deficit of £143,825 in 2019/20. This represents a movement of £1,192,590 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 2 (Under)/Overspend | Forecast Outturn Budget Variance at Quarter 3 |
|----------------|--|---|
|----------------|--|---|

| | | (Under)/Overspend |
|---|-------------------|-------------------|
| Revised Budgeted Deficit/ (Surplus) | | £1,336,415 |
| Management Costs | (£90,000) | (£172,000) |
| <p>Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets</p> <ul style="list-style-type: none"> • (£52k) Forecast savings in employee costs, predominantly due to vacant Older Person Property Services officers' post during the year, this is a service charge item and will be reflected in the service charge next year. • (£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. • (£30k) Forecast savings in policy and communications in respect of the Insights publication. • (£15k) Saving to be made in respect of tenant liaison, this will be required in 2020/21. • (£18k) Savings to be made in respect of housing development team recharge due to vacant post. • (£12k) Amalgamation of various minor forecast underspends. | | |
| Housing Customers | (£34,000) | (£18,150) |
| <p>Officer Responsible: Service Lead – Housing Tenancy Services</p> <ul style="list-style-type: none"> • (£13k) Forecast savings in employee costs, predominantly due to vacant posts within the Lettings and Leasehold team. • £7k Forecast overspend on valuation survey fees • (£12k) Amalgamation of various minor forecast underspends. | | |
| Sundry Land Maintenance | (£104,930) | (£186,200) |
| <p>Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets</p> <ul style="list-style-type: none"> • A dedicated Tree Officer for Housing has been appointed and started 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.

Ash Dieback disease has taken slightly longer to take hold in Exeter when compared with the surrounding area, but when it does there will be a rise in tree management costs, for this reason a supplementary budget will be requested to carry forward £66k of the budget into 2020-21.

| | | |
|---|-------------------|-------------------|
| Repair & Maintenance Programme | (£802,170) | (£964,240) |
|---|-------------------|-------------------|

Officer Responsible: Service Lead – Housing Assets

- (£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. It is anticipated that £200k will be spent before the year end.
- (£764k) Forecast underspend in respect of the low maintenance and painting programme, largely due to operational issues on some schemes (planning permission, bats etc.), these are now ready to proceed and contractor has confirmed capacity to ensure full delivery in 2020/21.
- (£254k) 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.
- £300k Forecast overspend in respect of general reactive repairs due to the volume of repairs requested during the year and a period of full, whole property asbestos renovation and demolition surveys which drove costs up substantially.
- £90k Forecast overspend on void repairs due to a number of larger than average void projects during the year.
- (£61k) Amalgamation of various minor forecast under and over spends.

| | | |
|------------------------|-----------------|-----------------|
| Capital Charges | £329,000 | £329,000 |
|------------------------|-----------------|-----------------|

Officer Responsible: not applicable (statutory accounting charge)

- 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.

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.

| | | |
|-----------------------|-------------------|------------------|
| Housing Assets | (£107,000) | (£57,000) |
|-----------------------|-------------------|------------------|

Officer Responsible: Service Lead – Housing Assets

- £60k Forecast overspend predominantly relates to consultancy advice in respect of asset management procurement options, including the general maintenance and void maintenance contract arrangements. £45k of the additional cost has been offset by savings within the HRA's General Management consultancy budget, as reported above.
- £69k 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) Consultancy fees saving - 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.

- (£111k) Amalgamation of various minor forecast underspends.

| | | |
|-----------------|-------------------|-------------------|
| Interest | (£110,000) | (£124,000) |
|-----------------|-------------------|-------------------|

Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets

- 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 | (£919,100) | (£1,192,590) |
| Projected HRA deficit | | (£143,824) |

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 01/04/2019 | £10,025,355 |
| Forecast deficit for 2019/20 | (£143,825) |
| Balance resolved to be retained (HRA contingency) | (£4,000,000) |
| Balance Available, as at 31/03/2020 | £5,881,530 |

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.

The forecast total available resources has improved by £689k since last reported, this is due to a combination of service efficiencies and contract savings as well as increased forecast of right to buy receipts.

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 December 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 Executive on 10 December 2019. Since that meeting the following changes have been made that have increased the programme.

| Description | 2019/20 | Approval / Funding |
|---|--------------------|---|
| HRA Capital Programme | £22,782,365 | |
| Budgets deferred to future financial years at Quarter 2 | (£2,697,570) | Council 17 December 2019 |
| Acquisition of Social Housing | 422,500 | Section 106 funded – Delegated powers 13 th October 2019 |
| Bovemoors Lane and Hamlin Gardens | 825,000 | Executive 8 th October 2019 |
| Revised HRA Capital Programme | £21,332,295 | |

8.7 Performance

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £16,928,223 compared to the £21,332,295 revised programme; a reduction of £4,404,072.

8.8 Capital Budget Variances

The details of key variances from budget are set out below. The Service Lead – Housing Assets will be able to provide further details in respect of these areas, if required.

| Scheme | Forecast Overspend / (Underspend) |
|--|-----------------------------------|
| Door Replacements (including Outbuildings) | £216,000 |
| Officer Responsible – Planned Works Lead | |
| The door replacement programme has been accelerated in line with the window replacement programme. The anticipated overspend on door replacements will be offset by a saving on window replacements. | |
| Window Replacements | (£216,000) |

Officer Responsible – Planned Works Lead

Combined programme of windows and door replacements. Overspend on door replacement will be met by compensating saving on window replacements, as explained above.

8.9 Schemes to be deferred to 2020/21 and beyond

Schemes which have been identified as being wholly or partly deferred to 2020/21 and beyond are:

| Scheme | Budget to be deferred |
|--|------------------------------|
| Kitchen Replacement Programme | £656,795 |
| Bathroom Replacement Programme | £181,140 |
| <p>Officer Responsible – Planned Works Lead</p> <p>The two above programmes of work require new contracts to be procured to allow work to proceed. Whilst at the start of the year it was envisaged that the Council would direct award the works via a compliant and established Framework, advice from the Council's Procurement Team has required the service to commence a process of mini competition via a framework. This process, including the preparation of more detailed specifications of works, has delayed the progression of works. The new contract is due to commence April 2020.</p> | |
| Balcony Walkway Improvements | £257,000 |
| <p>Officer Responsible – Planned Works Lead</p> <p>To be undertaken as part of low maintenance contract. Delays have results in slippage of the programme.</p> | |
| Structural Repairs | £168,550 |
| <p>Officer Responsible – Planned Works Lead</p> <p>The slippage is a result of work needing to be surveyed by external structural surveyors and schedules of work having to be specified and prepared. In some cases structural repairs required monitoring over a period of time to inform the remedial repair solution.</p> | |
| Communal Door & Screens | £326,780 |

| | |
|--|-------------------|
| <p>Officer Responsible – Planned Works Lead</p> <p>The slippage has resulted from delays to installation programmes, particularly where Section 20 Notices needed to be served on leaseholders prior to works could be commissioned.</p> | |
| Fire Risk Assessment Works | £400,000 |
| <p>Officer Responsible – Planned Works Lead</p> <p>The slippage resulted from delays, however lots of work coming in towards the end of the year, large project on compartmentation review now expected to be undertaken in 2020/21.</p> | |
| Porch Canopies | £192,480 |
| <p>Officer Responsible – Planned Works Lead</p> <p>Porch canopy works now undertaken as part of combined programme with window and door replacements. This programme has not covered areas where houses have canopies in 2019/20.</p> | |
| Extra Care Scheme | £2,000,000 |
| <p>Officer Responsible – Service Lead – Housing Assets</p> <p>Works are progressing on site with significant expenditure of £6.5m forecast for this financial year, however the latest cash-flow forecasts indicate some further slippage into 2020/21 due to time taken to erect the concrete frame but with no impact on the overall contract length. The scheme is still expected to complete in September 2020.</p> | |

COUNCIL OWN BUILD BUDGET MONITORING – QUARTER 3

8.10 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.

8.11 Projected Surplus/Deficit

A variance of £1,500 is forecast at the end of Quarter 3. The budgeted net surplus of £15,470 is therefore projected to be £13,970 during 2019/20, due to additional management costs.

9. 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.

10. 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 3.

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities 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.

11.2 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.

11.3 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.

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

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

12. Carbon Footprint (Environmental) Implications:

We are working towards the Council's commitment to carbon neutral by 2030. The impact of each scheme is considered prior to approval.

13. Are there any other options?

None.

Dave Hodgson, Chief Finance Officer

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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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