

REPORT TO EXECUTIVE

Date of Meeting: 7 July 2020

REPORT TO COUNCIL

Date of Meeting: 21 July 2020

Report of: Chief Finance Officer

Title: 2019/20 HRA Budget Monitoring Report - Outturn

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To advise Members of any major differences, by management unit, between the approved budget and the outturn for the financial year up to 31 March 2020 in respect of the Housing Revenue Account and the Council's new build schemes.

An outturn update in respect of the HRA Capital Programme is also incorporated into this report in order to help provide a comprehensive financial update in respect of the Housing Revenue Account.

2. Recommendations:

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

- The supplementary budgets of £657,040 as detailed in paragraph 8.4;
- The HRA 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:

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 a HRA in accordance with proper accounting practices and to review the account throughout the year. Members are presented with a quarterly financial update in respect of the HRA and this is the final update 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.

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

5. Section 151 Officer comments:

- 5.1. The Outturn position is broadly in line with previous budget monitoring reports. Members should note however that the healthy Working Balance is expected to be used over the life of the medium term financial plan to deliver key capital projects. The HRA, like the General Fund is affected by the Covid-19 restrictions and this report should be read in the context of the emergency budget, which cover the Housing Revenue Accounts alongside the General Fund.
- 5.2. Members should also note the significant Supplementary budgets being requested. These are affordable within the HRA's MTFP.

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:

- 7.1. This report raises no issues for the Monitoring Officer.

8. Report Details:

HRA FINAL ACCOUNTS TO 31 MARCH 2020

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

The 2019-20 financial year has ended with an overall net surplus of £214,120. This represents a movement of £1.550m compared to the budgeted deficit of £1.336m for 2019-20 with, most notably, £1.301m relating to a reduction in the repairs and maintenance programme, large due to delays in the various programmes.

A projected under-spend of £1.193m has previously been reported to Executive Committee as part of the quarterly budget monitoring updates. The variances in the final quarter of the financial year have therefore resulted in further savings of £0.358m. The reasons for this and the main deviations from budget for the financial year are set out below. Please also refer to Appendix 1.

Budget Heading	Forecast Outturn Budget Variance at Quarter 3 (Under)/Overspend	Actual Budget Variance (Under)/Overspend
Approved Budgeted Deficit/ (Surplus)		£1,336,415
Management Costs	(£172,000)	(£148,300)
<p>Officers Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets</p> <ul style="list-style-type: none"> • (£52k) 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. • (£49k) Saving made in respect of general management consultancy costs, in order to offset the additional cost of consultants appointed to undertake asset management procurement options, with regards to the reactive repairs contract. • (£29k) Saving made in publications and leaflets due to delay in the tenants' handbook publication. • (£20k) Savings in policy and communications in respect of the Insights publications, as a result of efficiencies from a new provider. • (£15k) Saving to be made in respect of tenant liaison, this will be required in 2020/21. Spend of c.£12,000 on resident involvement projects did not happen in 2019-20, in part due to COVID-19 and our ability to fully assess value for money or social value on these. • (£18k) Savings in respect of City Development team recharge due to vacant post that is historically charged 50% to HRA (currently being reviewed). • £29k overspend on internal procurement recharges, the internal procurement team have been helping the HRA throughout the year with the procurement of several large contracts, including asset management (reactive repairs), kitchens and bathrooms and pitched roofing. • £6k Amalgamation of various minor forecast (under)/overspends. 		
Housing Customers	(£18,150)	(£31,508)

Officer Responsible:**Service Lead – Housing Tenancy Services**

- (£27k) Savings in employee costs, predominantly due to vacant posts within the Lettings and Leasehold team.
- £7k Overspend on valuation survey fees as a result of more valuations undertaken in the year.
- £18k Overspend on legal services. The additional costs are in relation to two legal cases which required a significant input from the legal team and barristers' advice.
- (£30k) Amalgamation of various minor forecast (under)/overspends.

Sundry Land Maintenance**(£186,200)****(£189,837)****Officer Responsible:****Service Lead – Housing Tenancy Services &****Service Lead – Housing Assets**

- 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**(£964,240)****(£1,300,676)****Officer Responsible: Service Lead – Housing Assets**

- (£475k) Saving - Originally budgeted £475k for site clearance and demolition 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 and demolition costs will be incorporated in the capital budget.
- (£752k) Underspend in respect of the low maintenance and painting programme. The cyclical decorations budget for 2019/20 was originally set at £1.25m. There was a £400k underspend from 2018/19 that was carried over increasing the overall budget to £1.75m. The final outturn of spend against the cyclical decorations was £861k – we did have work on programme to just over £1m but a number of significant operational delays adversely affected the outturn position. Some of the delays experienced during 2019/20 resulted from a delay to an Agreement with the Rail Operator to work adjacent to their boundary on a scheme to deliver cyclical decoration and window/door installation, and delays for a £400k programme at Flowerpot Lane due to the requirement to undertake bat

conservation investigations before work could commence. We only had a small window of opportunity to undertake the bat investigations between Feb-Mar, which pushed the programme for this project back to the end of the financial year. We are currently about a quarter of the way through at this location now.

- (£297k) 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.
- £345k 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. The whole property surveys have helped us plan asbestos works more productively and safely for the future and these larger surveys are not require any further ensuring budget pressures will be minimised. Equally, the new response repairs contract will assist in budget planning as we will deliver repairs and void work on a price per property and price per void – enabling greater control of this area of budget expenditure.
- £157k overspend on void repairs. Some properties that became void in the year required significant repairs before they could be re-let. Also more invasive asbestos works were carried out on void properties during the year which increased costs in this area.
- (£97k) underspend on Asbestos surveys and removal was a direct consequence of the reduced delivery of capital works. Some costs of asbestos removal was captured in general reactive repairs and voids, as identified above.
- (£182k) Amalgamation of various minor forecast under and over spends. Director has confirmed that noting to note

Revenue Contribution to Capital	(£nil)	(£nil)
--	---------------	---------------

Officer Responsible: Service Lead – Housing Assets

- The amount of revenue monies required towards financing the HRA Capital Programme in 2019-20 was in line with budget.

Capital Charges	£329,000	£289,336
------------------------	-----------------	-----------------

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	(£57,000)	(£51,181)
<p>Officer Responsible: Service Lead – Housing Assets</p> <ul style="list-style-type: none"> £75k 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. £92k overspend in respect of additional agency staff costs covering vacant posts. Recruitment to the proposed restructure of Housing Assets, as presented to Executive on 10 September 2019 has been delayed due to the current COVID-19 situation. (£241k) Consultancy fees saving - 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 has been delayed until 2020/21. <p>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.</p> <ul style="list-style-type: none"> £23k Amalgamation of various minor under/overspends. 		
Rents	£nil	£15,824
<p>Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead Revenues, Benefits and Customer Access</p> <ul style="list-style-type: none"> Rents collected in 2019-20 was largely in line with budget. 		
Interest	(£124,000)	(£134,194)
<p>Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets</p> <ul style="list-style-type: none"> Reflects additional interest receivable on HRA balances (Working Balance, Major Repairs Reserve and capital receipts). Underspends in both revenue and capital budgets are expected to result in higher than anticipated HRA balances. 		
Total budget (underspend)/overspend	(£1,192,590)	(£1,550,535)
2019/20 HRA Deficit/ (Surplus)		(£214,120)

8.3. Impact on HRA Working Balance

The total budget variances for 2019-20 have resulted in a surplus of £214,120, which will be transferred to the HRA working balance, as set out below.

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 April 2019	£10,025,355
Surplus for 2019/20	£214,120
Balance resolved to be retained (HRA contingency)	(£4,000,000)
Balance Available, as at 31 March 2020	£6,239,475

8.4. Supplementary Budgets

There is a requirement for supplementary budgets in 2020/21 as the HRA has identified at the end of the year a number of revenue budgets that have not been spent but where a commitment is required in the following financial year.

It is therefore proposed that supplementary budgets totalling £657,040 identified in Appendix 2 are submitted to Executive for approval and added to the 2020/21 budget.

As part of the exercise to mitigate the anticipated negative impact of COVID-19 on 2020-21 HRA income, £508k of these supplementary budgets have been offered as savings. The impact of this and the risk to service delivery has been assessed by the Director on an individual basis.

8.5. Major Repairs Reserve

Under self-financing Councils are expected to set aside some of their income each year into the Major Repairs Reserve, in order to ensure appropriate provision is made towards financing future capital works or to repay debt. The balance held in the reserve at the end of the financial year is set out below:

Movement	2019/20
Opening Major Repairs Reserve, as at 1 April 2019	£14,255,232
Revenue monies set aside during 2019/20	£3,513,546
Amount used to finance capital expenditure during 2019/20	(£5,936,947)

Balance, as at 31 March 2020	£11,831,831
-------------------------------------	--------------------

8.6. 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.

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.

As at 31 March 2020, the HRA's borrowing remained at the former 'debt cap' level of £57,882,413, as no new borrowing was undertaken before the year end.

At Spring Budget 2020, the Government announced a new, discounted rate of PWLB lending to support social housing, which enables the Council to borrow at 1% below the rate at which the local authority would usually borrow from the PWLB, specifically for social housing projects.

On 5 April 2020, the Council took out a loan of £15.4 million from the PWLB to support the social housing programme and therefore took advantage of the discounted rate.

8.7. HRA Capital Programme

The 2019-20 HRA Capital Programme was last reported to Executive on 7 April 2020. Since that meeting the following changes have been made that have increased the programme.

Description	2019/20	Approval / Funding
HRA Capital Programme	£21,332,295	
Budgets deferred to future financial years at Quarter 3	(£4,399,605)	Council 21 April 2020
Underspend declared at Quarter 3	(£4,467)	Council 21 April 2020
Revised HRA Capital Programme	£16,928,223	

8.8. Performance

HRA Capital expenditure in the year amounted to £15,733,441, which equates to 93% of the revised approved capital programme (as set out above). The nature of capital investment in the financial year comprised:

HRA Capital Expenditure	£
Capital investment in existing stock	7,218,045
Capital investment in the provision of new council homes	8,515,396
Total HRA Capital Expenditure	15,733,441

A detailed list of HRA capital budgets and actual expenditure is set out in Appendix 4.

It is proposed to carry forward a total of £1.714 million budget into future years, whereas £0.420 million budget has been brought forward from future years and spent in 2019/20 (giving a net budget carry forward of £1.294 million), as indicated in Appendix 4.

8.9. HRA Capital Financing

The total HRA capital expenditure for 2019-20 will be financed as follows:

HRA Capital Finance	£
Major Repairs Reserve	5,936,947
Revenue Contribution to Capital	2,500,000
Capital Receipts	4,956,630
External Grants/Contributions	2,339,864
Total HRA Capital Financing	15,733,441

External Grants/Contributions are made up of; £1,404k commuted sums, £391k Estate Regeneration grant, £329k leaseholder contributions and £216k zero energy grant funding.

The impact on the capital resources available to the HRA over the next 3 years is set out in Appendix 3.

8.10. Capital Budget Variances

The details of key (greater than +/- £30k) 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)
Adaptions	£42,730
Officer Responsible – Planned Works Lead	
The works required under this budget is very reactive and during 2019/20 a number of larger adaptations were required, including two property extensions.	

Communal Area Improvements	(£53,788)
<p>Officer Responsible – Planned Works Lead</p> <p>There has been delays in this programme during the year due to programme identification and contractors only started part-way through year. It has been determined that there is scope in the 2020/21 budget to absorb the costs of any delays therefore £53,788 is reported as a saving in 2019/20.</p>	
ZEBCat	£121,349
<p>Officer Responsible – Planned Works Lead</p> <p>The ZEBCat project was due to be completed and all contractual payments made before the end of the 2019/20 financial year.</p> <p>Due to contractual delays and COVID19, the contract is not completed, this resulted in £21,349 overspend in 2019/20, and there are additional costs to come in 2020/21 of £100,000.</p>	

8.11. **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 deferred to/(brought forward from) future years
LAINGS Refurbishments	(£97,555)
<p>Officer Responsible – Service Lead – Housing Assets</p> <p>The refurbishment is ahead of schedule therefore there is a requirement to bring forward some budget from 2020/21.</p>	
Kitchen Replacement Programme	(£79,129)
<p>Officer Responsible – Planned Works Lead</p> <p>More kitchen replacements were undertaken in Q4 than anticipated as at Q3 reporting. Some of the budget that was carried forward to 2020/21 at Q3 has been brought back into 2019/20 to cover spend.</p>	
Rennes House Structural Works	£218,347
<p>Officer Responsible – Service Lead – Housing Assets</p> <p>The execution of this project is proving more complex than originally thought due to the arrangement of the building and certain works not being able to be carried out while the building is occupied. The more detailed design work and further professional</p>	

input has raised budgetary concerns and it is likely a further report will need to be submitted to committee.	
Fire Safety Storage Facilities	£54,121
<p>Officer Responsible – Compliance Lead</p> <p>Work was delayed on two projects towards the end of the year; a cycle store and bin enclosure. Both are expected to complete early 2020/21.</p>	
Electrical Re-wiring – Communal	(£54,254)
<p>Officer Responsible – Compliance Lead</p> <p>Contractor made good pace on projects in Q4 before the pandemic, this accelerated the programme and therefore 2020/21 budget has been brought forward to cover additional costs in 2019/20.</p>	
Central Heating and Boiler Replacement Programme	£147,112
<p>Officer Responsible – Planned Works Lead</p> <p>Programme picked up significantly in Q4, as anticipated, however; this was impacted by COVID-19 in mid to late March.</p>	
Window Replacements	£251,614
<p>Officer Responsible – Planned Works Lead</p> <p>In-year delays were experienced as a consequence of re-designing the installation programme to align the window and door installations. By doing so, the Council has secured contract and installation efficiencies and ensured less disruption for our tenants. Products come from the same suppliers so we are securing budget efficiencies through procurement economies of scale.</p> <p>The programme is also aligned with the cyclical decorations budget so we actually carry out multiple component and elemental works to a property all in one go but the programme design has taken some time to resolve and set out. One significant further in year delay in programme delivery has occurred due to the need for a bat survey on the Flowerpot Lane Estate which meant that the programme of works was delayed by six months.</p>	
Extra Care Scheme	£585,012
<p>Officer Responsible – Service Lead – Housing Assets</p> <p>Following completion of the concrete frame of the Extra Care scheme an updated programme was issued by Kier (just before lockdown) which showed overall completion of the scheme including external works and highways works completing at the beginning of December 2020.</p> <p>The delay with the frame sub-contractor had slowed the cash flow against forecast,</p>	

but this was expected to be made up over the summer. Kier have continued to operate during lockdown, but at a reduced rate, and could be as much as 8 weeks behind the December date – it is difficult to predict completion at this time due to some continuing issues with materials and supply chain, as the lockdown eases further Kier have committed to produce an updated programme to reflect the current position.

Acquisition of Social Housing - Open Market	£132,926
--	-----------------

Service Lead – Housing Tenancy Services

The purpose of this budget is to allow the HRA to buy properties on the open market to increase the stock available for social housing in-line with asset management strategy.

Properties are identified throughout the year and offers are made, subject to approval under delegated authority. The timing of spend on this budget is therefore subject to properties coming on to the market that fall within strategy and the house purchase process.

Bovemoors Lane	£171,776
-----------------------	-----------------

Officer Responsible – Service Lead – Housing Assets

Slightly behind profile but good progress is being made on site, expected to be completed early 2021.

9. COUNCIL OWN BUILD FINAL ACCOUNTS TO 31 MARCH 2020

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. Key Variances from Budget

The 2019-20 year has ended with an overall net surplus of £11,383, which will be transferred to the COB working balance. This represents a decrease of £4,087 compared to the budgeted transfer to the working balance of £15,470. Please refer to Appendix 1 for more details.

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?

It is not permissible for the HRA to go into an overall financial deficit position, it is therefore important to ensure that an adequate level of HRA balances is maintained as a contingency against risks. The HRA resolve to retain a working balance at no less than £4 million to mitigate against financial risks.

The implications of COVID19 are yet to be fully established but additional service delivery costs have been experienced to date and a specific record is being kept of such activity.

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. 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.

14. Are there any other options?

No

DAVE HODGSON
Chief Finance Officer

Author:
Kayleigh Searle

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

Background papers used in compiling this report:

None

Contact for enquiries:
Democratic Services (Committees)
Room 4.36
(01392) 265275