

## **REPORT TO EXECUTIVE**

Date of Meeting: 6 April 2021

## **REPORT TO COUNCIL**

Date of Meeting: 20 April 2021

Report of: Director Finance

Title: 2020/21 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?**

To advise Members of the overall financial position of the HRA Revenue and Capital Budgets for the 2020/21 financial year after nine months.

In addition to the budgetary over/under-spends reported to this committee, Appendix 1 also highlights 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):

- (1) The HRA forecast financial position for 2020/21 financial year; and
- (2) 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. Members are presented with a quarterly financial update in respect of the HRA and this is the third update for 2020-21.

#### 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 2020/21 are set out in the body of this report.

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

#### 5. Section 151 Officer comments:

Members should note the projected outturn position for the HRA. This is a significant underspend, partly caused by a decision (by the section 151 Officer) to take advantage of the extremely low interest rates last year. As the majority of the expenditure is being carried forward, there is not a significant impact of the HRA medium term financial plan.

#### 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:

##### 8.1 Background to the HRA

The Housing Revenue Account (HRA) records expenditure and income relating to council housing 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. This includes tenancy management, repairs and maintenance, council house building and council house retrofits.

##### 8.2 Projected Surplus/Deficit

	£
<b>Approved Budgeted Deficit/ (Surplus)</b>	<b>3,321,605*</b>
Tenancy Services Restructure budget - Council approved 25 February 2020	<b>149,026</b>
Supplementary budgets – Council approved 21 July 2020	<b>657,040</b>

Emergency budget – Council approved 21 July 2020 (£nil impact on total surplus/deficit)	-
<b>Revised Budgeted Deficit</b>	<b>4,127,671</b>

*2020/21 Approved Budget Represented By	£
MANAGEMENT	1,108,135
TENANCY SERVICES	1,302,920
SUNDRY LANDS MAINTENANCE	573,830
REPAIR & MAINTENANCE PROGRAMME	6,785,570
REVENUE CONTRIB TO CAPITAL	5,246,550
CAPITAL CHARGES	3,513,540
HOUSING ASSETS	2,093,020
RENTS	(19,195,320)
INTEREST	1,893,360
MOVEMENT IN WORKING BALANCE	<b>(3,321,605)</b>
Net Cost	£nil

The approved budget was in a deficit position due to a large anticipated revenue contribution to capital in the year.

8.3 The budget variances, anticipated at quarter 3, indicate that there will be a net surplus of £1,952,138 in 2020/21 – See appendix 2. This represents a movement of £6,079,809 compared to the revised budgeted deficit of £4,127,671 for 2020/21. The key budget deviations are explained below.

Budget Heading	Forecast Outturn Budget Variance at Quarter 2 (Under)/Overspend	Forecast Outturn Budget Variance at Quarter 3 (Under)/Overspend
<b>Revenue Contribution to Capital</b>	<b>(£4,800,000)</b>	<b>(£5,246,550)</b>

**Officer Responsible: Service Lead – Housing Assets**

- The amount of revenue contributions required to finance the HRA Capital programme in 2020-21 has been reduced to £nil for 2020/21 and transferred to 2021-22.

A larger than anticipated portion of the 2020-21 capital programme has been funded by borrowing, due to the PWLB loan taken out in April 2020. Therefore,

less revenue contributions are required towards capital financing this year but the contribution is still required in future years.

Further deferral of the capital programme reported at Q3, means that no Revenue Contribution to Capital is required for 2020/21.

<b>Management Costs</b>	<b>£56,967</b>	<b>£25,559</b>
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**Officers Responsible:**  
**Service Lead – Housing Tenancy Services &**  
**Service Lead – Housing Assets**

- (£27k) Forecast savings in employee costs, due to recruitment delays as a result of COVID-19.
- £80k Forecast additional consultancy fees in relation to the implementation of the new housing IT system. Overspend is being met by a saving in employee costs across other areas of the HRA.
- (£57k) Forecast savings in tenant participation and liaison, in relation to conference/seminar budget, publications and leaflets budget and Community development project budget; all of which have been largely on hold during 2020/21 due to COVID-19, as well as a review of the tenant involvement strategy. £35k of this saving will be requested as a supplementary budget for 2021/22, in order to deliver the revised tenant involvement strategy, once approved by Council.
- £28k Forecast overspend on empty property charges, this is due to delays in re-letting properties. A review of this part of the service is currently underway.
- £2k Amalgamation of various forecast overspends in relation to COVID-19, including cost of letters to tenants, empty property charges and additional cleaning costs.

<b>Tenancy Services</b>	<b>(£34,926)</b>	<b>(£17,758)</b>
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**Officer Responsible:**  
**Service Lead – Housing Tenancy Services**

- (£50k) Savings in employee costs.
- £15k cost impact of lower than anticipated number of Right-to-Buy property sales in the year.
- £15k Forecast additional cleaning costs of sheltered accommodation due to COVID-19.
- £2k Amalgamation of various forecast over/(under)spends.

<b>Sundry Land Maintenance</b>	<b>£nil</b>	<b>(£188,380)</b>
<p><b>Officer Responsible:</b>  <b>Service Lead – Housing Tenancy Services &amp; Service Lead – Housing Assets</b></p> <ul style="list-style-type: none"> <li>• (£48k) forecast underspend on garden assistance, this is due to the service being on hold earlier in the year, during the first COVID-19 lockdown.</li> <li>• (£140k) forecast underspend on trees works. 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 any underspend on this budget into 2021-22.</li> </ul>		
<b>Repair &amp; Maintenance Programme</b>	<b>(£610,136)</b>	<b>(£1,103,436)</b>
<p><b>Officer Responsible: Service Lead – Housing Assets</b></p> <ul style="list-style-type: none"> <li>• (£477k) forecast underspend on low maintenance and painting, this is due to interruption of works during COVID-19 lockdown.</li> <li>• (£75k) forecast underspend on re-pointing. The emerging retrofit programme, details of which will be shared with members in due course, is having a positive impact on previously planned general maintenance and spend areas need to be rearranged/re profiled accordingly. Savings identified here will be used to compensate against revenue overspends elsewhere.</li> <li>• (£40k) forecast underspend on Legionella testing. Testing has not been possible due to COVID-19 closures. Testing did start again in Q3 and therefore the reported saving is now less than reported at Q2 stage.</li> <li>• (£130k) forecast underspend on gas &amp; central heating servicing. This is largely due to efficiencies emerging from the new Liberty contract, that started in 2019/20 and new boiler installs successfully reducing the number of call-outs.</li> <li>• (£103k) forecast underspend in decorations for older and vulnerable people. Due to COVID-19 access to carry out these works has not been possible.</li> <li>• (£180k) forecast underspend on asbestos surveys and removals. This work has been delayed as it is tied to the kitchens &amp; bathrooms replacement programme, which has been delayed due to COVID-19.</li> <li>• (£80k) forecast underspend on communal decorations, this programme was on hold for the majority of the year due to COVID-19.</li> </ul>		

- £18k amalgamation of various minor forecast under and overspends, largely COVID-19 related.
- The response repairs and various service contracts have started to catch-up following the disruptions in the early part of the year, assurances have been obtained from contractors where necessary. There has been a further impact, but to a lesser extent, of the third lockdown that started in Q3.

<b>Housing Assets</b>	<b>£158,761</b>	<b>£288,928</b>
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**Officer Responsible: Service Lead – Housing Assets**

- £134k Forecast overspend in employee costs. Because senior officers have had to focus on COVID-19 work, this has caused a delay to recruitment. The impact of this has been calculated to the end of the financial year. The recruitment process resumed in August-20 and a 3-step plan is now in place to recruit to all positions, currently filled by agency staff, before March-21.
- £40k Forecast overspend in tenant decant costs. The budget overspend position has arisen due to the delayed progress (due to the COVID pandemic) of the Laings development resulting in costs being incurred during 2020/21 rather than 2019/20, and a number of major works projects which were not anticipated at the commencement of the year. The position regarding future year's budget for this area of cost will be re-evaluated and revised as required.
- £101k Forecast overspend on consultancy fee. £48k in relation to the implementation of the new housing assets integrated contract and £34k in relation to low carbon works, these works have been accelerated during the year, working towards the Council's commitment to carbon neutral by 2030. The further £19k overspend is in relation to housing development consultancy works.
- £14k amalgamation of various minor forecast over and underspends.

<b>Rents</b>	<b>£nil</b>	<b>£nil</b>
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**Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead Revenues, Benefits and Customer Access**

- The rents for 2020-21 were reviewed as part of the COVID-19 Emergency budget. The anticipated fall in rents of £824k is therefore already built in to the approved budget. Rent collection and arrears are monitored regularly and at Q3 stage the rent collected is slightly ahead of profile but no significant variance to budget is deemed necessary to report, at this stage because of the volatility in this area.

<b>Interest</b>	<b>£161,828</b>	<b>£161,828</b>
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**Officer Responsible: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets**

- Reflects the actual interest cost of the new PWLB loan taken out for the HRA in April 2020, this will be used to fund the next wave of Council property developments. The loan was agreed earlier than originally anticipated in order to benefit from the low interest rate offered at the time. This has reduced the cost to the HRA over the life of the loan.
- This also reflects the lower anticipated interest receivable by the HRA. Interest rates received on investments have fallen significantly since the start of the year and the impact of this will be reflected in the interest earned on HRA balances.

<b>Total budget (underspend)/overspend</b>	(£5,068,944)	(£6,079,809)
<b>Projected HRA deficit / (surplus)</b>	<b>(941,273)</b>	<b>(1,952,138)</b>

#### 8.4 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 2021, is set out below:

<b>Movement</b>	<b>2020/21</b>
Opening HRA Working Balance, as at 1 April 2020	£10,239,475
Forecast surplus for 2020/21	£1,952,138
Balance resolved to be retained (HRA contingency)	(£4,000,000)
<b>Balance Available, as at 31 March 2021</b>	<b>£8,191,613</b>

#### 8.5 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 2024/25.

The forecast total available resources has increased by £60k since last reported, as part of the 2021/22 estimates, this is largely due to additional capital receipts expected in 2021/22.

The additional £1 million of revenue underspend identified in section 8.3 above has had little impact on the overall Medium term financial plan (MTFP) working balance. This is because; £446k of the additional saving is revenue contribution to capital that will be required in future years, £195k is expected to be requested as supplementary budgets at year end to be carried forward to future years and £423k of the additional Q3 savings were already identified as part of the 2021/22 budget setting process.

## 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 £15.36 million from the PWLB to support the social housing programme and therefore took advantage of the discounted rate.

The HRA currently has approval to borrow a further £6.9m, this will likely be required in the next 12 to 24 months.

## 8.7 HRA Capital Programme

The 2020-21 HRA Capital Programme was last reported to Council on 20 October 2020. Since that meeting the following changes have been made that have decreased the 2020/21 programme.

Description	2020/21	Approval / Funding
<b>HRA Capital Programme</b>	<b>£27,792,577</b>	
Budgets deferred to future financial years	(£2,636,772)	Council – 15 December 2020

<b>Revised HRA Capital Programme</b>	<b>25,155,805</b>	
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### 8.8 Performance

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £21,912,515 compared to the £25,155,805 approved programme; a reduction of £3,242,290 which has deferred into future years and £1,000 identified savings.

### 8.9 Capital Budget Variances

The details of key (greater than +/- £50k) variances from budget are set out below. In the main this has been due to access issues as a result of COVID-19.

#### Schemes to be deferred to 2021/22 and beyond

Schemes which have been identified as being wholly or partly deferred to 2021/22 and beyond are:

<b>Scheme</b>	<b>Budget deferred to/(brought forward from) future years</b>
<b>Bathroom Replacement Programme</b>	<b>£645,000</b>
<b>Kitchen Replacement Programme</b>	<b>£665,000</b>
<p><b>Officer Responsible – Planned Works Lead</b></p> <p>The kitchens and bathroom contract has now been awarded but works have been delayed due to access issues caused by COVID-19. This has resulted in a large portion of the 2020/21 budget being deferred into future years.</p>	
<b>Fire Risk Assessment Works</b>	<b>£100,000</b>
<p><b>Officer Responsible – Planned Works Lead</b></p> <p>The planned works programme has been largely on-hold for the start of the year, during the COVID-19 lockdown period.</p> <p>The planned works and compliance teams have worked together with external contractors to review and update work programmes for the rest of the year, this has resulted in the above anticipated budget movements into next year. All work has been prioritised to ensure full delivery of fire risk assessment responsibilities.</p>	
<b>Door replacements</b>	<b>£90,274</b>

<b>Window replacements</b>	<b>£100,000</b>
<p><b>Officer Responsible – Planned Works Lead</b></p> <p>The window and door replacement programme works together, there have been small delays in this area in Q3 and therefore further budget has been carried forward to future years.</p>	
<b>Structural Repairs</b>	<b>(£100,000)</b>
<p><b>Officer Responsible – Planned Works Lead</b></p> <p>There have been additional structural works this year in relation to carbon reduction, including cavity wall and external wall works. Budget has been brought forward from future years to accommodate this additional spend.</p>	
<b>Lift Upgrades</b>	<b>£80,000</b>
<p><b>Officer Responsible – Compliance Lead</b></p> <p>There have been delays at the procurement stage of this project – in identifying the best procurement option in terms of route to market and agreeing the specification of works. We now have a detailed procurement timetable which will enable us to commence work later in 2021 – commencement of the Contract is scheduled for August 2021. The lifts are all located in older persons’ developments but whilst there are occasional breakdowns, we have been able to respond to and remedy faults as they arise.</p>	
<b>Energiesprong - Zebcat</b>	<b>£80,000</b>
<p><b>Officer Responsible – Planned Works Lead</b></p> <p>The contractors have reported that there have been delayed in the supply of materials for this project due to COVID-19 lockdown. It is expected that this project will be finished early in 2021-22.</p>	
<b>Edward’s Court Extracare Scheme</b>	<b>£350,000</b>
<p><b>Officer Responsible – Service Lead – Housing Assets</b></p> <p>Kier are suffering delays due to COVID and are struggling to get enough labour on site due to shortages and social distancing issues. The building is due for final completion in June/July 2021.</p>	
<b>Rennes House</b>	<b>£450,000</b>

<p><b>Officer Responsible – Service Lead – Housing Assets</b></p> <p>An update report is due to go to members with a view to start work in 2021/22, expecting the work to then commence in 2021/22.</p>	
<b>Hamlin Gardens</b>	<b>£350,000</b>
<p><b>Officer Responsible – Service Lead – Housing Assets</b></p> <p>Exeter City Living report that the scheme start date has been delayed due to liaison with SWW and WPD over works required to the site and finalising legal agreements. SWW will start their works in early Feb, with the main contractor starting works in March.</p>	
<b>Vaughan Road</b>	<b>£500,000</b>
<p><b>Officer Responsible – Service Lead – Housing Assets</b></p> <p>There is a delay to the start of this project, the Council is in discussions with Exeter City Living to move this forward in early 2021/22.</p>	

## 9 COUNCIL OWN BUILD FINAL ACCOUNTS TO 31 MARCH 2021

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

There are no projected variances to report at the end of Quarter 3. The budgeted net surplus of £15,470 is still projected to be achieved during 2020/21.

## 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?

For clarity, these are specific financial risks, alongside the risks captured in the corporate risk register.

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 full implications of COVID 19 are yet to be fully established but additional service delivery costs have been experienced to date and this is set to continue, a specific record is being kept of such activity.

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. Many of the revisions referred to in the report relate to the establishment of the Council's Carbon Neutrality Plan and the target to achieve carbon neutrality by 2030 for all council housing properties.

## **13. Are there any other options?**

None.

**Director Finance, Dave Hodgson**

Author: Kayleigh Searle

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

Background papers used in compiling this report:-

None

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