



Cabinet

21 July 2021

Report of: Councillor Ronnie de Burle -
Portfolio Holder for Corporate
Finance and Resources

Housing Revenue Account 2020-21 Provisional Year End Position

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|--|--|
| Corporate Priority: | Providing high quality council homes and landlord services Ensuring the right conditions to support delivery (inward) |
| Relevant Ward Member(s): | All |
| Date of consultation with Ward Member(s): | N/A |
| Exempt Information: | No |
| Key Decision: | No |
| Subject to call-in: | No Not key decision |

1 Summary

1.1 Since the adoption of the Housing Improvement Plan in 2019, the Council has rebuilt tenancy management and housing asset structures and established several new policies. Significant progress is being made and regularly reported to the Housing Improvement Board. In that context, this report sets out the provisional year end position for the Housing Revenue Account (HRA), subject to external audit approval, for 2020-21 and provides information on the Council's balances and reserves. The provisional revenue outturn shows an underspend against the approved budget of £1,021k with £100k being carried forward into 2021-22. The significant underspend is mainly attributable to reduced operations as a result of the lockdown arising from Covid. The reserves will increase by a net £1,319k as a result consisting of the underspend plus the additional amount to bring the working balance back to the approved limit. There is considerable underspend with regard to the capital budget largely due to delays in work undertaken because of the pandemic, this is being carried forward into 2021-22. However, it should be recognised that significant capital works programmes were commenced during the most challenging of circumstances. The final position is still subject to external audit approval for 2020-21.

2 Recommendation

That Cabinet:

2.1 Notes the provisional year end position, variations to the 2020-21 approved year end position and the resultant effect on the Council's balances and reserves for the HRA as set out below and in the attached papers for both revenue and capital.

3 Reason for Recommendations

- 3.1 It is important that Cabinet are aware of the financial position of the HRA in order to ensure they can make informed decisions that are affordable and financially sustainable for the HRA and the links to the business plan.

4 Background

- 4.1 In November 2019 Council adopted the Housing Improvement Plan (HIP) in order to address resourcing issues, manage health & safety obligations and deliver a step change within the housing and landlord service; ensuring it could effectively manage and maintain its one thousand eight hundred units of housing stock. This was further reinforced in the Corporate Strategy Priority 2, adopted in September 2020; "Providing high quality council homes and landlord services."
- 4.2 The HRA is a large and complex budget; as such it is monitored on a monthly basis as a key service. The operation of the HRA is governed by the Local Government and Housing Act 1989 and one of the key requirements is that the Council will produce and publish an annual budget for the HRA which avoids a deficit; and that the Council has a duty to review, and if necessary, revise that budget from time to time. If it appears that the HRA is heading for a deficit then all reasonable and practicable steps must be taken to avoid a deficit at the year end.

5 Main Considerations

- 5.1 The figures shown in Appendix 1, and summarised in the table below, compare the provisional year end position for 2020-21 to the original estimate set in February 2020 and the approved estimate (the original estimate as adjusted by supplementary estimates, virements and budget reductions authorised during the financial year). The approved estimate is the authorised budget for spending purposes. The report also shows the resultant effect on the working balance of the HRA (line 50) and reasons for major budget variations. It should be recognised, however, that the figures are still subject to external audit certification.

5.2 A summary of appendix 1 is shown below:

2020-21

| | Approved Budget £ | Estimated Year End Position £ | Variance £ |
|--|-------------------------|-------------------------------------|-------------------|
| Expenditure | 7,275,590 | 6,103,822 | -1,171,768 |
| Income | -7,712,760 | -7,605,193 | 107,567 |
| Net Interest Charges | 1,079,960 | 1,061,342 | -18,618 |
| Revenue Contribution to Capital | 268,050 | 328,996 | 60,946 |
| Total Expenditure | 910,840 | -111,033 | -1,021,873 |
| Contribution to/from(-) Reserves | -336,700 | 111,033 | 447,733 |
| In Year Surplus(-)/Deficit | 574,140 | 0 | -574,140 |
| Working balance B/fwd | -1,720,860 | -1,720,860 | 0 |
| Additional Contribution to/from(-) reserves to set working balance to £750k | 0 | 970,860 | 970,860 |
| Working balance C/fwd | -1,146,720 | -750,000 | 396,720 |

5.3 The provisional year end position shows an actual surplus of income over expenditure of £111,033 at “Total Expenditure” level, being an underspend of £1,021,873 against the approved budget deficit of £910,840. The Total Expenditure is the Net Operating Expenditure at line 43 on Appendix 1 plus the Revenue contribution to Capital amount at line 44. There are a number of budget variances that make up this underspend and as part of the budget monitoring and review process all budget holders have been requested to provide reasons for significant variations against their latest approved budget on individual service accounts. The details for which are outlined in Appendix 1 attached and for any variances in excess of £10k further comments have been included in line with financial protocols. However, the main ones to note are:

- 5.3.1 General Management £84k underspend, whilst we rebuild and strengthen the service some of our vacancies and roles have been challenging to fill and not fully off-set by agency fees. A reduced valuation fee following the procurement of this new contract and inability to incur court fees during the pandemic have also contributed to the underspend. Partially offset by higher and longer voids incurring Council Tax.
- 5.3.2 Special Services £134k underspend due to budgeting for full establishment whilst vacancies were being filled for key roles, emergency works only carried out for 5 months of the year on contract works due to Covid restrictions and reduced requirement for food supplies during the pandemic as no lunch clubs held for non-residents.
- 5.3.3 Repairs & Maintenance £865k underspend, as the Council rebuilds and strengthens the service any underspends arising from some vacant posts have not been fully offset by agency costs. In response to Covid the Council, like most, reduced the service offering to emergency only levels for 5 months; asbestos surveying was also being undertaken reactively. The Council’s planned stock condition surveys were not commenced in 2020-21

but are now in progress. There is a carry forward from this 2020-21 budget towards the stock condition surveys in 2021-22 of £100k.

- 5.3.4 Income shortfall of £108k due in part to higher and longer void property rates. The increase in void times is a combination of the impact of Covid reducing the number of operatives able to safely work together in a property combined with the poor decency standards of properties returned to us. Our increased operational focus on voids is enabling us to continuously improve our performance with monthly updates being circulated to all members. The removal of previously approved and budgeted Health & Safety charges and the pandemic affecting the meals (non-resident lunch clubs) and a reduction in car parking income. Few write-offs were completed in the year and there was an overall reduction in the age and size of current tenants' debts following the more targeted work with tenants on reducing their arrears balances.
- 5.3.5 The actual contribution to reserves against the budgeted contribution from reserves reflects the underspends noted above and as approved in February 2020 a further contribution sets the HRA working balance to £750k. As a result, the reserves will be £1,318k higher as a result of the underspend less the carry forward plus the additional amount to bring the working balance back to its approved limit.
- 5.3.6 There have been no significant changes to the accounting requirements of the HRA accounts in 2020-21.

5.4 Housing Improvement Plan

Significant work has continued through-out 2020-21 with the stock condition work commencing in June 2021 and so carry forwards of £100k will be taken into 2021-22, funded from the Regeneration & Development Reserve to ensure that this valuable work can continue.

5.5 Balances

- 5.5.1 The updated actual and estimated reserves position following the final amount of carry forwards at the end of each financial year is noted below:

| HRA Balances: | 2020-21 Actual £'000 | 2021-22 Estimate £'000 | 2022-23 Estimate £'000 | 2023-24 Estimate £'000 | 2024-25 Estimate £'000 |
|--|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| HRA Working Balance | 750 | 750 | 750 | 750 | 750 |
| Major Repairs Reserve | 2,872 | 1,363 | 857 | 799 | 697 |
| Regeneration & Development Reserve | 5,605 | 4,516 | 4,128 | 3,426 | 3,009 |
| Capital Receipts Reserve | 3,728 | 1,509 | 213 | 532 | 865 |
| Total HRA Balances | 12,955 | 8,138 | 5,948 | 5,507 | 5,321 |
| Estimated balances at budget setting 2021-22 (including working balance) | 10,130 | 7,710 | 5,559 | 5,157 | N/A |
| Difference | 2,825 | 428 | 389 | 350 | N/A |

5.5.2 The significant difference in 2021-21 is due to the underspends on the revenue and capital as noted above, with the superseded HIP works, as noted in appendix 1 line 17, underspend carrying on into the future years.

5.5.3 It should be noted that the updated HRA Business Plan, due for completion by April 2022, will inform and update these estimates and so they are subject to change when the work on the asset condition surveys and business planning work is complete, as expected later this year.

5.6 Capital Provisional Year End Position

5.6.1 In relation to the HRA capital programme against the budget of £4,832k, the provisional outturn is at £2,453 resulting in an underspend of £2,379k, of which £2,396k will be carried forward into 2021-22. The capitalisation of salaries has overspent by £25k in the year causing this anomaly as more time has been spent on capital projects by officers.

5.6.2 Appendix 2 provides an overview of the main variances, the larger of which are summarised in the table below:

| Project | Budget £'000 | Underspend £'000 | Amount To Carry Forward To 21-22 | Reason |
|------------------------------------|-----------------|---------------------|--|---|
| Aids & Adaptations | 250 | 118 | 118 | Some works ordered not complete due to Covid and will be done in 2021-22 |
| Replace Exterior Doors & Windows | 194 | 108 | 108 | Properties committed on current programme to be completed next year |
| Rewire Council Properties | 445 | 333 | 333 | On going works as part of contract |
| Fire Safety & Fire Risk Assessment | 1,306 | 692 | 692 | Some work has progressed however during the first half of the year no works were done due to Covid_19. The majority of the enabling work has been completed and now works can start to be done as we have a contractual obligation to deliver works. There are however, electrical supply issues at present |

| Project | Budget £'000 | Underspend | Project | Budget £'000 |
|---|--------------|------------|---------|---|
| Affordable Housing (Use Of Right To Buy Monies) | 1,129 | 265 | 265 | Programme of Affordable Housing to continue in 21-22 and any underspend to be carried forward to ensure MBC meet commitment |
| Scooter Pods | 259 | 253 | 253 | There has only been a small commitment on pod storage and consultancy this year. The delay is due to electrical supply problem and the process of consultation. Tenders have now been received for this project and a start date to be agreed shortly |
| Energy Efficiency | 100 | 100 | 100 | There has been no expenditure on this in this financial year however there is a commitment to spend to secure the grant funding of £340K which must be spent by 30/9/2021 |
| Replacement Windows | 156 | 156 | 156 | Programme to continue in 21-22 |

6 Options Considered

6.1 No other options considered as, if the report was not provided, Councillors would not be aware of on-going developments and therefore would not be able to represent their residents effectively.

7 Consultation

7.1 The Statement of Accounts (subject to audit) which includes the HRA revenue out-turn position will be advertised from 1 August to 12 September 2021 as available for public inspection on the website and the auditors available to answer questions.

7.2 TFEC members were made aware of the contents of this report at their meeting of 19 July 2021.

8 Next Steps – Implementation and Communication

- 8.1 External audit will be undertaking their independent assessment of the Council's financial statement position and accounts production as part of the statutory duties through the audit taking place later in the year.
- 8.2 The out-turn as part of the audited statement of accounts will be considered by the Audit and Standards Committee at its meeting of 28 September 2021 subject to the timely completion of the audit work which has not yet been timetabled.

9 Financial Implications

- 9.1 All financial implications have been addressed in paragraph 4 to this report.
- 9.2 The Council has been closely monitoring the financial impact of COVID-19 in term of both additional expenditure incurred and income shortfalls. No additional funding has been allocated to HRA services from the government against estimated additional costs of £4k and income shortfall of £114k on rents (£86k), car parking (£12k) and meals (£16k).

Financial Implications reviewed by: Dawn Garton, Director for Corporate Services

10 Legal and Governance Implications

- 10.1 The HRA is framed by the Local Government and Housing Act 1989. The Act created the ring-fence and the structure within which the HRA operates and provides rules as to its operation. There are no legal implications arising from this report.

Legal Implications reviewed by: Kieran Stockley, Monitoring Officer

11 Equality and Safeguarding Implications

- 11.1 Equalities and safeguarding issues were addressed in setting the current year's budget. There are no further issues arising from this report.

12 Community Safety Implications

- 12.1 Community safety issues were addressed in setting the current year's budget. There are no further issues arising from this report.

13 Environmental and Climate Change Implications

- 13.1 No implications have been identified.

14 Other Implications (where significant)

- 14.1 No other implications have been identified.

15 Risk & Mitigation

The HRA is a high risk service account that the Council has a duty under the Local Government and Housing Act 1989 to ensure that it avoids being in a deficit situation. This requires that effective budget monitoring procedures are set in place to monitor HRA expenditure and income against the budget and careful consideration is given to determining the level of the working balance.

| Risk No | Risk Description | Likelihood | Impact | Risk |
|---------|---|-------------|----------|-------------|
| 1 | Repairs to overspend against budget in future years, due to low spend in previous years | Significant | Critical | Medium Risk |
| 2 | Economic climate, COVID-19 and welfare reform changes cause hardship on tenants causing higher levels of rent arrears and reduced collection performance | High | Critical | High Risk |
| 3 | Future budgets are insufficient including costs associated with delivering improvements required from the health & safety risk assessments as a result of the HRA business plan being out of date and needing to be refreshed | Significant | Critical | Medium Risk |
| 4 | Increasing right to buy sales over those budgeted for cause reductions to rent income streams | High | Marginal | Medium Risk |
| 5 | Ability to cleanse repairs commitments from Northgate Housing System | Significant | Critical | Medium Risk |

| | | Impact / Consequences | | | |
|------------|---------------------|-----------------------|----------|----------|--------------|
| | | Negligible | Marginal | Critical | Catastrophic |
| Likelihood | Score/ definition | 1 | 2 | 3 | 4 |
| | 6 Very High | | | | |
| | 5 High | | 4 | 2 | |
| | 4 Significant | | | 1,3,5 | |
| | 3 Low | | | | |
| | 2 Very Low | | | | |
| | 1 Almost impossible | | | | |

16 Background Papers

16.1 None

17 Appendices

17.1 Appendix 1 – HRA Provisional Year End Position

17.2 Appendix 2 – HRA Capital Provisional Year End Position

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