



Cabinet

15 July 2020

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

Housing Revenue Account 2019-20 Provisional Year End Position

Corporate Priority:	OG3 Becoming a more agile & commercial Council; securing our financial future
Relevant Ward Member(s):	All
Date of consultation with Ward Member(s):	
Exempt Information:	No
Key Decision:	No
Subject to call-in:	No Not key decision

1 Summary

1.1 To provide Members with information on the provisional year end for the Housing Revenue Account (HRA) and provide information on the implications of the Councils balances and reserves. The provisional year end position shows an actual deficit of income over expenditure of £176k. The final position is still subject to external audit approval for 2019-20.

2 Recommendations

2.1 That Cabinet notes the provisional year end position, variations to the 2019-20 estimated 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 paper.

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 The HRA budget is a complex and large 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 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 position at the year end.
- 4.2 The figures shown in Appendix 1 compare the provisional year end position for 2019-20 to the original estimate set in February 2019 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 49) and reasons for major budget variations. It should be recognised, however, that the figures are still subject to external audit certification.
- 4.3 The provisional year end position shows an actual deficit of income over expenditure of £176,190 (line 46); an underspend of £496,400 against the approved budgeted deficit of £672,590 (line 46) and a resulting working balance of £1,720,860. 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 those in excess of £10k have been commented on in line with financial protocols. However the main ones to note are:
- a) **Staffing** - due to vacancies and staffing changes across the Council during the year a number of services have seen an underspend (£57k).
 - b) **Repairs and Maintenance** – An outstanding contractor invoice was over-estimated resulting in a significant underspend, also asbestos survey works were reduced while work on the HIP was prioritised (£149k).
 - c) **Investment Income** - income from interest received was higher than anticipated as a result of greater returns achieved from Treasury Management activities as a result of higher balances than originally estimated (£78k).
 - d) **Bad Debt Provision** - Following a similar review of the previous bad debt provision calculations as in the previous year, the lower arrears figures resulted in a reduction to the provision required (£49k).
- 4.4 There have been no significant changes to the accounting requirements of the HRA accounts in 2019-20.
- 4.5 **Housing Improvement Plan**

In November 2019 Council adopted the Housing Improvement Plan (HIP) in order to address current resourcing issues, manage health and safety obligations and to deliver a step change within the housing and landlord service to enable the Council to effectively manage and maintain its housing stock.

Work has been continuing through the financial year and will continue into the new financial year. On this basis a number of carry forwards into 2020-21 were included for the HRA to ensure that the resources for this project continue to be made available. Therefore the total surplus on the HRA working balance and the total in the Regeneration

& Development Reserve at 31.3.20 will reduce in 2020-21 by the final amount of carry forwards approved.

The updated actual and estimated HRA reserves position following the final amount of revenue carry forwards at the end of each financial year is noted below.

HRA Balances:	2019-20 Actual £'000	2020-21 Estimate £'000	2021-22 Estimate £'000	2022-23 Estimate £'000	2023-24 Estimate £'000
HRA Working Balance	1,720	750	750	750	750
Major Repairs Reserve	2,609	2,186	1,899	1,633	1,580
Regeneration & Development Reserve	4,627	4,419	4,461	4,341	4,374
Capital Receipts Reserve	4,458	2,508	1,203	395	395
Total HRA Balances	13,414	9,863	8,313	7,119	7,099

5 Main Considerations

5.1 Considerations have been addressed in paragraph 4 to this report.

6 Options Considered

6.1 No other options considered as If the report was not provided councillors would not be aware of ongoing 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 has been advertised from 1st July to 11th August 2020 as available for public inspection on the website and the auditors available to answer questions.

7.2 In early July TFEC members were made aware of the current budget position through this report.

8 Next Steps – Implementation and Communication

8.1 The provisional out-turn as part of the draft statement of accounts will be considered by the Audit and Standards Committee at its meeting on the 29th September.

8.2 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 process taking place during August 2020.

9 Financial Implications

9.1 As outlined in paragraph 4.3 the deficit of £176,190 has resulted in a working balance of £1,720,860 which is above the target working balance of £750k as set as part of the

budget planning framework for 2019-20. The net final carry forwards requested total £99,680 which will further reduce the working balance in 2020-21. The working balance in 2020-21 is set at £750k and so the amount of carry forwards will reduce the contribution to the Regeneration & Development Reserve to maintain that working balance.

9.2 As part of the year end closedown there was a budgeted contribution of £755,910 to the Regeneration & Development Reserve, as well as £267,167 contributed from this reserve, to support the HIP projects, which after taking into account funding of the capital programme results in a year end balance of £4,627,453. However £321,070 is the final requested carry forward from this reserve which will reduce the balance in 2020-21 accordingly.

9.3 There is also £2,609,246 in the Major Repairs Reserve which will help fund future capital investment as noted in the recently refreshed short-term business plan.

9.4 The HRA balances as adjusted for the carry forwards compare to those reported for the interim business plan are as follows:

HRA Balances:	2019-20 Actual £'000	2020-21 Estimate £'000	2021-22 Estimate £'000	2022-23 Estimate £'000	2023-24 Estimate £'000
Total HRA Balances as per Interim Business Plan	11,693	8,906	7,432	6,313	6,368
Total HRA Balances as adjusted for carry forwards	13,414	9,517	7,967	6,773	6,753
Variance	1,721	611	535	460	385

The capital carry forward requests for £346k over various projects and funds, have also now been included in the estimated balances as above. The significant change in the 2019-20 figures include the underspend and carry forward requirements as noted above, also higher capital receipts following higher than budgeted RTB sales and the estimated year end position as reported in the interim business plan report included a further revenue spend of £239k which did not materialise due to the over-estimated invoice noted in 3.3.

9.5 The council is monitoring closely the financial impact of COVID-19 in terms of both additional expenditure being incurred and income shortfalls. To date the extra funding provided by Government is unlikely to meet the full impact of this and without further government support the Council is likely to have to call on reserves to balance the 2020-21 budget. Latest estimates indicate a potential unfunded financial impact of circa £80k on the HRA mainly relating to reduction in rent through a potential increase in void rates, additional staffing costs and PPE requirements in combating COVID-19.

Financial Implications reviewed by: 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 ringfence and the structure within which the HRA operates and provides rules as to its operation.

Legal Implications reviewed by: Director for Governance and Regulatory Services

11 Equality and Safeguarding Implications

- 11.1 Equalities & Safeguarding issues were addressed in setting the current years budget. There are no further equalities issues arising from this report.

12 Community Safety Implications

- 12.1 Community safety issues were addressed in setting the current years budget. There are no further community safety 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 recent health and 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

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

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