

REPORT TO: CABINET

DATE: 9 SEPTEMBER 2021

TITLE: HOUSING REVENUE ACCOUNT, QUARTER 1
FINANCE REPORT 2021/22

PORTFOLIO HOLDERS: COUNCILLOR RUSSELL PERRIN, PORTFOLIO
HOLDER FOR FINANCE AND GOVERNANCE

COUNCILLOR SIMON CARTER, PORTFOLIO
HOLDER FOR HOUSING

LEAD OFFICERS: SIMON FREEMAN, HEAD OF FINANCE AND
PROPERTY AND DEPUTY TO THE CHIEF
EXECUTIVE (01279) 446228

ANDREW MURRAY, HEAD OF HOUSING
(01279) 446676

CONTRIBUTING OFFICERS: SENIOR MANAGEMENT BOARD

This is not a Key Decision

It is on the Forward Plan as Decision Number 1012609

The decision is not subject to Call-in Procedures for the following reason:

The recommendations are within the scope of the budget approved by Full Council in January 2021

This decision will affect no ward specifically.

RECOMMENDED that Cabinet notes:

- A** The Quarter 1 – Housing Revenue Account (HRA) Budget Monitoring report as set out in the following paragraphs and in Appendix 1 and 2.
- B** That the forecast HRA general working balance as at 31 March 2022 will be £3,246 million.
- C** The recent changes made to the use of retained Right to Buy (RTB) receipts and the balance of £7.067 million of retained RTB receipts held as at 31 March 2021 in order to finance the new build capital programme.

REASON FOR THE DECISION

- A** The report compares the original budget plus carry forwards with actual income and expenditure as at 30 June 2021 and following consultation with budget managers forecasts the projected outturn at year end This comparison identifies operational variations and this report provides explanations for the variances
- B** In March 2021 the Ministry of Housing, Communities and Local Government (MHCLG) announced changes to the restrictions on the use of Right to Buy

(RTB) receipts. Previously, the number of sales and the availability of receipts were reported quarterly. However, with effect from 1 April 2021 sales and the proceeds of the sales are reported annually which is to be welcomed, but makes the available receipts less certain when planning new build schemes.

BACKGROUND

1. In January 2021 Cabinet approved the 2021/22 HRA Budget together with the capital programme. The original budget deficit of £3.486 has increased to £12.552 million, including approved carry forwards and increased Direct Revenue Financing to fund the delayed 2020/21 capital schemes. This budget was prepared following consultation with budget managers and in conjunction with the HRA 30 year business plan and the medium term financial strategy. The business plan is due to be updated in 2021/22.

ISSUES/PROPOSALS

2. Set out in Appendix 1 is the Quarter 1 HRA budget monitoring report which summarises all the significant variations between the current budget and the projected outturn. The variations amounts to a forecast underspend of £0.445 million. When the increased Direct Revenue Financing is included this will result in a total annual deficit of £12.997 million. Appendix 2 provides a further breakdown of these variations and more detailed explanations which can be summarised as follows;
3. Following the Government's four step "Road Map" published in March 2021, a Road map for council services and activities reopening was produced. The Council has produced a Road map to drive recovery of the Housing work streams following the easing of restrictions. During the lockdowns, the Council has taken government advice into account at each stage and has reviewed services to safely deliver and to limit any risk of spreading the virus to residents, operatives, and council staff. The Housing Recovery Plans build on the necessary service changes already implemented and seek to establish a strong service recovery

Expenditure – Operational

General Management

4. There is a minor overspend of £7k at this early stage. It is anticipated that last year's employee costs underspend will not be repeated, as recruitment commences for the reorganisation of Housing Property Services, Technical Services and Asset Management teams.

Repairs and Maintenance

5. A comparison of work in progress for responsive repairs in June 2021 illustrates a reduction in outstanding backlog/Work In Progress (WIP). HTS (Property and Environment) Ltd continues to carry out an in-depth analysis of the jobs included in WIP and have made significant progress. It is anticipated that the backlog of

standard priority jobs will take a further two to four months to clear. This will be monitored through the performance management processes.

6. Planned priority works are of a less urgent nature and HTS (Property and Environment) Ltd have developed a two tier phased plan. It is anticipated that the back log of planned works will take in the region of twelve months to clear.

Impairment Allowance (Provision for Bad Debts)

7. Collection rates for rents and service charges have improved in quarter 1 of 2021, by 3.11 per cent, and are above forecasts when benchmarked against the previous year's profiles. The latest data for quarter one shows that the total cases in arrears have increased slightly by 0.40 per cent, however there has been a decrease in serious arrears cases over £1,000 by 27.55 per cent and a slight decrease in cases over £2,000 by 4.46 per cent, compared to 2020/21. There has however been an increase of 19.34 per cent in Universal Credit applications which are taking time to process.
8. Whilst cases are still progressing through the judicial system, court hearings are still taking in excess of 12 weeks before an initial court review hearing is heard, with further delays experienced while awaiting a date for the substantive hearing to take place. Historic former tenants arrears totalling £28,000 has been written off. The current budget provision for bad debts is £357,000 and is being closely monitored

Direct Revenue Financing

9. Cabinet approved the £12.6 million carry forward of the Housing Capital Programme (HCP) into 2021/22. When the re-profiled schemes are added to the original capital programme the current HCP programme is £38.923 million
10. In order to finance the whole programme it is estimated that there would have to be a direct revenue financing contribution of £14.437 million from the HRA.

Income – Operational

Dwelling Rents and Void Properties

11. Due to the Covid-19 restrictions it has not been possible to let out the properties as quickly as previously forecast which is resulting in the adverse variance.
12. During Quarter 1, there were on average 197 empty properties which are significantly higher than previous year's profiles. There has also been an increase in turnaround time to 45 days due to Covid-19 safety requirements from previous year's profiles which will also have an impact on rental income. Void estimates therefore were understated in the revenue estimates in Jan 21 where the actual void loss was below 1.5 per cent whereas in Quarter 1 it is actually 2.17 per cent for the reasons set out above

13. The recovery plan forecasts the level of voids to reduce to around 115 which is the target contained in the HRA Business Plan by the end of financial year.

Tenants and Leaseholders Service Charges

14. At the beginning of the year tenant and leaseholders have been charged for the services that they have received based on estimates. In addition, leaseholders are also charged for work delivered under the External Works programmes. All leaseholders have been sent estimated invoices at the beginning of the financial year and tenants have had their accounts charged each week. At the end of Quarter 1 the target collection rate was 22 per cent, while the actual was 32.73 per cent. Therefore the target has been exceeded. However for 2020/21 the collection rate target was exceeded by a small margin. Therefore at this early stage, it is too soon to increase the forecast service charge income.

Transfers from the General Fund

15. The favourable variance is in respect of the 2021/22 HTS distribution of profits which was not included in the original budget.

Table 1 – HRA Projected Working Balance at 31 March 2022

| | £'000 |
|--|----------|
| Actual balance in hand 1 April 2021 | 16,243 |
| Original estimate deficit | (-)4,675 |
| | 11,568 |
| Appendix 2 | |
| Operational variances | 445 |
| Non Operational variances | 7,878 |
| Projected Working Balance at 31 March 2022 | 3,246 |

16. Table 1 shows the projected working balance for 2021/22. The non-operational variance is due to the re-profiling of continuing capital schemes, from 2020/21 and before.

HRA Capital Receipts

17. Set out in Table 2 is a summary of the retained right to buy receipts as the end of March 2021.

Table 2 – Summary of retained RTB receipts

| Year | Quarter | Balance Brought Forward | Receipts Retained | Receipts Used | Usable Balance carried forward |
|--------------------|---------|-------------------------|-------------------|------------------|--------------------------------|
| | | £ | £ | £ | £ |
| 2017/18 | Qtr 1 | 0 | 0 | 0 | |
| 2017/18 | Qtr 2 | 0 | 1,005,654 | 0 | 0 |
| 2017/18 | Qtr 3 | 1,005,654 | 1,226,277 | 0 | 0 |
| 2017/18 | Qtr 4 | 2,231,932 | 1,553,847 | 0 | 0 |
| | | | | | |
| 2018/19 | Qtr 1 | 3,785,779 | 0 | 0 | 0 |
| 2018/19 | Qtr 2 | 3,785,779 | 0 | 0 | 0 |
| 2018/19 | Qtr 3 | 3,785,779 | 0 | 0 | 0 |
| 2018/19 | Qtr 4 | 3,785,779 | 0 | 45,741 | 0 |
| | | | | | |
| 2019/20 | Qtr 1 | 3,740,038 | 1,900,339 | 33,866 | 1,540,064 |
| 2019/20 | Qtr 2 | 5,606,510 | 553,213 | 62,432 | 2,093,277 |
| 2019/20 | Qtr 3 | 6,097,291 | 1,181,154 | 42,028 | 3,274,431 |
| 2019/20 | Qtr 4 | 7,236,417 | 1,844,361 | 68,393 | 5,118,792 |
| | | | | | |
| 2020/21 | Qtr 1 | 9,012,385 | 533,187 | 50,187 | 5,651,979 |
| 2020/21 | Qtr 2 | 9,495,385 | 365,286 | 23,847 | 6,017,264 |
| 2020/21 | Qtr 3 | 9,836,823 | 308,288 | 2,335,028 | 6,325,553 |
| 2020/21 | Qtr 4 | 7,810,083 | 662,671 | 1,404,924 | 6,988,224 |
| | | | | | |
| Grand Total | | | 11,134,277 | 4,066,446 | 7,067,831 |

18. It can be seen from Table 2 that as at the end of March 2021 the balance of retained receipts was £7.068 million. It has not been possible to provide the Quarter 1 figures because of the move from quarterly to annual reporting.

19. As well as the change to annual pooling payments, there are further flexibilities in the use of Right of Buy receipts that take effect from 1 April 2021. These include the extension of the timeframe for spending Right to Buy receipts from three to five years, increasing the proportion of a replacement home that can be funded using Right to Buy receipts from 30 per cent to 40 per cent, and extending the scope of what Right to Buy receipts can fund to include shared ownership and First Homes.

Significant Risks/Opportunities

20. The Council recommenced delivery of the Housing Investment Programme (HIP) in April/May 21. The backlog of works programmes is being worked through and all programmed properties have been prioritised for completion in the 2021 programme. Whilst regulatory and compliance work continues, work continued during lockdown and can be reported that the 2021 compliance work has been completed
21. Initially all construction activities were suspended aligned with Government working restrictions. When sites were able to reopen, due to the intrusive nature of some of the internal programmes of work and the need for social distancing, isolating, shielding etc., further delays where incurred.
22. Following when restrictions were eased, mobilisation of works re-commenced as well as the need to employ additional resources to deliver the remainder of the 2020/21 programme, alongside the 2021/22 programmes. The impact on delivery of the full programme of works continues as a result of the supply chain availability both in terms of the workforce required to deliver the programme and the acute shortage of certain building materials. The forward forecast will be kept under review with any change to current forecasts on programme reported and aligned to HRA business plan assumptions at the end of the year.

IMPLICATIONS

Environment and Planning (Includes Sustainability)

None specific.

Author: Andrew Bramidge, Head of Environment and Planning

Finance (Includes ICT, Properties and Facilities)

As contained in the body of the report.

Author: Simon Freeman, Head of Finance and Deputy to the Chief Executive

Housing

As contained in the body of the report.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

None specific.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

None specific.

Author: Simon Hill, Head of Governance

Appendices

Appendix 1 – Housing Revenue Account 2021-22 - Quarter 1 Budget Monitoring Summary

Appendix 2 - Operational Variances

Background Papers

None

Glossary of terms/abbreviations used

HCP – Housing Capital Programme

HRA – Housing Revenue Account

HTS – HTS (Property and Environment) Ltd

MHCLG – Ministry of Housing, Communities and Local Government

RTB – Right to Buy

WIP – Work in Progress

APPENDIX 1

HOUSING REVENUE ACCOUNT 2021-22 - Quarter 1 Budget Monitoring Summary

| Description | 2021/22 Approved Budget £'000 | Current Budget £'000 | Actual Quarter 1 £'000 | Forecast Outturn £'000 | Variance £'000 |
|---------------------------------------|--|----------------------------|------------------------------|------------------------------|-------------------|
| <u>Expenditure</u> | | | | | |
| General Management | 10,298 | 10,526 | 1,123 | 10,533 | 7 |
| Special Management | 8,418 | 8,538 | 1,531 | 8,538 | 0 |
| Repairs | 11,262 | 12,102 | 3,170 | 12,102 | 0 |
| Rents, Rates, Taxes & Other Charges | 87 | 87 | - | 87 | 0 |
| Supporting People Transitional Relief | 5 | 5 | - | 5 | 0 |
| Provision for Bad & Doubtful Debts | 357 | 357 | 1 | 357 | 0 |
| Major Repairs Reserve Contribution | 10,736 | 10,736 | 261 | 10,736 | 0 |
| Direct Revenue Financing | 6,559 | 6,559 | - | 14,437 | 7,878 |
| Debt Management Expenses | 17 | 17 | (68) | 17 | 0 |
| Capital Financing Charges | 7,261 | 7,261 | - | 7,261 | 0 |
| Total Expenditure | 55,000 | 56,188 | 6,018 | 64,073 | 7,885 |
| <u>Income</u> | | | | | |
| Dwelling Rents | (43,763) | (43,763) | (10,478) | (43,113) | 650 |
| Garage Rents | (1,081) | (1,081) | (190) | (1,026) | 55 |
| Other Rents | (65) | (65) | (35) | (82) | (17) |
| Charges for Services & Facilities | (6,572) | (6,572) | (2,357) | (6,822) | (250) |
| Interest on Revenue Balances | (32) | (32) | 0 | (32) | 0 |
| Total Income | (51,513) | (51,513) | (13,060) | (51,075) | 438 |
| Balance at 1 April | (16,492) | (16,492) | (16,492) | (16,243) | 249 |
| (Surplus) / Deficit for year | 3,486 | 4,674 | (7,042) | 12,997 | 8,323 |
| Balance in hand at 31 March | (13,006) | (11,818) | (23,534) | (3,246) | 8,572 |

APPENDIX 2 HRA – Operational Variances

| HRA Operational Variances | | | | |
|-----------------------------|-------------------|----------------------|---------------|---|
| Item | Adverse £000's | Favourable £000's | Net £000's | Explanation |
| General Man - Employees | 7 | | 7 | minor overspend while recruitment underway |
| General Man - Employees | | | 0 | |
| General Man - Consultancy | | | 0 | |
| Special Man - Equipment | | | 0 | |
| Repairs - External Contract | | | 0 | |
| Direct Revenue Financing | | | 0 | |
| Dwelling Rents | 650 | | 650 | voids & turnaround times have increased, impacting on rents |
| Garage Rents | 55 | | 55 | Increase in void garages |
| Other Rents | | (17) | (17) | |
| Service Charges - Tenants | | | 0 | |
| Service Charges - L/holders | | | 0 | |
| Service Charges - Other | | (250) | (250) | HTS One off annual profit share |
| Transfers to General Fund | | | 0 | |
| Deficit/ (Surplus) for year | 711 | (267) | 445 | |

| HRA Non-Operational Variances | | | | |
|---|-------------------|----------------------|---------------|---|
| Item | Adverse £000's | Favourable £000's | Net £000's | Explanation |
| Revenue Contribution to Capital Expenditure | 7,878 | | 0 | Rephasing of capital schemes from 2020/21 |
| Deficit/ (Surplus) for year | 7,878 | 0 | 0 | |