

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Cabinet
Finance & Audit Committee

Date: 11 November 2019 / 12 November 2019

Reporting officer: Assistant Director (Corporate Services)

Subject: Housing Revenue Account Budget Monitoring Report –
Quarter Two 2019/20

Purpose and summary of report:

To provide Members with information on actual performance against the approved Revenue and Capital budgets for 2019/20, including known variances agreed or identified through budgetary control activity.

To update Members on other key areas of financial performance that may impact on the Council's Medium Term Financial Strategy, Medium Term Financial Plan, HRA Business Plan or Financial Statements.

Recommendations:

This report is for information only.

1. INTRODUCTION

- 1.1. The Constitution of the council requires Members to receive reports in respect of the council's finances and financial performance. This report therefore provides an assessment of performance against approved budgets for the 2019/20 financial year for the second quarter to 30 September 2019 as well as updating Members on other key areas of financial performance.
- 1.2. The council continues to operate robust budgetary control actions to ensure good financial governance and respond to the pressures on the council's finances. In addition to the reporting of financial performance through regular budget monitoring reports, these actions include:
 - Requiring all financial decisions and major acquisitions to be brought to Management Team for discussion and approval;
 - Appropriate controls in approving purchase orders;
 - Requiring recruitment activity (relating to both permanent and temporary appointments, and including use of overtime) to be considered and approved by Management Team;
 - Monitoring the delivery of activity under the council's *Bridging the Gap* Strategy, as set out in the current Medium Term Financial Strategy (MTFS).

2. EXECUTIVE SUMMARY

HRA (Revenue)

- 2.1. At the end of Quarter Two, income and expenditure for the year remains balanced, albeit with an increased anticipated contribution from reserves to fund projected revenue expenditure for the year. The main variance within the forecast position compared to the original budget is an increased contribution to meet carry-forwards from 2018/19 within the Capital Programme and current year capital spend. There are also projected underspends within salaries and repairs and maintenance.
- 2.2. The level of Working Balances at year-end are projected to be £3.0m, at the minimum level of Working Balances for the HRA. Movements in the year are projected to result in a net decrease in the General HRA Reserves of £5.06m, with the level of reserves being £6.09m at start of year and projected to be £1.08m at year-end.
- 2.3. The significant risk to the HRA's financial position continues to be the lack of clarity regarding funding and regulatory reform.

Housing Capital

- 2.3.1. The revised budget for the Housing Capital Programme for the year is £18.6m, with expenditure and commitments to the end of Quarter Two of £10.4m.

3. HOUSING REVENUE ACCOUNT

3.1. Budget 2019/20

- 3.1.1. The table on the next page sets out the current forecast spend against the original budget for the Housing Revenue Account (HRA), based on variances to 30 September 2019. As at 30 September 2019, the forecast reflects a saving of £454k against the original budgets within Supervision and Management and Repairs and Maintenance. This figure, however, is offset by the increase to Capital Financing in order to meet the costs of the carry forward capital programme from 2018/19 as well as additional current year costs. The net effect is an adverse variance to original budget of £1.54m.

Description	Original Budget 2019/20 (£)	Forecast 2019/20 (£)	Variation (£)
Supervision and Management	5,357,200	5,253,200	(104,000)
Repairs and Maintenance	7,618,140	7,268,140	(350,000)
Depreciation	6,911,810	6,911,810	0
Intensive Management Fund - Expenditure	667,490	667,490	0
Capital Finance	10,189,750	12,191,730	2,001,980
Sub Total Expenditure	30,744,390	32,292,370	1,547,980
Rents of Dwellings	(25,031,400)	(25,031,400)	0
Other Rental Income	(29,300)	(29,300)	0
Service Charges	(1,399,800)	(1,399,800)	0
Non Dwelling Income	(140,000)	(140,000)	0
Intensive Management Fund - Income	(521,480)	(521,480)	0
Other Income	(112,450)	(112,450)	0
Sub Total Income	(27,234,430)	(27,234,430)	0
Contributions to/(from) reserves	(3,509,960)	(5,057,940)	(1,547,980)
Net Surplus/Deficit	0	0	0

Table 1: Housing Revenue Account 2019/20

3.2. SUPERVISION & MANAGEMENT – £104k FAVOURABLE VARIANCE

3.2.1. **Vacancy Management: £104k favourable variance** – the HRA staffing budget for 2019/20 incorporates a vacancy allowance of £100k for the year. It is anticipated that this will occur throughout the establishment as a whole from natural staff turnover within day-to-day business activities, as well as posts held vacant pending the re-design of services. For the first half of the financial year, actual staffing spend was £104k lower than budgeted.

3.3. REPAIRS & MAINTENANCE – £350k FAVOURABLE VARIANCE

3.3.1. **Repairs & Maintenance: £350k – favourable variance** – The Responsive Repairs Team continue to deliver efficiencies and savings in its operations whilst providing a service that meets the council's objectives as a landlord as well as managing tenant expectations. Whilst the current projected underspend is likely, it is important to remember that this budget funds a reactive service where demand naturally fluctuates in response to factors outside of the council's control.

3.4. CAPITAL FINANCING – £2.00m ADVERSE VARIANCE

- 3.4.1. **New Build Programme – £1.63m - adverse variance** – The current forecasts indicate that spend in Quarters Three and Four will result in expenditure above the original budget. This does not raise concern at this stage as it represents an acceleration of spend against the retained right to buy receipts and the council's match funding but it is subject to change as the build programme progresses.
- 3.4.2. The Housing Strategy Manager and Finance Officers continue to work closely to monitoring the progress of the current schemes to ensure that the Council is not required to pay back funds Central Government.
- 3.4.3. **Capital Financing – £213k – adverse variance** - In Quarter One an adverse variance of £413k had been identified due to the use of the revenue reserve to meet the needs of the carry forward capital programme. However, in Quarter Two this variance has been reduced by efficiency savings of £200k within the capital programme.
- 3.4.4. **Interest - £152k – adverse variance** - The introduction of a two loans pool at the end of 2018/19 has resulted in additional interest being apportioned to the HRA to reflect the current year position of the HRA associated loans.

3.5. Working Balances and Reserves

- 3.5.1. The variances outlined in this report have the following effect upon HRA working balances:

Working Balances	£
Balance Brought Forward from 2018/19	3,000,000
Forecast Outturn position 2019/20	(5,057,940)
Forecast working balances C/Fwd (as at 30 September 2019) including minimum HRA Working Balance	(2,057,940)
Add: Transfer from HRA General Reserve (Revenue)	5,057,940
Forecast Usable Working Balances C/fwd (as at 30 September 2019)	3,000,000

Table 2: Effect on Housing Revenue Account Working Balances

- 3.5.2. The working balances are supplemented by specific reserves established to assist with future funding obligations or initiatives. The table below provides a summary of the forecast movements on these specific reserves during the year.
- 3.5.3. The opening balance on the Revenue Reserve stood at £6.08m with the approved budget expending £3.58m. However, due to the forecasted accelerated spend in quarters three and four for the new build programme, additional resources of £1.63m is anticipated. The additional funds are offset by savings recognised in quarter two against both the Capital and Revenue budgets.

HRA Specific Reserves	Opening Balance 01/04/2019 £'000	Forecast Contributions (Income) £'000	Forecast Use of Reserve (Expenditure) £'000	Forecast Balance 31/03/2020 £'000
HRA General Reserve (Revenue)	(6085)	0	(5058)	(1028)
Total	(6085)	0	(5058)	(1028)

Table 3: Analysis of Specific Reserves – HRA

3.6. **HRA Business Planning**

- 3.6.1. The HRA Business Plan is reviewed on an ongoing basis in order to take into account longer-term assumptions around inflation rates, central government grants and energy prices, together with building in all known variances to the budget resulting from Management Team and Cabinet decisions.
- 3.6.2. The HRA Business Plan reflects the current and future financial spend profiles identified in the recent Stock Condition Survey produced by Penningtons in July 2018. It also reflects future forecasts of the New Build Programme beyond the existing three year scheme based on the current assumption of the sale of 30 Council Houses per annum.
- 3.6.3. The latest version of the HRA Business Plan is attached to this report at Appendix Two.
- 3.6.4. On 9 October 2019 HM Treasury announced that it would increase the interest rates on all new loans from the Public Works Loan Board (PWLB) by 100 basis points (one percentage point) on top of usual lending terms. This appears to be in response to a substantial increase in the use of PWLB by local authorities over recent months, given the cost of borrowing had fallen to record lows. This action is likely to make the PWLB the lender of last resort and require the council to identify alternative sources.
- 3.6.5. Shorter term funding, up to five years, is likely to be available from some local authorities and banks but securing longer term funding could prove difficult. Borrowing from the market longer term requires additional time both for planning and administration and even then it might not be possible to find a lender that matches the specific requirements, forcing us to take on more expensive debt.
- 3.6.6. As a result, the cost of borrowing for capital purposes will significantly rise, payback periods will lengthen and in some cases scheme affordability could be jeopardised. It will be a case of waiting to see how the market reacts to this sudden announcement and what levels are achievable going forward.

4. HOUSING CAPITAL PROGRAMME

- 4.1. The Housing Capital programme for 2019/20 is £18,632,520 of which £17,106,120 relates to HRA capital schemes and £1,526,400 relates to non-HRA capital schemes. These budgets include £1,216,890 and £693,600, respectively that are carried forward from 2018/19.
- 4.2. The HRA capital schemes continue to focus on maintaining the minimum decent homes standard for the Council's stock in 2019/20, with £8,763,820 earmarked for this purpose within the Replacement, Improvement and Health & Safety Works Programmes. The council also continues its commitment to build new homes with £7,662,300 allocated for this purpose.

HOUSING CAPITAL PROGRAMME				
Ref No:	Project	Original Budget 2019-20 inc CFwd (£)	Expenditure Including Commitments (£)	Balance Outstanding (£)
A	Replacement Programmes	4,920,550	3,923,430	(997,120)
B	Improvement Programmes	2,069,290	1,436,210	(633,080)
C	Health & Safety Works	1,773,980	1,667,430	(106,550)
D	New Build & Acquisitions	7,662,300	3,009,490	(4,652,810)
E	Housing Computer Systems	600,000	0	(600,000)
F	Replacement Play Equipment	80,000	0	(80,000)
	Sub Total (HRA Capital Programme)	17,106,120	10,036,560	(7,069,560)
G	Disabled Facilities Grant	1,526,400	385,309	(1,141,091)
	Total (HRA & GF Capital Programme)	18,632,520	10,421,869	(8,210,651)

Table 4: Housing Capital Programme 2019/20

- 4.3. The following works were undertaken or completed by the end of Quarter Two 2019/20:

4.3.1. Replacement Programmes (Ref A)

- 101 kitchen replacements;
- 72 bathroom replacements;
- 10 properties had new window and door replacements. A further 54 properties have had new windows, including properties and the communal area at The Hive which include properties and communal areas. The Hive block programme is now 90% complete;
- 639 properties had electrical tests and/or remedial works including rewiring, minor works and upgrades to consumer units;
- 20 blocks has had communal electrical tests and/or remedial works completed;
- 3 residential blocks had the roofing completely replaced;
- 15 domestic properties have had roof renewals.

- 4.3.2. Across the Replacement Programmes, savings of £100k is expected to be achieved at the end of the Financial Year. This is due to the Heating Installation Programme being delivered more competitively.

4.3.3. Improvement Programmes (Ref B)

- 273 properties had new central heating systems installed;
- 13 properties had new storage heating installed;
- 61 properties had level access showers/wet rooms/over bath showers installed;
- 10 adaptations completed (kitchens, wheelchair accessibility);
- A major refurbishment project at Park Place comprising of 6 blocks has been completed. This included the renewal of flat roofs, upgrades to the stairways, handrails, balustrades and new/re-surfacing to walkways.

4.3.3. Across the Improvement Programmes, savings of £100k is expected to be achieved at the end of the Financial Year. This is due to the reduction in numbers of Kitchen Void work required to date within 2019/20.

4.3.5. Health & Safety Works (Ref C)

- 2 passenger lifts situated in Wallis Park have had major modernisation works carried out;
- The retrofitting of a Fire Sprinkler system at Homemead has been completed and awaiting the final sign-off from the project manager;
- Works are 90% complete in respect of the retrofitting of the fire sprinkler system at Gravesham Court;
- Works have commenced to upgrade the warden call equipment to 4 sheltered schemes, door entry equipment to 5 blocks, and access control equipment to 19 sites.

4.4. New Build (Ref D)

4.4.1. The authority signed an agreement with the DCLG to retain part of the Right To Buy (RTB) receipts and use them as part-funding of new build and/or acquisition of additional social housing. The following is the reported position at the end of Quarter Two:

- Construction continues at St Hilda's Way with the housing scheme is expecting to be completed by the end of 2019. The scheme is set to deliver 10 x 1 and 2 bed flats, 4 x 2 bed maisonettes and 32 x 2 bed houses;
- Westridge Construction Limited are on site at the former Whitehill Tenants Associations Club site where they are constructing 24 x 1 and 2 bed flats and 8 x 3 bed houses;
- Planning permission has been granted for the demolition of bedsits at Valley drive and the construction of 32 x 1 bed flats for over 55's and 16 x 1, 2 and 3 bed general needs flats. The scheme is out to tender via the South East Consortium with tenders due to be returned by 8 November;
- Planning permission has been granted to build 23 x 1 and 2 bed flats on the land at St Patrick's Gardens. The tender documentation is currently being prepared;
- The erection of two single dwellings were permitted at Regulatory Board on 4 October being 1 x 3 bed house at Wilberforce Way and 1 x 1 bed bungalow at Barr Road. Continued consideration is being given to other sites across the borough to enable the delivery of new council homes

- 4.4.2. The council is permitted to retain part of the RTB receipts to repay the debt incurred in 2012 as part of HRA self-financing. As at 1 April 2019, the balance on the RTB Allowable Debt reserve fund stood at £438,550. The proposal is to use the RTB Allowable Debt reserve to help fund the New Build projects, ahead of any other funding source, as this can either be used to repay debt or finance the capital programme.
- 4.4.3. Table 13 summarises the one for one receipts retained from the sale of Right To Buy properties, since 2012, along with the level of GBC's contributions required to deliver the New Build programme and a summary of when expenditure needs to be delivered to avoid having to return funds to Central Government.

	One for one receipts retained	GBC 70% contribution to new build	Value of new build expenditure expected	Cumulative value of new build expenditure expected	Date of new build expected by
	£	£	£	£	
2012-15 c/f	3,330,320	7,770,750	11,101,070	51,278,050	31-Mar-17
2015-16					
Q1	124,270	289,960	414,230	11,515,300	30-Jun-18
Q2	233,510	544,870	778,380	12,293,680	30-Sep-18
Q3	589,670	1,375,910	1,965,580	14,259,260	31-Dec-18
Q4	650,580	1,518,010	2,168,590	16,427,860	31-Mar-19
2016-17					
Q1	697,650	1,627,850	2,325,500	18,753,360	30-Jun-19
Q2	205,200	478,790	683,990	19,437,350	30-Sep-19
Q3	541,710	1,263,990	1,805,700	21,243,060	31-Dec-19
Q4	532,670	1,242,890	1,775,560	23,018,620	31-Mar-20
2017-18					
Q1	351,150	819,350	1,170,500	24,189,120	30-Jun-20
Q2	296,150	691,020	987,170	25,176,290	30-Sep-20
Q3	730,460	1,704,420	2,434,880	27,611,170	31-Dec-20
Q4	433,800	1,012,210	1,446,010	29,057,180	01-Jan-21
2018-19					
Q1	694,160	1,619,710	2,313,870	31,371,040	30-Jun-21
Q2	484,630	1,130,800	1,615,430	32,986,460	30-Sep-21
Q3	379,770	886,130	1,265,900	34,252,360	31-Dec-21
Q4	238,610	556,760	795,370	35,047,730	31-Mar-22
2019-20					
Q1	383,470	894,760	1,278,230	36,325,960	30-Jun-22
Q2	1,382,090	3,224,870	4,606,960	40,932,920	30-Sep-22
	10,897,780	25,428,180	36,325,960		

Table 5: New Build

4.5. Housing Computer System (Ref E)

- 4.5.1. Following the due diligence previously undertaken, and as advised in the Quarter One report, the review of the procurement options available to the council is ongoing. To date, four suppliers have delivered system demonstrations to council officers.

4.6. Replacement Playground Equipment (Ref G)

4.6.1. A draft action plan has been drawn up to establish the current needs in the form of a play-site replacement programme. Once reviewed and approved, the capital funding will be allocated against the areas that are identified as the highest priority.

4.7. Disabled Facility Grants (DFGs) (Ref I)

4.7.1. The grant funding awarded to the Council, via the Better Care Fund, in 2019/20 was £832,800. The total funding available is £1,526,430 which includes carry forward from 2018/19 of £693,630.

4.7.2. The Council continues to offer the Disabled Facility Grant programme to homes eligible for assistance that comply with the wider remit of the Better Care. In Quarter Two of 2019/20 a total of 85 cases have been processed, of which the breakdown is as follows:

- 14 grant cases were approved
- 16 households had works completed
- 7 applications were cancelled due to changes in the client's circumstances
- 48 grant cases are awaiting approval

4.7.3. The Council distributed £92,710 to private homeowners within the borough who qualify for Disabled Facility Grant assistance and additional grants totalling £192,300 have been approved in principal.

4.7.4. A total of 19 people have benefited from the Private Sector Housing Assistance Policy which enables people to gain access to funding which otherwise would not have been available. It has assisted 8 people to have better managed hospital discharges and a further 11 people have been discharged from hospital into a safer home environment.

4.8. Capital Resources

4.8.1. The table below shows the resources available to fund capital projects in future.

Housing Capital Resources	Opening Balance 01/04/2019 (£)	Income 2019/20 (£)	Use of Funding 2019/20 (£)	Projected Balance 31/03/2020 (£)
Capital Receipts - HRA	(1,318,810)	(257,300)	1,099,970	(476,140)
Capital Receipts - GF Housing	(68,900)	0	0	(68,900)
Capital Receipts - PV Panels	(3,573,000)	0	0	(3,573,000)
Major Repairs Reserve - Dwellings	(1,402,480)	(6,911,810)	8,314,290	0
Major Repairs Reserve - Non Dwellings	(652,030)	0	652,030	0
New Build Reserve: 1-4-1 Receipts	(5,544,950)	(2,752,840)	2,298,690	(5,999,100)
Right to Buy Allowable Debt Reserve	(438,550)	(726,230)	1,155,570	(9,210)
Disabled Facility Grants	(693,640)	(832,800)	1,526,400	(40)
Christianfields Overage	(766,000)	0	0	(766,000)
Total	(14,458,360)	(11,480,980)	15,046,950	(10,892,390)

Table 6: HRA and General Fund Housing Capital Resources 2019/20

4.8.2. Projected Capital Expenditure and funding requirements for the HRA can be found at Appendix Three to this report.

IMPLICATIONS	APPENDIX 1
Legal	There are no specific legal matters arising from this report.
Finance and Value for Money	The financial implications are contained within the body of this report.
Risk Assessment	The purpose of this report is to demonstrate financial performance as at 30 September against the original budget set for the 2019/20 financial year, and illustrate how this affects the Working Balances and Earmarked Reserves held by the Council.
Data Protection Impact Assessment	<p><i>A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.</i></p> <p>a. Does the project/change being recommended through this paper involve the processing of personal data or special category data or criminal offence data?</p> <p>A definition of each type of data can be found on the Information Commissioner’s Office website via the above links.</p> <p>N/A</p> <p>b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice?</p> <p>N/A</p> <p>c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdpr@medway.gov.uk.</p> <p>N/A</p>
Equality Impact Assessment	<p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer.</p> <p>No decision – paper is for information only.</p> <p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.</p> <p>N/A</p> <p><i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i></p>
Corporate Plan	Strategic Objective #3 Progress; Sound Financial Management & Successfully Managing Key Business Risks

Crime and Disorder	No direct implications.
Digital and website implications	No direct implications.
Safeguarding children and vulnerable adults	No direct implications.