

Taunton Deane Borough Council

Tenant Services Management Board – 16th November 2015

Financial Monitoring – Quarter 2 2015/16

Report of the Senior Accountant - Services

(This matter is the responsibility of Executive Councillor Terry Beale)

1. Executive Summary

This report provides an update on the projected outturn financial position of the Council for the financial year 2015/16 (as at 30 September 2015).

Housing Revenue Account Revenue

The HRA is budgeted to 'break even' (net of and approved transfers to/from reserves). The forecasted revenue position for 2015/16 at Quarter 2 is an overspend of £102k.

The forecasted general reserves balance at the end of the year is £2,606k. This is £806k above the minimum recommended balance of £1,800k.

Also included within this report is a request to recommend a transfer of £250k from general reserves for a large scale stock survey.

Housing Revenue Account Capital

The approved Capital Programme is £23,459k. This relates to schemes covering 2015/16, 2016/17 and 2017/18. A total of £16,621k is expected to be spent in 2015/16 with the remainder for planned investment to implement approved schemes in future years.

2. 2015/16 Financial Position – Quarter 2 Update (to 30th September 2015)

Introduction

- 2.1 This section of the report provides an early indication of the potential variances that could be reported at the end of the financial year 2015/16.
- 2.2 Board members will be aware from previous experience that the position can change between 'in year' projections and the final outturn position, mainly due to demand-led services. The budget monitoring process involves a detailed review of all budgets. Budget Holders, with support and advice from their accountants, regularly review the position and update their forecasts based on currently available information and knowledge of service requirements for the remainder of the year. As with any forecast there is always a risk that some unforeseen changes could influence the position at the year end, and a number of risks and uncertainties are highlighted within this report.

However, the following forecast is considered to be reasonable based on current information.

3. Forecast Outturn Summary – Housing Revenue Account

- 3.1 The current forecast outturn for the Council's Housing Revenue Account (HRA) is overspend of £102k (0.4% of budget). A summary of the HRA revenue budget and forecast for the year is included in Appendix A.
- 3.2 The major underspends and overspends forecast for year are summarised as follows:
- 3.3 **Rental Income:** Weekly rental income is currently due to over-recover by £138k based on rents in Q2. Rent loss due to void properties is currently approximately 0.7%, less than the 1.9% budgeted. However this is subject to change throughout the year as void levels vary and ongoing Right to Buy sales impact on the rental income received.
- 3.4 **Other Income:** Service charges and charges to leaseholders are also due to over recover by £17k and £19k respectively. There is also a higher than budgeted contribution for Supporting People of £19k due to agreements made after budget setting.
- 3.5 **Housing Management:** Ongoing use of agency staff is creating a significant pressure to management costs. This is largely within the Property and Development area, and is expected to continue in the short term to allow flexibility pending changes within the service. There is also some use of additional agency staff within Housing and Community Development to cover staff absences in key safeguarding areas.
- 3.6 **Specialist Works:** Spend on specialist works, largely asbestos testing, is currently expected to exceed budget by £98k. This could potentially increase. This is due to the agreed increased use of asbestos testing in year.
- 3.7 **Electrical Testing Contract:** In the 2015/16 budget an amount of £350k has been allocated for electrical testing, with a further £250k included for the works identified from this. The contract will now not start until April 2016, and so this budget will not be needed within this financial year. The contract will last for 3 years. There will be a request that £600k is put into an Earmarked Reserve and used for the Electrical Testing contract.
- 3.8 **Pre Planned Maintenance:** The Pre Planned Maintenance (PPM) contract was delayed and only started in September. There is likely to be an underspend in the region of £400k. There will be a request to transfer to an Earmarked Reserve.
- 3.9 **Responsive Works:** The pressure of £155k is due to General Maintenance.
- 3.10 **Voids:** Overall costs on voids is expected to be £73k less than budget. The budget is based on 600 voids per annum, with actual voids expected to be less than this.
- 3.11 **Communal Areas:** Spend on communal areas for dwellings is forecasted to be over budget by £180k at outturn. This is largely due to the costs being split out fully in 2015/16 for the first time. These costs would have previously sat within General Maintenance

- 3.12 **Procurement Savings:** Prudent budgeting for Procurement Savings is likely to result in an underspend.
- 3.13 **Interest Payable:** Due to healthy reserves, external borrowing is not yet needed for the new development schemes, such as Creechbarrow Road. This has reduced the interest payable in 2015/16.
- 3.14 **Provision for Bad Debt:** Provision has been made in the Business Plan for an increased level of unrecoverable debt due to Welfare Reform. Universal Credit has not yet been fully rolled out across the borough, and with only a small number of tenants currently affected it is unlikely that this funding will be needed within this financial year. It is, however, recognised that Welfare Reform is likely to affect the position of the HRA over a longer period than has been allowed for in the Business Plan (with increased provision due to return to 'base' levels in Q4 of 2016/17). In light of this further work will be undertaken to review the current expected levels of bad debt for this year, with a request that the remainder of the funding to be put in an Earmarked Reserve. This would be used in future years to prevent large movements in bad debt affecting the bottom line of the HRA.

HRA - Risk and Uncertainty

- 3.15 As with the General Fund, budgets and forecasts are based on known information and the best estimates of the Council's future spending and income. Income and expenditure over the financial year 2015/16 is estimated by budget holders and then reported through the budget monitoring process. During this process risks and uncertainties are identified which could impact financial projections, but for which the likelihood and/or amount are uncertain.
- 3.16 The following risks have been identified through the Q1 process:
- 3.16.1 **Rental Income:** As stated above, rental income fluctuates due to Voids and Right to Buy, as well as new acquired or built properties becoming tenanted and therefore providing rental income to support the costs of the service.
- 3.17 The Council carries protection against risk and uncertainty in a number of ways, such as insurances and maintaining reserves.

4.0 Housing Revenue Account Reserves

- 4.1 The HRA reserves ("working balance"), at the start of the year were £3.484m, and the Council approved an allocation of £776k for a number of initiatives and investment in services through the Outturn report in July 2015. This reduces the current budgeted balance to **£2.708m**, and is forecast to be £2,606k at the end of the current financial year based on current projected outturn. This is above the minimum recommended reserve level of £1.8m.

5.0 Budget Changes

- 5.1 **Stock Condition Surveys - £250k**

- 5.1.1 As part of the ongoing Business Plan Review, a large piece of work is underway to look at the investment needed in our homes over the next 30 years. However, this has identified that further work is needed to update our current stock condition data.
- 5.1.2 Stock condition data, is information held against each dwelling relating to when each individual building component will need to be replaced, and the corresponding estimated costs of replacing each component as required. This information allows TDBC to not only identify future plans of work, but crucially to inform the business plan of levels of investment required over the short and long term (up to 30 years). In addition to this, TDBC are undertaking a piece of wider asset management work, to identify the overall performance of groups of properties to ensure they are worth investing in or whether alternative solutions should be sought.
- 5.1.3 Over the last 5 years some stock condition data has been updated when work has been undertaken, however there have been no proactive surveys. This has led to some information being updated, for instance when a kitchen has been installed, but not all records, and not enough to give confidence in the data.
- 5.1.4 In order to identify the future works needed, which in turn will inform the Business Plan Review, we need to fully reflect the condition of the stock in our stock condition data.
- 5.1.5 Having considered the possible option of undertaking a desktop exercise, in an attempt to rectify the issues within the database, we have concluded that this will be extremely time consuming and resource intensive with a low probability of reaching a successful outcome. Consequently we recommend to commission a new stock condition survey of the housing stock.
- 5.1.6 Ideally a full survey would be undertaken. However this is likely to be time and cost prohibited, consequently it is recommended that a 50% survey (approximately 2,900 inspections) is undertaken.
- 5.1.7 The cost of commissioning this number of surveys, along with fully updating our system to ensure that it is fit for purpose, is expected to be in the region of £250k.
- 5.1.8 It is therefore requested that a supplementary estimate of £250k is added to the 2015/16 budget, funded from general reserves.
- 5.1.9 This will reduce the general reserves balance to £2.458m, with a forecast of £2.356m at the end of the financial year. This is comfortably above the minimum recommended balance of £1.800m.

6.0 Forecast Outturn Summary – Housing Revenue Account Capital Programme

- 6.1 The approved HRA capital programme is £23.459m, of which £12.927m relates to works on existing dwellings and £10.532m for the provision of new housing through development.

- 6.1 £9.202m of the capital budget in the HRA relates to major works on existing dwellings and includes works such as kitchens, bathrooms, heating systems, roofs, doors and windows. Contracts are now in place for kitchens and bathrooms replacement, air source heat pump installations and door entry systems. Contracts for the replacement of heating systems and fascia and soffits are due to start within the next quarter. Due to delays in the start of these contracts, £2.506m of the budget will be re-profiled into future years to cover the work to be completed by the contractors. The profiling of capital spend will be looked at in more detail as part of the Business Plan Review later in the year. Actual spend at Q2 is £1.276m. This is lower than would be expected at this point largely due to invoicing in arrears and some contracts starting mid-year.
- 6.2 £2.216m relates to other works such as disabled facilities adaptations, asbestos removal, external wall insulations and extensions. This is expected to be largely on track, although £0.192m expenditure relating to environmental improvements (used, for example, for scooter stores and additional car parking spaces), and extensions may slip into 2016/17. This is due to the large lead in times required for new schemes. The IT Development Budget is also likely to slip by £0.207m.
- 6.3 £1.509m relates to the new budget for adding solar PV systems to dwellings. This is currently underway and is close to completion.
- 6.4 The remaining budget of £10.532m is for the provision of new housing through the Creechbarrow Road, Phase 1 sites and Weavers Arms new builds and the buyback of dwellings previously sold through Right to Buy. These are currently expected to complete within budget, with Phase 1 sites pending final completion and Creechbarrow Road set to complete in 2016/17. £1.262m of the £4.862m of the remaining budget is to be re-profiled. Weavers Arms, Oaken Ground is still in the early stages of development and will not complete during 2015/16. As such £2.671m of the Weavers Arms budget is not expected to be used in 2015/16 and is to be re-profiled into later years.
- 6.5 A summary of the HRA Capital Programme budget and forecast for the year is included in Appendix B.

7.0 Recommendations

- 7.1 It is recommended that the Tenant Services Management Board note the HRA's performance as at the end of Quarter 2.
- 7.2 It is recommended that the Tenants Services Management Board support a supplementary estimate of £250,000 funded from reserves. This is to commission a survey of 50% of the housing stock, and the updating of the stock condition database.

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HOUSING REVENUE ACCOUNT

APPENDIX A

	Target Budget (£)	Actuals to Date (£)	% Spend	Forecast (£)	Variance (£)
Income					
Dwelling Rents	(24,932,700)	(10,340,930)	41%	(25,070,780)	(138,080)
Non Dwelling Rents (Garages, Shops and Land)	(599,100)	(278,711)	46%	(601,200)	(2,100)
Other Income (Service Charges, Rechargeable Repairs, Leaseholder Charges and TDBC Contribution)	(401,700)	(223,466)	53%	(421,000)	(19,300)
Total Income	(26,931,400)	(11,092,074)	41%	(27,122,980)	(191,580)
Expenditure					
Housing Management	5,716,400	2,235,427	37%	6,026,609	310,209
Repairs & Maintenance - Planned	1,750,400	37,101	2%	1,848,750	98,350
Repairs & Maintenance - Responsive	3,190,500	848,229	25%	3,345,758	155,258
Repairs & Maintenance - Voids	1,610,600	434,402	28%	1,537,386	(73,214)
Other Expenditure	1,405,400	766,895	48%	1,584,996	179,596
Total Expenditure	13,673,300	4,322,054	32%	14,343,499	670,199
Central Costs/Movement in Reserves					
Social Housing Development Fund	1,000,000	8,830	1%	1,000,000	0
Funding of Capital Programme (Depreciation and Revenue Contribution to Capital Outlay)	7,618,400	0	0%	7,618,400	0
Contribution to TDBC for Repayment of Transformation Project Loan (Funded through Procurement Savings)	323,000	0	0%	147,700	(175,300)
Net Interest (Interest payable on loans less interest received on HRA balance)	2,909,100	0	0%	2,707,400	(201,700)
Contribution to Repayment of Borrowing	892,800	0	0%	892,800	0
Change in Provision for Bad Debt	514,800	8,849	2%	514,800	0
Other Movement in Reserves	0	0		0	0
Total Central Costs/MIRs	13,258,100	17,679	0%	12,881,100	(377,000)
Total Housing Revenue Account	0	(6,752,341)		101,619	101,619

HOUSING REVENUE ACCOUNT

APPENDIX B

	Approved Budget (£)	Actuals to Date (£)	% Spend	Forecast (£)	Variance /Slippage(£)
Major Works					
HRA Kitchens	1,356,300	24,692	6%	400,000	(956,300)
HRA Bathrooms	1,932,800	338,888	18%	1,860,000	(72,800)
HRA Roofing	50,000	(5,358)	-9%	60,000	10,000
HRA Windows	146,000	45,236	23%	200,000	54,000
HRA Heating Improvements	2,894,000	87,664	7%	1,298,000	(1,596,000)
HRA Doors	630,500	283,706	45%	630,000	(500)
HRA Fire Safety Works in Communal Areas	334,200	138,141	41%	340,000	5,800
HRA Fascias and Soffits	868,700	(5,798)	-1%	868,700	0
HRA Air Source Heat Pumps	709,500	316,466	45%	709,500	0
HRA Door Entry Systems	270,000	43,702	14%	320,000	50,000
Other External Insulations	10,000	8,804	88%	10,000	0
Total Major Works	9,202,000	1,276,143	19%	6,696,200	(2,505,800)
HRA Aids and Adaptations	120,000	25,284	21%	120,000	0
HRA DFGs	315,000	91,468	29%	315,000	0
Garages	30,000	0	0%	30,000	0
Sewerage Treatment Plants	20,000	0	0%	20,000	0
HRA Meeting Halls	30,000	975	3%	30,000	0
HRA Unadopted Areas	45,000	12,031	27%	45,000	0
HRA Asbestos Works	260,000	59,176	23%	260,000	0
HRA Tenants Improvements	5,000	0	0%	5,000	0
Sustainable Energy Fund	546,400	218,312	40%	546,400	0
Environmental Improvements	312,000	21,926	15%	150,000	(162,000)
Extensions	160,000	344	0%	130,000	(30,000)
HRA Community Alarms	65,800	57,218	87%	65,800	0
HRA IT Development	306,900	13,330	13%	100,000	(206,900)
Total Other	2,216,100	500,064	28%	1,817,200	(398,900)
HRA PV Systems	1,509,100	1,274,433	84%	1,509,100	0
Total PV	1,509,100	1,274,433	84%	1,509,100	0
Development					
HRA Creechbarrow Road	4,862,000	1,147,136	32%	3,600,000	(1,262,000)
HRA Phase 1: Vale View	253,400	6,532	3%	253,400	0
HRA Phase 1: Bacon Drive	550,400	(15,336)	-3%	550,400	0
HRA Phase 1: Normandy Drive	366,100	42,338	12%	366,100	0
HRA Buybacks	161,100	103,376	64%	161,100	0
HRA Weavers Arms	3,338,500	85,815	13%	667,700	(2,670,800)
HRA Social Housing Development Programme	1,000,000	0	0%	1,000,000	0
Total Development	10,531,500	1,369,861	21%	6,598,700	(3,932,800)
Total HRA Capital	23,458,700	4,420,501	27%	16,621,200	(6,837,500)

Stock Condition Data

Briefing Statement

Background

Stock condition data, is information held against each dwelling relating to when each individual building component will need to be replaced, and the corresponding estimated costs of replacing each component as required. This information allows TDBC to not only identify future plans of work, but crucially to inform the business plan of levels of investment required over the short and long term (up to 30 years). In addition to this, TDBC are undertaking a piece of wider asset management work, to identify the overall performance of groups of properties to ensure they are worth investing in or whether alternative solutions should be sought.

These 3 specific work streams (identifying future plans of work, business plan inputs and asset performance) will all rely heavily on the underlying stock condition information being accurate and robust.

Reflecting the above, we have recently undertaken a validation exercise of the current stock condition data. The key findings of this validation exercise are summarised below.

- No proactive surveys of notable volume have been undertaken for over 5 years
- From a small volume of on-site checks, the data within the database is not reflective of the current condition of the stock.
- A significant volume of work undertaken over the last 10 years has not been updated accurately onto the database.
- A degree of applied life cycles of certain elements and replacement values, need to be refreshed and changed to ensure they are reflective of current experience.

The culmination of these factors has resulted in a stock condition database that is not fit for our purposes, and critically, is showing an investment level over the next 5 years which is not reflective of the current condition of the stock (the databases shows approximately £70m of investment over the next 5 years, whereas we believe this figure to be in the region of £35m)

Having considered the possible option of undertaking a desktop exercise, in an attempt to rectify the issues within the database, we have concluded that this will be extremely time consuming and resource intensive with a low probability of reaching a successful outcome. Consequently we intend to commission a new stock condition survey of the housing stock.

The following sets out the main objectives and scope of the survey.

Main Objectives of the Survey

- To review and agree a streamline version of the current dataset to allow easy updating and reporting in the future
- To review and update our schedules of rates and life cycles for each component within the database
- To provide the business plan with a reliable investment forecast over the short term (5 years) and long term (over the next 30 years).

- To identify a physical elemental investment programme at property level over the next 5 years consistent with the business plan assumptions/affordability and reflective of local standards.
- To consider on all non-survey costs, such as responsive repairs, cyclical maintenance, contingencies, related assets etc to ensure the inputs into the business plan are robust.
- To provide robust information on appropriate elements to facilitate our component accounting regime.
- To produce per property investment costs in a format to populate our asset performance model to make strategic investment decisions.
- To provide data back in a consistent format to populate our asset management system.
- To identify an updating regime to populate the database once work has been carried out.
- To capture digital images of the properties and key building components.
- To integrate any reliable data currently within the database into the new survey data.

Volume To Survey

In an ideal world we would undertake a 100% survey of the whole stock. However this is likely to be time and cost prohibited, consequently we intend to undertake a 50% survey (circa 2,900 inspections) This will be a sufficient volume to achieve are overarching objectives.

Timing of the Survey

To ensure our parallel activities are not affected the survey will need to be completed by the end of February 2017, and ideally sooner.

Procurement of the Survey

We are currently members of a procurement hub which has appointed a consultant (Savills) under a full OJEU process, and we intend to call this service directly off of this hub. This will ensure that financial probity is maintained and critically will ensure our timescale is met.

Cost

The cost of the survey will be approximately £220,000 excluding VAT

Value for Money

While the procurement hub has appointed the consultant under an open competitive process we still need to ensure Value for money. The following points has satisfied us that value for money is being achieved.

The current rate within the hub for this service, at this volume is £105 per survey and we have negotiated a rate of £75 per survey directly with Savills.

We have benchmarked this services with 2 other organisations who have recently commissioned similar pieces of work, namely.

- Magna Housing Association £80 per survey
- Aster Property Group £76 per survey

Added value

Savills are the market leaders in undertaking work of this nature and we have confidence that this project will be delivered to a high standard

Savills are a large practice and can undertake this work within our prescribed timescale

Savills have specific knowledge and experience in the code man system and this will ensure the longevity and compatibility of the data in the future

Savills are currently also undertaking work on the Asset Appraisal Model and business plan, meaning the outputs that are required can be provided and populated directly within Savills and reduce the time and risk to the TDBC.