

# Taunton Deane Borough Council

## Tenant Services Management Board – 25 February 2016

### Financial Monitoring – Quarter 3 2015/16

This matter is the responsibility of Executive Councillor Terry Beale

Report Author: Lucy Clothier - Senior Accountant

#### 1 Executive Summary

- 1.1 This report provides an update on the projected outturn financial position of the Housing Revenue Account (HRA) for the financial year 2015/16 (as at 31 December 2015).
- 1.2 Monitoring the budget is an important part of the Council's performance management framework.
- 1.3 The overall financial position of the council remains within 1% of the approved budget.
- 1.4 The current forecast outturn for the financial year 2015/16 is a forecasted overspend of £0.072m
- 1.5 The current capital forecast position for 2015/16 is a forecasted spend of £14.104m with £9.299m for existing approved schemes to be spent in future years.
- 1.6 Reserves remain above the recommended minimum adequate levels, with forecast balances at 31 March 2016 projected to be £2.386m.

#### 2 Recommendations

- 2.1 It is recommended that the Tenant Services Management Board note the Council's financial performance as at the end of Quarter 3.

#### 3 Forecast Outturn Summary – Housing Revenue Account

- 3.1 The current forecast outturn for the Council's HRA is overspent by £0.072m. A summary of the HRA revenue budget and forecast for the year is included in Appendix A.
- 3.2 The major under and over spends forecast for year are summarised as follows:
- 3.3 **Rental Income:** Weekly rental income is currently forecast to over-recover by £0.080m based on rents in Q3. Rent loss due to void properties is currently less than the 1.9% budgeted. This is line with void levels previously experienced.
- 3.4 **Other Income:** Service charges and charges to leaseholders are also forecast to over

recover by £0.025m. There is also a higher than budgeted contribution for Supporting People of £0.019m due to agreements made after budget setting.

- 3.5 **Housing Management:** Currently there are 6 surveyor vacancies which are being covered by agency staff pending recruitment. This is expected to contribute to an overall pressure in this area of £0.163m.
- 3.6 **Specialist Works:** Spend on specialist works, largely asbestos testing, is currently expected to exceed budget by £0.159m.
- 3.7 **Electrical Testing Contract:** In the 2015/16 budget an amount of £0.350m has been allocated for electrical testing, with a further £0.250m included for the works identified from this. The contract will not start until April 2016, so the budget is not required for this financial year. The contract will last for 3 years. It is planned that £0.600m will be requested to be carried forward into an earmarked reserve at the end of the financial year 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 £0.400m, which will be confirmed at the end of the financial year and it is planned that there will be a request at the end of the financial year to carry forward into an Earmarked Reserve.
- 3.9 **Maintenance Works:** Spend on maintenance is now thought to be lower than budget by £0.086m in total. The underspend relates to lower than budgeted costs in responsive heating of £0.187m. This budget has been reduced for 2016/17. This has been offset by an overspend of £0.062m on responsive electrical works, £0.027m for the servicing of heating systems and £0.026m on sewage treatment works.
- 3.10 **Voids:** Overall costs on voids is expected to be £0.059m over budget. This is due to a number of high cost voids works.
- 3.11 **Grounds Maintenance:** Due to the mild weather at the start of winter an additional grass cut was necessary.
- 3.12 **Communal Areas:** Spend on communal areas for dwellings is forecast to be over budget by £0.180m at outturn. The total budget for general maintenance is £2.098m and communal areas are funded from this budget. This is to be monitored throughout the year.
- 3.13 **Procurement Savings:** Prudent budgeting for procurement savings is likely to result in an underspend.
- 3.14 **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.
- 3.15 **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). 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**

3.16 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.

3.17 The following risks have been identified through the Q3 process:

3.17.1 **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.

### **Housing Revenue Account Reserves**

3.18 The HRA reserves at the start of the year were £3.484m. The Council approved an allocation of £0.776m for a number of initiatives and investment in services through the 2014/15 Outturn report in July 2015, and £0.250m for the commission of stock condition surveys in December 2015. This reduces the current budgeted balance to £2.458m, and is forecast to be £2.386m at the end of the current financial year (see table below) based on current projected outturn. This is above the minimum recommended reserve level of £1.800m by £0.586m.

	£k
Balance Brought Forward 1 April 2015	3,484
<i>Supplementary Estimates</i>	
Initiatives approved utilising 2014/15 underspend	(776)
Stock condition survey – approved December 2015	(250)
Budgeted Balance March 2016	2,458
Projected Outturn 2015/16	(72)
<b>Projected Balance Carried Forward 31 March 2016</b>	<b>2,386</b>
Recommended Minimum Balance	1,800
Projected Balance above recommended minimum	586

### **Forecast Outturn Summary – Housing Revenue Account Capital Programme**

3.19 The approved HRA capital programme is £23.759m, of which £13.227m relates to works and costs associated with existing dwellings and £10.532m for the provision of new housing through development.

3.20 £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 have now started, but as these contracts have started mid-year, £2.028m 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 Q3 is £2.495m. This is lower than would be expected at this point largely due to invoicing in arrears and some contracts starting mid-year.

- 3.21 £1.781m relates to other works such as disabled facilities adaptations, asbestos removal, external wall insulations and extensions. Disabled Facilities Grants and Adaptations are currently expected to be £0.114m under budget due to low demand. £0.231m expenditure relating to environmental improvements (used, for example, for scooter stores and additional car parking spaces), £0.135m for Sustainable Energy Projects and £0.105m for extensions is likely to 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 £0.293m. It has been proposed in the Budget Setting papers that an expected underspend of £0.026m in related (non-dwelling) assets would be earmarked towards the 2016/17 budget gap in the HRA.
- 3.22 £1.509m relates to the new budget for adding solar PV systems to dwellings. This work has now been completed with 148 PV systems having been installed at a total cost of £1.357m. The lower cost (a saving of £0.152m) relates largely due to the unexpected limitation in size of each installation, with some additional savings made by managing the programme in house. The reduction in system capacity will also reduce the income expectations, but the lower cost will also reduce the borrowing and interest costs.
- 3.23 £0.300m is Social Mobility funding from Government. This is for grants of £20k for tenants eligible for Right to Buy to purchase a new home on the open market. It is expected that up to 5 awards will be made by the end of the financial year, with any remaining funding returning to Government.

### **Provision of new housing**

- 3.24 The remaining budget of £10.532m is for the provision of new housing through the Creechbarrow Road, Phase 1 sites and the buyback of dwellings previously sold through Right to Buy. These are currently expected to complete within budget, with the Phase 1 sites pending financial completion and Creechbarrow Road now set to complete in 2016/17. £1.893m of the £4.862m remaining budget is to be re-profiled to support this.

### **Weavers Arms Additional Capital Budget**

- 3.25 The Weavers Arms housing development scheme obtained Full Council approval for the project on the 9<sup>th</sup> December 2014 with a budget of £3.500m.
- 3.26 Since this approval the build costs have been tested through the tender process, five contractor's tender returns were received in January 2016. All these show a steep increase in build costs. The most economically advantageous tender is currently being awarded the contract. Additionally we have seen an increase in costs relating to obtaining vacant possession of the site and ecological mitigation.
- 3.27 The timber frame construction chosen will lower build risks with reduced time delays associated with absence of skilled labour and materials, as the majority of the building component is offsite manufactured.

- 3.28 The development at inception was planned to be built to achieve The Code for Sustainable Homes (CFSH) level four, this environmental assessment method is now obsolete, and has attracted some savings to this scheme. The homes will be built to current Building Regulations. Since the last CFSH update Part L of the Building Regulations has been strengthened, resulting in the thermal performance aspect now exceeding the old Code requirements.
- 3.29 The code omissions, and resulting financial savings, include items such as water butts and compost bins, will not lower the thermal efficiency of the elevations. The design of the properties will continue to provide homes with low running costs and support a sustainable community.
- 3.30 The total cost of the scheme is now expected to be £3.634m. It is proposed that the capital programme budget going forward to Council on 23 February will be increased by £0.134m which would be fully funded from unallocated Right to Buy receipts and will fully reflect the up to date cost estimates following the tender exercise.
- 3.31 A summary of the HRA Capital Programme budget and forecast for the year is included in **Appendix B**.

#### **4 Links to Corporate Aims / Priorities**

- 4.1 The financial performance of the Council underpins the delivery of corporate priorities and therefore all Corporate Aims.

#### **5 Finance / Resource Implications**

- 5.1 Contained within the body of the report.

#### **6 Legal Implications**

- 7.1 There are no legal implications associated with this report.

#### **7 Environmental Impact Implications**

- 7.1 None for the purpose of this report.

#### **8 Safeguarding and/or Community Safety Implications**

- 8.1 None for the purpose of this report.

#### **9 Equality and Diversity Implications**

- 9.1 None for the purpose of this report.

#### **10 Social Value Implications**

- 10.1 None for the purpose of this report.

#### **11 Partnership Implications**

- 12.1 None for the purpose of this report.

#### **12 Health and Wellbeing Implications**

12.1 None for the purpose of this report

**13 Asset Management Implications**

13.1 None for the purpose of this report.

**14 Consultation Implications**

14.1 None for the purpose of this report.

**15 Scrutiny Comments / Recommendation(s)**

**List of Appendices (delete if not applicable)**

Appendix A	Housing Revenue Account Summary 2015/16
Appendix B	2015/16 Capital Programme as at 31 December 2015

**Contact Officers**

Name	Lucy Clothier	Name	
Direct Dial	01823 358689	Direct Dial	
Email	l.clothier@tauntondeane.gov.uk	Email	

Name		Name	
Direct Dial		Direct Dial	
Email		Email	

## APPENDIX A

### HOUSING REVENUE ACCOUNT SUMMARY 2015/16

	<b>Current Budget £'000</b>	<b>Forecast Outturn £'000</b>	<b>Forecast Variance £'000</b>
<b>Income</b>			
Dwelling Rents	(24,933)	(25,013)	(80)
Non Dwelling Rents	(599)	(596)	3
Charges for Services/Facilities (Service Charges, Rechargeable Repairs, Leaseholder Charges)	(997)	(1,023)	(25)
Contributions Towards Expenditure	(402)	(421)	(19)
<b>Total Income</b>	<b>(26,931)</b>	<b>(27,053)</b>	<b>(122)</b>
<b>Expenditure</b>			
Repairs and Maintenance	6,651	6,784	133
Housing Management	6,643	6,806	163
Capital Charges – Depreciation and Impairment	6,745	6,745	0
Other Expenditure	1,405	1,680	275
Provision for Bad Debt	515	515	0
<b>Total Expenditure</b>	<b>21,959</b>	<b>22,530</b>	<b>571</b>
<b>Other Costs &amp; Income</b>			
Interest Payable	2,960	2,758	(202)
Interest and Investment Income	(51)	(51)	0
Revenue Contribution to Capital	873	873	0
Provision for Repayment of Debt	893	893	0
Social Housing Development Fund	1,000	1,000	0
Procurement Savings	323	148	(175)
Transfers To/(From) Earmarked & Other Reserves	( 1,026)	(1,026)	0
<b>Total Other Costs &amp; Income</b>	<b>4,972</b>	<b>4,595</b>	<b>(377)</b>
<b>NET (SUPLUS)/DEFICIT FOR THE YEAR</b>	<b>0</b>	<b>72</b>	<b>72</b>

Scheme	Current Budget 2015-16 £	Actual Spend 31.12.2015 £	Forecast Spend Rest of Year £	Total Spend in 2015/16 £	Total Spend v Current Budget £	Forecast Spend in Future Years £	Total Programme Spend £	Forecast Programme Variance £
<b>HOUSING REVENUE ACCOUNT SCHEMES</b>								
<b>Major Works</b>								
Kitchens	1,356,300	78,914	221,086	300,000	(1,056,300)	1,056,300	1,356,300	-
Bathrooms	1,932,800	695,322	744,678	1,440,000	(492,800)	492,800	1,932,800	-
Roofing	50,000	23,448	46,552	70,000	20,000	(20,000)	50,000	-
Windows	146,000	50,518	19,482	70,000	(76,000)	76,000	146,000	-
Heating Improvements	2,894,000	318,780	766,220	1,085,000	(1,809,000)	1,809,000	2,894,000	-
Doors	630,500	416,134	203,866	620,000	(10,500)	10,500	630,500	-
Fire Safety Works in Communal Areas	334,200	247,048	117,952	365,000	30,800	(30,800)	334,200	-
Fascias and Soffits	868,700	27,804	622,196	650,000	(218,700)	218,700	868,700	-
Air Source Heat Pumps	709,500	458,750	303,250	762,000	52,500	(52,500)	709,500	-
Door Entry Systems	270,000	169,143	190,857	360,000	90,000	(90,000)	270,000	-
Other External Insulations	10,000	8,804	41,196	50,000	40,000	(40,000)	10,000	-
<b>Total Major Works</b>	<b>9,202,000</b>	<b>2,494,665</b>	<b>3,277,335</b>	<b>5,772,000</b>	<b>(3,430,000)</b>	<b>3,430,000</b>	<b>9,202,000</b>	<b>-</b>
<b>Improvements</b>								
Aids and Adaptations	120,000	41,990	33,010	75,000	(45,000)	-	75,000	(45,000)
DFGs	315,000	110,307	135,693	246,000	(69,000)	-	246,000	(69,000)
Garages	30,000	-	30,000	30,000	-	-	30,000	-
Sewerage Treatment Plants	20,000	-	20,000	20,000	-	-	20,000	-
Meeting Halls	30,000	975	29,025	30,000	-	-	30,000	-
Unadopted Areas	45,000	12,031	9,969	22,000	(23,000)	-	22,000	(23,000)
Asbestos Works	260,000	125,520	134,480	260,000	-	-	260,000	-
Tenants Improvements	5,000	-	5,000	5,000	-	-	5,000	-
Sustainable Energy Fund	546,400	368,773	41,653	410,426	(135,974)	135,974	546,400	-
Environmental Improvements	312,000	26,976	54,320	81,296	(230,704)	230,704	312,000	-
Extensions	160,000	344	54,380	54,724	(105,276)	105,276	160,000	-
Community Alarms	65,800	58,385	7,415	65,800	-	-	65,800	-
IT Development	306,900	13,330	-	13,330	(293,570)	293,570	306,900	-
PV Systems	1,509,100	1,284,378	72,378	1,356,756	(152,344)	-	1,356,756	(152,344)
Social Mobility Fund	300,000	-	100,000	100,000	(200,000)	-	100,000	(200,000)
<b>Total Improvements</b>	<b>4,025,200</b>	<b>2,043,009</b>	<b>727,323</b>	<b>2,770,332</b>	<b>(1,254,868)</b>	<b>765,524</b>	<b>3,535,856</b>	<b>(489,344)</b>
<b>Social Housing Development Programme</b>								
Creechbarrow Road	4,862,000	1,933,037	1,035,808	2,968,845	(1,893,155)	1,893,155	4,862,000	-
Phase 1: Vale View, West Bag	253,400	6,532	246,868	253,400	-	-	253,400	-
Phase 1: Bacon Drive	550,400	(15,336)	565,736	550,400	-	-	550,400	-
Phase 1: Normandy Drive	366,100	42,338	323,762	366,100	-	-	366,100	-
Buybacks	161,100	191,540	20,000	211,540	50,440	-	211,540	50,440
Social Housing Development Program	1,000,000	-	-	949,560	(50,440)	-	949,560	(50,440)
Weavers Arms	3,338,500	101,750	160,175	261,925	(3,076,575)	3,210,575	3,472,500	134,000
<b>Total Social Housing Development Programme</b>	<b>10,531,500</b>	<b>2,259,860</b>	<b>2,352,350</b>	<b>5,561,770</b>	<b>(4,969,730)</b>	<b>5,103,730</b>	<b>10,665,500</b>	<b>134,000</b>
<b>Total HRA</b>	<b>23,758,700</b>	<b>6,797,535</b>	<b>6,357,007</b>	<b>14,104,102</b>	<b>(9,654,598)</b>	<b>9,299,254</b>	<b>23,403,356</b>	<b>(355,344)</b>