

Somerset West and Taunton Council

Tenants Strategic Group – 22 March 2021

2020/21 Financial Monitoring as at Quarter 3 (31 December 2020)

This matter is the responsibility of Executive Councillor Henley, Corporate Resources

Report Author: Kerry Prisco (Management Accounting & Reporting Lead)

1 Executive Summary

- 1.1 This report provides an update on the projected outturn financial position of the HRA for the financial year 2020/21 (as at 31 December 2020).
- 1.2 The **revenue account** is currently forecasting an over spend of £247k as their year end outturn position for 2020/21. This outturn position is the best estimate based on information currently available. There are a number of risks and uncertainties inherent with this reactive, demand led service impacted by uncontrollable variables such as COVID.
- 1.3 The approved **capital programme** for 2020/21 is £113.80m. This consists of £15.9m of new schemes approved for 2020/21 plus £15.8m of slippage from prior years and £82.1m of approved supplementary budgets. The Capital Programme relates to schemes which will be completed over the next five years.
- 1.4 The **earmarked reserves** balance at the beginning of the year is £1.648m. The Social Housing Development Fund c£1.2m will be used as required to fund social housing development feasibility studies and usage approved through the Housing Programme Board. The remainder of the earmarked reserves have been specifically committed to be spent within the next three financial years.
- 1.5 The **general balances** at the beginning of the year is £2.701m. This is £901k above the minimum recommended reserve level of £1.800m, providing a comfortable level of resilience in light of the significant contractual risk in relation to North Taunton.

2 Recommendations

- 2.1 None

3 Housing Revenue Account (HRA)

- 3.1 The HRA is a ring-fenced, self-financing, account used to manage the Council's housing stock of some 5,700 properties, with the Council acting as the Landlord.

- 3.2 The Council retains all rental income to meet the costs of managing and maintaining the housing stock, as well as meeting the interest payments and repayment of capital debt.
- 3.3 The current year end forecast outturn position for the Housing Revenue Account for 2020/21 is on budget a net underspend of £247k.

Table 1: HRA Outturn Summary

	Current Budget £'000	Forecast Outturn for the Year £'000	Forecast Variance COVID £'000	Forecast Variance non COVID £'000	Total Forecast Variance	
					£'000	%
Gross Income	-26,773	-26,921	0	-148	-148	-0.55%
Service Expenditure	15,026	14,756	0	-270	-270	1.80%
Other Expenditure	11,746	11,917	0	171	171	-1.46%
Total	0	-247	0	-247	-247	-0.92%

- 3.4 The table below provides more detail on the significant variances forecast for the year:

Table 2 - Summary of non-COVID Related Forecast Variances for the Year

Budget heading	Variance £'000	Comments
Income	-148	The outturn forecast is an over recovery of income of £148k. This relates in part to dwelling rents where more income is estimated to be recovered than predicted when setting the budget and providing an allowance for voids. This also relates to leaseholder service charges where the budget is set prior to the associated costs being incurred and then billed in arrears.
Salaries	-421	The estimated total under spend of £421k on staffing costs relates to the new structure for 2020/21 which has taken time to recruit suitable candidates. Therefore some vacancy savings have materialised across the service, specifically in the performance and development team. This has been offset in part by the increase in costs associated with the pay award at 2.75% compared to the estimated 2% pay award that was budget and approved by Full Council in February 2020, meaning an increase in costs to the HRA of £59k.
Housing Partnership	13	The estimated over spend on SWPSHP is due to an incorrect budget split between GF and HRA during 2020/21 budget setting process.
Landlord Property Compliance	211	A review of all compliance areas against every property for which Somerset West and Taunton Council has landlord property compliance responsibility is being undertaken. The review has so far identified that approximately £211k of additional costs will need to be incurred this financial year over and above existing budgets.
Transfer Removal Grants	-22	This relates to a freeze in transfer removal grants in lettings due to COVID19. This has now recommenced but is progressing slowly due to the current climate.

Budget heading	Variance £'000	Comments
Letting Expenditure	-10	This relates to a reduction in lettings expenditure with regards to paying for adverts related to house moves which have been restricted due to COVID19.
Meeting Halls	-25	There has been a significant reduction in activity seen in meetings halls due to their closure during COVID19 lockdowns.
Policy & Management	40	This relates to a range of variances in this cost centre for example additional costs incurred to increase communication to our tenants through the year which incurred additional printing and postage costs. We have also engaged independent financial modelling consultant to scenario plan and health check our business plan which supports our ambitious 10 year development programme.
Tenant Empowerment (TSG)	-17	Tenant empowerment work has been reduced this year due to Covid restrictions. Meetings are now taking place online and newsletters to our tenants have restarted but we will underspend on this budget this year by c£17k.
Tenants Action Group	-39	The Tenants Action Group have restarted their meetings online since September 2020 following Covid19 putting a stop to face to face meeting. The group are still hoping to issue youth initiative funding of £20k but other environmental improvements and training for the group has been halted due to Covid creating an underspend of c£39k. Of which a c/f request of £20k for the Youth Initiative grant as this may not be awarded in time for year end due to COVID19.
Depreciation	348	Following the closedown of the 2019/20 accounts a variance on the depreciation charge, which is transferred to the Major Repairs Reserve (MRR) to fund the capital programme and/or repay capital debt. Due to this being calculated at the end of the financial year the 2020/21 budgets were not adjusted for this and therefore there will be an over spend of c£348k. The budget for 2021/22 will be updated to reflect the latest estimates for this.
Interest Payable	-177	The current forecast estimate is an under spend of £177k. The authority have recently taken out an additional £10m loan at 1.64% reducing the amount and cost of internal borrowing. The final outturn position will depend on the final capital funding requirement funded from internal borrowings and the rate applied.
TOTAL Over / (-) Underspend	-247	

3.5 **HRA - Risk and Uncertainty**

3.6 Budgets and forecasts are based on known information and the best estimates of the Council's future income and expenditure activity. Income and expenditure over the financial year is estimated by budget holders and then reported through the budget monitoring process. During this process any risks and uncertainties are identified which could impact financial projections, but for which the likelihood and/or amount are uncertain.

- 3.7 There are also a number of areas where the financial impact is not known until the end of the financial year such as depreciation charges and change in provision for bad debt.
- 3.8 The current areas of risk and uncertainty being reported include:
- 3.8.1 **Repairs & Maintenance:** Overall this is a very demand led and reactive service based on the needs of the tenants. There are also a number of uncontrollable variables associated with this service such as the weather (e.g. cold winters causing burst pipes, roof leaks, etc), condition of properties when returned (e.g. void refurbishments), consumer demand on minor internal / external repairs (e.g. broken door or fence) and the type of repair work required.
- 3.8.2 **RTB Receipts:** The RTB scheme is a government scheme that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. The receipts allowed to be retained by the Council can fund up to 30% of new social housing costs and must be used within three years of receipt. To date, the Council has successfully spent all of their retained 1-4-1 receipts resulting in no returns being made to the Treasury/MHCLG.
- 3.8.3 On the 31 Dec 202 the government issued a temporary relaxation of the rules in response to the COVID situation, to give authorities until 31 December 2020 to catch up with their spending plans. This has now been extended until the 31st March 2021.
- 3.8.4 Whilst projected spend and additional purchases are being sought by the service there is a risk that the quarter 4 spend requirements will not be met and may result in funds being return to MHCLD / Treasury. This is a direct result of COVID delaying progress on new build and purchasing houses on the open market.

4 HRA Capital Programme

- 4.1 The HRA approved Capital Programme is £113.8m. This consists of £15.9m of new schemes approved for 2020/21 plus £15.8m of slippage from prior years and £82.1m of approved supplementary budgets. The Capital Programme relates to schemes which will be completed over the next five years.
- 4.2 The Council is supporting this investment through the use of the Major Repairs Reserve, Capital Receipts, Revenue Funding and Borrowing.
- 4.3 The capital programme can be split into three distinct areas:
- 4.4.1 **Major Works:** The approved budget of £9.5m is funded by the Major Repairs Reserve and relates to spend on major works on existing dwellings such as kitchens, bathrooms, heating systems, roofs, doors and windows. New schemes approved for 2020/21 total £6m with slippage from the prior year of £3.5m. It is likely that the impact of COVID will result in an under spend in this area within the year.
- 4.4.2 **Improvements:** The approved budget of £3.2m is funded by the Major Repairs Reserve and relates to spend on improvements such as disabled facilities adaptations, asbestos

removal and environmental improvements. New schemes approved for 2020/21 total £2.9m with slippage from the prior year of £0.3m.

- 4.4.3 **Social Housing Development Programme:** The approved budget of £18.9m is for the provision of new housing through schemes such as Phases A-E for North Taunton Regeneration, Laxton Road and other buybacks to increase the Council’s housing stock. Funding allocated for new schemes totals £6.9m with slippage from the prior year of £12m mainly being North Taunton and Laxton Road. Supplementary budgets of £82.1m have since been approved for a variety of new build affordable home schemes. In the current year £1.1m has been spent in buy backs.

5 HRA Earmarked Reserves

- 5.1 The HRA Earmarked Reserves (EMR) at the beginning of 2020/21 were £1.648m (see Table 3 below). The Social Housing Development Fund will be used as required to fund social housing development feasibility studies and usage approved through the Housing Programme Board. The remainder of the earmarked reserves have been specifically committed to be spent within the next three financial years.

Table 3: Balance of Earmarked Reserves held at 1 April 2020

Description	Balance b/f (£'000)
HRA Employment and Skills Dev	102
HRA Asbestos Surveys	102
HRA One Teams	37
Social Housing Development Fund	1,232
HRA Contribution to Change	175
HRA Total	1,648

6 HRA General Reserves

- 6.1 The HRA reserves at the start of the year were £2.7m. This is £901k above the minimum recommended reserve level of £1.8m.
- 6.2 **Forecast Outturn** - The current outturn position is forecast to be a net underspend of £247k. If this is the position at year end then this will be returned to general balances, increasing them to £2.948m.

Table 4: HRA Reserve Balance

	£k
Balance Brought Forward 1 April 2020	2,701
Forecast Outturn 2020/21 (as at 31 Dec 2020)	247
Forecast Balance Carried Forward 31 March 2020	2,948
Minimum Balance Per Business Plan	2,000

Democratic Path:

- Scrutiny – 3 March 2021
- Executive – 17 March 2021
- Tenants Strategic Board – 22 March
- Full Council – no

Reporting Frequency: Quarterly**List of Appendices**

Appendix A	Capital Programme
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Appendix A: Capital Programme

	Total 2020/21 Capex Budget	Total Forecast Capital Outturn 2020/21	Forecast Capital Outturn 2021/22	Forecast Capital Outturn 2022/23	Forecast Capital Outturn 2023/24	Forecast Capital Outturn 2024/25	Forecast Capital Outturn 2025/26 Onwards	Variance Minus = Favourable
Majors and Improvements	12,785,300	3,316,953	9,468,347	0	0	0	0	0
Social Housing Development Schemes	100,988,490	4,944,995	22,763,000	27,276,000	11,280,000	9,038,000	25,686,495	0
HRA Total	113,773,790	8,261,947	32,231,347	27,276,000	11,280,000	9,038,000	25,686,495	0