AGENDA ITEM 3

REPORT 21/21

ANGUS COUNCIL

COMMUNITIES COMMITTEE – 09 FEBRUARY 2021

HOUSING CAPITAL AND REVENUE BUDGET PERFORMANCE REPORT – 2020/21

JOINT REPORT BY THE DIRECTOR OF COMMUNITIES AND THE DIRECTOR OF FINANCE

ABSTRACT

This report relates to the Housing Revenue Account (HRA) Capital and Revenue performance to date in 2020/21. It sets out the actual Capital and Revenue spend to 31 December 2020 together with projected outturns for the year to 31 March 2021 and any required updated capital funding proposals.

1 RECOMMENDATION

It is recommended that the Committee review and scrutinise:

(i) the contents of this report; and

(II) the projected year end positions on capital and revenue expenditure as indicated in **Appendix 1** and **2**, and the indicative funding proposals for the programme.

2 ALIGNMENT TO THE ANGUS LOCAL OUTCOMES IMPROVEMENT PLAN / CORPORATE PLAN.

This report contributes to the following local outcomes contained within the Angus Local Outcomes Improvement Plan and Locality Plans:

- Improved physical, mental and emotional health and well-being
- An enhanced, protected and enjoyed natural and built environment
- Safe, secure, vibrant and sustainable communities
- A reduced carbon footprint

3 BACKGROUND

3.1 The responsibilities of Chief Officers with regard to revenue and capital monitoring are set out in Sections 3 and 7 of the Council's Financial Regulations. This report seeks to ensure that budgetary control is exercised in line with those Regulations.

4 2020/21 CAPITAL BUDGET

4.1 The HRA capital monitoring budget for 2020/21 is £13.943 million and this report presents the latest estimated outturn against the monitoring budget. An update on the final actual outturn position will be presented to members of the Communities Committee following the summer 2021 recess.

5 2020/21 CAPITAL MONITORING OUTTURN POSITION

5.1 Table 1 below sets out the position of the overall Housing Capital Programme for 2020/21 as at 31 December 2020. The actual spend achieved to that date is £6.171 million which equates to 44% of the monitoring budget of £13.943 million. It is projected at this time, that by the end of the financial year 2020/21 net expenditure will total £13.243 million which represents a potential underspend of 5%. The main reasons for this are contained in section 6 below.

Table 1 – Housing Capital Programme 2020/21

Programme	Monitoring Budget £m	Actual Expenditure 31 Dec 2020 £m	Latest Estimate £m	Projected (over)/ under Spend £m
New Build and Shared Equity	4.212	3.210	6.183	(1.971)
Conversion	0.310	0.011	0.190	0.120
Aids and Adaptations	0.250	0.097	0.185	0.065
Heating Installations	1.653	0.368	0.780	0.873
Window Replacement	0.525	0.072	0.505	0.020
Energy Saving	4.000	1.025	2.501	1.499
Sheltered Housing	0.369	0.014	0.362	0.007
Kitchen Replacement	0.782	0.250	0.682	0.100
Bathroom Replacements	0.950	0.745	0.850	0.100
Miscellaneous	0.855	0.329	0.955	(0.100)
Balances on Completed Projects	0.037	0.050	0.050	(0.050)
Total Programme	**13.943**	**6.171**	**13.243**	**0.700**

6 COMMENTARY ON SIGNIFICANT CAPITAL BUDGET MONITORING ISSUES

6.1 The COVID-19 pandemic has had a significant impact on the HRA Capital Programme, and continues to cause challenging conditions nationally for the construction industry. The vast majority of construction operations were not permitted for the first 4 months of the financial year, and new safer working practices have had to be adopted since they re-started, causing additional time impacts and costs. Some clawing back of delayed programme had been achieved up to Christmas, but new tiered restrictions and then the January Lockdown are once again impacting on several areas of operations, most notably on any works that take place inside occupied properties – these are not possible in tier 4 areas. Therefore, there is considerable uncertainty on how much can be delivered in the remainder of the financial year, especially if Lockdown continues into February and beyond.

So with the general impact of the COVID-19 situation described above, members are asked to note that the commentary provided below on specific projects and programmes, is on an exception basis. Where there is no narrative, there are no additional issues, over and above the aforementioned COVID-19 situation to report at this time.

6.2 New Build and New Supply

The spend profile has been amended to account for inevitable programme changes to the majority of developments. However, works were completed at the Abbey Quarter in Arbroath, at Dunarn Terrace in Newtyle, and at Damacre Road in Brechin. Work has been clawed back on other projects and is also progressing steadily at the two live Timmergreens sites in Arbroath. The appropriation of 11 General Fund properties has increased the likelihood of a projected overspend.

6.3 Conversions

Conversion works at 3 properties which were delayed are now underway, including the conversion of previously hard to let 2 bed flats in to 4-bedroom family homes. The spend profile has been amended to reflect this.

6.4 Heating
The Spend profile has been amended to reflect delays in the installation of supply by SGN. This held up the pilot gas upgrades, which in turn pushed back the progress of the main gas upgrading contract. Works are also now being effected by COVID-19 restrictions.

6.5 Energy Saving
The spend profile has been adapted to reflect works deemed achievable with the contractor's current labour resource. It has been acknowledged that the contractor requires additional resources to deliver beyond the demonstrated spend, and issues regarding recruitment of suitably skilled resource have been raised. This is a challenge to the construction industry across Scotland, and has been raised as an issue nationally. A shortage of a trained labour force may have implications for meeting zero carbon targets.

6.6 Kitchen Replacements
Contracts are on site, but work in occupied properties has been compromised by COVID-19. However, works continue with kitchen installs being undertaken in void properties to claw back the programme and provide work for contractors in a restricted pandemic environment. If COVID-19 restrictions are eased, kitchen installs in tenanted properties may recommence in February or March, allowing some potential to pull back numbers lost during the pandemic shut down.

6.7 Bathroom Replacement Programme
Despite the Pandemic, and some workforce resourcing issues, contractors had been able to achieve over 10 bathrooms being delivered each week, as a combination of works in void properties, and in tenanted homes. The spend was getting back on track before the recent return to tier 4 restrictions once again imposed constraints. If COVID-19 restrictions are eased, bathroom installs in tenanted properties may recommence in February or March, allowing some potential to pull back numbers lost during the pandemic shut down.

6.8 Miscellaneous
Spend on smoke detector upgrades was delayed due to the Pandemic, and whilst a best value exercise was undertaken to ensure that a cost-effective solution is being delivered that meets or exceeds statutory requirements. The statutory deadline for the completion of upgrades has been extended until 2022 and it is anticipated that works will be completed well before this date.

7 2020/21 CAPITAL RECEIPTS UPDATE

7.1 Table 2 below details the capital receipts position for 2020/21.

Table 2 – Capital Receipts Position 2020/21

Receipt Type	Number of Sales	Actual Receipts 31 Dec 2020 £m	Projected Final Receipts Position £m
Shared Equity Sales	3	0.071	0.071
Other Sales	1	0.049	0.049
Land Sales	3	0.008	0.008
Total Capital Receipts	**7**	**0.128**	**0.128**

7.2 These receipts will be retained on the Council's balance sheet at 31 March 2021 and applied in the funding of the HRA capital programme in 2021/22.

8 2020/21 CAPITAL FUNDING UPDATE

8.1 At the time of setting the 2020/21 monitoring budget, estimated resources assumed to be available to finance the capital programme were as detailed in Table 3 below. These resources have been reviewed to reflect the 2020/21 latest projected capital expenditure levels.

8.2 Table 3 below therefore details: the original funding of the monitoring budget; projected funding movements ; and the projected year end funding position.

Table 3 - Capital Funding 2020/21

2020/21 Capital Budget	Monitoring Budget £m	Projected Funding Movement £m	Projected Year End Funding £m
Funding Sources:			
- Prudential Borrowing	4.861	(1.115)	3.746
- Capital Receipts	0.000	0.415	0.415
- Capital Financed from Current Revenue	8.231	0.000	8.231
- Transfer from Earmarked Reserves	0.851	0.000	0.851
Total Funding Sources	**13.943**	**(0.700)**	**13.243**

Note: the projected year end transfer £0.851m from earmarked reserves comprises £0.351m from HRA balances and £0.500m from the Affordable Housing Revenue Account.

8.3 As part of the 2021/22 rent setting process, officers have also reviewed the Capital Plan and potential future capital projects to determine the most appropriate use for HRA balances ring-fenced for Scottish Housing Quality Standard / New Build purposes. The rent setting report also on the agenda for this meeting incorporates plans to utilise these balances over future financial years to reduce borrowing levels and extend future capital spend flexibility.

9. 2020/21 REVENUE BUDGET PERFORMANCE

9.1 In line with the provisions of Section 3 of the Financial Regulations, the revenue budget performance statement is intended to be presented at three key points during the year. The statement below indicates the actual spend to 31 December 2020, together with a percentage of the budget spent to date; a projected outturn to the end of the financial year; and a projection against the original budget. It can be seen from Table 4 for the 9 month period to 31 December 2020 the HRA is currently indicating a surplus of £0.581 million.

9.2 Based on information available at this time it is projected that by the end of the 2020/21 financial year the HRA will generate a surplus of £1.333 million. Officers from Finance and Housing have determined that a portion of the projected surplus will be utilised within the current financial year to further reduce the borrowing element of Table 3 above. The actual value in this regard will be determined as part of the 2020/21 final accounts process. The remaining net surplus arising within the HRA Revenue Account will be set aside within the HRA balances, initially as a contingency against increased repairs and maintenance costs as works delayed by COVID-19 begin to catch up over 2021/22. Any unused contingency will be used to reduce outstanding debt, which will allow the HRA Capital Plan additional flexibility in future years. It can also be seen from Table 4 that there are a number of projected over and underspends within various budget heads of the HRA. The main reasons for these projected over and underspends are highlighted in Section 10 of this report.

Table 4 – HRA Revenue Monitoring

	Monitoring Budget £m	Actual to 31/12/20 £m	Budget Spent %	Projected Outturn £m	(Over) / Under Spend £m
EXPENDITURE					
Financing Charges	11.398	0.000	0	11.201	0.197
Supervision & Management	8.119	3.065	37.8	7.986	0.133
Repairs & Maintenance	9.332	3.375	36.2	8.051	1.281
Loss of Rents	1.478	0.251	17.0	1.556	(0.078)
Other Expenditure	0.624	0.016	2.6	0.624	0.000
GROSS EXPENDITURE	**30.951**	**6.707**	**21.7**	**29.418**	**1.533**
INCOME					
Rents & Service Charges	30.297	7.284	24.0	30.092	(0.205)
Other Income	0.229	0.004	1.7	0.234	0.005
Homelessness Funding	0.425	0.000	0	0.425	0.000
GROSS INCOME	**30.951**	**7.288**	**23.5**	**30.751**	**(0.200)**
NET SURPLUS / EXPENDITURE	**0.000**	**(0.581)**	**n/a**	**(1.333)**	**1.333**

Appendix 2 gives further detail in respect of the 2020/21 position on the Housing revenue budget.

10 COMMENTARY ON SIGNIFICANT REVENUE BUDGET MONITORING ISSUES

10.1 The pandemic has had a significant impact on the HRA Revenue Budget, and continues to cause uncertainty for both income and expenditure. House moves were not possible for the first 4 months of the financial year, which caused stagnation in the allocations process. Both routine and planned maintenance works were suspended, causing not only an underspend, but also a backlog of works building up in vacant properties, necessary for re-letting. There has been a larger loss of income from voids as a result. New tiered restrictions are once again impacting on repair operations, most notably on any maintenance works that take place inside occupied properties – these are not possible in tier 4 areas or Lockdown.

As a result of these constraints, more planned maintenance and capital improvements are now being carried out when properties become vacant at change of tenancy. It is felt that the benefits of being able to continue work programmes when a vacancy occurs, outweigh the logistical challenges and the cost implications of lost rental income for the additional time the property is vacant. The other benefit is that tenants do not have to undergo the disruption of major work being carried out in their home. It does mean however, that programmes take longer to deliver.

Although house moves and works in vacant properties are permitted, there remains considerable uncertainty on expenditure in the coming months. With this in mind, members are asked to note that commentary provided below is on an exception basis. Where there is no narrative, there are no significant issues to report, over and above the aforementioned comments on the general Pandemic situation.

10.2 Financing Charges
Financing charges are anticipated to be less than budgeted by £0.197 million mainly due to lower interest costs as a result of reduced borrowing requirements to support the Capital Programme.

10.3 Supervision and Management.
The underspend in Supervision and Management of £0.133 million is mainly due to staff slippage and unfilled posts of £0.124 million and savings on travel of £0.020 million offset by other minor overspends.

10.4 Repairs and Maintenance.
There is likely to be an underspend this year in Repairs and Maintenance of £1.281 million, due to the ongoing constraints of the Pandemic described above. This underspend may increase if COVID-19 restrictions continue into February and March.

10.5 Loss of Rents
Loss of rents is experienced when properties are void. This can be for a number of reasons, such as changes of tenancy, low demand in some areas, and properties held vacant whilst major maintenance or upgrade works are carried out.

Loss of rents from void properties is likely to increase this year to £1.556 million due to voids being held for 4 months in the first part of the year, and then because voids are taking longer to process whilst planned and capital works are carried out.

10.6 Rental Income
Rental income is likely to be lower than budget by £0.205 million due to 2 main factors: firstly, a number of properties have been emptied down as part of the Timmergreens regeneration, and will remain empty until they are cleared ahead of the new-build construction; Secondly 60 new-build properties coming on stream were delayed by over 6 months due to the initial COVID-19 lockdown. Both these things have reduced the anticipated level of income.

11 FINANCIAL IMPLICATIONS

11.1 The financial implications for the Council detailed in the body of the report, and in accompanying appendices, are summarised in Table 5 below. There are a number of known commitments for which HRA balances will be utilised in financial year 2020/21 and beyond, and these are also detailed in Table 5. Members should note that Scottish Government targets and priorities can change over time, but the commitments and planned expenditure contained within the Housing Capital Plan are thought sufficient to meet Housing needs at this time.

Table 5 - HRA Balances

	Monitoring Budget £m	**Projected Outturn £m**
Audited Housing Balance as at 01/04/20	3.097	3.097
Less Minimum Balance Requirement	(1.000)	(1.000)
Audited Available Housing Balance as at 01/04/20	2.097	2.097
Less: Projected capital funding drawdown (per paragraph 8.3)	(0.351)	(0.351)
Add: Anticipated 2020/21 Housing Revenue Account Surplus	0.000	1.333
Anticipated Housing Revenue Account Balance as at 31/03/2021	1.746	3.079
Known / Potential Commitments:		
One-Off Expenditure /early Debt Repayment	(0.580)	(1.913)
New Build Housing/EESSH	(1.166)	(1.166)
Total Known / Potential Commitments	(1.746)	(3.079)

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing this report.

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List of Appendices:
Appendix 1: Housing Capital Monitoring Statement
Appendix 2: Housing Revenue Monitoring Statement