AGENDA ITEM NO 3

REPORT 31/22

ANGUS COUNCIL

SPECIAL COMMUNITIES COMMITTEE – 8 FEBRUARY 2022

HOUSING CAPITAL AND REVENUE BUDGET PERFORMANCE REPORT – 2021/22

REPORT BY DIRECTOR OF VIBRANT COMMUNITIES AND SUSTAINABLE GROWTH, AND DIRECTOR OF FINANCE

ABSTRACT

This report relates to the Housing Revenue Account (HRA) Capital and Revenue performance to date in 2021/22. It sets out the actual Capital and Revenue spend to 31 December 2021 together with projected outturns for the year to 31 March 2022 and any required updated capital funding proposals.

1 RECOMMENDATIONS

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 COUNCIL PLAN

2.1 This report contributes to the following local outcomes contained within the Angus Community Plan 2017-2030

- Angus is a good place to live in, work in and visit
- Safe, secure, vibrant and sustainable communities
- Improved physical, mental and emotional health and well-being

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 2021/22 CAPITAL BUDGET

4.1 The HRA capital monitoring net budget for 2021/22 was previously £20.145 million and the gross budget was £22.104 million per report 308/21.

4.2 Subsequently, a review of the presentation of the shared equity receipts in relation to The Grange Monifieth Shared Equity Scheme has been undertaken. This has been amended to show these receipts against the specific project on the Shared Equity page of the capital plan, rather than as part of the overall funding of the net capital budget.

This has the effect of reducing the net capital budget by £2.570 million, but also the general HRA capital funding resource by the same amount.

It should be noted that although the net capital budget has reduced, there is no impact on the gross capital budget which remains at £22.104 million.

The table below illustrates the movement in the net capital budget:

Table 1 – Change to 2021/22 Net Housing Capital Budget

	Monitoring Budget (Report 308/21) £ million	Monitoring Budget £ million	Budget Movement £ million
Gross Housing Capital Budget	**22.104**	**22.104**	**0.000**
Affordable Housing Grant	(1.876)	(1.876)	0.000
Scottish Government Specific Capital Grant	(0.083)	(0.083)	0.000
Shared Equity Receipts	0.000	(2.570)	(2.570)
Net Housing Capital Budget	**20.145**	**17.575**	**(2.570)**
Funded By:			
Mainstream Borrowing	7.764	7.764	0.000
Capital Receipts	2.758	0.188	(2.570)
Capital Financed from Current Revenue	7.714	7.714	0.000
Affordable Housing Reserve	0.300	0.300	0.000
Transfer from HRA Reserves	1.609	1.609	0.000
Total Funding of Net Budget	**20.145**	**17.575**	**(2.570)**

This report presents the latest estimated outturn against the revised net monitoring budget. An update on the final actual outturn position will be presented to members of the Communities Committee following the summer 2022 recess.

5 2021/22 CAPITAL MONITORING OUTTURN POSITION

5.1 Table 2 below sets out the position of the overall Housing Capital Programme for 2021/22 as at 31 December 2021. The actual spend achieved to that date is £15.288 million which equates to 87% of the monitoring budget of £17.575 million. It is projected at this time, that by the end of the financial year 2021/22 net expenditure will total £21.004 million which represents a potential overspend of 20%. The main reasons for this are contained in section 6 below.

Table 2 – Housing Capital Programme 2021/22

Programme	Monitoring Budget £ million	Actual Expenditure 31 Dec 2021 £ million	Outturn 2021/22 £ million	Projected (over)/ under Spend £ million
New Build and Shared Equity	7.580	6.698	8.236	(0.656)
Conversion	0.260	0.148	0.187	0.073
Aids and Adaptations	0.340	0.290	0.353	(0.013)
Improvements	0.603	0.008	0.528	0.075
Heating Installations	1.233	0.125	0.557	0.676
Window Replacement	0.520	0.069	0.340	0.180
Energy Saving	4.000	5.619	7.500	(3.500)
Sheltered Housing	0.289	0.040	0.280	0.009
Kitchen Replacement	0.800	0.511	0.800	0.000
Bathroom Replacements	1.200	0.882	1.200	0.000
Miscellaneous	0.750	0.875	1.000	(0.250)
Balances on Completed Projects	0.000	0.023	0.023	(0.023)
Total Programme	**17.575**	**15.288**	**21.004**	**(3.429)**

6 COMMENTARY ON SIGNIFICANT CAPITAL BUDGET MONITORING ISSUES

6.1 Members are asked to note the following projects, either because there are aspects out of the ordinary, or they are potentially more risky for achievement of budgeted spend in 2021/22 due to their stage of development, the scale of expected spend or the involvement of other parties.

6.2 New Build
New build projects currently live on site are progressing in line with predicted budget spend.

Preparation work for phases 3 and 4 at Timmergreens and the appropriation of a general fund site in North Arbroath have been accelerated so that Scottish Government grant can be drawn down in this financial year. Spend against Inglis Court is projected to be less this year as a result of delays to allow Council to consider a detailed options appraisal. The decision to continue with the redevelopment was approved by Council on 4 November 2021.

However, members will note the projected overspend under this heading. This is due to the profile of grant drawdown from the Scottish Government changing. This was accelerated in 2020/21 at their request, to facilitate a maximum amount of grant claim against on-site projects during that financial year. This resulted in a higher than projected grant income in 2020/21, which showed as a higher level of slippage in the Capital Plan for that financial year, but then a subsequent lower grant drawdown in this financial year, manifesting itself as an overspend. It should be noted that the overall level of grant income remains the same as had been projected over the life of the projects, the overall cost of projects themselves will not be affected, and the HRA will not be in deficit for these projects. It is just the timing of the grant drawdown profile that is affected, which needs to have a level of flexibility to enable optimum effective working with partners.

6.3 Shared Equity
In line with the proposed principles of the Housing Development Policy Framework, approval was given to purchase 22 units at The Grange, Monifieth and deliver these as shared equity housing to households in the priority client group. The properties provide much needed low-cost home ownership options in Monifieth, which is the area in Angus with highest house values. The units were purchased without any grant subsidy. All 22 properties have now been sold on to qualifying purchasers.

In addition, we have entered into an agreement to purchase up to six three-bed units as shared equity in the North Housing Market Area, by the end of March 2022. Each property purchased will be delivered through the Scottish Government New Supply Shared Equity Scheme (NSSE) and attract grant subsidy.

6.4 Heating Installation and Replacement
The gas heating installation program has been flagged as a concern. Members will be aware that the energy sector is currently experiencing issues with wholesale price rises resulting in some smaller energy companies not being viable. This has meant that larger energy companies are reluctant to take on new customers and this is impacting on tenant engagement with the meter installation process, preventing works from being commenced. This has in turn delayed the overall gas upgrade programme and resulted in an options appraisal being commissioned to review the viability of the original project. Direct engagement with tenants is being made wherever possible to provide appropriate advice and assistance in order to expedite the situation. The electrical heating upgrade to sheltered properties is currently delayed because of multiple global supply issues, and parts availability. Works are however programmed to be completed within the current financial year.

6.5 Window Replacement
There has been a lower than anticipated spend on window installations due to 2 reasons. The contract had been temporarily halted whilst inspections were carried out to assess whether installations are in accordance with the required specification, to ensure quality and best value for tenants. A further delay has been experienced due to the latest COVID guidance which recommends restricting work in occupied properties to essential operations only. Installations will recommence once restrictions are lifted and will be closely monitored to ensure compliance with the specification.

6.6. Energy Saving/Towards Zero Carbon
Works continue to progress well on the energy savings works which has allowed an acceleration of the programme. This has resulted in a much higher than anticipated spend profile, contributing to the projected overspend on original budget. However, this is considered to be a sensible

acceleration of the 25 year programme to improve the energy efficiency of tenants' homes and achieve zero carbon across the housing stock by 2045. This faster delivery is especially important, given the considerable increase in fuel bills likely to be experienced by tenants in the coming months. Members should note that although this is an overspend in this financial year, this is an advancement of future spend and the overall cost of the project will not be affected. Funding is already allocated within the overall Capital Plan and can be brought forward to accommodate this change.

6.7. Kitchen Replacement Programme
Currently progress is in line with the projected spend. Regular meetings are being held with the contractor to monitor ongoing supply issues, material costs and labour shortages, caused by various global factors and how these are likely to affect future progress.

6.8. Bathroom Replacement Programme
Progress is in line with the projected spend. However, meetings are being held with the contractor to monitor the situation, including supply issues, material costs and labour shortages, caused by various global factors and how these are likely to affect future progress. Should the labour situation improve, consideration will be given to accelerating installations.

6.9. Miscellaneous
The LD2 smoke alarm installation programme has suffered from issues with access to properties as a substantial proportion of tenants have been disinclined to engage in the process. They already have integrated smoke detectors in their properties, so there seems to be reluctance to allow access into their homes for the extra detectors to be installed, because there may be a perception that there is no huge benefit, even though legislation requires it. In addition to letters being sent to tenants explaining the statutory requirement to install the alarms, communications have been issued on the housing blog. More direct contact with tenants is being undertaken to gain access into the remaining homes to ensure we comply with the statutory requirement.

7 2021/22 CAPITAL RECEIPTS UPDATE

7.1 As at 31 December 2021 Capital Receipts amount to £0.499 million.

7.2 These receipts will be retained on the Council's balance sheet at 31 March 2022 and applied in the funding of the HRA capital programme in 2022/23.

8 2021/22 CAPITAL FUNDING UPDATE

8.1 At the time of setting the 2021/22 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 2021/22 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 2021/22

2021/22 Capital Budget	**Revised Monitoring Budget £ million**	**Projected Funding Movement £ million**	**Projected Year End Funding £ million**
Funding Sources:			
- Prudential Borrowing	7.764	3.429	11.193
- Capital Receipts	0.188	0.000	0.188
- Capital Financed from Current Revenue	7.714	0.000	7.714
- Transfer from Earmarked Reserves	1.909	0.000	1.909
Total Funding Sources	**17.575**	**3.429**	**21.004**

Note 1: the projected year end transfer of £1.909 million from earmarked reserves comprises £1.609 million from HRA balances and £0.300 million from the Affordable Housing Revenue Account.

Note 2: the additional £3.429 million projected borrowing, reflects the acceleration of the energy savings programme as detailed at paragraph 6.6 above. This is an advancement of borrowing from future years – i.e. it is not additional borrowing.

8.3 As part of the 2022/23 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. 2021/22 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 2021, 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 2021 the HRA is currently indicating a surplus of £9.147 million.

9.2 Based on information available at this time it is projected that by the end of the 2021/22 financial year the HRA will generate a surplus of £1.271 million. Officers from Finance and Housing have determined that a portion of the projected surplus will be utilised within the current financial year to reduce the borrowing element of Table 3 above. The actual value and timing in this regard will be determined as part of the 2021/22 final accounts process.

9.3 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 continue to catch up over 2022/23. Any unused contingency will be used to reduce the 2022/23 borrowing requirement, which will allow the HRA Capital Plan additional flexibility in future years.

9.4 It can 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 £ million	Actual to 31/12/21 £ million	Budget Spent %	Projected Outturn £ million	(Over) / Under Spend £ million
EXPENDITURE					
Financing Charges	11.185	0.000	0.0	11.051	0.134
Supervision & Management	8.598	3.294	38.3	8.184	0.414
Repairs & Maintenance	9.477	4.625	48.8	8.749	0.728
Loss of Rents	1.643	0.966	58.8	2.159	(0.516)
Other Expenditure	0.624	0.026	4.2	0.618	0.006
GROSS EXPENDITURE	**31.527**	**8.911**	**28.3**	**30.761**	**0.766**
INCOME					
Rents & Service Charges	30.849	18.047	58.5	31.358	0.509
Other Income	0.253	0.011	4.3	0.249	(0.004)
Homelessness Funding	0.425	0.000	0.0	0.425	0.000
GROSS INCOME	**31.527**	**18.058**	**57.3**	**32.032**	**(0.505)**
NET (SURPLUS) / EXPENDITURE	**0.000**	**(9.147)**	**n/a**	**(1.271)**	**1.271**

Appendix 2 gives further detail on the 2021/22 position on the Housing revenue budget.

10 COMMENTARY ON SIGNIFICANT REVENUE BUDGET MONITORING ISSUES

10.1 The pandemic and uncertain global environment continues to have an impact on the HRA Revenue Budget. House moves and works in properties are permitted, notwithstanding the recent restrictions, but additional safe working practices continue to hamper a return to normal conditions. There also continue to be difficulties experienced with supply of materials and staff retention challenges for contractors.

The commentary provided below is on an exception basis. Where there is no narrative, there are no significant issues to report.

10.2 Financing Charges

Financing charges are anticipated to be less than budgeted by £0.134 million. Interest charges are projected to be lower than budgeted primarily due to the level of borrowing undertaken in the previous year being less than originally anticipated. This led to lower borrowing costs in 2021/22.

10.3 Supervision and Management.

The underspend in Supervision and Management of £0.414 million is mainly as a result of staff slippage and delays with recruitment.

10.4 Repairs and Maintenance.

There is likely to be an underspend this year in Repairs and Maintenance of £0.728 million. As the unplanned repair contracts were competitively priced in what is currently an uncertain global environment, contingency funds were put in place to cover the potential risks of the pandemic impacting on the sector, and these can be drawn on if required. Some contractors are also experiencing supply and staff retention challenges and this is resulting in lower than anticipated repairs expenditure in some areas. The latest resurgence of the pandemic has meant that restrictions have had to be reintroduced on the type of repairs that can be carried out on occupied homes and this is having a further impact on repairs expenditure. However, any slippage is retained within the HRA and will be used to increase Capital from Current Revenue (CFCR) resources, thereby reduce borrowing for Capital works.

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 £0.516 million as voids are taking longer to process while planned and capital works are carried out, and as a result of global supply issues and staff retention challenges for contractors.

10.6 Rental Income

Rental income is likely to be higher than initially forecasted by £0.509 million due to additional properties coming on stream.

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 2021/22 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 £ million	Projected Outturn £ million
Audited Housing Balance as at 01/04/21	5.374	5.374
Less Minimum Balance Requirement	(1.000)	(1.000)
Audited Available Housing Balance as at 01/04/21	4.374	4.374
Less: Projected capital funding drawdown (per paragraph 8.3)	(1.609)	(1.609)
Add: Anticipated 2021/22 Housing Revenue Account Surplus	0.000	1.271
Anticipated Housing Revenue Account Balance as at 31/03/2022	2.765	4.036
<u>Known / Potential Commitments:</u>		
SHQS/New Build Housing (Future Years)	(2.765)	(4.036)
Total Known / Potential Commitments	(2.765)	4.036

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