DATA LABEL: PUBLIC

West Lothian Council

COUNCIL EXECUTIVE

2019/20 HOUSING REVENUE ACCOUNT – MONTH 6 MONITORING REPORT

REPORT BY DEPUTE CHIEF EXECUTIVE

A. PURPOSE OF REPORT

To provide the Council Executive with a report on financial performance following the month 6 monitoring exercise.

B. RECOMMENDATION

It is recommended that Council Executive notes the outcome of the month 6 monitoring exercise and the projected outturn.

C. SUMMARY OF IMPLICATIONS

I.	**Council Values**	Focusing on customers' needs, being honest, open and accountable, making best use of resources, working in partnership.
II.	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	None.
III.	**Implications for Scheme of Delegations to Officers**	None.
IV.	**Impact on performance and performance Indicators**	None.
V.	**Relevance to Single Outcome Agreement**	None.
VI.	**Resources - (Financial, Staffing and Property)**	A breakeven position is predicted at this stage.
VII.	**Consideration at PDSP**	Not applicable.
VIII.	**Other consultations**	Head of Finance & Property Services.

D. TERMS OF REPORT

D.1 Introduction

The council approved a £50.724 million Housing Revenue Account (HRA) budget on 19 February 2019. This report provides information on the financial position in relation to the HRA as at 30 September 2019 and provides a projection to the year end.

D.2 Summary of Month 6 Financial Information

The table below summarises the position for the main expenditure headings and provides a projected outturn:

	2019/20 Budget £'000	Committed Expenditure to 30 Sept £'000	2019/20 Projected Outturn £'000	2019/20 Projected Variance £'000
Employee Costs	4,746	4,590	4,551	(195)
Premises Costs	16,546	8,873	16,546	0
Transport Costs	135	114	135	0
Supplies & Services	3,294	2,867	3,114	(180)
Third Party Payments	110	126	116	6
Transfer Payments	1,386	865	1,731	345
Support Services	2,552	1,276	2,552	0
Capital Financing	15,760	7,140	14,280	(1,480)
CFCR	6,195	4,333	8,666	2,471
Total Expenditure	**50,724**	**30,184**	**51,691**	**967**
Income	(50,724)	(28,228)	(51,691)	(967)
Net Expenditure	**0**	**1,956**	**0**	**0**

<u>Employee Costs</u>
Employee costs are forecast to underspend by £195,000, mainly as a result of vacant posts and staff turnover. There are a number of staff within the HRA currently on secondment and backfill arrangements have been determined based on operational and business need, which has resulted in some short term savings within the area. There have also been a number of vacancies due to staff turnover, which have resulted in one off savings during the recruitment period to fill these posts.

<u>Premises Costs</u>
Based on current information, premises costs are anticipated to breakeven. Expenditure on repairs is a key risk area as it is demand led and reactive to customer requirements, and any adverse weather can also materially impact on expenditure. This will require the budget to be closely monitored during the remainder of 2019/20.

<u>Supplies & Services</u>
Supplies and Services are forecast to underspend by £180,000 due to a combination of savings across a number of budget headings, including IT, legal and consultancy costs.

<u>Transfer Payments</u>
Transfer payments comprise void losses, irrecoverable rents and bad debt provision for rents. The forecast overspend of £345,000 is principally due to void losses. Increased void losses are partly as a consequence of additions to council housing stock through new build and open market acquisitions and the secondary lets generated.

Capital Financing & Capital Funded from Current Revenue (CFCR)

Capital financing costs incurred by the HRA consist mainly of loans fund principal repayments and interest charges on outstanding debt. The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 stipulate that local authorities must operate a loans fund, which is a way for the council to recognise the amount of capital expenditure that is being financed by borrowing each year and also the amount of this borrowing that is being repaid each year and charged to the revenue account.

All borrowing undertaken to fund the capital programme must be repaid through the loans fund on a prudent basis. A prudent repayment of a loans fund advance is one which is reasonably commensurate with the period and pattern of benefits provided to the community from the capital expenditure funded by the borrowing.

Following the introduction of the new regulations, a review of both the general fund and HRA loans fund advance repayments was carried out, and discussions held with the council's treasury advisors, Link Asset Services. The review was undertaken in order to ensure that the council continues to make a prudent provision each year for the repayment of loans fund advances.

Changes to the way that current and future loans fund advances are calculated were approved by Council as part of the Annual Treasury Management Plan on 19 February 2019. On 24 September 2019, Council further approved changes to the method of repaying historic loans fund advances meaning that they will also be repaid over a longer period of time, to ensure that the payments can be assessed as prudent and to ensure that the repayments reasonably reflect the period over which the community receives the economic benefit of assets that are now lasting longer than originally assumed. This ensures consistency of approach in that all loans fund advances, both historic and future advances, will be repaid over the same period and at the same rate, and means that loans fund repayments have effectively been over provided for in prior years and therefore an under provision will be made in future repayments to offset previous over provision.

The debt repayments on prior year loans fund advances have been recalculated following the decision of Council on 24 September 2019, resulting in a forecast underspend of £1.480 million in loans fund principal repayments in 2019/20. It is proposed that the level of CFCR is increased by the same amount to reflect this updated forecast.

The CFCR is the amount of income raised through the housing revenue account that is not spent directly on revenue costs, but is earmarked to fund capital works, mainly consisting of refurbishment and upgrade programmes to maintain and improve the housing stock. The mix between borrowing and CFCR is largely dependent on the required level of borrowing and associated capital financing charges as well as the level of CFCR affordable to the HRA.

The level of CFCR is also subject to confirmation dependant on other movements within the HRA revenue account, principally in relation to expenditure on reactive repairs and levels of housing rent. At this stage, it is proposed that the CFCR contribution be increased from £7.020 million, reported at month 4, to £8.666 million due to revised income and expenditure forecasts, including the revised capital financing charges outlined above.

Income
Income budgets for 2019/20 relate to the estimated level of rent and other miscellaneous charges due to the HRA. Forecast income has been projected based on the latest information relating to housing stock, taking account of new build completions. Based on the 2018/19 rental income outturn, and factoring in stock changes during 2019/20, achievable income is forecast to be £967,000 over budget.

The change to the benefits system means that those tenants who are entitled to housing benefit now receive the housing cost element of their entitlement directly as part of their lump sum Universal Credit payment rather than this being paid directly to the council, which has resulted in uncertainty in relation to rent payments. It is possible to partly mitigate this through tenants applying for Managed Payments or Scottish Flexibilities, however the council has no control over these as ongoing financial arrangements and the tenant can cancel the arrangements at any time.

The change to the system has also meant that the council is no longer involved in benefit claim processing for tenants claiming Universal Credit, meaning that there is no knowledge of new claims until tenants begin to accumulate arrears. Staff had previously assisted with the claim process, and ensured that the housing cost elements of the claim were correct, verified and evidenced. This change has had the effect of delaying early advice and support for tenants struggling to manage their finances, with the service continuing to reshape processes to enable these interventions as early as possible where arrears occur.

Both of these factors directly caused by the implementation of Universal Credit have impacted on rent collection rates and the level of current tenant arrears.

The value of current tenant arrears at the end of September 2019 was £3.384 million (6,548 cases), with the equivalent position in 2018/19 of £2.395 million (5,998 cases). Arrears and their impact on the financial position of the HRA will continue to be closely monitored.

The committed income noted above at month 6 includes house rent, garage rent, insurance recoveries, factoring income and other general recoverable charges, and is an assessment of the total income due to 30 September 2019. The £26.366 million in rental income collected in cash to date exceeds the £25.861 million of rental income collected in cash at the same stage in 2018/19 and equates to a cash collection rate of 95% at month 6.

E. CONCLUSION

A breakeven position is forecast on the basis of the information available.

Appendices/Attachments: None

Contact Person: stephen.ross@westlothian.gov.uk – Tel No: 01506 281311

Graeme Struthers
Depute Chief Executive
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