DATA LABEL: PUBLIC

COUNCIL EXECUTIVE

2020/21 HOUSING REVENUE ACCOUNT – MONTH 9 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 9 monitoring exercise.

B. RECOMMENDATION

It is recommended that Council Executive notes the outcome of the month 9 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 £54.450 million Housing Revenue Account (HRA) budget on 18 February 2020. This report provides information on the financial position in relation to the HRA as at 31 December 2020 and provides a projection to the year end.

D.2 Summary of Month 9 Financial Information

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

	2020/21 Budget £'000	**Committed Expenditure to 31 Dec £'000**	**2020/21 Projected Outturn £'000**	**2020/21 Projected Variance £'000**
Employee Costs	5,283	4,535	4,600	(683)
Premises Costs	17,898	6,819	15,040	(2,858)
Transport Costs	142	75	115	(27)
Supplies & Services	3,296	1,612	3,096	(200)
Third Party Payments	118	111	118	0
Transfer Payments	2,095	4,250	6,197	4,102
Support Services	2,552	1,914	2,552	0
Capital Financing	12,687	9,515	12,687	0
CFCR	10,379	7,340	9,786	(593)
Total Expenditure	**54,450**	**36,171**	**54,191**	**(259)**
Income	(54,450)	(41,306)	(54,191)	259
Net Expenditure	**0**	**(5,135)**	**0**	**0**

Employee Costs
Employee costs are forecast to underspend by £683,000, mainly as a result of vacant posts and staff turnover. The 2020/21 budget included provision for the establishment of a customer engagement team but, due to Covid-19, this has been delayed.

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. Whilst progressing the recruitment to these vacant posts there has been no impact on overall service delivery.

Premises Costs
Based on current information, premises costs are anticipated to underspend by £2.858 million. This is primarily a consequence of the Covid-19 pandemic situation and the limited repairs and maintenance work that could be progressed in the first four months of 2020/21 due to Scottish Government restrictions during the initial lockdown period, with only essential repairs and gas servicing works being undertaken. As restrictions eased, repairs and maintenance schedules resumed and expenditure started to increase. However further restrictions introduced in November and December 2020 have again impacted the type of work that can be undertaken, in accordance with updated Scottish Government legislation, so there is a risk that this underspend may increase over the remainder of the year.

Expenditure on repairs remains 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 volatility will require the budget to be closely monitored during the remainder of 2020/21.

Supplies & Services
Supplies and Services are forecast to underspend by £200,000 due to a combination of savings across a number of budget headings, including legal fees and printing costs. This is, in part, a consequence of restricted activity due to Covid-19.

Transfer Payments
Transfer payments comprise void losses, irrecoverable rents and bad debt provision for rents. They also include additional costs incurred as a consequence of Covid-19, with the forecast overspend of £4.102 million principally due to the impact on the HRA from the Covid-19 lockdown period. This includes Covid related costs such as additional signage and personal protective equipment for staff in both Housing Services and in Building Services, as well as the cost of non-productive time for staff in Building Services primarily responsible for delivering the housing repairs and maintenance and capital programmes.

During the lockdown period in Spring/Summer 2020, a high proportion of Building Services staff were unable to carry out their usual roles and duties due to the restrictions put in place by the Scottish Government. As staff were still being paid during this period, as per council policy, then this resulted in costs being incurred for non-productive time.

For staff usually engaged in revenue works, this is the main factor in the forecast underspend outlined above against premises costs, with a corresponding overspend in non-productive costs which has been recognised against transfer payments. For staff usually employed to carry out works related to the housing capital programme, then guidance provided by Audit Scotland has stipulated that these non-productive costs are also required to be charged to the HRA, rather than to the capital programme.

The forecast overspend within this area therefore includes the cost of non-productive time for Building Services staff who would normally have been working on projects within the approved capital programme, as well as staff who would have been working on HRA repairs and maintenance works.

Capital Financing & CFCR
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, the forecast CFCR contribution is £9.786 million.

In September 2020, the Scottish Government made a high level announcement that it would allow some flexibility over loans fund repayments to assist local authorities in dealing with the financial impact of Covid-19. Changes to loans fund regulations will be reviewed and implications for the HRA considered once the updated regulations are available.

Income
Income budgets for 2020/21 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 2019/20 rental income outturn, and factoring in stock changes during 2020/21, chargeable income is forecast to be £259,000 under budget. This is in part due to Covid-19 restrictions delaying additions to the housing stock via new build completions and open market acquisitions.

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.

During September 2020 a change was made moving Universal Credit Managed Payments from monthly payment files to daily files. This should improve debt management as customers would be paid at the end of their review period rather than being grouped into the four weekly payment schedule meaning more timely payments for customer accounts.

The value of current tenant arrears at 3 January was £3.301 million (5,281 cases), with the equivalent position in 2019/20 of £3.539 million. Arrears and their impact on the financial position of the HRA will continue to be closely monitored.

The committed income noted above at month 9 includes house rent, garage rent, insurance recoveries, factoring income and other general recoverable charges, and is an assessment of the total income due to 31 December 2020. The £43.062 million in rental income collected in cash to 3 January 2021 is £3.472 million higher than the £39.590 million of rental income collected in cash at the same stage in 2019/20, and equates to a cash collection rate of 98%.

E. CONCLUSION

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

Appendices/Attachments: None

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