

**Report to the Council Housebuilding
Cabinet Committee**



Report reference: CHB-012-2013/14
Date of meeting: 04 February 2014

**Epping Forest
District Council**

Portfolio: Housing – Cllr David Stallan

Subject: Financial Reports – Council Housebuilding Programme

**Responsible Officer: Alan Hall, Director of Housing /
Paul Pledger, Asst. Director of Housing**

Democratic Services Officer: Jackie Leither

Recommendations/Decisions Required:

(1) That the production of a suite of Standard Financial Report templates for the Council Housebuilding Programme - to be considered by the Cabinet Committee at each meeting - be noted, and that any comments on the format of the reports for future meetings be provided to the Director of Housing;

(2) That the explanation in this report, on the information provided within each Financial Report, be attached as an appendix to future reports to the Cabinet Committee, to provide a helpful background guidance note for members;

(3) That the current financial position be noted, in respect of:

- (a) The overall financial summary for the Housebuilding Programme and use of the various subsidies (Appendix 1);
- (b) The amount and use of additional “Replacement Right to Buy (RTB) Receipts” available for utilisation under the Government’s “one-for-one replacement” scheme (Appendix 2);
- (c) The amount and use of financial contributions available to the Council Housebuilding Programme from Section 106 Agreements, in lieu of the provision of on-site affordable housing on private development sites, (Appendix 3);
- (d) The amount and use of other sources of funding (e.g. sales of HRA land and non-RTB property, and external funding) (Appendix 4);
- (e) Payments made to both contractors and East Thames, in respect of works and fees for the Housebuilding Programme (Appendices 5 & 6); and
- (f) Payments made to the contractor and the Development Agent in respect of works and fees for the Marden Close / Faversham Hall Conversion Scheme, and the overall financial summary for the Scheme (Appendix 7); and

- (4) That the Cabinet Committee's first draft Annual Report to the Cabinet on the progress made with the Council Housebuilding Programme and the associated expenditure be considered at the Cabinet Committee's next meeting, for submission to the following meeting of the Cabinet.**

Executive Summary

One of the Cabinet Committee's Terms of Reference is to monitor expenditure on the Council Housebuilding Programme.

A suite of detailed Financial Report templates has been produced by the Director of Housing, covering all financial issues relating to the Housebuilding Programme (and the Marden Close / Faversham Hall Conversion Scheme), and more specifically the issues detailed in the Recommendations above. The Cabinet Committee is invited to comment on the format of the Financial Reports and the information provided for future meetings.

The Financial Reports attached set out the current financial position with the various aspects of the Housebuilding Programme.

One of the Cabinet Committee's Terms of Reference is to provide an Annual Report to the Cabinet on the progress made with the Council Housebuilding Programme and the associated expenditure. It is suggested that a draft Annual Report be considered at the next meeting, for submission to the following Cabinet meeting.

Reasons for Proposed Decision

The Council's Housebuilding Programme is a high profile, high cost activity. It is therefore essential to ensure that budgets, costs and expenditure are properly monitored, to enable corrective action to be taken at the earliest opportunity when necessary.

Other Options for Action

- (a) Not to have regular Financial Reports presented to the Cabinet Committee.
- (b) To have Financial Reports presented at different intervals.
- (c) To provide different Financial Reports presented to those proposed.

Background

1. One of the Cabinet Committee's Terms of Reference is to monitor:
 - (a) Progress with the Council Housebuilding Programme; and
 - (b) Expenditure on the Housing Capital Programme Budget for the Council Housebuilding Programme, ensuring the use (within the required deadlines) of the capital receipts made available through the Council's Agreement with the Department of Communities and Local Government (DCLG) allowing the use of additional "Replacement Right to Buy (RTB) Receipts" received as a result of the Government's increase in the maximum RTB Discount to be spent on housebuilding.
2. There is also a requirement to report to the Cabinet on the above issues on an annual basis. In addition, the Cabinet has asked the Cabinet Committee to oversee the delivery of the Marden Close / Faversham Hall Conversion Scheme at Chigwell Row.
3. Accordingly, the Director of Housing has produced a suite of detailed Financial Report templates, in consultation with Finance Officers, covering all financial issues

relating to the Housebuilding Programme, and including the Conversion Scheme – which are attached as Appendices 1-7.

4. It is proposed that these Financial Reports are presented to, and considered by, the Cabinet Committee at each meeting. The Cabinet Committee is therefore invited at this meeting to comment on the format of the Financial Reports and the information provided, for officers to take into account for future Financial Reports submitted to the Committee.

5. The attached templates have been populated by the Asst. Director of Housing (Property) – who will be responsible for providing the Financial Reports to the Cabinet Committee at each meeting - with all the latest financial data relating to the Housebuilding Programme and the Marden Close / Faversham Hall Conversion Scheme. Each of the Financial Reports also provide the name of the officer(s) responsible for allocating resources to the Programme - within the approvals given by the Cabinet Committee - and for inputting the required data, and also lists the actions required by officers to keep them up to date.

6. It is suggested that the explanation below on the information provided within each Financial Report be attached as an appendix to future reports to the Cabinet Committee, to provide a helpful background guidance note for members;

Summary of the standard information provided by the Financial Reports

Appendix 1

7. This is the main Financial Report Summary, which:

- (a) Brings together - in the first two tables - all the headline information on both the actual and notional use of the agreed and available subsidies for each phase of the Housebuilding Programme, populated with the data from the other Financial Reports within the suite; and
- (b) Provides a summary of the overall financial summary for the Housebuilding Programme in the third table (“Capital Budget Monitoring”), which will also be reported to the Finance and Performance Management Scrutiny Panel on a quarterly basis.

8. The difference between “notional” and “actual” subsidies needs to be explained and understood. When the Cabinet Committee considers a Financial Appraisal produced by East Thames for a proposed development site, the Financial Appraisal assesses the year in which the total amount of income received from properties’ rental income over the years will “pay-back” the:

- Original construction costs;
- Cost of the loan interest; and
- Assumed annual cost of the management and maintenance of the properties.

9. Since the Council’s Development Strategy requires that all the Council’s developments must break-even within at least a 30-year period, the Financial Appraisal then assesses how much additional money is required (if any) - around the time of construction - to supplement the annual rental income received over the years, and achieve a pay-back period of 30 years. This is referred to as the “notional” subsidy, and replicates the approach taken by most housing associations for Financial Appraisals they undertake for their developments – except, in most cases, housing associations need to actually obtain/provide this subsidy (perhaps from HCA grant or the use of their own resources).

10. The second table within Appendix 1 therefore shows the amount of notional subsidy required, and agreed by the Cabinet Committee, for each Phase of the Programme. Since the amount required is likely to vary, dependent on the tenders received for works and the final actual costs of works, the table provides this information for the three key milestone stages of:

- Feasibility Stage;
- Tender Stage; and
- Final Account.

11. The second table of Appendix 1 also shows (to the right), the remaining amount of notional subsidy held by the Council - and therefore available to allocate for futures phases – which is populated by the detailed information contained in Appendices 2-4.

12. In the Council's case, the use of subsidies is different to housing associations for three main reasons:

- (a) The Council's Agreement with the CLG requires the additional RTB receipts to be spent on the construction of "replacement homes" within 3 years of being received;
- (b) A number of Section 106 Agreements, as a result of which the Council has received financial contributions in lieu of the provision of on-site affordable housing, require that the financial contribution must be spent on the provision of affordable housing – within a specified period (usually 5-10 years); and
- (c) Some external funding sources (e.g the Harlow Area Growth Fund) require their grant to be spent by a specified date.

13. Therefore, for these reasons, since the money is already held by the Council, it is preferable to spend as much available funding as soon as possible, irrespective of the assessed notional subsidy, to avoid the risk of not spending the funding in time. This is particularly the case for the use of Replacement RTB Receipts since, if they are not spent within the required 3 year period, they must be repaid to the DCLG – with interest at a punitive rate.

14. There is no detrimental effect to the Council of taking this approach, since all it means is that the resources within the HRA allocated for the Housebuilding Programme are held as HRA Balances, with the same interest obtained as would have been received from the subsidy funding itself, if it had not been used and had been held on account. The accumulated HRA Balances can then be utilised for later phases of the Programme, at such time as all the available subsidies have been utilised.

15. Therefore, the first table in Appendix 1 sets out the **actual** resources available now from each funding source, allocated by officers for each phase in accordance with the policy previously agreed by the Cabinet Committee, in order to subsidise the Housebuilding Programme. The table also shows the budget for each phase.

16. It should be noted that the CLG Agreement also states that no more than 30% of the cost of works and fees on Council housebuilding can be funded from "Replacement RTB Receipts" at any one time. In order to ensure that no more than 30% RTB funding is utilised for each phase, the first table also shows the maximum amount of RTB funding that can be utilised for each phase, based on the budget for that phase.

Appendix 2

17. This Financial Report shows, for each quarter over a three-year period since Replacement RTB Receipts have been available for Council Housebuilding:

- The amount classified and received as Replacement RTB Receipts – and when they must be spent by (i.e. within three years of receipt);
- The amounts allocated to the Housebuilding Programme and the Phase to which they have been allocated – and when they must be spent by;
- The (remaining) cumulative amount of Replacement RTB Receipts available to spend – and when they must be spent by; and
- The amount of Replacement RTB Receipts spent on the Housebuilding Programme each quarter, and which phase of works/fees they have been spent on.

Appendix 3

18. This Financial Report shows, in respect of financial contributions received from Section 106 Agreements in lieu of the on-site provision of affordable housing on private development sites, details of each Section 106 requirement (including the deadline – if any - by which the money must be spent), broken down by those financial contributions that:

- Are required to be paid to the Council, but have not yet been received due to the “trigger point” for development stated within the Section 106 Agreement not yet being reached;
- Have been received and are available to be used, but have not yet been allocated;
- Have been received and allocated; and
- Have been received and spent – showing the phase to which the financial contribution has been allocated.

Appendix 4

19. This Financial Report shows the details of other funding sources (e.g. HRA land, non-RTB property sales and external grants), broken down into the same headings as for Appendix 3 listed above.

Appendix 5

20. This provides the current estimated annual cashflows for each phase, which comprises:

- Works costs;
- Development Agent fees; and
- Planning application, building control and other fees.

21. These will be regularly updated as and when cost data is received. Initially, this is from the costings assessed at the Feasibility Stage, which are then used to estimate the

costs of future phases on a pro-rata basis. Once tenders for a phase are received, the cashflow for that and subsequent phases will be updated again, to provide a more accurate assessment of costs.

22. This Financial Report also shows the maximum amount of Replacement RTB Receipts funding that can be utilised for each phase, based on the estimated cashflow for each phase. It should be noted that, at the request of the Accountancy Team, internal staff costs (mainly in Housing, Legal and Finance) are **not** included within any of the cashflows.

Appendix 6

23. This Financial Report provides a record of all the payments made to date – to both the Development Agent for their fees and, when applicable, to contractors for the cost of works.

24. It also calculates the maximum amount of each payment (30%) that can be funded from Replacement RTB Receipts, and which Year and Quarters' RTB receipts are used to part-fund the payment, as well as the total Replacement RTB Receipt usage to date, compared to the amount available to spend.

Appendix 7

25. This Financial Report shows, on one sheet, all the relevant costs, cashflows and payments relating to the Marden Close / Faversham Hall Conversion Scheme – together with an overall financial summary for the Conversion Scheme ("Capital Budget Monitoring"), which will also be reported to the Finance and Performance Management Scrutiny Panel on a quarterly basis.

Annual Report to the Cabinet on Progress and Expenditure

26. The first meeting of the Cabinet Committee was held on 14th March 2013. Now that planning permission has been received/requested for Phase 1 of the Housebuilding Programme, and the Committee is due to consider a proposed site for Phase 2 of the Programme, and the fact that costs are starting to be incurred and the format and content of the regular Financial Reports have been agreed, it is suggested that a draft of the Cabinet Committee's required first Annual Report to the Cabinet on the progress made with the Council Housebuilding Programme, and the associated expenditure, be considered at the Committee's next meeting, for submission to the following meeting of the Cabinet.

Resource Implications:

These are set out in the detailed Financial Reports at Appendices 1-7.

Legal and Governance Implications:

It is good governance to properly monitor costs and expenditure, and keep financial forecasts up to date – especially for such a high profile, high cost programme.

Safer, Cleaner and Greener Implications:

None – in relation to this report.

Consultation Undertaken:

The Council's Development Agent, East Thames, and their lead consultants, Pellings, have been consulted on the format and content of the Financial Reports and have confirmed that they support proposed approach.

Background Papers:

None

Impact Assessments:

Risk Management

One of the biggest risks to the Housebuilding Programme is the potential for budgets, costs and expenditure to not be properly monitored, and for them to become out of control as a result. The proposed content and format of the Financial Reports, and the proposal that updated reports be considered at each meeting of the Cabinet Committee, helps mitigate this risk.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?

N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?

N/A