

FINANCE UPDATE

Report of the Finance Director & Company Secretary

1. SUMMARY

1.1 This report updates the Board on various financial issues.

2. RECOMMENDATION

2.1 To note the forecast financial monitoring position.

2.2 To approve the addition of £200,000 to the Derby Homes capital programme towards the replacement of the financial management system as per 4.5.

2.3 To note the progress on delivering the Padley agreement.

2.4 To note possible purchases and sales of property.

3. REASON(S) FOR RECOMMENDATION

3.1 To keep the Board informed of progress on financial matters.

4. MATTER FOR CONSIDERATION

Financial Monitoring

4.1 Our monitoring at the end of September (Quarter 2) indicates an overall operational surplus of around £0.5m this year (same forecast as at Quarter 1) because of a lot of small underspends across many budgets rather than anything particularly noticeable at this point. Staff vacancies remain slightly higher than allowed for in the budget and continue to generate short term savings when staff change jobs or leave.

4.2 These estimates exclude the impact of the year end pension scheme adjustments which arise from the actuary report. As previously noted, the employer pension contributions being made by Derby Homes remain as deemed adequate by the pension fund albeit that notional losses (determined via the actuary reports) will continue to accrue. We are planning a further prepayment in April 2022 of approx. £2.5m to forward pay the expected 2022/23 employer contributions. Details will be reported to the Board once finalised. Longer term, future prepayments will be considered after the next triennial pension scheme assessment in 2023.

- 4.3 Reserves and cash remain strong and Derby Homes' plans can now be strengthened – particularly if Homes England grant for new homes becomes available. As a result, Derby Homes' own stock could increase further over the next few years.
- 4.4 Our own budget will be reviewed as usual with the aim to reduce budgets that are underutilised and invest more in key services through the usual budget process including a budget planning day in late November or early December to be agreed.

Financial Management System

- 4.5 Derby Homes currently uses Oracle for its financial management system. The system was originally procured in 2007 with a major upgrade in 2012. It is more than timely for replacement. This is a Council controlled contract, and the Council is currently in the process for tendering for a new system and has included Derby Homes as a named customer on the contract.
- 4.6 There will be an initial cost to purchase and implement the new system (targeted for April 2023) and the Derby Homes share of this is expected to be no more than £200,000. It is likely that the new system will have an operational life of 10 years.
- 4.7 Approval is sought to add £200,000 to the Derby Homes capital programme (notionally split £70,000 in 2021/22 and £130,000 in 2022/23). The capital investment will be written off over three years and it is likely that this will be a budget pressure in these years.
- 4.8 Any increase in annual revenue running costs is expected to be minor and will be addressed as part of the annual budget setting process.

Padley

- 4.9 The agreement with Padley for the provision of support for homeless persons using Supported Exempt Accommodation funding started in June with 3 properties made available in that month. We have since bought two more on the open market and expect to make these available next month with 5 more coming from the Council imminently, making a total of 11 in train against a target of 12 by the end of the calendar year already on their way.
- 4.10 Derby Homes will then need to buy 5 properties from the Council in April 2022 and a further two from the private market as soon as possible.

Possible other homes

- 4.11 We are working with the Council on a bid to Homes England for some grant funding to increase the total provision of affordable housing in Derby and discussing possible purchases of other affordable housing from developers where we can make these viable. This is not straightforward, but we continue to look for avenues to invest in more homes directly where it makes sense for the Council. All purchases have to be approved by two Board Members or one and the Company Secretary. Should the cost of a purchase exceed £0.5m Council approval is also required. This limit is set to increase to £1m from April 2022.
- 4.12 We also continue to work with People's Directorate to supply further homes for young people in their care and have agreed a lease on 3 further properties to help with their programme.

Right to Acquire

- 4.13 Where a property owned by Derby Homes is partly funded by Homes England grant, a discount of £9,000 is available for tenants who wish to buy their home. This discount can be recovered from Homes England and reinvested in new homes along with the remainder of the receipt. The Right to Buy does not apply to any properties owned by Derby Homes.
- 4.14 There is a Derby Homes tenant who is currently exercising their Right to Acquire. The sale of this property will generate around £70,000 more receipt to Derby Homes to reinvest in a replacement home than the same home would have generated through the Right to Buy scheme for the Council, demonstrating the significant benefit that using Derby Homes to provide those homes at high risk of sale can deliver financially. It indicates that discount levels do not have to be as generous as they currently are for the Right to Buy to allow tenants to buy their homes and allow that property to be replaced using the full receipt, allowing Derby Homes stock to continue to grow to partly offset the decline in Council housing numbers.

5. OTHER OPTIONS CONSIDERED

- 5.1 None.

IMPLICATIONS

6. CONSULTATION IMPLICATIONS

- 6.1 The arrangements with Padley have required significant consultation with them and the Council.

7. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

- 7.1 Derby Homes' reserves can be applied to invest in new homes and – while they take a considerable time to repay that investment, they can of course help to alleviate homelessness and increase the availability of affordable housing in Derby. The main limit on this investment will be the use of our cash and our ability to borrow, but this remains strong at present.
- 7.2 A more detailed discussion around future reserves planning will be undertaken as part of the budget planning process for 2022/23.
- 7.3 In relation to the capital purchase of the replacement financial management system, Financial Regulation C3.6 states that “All capital schemes must be included in the capital programme and approved by the Board”.
- 7.4 Depending on the final capital costs to Derby Homes, it is likely that there will be a budget pressure of up to £70,000 per year in the three years there is a depreciation charge for this capital expenditure.

8. LEGAL AND CONFIDENTIALITY IMPLICATIONS

- 8.1 Homes owned by Derby Homes are exempt from the Right to Buy. The Right to Acquire will apply only where Homes England grant has been applied to a property.

9. COUNCIL IMPLICATIONS

- 9.1 Any borrowing to part fund investments in new homes would require Council approval. Approval is also required for investments in excess of £0.5m (increasing to £1m in April 2022). The Council has already approved the sale of 5 one bed properties to Derby Homes for the Padley scheme.

10. ENVIRONMENTAL IMPLICATIONS

- 10.1 Any properties taken on by Derby Homes will need to be capable of reaching a reasonable SAP rating, equivalent to at least EPC band C.

11. EQUALITIES IMPLICATIONS

- 11.1 Padley are now operating as part of a co-ordinated citywide programme to alleviate homelessness and rough sleeping along with other partners.

12. HEALTH & SAFETY IMPLICATIONS

- 12.1 Properties will be checked to make sure they are appropriate for the client group and any necessary safety measures addressed.

13. RISK IMPLICATIONS

- 13.1 Investing in new property will always be a risk but it is a core part of our operation and can be managed appropriately.

The areas listed below have no implications directly arising from this report:

Personnel Policy Review

If Board Members or others would like to discuss this report ahead of the meeting please contact:

David Enticott / Finance Director & Company Secretary / 01332 888523 / Email
david.enticott@derbyhomes.org

Background Information: None
Supporting Information: Previous finance updates

This report has been approved by the following officers where there are financial or legal implications:

Finance Director/Derby Homes Accountant	David Enticott	16.9.21
--	----------------	---------