

## **REPORT TO EXECUTIVE**

Date of Meeting: 9 April 2024

## **REPORT TO COUNCIL**

Date of Meeting: 23 April 2024

Report of: Director Finance

Title: 2023/24 HRA Budget Monitoring Report – Quarter 3

### **Is this a Key Decision?**

No

### **Is this an Executive or Council Function?**

Council

### **1. What is the report about?**

1.1 To advise Members of the financial position of the HRA Revenue and Capital Budgets for the 2023/24 financial year after nine months.

In addition to the budgetary over/under-spends reported to this committee, Appendix 1 also highlights areas of risk, so that Members are aware that certain budgets have been identified as being vulnerable to factors beyond the control of the Council, which may result in potential deviations from budget, and are therefore subject to close monitoring by officers.

### **2. Recommendations:**

2.1 It is recommended the Executive note the report and Council notes and approves (where applicable):

(1) the HRA forecast financial position for 2023/24 financial year;

(2) the revision of the HRA Capital Programme to reflect the reported variations detailed in Appendix 4.

### **3. Reasons for the recommendation:**

3.1 To formally note the HRA's projected financial position and to approve the reported variations to the HRA Capital Programme.

The Housing Revenue Account is a statutory account and local housing authorities have a duty to keep a HRA in accordance with proper accounting practices and to review the account throughout the year. Members are presented with a quarterly financial update in respect of the HRA and this is the third update for 2023/24.

#### **4. What are the resource implications including non financial resources**

4.1 The financial resources required to deliver both housing services to Council tenants and to invest in new and existing housing stock during 2023/24 are set out in the body of this report.

The impact on the HRA's available financial resources is set out in Appendix 3.

#### **5. Section 151 Officer comments:**

5.1 There are significant financial pressures on the HRA which have been offset by improved interest received and a reduction in capital charges. The reduction in capital charges however reduces the amount available to support the capital programme so does have a negative impact. The repairs and maintenance budget in particular will require close monitoring in 2024-25 to ensure in year alterations to budgets are not required.

#### **6. What are the legal aspects?**

6.1 The statutory requirement for a Housing Revenue Account (HRA) is set out in Part VI of the Local Government and Housing Act 1989. Section 74 of the Act sets out the duty to keep a Housing Revenue Account as a ring-fenced fund and sets out the structure within which the HRA operates. Part VI of the Act sets out the detailed statutory provisions on the operation of the HRA, including credits to the account (income) and debits to the account (expenditure). Section 76 sets out the duty to prevent a debit balance on the HRA. The authority must implement proposals that will secure that the account for each financial year will not show a debit balance. Members will also note the provisions of Schedule 4 of the Act which sets out the requirements concerning 'The Keeping of the Housing Revenue Account'.

#### **7. Monitoring Officer's comments:**

7.1 This is a financial update report. Given that, the Monitoring Officer has no comment to make.

#### **8. Report details:**

##### **HRA BUDGET MONITORING – QUARTER 3**

##### **8.1 Background to the HRA**

The Housing Revenue Account (HRA) records expenditure and income relating to council dwellings and the provision of services to tenants. Housing authorities have a statutory duty to maintain a HRA account, which is primarily a landlord account, in order to account to their tenants for income and expenditure on council housing separately from other functions and services of the Council. This includes tenancy management, repairs and maintenance, council house building and council house retrofits.

##### **8.2 Projected transfer from the working balance**

|  | £                 |
|--|-------------------|
| <b>Approved Budgeted transfer from the working balance</b> | <b>2,541,730*</b> |
| Supplementary budgets – Council approved 18th July 2023    | <b>300,000</b>    |
| <b>Revised Budgeted transfer from the working balance</b>  | <b>2,841,730</b>  |

| <b>*2023/24 Approved Budget Represented By</b> | £                  |
|--|--------------------|
| 85A1 MANAGEMENT                                | 1,718,700          |
| 85A11 EDWARDS COURT                            | (110,210)          |
| 85A2 TENANCY SERVICES                          | 1,764,880          |
| 85A3 SUNDRY LANDS MAINTENANCE                  | 631,920            |
| 85A4 REPAIR & MAINTENANCE PROGRAMME            | 7,025,370          |
| 85A5 REVENUE CONTRIB TO CAPITAL                | 4,000,000          |
| 85A6 CAPITAL CHARGES                           | 4,073,090          |
| 85A7 HOUSING ASSETS                            | 2,551,980          |
| 85A8 RENTS                                     | (21,012,110)       |
| 85B2 INTEREST                                  | 1,898,110          |
| 85B4 MOVEMENT TO/(FROM) WORKING BALANCE        | <b>(2,541,730)</b> |

The HRA has built up a working balance of £7.243 million as at 31 March 2023. This is higher than the £4 million contingency resolved to be retained. The HRA approved Medium Term Financial Plan (MTFP) plans to reduce the working balance, largely through significant revenue contributions to capital. This enables the built-up working balance to be used to fund the HRA capital programme towards planned works, retrofits, and Council House building developments.

The revised budget deficit position of £2.842 million is due to a large, anticipated revenue contribution of £4 million to capital.

### 8.3 Revenue Monitoring

The budget variances anticipated at Quarter 3 indicate that £2,706,290 will be taken from the working balance in 2023/24 – See appendix 2. This represents a movement of £135,440 compared to the revised budget £2,841,730 for 2023/24. The key budget deviations are explained below.

| Budget Heading   | Forecast<br>Outturn Budget<br>Variance at<br>Quarter 2<br>(Under) /<br>Overspend | Forecast<br>Outturn Budget<br>Variance at<br>Quarter 3<br>(Under) /<br>Overspend |
|--|--|--|
| <b>Management</b>  | <b>£107,000</b>  | <b>£122,000</b>  |
| <p><b>Officers Responsible: Assistant Directors of Housing (AP &amp; LB)</b></p> <ul style="list-style-type: none"> <li>• Tenant decant costs – £115k The continuing decants from Rennes House requires tenants to be compensated with home loss payments and other general financial support relating to their relocation costs. Decants are dependent upon the properties requested by the tenants becoming available and, in the year to date, we have managed to support additional tenants in readiness for the full vacation of Rennes House.</li> <li>• The subscriptions budget is overspent in year by £7k due to an increase in annual membership fees from The Housing Ombudsman. This is a mandatory payment and the increase is due to the Housing Ombudsman increasing its resources in order to satisfy Registered Social Landlords regulatory requirements.</li> </ul> |  |  |
| <b>Edwards Court</b>   | <b>£28,000</b>   | <b>£28,000</b>   |
| <p><b>Officer Responsible: Assistant Director of Housing (LB)</b></p> <ul style="list-style-type: none"> <li>• Electricity costs at Edwards Court have been significantly higher than budgeted due to inflationary increases on utilities since the original financial model was produced.</li> </ul>  |  |  |
| <b>Tenancy Services</b>  | <b>£26,000</b>   | <b>£32,500</b>   |
| <p><b>Officer Responsible: Assistant Director of Housing (LB)</b></p> <ul style="list-style-type: none"> <li>• The budget anticipated 40 Right-to-Buy property sales in 2023/24. Expectations of numbers of sales have reduced to 15 for the year. Whilst this maintains the number of properties held by the HRA it does result in a reduction of admin fee income.</li> </ul>  |  |  |
| <b>Sundry Land Maintenance</b>   | <b>(£300,000)</b>  | <b>(£352,000)</b>  |
| <p><b>Officers Responsible: Assistant Directors of Housing (AP &amp; LB)</b></p> <ul style="list-style-type: none"> <li>• The budget relating to expected action required due to Ash Die Back in trees on HRA land has been re-profiled to reflect new expectations around when the disease is likely to impact in Exeter.</li> </ul>  |  |  |

Ash die back hasn't spread as pervasively since 2020 as originally expected, nonetheless industry expectations still put total disease impact rates at 90% and we know that the disease is now endemic in Devon and Exeter so remedial works will increase until the population has been impacted to its maximum extent.

The £300k underspend brought forward from 2022/23 is unlikely to be needed until 2027/28 to 2029/30, beyond the period of the existing MTFP. Officers will continue to monitor the situation to ensure that there is appropriate budget provision for works needed.

- There is likely to be a £52k saving in year in Garden Assistance as the demand over the busy months was less than budgeted.

|  |                 |                   |
|--|-----------------|-------------------|
| <b>Repairs and Maintenance Programme</b> | <b>£810,000</b> | <b>£1,130,000</b> |
|--|-----------------|-------------------|

**Officer Responsible: Assistant Director of Housing (AP)**

- The General Maintenance budget continues to be under considerable pressure with a projected overspend of £810k by year end. This includes a £10k overspend on the £100k damp and mould budget which was introduced this year. A higher than usual number of jobs excluded from the Price Per Property Contract have been received this year – including drains failures (pitch-fibre collapses, clay pipe fractures due to vegetation/tree growth), urgent path and ramp repairs and general price pressures from our contractor. All of these issues have contributed to the budget pressures for this area.
- The voids budget is fully spent as at Q3 and the projected overspend has now increased to £620k based on the known voids in progress and estimated likely voids in the last quarter of the year. As at 31<sup>st</sup> December the team had let 189 voids, compared with 200 in the whole of 22/23. During the summer, the Voids Team were managing over 100 void properties and this required additional contractor resources above that normally utilised in order to tackle the issue. This has been achieved – we now have reduced the number of void properties to 57 – but required additional expenditure to achieve this. More positively, by committing more expenditure, the Council has housed applicants faster than would have been possible without committing to the additional expenditure and therefore gained the associated rental income earlier than would have been the case if extraordinary measures were not implemented.
- These budget pressures can be partly offset by in-year savings in the re-pointing (£100k) and low maintenance and painting budgets (£200k) and, the overall budget position can be effectively managed due to other favourable balance positions as detailed in this report. This is believed to be the most effective strategy to address the current pressures rather than to seek a reduction in service provision.

|                 |                   |                   |
|-----------------|-------------------|-------------------|
| <b>Interest</b> | <b>(£783,500)</b> | <b>(£768,500)</b> |
|-----------------|-------------------|-------------------|

**Officers Responsible: Assistant Director of Housing (AP & LB)**

The 2023/24 budget included interest cost for additional £3.9m approved borrowing. Due to current high interest rates external borrowing is being delayed until rates

|  |                   |                   |
|--|-------------------|-------------------|
| <p>become more affordable, and costs are being covered by temporary internal borrowing resulting in a saving in 23/24.</p> <p>Interest receivable on balances remains higher than budgeted through the year, however rates are starting to fall.</p>   |                   |                   |
| <b>Capital Charges</b>   | -                 | <b>(£327,440)</b> |
| <p><b>Officers Responsible: Assistant Director of Housing (AP &amp; LB)</b></p> <p>Depreciation charges are lower than budgeted as the land value proportion of stock as at 2022/23-year end has increased on the recommendation of Corporate Property, so the buildings element which gets depreciated each year has reduced.</p> <p>Depreciation is a real cost to the HRA as it represents the amount of money which needs to be set aside in the Major Repairs Reserve to provide for future capital works or to repay debt. A lower depreciation charge results in a revenue saving in the year, but less funding available for future capital spend.</p> |                   |                   |
| <b>Total budget (underspend)/overspend</b>   | <b>(112,500)</b>  | <b>(135,440)</b>  |
| <b>2023/24 HRA Deficit/ (Surplus)</b>  | <b>£2,729,230</b> | <b>£2,706,290</b> |

#### 8.4 Impact on HRA Working Balance

The HRA Working Balance represents amounts set aside to help facilitate service improvements, repay debt or to provide investment in the stock in future financial years.

The forecast balance, as at 31 March 2024, is set out below:

| <b>Movement</b>   | <b>2023/24</b>  |
|---|-----------------|
| Opening HRA Working Balance, as at 1 April 2023             | £7,243,104      |
| Forecast transfer (from)/to the working balance for 2023/24 | (£2,706,290)    |
| Balance resolved to be retained (HRA contingency)           | (£4,000,000)    |
| <b>Forecast Balance Available, as at 31 March 2024</b>      | <b>£536,814</b> |

The significant transfer from the working balance anticipated for 2023/24 brings the working balance as at 31 March 2024 down closer to the HRA balance resolved to be retained of £4m.

## **8.5 HRA Available Resources over the Medium Term**

The forecast HRA available resources for delivering both housing services and capital investment are set out in Appendix 3 for the period to 2026/27.

The total available resources are made up of several reserve balances; the HRA working balance, the Useable Capital Receipts reserve, and the Major Repairs Reserve.

The HRA working balance is the movement on revenue budgets, contributions can be made from this reserve towards financing capital budgets in the form of 'Revenue Contributions to Capital.' The useable capital receipts reserve is made up of both the Right-to-Buy (RTB) receipts reserve and the Non-RTB receipts reserve; these reserves are available to finance capital spend; some restrictions apply. The Major Repairs Reserve is increased each year by the HRA depreciation charge to revenue, this reserve is then available to spend on the HRA capital programme.

The total forecast HRA available resources is impacted by variances in both revenue budgets detailed in section 8.3 above and variances in capital budgets detailed in section 8.9 below.

The forecast total available resources over the Medium-Term Financial Plan (MTFP) has reduced by £2.15m since last reported at 2023/24 Quarter 2. This is due to increases in the potential surrender to DLUHC of RTB receipts and the impact of additional posts to the establishment as a result of increasing regulatory requirements.

Total available reserves over the MTFP are now expected to be £300k after deducting the £4 million balance resolved to be retained (HRA contingency).

## **8.6 HRA Debt**

In October 2018, the Government formally removed the HRA debt cap, which restricted the amount of borrowing stock-holding local authorities could have for the purposes of the HRA. The lifting of the 'debt cap' means that local authorities are now able to borrow for housebuilding in accordance with the Prudential Code.

Executive on 8 October 2019 approved the first Council House Building Programme, which will deliver 100 new homes into the HRA at a cost of £18 million. On 5 April 2020, the Council took out a loan of £15.36 million from the PWLB to support this programme. The remaining £2.64 million will be funded by capital receipts.

As at 31 March 2023, the HRA's borrowing stood at £73.242 million. The total of the £15.360 million new loan and the former 'debt cap' level of £57.882 million.

The HRA currently has approval to borrow a further £3.9 million, this has been deferred but will likely be required in the next 12 to 24 months.

## **8.7 HRA Capital Programme**

The 2023/24 HRA Capital Programme was last reported to Council on 12th December 2023. Since that meeting the following changes have been made that have increased the 2023/24 programme.

| Description                                | 2023/24            | Approval / Funding       |
|--|--------------------|--------------------------|
| <b>HRA Capital Programme</b>               | <b>£29,567,820</b> |                          |
| Budgets deferred to future financial years | (£600,000)         | Council 12 December 2023 |
| Programme variances                        | £3,076,571         | Council 12 December 2023 |
| <b>Revised HRA Capital Programme</b>       | <b>£32,044,391</b> |                          |

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £30,543,300.

The details of key (greater than +/- £50k) variances from budget are set out below.

| Scheme   | Overspend / (Underspend) |
|--|--------------------------|
| <b>St Loyes</b>  | <b>(£171,101)</b>        |
| <p><b>Officer Responsible: Assistant Director of Housing (AP)</b></p> <p>In bringing together all of the Contract final accounts, including negotiations with the neighbouring landowner in relation to highways fees, it has been established that an amount held can now be released to the working balance.</p> |                          |

Schemes which have been identified as being wholly or partly deferred to 2024/25 and beyond are:

| Scheme  | Budget deferred to/(brought forward from) future years |
|---|--|
| <b>Balcony Walkway improvements</b>                                   | <b>£75,000</b>   |
| <b>Common Area Footpath &amp; Wall improvements</b>                   | <b>£175,190</b>  |
| <b>Lift Upgrades</b>  | <b>£154,800</b>  |
| <b>Rennes House</b>   | <b>£175,000</b>  |
| <p><b>Officer Responsible: Assistant Director of Housing (AP)</b></p> |  |



There is a big balcony walkway project planned at Prospect Place with a likely cost of at least £75k which is now likely to be undertaken in the new financial year.

Common Area footpath and wall improvements are likely to underspend in this financial year due to the nature of the scheduled works and protracted negotiations with adjoining owners. Therefore, some works have been postponed to the next financial year as there is still a commitment to spend it on high-risk assets.

The contract for lift upgrades was not awarded during 2023/24 and therefore the budget needs to be re-profiled to the next two financial years to catch up with the programme of upgrades. The Contracts are now being finalised for the procurement process.

The fire risk assessment at Rennes House identified no urgent actions so the majority of this budget can be re-profiled to 2024/25, when the remaining tenants will be decanted.

**Hamlin Gardens**

**£750,000**

**Officer Responsible: Assistant Director of Housing (AP)**

Hamlin Gardens is subject to delay due to the prolonged adverse weather through autumn and winter. The project is now expected to complete in May / June 2024 so £750k is likely to be spent in the first quarter of 2024/25.

## **Historic Council own build Final Accounts to 31 March 2024**

The Council's own build properties at Rowan House and Knights Place form part of the overall Housing Revenue Account, but separate income and expenditure budgets are maintained in order to ensure that they are self-financing.

As the 21 units were built using HCA funding in conjunction with borrowing (£998k), they are accounted for separately in order to ensure that they are self-financing. A separate COB working balance and Major Repairs Reserve are maintained until such time as a sufficient balance has been accumulated to repay the debt attributable to these properties, at which point the units can be accounted for with the wider HRA stock.

### Key Variances from Budget

The capital charges will be £1,290 lower than budgeted, reducing the projected transfer from working balance to £30,780 during 2023/24.

## **9. How does the decision contribute to the Council's Corporate Plan?**

9.1 The Housing Revenue Account contributes to a key purpose, as set out in the Corporate Plan; Building great neighbourhoods.

## **10. What risks are there and how can they be reduced?**

10.1 For clarity, these are specific financial risks, alongside the risks captured in the corporate risk register.

It is not permissible for the HRA to go into an overall financial deficit position, it is therefore important to ensure that an adequate level of HRA balances is maintained as a contingency against risks. The HRA resolve to retain a working balance at no less than £4 million to mitigate against financial risks.

Areas of budgetary risk are highlighted to committee as part of the quarterly budget monitoring updates.

## **11. Equality Act 2010 (The Act)**

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation, and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies, and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage, and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because there are no significant equality and diversity impacts associated with this decision.

## **12. Carbon Footprint (Environmental) Implications:**

12.1 We are working towards the Council's commitment to carbon neutral by 2030. The impact of each scheme is considered prior to approval.

## **13. Are there any other options?**

None.

**Director Finance, David Hodgson**

Author: Claire Hodgson

## **Local Government (Access to Information) Act 1972 (as amended)**

Background papers used in compiling this report:-

None

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