

REPORT TO EXECUTIVE

Date of Meeting: 4 April 2022

REPORT TO COUNCIL

Date of Meeting: 19 April 2022

Report of: Director Finance

Title: 2021/22 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 2021/22 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 2021/22 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 2021-22.

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 2021/22 are set out in the body of this report.

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

5. Section 151 Officer comments:

5.1 There remains nothing significant to draw members' attention to in respect of the HRA other than to note the list of deferred capital schemes.

6. What are the legal aspects?

6.1. The Housing Revenue Account is regulated by the Local Government and Housing Act 1989. This Act created the ring-fence and the structure within which the HRA operates and covers the detailed operation of the HRA, including the credits (income) and debits (expenditure) which make up the account.

7. Monitoring Officer's comments:

7.1 This is a financial update report and as such raised no issues for the Monitoring Officer.

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 housing 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 HRA Capital Programme

The 2021-22 HRA Capital Programme was last reported to Council on 14 December 2021. Since that meeting the following changes have been made that have decreased the 2021/22 programme.

Description	2021/22	Approval / Funding
HRA Capital Programme	£28,111,460	
Budgets deferred to future financial years	(£5,049,223)	Council – 14 December 2021
2021/22 Budget overspend	£1,482,676	Council – 14 December 2021
Edward's Court fit-out	£350,000	Executive – 11 January 2022
Revised HRA Capital Programme	£24,894,913	

8.3 Financial Performance

Following the commencement of the Council housing retrofit programme early in 2021/22, we identified the need to carry out a fundamental review of the capital budget for the current year and the remainder of the MTFP. This was to align the budget towards the retrofit programme and also to match fund Government Grant of £1.6 million which was secured as part of the Green Homes Grant allocation. The award of grant and the Council's match-funding will result in approximately 350 properties being retrofitted during the year which is substantially more than we would usually deliver but was an excellent opportunity to utilise the available grant funding and commence the programme of work at pace.

Whilst this has resulted in the overspend as reported, as this position had been planned for, a number of compensating savings and funding sources have been secured to mitigate against the current budget position. Equally, as this situation relates just to 2021/22, the budget has now been realigned to enable the continuation of the retrofit works leaving the total available resources over the MTFP at £1.2 million plus the retained £4 million.

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £23,786,083 compared to the £24,894,913 approved programme; a decrease of £1,108,830.

The -£1.1 million movement is made up of; additional budget requirements of £4.1 million, identified savings/reapportioned budgets -£2.1 million, -£3.8 million budget deferred to future years and £0.6 million budget brought back from future years.

8.4 Capital Budget Variances

The details of key (greater than +/- £50k) variances from budget are set out below. The Assistant Director of Housing (AP) will be able to provide further details in respect of these areas, if required.

Scheme	Forecast Overspend / (Underspend)
Energy Conservation	£2,108,892
<p>Officer Responsible – Planned Works Lead</p> <p>Planned work programmes were refocussed from the start of 2021/22 to reflect the Council’s carbon neutrality ambitions and deliver affordable warmth for our tenants. This necessitated a period of budget realignment where some over and under spends will be reported this year as we transition to the revised capital programme.</p> <p>Additionally, the Council received Green Energy Grants towards funding carbon reduction works on the housing stock. These grants have significantly accelerated this energy retrofit programme of works for 2021/22 which includes; cavity wall insulation, solar PV panels, loft insulation and heating upgrades. The grant conditions dictate that a landlord contribution is expected, so the HRA does have to finance a proportion of each retrofit out of its available resources. The forecast overspend for Q3 & Q4 of 2021/22 of £2.1 million is offset by grant funding of £0.5m, so the net additional cost to the HRA is £1.6 million.</p> <p>The 202/23 estimates process incorporated a detailed review of the carbon retrofit budget requirement, the entire HRA capital programme has been reviewed to identify areas where budgets can be reapportioned to the retrofit need.</p> <p>To work towards the Council’s commitment to carbon neutral by 2030 the Council will look to apply for any further grant funding available, but the required landlord contributions may require further reapportioning of budget from other areas of the HRA approved capital programme.</p>	
Structural Repairs	£358,125
<p>Officer Responsible – Planned Works Lead</p> <p>It has been identified that in order to prepare properties for carbon reduction upgrades, some structural repairs are required. This predominately relates to the failure of wall ties and some lintels and the need to clear wall cavities of building rubble prior to the reinstallation of cavity insulation. Whilst this work was not anticipated its completion will significantly improve the thermal performance of the wall structures and the associated affordable warmth for our tenants.</p>	
Re-roofing – Houses	£165,195
<p>Officer Responsible – Planned Works Lead</p> <p>It has been identified that in order to prepare properties for carbon reduction upgrades, some roofing works are required. Surveys confirmed that a significant number of roofs needed renewal including the installation of insulation and ventilation. Additionally, the roofing programme was accelerated in order to achieve Green Homes Grant full allocation and spend.</p>	

Window replacements	£150,000
<p>Officer Responsible – Planned Works Lead</p> <p>The window replacement programme has been accelerated in line with the retrofit programme. The future budget has been realigned in order to maximise spend across all retrofit areas including window and door replacements.</p>	
Bathroom replacements	(£141,206)
Communal area – New flooring	(£158,351)
Communal doors	(£50,000)
Door replacements	(£46,274)
Fire Risk assessment works	(£163,025)
Kitchen replacements	(£63,469)
<p>Officer Responsible – Planned Works Lead</p> <p>As highlighted above, the 2021/22 budget and the revised MTFP budget years have been restructured and the spend realigned to better match stock condition information and renewal timescales. Consequently, for a number of budget areas the profile of expenditure has been reapportioned or restated across the next 4 years, this includes some budget areas that were previously deferred to future years in the Q2 report.</p>	
Hamlin Gardens	£1,300,000
<p>Officer Responsible – Planned Works Lead</p> <p>The budget for the Hamlin Gardens development has been increased to reflect the tender results received following the contract re-tender. With a contractor now appointed, the budget has been re-profiled to reflect the expected timeline of the project with completion expected in 2023/24.</p>	
Delegated Powers (DP) development budget	(£1,300,000)

Assistant Director of Housing (AP)

The DP budget is available to allow the Assistant director of housing the flexibility to make decisions that would result in increased housing stock, wither by property purchase or development.

A saving on this budget has been identified to compensate for the additional budget requirement on Hamlin Gardens. £1.7m remains on the DP budget and this amount is considered sufficient given the number of development commitments at present.

Schemes to be deferred to 2022/23 and beyond

Schemes which have been identified as being wholly or partly deferred to or (from) 2022/23 and beyond are:

Scheme	Budget deferred to/(from) future years
Boiler replacement programme	(£147,488)
<p>Officer Responsible – Compliance Lead</p> <p>The boiler replacement programme has accelerated this year due to the need to replace a number of obsolete models which were unviable to maintain. With the contractor, Liberty making good progress with this replacement programme, getting ahead of the expected programme for 2021/22 budget is being brought forward from future years to accommodate.</p>	
Electrical rewiring – Domestic	(£120,333)
<p>Officer Responsible – Compliance Lead</p> <p>The electrical rewiring on domestic properties has accelerated during 2021/22. There is an element of catching-up following Covid-related delays in this programme in the previous year and from under investment in this area in previous years. Budget is being brought forward from future years to accommodate.</p>	
Social Housing acquisitions – Section 106	£589,507
<p>Assistant Director of Housing (LB)</p> <p>The budget is available to purchase properties offered to the Council as part of section 106 agreements. The purchase price is usually for a nominal amount. This budget will be carried forward and made available to purchase properties on the open market, as well as via section 106 agreements.</p>	
Rennes House Structural Works	£400,000
<p>Assistant Director of Housing (AP)</p> <p>Following a report to Executive in January 2022 and subject to Council approval in February 2022, progress will be made with the tenant engagement element of the Rennes House proposals. As agreed, a further report will be made to Members in the next few months to finalise plans prior to commissioning works.</p>	

Vaughan Road	£1,000,000
<p>Assistant Director of Housing (AP)</p> <p>Demolition works have now commenced on this site. The budget has been re-profiled to align with the current timeline but it should be noted that procurement of the new development has yet to be finalised due to current construction market conditions.</p> <p>The selected contractor is not minded to progress the contract on the current basis, which in effect brings the procurement process with them to an end. As such, we will need to revisit the procurement process and re-tender the project.</p>	

8.5 Projected Movement in Working Balance (Revenue)

	£
Approved Budgeted transfer from/ (to) the working balance	6,647,075*
Supplementary budgets – Council approved 20 July 2021	333,000
Revenue Contribution to Capital deferred from 2020/21 – Council approved 20 April 2021	446,550
Revised Budgeted transfer from/ (to) the working balance	7,426,625

*2021/22 Approved Budget Represented By	£
85A1 MANAGEMENT	1,267,435
85A2 TENANCY SERVICES	1,455,550
85A3 SUNDRY LANDS MAINTENANCE	604,910
85A4 REPAIR & MAINTENANCE PROGRAMME	6,393,320
85A5 REVENUE CONTRIB TO CAPITAL	7,950,000
85A6 CAPITAL CHARGES	3,742,940
85A7 HOUSING ASSETS	2,210,260
85A8 RENTS	(19,236,370)
85B2 INTEREST	2,259,030
85B4 MOVEMENT TO/(FROM) WORKING BALANCE	(6,647,075)

The HRA has built up a considerable working balance of £12.950 million as at 31 March 2021. This is considerably 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 approved 2021/22 budget built-in a large anticipated revenue contribution to capital for the year of £7.950 million. A further £0.447 million contribution to capital was deferred from 2020/21, taking the anticipated revenue contribution to capital for 2021/22 to £8.397 million.

8.6 The budget variances anticipated at quarter 3, indicate that £7,404,140 will be taken from the working balance in 2021/22 – See appendix 2.

This represents a movement of -£22,485 compared to the revised budget £7,426,625 for 2021/22. The key budget deviations are explained below.

Budget Heading	Forecast Outturn Budget Variance at Quarter 2 (Under)/Overspend	Forecast Outturn Budget Variance at Quarter 3 (Under)/Overspend
Management Costs	£30,000	£30,000

Officers Responsible:

Assistant Director of Housing (AP)

Assistant Director of Housing (LB)

- £30k Forecast overspend in empty property council tax charges. A number of invoices relating to 2020/21 became payable in Q1 of 2021/22. These properties were empty longer term due to major works and the pandemic and being unable to let them. In addition to this during 2021/22, approximately 35 properties will be held empty for major works or redevelopment opportunities.
- £25k Forecast overspend in business rates. These are back-dated charges for the mobile offices provided to remote working housing officers.
- (£10k) Forecast underspend on new hardware for officers. It is expected that there will be a supplementary request at the Year end to carry forward this budget to buy new phones and hardware for officers in 2022/23.
- (£15k) amalgamation of smaller under and overspends.

Tenancy Services	(£12,500)	£nil
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Officers Responsible:

Assistant Director of Housing (LB)

- (£12.5k) forecast underspend on shared ownership costs. The 2021/22 budget allowed for costs in anticipation of shared-ownership arrangements. Shared-ownership is not expected to be offered during 2021/22 therefore this budget is not due to be spent.
- £23k forecast reduction in Right-to-buy sales fee income. The HRA is allowed to charge £1,300 per Right-to-buy sale as an admin charge. It is expected that there will be 28 Right-to-Buy sales in 2021/22 against a forecast of 45. This will result in lower admin fee income.
- (£11k) forecast underspend on property valuation fees. This is due to lower than expected number of valuations and also some valuations have been undertaken internally which has proved more cost-effective.

Sundry Land Maintenance	(£39,640)	(£53,640)
<p>Officers Responsible: Assistant Director of Housing (AP) Assistant Director of Housing (LB)</p> <ul style="list-style-type: none"> • (£54k) forecast underspend on garden assistance. This is a service provided on a monthly basis and spend is therefore dependent on how many gardens are expected to be serviced each month. 		
Repair & Maintenance Programme	(£nil)	(£nil)
<p>Officer Responsible: Service Lead – Housing Assets</p> <ul style="list-style-type: none"> • £130k forecast overspend on general reactive repairs. The budgetary impact is consistent with national trends and is potentially a consequence of the COVID periods with people spending more time at home, properties exhibiting more 'wear and tear', less/delayed capital investment and increased expectations for repair completions. Close monitoring continues to be in place to scrutinise activity and expenditure. • £165k forecast overspend on voids. The recent void analysis indicates that we have had a larger than usual number of void properties this year returned to us with high void costs which are not capital repairs. Work by the Voids Review Group continues to examine reasons for this trend and ways to mitigate and it is hoped that Housing Officer visits will go some way to reducing this pressure. Additionally, as a priority action the Voids Review Group are currently reviewing the Recharge Policy to make it fit for purpose and it is anticipated that this will assist in the management of voids, and the associated costs, moving forward. • (£109k) forecast underspend on Older Persons' decoration. This service provision has been temporarily suspended (2021/22) following the COVID period and risk assessments relating to non-urgent work. Furthermore, we do not currently have significant demand from tenants. It is likely that we will review and recommence this service offer to tenants from April 2022. • (£200k) forecast underspend on gas and central heating servicing and maintenance. This is largely due to continuing efficiencies emerging from the Liberty contract, that started in 2019/20 and new boiler installs successfully reducing the number of call-outs. • £14k amalgamation of other under and overspends. 		

Capital Charges	£101,155	£101,155
<p>Officer Responsible: not applicable (statutory accounting charge)</p> <p>Depreciation charges are higher than budgeted due to a valuation increase of the properties in the portfolio at 2020/21 year end.</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.</p>		
Interest	(£100,000)	(£100,000)
<p>Officer Responsible: Assistant Director of Housing (AP) Assistant Director of Housing (LB)</p> <p>(£100k) forecast underspend on interest. The 2021/22 budget included interest cost for additional £3.9m approved borrowing. This additional borrowing is likely not to be undertaken in 2021/22.</p>		
Total budget (underspend)/overspend	(£20,985)	(£22,485)
Projected transfer from/ (to) the working balance	£7,405,640	£7,404,140

8.7. 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 2022, is set out below:

Movement	2021/22
Opening HRA Working Balance, as at 1 April 2021	£12,950,277
Forecast transfer (from)/to the working balance for 2021/22	(£7,404,140)
Balance resolved to be retained (HRA contingency)	(£4,000,000)
Forecast Balance Available, as at 31 March 2022	£1,546,137

The significant transfer from the working balance anticipated for 2021/22 brings the working balance as at 31 March 2022 down closer to the HRA balance resolved to be retained of £4 million.

8.8. 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 2025/26.

The total available resources is 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 estimated variances in both revenue budgets detailed in section 8.6 above and estimated variances in capital budgets detailed in section 8.3 above.

The forecast total available resources has worsened by £749k since last reported. Additional capital budget requirements for 2021/22 (detailed in section 8.9), have been offset by Green Energy grant funding won during the period, an increase in right-to-buy receipts and the additional net revenue expected from Edward's Court from 2022-23 onwards.

8.9. 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 2021, 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 £6.9 million, this will likely be required in the next 12 to 24 months.

9. Historic Council own build Final Accounts to 31 March 2022

9.1. The historic 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 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.

9.2. Key Variances from Budget

A variance of £2,352 has been identified due to an increase in capital charges for 2021/22. The budgeted transfer from the COB working balance is now expected to be £28,122 for the year.

10. How does the decision contribute to the Council's Corporate Plan?

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

11. What risks are there and how can they be reduced?

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. Appendix 1 sets out the risks identified, at Quarter 3.

12. Equality Act 2010 (The Act)

12.1 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.

12.2 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.

12.3 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.

12.4 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.

13. Carbon Footprint (Environmental) Implications:

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

14. Are there any other options?

None.

Director Finance, David Hodgson

Author: Kayleigh Searle

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

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 4.36
01392 265275