

REPORT TO EXECUTIVE

Date of Meeting: 29 November 2022

REPORT TO COUNCIL

Date of Meeting: 13 December 2022

Report of: Director Finance

Title: 2022/23 HRA Budget Monitoring Report – Quarter 2

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To advise Members of the financial position of the HRA Revenue and Capital Budgets for the 2022/23 financial year after six 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 2022/23 financial year; and

(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 second update for 2022-23.

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 2022/23 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 is little movement to draw members' attention to at this stage. Whilst the HRA is dealing with the same financial pressures as the General Fund, these are being offset by reductions in spend elsewhere.

6. What are the legal aspects?

6.1. The Housing Revenue Account is framed 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. Given this report is written by way of update for members information, the Monitoring officer has no comment to make.

8. Report details:

HRA BUDGET MONITORING – QUARTER 2

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

| | £ |
|--|-------------------|
| Approved Budgeted transfer from the working balance | 1,154,130* |
| Supplementary budgets – Council approved 19 July 2022 | 550,500 |

| | |
|--|------------------|
| Edward's Court 2022/23 budget – Council approved 22 February 2022 | (80,974) |
| Revenue Contribution to Capital deferred from 2021/22 – 19 July 2022 | 3,000,000 |
| Revised Budgeted transfer from the working balance | 4,623,656 |

| *2022/23 Approved Budget Represented By | £ |
|---|--------------------|
| 85A1 MANAGEMENT | 1,545,220 |
| 85A2 TENANCY SERVICES | 1,511,160 |
| 85A3 SUNDRY LANDS MAINTENANCE | 614,170 |
| 85A4 REPAIR & MAINTENANCE PROGRAMME | 6,898,350 |
| 85A5 REVENUE CONTRIB TO CAPITAL | 2,000,000 |
| 85A6 CAPITAL CHARGES | 3,830,620 |
| 85A7 HOUSING ASSETS | 2,298,160 |
| 85A8 RENTS | (19,849,110) |
| 85B2 INTEREST | 2,305,560 |
| 85B4 MOVEMENT TO/(FROM) WORKING BALANCE | (1,154,130) |

The HRA has built up a considerable working balance of £11.146 million as at 31 March 2022. 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 revised budget deficit position of £4.624 million is due to a large anticipated revenue contribution of £5 million to capital.

8.3. The budget variances anticipated at quarter 2, indicate that £4,596,612 will be taken from the working balance in 2022/23 – See appendix 2. This represents a movement of £27,028 compared to the revised budget £4,623,656 for 2022/23. The key budget deviations are explained below.

| Budget Heading | Forecast Outturn Budget Variance at | Forecast Outturn Budget Variance at Quarter 2 |
|----------------|-------------------------------------|---|
|----------------|-------------------------------------|---|

| | Quarter 1 (Under)/ Overspend | (Under)/ Overspend |
|--|------------------------------------|-----------------------|
| Tenancy Services | (£15,600) | (£15,600) |
| <p>Officer Responsible: Assistant Director of Housing (LB)</p> <ul style="list-style-type: none"> The budget anticipated 28 Right- to-Buy property sales in 2022/23. It is now anticipated that there will likely be closer to 40 Right-to-Buy sales during the year. This will result in an additional £15,600 of admin fee income but of course a loss of council homes. | | |
| Sundry Land Maintenance | (£300,000) | (£300,000) |
| <p>Officers Responsible: Assistant Director of Housing (AP) Assistant Director of Housing (LB)</p> <ul style="list-style-type: none"> 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. <p>Current National guiding bodies indicate that Ash Die Back will result in 90% loss over 10 years, with only 5% of trees showing any resilience to the disease.</p> <p>The £300k underspend expected in 2022/23 will still be required in future years so there will be no overall impact on the Medium Term Financial Plan. Officers will continue to monitor the situation to ensure that there is appropriate budget provision for works needed.</p> | | |
| Repair & Maintenance Programme | £nil | £500,000 |
| <p>Officer Responsible: Assistant Director of Housing (AP)</p> <p>Budget pressures are emerging from the General Maintenance and Repairs to Void Properties budgets. These relate to the increasing levels of work required for each repair and the poor condition of a higher number of void properties returned to the Council when tenancies terminate. This position has also been made worse by price increases for materials and labour. In-year efficiencies are being sought to mitigate the forecasted position and will be reported in the Q3 update.</p> | | |
| Housing Assets | £94,000 | £94,000 |
| <p>Officer Responsible: Assistant Director of Housing (AP)</p> <ul style="list-style-type: none"> A pay increase of £1,925 for all local government staff has been offered for 2022-23. This is substantially more than the 1.5% uplift per employee that was built into the budgets. | | |

If this offer is accepted then it would result in additional staff costs of £94k in the Housing Assets team.

The Housing Assets team is largely at full capacity so it is not anticipated that there will be any savings to compensate for this unexpected staff cost increase.

Other service areas which have vacant posts should be able to absorb the increase with savings.

| | | |
|-----------------------|----------------|----------------|
| Edward's Court | £36,132 | £36,132 |
|-----------------------|----------------|----------------|

Officer Responsible: Assistant Director of Housing (LB)

- The 2022/23 budget for Edward's Court Extra Care was based on a full 12 months of occupancy.
- The anticipated income expected from Edwards Court has reduced due to delay in awarding the care contract and allowing the first residents to move in. The contract had to be re-procured following Devon County Council's failure to specify a maximum amount for the well-being charge that allowed bidders to subsidise the care element of the bid thereby skewing the award process which had to be repeated.
- In addition to this we have seen that our original forecasting of services such as cleaning and catering have come in at higher costs than anticipated. This trend in higher costs is being reflected across the sector and presents challenges in accurately projecting the costs in a fluid market.

| | | |
|-----------------|-------------------|-------------------|
| Interest | (£205,560) | (£341,560) |
|-----------------|-------------------|-------------------|

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

- The 2022/23 budget included interest cost for additional £5.6m approved borrowing. This additional borrowing is not likely to be drawn down for 12-18 months due to deferrals in the development capital programme.

Interest rates are on the rise, so interest received by the HRA on balances is now expected to be higher than originally anticipated and reported at Quarter 1.

| | | |
|--|-------------------|-------------------|
| Total budget (underspend)/overspend | (£391,028) | (£27,028) |
| 2022/23 HRA Deficit/ (Surplus) | £4,232,612 | £4,596,612 |

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 2023, is set out below:

| Movement | 2022/23 |
|---|-------------------|
| Opening HRA Working Balance, as at 1 April 2022 | £11,145,944 |
| Forecast transfer (from)/to the working balance for 2022/23 | (£4,596,612) |
| Balance resolved to be retained (HRA contingency) | (£4,000,000) |
| Forecast Balance Available, as at 31 March 2023 | £2,549,332 |

The significant transfer from the working balance anticipated for 2022/23 brings the working balance as at 31 March 2023 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 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 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 worsened by £344k since last reported at 2022/23 Quarter 1. This is largely as a result of the £500k expected overspend on the Repairs and Maintenance programme partially offset by increased interest receivable of £140k (detailed in section 8.3 above), an increase in Right-to-Buy receipts of £1,117k and an increase in the potential surrender of receipts to DLUHC of £1,097k.

Total available reserves over the MTFP are now expected to be £872k 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 2022, 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 £5.6 million, this will likely be required in the next 12 to 24 months.

8.7. HRA Capital Programme

The 2022-23 HRA Capital Programme was last reported to Council on 18 October 2022. Since that meeting the following changes have been made that have decreased the 2022/23 programme.

| Description | 2022/23 | Approval / Funding |
|--|--------------------|---------------------------|
| HRA Capital Programme | £21,346,389 | |
| Budgets deferred to future financial years | (£1,350,000) | Council - 18 October 2022 |
| 2022/23 Budget overspend | £704,631 | Council - 18 October 2022 |
| Revised HRA Capital Programme | £20,701,020 | |

8.8. Performance

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £20,041,020 compared to the £20,701,020 approved programme; a reduction of £660,000 that will be deferred to 2023/24.

8.9. Capital Budget Variances

There are no projected over or underspends on capital projects this quarter.

8.10. Schemes to be deferred to 2023/24 and beyond

Schemes which have been identified as being wholly or partly deferred to 2023/24 and beyond are:

| Scheme | Budget deferred to/(brought forward from) future years |
|---|---|
| Structural repairs | £250,000 |
| Officer Responsible – Planned Works Structural repairs works spend is low for the first half of the year and it is unlikely to be able to completely catch up on this position by March. Works are prioritised so, if work does slip to 2023, this would be lower priority work. | |
| Boiler replacement programme and central heating | £325,000 |
| Officer Responsible – Compliance Due to uncertainty in the supply of new boilers only unserviceable units are being replaced rather than sticking to the planned installation programme. However there are also issues with the supply chain of parts so some boilers are having to be completely replaced which is more expensive. | |
| Communal Area Footpath and Wall Improvements | £85,000 |
| Officer Responsible – Compliance On investigation one of the retaining walls due to be repaired was not as defective as anticipated and only the external brick work was in poor condition which has reduced the cost of repairs in year. | |

9. Historic Council own build Final Accounts to 31 March 2023

9.1. 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 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

There are no projected variances to report at the end of Quarter 2. The budgeted transfer from the COB working balance of £33,105 is still projected to be achieved during 2022/23.

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; Building 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.

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

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

Background papers used in compiling this report:-

None

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