

## **REPORT TO EXECUTIVE**

Date of Meeting: 4th April 2023

## **REPORT TO COUNCIL**

Date of Meeting: 18 April 2023

Report of: Director Finance

Title: 2022/23 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?**

To advise Members of the financial position of the HRA Revenue and Capital Budgets for the 2022/23 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 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 third 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 a small improvement in the forecast outturn position for the HRA, largely driven by increasing interest rates. As Members are aware, the General Fund pays interest on the Balances held by the HRA.

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

6.1. The Housing Revenue Account is framed by the Local Government and Housing Act 1989. Section 74 of the Act creates the ring-fenced HRA and the Act sets out the structure within which the HRA operates. The Act also addresses the detailed operation of the HRA, including the credits (income) and debits (expenditure) which make up the account. Members will note the content of Schedule 4 of the Act in particular which sets out the requirements on 'The Keeping of the Housing Revenue Account'.

#### **7. Monitoring Officer Comments:**

7.1. This reports sets out the factual position relating to the HRA for members' information and as such raises 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 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>1,154,130*</b>
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
<b>Revised Budgeted transfer from the working balance</b>	<b>4,623,656</b>

<b>*2022/23 Approved Budget Represented By</b>	<b>£</b>
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	<b>(1,154,130)</b>

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 3, indicate that £4,382,082 will be taken from the working balance in 2022/23 – See appendix 2. This represents a movement of £241,558 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 Quarter 2 (Under)/ Overspend	Forecast Outturn Budget Variance at Quarter 3 (Under)/ Overspend
Management	-	£17,500
<p><b>Officers Responsible:</b>  <b>Assistant Director of Housing (AP)</b>  <b>Assistant Director of Housing (LB)</b></p> <ul style="list-style-type: none"> <li>There have been pressures on the budget this year from increased tenant decant costs associated with the housing development programme, as a result of a number of incidents which include fires and cases of damp and mould, and also an increase in the Housing Ombudsman membership fees.</li> </ul>		
Tenancy Services	(£15,600)	(£15,600)
<p><b>Officer Responsible: Assistant Director of Housing (LB)</b></p> <ul style="list-style-type: none"> <li>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 and a loss of council homes.</li> </ul>		
Sundry Land Maintenance	(£300,000)	(£333,000)
<p><b>Officers Responsible:</b>  <b>Assistant Director of Housing (AP)</b>  <b>Assistant Director of Housing (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> <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> <ul style="list-style-type: none"> <li>Further net savings in the year of £33k have also been identified in the gardens and garden assistance budgets.</li> </ul>		
Repair & Maintenance Programme	£500,000	£261,000
<p><b>Officer Responsible:</b>  <b>Assistant Director of Housing (AP)</b></p> <p>The General Maintenance budget overspend has reduced from the figure reported at Quarter 2 but is recognised that this budget is still under pressure due to emerging issues with the cost of living crisis prompting more work with insulation, windows and doors, heating etc. along with significant activity on damp, condensation and mould investigations and cleaning and mitigation which we project will continue to rise steadily.</p>		

Voids numbers are down slightly, there was a run of significant garden works on slopes which led to Housing Health and Safety Rating System CAT 1 hazards needing to be rectified. Strict management of decoration expenditure has kept costs down and not impacted letting times. This is based on trends so far this year which have improved since Quarter 2, but it is difficult to predict the number of voids we will get or what condition they will be in for the remainder of the year.

The planned asbestos surveys and removal budgets are overspent due to decisions taken to remove as much asbestos as possible when safe opportunities arise (when properties are vacated or when capital works are carried out), but this is offset by savings on the internal decoration programme.

<b>Housing Assets</b>	<b>£94,000</b>	<b>£134,500</b>
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**Officer Responsible: Assistant Director of Housing (AP)**

- The pay award of £1,925 for all local government staff was agreed for 2022/23 which was substantially more than the 1.5% uplift per employee that was built into the budgets. This has resulted in additional staff costs in the Housing Assets team.
- In addition the team have significant agency costs at present pending recruitment to a number of vacant posts. Consultancy fees including support from Echelon are higher than originally budgeted following a decision to complete a more extensive review of the response repairs contract this year.

<b>Edwards Court</b>	<b>£36,132</b>	<b>£36,132</b>
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**Officer Responsible: Assistant Director of Housing (LB)**

- The 2022/23 budget for Edwards 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 delivering the catering in-house have increased costs. This trend in higher costs is being reflected across the sector and presents challenges in accurately projecting the costs in a fluid market.

<b>Capital charges</b>	<b>£0</b>	<b>£242,470</b>
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**Officer Responsible: not applicable (statutory accounting charge)**

Depreciation charges are higher than budgeted due to a valuation increase of the properties in the portfolio at 2021/22 year end.

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.

<b>Interest</b>	<b>(£341,560)</b>	<b>(£584,560)</b>
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<p><b>Officer Responsible:</b>  <b>Assistant Director of Housing (AP)</b></p> <p>The 2022/23 budget included interest cost for additional £5.6m approved borrowing. This included £1.7m for a development budget which has now been removed from the capital programme (see 8.9 below). The remaining £3.9m of borrowing is not likely to be drawn down in 22/23 due to slippage in the development capital programme.</p> <p>Interest rates continue to be higher than budgeted so interest received by the HRA on balances is expected to be higher than reported at Quarter 2.</p>		
<b>Total budget (underspend)/overspend</b>	(£27,028)	(£241,558)
<b>2022/23 HRA Deficit/ (Surplus)</b>	<b>£4,596,612</b>	<b>£4,382,082</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 2023, is set out below:

<b>Movement</b>	<b>2022/23</b>
Opening HRA Working Balance, as at 1 April 2022	£11,145,944
Forecast transfer (from)/to the working balance for 2022/23	(£4,382,082)
Balance resolved to be retained (HRA contingency)	(£4,000,000)
<b>Forecast Balance Available, as at 31 March 2023</b>	<b>£2,763,862</b>

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 improved by £217k since last reported at 2022/23 Quarter 2. This reflects increased Right to Buy receipts in year and the potential surrender of receipts to DLUHC, changes to the capital programme and underspends in the current year, and a reduction in the projected overspends on Repairs and Maintenance.

Total available reserves over the MTFP are now expected to be £1,090k 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, of which £1.7m is no longer required and £3.9m 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 13 December 2022. Since that meeting the following changes have been made that have increased the 2022/23 programme.

Description	2022/23	Approval / Funding
<b>HRA Capital Programme</b>	<b>£20,701,020</b>	
Budgets deferred to future financial years	(£660,000)	Council - 13 December 2022
Additional Edwards Court major capital projects budget	£780,310	Council - 13 December 2022
<b>Revised HRA Capital Programme</b>	<b>£20,821,330</b>	

**8.8. Performance**

The current HRA Capital Programme is detailed in Appendix 4. The appendix shows a total forecast spend of £15,827,690 compared to the £20,821,330 approved programme; a reduction of £3,068,800 that will be deferred to 2023/24, and a projected £1,924,840 net underspend in year.

### 8.9. Capital Budget Variances

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

Scheme	Budget deferred to/(brought forward from) future years
<b>Delegated Powers (DP) development budget</b>	<b>(£1,700,000)</b>
<b>Rennes House structural works</b>	<b>(£150,000)</b>
<p><b>Officer Responsible – Assistant Director of Housing (AP)</b></p> <p>The DP budget was included in the capital programme to allow the Assistant Directors of Housing the flexibility to make decisions that would result in increased housing stock, whether by property purchase or development. However as it has been difficult to identify suitable properties and there is pressure on the capital programme over the MTFP this budget will not be spent and will be a saving to offset other projects. This formed part of the £5.6m approval which had not yet been borrowed so will generate revenue savings from reduced interest payments which has been factored in to the budget for future years.</p> <p>No significant works are planned at Rennes House and the budget is being held for emergency works, and this is not likely to be required before April.</p>	
<b>Energy Conservation</b>	<b>£450,000</b>
<b>Re-roofing Houses</b>	<b>(£300,000)</b>
<b>Door Replacements</b>	<b>(£150,000)</b>
<b>Communal area improvements – new flooring replacements</b>	<b>(£85,000)</b>
<b>Porch canopies</b>	<b>(£53,000)</b>
<p><b>Officer Responsible – Planned</b></p> <p>The energy retrofit programme is likely to be overspent due to price increases, but is expected to be offset by savings in other schemes where the full approval has not been required this year.</p>	

### 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:



<b>Scheme</b>	<b>Budget deferred to/(brought forward from) future years</b>
<b>Council House Building Programme – Hamlin Gardens</b>	<b>£740,000</b>
<b>Council House Building Programme – Vaughan Road</b>	<b>£1,274,000</b>
<p><b>Officer Responsible – Assistant Director of Housing (AP)</b></p> <p>There is likely to be slippage to 2023/24 on both of these projects, and a separate paper regarding the Vaughan Road is being produced.</p>	
<b>Adaptations</b>	<b>£350,000</b>
<b>Fire Safety Storage Facilities</b>	<b>£80,000</b>
<b>Kitchen replacements</b>	<b>£200,000</b>
<b>Bathroom replacements</b>	<b>£200,000</b>
<b>Window replacements</b>	<b>£55,000</b>
<b>Communal Door and Screen replacements</b>	<b>£15,000</b>
<p><b>Officer Responsible – Planned</b></p> <p>There are delays in OT assessments and a reduction in referrals so not all of the adaptations budget has been spent as expected. Two big projects are not yet complete and will carry forward to 23/24.</p> <p>The contract with Bell is catching up on kitchen and bathroom replacements but there is likely to be some slippage to 23/24. The window replacement budget is likely to be 95% spent by year end.</p>	
<b>Lift upgrades</b>	<b>£154,800</b>
<p><b>Officer Responsible – Compliance</b></p> <p>This project has been delayed and is now being progressed but we are unlikely to spend anything this financial year.</p>	

## **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

A variance of £560 has been identified due to an increase in capital charges for 2022/23. The budgeted transfer from the COB working balance of £33,665 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 Equality 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: Claire Hodgson

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

Background papers used in compiling this report:-

None

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