

REPORT TO EXECUTIVE

Date of Meeting: 27 June 2023

REPORT TO COUNCIL

Date of Meeting: 18 July 2023

Report of: Director Finance

Title: 2022/23 HRA Budget Monitoring Report – Outturn

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To advise Members of any major differences, by management unit, between the approved budget and the outturn for the financial year up to 31 March 2023 in respect of the Housing Revenue Account and the Council's new build schemes.

An outturn update in respect of the HRA Capital Programme is also incorporated into this report in order to help provide a comprehensive financial update in respect of the Housing Revenue Account.

2. Recommendations:

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

- 1) The supplementary budget of £300,000 as detailed in paragraph 8.5;
- 2) The HRA financial position for 2022/23 financial year;
- 3) The revision of the HRA Capital Programme to reflect the reported variations detailed in Appendix 3; and
- 4) The Social Housing Decarbonisation Fund capital project as detailed in paragraph 8.14.

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 final 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.

4.2 The impact on the HRA's available financial resources are set out in Appendix 2.

5. Section 151 Officer comments:

5.1 The improved position on the HRA outturn is driven entirely by addition interest earned from the General Fund on its balances. The outlook remains tight and rising interest rates, whilst beneficial to the HRA, do cause the same challenges as they do for the General Fund capital programme. New build, in particular are likely to struggle to cover borrowing costs at least in the short term and this will therefore have an impact on the size of the wider capital programme. Members must therefore ensure that they are satisfied that the balance between investing in existing stock and new build is in line with their priorities.

5.2 Whilst Finance will work to ensure that the impact is as low as possible, the impact is built into each viability assessment for new build and will be reported to Members at the time a decision is 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:

The Monitoring should remind members that they are under an obligation to exercise their fiduciary duty carefully. The meaning of fiduciary duty can be summarised as a duty to conduct administration in a business-like manner with reasonable care, skill and caution and with due regards to the council's rate payers. When discharging their fiduciary duties councillors will need to consider the following:

- a. Prudent use of the council's resources, including the raising of income and the control of expenditure;
- b. Financial prudence both long and short term; and
- c. Striking a fair balance between the interest of the council tax payers on the one hand and the community interest and adequate and efficient services on the other hand.

8. Report details:

HRA FINAL ACCOUNTS TO 31 MARCH 2023

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	(80,990)
Revenue Contribution to Capital deferred from 2021/22 – 19 July 2022	3,000,000
Revised Budgeted transfer from the working balance	4,623,640

*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.

8.3 The 2022/23 financial year has ended with an overall net deficit of £3.903m. This represents a movement of £721k compared to the budgeted deficit of £4.624m for 2022/23. This represents a 16% underspend compared with the original budget.

A projected under-spend of £242k was previously reported at Quarter 3 as part of the quarterly budget monitoring updates. The variances in the final quarter of the financial year have therefore resulted in further savings of £479k. The reasons for this and the main deviations from budget for the financial year are set out below. Please also refer to Appendix 1.

Budget Heading	Forecast Variance at Quarter 3 (Under)/ Overspend	Actual Budget Variance (Under)/ Overspend
Management	£17,500	(£23,958)
<p>Officers Responsible: Assistant Directors of Housing (AP and LB)</p> <ul style="list-style-type: none"> • £157k overspend on general management overheads which is primarily due to 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. • £176k saving on resident involvement. This relates to supplementary budgets which were brought forward from 21/22 for additional salary costs, publications, consultants and resident involvement activity and projects which have not been fully spent in year. • The corporate recharge for statutory officers was £4k lower than budgeted. 		
Tenancy Services	(£15,600)	(£160,663)
<p>Officer Responsible: Assistant Director of Housing (LB)</p> <ul style="list-style-type: none"> • There was a £35k saving on Right to Buy administration as the budget anticipated 28 property sales in 2022/23 but the actual was 39. This resulted in additional admin fee income, but also a loss of council homes. • Lettings and home ownership underspent by £56k due to savings on agency staff and the downsizing budget. • There is a general £68k saving on tenancy services across staffing and travel, cleaning, court and legal fees. 		
Sundry Land Maintenance	(£333,000)	(£353,743)

Officers Responsible: Assistant Directors of Housing (AP and LB)

- The Estate Maintenance budget has underspent by £333k which is primarily as a result of new expectations around when Ash Die Back is likely to impact in Exeter. Current National guiding bodies indicate that the disease will result in 90% loss over 10 years, with only 5% of trees showing any resilience to the disease.

£300k was brought forward from 2021/22 and it is requested to carry forward again to 2023/24 as the budget 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.

- Further savings of £20k were made in the garden assistance budget.

Repair & Maintenance Programme

£261,000

£270,012

Officer Responsible: Assistant Director of Housing (AP)

- Re-pointing budget has underspent by £174k.
- The asbestos surveys and removal budgets are overspent by £169k 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 re-pointing and internal decoration programme.
- The General Maintenance budget overspent by £662k as this budget is still under pressure due to 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.
- Void numbers were down and ended the year with a £175k underspend. This budget is difficult to predict but strict management of decoration expenditure has kept costs down and not impacted letting times. During 22/23 we trialled tailoring the void work to the needs of the incoming tenant and not necessarily doing everything on the specification for every void, which has kept the budget down. This has been discussed with and received the support of Tenant's Voice.
- Service contracts were £86k underspent, of which £82k was due to savings on the gas and central heating budget. This is due to work done over the last 4 years in updating less reliable boilers which has enabled a reduction in repairs and maintenance requirements.
- Low maintenance and painting flats was overspent by £58k.
- The internal decoration programme was underspent by £195k.
- Other variance netted a £11k overspend.

Housing Assets	£134,500	£143,145
<p>Officer Responsible: Assistant Director of Housing (AP)</p> <ul style="list-style-type: none"> • Staff costs were overspent across this service by £124k, mainly due to agency costs to cover for vacancies. • Consultancy fees and contract payments were £16k over budget, including low carbon consultancy, support from Echelon on a review of the response repairs contract this year. • Other variances netted a £3k overspend 		
Edwards Court	£36,132	£160,570
<p>Officer Responsible: Assistant Director of Housing (LB)</p> <ul style="list-style-type: none"> • The 2022/23 budget for Edwards Court Extra Care was based on a full 12 months of occupancy, however due to a re-procurement exercise the first residents did not move in until half way through the year. • In addition to this we have seen that our original forecasting of services such as utilities, 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. • There has also been unforeseen expenditure during the first year including IT works. 		
Capital charges	£242,470	£242,470
<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 2021/22 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	(£584,560)	(£806,694)
<p>Officer Responsible: Assistant Director of Housing (AP)</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. The remaining £3.9m of borrowing has been delayed whilst interest rates are at elevated levels and are likely to be drawn down over the next couple of years, and this saved £232k in interest payments during the year.</p> <p>Interest rates continued to increase throughout the year resulting in improved interest receivable of £575k higher than budgeted on HRA balances.</p>		
Rents	£0	(£191,939)

Officers Responsible: Assistant Director of Housing (LB) & Service Lead Revenues, Benefits and Customer Access

The rent collected for 2022/23 was largely in line with budget – the variance is 1% of the budget.

Total budget (underspend)/overspend	(£241,558)	(£720,800)
2022/23 HRA Deficit / (Surplus)		£3,902,840

8.4 Impact on HRA Working Balance

The total budget variances for 2022/23 have resulted in a deficit of £3,902,840 which will be transferred from the HRA working balance, as set out below.

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 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
Deficit for 2022/23	(£3,902,840)
Balance resolved to be retained (HRA contingency)	(£4,000,000)
Balance Available, as at 31 March 2023	£3,243,104

The significant transfer from the working balance 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 Supplementary Budgets

There is a requirement for a supplementary budget in 2023/24 as the HRA has identified an under-spend against the Estate Maintenance – communal trees budget. This was brought forward from 2021/22 as the spread of Ash Die Back disease is slower than originally anticipated, but the budget will still be required.

It is therefore proposed that a supplementary budget of £300k is submitted to Executive for approval and added to the 2023/24 budget.

8.6 Major Repairs Reserve

Councils are expected to set aside some of their income each year into the Major Repairs Reserve, in order to ensure appropriate provision is made towards financing future capital

works or to repay debt. The balance held in the reserve at the end of the financial year is set out below:

Movement	2022/23
Opening Major Repairs Reserve, as at 1 April 2022	£18,066,602
Revenue monies set aside during 2022/23	£4,073,090
Amount used to finance capital expenditure during 2022/23	(£4,076,555)
Balance, as at 31 March 2023	£18,063,137

8.7 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 2 for the period to 2026/27.

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 reduced by £214k since last reported at 2022/23 Quarter 3. This reflects increased Right to Buy receipts in the last quarter, the announcement of flexibilities in the use of these receipts which can be fully retained in 2022/23 and 2023/24, and the additional approvals for Vaughan Road phase 1.

Total available reserves over the MTFP are now expected to be £875k after deducting the £4 million balance resolved to be retained (HRA contingency).

8.8 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 £5.6 million. £1.7m was for a development budget and is no longer required, and the remaining £3.9m will likely be required in the next 12 to 24 months.

8.9 HRA Capital Programme

The 2022/23 HRA Capital Programme was last reported to Council on 18 April 2023. Since that meeting the following changes have been made that have increased the 2022/23 programme.

Description	2022/23	Approval / Funding
HRA Capital Programme	£20,821,330	
Budgets deferred to future financial years	(£3,068,800)	Council - 18 April 2023
Underspends	(£1,924,840)	Council - 18 April 2023
Revised HRA Capital Programme	£15,827,690	

8.10 Performance

HRA Capital expenditure in the year amounted to £13,598,264 which equates to 86% of the revised approved capital programme (as set out above). The nature of capital investment in the financial year comprised:

HRA Capital Expenditure	£
Capital investment in existing stock	10,287,411
Capital investment in the provision of new council homes	3,310,853
Total HRA Capital Expenditure	13,598,264

A detailed list of HRA capital budgets and actual expenditure is set out in Appendix 3.

It is proposed to carry forward a net total of £2.272 million budget into future years, and £42k more has been spent than was projected at Quarter 3.

8.11 HRA Capital Financing

The total HRA capital expenditure for 2022/23 will be financed as follows:

HRA Capital Finance	£
Major Repairs Reserve	4,076,555
Revenue Contribution to Capital	5,000,000
Capital Receipts	4,331,117
Commuted sums (S106)	112,579
Borrowing	0
External contributions	78,013
Grants	0
Total HRA Capital Financing	13,598,264

The impact on the capital resources available to the HRA over the next 4 years is set out in Appendix 2.

8.12 Capital Budget Variances

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

Scheme	Overspend / (Underspend)
LAINGS refurbishments	£85,731
<p>Officer Responsible – Assistant Director of Housing (AP)</p> <ul style="list-style-type: none"> 12 of the 18 properties have been completed and a report to Members in June will seek approval for the final phase of the regeneration project, including the associated budget provision taking account of the current balance. 	
Fire Safety storage facilities	(£88,124)
Re-roofing Flats	£92,375
<p>Officer Responsible – Planned</p> <ul style="list-style-type: none"> The fire safety storage facilities underspend is due to fewer bin stores to blocks of flats on programme for the year requiring re-siting. Roofing (flats) overspend is due to unexpected responsive roofing works required to blocks of flats that were not on programme for the year. 	

8.13 Schemes to be deferred to 2023/24 and beyond

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

Scheme	Budget deferred to/(brought forward from) future years
Council House Building Programme – Hamlin Gardens	(£178,055)
Council House Building Programme – Vaughan Road	(£113,094)
Social Housing acquisitions – Section 106	£589,507
Social Housing acquisitions – open market	£503,649
St Loyes Extracare scheme	£191,544
<p>Officer Responsible – Assistant Director of Housing (AP)</p> <ul style="list-style-type: none"> The Hamlin Road and Vaughan Road developments are progressing on site and Members will be updated as part of the June development report. 	
Estate Improvements	£50,000
<p>Officer Responsible – Assistant Director of Housing (LB)</p> <ul style="list-style-type: none"> This budget is for smaller projects such as fencing and bin stores and there are plans for spending this in 2023/24. 	
Balcony walkway improvements	£91,001
Bathroom replacements	£141,808
Re-roofing - Houses	£52,851
Structural repairs	£86,607
<p>Officer Responsible – Planned</p> <ul style="list-style-type: none"> The Balconies and Walkways underspend is down to delays in completing the programme for the year. Completion of one project has slipped into 2023/24 and will absorb this underspend. The underspend on Bathrooms is down to issues around our incumbent contractor going into administration last year and difficulties around the novation of that contract. This has hampered and impacted on our ability to deliver the full programme for the year but we are working behind the scenes to procure a new principle contractor as soon as possible. The Roofing (houses) underspend is as a result of a reduced number of single houses on programme requiring full roof replacements during 22/23, but will be absorbed within the 2023/24 programme. There have been delays in commencing some structural repair works so some projects will slip into 2023/24. 	

Boiler Replacement Programme and central heating	£244,646
Fire Risk Assessment works	£160,919
Electrical Rewires - Domestic	£322,715
<p>Officer Responsible – Compliance</p> <p>The carry forward on boiler replacements and central heating has been necessary due to an industry wide shortage of gas engineers but this work will need to be done in the future. A new contract will commence in October 2023.</p> <p>It became evident during the year that we were under-resourced to manage the fire risk assessment works effectively and have been able to supplement staff levels for a short period to enable us to catch up with the works.</p> <p>An overspend of £705k was reported in Quarter 1 as a result of increased electrical testing and this catch up has identified additional Code 2 and 3 electrical remedial work. This compliance work has been ongoing throughout the year but there is some re-profiling to 2023/24 to continue to improve tenant safety. A new contract commenced in August 2022 which facilitated the catch up programme.</p>	

8.14 Further requests

Exeter City Council has been successful in their bid to the Social Housing Decarbonisation Fund Wave 2.1 and have been awarded a grant of up to £1,494,402 over the next two years. This will be in addition to the existing energy retrofit capital approval.

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

The 2022/23 year has ended with an overall net deficit of £9,620, which will be transferred to the COB working balance. This represents a decrease of £23,485, compared to the budgeted transfer from the working balance of £33,105. Please refer to Appendix 1 for more details.

The variance is largely due to higher interest receivable on balances and lower than expected repairs and maintenance costs in relation to the properties.

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

Author: Claire Hodgson

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

Background papers used in compiling this report:-

None

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