

This Report will be made public on 23 December 2022

Report Number **C/22/79**

To: Cabinet
Date: 25 January 2023
Status: Non-Key Decision
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Members: Councillor David Monk, Leader of the Council and Councillor David Godfrey, Housing, Transport and Special Projects

SUBJECT: HRA Budget Monitoring Quarter 3

SUMMARY: This monitoring report provides a projection of the end of year financial position for the Housing Revenue Account (HRA) revenue expenditure and HRA capital programme based on net expenditure to 30 November 2022.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because Cabinet needs to be kept informed of the Housing Revenue Account position and take appropriate action to deal with any variance from the approved budget.

RECOMMENDATIONS:

1. To receive and note Report C/22/79.

1. INTRODUCTION

- 1.1 This report informs Cabinet of the likely projected outturn on HRA revenue and capital expenditure for 2022/23.
- 1.2 The projections are based on actual expenditure and income to 30 November 2022 and forecast the outturn position at 31 March 2023. Some caution therefore needs to be exercised when interpreting the results, however, a thorough budget monitoring exercise has been carried out.

2. HOUSING REVENUE ACCOUNT REVENUE 2022/23 (see Appendix 1)

- 2.1 The table below provides a summary of the projected outturn compared to the latest budget for 2022/23.

	Latest Budget £'000	Projection £'000	Variance £'000
Income	(17,258)	(17,226)	32
Expenditure	13,059	13,613	554
HRA Share of Corporate Costs	175	175	0
Net Cost of HRA Services	(4,024)	(3,439)	585
Interest Payable/(Receivable), etc	1,722	1,408	(314)
HRA (Surplus)/Deficit	(2,302)	(2,031)	271
Revenue Contribution to Capital	6,658	3,410	(3,248)
HRA Share of pension reserve movement	(295)	(295)	0
Decrease/(Increase) to HRA Reserve	4,061	1,084	(2,977)

- 2.2 The table shows that overall at quarter 3 there is a projected decrease in net expenditure of £2.1m on the HRA.

The main reasons for this are as follows:-

	£'000
Decrease in revenue contribution to capital (see 2.3 below)	(3,248)
Increase in interest and investment income (see 2.4 below)	(314)
Decrease in supervision and management (see 2.5 below)	(209)
Increase in depreciation charges of fixed assets (see 2.6 below)	685
Increase in repairs and maintenance (see 2.7 below)	77
Decrease in rental income (see 2.8 below)	32
Total net projected Housing Revenue Account variance*	<u>(2,977)</u>

* = compared to approved budget

- 2.3 The decrease in revenue contribution to capital mainly relates to re-profiling of i) the new build and acquisition programme ii) capital works (windows &

doors, re-roofing, door entry systems) with anticipated schemes being delayed to 2023/24 (see 3.3-3.6 below).

- 2.4 The increase in interest and investment income is due to the increase in bank base rate, currently at 3.50%, and higher than anticipated interest-earning balances on the HRA. The lower interest payable relates to lower refinancing costs for the HRA debt portfolio for 2022/23 than originally planned; these costs are now expected to feature in 2023/24.
- 2.5 The decrease in supervision and management is largely due to a reduction in professional advice and fees of £241k relating to now complete projects, offset partially by higher costs related to void properties (e.g. council tax and utility) and ultimately resulting in the £209k underspend.
- 2.6 The movement in depreciation charges for fixed assets is due to an increased asset valuation of council stock of approximately 20% at 31 March 2022, after the budget for 2022/23 was set. This has the effect of increasing the depreciation charged. It should, however, be noted that the increased depreciation charge provides a matched increase to the Major Repairs Reserve (see table at 3.7 below) which is used to fund capital spending. In turn, a corresponding saving has been made to the projected outturn for the revenue funding of capital expenditure, offsetting the increase in the depreciation charge.
- 2.7 The increase in repairs and maintenance relates to a net increase in costs for i) responsive repairs, including projected contract inflation for Mears, and ii) unbudgeted costs for disrepair compensation claims, offset by a change to a 'repair or replace' policy for window servicing and lower fire alarm renewal costs.
- 2.8 The decrease in income is largely due to i) void garages and ii) reduced income from service charges. Note, however, that the impact on income has been partially mitigated through a reduction in void garages from Q1 to Q3 owing to improvement works on the garage stock. Work is continuing on the remaining garages but there remains a projected decrease in income of £44k at 31 March 2023. Some of the aforementioned reduction in net income is offset by higher dwelling income resulting in the £32k variance to budget.
- 2.9 Overall, the HRA reserve at 31 March 2023 is expected to be ~£8.8m compared with ~£5.9m in the latest budget.

3. HOUSING REVENUE ACCOUNT CAPITAL 2022/23 (see Appendix 2)

- 3.1 The latest budget for the HRA capital programme in 2022/23 is £14.8m and the projected outturn for the year is £11.9m, an underspend of £2.9m.
- 3.2 The reasons for the decrease in expenditure are as follows:-

£'000

New Builds/Acquisitions (see 3.3 below)	(1,684)
Re-roofing (see 3.4 below)	(640)
Windows & Doors (see 3.5 below)	(292)
Door Block Entry (see 3.6 below)	(250)
Other minor variances	(29)
Total decrease against Latest Budget	<u>(2,895)</u>

3.3 The decrease in new build/acquisition expenditure relates predominantly to the re-profiling of the Highview scheme which has not progressed as quickly as anticipated and is now expected to commence during the next financial year. The team have been exploring new technology and construction methods to deliver a flagship scheme for the HRA following the Council declaring a climate emergency.

However, offsetting the above is an increase in the New Builds budget of £105k in relation to Ship Street which was approved at Council on the 28 September 22 (report A/22/17); it is anticipated that the expenditure for the design team and planning submissions will be spent in the current financial year (2022/23).

3.4 The decrease in re-roofing expenditure relates to delays in the procurement process, with tender documents due to be issued in September 2022. The delay in awarding the contract and the time of year when works can commence i.e. potentially unfavourable weather conditions, has resulted in the reduction of projected spend, which reflects actual spend to date and schemes where work has commenced.

3.5 The projected windows & doors expenditure relates to the procurement contract with Wrekin which totals £400k; re-procurement for the remainder of the budget is in progress with a commencement date of 1st April 2023, resulting in the variance noted for this year.

3.6 The decrease in block door entry relates to a 14-week delay of the doors for residential blocks with a subsequent reduction in the projection for 2022/23, given that the earliest start date is now due to be the end of February 2023.

3.7 The following table compares the resources required to finance the projected outturn for the HRA capital programme in 2022/23. The total variation shown below corresponds to the figure in section 3.1, above.

2022/23 HRA	1-4-1 Capital Receipts	Revenue Contribution	HRA Other Capital Receipts	Major Repairs Reserve	Total
	£'000	£'000	£'000	£'000	£'000
Projected Outturn	1,947	3,410	3,489	3,084	11,930
Approved	2,279	6,658	3,489	2,399	14,825
Variation	(332)	(3,248)	0	685	(2,895)

4. Update on the HRA Business Plan

- 4.1 Alongside this HRA Budget Monitoring report and the production of the HRA Draft Budget for 2023/24 is the development and production of the HRA 30 year Business Plan. The HRA Business Plan is the cornerstone of the financial and business planning requirement for the HRA in terms of delivery of its plans for social housing and the affordability of this, coupled with the long-term plans for the overall development and maintenance of the housing stock.

The current HRA Business Plan is being refreshed to allow for the recent stock condition survey results and for an update of the Council's HRA new build programme which is being developed by the Council's Housing team.

The HRA Business Plan is being developed in tandem with the budget planning exercise for 2023/24, however, due to the complex nature of the 30-year Business Plan, it is likely that the production of this will take a number of months to complete and consult upon, and therefore the plan may not be ready until after the HRA Budget Estimates are approved by Council in February 2023.

A set of HRA principles for the Business Plan is due to be presented to the Council's Scrutiny Committees in January 2023 by the Director of Housing and Operations and the Chief Officer for Housing. This presentation will outline the timescales for this.

5. CONCLUSION

- 5.1 The HRA revenue outturn projection for 2022/23 forecasts £3.0m lower expenditure than the latest approved budget for the reasons set out at section 2.2 of this report.
- 5.2 The HRA capital outturn projection for 2022/23 forecasts £2.9m lower expenditure than the latest approved budget due to capital re-profiling as outlined at section 3 of this report.
- 5.3 The projected outturn for both the HRA revenue expenditure and capital programme for 2022/23 reflects the position based on actual expenditure and forecasts at 30 November 2022.

6. RISK MANAGEMENT ISSUES

- 6.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
The latest projection of the outturn could be materially	Medium	Medium	Areas at greater risk of variances are being closely monitored and an update will be made to

different to the actual year end position.			Cabinet if appropriate when this report is considered to allow action to be taken.
Capital receipts (including right to buy sales) not materialising	Medium	Low	The capital programme uses realised capital receipts only.
Insufficient capacity to manage delayed expenditure along with new year programme	Medium	Medium	The 2022/23 to 2023/24 capital programme will need to continue to be reviewed to take account of the capacity to manage the programme. 2022/23 planned expenditure will need to be reviewed to determine whether any expenditure will fall into 2023/24 and beyond.

7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 Legal Specialist's Comments (NM)

There are no legal implications arising from this report.

7.2 Finance Specialist's Comments (LW)

This report has been prepared by Financial Services. There are therefore no further comments to add.

7.3 Diversities and Equalities Implications (DA)

The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an EIA.

7.4 Climate Change Implications (OF)

There are no climate change implications arising from this report.

Consideration should be given to ensure that houses are built, repaired and upgraded using materials and techniques that are suitable to our changing climate.

7.5 Communications and Engagement Implications (KA)

There are no communication implications arising from this report.

8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Jonathan Smith, Senior Accountant

Tel: 01303 853780 Email:jonathan.smith@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Budget projection working papers

Appendices:

[Appendix 1](#) Housing Revenue Account revenue budget monitoring report at 30 November 2022

[Appendix 2](#) Housing Revenue Account capital budget monitoring report at 30 November 2022

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