

This Report will be made public on 28 June 2023

Report Number **C/23/14**

To: Cabinet
Date: 12 July 2023
Status: Non-Key Decision
Head of Service: Lydia Morrison, Interim Director of Corporate Services
Cabinet Members: Councillor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance; Councillor Rebecca Shoob, Cabinet Member for Housing and Homelessness

SUBJECT: HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL PROVISIONAL OUTTURN 2022/23

SUMMARY: This report summarises the 2022/23 provisional outturn position (subject to audit) for the HRA revenue expenditure and HRA capital programme compared to both the latest approved budget and quarter 3 projections.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because it is essential that it is kept informed of the Housing Revenue Account final 2022/23 position.

RECOMMENDATIONS:

1. To receive and note Report C/23/14.
2. To approve the carry forward of £77k unspent 2022/23 revenue and £3,354k capital budgets (see 2.2.10).

INTRODUCTION

- 1.1 This report brings the 2022/23 financial monitoring to a conclusion. It sets out the HRA's provisional financial position at year end (subject to audit) and compares it against the latest approved budget and quarter 3 projections. The report covers both revenue and capital expenditure for the last financial year.
- 1.2 The Chief Accountant and the Finance Team have now completed sufficient ledger closing entries to inform Cabinet of the draft outturn for the HRA revenue and capital income and expenditure for 2022/23. There may be further adjustments to this as the accounts and external audit process is concluded, but these are not expected to be material or significantly change.
- 1.3 The Council's Statement of Accounts (SoA) for 2022/23 is currently in production to reflect this financial data and the results contained within the overall HRA revenue and capital outturn. It is anticipated that the draft SoA will be ready at the end of July and will be presented to a future meeting of the Audit & Governance Committee. The external audit of the SoA will commence later in the year as will be announced by the external auditor at the next Audit and Governance meeting on 20 July 2023.
- 1.4 In terms of financial reporting, the draft SoA presents the HRA revenue and capital outturn position in a different format as the accounts have to be prepared in a specific format to comply with International Financial Reporting Standards (IFRS), which is a set of accounting standards introduced in 2001 to ensure consistency of financial reporting globally for all organisations.

2. HRA REVENUE AND CAPITAL 2022/23 PROVISIONAL OUTTURN

2.1 Revenue outturn compared to latest approved budget

2.1.1 Below is a summary of the HRA net revenue expenditure for 2022/23.

HRA Net Revenue Expenditure 2022/23	Latest Approved Budget 2022/23	Provisional Outturn 2022/23	Variance
	£000's	£000's	£000's
Income	(17,258)	(17,205)	53
Expenditure	13,059	13,408	349
HRA Share of Corporate Costs	175	189	14
Net Cost of HRA Services	(4,024)	(3,608)	416
Interest Payable/Receivable	1,722	1,324	(298)

Pension Interest Cost	100	684	584
HRA Surplus/Deficit	(2,302)	(1,600)	702
Revenue Contribution to Capital	6,658	4,961	(1,697)
HRA share of pension reserve movement	(295)	(484)	(189)
Decrease/(Increase) to HRA Reserve	4,061	2,877	(1,184)

2.1.2 The table above shows that overall the draft position is a projected decrease in net expenditure of £1.184m for the HRA against budget. A full breakdown is shown at Appendix 1.

The main reasons for this are explained as follows:-

	£'000
Decrease in revenue contribution to capital (see 2.1.3 below)	(1,697)
Increase in interest and investment income (see 2.1.4 below)	(298)
Decrease in supervision and management (see 2.1.5 below)	(203)
Decrease in repairs and maintenance (see 2.1.6 below)	(158)
Increase in depreciation charges of fixed assets (see 2.1.7 below)	720
Decrease in rental income (see 2.1.8 below)	53
Other minor variances	4
Pension costs	395
Total net draft Housing Revenue Account variance*	<u>(1,184)</u>

* = compared to approved budget

2.1.3 The decrease in revenue contribution to capital mainly relates to re-profiling of capital works for i) the new build and acquisition programme ii) for windows & doors, re-roofing, door entry systems with anticipated schemes being re-profiled forward to financial year 2023/24.

2.1.4 The increase in interest and investment income is due to the increase in the bank base rate which has increased markedly throughout the financial year to a current rate of 5.00%, resulting in 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 had originally been planned when the original budget was set; these costs are now expected to be a factor in 2023/24.

2.1.5 The decrease in supervision and management is largely due to a reduction in professional advice and fees of £241k relating to completed projects, offset partially by higher costs related to void properties (e.g. council tax and utility costs) and ultimately resulting in the £203k underspend.

2.1.6 The decrease in repairs and maintenance relates to a net decrease in costs for i) responsive repairs, including projected contract inflation, 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.

- 2.1.7 The increase 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 2.2.11 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.
- 2.1.8 The decrease in income is largely due to i) rent voids for 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 owing to improvement works on the garage stock. Some of the aforementioned reduction in net income is offset by higher dwelling income resulting in the £53k variance to budget.
- 2.1.9 Overall, the HRA reserve at 31 March 2023 is expected to be higher at £7.1m compared with £6.0m in the original approved budget. This increase is welcomed due to the extensive de-carbonisation programme the HRA is to undertake over the next four years of the HRA Capital Programme.

2.2 Capital outturn compared to latest approved budget

- 2.2.1 The table below shows that the HRA Capital programme has spent £5.1m less than the latest approved budget.

HRA Capital Programme 2022/23	Latest Approved Budget 2022/23	Final Outturn 2022/23	Variance
	£000's	£000's	£000's
HRA Capital programme	14,825	9,746	(5,079)

- 2.2.2 The main reasons for the £5.1m variance compared to the latest approved budget, are as follows:

HRA Capital Programme

	Variance £000's
New Builds/Acquisitions (see 2.2.3 below)	(1,998)
Thermal Insulations (see 2.2.4 below)	(1,273)
Re-roofing (see 2.2.5 below)	(771)
Re-wiring (see 2.2.6 below)	(335)
Fire protection works (see 2.2.7 below)	(299)
Windows & Doors (see 2.2.8 below)	(247)

Treatment works (see 2.2.9 below)	(110)
Other minor variances	(46)
Year-end movement compared to latest approved budget	(5,079)

- 2.2.3 The decrease in new build/acquisition expenditure relates predominantly to the Highview scheme which is no longer progressing forward due to the need to extensively fund other capital projects such as the decarbonisation programme. In terms of development schemes, it should however be noted that a carry forward is requested of £105k for the Ship Street build scheme. The budget for this scheme was added to the HRA capital programme following a decision of full Council in September 2022 (see Council report A/22/17); the HRA portion of the overage scheme budget was not spent in 22/23 but this will be required in 23/24 as the scheme progresses.
- 2.2.4 The decrease in thermal insulations expenditure relates to delays with SHDF Wave 1 moving forward and a carry forward of £1,272k is requested to allow for completion of works in 2023/24 (as is required under the grant funding agreement).
- 2.2.5 The decrease in re-roofing expenditure relates to delays in the procurement process. 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 in the actual spend overall.
- 2.2.6 The decrease in re-wiring expenditure is due to the reduction of works required during 2022/23.
- 2.2.7 The decrease in fire protection works expenditure is largely due to the extensive works at both Prescott House and Romney Marsh House being delayed until 2023/24. A carry forward of the underspend is requested to conduct and complete the works in 2023/24.
- 2.2.8 The decrease in expenditure for windows & doors expenditure relates to the procurement contract with one supplier which totals £400k; re-procurement for the remainder of the budget was required, resulting in the variance noted for this year. A carry forward of the underspend is requested to conduct and complete the works in 2023/24.
- 2.2.9 The decrease in treatment works spend also relates to a carry forward request of £110k to fund major projects such as Moore Close in 2023/24. More detailed appraisals of the treatment works and pumping stations are required reducing the need for committed spend in 2022/23, with those appraisals to take place in 2023/24.
- 2.2.10 A breakdown of all proposed HRA Carry Forwards is shown on Appendices 1 and 2 in the 'carry forwards requests' column, with brief justifications contained within the comments.

2.2.11 The following table compares the resources required to finance the actual outturn for the HRA capital programme in 2022/23. The total variation shown below corresponds to the figure in section 2.2.1 above.

2022/23 HRA	1-4-1 Capital Receipts	Revenue Contribution	Grants Funding	HRA Other Capital Receipts	Major Repairs Reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Projected Outturn	1,062	4,961	639	0	3,084	9,746
Approved	2,279	6,658	0	3,489	2,399	14,825
Variation	(1,217)	(1,697)	639	(3,489)	685	(5,079)

3. CONCLUSION

- 3.1 The HRA revenue outturn projection for 2022/23 forecasts £1.184m lower expenditure than the latest approved budget for the reasons set out at section 2.1.2 of this report.
- 3.2 The HRA capital outturn projection for 2022/23 forecasts £5.079m lower expenditure than the latest approved budget. It is recommended that £3.431m of capital carry forwards are approved to account for slippage in the capital programme for the reasons outlined at section 2.2.2 above.
- 3.3 The provisional outturn for both the HRA revenue expenditure and capital programme for 2022/23 reflects the position based on actual expenditure at 31st March 2023.

4. RISK MANAGEMENT ISSUES

- 4.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Capital receipts (including right to buy sales) do not materialise	Medium	Low	The capital programme uses realised capital receipts only.
Insufficient capacity to manage delayed expenditure along with new year programme	Medium	Medium	The 2023/24 capital programme will need to continue to be reviewed to take account of the capacity to manage the programme including the slippage from 2022/23.

Significant amendments having to be made to the financial results following audit.	Medium	Low	The formal accounts have been prepared in accordance with professional standards and best accounting practice.
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5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's Comments (EC)

There are no legal implications arising from this report.

5.2 Finance Officer's Comments (JS/LW/ST)

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

5.3 Diversities and Equalities Implications (GE)

There are no equality and diversity implications arising from this report. The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an EIA.

5.4 Climate change (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.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

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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 outturn report

Appendix 2 Housing Revenue Account capital programme outturn report