

Subject: 2022/23 Period 4 Housing Revenue Account Budget Monitoring Report

Report to: Council – 13 October 2022

Report by: HRA Service Accountant

SUBJECT MATTER/RECOMMENDATIONS

That Council:

(1) Note the 2022/23 Housing revenue and capital budget monitoring position as at the end of period 4.

1. Introduction

- 1.1. There is a statutory requirement to maintain a Housing Revenue Account (HRA) and that account must not show a deficit. The HRA is a separate (ring fenced) account of the Council covering income and expenditure relating to its role as landlord. Under the self-financing arrangements for local authorities, the HRA records the costs of management and maintenance of the Council's dwellings and the related income from rents and other charges. The Government provides guidance on what should be included in the HRA to protect Council tenants.
- 1.2. Although there is not a requirement for a similar separation of capital expenditure, the capital programme as it relates to the HRA is separately monitored. This report outlines the estimated forecasts for the full financial year 2022/23 as well as showing the position of the HRA as at the end of period 4.
- 1.3. The regular review and monthly monitoring of the HRA budgets provides a sound basis for the preparation of estimates for 2023/24 and of the HRA Business Plan.

2. Budget Monitoring at Period 4 (April – July 2022)

- 2.1. For budget monitoring purposes, the actual expenditure and income to the end of period 4 is reviewed to produce estimated forecasts, compared against original budgets, for the 2022/23 financial year. Key variations are identified and explained within Appendix 1, HRA Income and Expenditure 2022/23.
- 2.2. To prepare updated forecasts, detailed analysis has been undertaken of actual figures and any further changes identified from the budget monitoring process, completed alongside services via review work. Updated forecasts are set out below; table 1 shows the HRA Income and Expenditure forecast and table 2 shows the HRA Capital Programme and planned resourcing of the programme.

- 2.3. The Housing Revenue Account summary, displayed within table 1, shows a revised 2022/23 forecast deficit of £0.991m, from a currently budgeted forecast deficit of £3.129m, resulting in a favorable movement of £2.138m.
- 2.4. The forecast changes incorporated within Table 1 and Appendix 1 are overall predictions which continue to capture the continued impact of the COVID-19 pandemic.
- 2.5. The HRA employee turnover for 2022/23, to the end of period four is currently 1.36%. It should be noted, that the average headcount for the HRA is currently 85.
- 2.6. Employee turnover is the total number of leavers as a percentage of the average head count of employees over the period. In financial terms, turnover will result in underspends against direct employee related budget, for example pay, NI and pension when posts become vacant up to the point of recruitment. Some of the in-year vacancy savings will be offset using agency and interim appointments. Overall, for the period to the end of July there is a total spend of £822k for direct employee costs, with a revised budget forecast reduction of £66k to reflect vacancies in year.
- 2.7. The HRA forecast position is facing increasing pressures of inflationary costs, for example, utility costs and interest rate rises. Whilst some increases in utility costs were allowed for within the 2022/23 budget provision, the current level of increases have exceeded predictions for the financial year and could not have been envisaged. Utility costs for the Housing Revenue Account in 2021/22 totalled £242k, so a 10% increase in these costs amounts to £24k, with no adjustment made for usage. The forecast position for 2022/23 has been partly adjusted for some anticipated increase in utility costs in the main areas. Overall costs will be monitored closely, and forecasts updated as the year progresses.
- 2.8. Further, supervision and management costs are currently under review. The pending staff pay claims for 2022/23 are still to be finalised but are anticipated to be higher than the 2% pay increase allowed for within the budget for 2022/23. If an additional 1% was agreed above the current budgeted, this would result in a further increased pay cost of approximately £27k within the HRA. In addition the HRA receives a recharge for staff that are budgeted for within the general fund, for example from some of the support and democratic core functions. Therefore agreement of a pay award above the level budgeted will also result in an additional recharge of these costs also.
- 2.9. Repairs and maintenance budgets continue to reflect a reduction in demand led revenue void spend, along with gas heating repair spend. Both budgets are demand led and although demand has been reduced, the Council continue to be impacted by material price increases and are ensuring that cost controls are being utilized to ensure best value for money is achieved. Budgets will continue to be monitored going forward and further forecasts adjusted to reflect market changes.
- 2.10. As referenced in table 2, capital financing has been revised following the increased number of Right to Buy (RTB) sale completions year to date. As a result of increased completions, increased RTB receipts are available to fund the current years capital programme, reducing the requirement of revenue to finance capital.
- 2.11. Increased rents, rates and taxes spend forecast following increased insurance costs received in year. This is partly due to increased premiums received, along with additional perils being added to the policy. Further price rises are expected and will be reflected within the remaining quarters.

Table 1 - HRA Income and Expenditure Forecast 2022/23

	Original Budget 2022/23 £000	Current Budget 2022/23 £000	P4 YTD Actual 2022/23 £000	Full Year Forecast £000	Full Year Forecast Variance £000
Dwellings Rents	(22,983)	(22,984)	(7,946)	(22,984)	0
Non Dwelling rents	(276)	(276)	(90)	(276)	0
Interest & Investment income	(16)	(16)	0	(40)	(24)
Charges for services and facilities	(1,284)	(1,284)	(470)	(1,284)	0
Total Income	(24,559)	(24,560)	(8,506)	(24,584)	(24)
Repairs & Maintenance	9,615	9,728	2,923	9,421	(307)
Supervision and Management (Direct Employee)	3,080	2,850	822	2,784	(66)
Supervision and Management	2,842	3,071	517	3,224	153
Rents Rates & Taxes	330	330	290	373	43
Depreciation	3,849	3,849	1,283	3,849	0
Total Expenditure	19,716	19,828	5,835	19,651	(177)
HRA Interest Payable	2,846	2,846	844	2,896	50
Capital Grants & Contributions receivable	(20)	(3,184)	(661)	(3,184)	0
Operating income and expenditure	2,826	(338)	183	(288)	50
Capital expenditure funded by the HRA (including grants)	3,031	8,309	647	6,322	(1,987)
Provision for bad and doubtful debts	150	150	0	150	0
Transfers (from)/to Earmarked Reserves	(60)	(60)	0	(60)	0
Contribution to Pension Reserves	571	(200)	155	(200)	0
Total Movement on the HRA	3,692	8,199	802	6,212	(1,987)
Deficit/(Surplus) for the year	1,675	3,129	(1,686)	991	(2,138)
Bfwd HRA Reserves Balance (01 Apr)	9,412	9,412	9,412	9,412	
Deficit/(Surplus) for the year	1,675	3,129	(1,686)	991	(2,138)
Cfwd HRA Reserves Balance (31 Mar)	7,737	6,283	22,098	8,421	

3. Budget Monitoring Forecasts – Major Capital Programme

- 3.1. The Housing Revenue Account originally set a major capital works budget of £8.896m for 2022/23. Following the 2021/22 outturn, the 2022/23 capital budget has been updated to reflect all 2021/22 approved carry forward budgets, totaling £2.850m, to be delivered within 2022/23, along with its additional project spend of £3.097m.
- 3.2. Actual capital spend to the end of July 2022 totals £2.646m, as summarised in table two.
- 3.3. Capital programmes continue to be on track, such as Kitchen and Bathroom replacements, Major voids addressing some of the Council's vacant properties and capital heating improvements. Further work is now being undertaken to address the demands of communal areas within the capital programme, along with the programme also aiming to deliver the upgrade of communal doors and screens.
- 3.4. In addition to the above, 2021/22 presented the HRA with some exciting changes, undertaking three new developments, securing increased financial resources.
- 3.5. The Council was successful in bidding and securing £1.6m of grant funding under the Social Housing Decarbonisation Fund (SHDF). As a result of this, a wider programme is now being undertaken within 2022/23. The grant, along with a contribution from GYBC, is being used to support a project targeting a total of 85 properties, 74 Social Housing dwellings and 11 Privately owned homes, across a number of terraced streets in the Borough. Works aim to provide the needed fabric improvements, improving the energy performance of the buildings, as well as improving the quality of life for the tenants. Budget provisions for works are currently categorised within table two, under Decarbonisation.
- 3.6. The above decarbonisation works have been undergoing works in preparation for a site start and are now set to begin within quarter two. Further spend will be present within the later quarters on 2022/23.
- 3.7. Within the 2021/22 financial year, the Council was also successful in receiving £858k, to support estate regeneration. This funding is budgeted to support works to improve leisure and recreation facilities on the Middlegate estate. Works begun within 2021/22, with site completion planned later within the current year. Spend is present within table two, categorised under Non-Dwelling improvements.
- 3.8. Furthermore, The Council also successfully secured both Homes England and Brownfield land release grant funding, to support the development of 18 new one-bedroom affordable homes at Jubilee Court, Great Yarmouth. This project is budgeted at £3.4m and is currently being delivered using both grant and Right to Buy receipts, providing some valuable additions to the Great Yarmouth's affordable housing stock.
- 3.9. Jubilee Court is successfully within its construction phase and is targeted for completion within the early stages of 2023.
- 3.10. The HRA business plan continues to operate under the assumptions that only affordable and additional housing plans should use further borrowing, with the remaining capital financing being met from Revenue. The Council has continued to take a prudent approach following the removal of the debt cap and with no further guidance being provided around the repayment of debt. To ensure the sustainability of the HRA, future modelling may incorporate a blended approach of both revenue funding capital and further borrowing, aiming to increase the affordability of the HRA over the long term, managing its reserves.

3.11. Overall, capital spend is anticipated to increase in line with expectations, as capital spending tends to occur in the final quarters of the financial year. Presently no further changes have been made to the forecast spend of £14.842m.

Table 2 - HRA Capital Expenditure and Financing Forecast 2022/23

Capital programme	Original Budget 2022/23 £000	Current Budget 2022/23 £000	P4 YTD Actual 2022/23 £000	Full Year Forecast £000	Full Year Forecast Variance £000
Kitchens & Bathrooms	2,161	2,161	903	2,161	0
Windows & Doors	455	922	50	922	0
Planned Maintenance	595	595	71	595	0
Energy Efficiency Improvements	1,173	1,173	314	1,173	0
Specific Planned Projects	846	1,206	38	1,206	0
Empty Properties	800	800	380	800	0
New Affordable Housing - Right to Buy receipts	600	2,725	450	2,725	0
New Affordable Housing – Additional Non 1-4-1 Provision	500	985	0	985	0
Decarbonisation	792	1,806	5	1,806	0
Roofing	883	883	18	883	0
Neighbourhood Plans	91	177	2	177	0
Housing Transformation Budget	0	563	75	563	0
Non Dwelling Improvements	0	846	340	846	0
Total Expenditure	8,896	14,842	2,646	14,842	0
Financing:					
Borrowing	1,100	1,769	143	1,769	0
Capital Receipts	896	896	560	2,902	2,006
Revenue financing capital	3,031	5,144	0	3,138	(2,006)
Depreciation	3,849	3,849	1,283	3,849	0
Capital Grant Contribution	0	3,164	647	3,164	0
Leasehold Capital Contribution	20	20	13	20	0
Total Financing	8,896	14,842	2,646	14,842	0

4. Right To Buy (RTB) Summary 2022/23

- 4.1. Table 3 provides the number of the RTB sales made year to date at period 4 against our anticipated budgeted sales. Further analysis will be undertaken in Quarter 2 to review the projected sales anticipated for the full year.

Table 3 – RTB Sales 2022/23

	Estimated Sales	Actual Sales
Qtr. 1	4	18
Qtr. 2	4	0
Qtr. 3	6	0
Qtr. 4	6	0
Total	20	18

- 4.2. Right to Buy sales have significantly increased in comparison to previous sales levels, with eighteen sale completions year to date, to the end of period four.
- 4.3. Increased sale completions in year will have a direct impact upon the level of capital receipts available to support the capital programme in 2022/23, as well as the level of Right to Buy Retained Receipts available in future years to support the development of Affordable Housing.

5. Social Housing Rents Consultation

- 5.1. The self-financing HRA remains governed by guidelines on rent setting for tenants. The council no longer has flexibility on the approach to rent setting due to the policy announced as part of the Welfare Reform and Work Act 2016.
- 5.2. Rent setting following the end of the 1% reduction to all social rents in 2019/20, has been completed on the basis of CPI + 1% increases, in line with the Rents for Social Housing policy for the proposed year. For 2022/23, this equated to 4.1%, on both social and affordable rent.
- 5.3. Under current regulations the Consumer Price Index (CPI) for September 2022, determines the increase in the formula rent for social rent properties in 2023/24 and provides the basis for the maximum actual rent increase for that year.
- 5.4. The HRA's recent briefing on inflation and business planning indicates a potential CPI annual increase to September 2022 of between 10% and 11%.
- 5.5. As a result of market predictions and to ensure that rental fees remain affordable for tenants, on 31st August 2022, the Government published a consultation paper proposing a cap on social housing rent increases for 2023/24, with options for the level of cap, period of cap and its application.
- 5.6. The consultation closes on 12 October 2022 (in advance of the announcement of the September inflation index). The Consultation includes a draft Direction on the Rent Standard (being the statutory instrument requiring the regulator of social housing to set a Rent Standard that complies with the policy), a draft policy statement and an impact assessment.
- 5.7. Further sensitivity analysis will be undertaken to understand the full impact of the proposals on Great Yarmouth's Housing Revenue account and any challenges it may face going forward.

6. Conclusion

- 6.1. The Housing Revenue Account currently shows a revised 2021/22 forecast deficit of £0.991m, from an originally budgeted forecast deficit of £3.129m, resulting in a favorable movement of £2.138m. The Income and expenditure position will continue to be monitored going forward.
- 6.2. Major Capital spend to the end of July 2022 totals £2.646m. Spend is expected to increase as the year progresses. Budget totaling £14.842m is currently forecast to be delivered within 2022/23.

7. Financial implications and Risks

- 7.1. The detail within the report highlights the significant variances, including estimated forecasts of the full year impact to the HRA revenue and capital budgets. The report has flagged a couple of factors that are continuing to place financial pressure on Local Authorities, in particular the pay award and rising utility costs. Based on the outturn position for 2021/22 additional utility costs could be incurred in the region of £50k to £80k which would have an impact to the in-year revenue position and future year forecast. In addition until we have the outcome of the pay award for 2022/23, this and utility costs continue to place financial pressure to the HRA. These will both continue to be monitored to inform the update to the current budget and future financial forecast.
- 7.2. The income and expenditure will continue to be monitored in detail during the year, including additional reviews of the HRA 40 year business plan throughout the year.
- 7.3. The HRA is dependent mainly on the rental income stream of the social housing rents, and we have a dedicated team monitoring tenant arrears on a regular basis.

8. Background Papers

Areas of consideration: e.g. does this report raise any of the following issues and if so how have these been considered/mitigated against?

Area for consideration	Comment
Monitoring Officer Consultation:	
Section 151 Officer Consultation:	
Existing Council Policies:	
Financial Implications (including VAT and tax):	
Legal Implications (including human rights):	
Risk Implications:	
Equality Issues/EQIA assessment:	
Crime & Disorder:	
Every Child Matters:	

Appendix 1 - HRA Income and Expenditure 2022/23

	Current Budget 2022/23 £000	Full Year Forecast £000	Full year Forecast Variance £000	Comments
Interest & Investment Income	(16)	(40)	(24)	Interest rate increases in year have increased interest receivable estimations. Current market interest rates continue to rise and will be monitored to reflect any further changes.
Rents, Rates, Taxes and Other Charges	330	373	43	Increased insurance premiums as a result of market increases and additional perils.
Repairs and Maintenance	9,728	9,421	(307)	Revenue heating works are forecast to reduce by £188k. This is partly due to increased capital works in prior years reducing over repair costs required. Void and responsive repairs are forecast to have a reduced demand year to date. Both budgets are demand led and although demand has been reduced, the Council continue to be impacted by material price increases. Revenue repairs can also be subject to seasonal trends, therefore, budgets will be monitoring closely going forward.
Supervision and Management	3,071	3,224	153	Increased temporary staff costs to maintain service operation while the housing structure is reviewed. This is partly offset by vacancies savings within supervision and management (staff pay).
Supervision and Management (Staff Pay)	2,850	2,784	(66)	Revised forecasts reflect housing vacancy figures. This saving is offset by interim consultancy staff being appointed in year (As above).
Interest Payable and Similar Charges	2,846	2,896	50	Interest rate increases in year have increased interest payable on current and future borrowing estimates by a forecast £50k.
Capital Expenditure funded by Revenue	8,309	6,322	(1,987)	Reduced revenue required to fund the capital programme for 2022/23 due to increased capital receipts being available.
Expenditure Total	27,118	24,980	(2,138)	