



EXECUTIVE OVERVIEW & SCRUTINY
COMMITTEE: 6 September 2022

CABINET: 13 September 2022

Report of: Head of Finance, Procurement and Commercial Services

Relevant Portfolio Holder: Councillor N. Pryce-Roberts

Contact for further information: Peter Quick (Extn. 5203)
(peter.quick@westlancs.gov.uk)

SUBJECT: HRA REVENUE AND CAPITAL QUARTER ONE (Q1) REVIEW

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

- 1.1 To provide a summary of the Housing Revenue Account (HRA) and Housing capital programme positions for the 2022/23 financial year.

2.0 RECOMMENDATIONS:

TO EXECUTIVE OVERVIEW & SCRUTINY:

- 2.1 That the 2022/23 HRA and Housing capital programme positions and the proposed budget adjustments identified in paragraphs 4.3 and 4.4 of the report be considered and agreed comments be forwarded to Cabinet to consider.
- 2.2 That future HRA and Housing capital programme monitoring reports be considered by the newly established Budget/Council Plan Committee, unless there are specific recommendations for this Committee and Cabinet to consider.

TO CABINET

- 2.3 That the minute of the Executive Overview & Scrutiny Committee 6 September 2022, attached as an appendix to the report, be considered.
- 2.4 That the 2022/23 HRA and Housing capital programme positions be noted.
- 2.5 That the proposed budget adjustments identified in paragraphs 4.3 and 4.4 be approved, namely to move £50k budget from central administration to electrical testing; and £30k from contributions to bad debt provision to central heating servicing.
- 2.6 That the significant budget pressures be noted.

3.0 BACKGROUND

- 3.1 In February 2022, Council agreed the HRA revenue and capital budgets for the 2022/23 financial year, in the context of energy and other cost pressures along with materials shortages, reported through 2021/22. Subsequently, the emerging cost of living crisis worsened. This was further exacerbated when Russia invaded Ukraine. June 2022 cpi is 9.1% and is expected to rise further.
- 3.2 The Government's current rent policy confirms annual increases of up to cpi + 1% until 2025/26. The cpi + 1% increase is applied to the cpi rate from the September before, so for 2023/24 rent setting it will be based on September 2022 cpi.
- 3.3 Government guidance is awaited as to the rent increase policy after 2025/26, in the interests of prudence the HRA business plan assumes annual increases thereafter will be cpi only.

4.0 HRA – 2021/22 Outturn Review and 2022/23 Budget Virements

- 4.1 HRA 2021/22 outturn highlighted some budget realignments that will be beneficial to meaningful HRA budget monitoring, in that they will ensure support to those budgets under pressure, within the existing, approved budget envelope.
- 4.2 The table below is an extract from the draft HRA **2021/22** outturn report, as context.

Budget Area	2021/22 Budget £000	Outturn Var. £000	Comment
Employee Expenses	3,617	-255	Staffing vacancies, pension fund
Void repairs and response repairs	3,504	955	Works outside the standard ppp and vpp prices were significantly more than expected.
Other premises costs	3,314	38	Planned revenue works budget not used in 2021/22. £270k electrical testing costs moved from supplies & services at year end.
Transport costs	149	-26	Car allowances
Budget contingency	482	-482	Not utilised
Supplies and Services	1,194	-487	£270k electrical testing moved to other premises costs The remainder is cumulative from a number of budgets, each modestly below budget.
Support Services and internal income (net)	2,927	-134	Primarily caretaking services delivered to other parts of the Council
Loan interest & Contribution towards Repayment	3,407	0	
Contributions to capital	7,600	0	
Dwelling rents	-23,260	-137	TVD stock increases of 44 Right to buy sales greater toward the

			end of year
Other external income	-2,934	-118	Furnished lettings service
Total	0	-646	Represents 2.5% of overall turnover

4.3 Review of the 2021/22 HRA outturn position, above, recognised the following:

- £130k of budget relating to year end accounting for the HRA share of contributions to the Lancashire pension fund are not required. This is because the budget is a continuation of the previous contribution level, whereas the actual charge reduced at the time of the last three year actuarial settlement. Virements over £50k need full Council approval, so this will be brought to Council as part of HRA mid-year reporting, the proposal being to move £130k to budget contingency to support general HRA pressures in year.
- Response repairs and revenue voids work outturn was as had been forecast in year, around £1m over budget. This was accounted for as part of 2022/23 budget setting and is currently considered to be adequate.
- Electrical testing and central heating servicing are essential compliance activities that would benefit from some further funding to support the budgets.
- There is some budget capacity in supplies and services overall. This typically comprises numerous smaller favourable variances across different services and broadly creates a welcome operating envelope for those services to get on with delivering. However, a limited number of central administration budgets have been further reviewed with the aim of supporting electrical testing.
- The budget for annual contributions to the HRA bad debts provision is set at £160k. As collection rates are fairly consistent, the main driver for additional contributions to the provision is the write off of former tenant arrears. Tenant bad debts are sufficiently provided for, and even through the covid pandemic and lockdown the full annual contribution of £160k was not required. It is therefore proposed to vire £30k from the annual contribution to bad debts budget to support central heating servicing.

4.4 The table below summarises proposed budget virements

Budget Area	2022/23 Budget £000's	Vire £000	2022/23 Revised £000's	Comments
Employee Expenses	4,059		4,059	-£130k pension fund budget at mid-year Council.
Void repairs and response repairs	4,504		4,504	
Other premises costs	3,512	80	3,592	£50k from central admin costs to Electrical testing. £30k from contributions to bad debts, to central heating servicing.
Transport costs	162		162	
Budget contingency	260		260	£130k to add mid-year
Supplies and Services	1,328	-80	1,248	-£50k from central admin costs to Electrical testing. -£30k from contributions to

				bad debts, to central heating servicing.
Support Services and internal income (net)	2,594		2,594	
Loan interest & Contribution towards Repayment	3,419		3,419	
Contributions to capital	7,485		7,485	
Dwelling rents	-24,300		-24,300	
Other external income	-3,023		-3,023	
Total	0	0	0	

5.0 HRA – 2022/23 Financial Position and Q1 Projected Outturn

- 5.1 A summary of the projected HRA revenue outturn against the revised budget is set out in the table below. The HRA is expected to outturn in line with budget. A similar forecast outturn position for 2021/22 was reported at mid-year, after mitigating action was taken in 2021/22, outturn improved.
- 5.2 The 2022/23 final outturn position is likely to be affected by actions taken in regard to paragraphs 5.3 to 5.5, below.

Budget Area	2022/23 Budget £000	Outturn Var. £000	Comment
Employee Expenses	4,059	-230	£100k vacancies. £130k pension fund budget to amend mid-year Council.
Void repairs and response repairs	4,504	0	
Other premises costs	3,592	550	Gas costs - District Heating Service
Transport costs	162	0	
Budget contingency	260	-100	Some existing contingency expected to be used. £130k to add mid-year.
Supplies and Services	1,248	-100	Cumulative from various budgets, each modestly below budget.
Support Services and internal income (net)	2,594	0	
Loan interest & Contribution towards Repayment	3,419	0	
Contributions to capital	7,485	0	
Dwelling rents	-24,300	-100	TVD stock increases of 37 from mid-year. 50 rtb sales assumed in year.
Other external income	-3,023	-20	Furnished lettings service
Total	0	0	

- 5.3 The **district heating account** expenditure budgets will be significantly over budget by year end, current estimates are around £550k more than was expected at budget setting.
- 5.4 At budget setting for 2022/23 the increase in gas prices as expected at that time, around 50%, was contained within the heating reserve. This meant that most district heating service customers saw an increase in their heating charge of around 2% and the additional price increases were being mitigated through the reserve which is intended for this purpose. The aim was to support affected tenants.
- 5.5 Our gas provider has since submitted updated rates for 2022/23 which are considerably more than the increases that residential customers receive. This is because the price cap doesn't apply to commercial contracts. This is the same contract that provides gas for 739 HRA tenants and leaseholders in the district heating scheme. Budget setting intended to use some of the reserve whilst retaining some heating reserve for future years. Even if all the heating reserve is utilised in 2022/23 there will still be a significant shortfall that will need to be funded from a combination of increased charges to district heating customers, and/or use of other HRA reserves or budgets.
- 5.6 Budget pressure identified in paragraphs 5.3 to 5.5 are likely to be offset by the favourable variances below:
- There are a number of vacant posts pending recruitment and consequently a favourable variance is anticipated on employee costs.
 - Dwelling rents will be better than budget due to an additional 37 housing stock from TVDL being added to the HRA mid-year.
 - Cumulative savings across the HRA within supplies and services
 - £130k pension contribution budget already highlighted
- 5.7 Other possible budget pressures that have been considered and reflected in the outturn forecast are highlighted below.
- 5.8 Funding for the second half of a **stock condition survey** was approved as part of 2022/23 budget setting. Delays in procurement whilst the best procurement route was being agreed, mean that the first half planned for 2021/22 from existing budgets, has not yet taken place. The £300k for the first half now also needs to be funded in 2022/23. In addition, estimates are that the total cost of the stock condition survey is now expected to be around £790k because the survey work is now also going to provide decarbonisation retrofitting information to support the Councils carbon neutral agenda. In total this creates around £490k of stock condition survey work that needs funding in 2022/23, in addition to the £300k approved. This will be funded from 2022/23 revenue planned works budgets that will be used, plus part of the budget contingency. Reserves money for this pressure should not therefore be required and operational output from the stock condition survey is expected in Q3 of 2022/23.
- 5.9 Cost pressures are likely to continue in regard to **response repairs and voids revenue works**. The 2022/23 budget was increased by £1m to reflect the operational reality and it is considered adequate. However; the contractor continues to pursue further increases. These are being reviewed and actively

managed, so while there is no additional tangible budget pressure identified so far, the risk of budget pressure remains.

6.0 HRA Business Plan Pressures

- 6.1 With September 2023 cpi expected to be exceptionally high there is a risk that **rent increases in 2023/24 could be well over 10%** if the standard formula approach is taken. If rents are increased by this amount it will have significant implications for many tenants, particularly those who are self-payers as opposed to those who are on benefits with the housing element covered. This option will create no additional pressure on the HRA Business Plan however.
- 6.2 Alternatively, if rents are increased by a lesser amount, this will benefit many tenants but will have a significant detrimental effect on the HRA business plan in both the short and long term, and therefore the ability to fund revenue expenditure as well as finance borrowing costs for additional borrowing to fund capital projects.
- 6.3 Work has started on finding the best solution for this and modelling scenarios through the HRA business plan. WLBC officers have also raised the matter at national forums to help encourage a national, best-practice response.
- 6.4 One further option that is being explored is to increase rents by the usual cpi + 1% formula whilst also creating a substantial fund available to support some self-payers and others with the financial strain this represents. The advantage of this approach would be to maintain the long term rents base whilst also supporting tenants in the short term. The feasibility of this approach is being explored along with other options. **If this approach is adopted it will require substantial HRA reserve funding over the next two or three years.** Further updates on this will be advised during 2022/23
- 6.5 In addition, subsequent to budget setting work and the 2022/23 district heating cost pressure identified in paragraphs 5.3 to 5.5, Government announced the **£150 energy rebate** payable to all householders in properties of Council Tax band D or below. This included HRA tenants and leaseholders.
- 6.6 As this £150 energy benefit was not factored into the calculation for the heating charge in 2022/23, it will be accounted for through an increased weekly heating charge to the 739 tenants and leaseholders within the district heating scheme, either in-year or in 2023/24. In addition to any inflationary rise, this equates to £3.12 pw over 48 weeks in 2023/24, or £6.25 pw over 24 weeks in 2022/23, (if done at mid-year).
- 6.7 Once the data has been collated from the stock condition survey highlighted in paragraph 5.8, in addition to updating the current capital investment programme, a programme of work will be created to retrofit existing stock to meet decarbonisation requirements. No robust figures have yet been provided but it is likely that these costs will be significant and will therefore have a significant adverse effect on the HRA business plan.
- 6.8 The housing capital programme is also likely to incur additional expenditure required on compliance around fire risk assessments and smoke detection. Once

figures are available, funding options will be considered and reported to Members through 2022/23.

7.0 CAPITAL INVESTMENT PROGRAMME

- 7.1 The table below shows the 2022/23 Housing Capital budget approved in February 2022, plus the 2021/22 outturn slippage reported to Members in July 2022, to create the revised 2022/23 budget highlighted. Expenditure at the end of Q1 is then compared to the revised budget.

Scheme	2022/23 Budget £000's	2021/22 Slippage £000's	2022/23 Revised £000's	Q1 Actual £000's	% Spend
External Works	833	563	1,396	0	0%
Roofing	1,105		1,105	606	55%
Windows & Doors	448	425	873	0	0%
Heating	851		851	210	25%
Walls	844		844	0	0%
Kitchens	733	7	740	0	0%
Bathrooms	463	15	478	14	3%
Communal Services	133	192	325	0	0%
Electrics	329		329	10	3%
Fire Safety Works	101	76	177	139	79%
Housing Capital Investment Plan	5,840	1,278	7,118	979	14%
Carbon Neutral Dwellings	475	694	1,169	0	0%
Digmoor Regeneration	1,000		1,000	0	0%
Salary costs & Professional Fees	600		600	7	1%
Disabled Adaptations	502		502	59	12%
Environmental Programme	364	129	493	2	0%
Contingency	300		300	0	0%
Change in Standard for Smoke Detection	300		300	0	0%
Sheltered Housing Upgrades	140	140	280	15	5%
Lifts	35	105	140	0	0%
Solar PV Battery Storage	25	25	50	0	0%
Purchase Service Charge Software		39	39	0	0%
Abritis upgrade	36		36	36	100%
Digital Schemes Sheltered	12		12	0	0%
Other Housing Schemes	3,789	1,132	4,921	119	2%
Capital Expenditure	9,629	2,410	12,039	1,098	9%
TVDL Expenditure		9,651	9,651	29	0%
Total Expenditure	9,629	12,061	21,690	1,127	5%

Funded by	2022/23 Budget £000's	2021/22 Slippage £000's	2022/23 Revised £000's	Q1 Actual £000's	% Spend
Revenue contributions/MRR	7,434		7,434	156	2%
Borrowing	2,159	8,951	11,110	0	0%
HE Grants		3,110	3,110	971	31%
Capital receipts - 141					
Total Funding	9,629	12,061	21,690	1,127	5%

- 7.2 Total expenditure on the capital programme to date is £1.098m which represents 9% of the total revised budget. The Housing capital budget tends to profile with more expenditure later in the financial year. There are a number of programmes transferred from 2021/22 that are starting in Q2 of 2022/23. In addition, as is standard practice, capital budgets will be reviewed at mid year to identify any amendments requiring Council approval, for example reprofiling into different years to reflect operational decisions. Typically, capital programme outturn is between 70% and 85% of revised budget and this is expected in 2022/23 too
- 7.3 £0.971m of Homes England grants have been received in 2022/23 in regard to Halton Castle and Northfield.

8.0 SUSTAINABILITY IMPLICATIONS

- 8.1 Careful monitoring the budget position helps ensure that the HRA remains able to deliver services and is financially sustainable in the medium term. This supports the aim that local people should receive good quality homes for a fair and appropriate rent

9.0 RISK ASSESSMENT

- 9.1 The formal reporting of performance on the Housing Revenue Account is part of the overall budgetary management and control framework that is designed to minimise the financial risks facing the Council. This process is resource intensive for both Members and Officers but ensures that a robust and achievable budget is set

10.0 HEALTH AND WELLBEING IMPLICATIONS

- 10.1 The health and wellbeing implications arising from this report will be dependent on the budget proposals put forward at the Council meeting. Details of any significant implications will be provided at the Council meeting if required.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

Appendices

Minute of the Executive Overview & Scrutiny Committee – 6 September 2022 (Cabinet only)