



BUDGET/COUNCIL PLAN COMMITTEE:
1 November 2022

**EXECUTIVE OVERVIEW & SCRUTINY
COMMITTEE: 3 November 2022**

CABINET: 15 November 2022

COUNCIL: 14 December 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 MID YEAR (Q2) 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 BUDGET/COUNCIL PLAN COMMITTEE

2.1 That the report be considered and any comments submitted to the Housing Portfolio Holder in advance of the Council meeting on 14 December 2022.

3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW & SCRUTINY COMMITTEE

3.1 That the report be considered and any comments submitted to the Housing Portfolio Holder in advance of the Council meeting on 14 December 2022.

4.0 RECOMMENDATIONS TO CABINET

4.1 That the 2022/23 HRA and Housing capital programme positions be noted.

4.2 That the proposed budget adjustments identified in section 7 and paragraph 10.1 of the report be endorsed.

5.0 RECOMMENDATIONS TO COUNCIL

5.1 That the 2022/23 HRA and Housing capital programme positions be noted.

- 5.2 That the proposed budget adjustments identified in section 7 and paragraph 10.1 of the report be approved.
 - 5.3 That the significant budget pressures be noted.
-
-

6.0 BACKGROUND

- 6.1 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.
- 6.2 Q1 HRA budget monitoring reflected the position at that time in the changing financial and economic landscape. CPI is expected to remain close to 10% for some months.
- 6.3 The new Government has launched a consultation on their imposing a cap to rent increases for either one or two years. Members will be invited to comment on the consultation. Any cap will have a significant impact on the HRA bottom line in both the short and long term. The current rent policy allows 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 would be based on September 2022 cpi.
- 6.4 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.

7.0 HRA Budget Virements

- 7.1 Q1 monitoring advised Members of a proposed virement, identified at 2021/22 year end, to be made at 2022/23 mid year. £130k of budget relating to year end accounting for the HRA share of contributions to the Lancashire pension fund is 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. The proposal is to move the budget to HRA budget contingency.
- 7.2 In addition, at Q1 monitoring Members were advised of a proposal to increase the weekly heating charge to all residents in the district heating account by £6.25pw, from 1 October 2022, (mid year). This is estimated to increase the heating charge income in year by around £110k and partly offset the anticipated shortfall reported at Q1 due to the energy cost crisis. Members are asked to approve a budget virement of £110k within the district heating account, between gas charge income and gas costs. This will reduce the variance between expected gas costs and the gas expenditure budget.
- 7.3 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 | -130 | 3,929 | -£130k pension fund budget to budget contingency |
| Void repairs and response repairs | 4,504 | | 4,504 | |
| Other premises costs | 3,592 | 110 | 3,702 | Increase budget for funded gas heating costs |
| Transport costs | 162 | | 162 | |
| Budget contingency | 260 | 130 | 390 | £130k from pension fund contributions budget |
| Supplies and Services | 1,248 | | 1,248 | |
| 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 | -110 | -3,133 | Additional heating charge income |
| Total | 0 | 0 | 0 | |

8.0 HRA – 2022/23 Financial Position and Mid Year Projected Outturn

- 8.1 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 broadly in line with budget, (£80k favourable at mid year against an expenditure budget of £27,433k). A similar forecast outturn position for 2021/22 was reported at mid-year, after mitigating action was taken in 2021/22, outturn improved.
- 8.2 The 2022/23 final outturn position is likely to be affected by actions taken in regard to paragraphs 8.3 to 8.7, below.

| Budget Area | 2022/23 Budget £000 | Q1 Var. £000 | Outturn Var. £000 | Comment |
|--|------------------------|-----------------|----------------------|---|
| Employee Expenses | 3,929 | -230 | -100 | Staff vacancies. |
| Void repairs and response repairs | 4,504 | 0 | 250 | One year contract variation |
| Other premises costs | 3,702 | 550 | 0 | £360k District Heating – see paras 7.4 to 7.7 below |
| Transport costs | 162 | 0 | 0 | |
| Budget contingency | 390 | -100 | -80 | Most contingency expected to be used. |
| Supplies and Services | 1,248 | -100 | -50 | Cumulative from various budgets, each modestly below budget. |
| Support Services and internal income (net) | 2,594 | 0 | 0 | |
| Loan interest & Contribution towards Repayment | 3,419 | 0 | 0 | |
| Contributions to capital | 7,485 | 0 | 0 | |
| Dwelling rents | -24,300 | -100 | -50 | TVD stock increases of 37 during year. 75 rtb sales expected based on run rate. |
| Other external income | -3,133 | -20 | -50 | Furnished lettings service. 75 rtb admin fee income. |
| Total | 0 | 0 | -80 | |

8.3 It was reported at Q1 that the **district heating account** would have a total shortfall of around £550k due to a significant increase in energy costs. Subsequent actions by WLBC have improved the likely outturn position as follows:

- Residents in the district heating scheme had their heating charge increased from mid year by £6.25 per charging week, an increase for the year of £150 each. This will generate around £110k of additional income to reduce the shortfall.
- In light of the ongoing pressures to the HRA, whilst minimising the financial strain for affected residents, the remainder of the heating reserve, around £80k, is likely also be used in year to reduce the shortfall. This will leave the reserve empty but will also reduce the outstanding debt owed by affected residents.
- After these actions and reflecting developments relating to the Government's proposals identified below, if there remains a shortfall it will be treated at year end as a debtor in the accounts since the heating reserve can't go into deficit. Individual residents will not be invoiced, but the amount owing will be factored into the calculation of the heating charges for 2023/24 and beyond.

- 8.4 In addition to WLBC actions, there are two Government proposals that are likely to support affected residents and/or the HRA shortfall. Clarification is being sought from Government, through relevant organisations, as to if and how the £400 per household energy grant will be administered for district heating schemes, (and whether it is applied to just electricity users); and the mechanism for applying a price cap to the commercial gas contract that WLBC hold, which is the basis for the costs to most district heating customers.
- 8.5 Due to the current uncertainty in how the two Government schemes will apply to DHS residents, they have not been assumed in the forecast shortfall of £360k, but as we will treat outstanding balances as a debtor at year end, the outturn in the accounts will be a zero net balance either way. If Government proposals reflect the nature of our DHS, the final shortfall could possibly be below £100k.
- 8.6 It was also reported at Q1 that cost pressures are likely to continue in regard to **response repairs and voids revenue works**, though no additional tangible budget pressure had been identified at that time.
- 8.7 An additional report to Council, elsewhere on the agenda, will provide an update on the outcome of ongoing negotiations with the repairs contractor. Year one and two disputes have been settled in full and can be funded without call on the 2022/23 repairs and voids revenue budgets, though some budget contingency may be required. Approval of proposals for a mechanism within the contract to allow for annual review of certain rates will be sought, to reflect the current unusual financial climate and changing circumstances over time. It is expected that these contractual amendments in 2022/23 will create between £200k and £250k of budget pressure that can be contained within the overall HRA bottom line, all other things being equal.
- 8.8 Budget pressure identified in paragraphs 8.3 to 8.7 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, partly offset by anticipated RTB sales being more than budgeted.
 - Cumulative savings across the HRA within supplies and services

9.0 HRA Business Plan Pressures

- 9.1 With September 2023 cpi expected to be exceptionally high Government have announced a consultation on their imposing a cap on HRA rent increases. Government's stated proposal is a 5% cap on rent increases in 2023/24, though they have also asked for comment on alternative caps of 3% or 7%, and the option of extending the cap over a second year.
- 9.2 If the cap is imposed it will support tenants during the cost of living crisis but the effect on the HRA business plan over the medium and long term will be significant. Officers are following the consultation and will prepare mitigating proposals as part of budget setting if necessary.

- 9.3 Once data has been collated from the stock condition survey, reported previously, 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 further significant adverse effect on the HRA business plan.
- 9.4 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.

10.0 CAPITAL INVESTMENT PROGRAMME

- 10.1 It is standard practice that at mid year all Housing capital budgets are reviewed in light of operational developments, and required budget amendments identified. The table below shows the current 2022/23 Housing Capital budget plus proposed amendments, to create the revised 2022/23 budget.

| Scheme | Current Budget £000's | Reprofile £000's | Transfer £000's | Release £000's | 2022/23 Revised £000's |
|--|----------------------------------|-----------------------------|----------------------------|---------------------------|-----------------------------------|
| External Works | 1,396 | | | | 1,396 |
| Roofing | 1,105 | 1,000 | | | 2,105 |
| Windows & Doors | 873 | | | | 873 |
| Heating | 851 | | | | 851 |
| Walls | 844 | -784 | | | 60 |
| Kitchens | 740 | | | | 740 |
| Bathrooms | 478 | | | | 478 |
| Communal Services | 325 | | | | 325 |
| Electrics | 329 | | -329 | | 0 |
| Fire Safety Works | 177 | | | | 177 |
| Housing Capital Investment Plan | 7,118 | 216 | -329 | 0 | 7,005 |
| | | | | | |
| Carbon Neutral Dwellings | 1,169 | | | | 1,169 |
| Digmoor Regeneration | 1,000 | | | | 1,000 |
| Salary costs & Professional Fees | 600 | | | | 600 |
| Disabled Adaptations | 502 | | | -102 | 400 |
| Environmental Programme | 493 | -218 | | | 275 |
| Contingency | 300 | | | | 300 |
| Change in Standard for Smoke Detection | 300 | | 329 | | 629 |
| Sheltered Housing Upgrades | 280 | | | | 280 |
| Lifts | 140 | | | | 140 |
| Solar PV Battery Storage | 50 | | | | 50 |
| Purchase Service Charge Software | 39 | | | | 39 |
| Abritas upgrade | 36 | | | | 36 |
| Digital Schemes Sheltered | 12 | | | | 12 |
| Other Housing Schemes | 4,921 | -218 | 329 | -102 | 4,930 |
| | | | | | |
| Capital Expenditure | 12,039 | -2 | 0 | -102 | 11,935 |
| | | | | | |
| TVDL Expenditure | 9,651 | | | | 9,651 |
| | | | | | |
| Total Expenditure | 21,690 | -2 | 0 | -102 | 21,586 |

Note: Reprofiting is from 2022/23 into 2023/24; except for roofing where £1.0m is being reprofiled equally from the previously approved six years from 2023/24 to 2028/29.

| Funded by | 2022/23 Budget £000's | Reprofile £000 | Transfer £000 | Release £000 | 2022/23 Revised £000 |
|---------------------------|-----------------------|----------------|---------------|--------------|----------------------|
| Revenue contributions/MRR | 7,434 | | | | 7,434 |
| Borrowing | 11,146 | -2 | | -102 | 11,042 |
| HE Grants | 3,110 | | | | 3,110 |
| Capital receipts - 141 | | | | | |
| | | | | | |
| Total Funding | 21,690 | -2 | 0 | -102 | 21,586 |

10.2 The table below assumes that the budget adjustments in table 10.1, above are approved.

| Scheme | 2022/23 Revised Budget £000's | Q2 Actual £000's | % Spend to date |
|--|-------------------------------|------------------|-----------------|
| Roofing | 2,105 | 875 | 42% |
| External Works | 1,396 | 0 | 0% |
| Windows & Doors | 873 | 0 | 0% |
| Heating | 851 | 425 | 50% |
| Kitchens | 740 | 0 | 0% |
| Bathrooms | 478 | 14 | 3% |
| Communal Services | 325 | 0 | 0% |
| Fire Safety Works | 177 | 139 | 79% |
| Walls | 60 | 0 | 0% |
| Electrics | 0 | 0 | 100% |
| Housing Capital Investment Plan | 7,005 | 1,453 | 21% |
| | | | |
| Carbon Neutral Dwellings | 1,169 | 0 | 0% |
| Digmoor Regeneration | 1,000 | 0 | 0% |
| Change in Standard for Smoke Detection | 629 | 446 | 71% |
| Salary costs & Professional Fees | 600 | 520 | 87% |
| Disabled Adaptations | 400 | 96 | 24% |
| Contingency | 300 | 0 | 0% |
| Sheltered Housing Upgrades | 280 | 17 | 6% |
| Environmental Programme | 275 | 2 | 1% |
| Lifts | 140 | 0 | 0% |
| Solar PV Battery Storage | 50 | 0 | 0% |
| Purchase Service Charge Software | 39 | 0 | 0% |
| Abritas upgrade | 36 | 36 | 100% |
| Digital Schemes Sheltered | 12 | 0 | 0% |
| | | | |
| Other Housing Schemes | 4,930 | 1,117 | 23% |
| | | | |
| Capital Expenditure | 11,935 | 2,570 | 22% |
| | | | |
| TVDL Expenditure | 9,651 | 999 | 10% |

| | | | |
|--------------------------|---------------|--------------|------------|
| | | | |
| Total Expenditure | 21,586 | 3,569 | 17% |

| Funded by | 2022/23 Revised Budget £000's | Q2 Actual £000's | % Spend |
|--------------------------------------|--------------------------------------|-------------------------|----------------|
| Revenue contributions/MRR | 7,434 | 2,570 | 35% |
| Borrowing | 11,042 | 0 | 0% |
| HE Grants | 3,110 | 2,471 | 32% |
| HE Grants deferred to future periods | | -1,472 | |
| | | | |
| Total Funding | 21,586 | 3,569 | 17% |

10.3 Total expenditure on the capital programme to date is £2.57m which represents 22% of the total revised budget. The Housing capital budget tends to profile with more expenditure later in the financial year. Typically, capital programme outturn is between 70% and 85% of revised budget and this is expected in 2022/23 too.

10.4 £2.471m of Homes England grants have been received in 2022/23 relating to Halton Castle, Northfield and Fairlie.

11.0 SUSTAINABILITY IMPLICATIONS

11.1 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

12.0 RISK ASSESSMENT

12.1 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

13.0 HEALTH AND WELLBEING IMPLICATIONS

13.1 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

1. Minute of the Budget/Council Plan Committee 1 November 2022
2. Minute of the Executive Overview & Scrutiny Committee 3 November 2022
3. Minute of Landlord Services Committee (Cabinet Working Group)
4. Minute of Cabinet 15 November 2022