



**EXECUTIVE OVERVIEW & SCRUTINY
COMMITTEE: 9 November 2023**

CABINET: 21 November 2023

COUNCIL: 13 December 2023

Report of: Head of Finance, Procurement and Commercial Services

Relevant Portfolio Holder: Councillor N. Pryce-Roberts

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SUBJECT: HRA REVENUE AND CAPITAL QUARTER TWO (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 2023/24 financial year.

2.0 RECOMMENDATIONS TO COMMITTEES AND CABINET

TO EXECUTIVE OVERVIEW & SCRUTINY COMMITTEE

2.1 That the 2023/24 HRA and Housing capital programme positions be noted and any comments forwarded to Cabinet for consideration.

TO CABINET

2.2 That the 2023/24 HRA and Housing capital programme positions be noted and endorsed.

3.0 RECOMMENDATIONS TO COUNCIL

3.1 That the 2023/24 HRA and Housing capital programme positions be noted.

3.2 That the virements in tables 5.3 and 7.1 be approved.

3.3 That expenditure and funding slippage in table 7.1 be approved.

4.0 BACKGROUND

4.1 In February 2023, Council agreed the HRA revenue and capital budgets for the 2023/24 financial year.

- 4.2 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 2024/25 rent setting it will be based on September 2023 cpi, which is 6.7%
- 4.3 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.

5.0 HRA – 2023/24 Q2 Projected Outturn

- 5.1 The table below summarises proposed changes to the 2023/24 HRA revenue budget.
- 5.2 In February 2023 Council approved a £500k capital budget for 2023/24 to fund work on tackling damp and mould. After working through the detail of how to deliver this it has been concluded that £250k would be best used to fund additional staff and washing equipment to address the issue, with the remainder staying in capital for other works.
- 5.3 As the HRA budget must balance to zero, a £250k increase in revenue costs will be balanced by a £250k reduction in revenue contribution to capital. The tables in paragraph 7.1 include the equal and opposite proposed virements to the capital budget. This means that, all other things being equal, the amount of borrowing required by the HRA to fund capital in 2023/24 would increase by £250k. However, the total amount of capital that now needs funding has reduced by £250k, so funding net zero effect on capital.

Budget Area	2023/24 Budget £000	Virement £000	Revised 2023/24 £000
Employee Expenses	4,304	220	4,524
Void and response repairs plus electrical testing	5,370		5,370
Other premises costs	4,241	30	4,271
Transport costs	191		191
Budget contingency	390		390
Supplies and Services	1,527		1,527
Support Services and internal income (net)	2,905		2,905
Loan interest & Contribution towards Repayment	3,492		3,492
Contributions to capital	7,455	-250	7,205
Dwelling rents	-25,900		-25,900
Other external income	-3,975		-3,975
Total	0	0	0

5.4 A summary of the projected HRA revenue outturn against revised budget is set out in the table below. The HRA is expected to outturn around £260k (0.9%) below budget.

Budget Area	2022/23 Revised Budget £000	Q1 Var. £000	Outturn Var. £000	Comment
Employee Expenses	4,524	150	200	Pay settlement partially offset by vacancies (after vacancy factor).
Void and response repairs plus electrical testing	5,370	0	0	Favourable in-year run rate offsets retrospective costs for 2022/23.
Other premises costs	4,271	0	0	Heating outturn will be zero through y/e debtor.
Transport costs	191	0	0	
Budget contingency	390	0	-150	Various plans that will require most of contingency.
Supplies and Services	1,527	0	0	
Support Services and internal income (net)	2,905	0	-110	Estates recharge for HRA valuations. Legal recharge for vacant post.
Loan interest & Contribution towards Repayment	3,492	0	0	£3,432k is 'fixed' interest and debt repayment. Additional £60k depends on level of additional borrowing for capital programme and TVDL works.
Contributions to capital	7,205	0	0	
Dwelling rents	-25,900	-100	-150	RTB run rate reduced to around 40 for the year, new homes through TVDL coming on line.
Other external income	-3,975	-50	-50	Furnishing service likely to be ahead of budget.
Total	0	0	-260	0.9% of total expenditure budget

- 5.5 Energy cost pressures on the **district heating scheme** (DHS) were reported throughout 2022/23. Final outturn recognised a shortfall within the account overall of around £370k, which will need to be recovered from DHS customers over time. An overall shortfall in 2023/24 is also expected though with timing delays in billing and changing energy prices it is difficult to provide an accurate forecast. As in 2022/23, any shortfall will be treated as a debtor at year-end so the overall DHS accounting outturn position in year will be zero.
- 5.6 Budget pressure identified to date primarily relates to the provisional pay settlement of £1,925 per full time employee. Budgets were set assuming a 3% increase, the current offer is closer to 6% on average. Negotiations are ongoing so it is possible that the settlement may increase further.
- 5.7 Salary budget pressures are expected to be offset by rental and furnishing service income. Updated forecasts for use of budget contingency leave around £150k unallocated. In addition, latest estimates suggest that around £110k of recharges to the HRA are unlikely to occur due to a vacant post for Housing-specific work in the Legal team and expected levels of external valuation work procured through Estates. If these remain the case then it is expected to lead to a modest favourable outturn position of around £260k, (0.9% of total expenditure budget).

6.0 HRA Business Plan Pressures and 2023/24 Rent Setting

- 6.1 September 2023 cpi remains high at 6.7%. Rents are generally increased by September cpi plus 1%. However, 2023/24 rents were limited by Government in most cases to a 7% increase because cpi in September 2022 was 10.1%. There is a diminishing possibility that Government might choose to intervene again, thus limiting rental income in 2024/25 and beyond. Meanwhile contract inflation will probably continue to rise.
- 6.2 If the standard rent setting approach of cpi plus 1% is allowed by Government and cpi remains high, this could have a detrimental impact on some tenants. However, in February 2023 rent setting, a budget issue was approved to provide up to £250k of additional hardship support in 2024/25 as well as £500k in the current financial year.

7.0 Capital Investment Programme

- 7.1 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 2023/24 Housing Capital budget plus proposed amendments, to create the revised 2023/24 budget. The table includes the equal and opposite revenue virements identified in paragraphs 5.2 and 5.3.

Scheme	2023/24 Current £000's	2023/24 Virement £000's	2023/24 Slippage £000's	2023/24 Revised £000's
Kitchens	1,573			1,573
Walls	1,566	-470	-310	786
External Areas	1,347			1,347
Heating	936	200		1,136
Bathrooms	689		-200	489
Roofing	679	270		949
Windows & Doors	636			636
Electricals	608			608
Communal Services	218			218
Housing Capital Investment Plan	8,252	0	-510	7,742
Digmoor Regeneration	5,000		-4,750	250
Decarbonisation – wave 2.1	4,556		-1,556	3,000
Environmental Programme	681			681
Salary costs & Professional Fees	600			600
Disabled Adaptations	566			566
Disrepair mitigation	500	-250		250
Sheltered Housing Upgrades	374			374
Change in Standard for Smoke Detection	330			330
Contingency	330			330
Fire Safety Works	136			136
Lifts	115		-37	78
Abritas upgrade	15			15
Digital Schemes Sheltered	12			12
Other Housing Schemes	13,215	-250	-6,434	6,622
Capital Expenditure	21,467	-250	-6,853	14,364
TVDL Expenditure	13,761		-10,219	3,542
Total Expenditure	35,228	-250	-17,072	17,906

Funded by	2023/24 Current £000's	2023/24 Virement £000's	2023/24 Slippage £000's	2023/24 Revised £000's
Revenue contributions/MRR	7,455	-250		7,205
Capital Receipts - Land sale		10		10
Borrowing	23,350	110	-13,981	9,479
Decarbonisation grant funding	1,188	-120	-356	712
Homes England Grants	3,235		-2,735	500
Total Funding	35,228	-250	-17,072	17,906

7.2 The decarbonisation funding bid approved as a budget issue in February 2023 covered two elements. The larger part was for specific works and was granted, a smaller pot of around £120k for associated digitalisation works was not. In the virement column of the funding table directly above, the £120k digitalisation grant budget has therefore been reduced, with an equal increase in borrowing requirement.

7.3 The table below shows expenditure at mid-year of £3.89m on the capital programme, this represents 27% of the revised budget. In addition, a further £1,948m, (55%), has been invested in building new HRA homes through TVDL. Expenditure at Q2 2022/23 was £2.57m, so this year represents a step forward in delivery.

7.4 Housing capital budgets tends to profile with more expenditure later in the financial year and outturn typically around 70% of mid-year revised budget.

Scheme	2023/24 Revised £000's	2023/24 Actual £000's	% of revised budget
Kitchens	1,573	299	19%
External Areas	1,347	949	70%
Heating	1,136	549	48%
Roofing	949	739	78%
Walls	786	0	0%
Windows & Doors	636	115	18%
Electricals	608	8	1%
Bathrooms	489	8	2%
Communal Services	218	21	10%
Housing Capital Investment Plan	7,742	2,688	35%
Decarbonisation – wave 2.1	3000	0	0%
Environmental Programme	681	41	6%
Salary costs & Professional Fees	600	532	89%
Disabled Adaptations	566	170	30%
Sheltered Housing Upgrades	374	9	2%
Change in Standard for Smoke Detection	330	345	105%
Contingency	330	88	27%
Digmoor Regeneration	250	0	0%
Disrepair mitigation	250	0	0%
Fire Safety Works	136	5	4%
Lifts	78	0	0%
Abritas upgrade	15	0	0%
Digital Schemes Sheltered	12	12	100%
Other Housing Schemes	6,622	1,202	18%
Capital Expenditure	14,364	3,890	27%
TVDL Expenditure	3,542	1,948	55%
Total Expenditure	17,906	5,838	33%

Funded by	2023/24 Revised £000's	2023/24 Q2 Actual £000's	% of revised budget
Revenue contributions/MRR	7,205	3,880	54%
Capital Receipts	10	10	100%
Borrowing	9,479	1,948	21%
Decarbonisation grant funding	712	110	15%
Grant c/fwd to future periods		-110	
Homes England Grants	500	0	0%
Total Funding	17,906	5,838	33%

- 7.5 On 31 March 2023 – after WLBC 2023/24 budget setting – Government advised that for the years 2022/23 and 2023/24, the share of right to buy (RTB) capital receipts that normally gets paid straight to Government, known as the 'Treasury share', will be available for local authorities to use instead. Government further advised that local authorities should seek to incorporate these additional receipts into their plans as soon as possible. These are a separate element of RTB receipts than the 141 receipts which WLBC still hold.
- 7.6 The value of the 2022/23 'Treasury share' receipts was £811,471.80. Review of latest guidance on the Government website suggests that the £811k is to be used in a similar way to 141 receipts, that is as a 40% contribution to building new homes that needs to be 60% match funded by WLBC, without the use of Homes England grant funding. This means that a new build scheme needs to be identified over the next few years that will be funded from right to buy receipts and WLBC borrowing, rather than Homes England grant contribution.
- 7.7 There was a capital receipt of £10k in 2022/23 from the sale of a piece of HRA land. It is proposed to also allocate this receipt against TVDL expenditure, reducing the need for HRA borrowing in year.

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

1. Minute of Executive Overview & Scrutiny Committee (Cabinet & Council only)
2. Minute of Landlord Services Committee Cabinet Working Group (Cabinet & Council only)
3. Minute of Cabinet (Council only)