

This Report will be made public on 12 October 2022

Report Number **C/22/43**

To: Cabinet
Date: 20 October 2022
Status: Non-Key Decision
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Members: Councillor David Monk, Leader of the Council and Councillor David Godfrey, Housing, Transport and Special Projects

SUBJECT: HRA Budget Monitoring Quarter 2

SUMMARY: This monitoring report provides a projection of the end of year financial position for the Housing Revenue Account (HRA) revenue expenditure and HRA capital programme based on net expenditure to 31 August 2022.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because Cabinet needs to be kept informed of the Housing Revenue Account position and take appropriate action to deal with any variance from the approved budget.

RECOMMENDATIONS:

1. To receive and note Report C/22/43.

1. INTRODUCTION

- 1.1 This report informs Cabinet of the likely projected outturn on HRA revenue and capital expenditure for 2022/23.
- 1.2 The projections are based on actual expenditure and income to 31 August 2022. Some caution therefore needs to be exercised when interpreting the results due to the early stage of the financial year, however, a thorough budget monitoring exercise has been carried out.

2. HOUSING REVENUE ACCOUNT REVENUE 2022/23 (see Appendix 1)

- 2.1 The table below provides a summary of the projected outturn compared to the latest budget for 2022/23.

	Latest Budget	Projection	Variance
	£'000	£'000	£'000
Income	(17,258)	(17,218)	40
Expenditure	13,059	13,929	870
HRA Share of Corporate Costs	175	175	0
Net Cost of HRA Services	(4,024)	(3,114)	910
Interest Payable/Receivable, etc	1,722	1,578	(144)
HRA (Surplus)/Deficit	(2,302)	(1,536)	766
Revenue Contribution to Capital	6,658	4,487	(2,171)
HRA Share of pension reserve movement	(295)	(295)	0
Decrease/(Increase) to HRA Reserve	4,061	2,656	(1,405)

- 2.2 The table shows that overall at quarter 2 there is a projected decrease in net expenditure of £1.4m on the HRA.

The main reasons for this are as follows:-

	£'000
Decrease in revenue contribution to capital (see 2.3 below)	(2,171)
Increase in interest and investment income (see 2.4 below)	(144)
Increase in depreciation charges of fixed assets (see 2.5 below)	685
Increase in supervision and management (see 2.6 below)	105
Increase in repairs and maintenance (see 2.7 below)	80
Decrease in rental income (see 2.8 below)	40
Total net projected Housing Revenue Account increase	<u>(1,405)</u>

- 2.3 The decrease in revenue contribution to capital mainly relates to re-profiling of the new build and acquisition programme with anticipated schemes being delayed to 2023/24 (see 3.3).
- 2.4 The increase in interest and investment income is due to the increase in bank base rate currently at 2.25% and higher than anticipated interest-earning balances on the HRA.
- 2.5 The movement 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 table at 3.6 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.
- 2.6 The increase in supervision and management largely relates to an increased projection in utility costs to reflect both actual and projected inflationary price increases.
- 2.7 The increase in repairs and maintenance relates to unbudgeted costs for disrepair compensation claims and projected contract inflation for Mears.
- 2.8 The decrease in rental income is largely due to void garages. Note, however, that the impact on income has been partially mitigated through a reduction in void garages from Q1 to Q2 owing to improvement works on the garage stock. Work is continuing on the remaining garages but there remains a projected decrease in income of £44k at 31 March 2023.

Further note that rental income for garages may be volatile due to the current economic climate as tenants relinquish their garages to reduce their current expenditure as this may not be classed as an essential outgoing.

- 2.9 Overall, the HRA reserve at 31 March 2023 is expected to be £7.3m compared with £5.9m in the latest budget.

3. HOUSING REVENUE ACCOUNT CAPITAL 2022/23 (see Appendix 2)

- 3.1 The latest budget for the HRA capital programme in 2022/23 is £14.7m and the projected outturn for the year is £12.7m, an underspend of £2.0m.
- 3.2 The reasons for the decrease in expenditure are as follows:-

£'000

New Builds/Acquisitions (see 3.3 below)	(1,257)
Re-roofing (see 3.4 below)	(400)
Windows & Doors (see 3.5 below)	(332)
Total decrease against Latest Budget	<u>(1,989)</u>

- 3.3 The decrease in new build/acquisition expenditure relates to the re-profiling of the Highview scheme which has not progressed as quickly as anticipated and is now expected to commence during December 2022 with an expected completion date of June 2024. This is due to redesigning the scheme to deliver homes that are as close as possible to zero carbon in use. The team have been exploring new technology and construction methods to deliver a flagship scheme for the HRA following the Council declaring a climate emergency.
- 3.4 The decrease in re-roofing expenditure relates to delays in the procurement process, with tender documents due to be issued in September 2022. 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 of projected spend.
- 3.5 The projected windows & doors expenditure relates to the procurement contract with Wrekin which totals £400k; re-procurement for the remainder of the budget is in progress with a commencement date of 1st April 2023, resulting in the variance noted for this year.
- 3.6 The following table compares the resources required to finance the projected outturn for the HRA capital programme in 2022/23. The total variation shown below corresponds to the figure in section 3.1, above.

2022/23 HRA	1-4-1 Capital Receipts	Revenue Contribution	HRA Other Capital Receipts	Major Repairs Reserve	Total
	£'000	£'000	£'000	£'000	£'000
Projected Outturn	1,776	4,487	3,384	3,084	12,731
Approved	2,279	6,658	3,384	2,399	14,720
Variation	(503)	(2,171)	0	685	(1,989)

4. CONCLUSION

- 4.1 The HRA revenue outturn projection for 2022/23 forecasts £1.4m lower expenditure than the latest approved budget for the reasons set out at section 2.2 of this report.

- 4.2 The HRA capital outturn projection for 2022/23 forecasts £2m lower expenditure than the latest approved budget due to capital re-profiling as outlined at section 3 of this report.
- 4.3 The projected outturn for both the HRA revenue expenditure and capital programme for 2022/23 reflects the position based on actual expenditure and forecasts at 31 August 2022.

5. RISK MANAGEMENT ISSUES

- 5.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
The latest projection of the outturn could be materially different to the actual year end position.	Medium	Medium	Areas at greater risk of variances are being closely monitored and an update will be made to Cabinet if appropriate when this report is considered to allow action to taken.
Capital receipts (including right to buy sales) not materialising	Medium	Low	The capital programme uses realised capital receipts only.
Insufficient capacity to manage delayed expenditure along with new year programme	Medium	Medium	The 2022/23 to 2023/24 capital programme will need to continue to be reviewed to take account of the capacity to manage the programme. 2022/23 planned expenditure will need to be reviewed to determine whether any expenditure will fall into 2023/24 and beyond.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Specialist's Comments (NM)

There are no legal implications arising from this report.

6.2 Finance Specialist's Comments (JS)

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

6.3 Diversities and Equalities Implications (DA)

The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an EIA.

6.4 **Climate Change Implications (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.

6.5 **Communications and Engagement Implications (KA)**

There are no communication implications arising from this report.

7. **CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

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

Jonathan Smith, Senior Accountant

Tel: 01303 853780 Email: jonathan.smith@folkestone-hythe.gov.uk

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 monitoring report at 31 August 2022.

[Appendix 2](#) Housing Revenue Account capital budget monitoring report at 31 August 2022.