

<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 9</b>
<b>DATE OF MEETING:</b>	<b>25 AUGUST 2022</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>STRATEGIC DIRECTOR (CORPORATE RESOURCES)</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>CHARLOTTE JACKSON</b> <a href="mailto:Charlotte.jackson@southderbyshire.gov.uk">Charlotte.jackson@southderbyshire.gov.uk</a>	<b>DOC:</b> s/finance/committee/2022-23/August
<b>SUBJECT:</b>	<b>HOUSING REVENUE ACCOUNT REVENUE FINANCIAL MONITORING 2022-23</b>	
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM08</b>

## **1.0 Recommendations**

- 1.1 That the latest revenue financial position for 2022/23 as detailed in the report is considered and approved.

## **2.0 Purpose of the Report**

- 2.1 To provide an update on performance against budget for 2022/23.
- 2.2 The report details performance up to 30 June 2022 unless otherwise stated and is an update of income and expenditure for 2022/23.
- 2.3 The report covers the Housing Revenue Account (HRA) income and expenditure, and an update to the MTFP.

## **3.0 Detail**

- 3.1 The Council is required to account separately for income and expenditure in providing Council housing.
- 3.2 The Base Budget approved in February 2022 for the HRA was set with an estimated deficit of £1.6m. The MTFP has been updated following the final year-end outturn for 2021/22, and the updates for the pay award in 2021/22 (£29k) plus the increase in provision for the potential pay award in 2022/23 (£20k).
- 3.3 An update to the HRA's financial position is included in the revised MTFP attached in **Appendix 1**. This shows that the HRA's General Reserve balance reduces over the first six years of the ten-year plan due to scheduled debt repayment.

- 3.4 Large deficits are due to be funded from the reserve with the lowest point being reached in 2026/27 where the estimated reserve falls to £1.7m. This is greater than the statutory minimum set for the HRA of £1m but does not leave a big contingency for any unforeseen issues.
- 3.5 As with the General Fund the biggest change to the MTFP is the increase in potential pay awards. Over 10 years the increase requires £260k of additional resources from the HRA General Reserves. This is an increase of 5%, to allow for costs of living increases and estimated annual percentage rises. The Pay Award for 2022/23 is currently being negotiated with the latest offer from the Employers potentially increasing pay by an average of 4%.

### Position as at 30<sup>th</sup> June 2022

#### HRA SUMMARY BY AREA - BUDGET MONITORING JUNE 2022

	ANNUAL			RESERVES	
	Full Year	Projected	Projected	Earmarked	Net effect on HRA
	Budget £	Actual £	Variance £		
Rent and Rechargeable Repairs	-12,988,798	-12,655,176	-333,622	0	-333,622
Repairs and Maintenance	3,458,228	3,471,066	-12,838	0	-12,838
Managing Tenancies	2,046,327	2,188,939	-142,612	-48,600	-94,012
Supported Housing	612,766	535,917	76,849	0	76,849
Interest Payable and Receivable	1,456,005	1,325,608	130,397	0	130,397
Capital and Debt Repayment	4,172,313	4,172,313	0	0	0
Bad Debt Provision	125,000	125,000	0	0	0
Contingent Sums	2,817,434	2,817,434	0	0	0
Other Operating Income & Expenditure (HRA)	2,817,434	2,817,434	0	0	0
	<b>1,699,274</b>	<b>1,981,100</b>	<b>-281,826</b>	<b>-48,600</b>	<b>-233,226</b>

- 3.6 The above table shows that overall, the HRA is expected to have a deficit of £1.9m which is a higher deficit than budgeted. The greatest variance is the loss of rental income from void properties. The main reasons for the variances are detailed below.

#### HRA VARIANCE TO BUDGET June 2022

	£'000
Salary savings (vacancies, maternity etc.)	344
Interest Income and Expenditure	130
Additional Careline Income	53
Insurance	25
Rechargeable Repairs	-8
Professional fees	-12
Computing	-21
Council tax	-52
Agency and Consultancy Staff	-341
Reduced Rent due to Void Dwellings	-351
<b>TOTAL - OVERALL PROJECTED VARIANCE</b>	<b>-233</b>

- 3.7 Expected salary savings in year relate to vacancies and are offset by agency use.
- 3.8 Investment income is expected to be above budget by approximately £130k on the HRA's percentage of the overall loan interest received. The recent rise in interest rates has yielded better than predicted income from the Councils temporary investments.
- 3.9 A lower cost than budgeted for insurance relates to no longer administering the tenants' contents insurance, this is offset within the loss of income, along with a small commission loss for no longer providing the service.
- 3.10 Additional Care Line income is due to the unbudgeted receipt of the continued contribution from County Council of £10.40 per user.

### **Rental Income**

- 3.11 Rental income is lower in year due to two factors. Firstly, the average level of voids is currently around 90 per month, the loss forecast is currently based on voids remaining at this level throughout the year.
- 3.12 Right to Buy losses have totalled one during the first quarter which is below budget and offsets the income losses. Right to Buy is a significant risk to the HRA and although with the economic uncertainty enquiries have slowed down, in 2021/22, the target was exceeded all within the last half of the year.

### **Rent Setting and Refunded Rents**

- 3.13 Rent setting and the reletting of Social housing is a complicated process since the introduction of a "rent convergence" policy by the Government in 2002. Formula rents were introduced as the mechanism for setting social housing rents and were based on property valuations as at March 1999.
- 3.14 Rent convergence ended in 2015, but formula rents continued to be calculated. However, Government guidance changed to increase rents by CPI +1% each year for 10 years. Subsequently, the Government then directed that social housing rents would reduce by 1% for 4 years ending in 2020.
- 3.15 Following rent reductions, a new Policy Statement on rents for social housing was published by the Government for rents set from 1 April 2020. This led to a mixture of different rent mechanisms being applied. In general, each year, the Council's rents are calculated for existing tenants by the agreed percentage approved at Committee.
- 3.16 Formula rents for relets are calculated using the Governments rent formula. New builds and acquired property rents are calculated slightly differently using an average property value for the geographical District area. This calculation results in a set rent per number of bedrooms per property regardless of village location. Rents set using this method are known as "the social rent calculation".
- 3.17 Following a review in January 2022 by the Housing Regulator into the Council's rent setting, they highlighted an anomaly between the rents for new build/newly purchased properties and existing property relets.

- 3.18 After reviewing the Governments Policy Statement and taking advice on its interpretation, it was concluded that calculated social rents could be charged when reletting properties.
- 3.19 Specifically, the Housing Regulator has advised that all formula rents should have a slight variation and be set using the individual properties 1999 valuations and not a generic District wide valuation. The paragraph within the Policy Statement relates to genetic valuations to a particular Street or Road and not a district wide area.
- 3.20 The result of this is that affected properties relet between October 2020 and March 2021 are on a higher rent than allowed under the terms of the Governments Policy Statement. In total, this led to an overcharge amounting to approximately £84,000 across 81 tenancies.
- 3.21 However, of this amount, approximately £20,000 was offset against those tenancies in arrears, with the balance being refunded to tenants. On-going rents have since been corrected.
- 3.22 The position with rent setting is complicated with a number of different rental streams for new and existing tenants. Whilst the Government produce a Policy Statement, there are some areas where the landlord can choose to make their own decisions which affect how rents are calculated.
- 3.23 The Housing Regulator reported last year that 26 out of 28 Authorities reviewed, had issues with their rent setting. As the anomaly has been corrected, the Council are not subject to any actions by the Regulator.

### **Other Variances**

- 3.24 In addition Council Tax charges are linked to the void properties, the adverse variance is forecasted in line with the current property numbers and length of time vacant.
- 3.25 Computing relates to the Orchard upgrade and is provided for within the MTFP as approved in April 2021.
- 3.26 Professional fees adverse variance is for the fire alarm and emergency light testing. The contract ended in July 2022 and is now being undertaken by Careline staff on a trial basis, pending a longer-term solution.
- 3.27 The HRA's 10-year MTFP is shown in Appendix 1.

### **Risk Areas**

#### **Vacancies**

- 3.28 As with the General Fund, there are a number of vacant posts within the HRA especially in the repair and maintenance area, that pose a risk to the financial position due to the added cost of agency and support.
- 3.29 Risks to the shortage of available candidates and also market salaries are present, and the Head of Housing is keeping this issue under review.

- 3.30 The Council will potentially be without a suitably qualified building/fire safety member of staff after August 2022, when a current agency covered Project Officer role will become vacant.
- 3.31 The Project Officer Roles are going through the Job Evaluation process with a view to being able to offer a more competitive rate of pay depending on the outcome. In the meantime, recruitment is being sought through agency.

### **Careline**

- 3.32 Derbyshire County Council has now informed the Council that there will no longer be any funding available for the service managed by the Council after March 2023 although a one-year extension of these contracts has been proposed but not yet confirmed.
- 3.33 A working group including all districts and the County Council has been set up to determine next steps and hopefully mitigate losses for all parties.
- 3.34 Another potential risk to the HRA for the Careline service is the transfer to digital from analogue. Costs of changes are under review and funds are being secured from the Better Care Fund to help with the costs for private sector customers.
- 3.35 The Head of Housing will report progress and any potential changes to the current Careline service to Housing and Community Services Committee at a future meeting.

## **4.0 Financial Implications**

- 4.1 Detailed in the report.

## **5.0 Corporate Implications**

### **Employment Implications**

- 5.1 None.

### **Legal Implications**

- 5.2 None.

### **Corporate Plan Implications**

- 5.3 There are no specific targets within the Corporate Plan but ensuring sustainability of the Council's financial position enables services to deliver targets included within the Plan.

### **Risk Impact**

- 5.4 As detailed in the Report.

## **6.0 Community Impact**

### **Consultation**

6.1 None.

### **Equality and Diversity Impact**

6.2 None.

### **Social Value Impact**

6.3 None.

### **Environmental Sustainability**

6.4 None.

## **7.0 Background Papers**

7.1 None.

## HOUSING REVENUE ACCOUNT FINANCIAL PROJECTION - AUGUST 2022

	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33
Proposed											
Budget	Forecast										
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>INCOME</b>											
Rental Income	-12,893	-13,124	-13,433	-13,749	-14,073	-14,403	-14,740	-15,085	-15,437	-15,797	-16,184
Non-Dwelling Income	-124	-127	-130	-133	-137	-140	-144	-148	-151	-155	-159
Supporting People Grant	-130	0	0	0	0	0	0	0	0	0	0
Other Income	-177	-177	-177	-177	-177	-177	-177	-177	-177	-177	-177
<b>Total Income</b>	<b>-13,324</b>	<b>-13,428</b>	<b>-13,740</b>	<b>-14,059</b>	<b>-14,387</b>	<b>-14,720</b>	<b>-15,061</b>	<b>-15,410</b>	<b>-15,765</b>	<b>-16,129</b>	<b>-16,520</b>
<b>EXPENDITURE</b>											
General Management	2,053	2,098	2,145	2,192	2,241	2,291	2,342	2,394	2,447	2,502	2,558
Supporting People	900	925	950	976	1,004	1,032	1,062	1,094	1,126	1,161	1,197
Responsive	1,674	1,714	1,755	1,797	1,840	1,884	1,928	1,974	2,021	2,070	2,120
Planned Maintenance	1,785	1,828	1,873	1,918	1,965	2,013	2,062	2,113	2,164	2,217	2,271
Bad Debt Provision	125	131	134	137	140	144	147	150	154	158	161
Interest Payable & Receivable	1,456	1,456	1,186	1,186	1,186	885	886	886	886	886	556
Depreciation	4,213	4,504	4,481	4,458	4,435	4,413	4,390	4,368	4,345	4,323	4,301
<b>Net Operating Income</b>	<b>-1,118</b>	<b>-772</b>	<b>-1,216</b>	<b>-1,395</b>	<b>-1,576</b>	<b>-2,058</b>	<b>-2,244</b>	<b>-2,431</b>	<b>-2,622</b>	<b>-2,812</b>	<b>-3,356</b>
<b>Known variations:</b>											
Reversal of Depreciation	-4,213	-4,504	-4,481	-4,458	-4,435	-4,413	-4,390	-4,368	-4,345	-4,323	-4,301
Capital Expenditure	1,620	1,433	1,877	1,916	1,847	2,182	2,261	2,489	2,403	1,805	2,301
Disabled Adaptations	300	300	300	300	300	300	300	300	300	300	300
Asbestos and Health & Safety Surveys	100	100	100	100	100	100	100	100	100	100	100
Debt Repayment - Balance of Depreciation	1,593	2,221	1,704	1,642	2,038	1,281	1,179	979	1,042	1,618	1,100
Major Repairs Reserve	600	550	600	600	250	650	650	600	600	600	600
Asset Replacement Earmarked Reserve	45	45	45	45	45	45	45	45	45	50	50

## HOUSING REVENUE ACCOUNT FINANCIAL PROJECTION - AUGUST 2022

	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33
	Forecast										
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Additional Debt Repayment Transfer	2,500	2,100	1,500	1,300	1,850	750	750	750	1,000	800	1,000
Investment Income	0	25	25	25	25	25	25	25	25	25	25
Capital works non-traditional properties	100	0	0	0	0	0	0	0	0	0	
Pay Award 2021/22	29										
Potential Pay Award	49	50	51	52	54	55	56	57	58	59	60
ICT Upgrades	30	30	30	30	0	0	200	0	0	0	82
Rent Loss Provision	65	66	68	69	71	73	74	76	78	80	0
Incremental Salary Increases	0	5	5	5	5	6	6	6	6	6	6
<b>HRA Surplus (-) / Deficit</b>	<b>1,699</b>	<b>1,649</b>	<b>608</b>	<b>232</b>	<b>575</b>	<b>-1,004</b>	<b>-989</b>	<b>-1,373</b>	<b>-1,311</b>	<b>-1,693</b>	<b>-2,034</b>
<b>HRA General Reserve</b>											
HRA Reserve B/fwd	-6,494	-4,795	-3,146	-2,538	-2,307	-1,732	-2,736	-3,725	-5,098	-6,408	-8,101
(Surplus) / Deficit for year	1,699	1,649	608	232	575	-1,004	-989	-1,373	-1,311	-1,693	-2,034
<b>HRA Reserve C/fwd</b>	<b>-4,795</b>	<b>-3,146</b>	<b>-2,538</b>	<b>-2,307</b>	<b>-1,732</b>	<b>-2,736</b>	<b>-3,725</b>	<b>-5,098</b>	<b>-6,408</b>	<b>-8,101</b>	<b>-10,135</b>

