

Tenants' Strategic Group: 24th July 2023

Name of Report: Somerset West and Taunton Council - Housing Revenue Account Financial Monitoring - Outturn Position 2022/23

Report Author: Kerry Prisco (Management Accounting and Reporting Lead)

1 Executive Summary

- 1.1 This report contains information related to Somerset West and Taunton Council's (SWT) Housing Revenue Account's (HRA) financial performance for the 2022/23 financial year. The outturn figures included are provisional subject to the completion of the external audit of the statutory financial statements. The audit is due to be completed between July and September with the findings due to be reported to the Audit and Governance Committee on 27th September this year.
- 1.2 The **revenue outturn position** for the financial year 2022/23 is as follows:
- 1.3 The Housing Revenue Account (HRA) Revenue Outturn position for 2022/23 is a net overspend of £227k (0.8% of gross income).
- 1.2 The significant reasons for the variance being reported include:
 - 1.3 **Depreciation:** the overspend of £1.420m relates to a combination of a technical accounting update requiring components to have a maximum useful life of 70 years, as well as an increase in year-end 'existing use' valuations driven by the effects of economic conditions impacting upon house price inflation.
 - 1.4 **Capital Debt Repayment:** the underspend of £1.021m was a strategic financial decision to offset the adverse variation on depreciation described above. The Council still made a voluntary repayment provision using existing capital receipts.
 - 1.5 **Maintenance:** the overspend of £455k relates to the ongoing repairs and maintenance of the housing stock through void activity undertaken to ensure our Lettable Standard is met before reletting. Whilst this is a very demand led and reactive service based on the condition of the properties being returned this service is experiencing an increase in cost pressures as inflation drives up the cost of materials (as seen nationally).
 - 1.6 **Tenancy Management:** the overspend of £339k relates to an increase in staffing costs due to additional resources required to manage the increasing number of cases raised by tenants following the aftermath of COVID.
 - 1.7 **Net Interest Receivable:** due to the reduction in estimated spend on the capital programme and favourable treasury management activities, the HRA received net interest on reserves in excess of the capital financing requirement of £317k.

- 1.6 The **reserves position** for 2022/23 is as follows:
- 1.7 The **unearmarked reserves** are projected to be £2.986m which is £986k above the recommended minimum balance of £2m.
- 1.8 The **earmarked reserves** are projected to be £258k.
- 1.8 The **capital outturn position** for 2022/23 is as follows:
- 1.9 The **actual spend** on the HRA Capital Programme during 2022/23 was £18.520m (see **Appendix D**).
- 1.10 A **budget return** of £8.814m is being proposed across the HRA Capital Programme. Section 10 and **Appendix D** provides more information.
- 1.11 A **carry forward** of £85.861m is being proposed for schemes in 2022/23 and future years (see **Appendix D**).

2 Recommendations

- 2.1 The Tenants' Strategic Group is asked to note this report and are invited to ask questions.
- 2.2 The Executive is recommended to:
- 2.3 Note the reported Housing Revenue Account Budget overspend of £227k in 2022/23 to be funded from Unearmarked Reserves.
- 2.4 Note the reported HRA Unearmarked Reserves Balance of £2.986m as at 31 March 2023.
- 2.5 Note the Capital Outturn position.
- 2.6 Approve the proposed reductions to the Capital Programme Budget of net £8.814m for underspends on schemes where budget is no longer required, and the continuation of £97.809m approved budget rolled forward for the 2023/24 Housing Revenue Account Capital Programme (as per **Appendix A**).

3 Background and Full details of the Report

- 3.1 This report informs Members of SWT's financial outturn (a comparison of net spending against the budget for the year) for revenue and capital budgets in 2022/23 for the Council's Housing Revenue Account (HRA).

- 3.2 Community Scrutiny and the Executive have received quarterly budget monitoring reports throughout the year which have highlighted variances from budgets and comments from the budget holders, as well as summarising the main risks and uncertainties as explained above.
- 3.3 The outturn figures contained in this report are provisional at this stage. The financial outturn has been taken into account when preparing the Council's Draft Statement of Accounts, which is due to be approved by the Assistant Director – Finance (S151 Officer) at the end of June, and is now subject to review by the Council's External Auditor. Should the External Auditor identify the need for any changes to the Accounts these will be reported to the Audit and Governance Committee on 27th September this year.

HRA Revenue Outturn Position

- 4.1 The HRA is a ring-fenced, self-financing, account used to manage the Council's housing stock of 5,652 properties during the year, with the Council acting as the Landlord.
- 4.2 The Council retains all rental income to meet the costs of managing and maintaining the housing stock, as well as meeting the interest payments and repayment of capital debt.
- 4.3 **Revenue Outturn Position:** The revenue outturn position for the financial year 2022/23 for the HRA is a net overspend of £227k (0.8% of gross income). Table 1 below shows a high level summary of the revenue outturn against budget.

Table 1: HRA Revenue Outturn Summary

	Current Budget	Outturn	Variance	
	£000	£000	£000	%
Gross Income	-28,282	-27,944	338	1.2%
Service Expenditure	16,611	16,716	106	0.4%
Other Operating Expenditure & Income	11,672	11,454	-217	-0.8%
Variance	0	227	227	0.8%

- 4.4 The variances to budget are shown in more detail in Table 2 and further explanations for variances over £50k below.

Table 2: Summary of Outturn Variances

	Current Budget	Outturn	Outturn	Q3	Q2	Q1
	£000	£000				
			Variance £000			
Dwelling Rents	-25,581	-25,430	150	-46	-54	-139
Non-Dwelling Rents	-767	-703	64	58	16	49
Charges for Services / Facilities	-1,649	-1,537	111	93	106	-2

Other Income	-286	-274	13	-43	16	14
Sub-Total Gross Income	-28,282	-27,944	338	60	84	-78
Service Expenditure:						
Development & Regeneration	60	-16	-76	27	-15	-5
Community Resilience	158	143	-15	0	0	-6
Tenancy Management	2,985	3,324	339	212	248	186
Maintenance	5,640	6,085	445	442	320	496
Assets	420	342	-79	-78	-24	-1
Capital Investment	563	333	-230	-196	-262	14
Compliance	1,829	1,695	-134	-127	-115	-150
Performance	4,954	4,810	-144	-286	-236	31
Pay Award Shortfall	0	0	0	0	0	269
Sub-Total Service Expenditure	16,611	16,716	106	-7	-82	834
Central Costs / Movement in Reserves:						
Revenue Contribution to Capital	0	0	0	0	0	0
Interest Payable	2,883	2,714	-69	-95	-88	-94
Interest Receivable	-83	-330	-248	-348	11	83
Change in Provision for Bad Debt	180	-120	-300	0	0	0
Depreciation	7,800	9,220	1,420	1,322	1,427	0
Capital Debt Repayment	1,021	0	-1,021	-1,021	-1,021	0
Movement In Reserves	-129	-129	0	0	0	0
Sub-Total Central Costs / Movement in Reserves:	11,672	11,454	-217	-144	329	-12
Net Surplus(-) / Deficit for the Year	0	227	227	-91	330	745

Income

- 4.5 **Dwelling Rent Income:** The budgeted income for 2022/23 is £25.581m, which reflects an assumption of 2% void losses and applying a 52-week year. The outturn position for dwelling rent income is an under recovery against budget of £150k which is in part due to timings of RTB sales and higher levels of voids especially in temporary accommodation stock. This includes £69.4k of write offs during the year (see section 5).
- 4.6 **Non-Dwelling Rents:** the budgeted income for 2022/23 is £767k. The outturn position is an under recovery of 64k mainly due to the service being unable to reduce void levels

as anticipated within the budget. The budget for 2023/24 has removed this expectation and is set based on current occupancy levels.

- 4.7 **Charges for Services / Facilities:** The budgeted income of £1.649m for 2022/23 includes (a) £1.406m for the Service Charge Income for Dwellings (after discounts have been applied to tenants such as Piper Charge to Sheltered Housing and Extra Care) less an average 2% void loss and applying a 52-week year, (b) £233k for Leaseholder Charges for Services, and (c) £10k for Meeting Halls.
- 4.8 The Leaseholder Charges for Services is forecasting an under recovery of income of £109k. The leaseholds are invoiced a year in arrears. The routine repairs continued to be low again last year due to COVID and lockdown. The major repairs were also lower and capped at £250 again.

Expenditure

- 4.9 **Development & Regeneration:** A new budget was added for 2022/23 to support the Social Housing Development Fund bids and production of the Retrofit Strategy. The bid, if successful, will provide significant subsidy to support the delivery of the zero carbon retrofit programme. These funds were, in the end, not required, and the budget has since been removed from the budget for 2023/24.
- 4.10 **Tenancy Management:** This area covers lettings, supported housing, rent recovery, leaseholders and other tenancy management support activities. The total current budget is £2.985m and it is forecasting an overspend of £339k. This mainly relates to an overspend on staffing costs due to additional resources required to manage the increasing number of cases raised by tenants following the aftermath of COVID, as well as backfill for maternity and sick leave and the pay award. Part of the overspend relates to a budget saving for 2022/23 by undertaking RTB surveys using our in-house resources, however this resource is now unavailable, and the activity is now being procured externally.
- 4.11 **Maintenance:** The majority of this overspend relates to the ongoing repairs and maintenance of the housing stock through void activity undertaken to ensure our Lettable Standard is met before reletting. Whilst this is a very demand led and reactive service based on the condition of the properties being returned this service is experiencing an increase in cost pressures as inflation drives up the cost of materials (as seen nationally). There is an in-house initiative called the "Leaving Well" scheme which aims to work with and support the tenants to leave their homes in a suitable manner to reduce the time and cost of work then required on void properties before reletting. Since the Q1 report, and in light of the predicted overspend, the opportunities for capitalisation have been revisited and maximised within the code of practice.

- 4.12 **Assets:** This variance relates the £90k budget estimate for 2022/23 on SAP EPCs and Stock Validation which are now being covered and paid for as part of the majors and improvement capital programme. This change has been reflected in the budgets for 2023/24.
- 4.13 **Capital Investment:** The Capital Investment Team are responsible for driving the delivery of the Majors and Improvement capital programme. Since the Q1 report, and in light of the predicted overspend, the opportunities for capitalisation have been revisited and these salary costs are now being capitalised. This saving is offset in part by an overspend on pre-planned maintenance costs where previous years painting and cyclical repairs were delayed, so some additional costs have been incurred this year for repairs to previously painted surfaces, due to their deterioration.
- 4.14 **Compliance:** The outturn position is an underspend of £134k. Following a validation of apparatus / installations on site, the service identified that the previous data estimations were greater than those required in year. The compliance budget for 2023/24 has been updated with new budget estimates.
- 4.15 **Performance:** Of the total budget of £4.954m, £3.920m relates to shared costs such as support services, pension deficit, and governance, leaving £1.164m on operating costs such as staffing, insurance, training, travel, stationery, printing and bank charges, as well as the Tenants Empowerment and Tenants Action Group.
- 4.16 The forecast underspend of £144k mainly relates to a £380k favourable adjustment following the completion of a thorough review of the non-staff related cost apportionments between the General Fund and Housing Revenue Account (HRA), to ensure this reflects the up-to-date position and reasonable assumptions around the relative use of resources. This is offset by staffing pressures related to the senior management team job evaluation and performance team restructure, as well as procurement support.

Central Costs and Movements in Reserves

- 4.17 **Interest Payable:** The budget estimate for 2022/23 was £2.883m. This was based on assumptions for the refinancing of £10m of debt repaid in March 2022 which differ to the actual cost of borrowing and the term of the loan resulting in an underspend of £69k.
- 4.18 **Interest Receivable:** The reduction in the capital outturn position (see section 8) compared to the original projections has reduced the current year capital financing requirement for the HRA. Therefore, with investments exceeding the capital financing requirement, this has resulted in internal investment income of £247.5k above budget.
- 4.19 **Change in Provision for Bad Debt:** This is a technical accounting entry which considers the year end arrears position and makes a provision within the accounts for

the possibility of non-payment. This will change year-on-year depending on the level of arrears held at the end of each financial year and the aged profile of the arrears. This year the change in expected credit losses (provision for bad debt) has decreased by £120k which is an underspend of £300k against the budget of £180k.

- 4.20 **Depreciation:** Depreciation is transferred to the Major Repairs Reserve (MRR) and must be used to fund the capital programme and/or repay capital debt.
- 4.21 In prior years, elements of the depreciation calculation saw some components of the assets having a useful life over 100 years. For 2021/22 there was a recommended technical accounting update requiring components to have a maximum useful life of 70 years. This was applied to the calculation for 2021/22 resulting in an increase in the dwelling depreciation charge. This financial impact was managed strategically in 2021/22 by reducing the voluntary repayment of debt through the revenue account and replacing this with existing capital receipts to eliminate the financial impact on repaying debt as well as the impact on the revenue account.
- 4.22 Due to timings of the annual budget preparation, this technical accounting update was not applied to the budget estimates for depreciation for 2022/23. As such the outturn position is an overspend against budget of £1.420m. This is not only due to the technical accounting update but also the increase in year-end "existing use" valuations, which are driven by the effects of economic conditions impacting upon house price inflation.
- 4.23 This financial impact will again be managed strategically by offsetting this pressure in part against the voluntary repayment of debt through the revenue account (see below) and replacing this with existing capital receipts to eliminate the financial impact on repaying debt as well as the impact on the revenue account. The budget for 2023/24 has been updated to reflect this pressure.
- 4.24 **Capital Debt Repayment:** As per the Budget Setting Report for 2022/23 (Full Council Feb 2022) the HRA financial strategy presented a one-off reduction in budget (from £1.821m) of £800k to provide revenue capacity in 2022/23 replacing this with £800k of non-RTB capital receipts. The budget of £1.021m is being used to offset the adverse variance on the depreciation charge as described above. The Council still made a voluntary repayment provision using existing capital receipts to the value of £1.821m.

5 HRA Debt Write Off During the Year

- 5.1 The total amount of debtor write-offs made during 2022/23 amounted to £69.4k and relates to dwelling rental income, non-dwelling rental and other charges such as repairs and court costs. Of this there were no individual customers where individual debts greater than £25,000 that were written off.

6 HRA Earmarked Reserves

- 6.1 The HRA Earmarked Reserves at the beginning of 2022/23 totalled £54k (see **Table 3** below); during the year net transfers of £204k have increased reserves to £258k. The remaining funds have been earmarked to be spent within the next two years.

Table 3: Earmarked Reserves Balances

Description	Opening Balance 01/04/2022 £000	Transfers £000	Projected Balance 31/3/2023 £000
One Teams	6	-6	0
Hinkley – Home Moves Plus	48	-14	34
Climate Change Grant - Electric Vehicles	0	77	77
Hinkley – Community Grants	0	130	130
Tenant Satisfaction Grant	0	17	17
Total	54	204	258

7 HRA Unearmarked Reserves

- 7.1 The table below summarises the movement on the HRA unearmarked reserves during the year.

Table 4: HRA Unearmarked Reserves Balance

	Approval	£'000
Balance Brought Forward 1 April 2022		3,413
Budgeted Contribution to support base budget 2022/23	FC - 08/02/22	-200
Provisional Outturn 2022/23		-227
Projected Balance 31 March 2023		2,986
Recommended Minimum Balance		2,000
Projected Balance above Minimum Reserve Balance		986

- 7.2 The HRA unearmarked reserves at the start of the year were £3.413m. This is £1.413m above the minimum recommended reserve level of £2m. Remaining at or above these targets provides added financial resilience to in year pressures through volatility and unforeseen cost increases and income reductions.
- 7.3 Unearmarked reserves have decreased by £200k to support the base budget for 2022/23 and a further £227k to fund the overspend outturn position.
- 7.4 The balance as at 31 March 2023 (subject to audit) is £2.986m, which is £986m above the recommended minimum balance of £2m. The projected balance on reserves as at 31 March 2023 provides sufficient capacity to support the approach of the Medium Term Financial Plan which incorporates the planned use of £380k of reserves to support the 2023/24 budget.

7.5 Whilst this reduces reserves to only £606k above the minimum balance, the unearmarked reserves of Somerset West and Taunton and Sedgemoor District Council will be combined from the 1 April 2024 and will together provide further financial resilience and flexibility for management and members to mitigate short term pressures within the HRA.

8 HRA Capital Outturn Position

8.1 A summary of the HRA Capital Outturn position can be found in Appendix A.

8.2 The HRA **approved Capital Programme** at the end of 2022/23 is £110.9m. This consists of £14.4m of new schemes approved for 2022/23 plus £95m of previously approved schemes in prior years and a supplementary budget of £1.5m. The HRA Capital Programme relates to in-year works and longer-term schemes that will be completed over the next nine years. The Council proposes to finance this investment through the Major Repairs Reserve, Capital Receipts, Capital Grants and Borrowing.

8.3 The **actual spend** on the HRA Capital Programme during 2022/23 was £18.520m. The major areas of capital spend during the year related to the capital maintenance for the existing housing stock and the development of new stock. The Council is financing this investment through the Major Repairs Reserve, Capital Receipts, Capital Grants and Borrowing.

8.4 The capital outturn position is reporting an **overspend** of £2.295m. Of this £2.108m was spent on major works such as voids, electrical testing and community alarms, which were funded from underspends / budget returns on other major works schemes. In addition, £187.1k of expenditure relates to the fully funded property purchase and refurbishment of properties reserved for temporary accommodation under the Rough Sleepers Action Programme (RSAP).

8.5 The capital outturn position is also reporting **proposed capital budget returns** of £8.814m. The Housing Senior Management Team have reviewed projected capital expenditure and are confident that the remaining capital slippage and new approved budget for 2023/24 will be sufficient to meet the capital asset management plan over the next 12 months. These budget returns will positively impact the financial position of the HRA's 30-Year Business Plan and the Council's treasury management strategy.

8.6 The total budget to be **carried forward** into 2023/24 and future years is £85.861m. There was also £11.948m of new capital budget approved by Full Council on 22 February 2023. This gives a total approved capital budget of £97.809m to be spent in 2023/24 and future years.

9 HRA Right To Buy (RTB) Capital Receipts

- 9.1 The RTB scheme is a government scheme that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. During 2022/23 the Council sold 28 homes through the RTB Scheme.
- 9.2 Through a “1-4-1 Agreement” with the Treasury / DLUHC, the Council can retain a small proportion of these RTB receipts and use them to fund new social housing. From the 1 April 2021, the Government issued a policy change allowing these receipts to now account for up to 40% (previously 30%) spend on new social housing costs, with the remaining 60% coming from other funds such as revenue funding or borrowing.
- 9.3 This policy change also increased the timeframe that these receipts must be spent to five years (previously 3 years) of the capital receipt or returned to Government with interest at 4% over base rate from the date of the original receipt. To date, the Council has successfully spent all of their retained 1-4-1 receipts with no returns being made to the Treasury / MHCLG.
- 9.4 During the financial year 2022/23 the total attributable spend on eligible RTB schemes was £4.636m. This was spent on a variety of social housing development schemes.

10 Risk Assessment (if appropriate)

- 10.1 A risk assessment is not required to accompany this report.

11 Are there any Finance / Resource, Legal implications directly to do with this report?

- 11.1 There are no financial implications directly to do with the recommendations in this report

12 Are there any Equality and Diversity Implications?

- 12.1 There are no equality implications directly to do with this report

13 Are there any Data Protection Implications?

- 13.1 There are no equality implications directly to do with this report.

14 Scrutiny Comments / Recommendations

- 14.1 This report will be considered by Scrutiny. A summary of the comments and recommendations discussed will be provided here for the Executive to consider.

List of Appendices

Appendix A	HRA Capital Outturn Position
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Appendix A: HRA Capital Outturn Position

SWT Capital Programme	Total Approved Budget as at 31 March 2023	Actual Capital Outturn 2022/23	Under (-) /Overspend on Completed Projects	Underspend - Budget No Longer Required	Remaining Approved Budget (ongoing projects)	Net 2022/23 Budget Additions Approved (Feb 2023)	Total Approved Budget 2023/24 and future years
Major Works	14,946,968	5,870,204	2,107,740	(7,985,138)	3,199,366	10,867,970	14,067,336
Fire Safety	3,573,637	3,199,966	0	0	373,671	150,000	523,671
Related Assets	120,000	55,601	0	(64,399)	0	50,000	50,000
Exceptional & Extensive	350,000	208,832	0	(141,168)	0	300,000	300,000
Vehicles	220,000	0	0	(220,000)	0	0	0
ICT & Transformation	551,405	266,267	0	(200,000)	85,138	210,000	295,138
Aids & Adaptations & DFGs	370,000	201,290	0	(168,710)	0	370,000	370,000
Sub-Total Majors & Improvements	20,132,010	9,802,160	2,107,740	(8,779,415)	3,658,175	11,947,970	15,606,145
Social Housing Development	90,768,617	8,717,901	187,175	(34,805)	82,203,086	0	82,203,086
Total HRA	110,900,627	18,520,062	2,294,915	(8,814,219)	85,861,261	11,947,970	97,809,231

Note: The approved budget for future years includes all Social Housing Development schemes approved for their duration plus one year of major works and improvements.