Melton Borough Council

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Cabinet

9 July 2024

Housing Revenue Account Revenue and Capital Outturn 2023-24

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Lead Member/Relevant Portfolio Holder	**Councillor Sarah Cox**, Portfolio Holder for Corporate Finance, Property & Resources **Councillor Pip Allnatt** - Leader of the Council, Portfolio Holder for Housing, Leisure and Landlord Services

Corporate Priority:	Providing high quality council homes and landlord services Ensuring the right conditions to support delivery (inward)
Relevant Ward Member(s):	All
Date of consultation with Ward Member(s):	N/A
Exempt Information:	No
Key Decision:	No
Subject to call-in:	No Not key decision

1 Summary

1.1 This report sets out the provisional year end position for the Housing Revenue Account (HRA), subject to external audit approval, for 2023-24 and provides information on the Council's HRA balances and reserves.

1.2 The provisional revenue outturn shows an overspend against the approved budget of £2k overall, with up to £203k also approved to be carried forward into 2024-25. A projected overspend has been reported during the year. The overspend comprises cost pressures and income recovery challenges. These factors are described in more detail below and in the appendix.

1.3 The majority of planned and programmed activity and spend has been completed within the capital programme, representing 77% of the budget (excluding purchase of affordable homes). Much of the outstanding activity within the programme has already been or is due to be completed in the first quarter of 2024/25. The planned purchase of 8 affordable homes in Great Dalby has not yet completed and represented the most significant underspend in the programme. The final position is still subject to external audit approval for 2023-24.

1.4 The HRA Business Plan and HRA Asset Management Plan that were approved in 2022 highlighted that there are significant and unprecedented challenges in the social housing sector. These include regulatory changes, high levels of inflation and greater scrutiny from the Housing Regulator and the Ombudsman alongside restrictions on rent increases below inflation. These factors have all had an in-year impact on the HRA budgets including contract price increases and additional health and safety work. There has also been a focus on bringing long term void properties back into use with positive improvements being achieved.

2 Recommendations

That Cabinet:

2.1 **Notes the provisional year end position, variations to the 2023-24 approved budget and the resultant effect on the Council's HRA balances and reserves as set out below and in the attached papers for both revenue and capital.**

3 Reason for Recommendations

3.1 It is important that Cabinet are aware of the financial position of the HRA to ensure they can make informed decisions that are affordable and financially sustainable for the Council.

4 Background

4.1 The HRA is a large and complex budget; as such it is monitored on a monthly basis as a key service. The operation of the HRA is governed by the Local Government and Housing Act 1989, one of the key requirements of which is that the Council will produce and publish an annual budget for the HRA which avoids a deficit; and the Council has a duty to review, and if necessary, revise that budget from time to time. If it appears that the HRA is heading for a deficit, then all reasonable and practicable steps must be taken to avoid a deficit at the year end.

5 Main Considerations

5.1 Revenue Provisional Year End Position

5.1.1 The figures shown in Appendix 1, and summarised in the table below, compare the provisional year end position for 2023-24 to the original estimate set in February 2023 and the approved estimate (the approved estimate being the original estimate as adjusted by supplementary estimates, virements and budget reductions authorised during the financial year). The approved estimate is the authorised budget for spending purposes. The report also shows the resultant effect on the contribution from reserves (Appendix 1 line 45) and reasons for major budget variations. It should be recognised, however, that the figures are still subject to external audit certification.

5.1.2 A summary of Appendix 1 is shown below:

2023-24

	Approved Budget	Estimated Year End Position	Variance
	£	£	£
Expenditure	8,752,310	8,995,790	243,480
Income	-8,847,220	-8,798,053	49,167
Net Interest Charges	923,960	660,030	-263,930
Revenue Contribution to Capital	112,090	85,488	-26,602
Total Net Expenditure	**941,140**	**943,255**	**2,115**
Contribution to/from(-) Reserves	-1,191,140	-1,193,255	-2,115
In Year Surplus(-)/Deficit	-250,000	-250,000	0

5.1.3 The provisional year end position shows an actual deficit of income over expenditure of £943,255 at "Total Expenditure" level, being an overspend of £2,115 against the approved budget deficit of £941,140. The Total Expenditure is the Net Operating Expenditure at line 43 on Appendix 1 plus the Revenue contribution to Capital amount at line 44. There are a number of budget variances that make up this overspend and as part of the budget monitoring and review process all budget holders have been requested to provide reasons for significant variations against their latest approved budget on individual service accounts. The details for which are outlined in Appendix 1 attached and for any variances in excess of £10k further comments have been included in line with financial protocols. However, the main ones to note are:

5.1.4 General Management £258k underspend:

Whilst we rebuild and strengthen the service some of our vacancies and roles have been challenging to fill. Agency staff have been approved under delegation through the year, for which a carry forward of £92k was approved under delegation into 2024-25. The policy for the hardship fund was not finalised and so the fund was not spent and very little court action has been taken. Offset by higher and longer voids incurring Council Tax and the higher insurance charges following a number of fires at our properties. Internal re-charges were re-apportioned in-year to ensure that the Intensive Housing Management Service was charged their share.

There was also an underspend on the resident involvement budget of £17k due to a vacant post towards the end of the year and an annual mailing not carried out.

5.1.5 Special Services £149k overspend:

Employee costs were underspent due to budgeting for the full establishment whilst the service was re-assessed.

The contract works and asbestos budgets were also underspent for which carry forwards of £26k have been approved under delegation as fire safety works have been taken back in-house the budgets will continue to be better informed as part of the continuous re-assessment of the asset management plan.

These have been offset by the contractor increasing the cost for the new aerial upgrade works and a 300-400% increase in utility bills from 1st April 2023 as well as the full 2022-23 charge for Gretton Court in the year.

5.1.6 Repairs & Maintenance £400k overspend:

Underspends arising from a vacant post have been offset by agency costs.

Asbestos surveying was below the levels budgeted and a carry forward approved under delegation of £46k for 2024-25.

At the beginning of 2023-24 there were some residual long-term, high value, void properties (void over six months). These were cleared in quarter 2 of 2023-24, instead of during 2022-23 as envisaged when the budget was set. This meant that more major void work was completed this year.

The continuing increased focus nationally of damp and mould cases led to a significant rise in reports from tenants. Stock condition surveys and repair logging ensured that we had an accurate picture of damp and mould in our stock at the time that the surveys were completed. However, mould can develop in properties for a number of reasons that could not have been predicted at the stock condition survey stage. This can include changes in weather, occupancy levels, leaks and other factors that could not have been foreseen.

Cases of disrepair claims have increased by 400% on the previous year resulting in higher spend against the annual budget in year, as well as higher compensation payments than expected.

An additional budget allowed for during the period when the gas maintenance contract was in-between contractors was not required and the reduced need for stock condition and feasibility works also meant a resulting underspend on those lines.

5.1.7 Income shortfall of £49k:

Of this shortfall £43k is attributable to dwelling rent as, noted above, the planned purchase of the 8 affordable homes did not occur as expected within the budgeted income amount.

There were a large number of write-offs completed in the year, but the reduction in arrears balances and the ages of these balances has meant a reduction in the provision for non-payment of arrears resulting in an underspend of £57k on this line.

Voids performance has improved, resulting in additional income on meals and property charges, following the IHMS review a number of tenants had that charge removed from November 2023 resulting in a shortfall of £18k.

5.1.8 Interest on balances:

The increased interest rates have contributed to an increased share of investment income to the HRA of £266k.

5.2 **Summary**

5.2.1 The actual contribution from reserves against the budgeted contribution reflects the over and underspends noted above and, as approved in February 2023 the HRA working balance increased to £1m. This has resulted in an increased need to draw on the reserves by £2,115 in line with the overspend. When the £203k of carry forwards is taken into account this results in an increased draw on the reserves of £205k.

5.2.2 There have been no significant changes to the accounting requirements of the HRA accounts in 2023-24.

5.3 **Capital Provisional Year End Position**

5.3.1 In relation to the HRA capital programme against the budget of £5,763k, the provisional outturn is £3,647k resulting in an underspend of £2,116k, of which £1,726k is to be carried forward into 2024-25.

5.3.2 £1,110k of the underspend relates to the 8 affordable houses at Great Dalby. Excluding this, the underspend is £1,006k of a £4,045k budget, or 25%.

5.3.3 Appendix 2 provides an overview of the main variances, those with carry-forward requirements are included in the table below:

Project	Budget £'000	Underspend £'000	Amount To Carry Forward To 24-25	Reason
Lifeline - Analogue To Digital	18	-18	18	This budget is required to fund a larger lifeline project for the purchase of digital Lifeline units to replace analogue units due to a national digital switchover in 2025. Now that the IHMS review is complete this project can now start.
Aids & Adaptations	350	-127	128	There have been delays due to changes to the contract requirements created during the planning application process.
Install Central Heating	52	-23	23	Works were expected to be completed in year, but delays have resulted in the need for the carry forward.
Replace Exterior Doors & Windows	379	-17	17	Small underspend equating to 2-3 properties to be carried forward

Project	Budget £'000	Underspend £'000	Amount To Carry Forward To 24-25	Reason
Fire Safety Works	360	-168	168	Majority of this 4 year programme is complete but require the underspend to carry forward into the final year.
Affordable Housing (Use Of Right To Buy Monies)	1,718	-1,110	1,110	The purchase of Marquis Gardens has been delayed due to issues with the developer and their section agreements. It is anticipated that these properties will be purchased in 24/25.
Gretton Court	478	-221	221	Due to the nature of the tenants on site, progress with installs has not completed so remainder will complete once void.
Boiler Replacements	223	-41	41	New contractor and access issues have caused delays

5.4 **Balances**

5.4.1 The updated actual and estimated reserves position following the final amount of carry forwards at the end of each financial year is noted below:

HRA Year End Balances:	2023-24 Provisional Actual £'000	2024-25 Estimate £'000	2025-26 Estimate £'000	2026-27 Estimate £'000	2027-28 Estimate £'000
HRA Working Balance	1,000	1,000	1,000	1,000	1,000
Major Repairs Reserve	3,509	3,017	793	0	607
Regeneration & Development Reserve	2,601	1,109	1,262	1,500	1,220
Capital Receipts Reserve	2,285	683	445	203	87
Total HRA Balances	**9,395**	**5,809**	**3,500**	**2,703**	**2,914**

5.5 **In-year Movement on Balances**

The table below shows how the overspend noted above directly affect the reserves in year compared to the originally budgeted balances and the estimates for 2024-25.

	Major Repairs Reserve	Regeneration & Development Reserve	Capital Receipts Reserve
	£'000	£'000	£'000
Budgeted Balance at 31.3.24	**3,432**	**3,044**	**2,158**
Carry Forward from 2022-23			
Capital	-70	-1,049	-1,163
Revenue	0	-76	0
Under/Over(-) spend			
Capital	147	684	1,047
Revenue	0	-2	0
Change in receipts	0	0	243
Provisional Balance at 31.3.24	**3,509**	**2,601**	**2,285**
Carry forward to 2024-25			
Capital	-81	-684	-961
Revenue	0	-203	0
Budgeted Movement 2024-25			
Capital	-2,169	-808	-827
Revenue	1,758	203	0
Other Receipts	0	0	186
Estimated Balance at 31.3.25	**3,017**	**1,109**	**683**

5.6 **30 Year Business Plan**

5.6.1 2022-23 was the first year of the updated 30 year HRA business plan. The balances noted above have been incorporated into the 30 Year plan with the following resulting indicators:

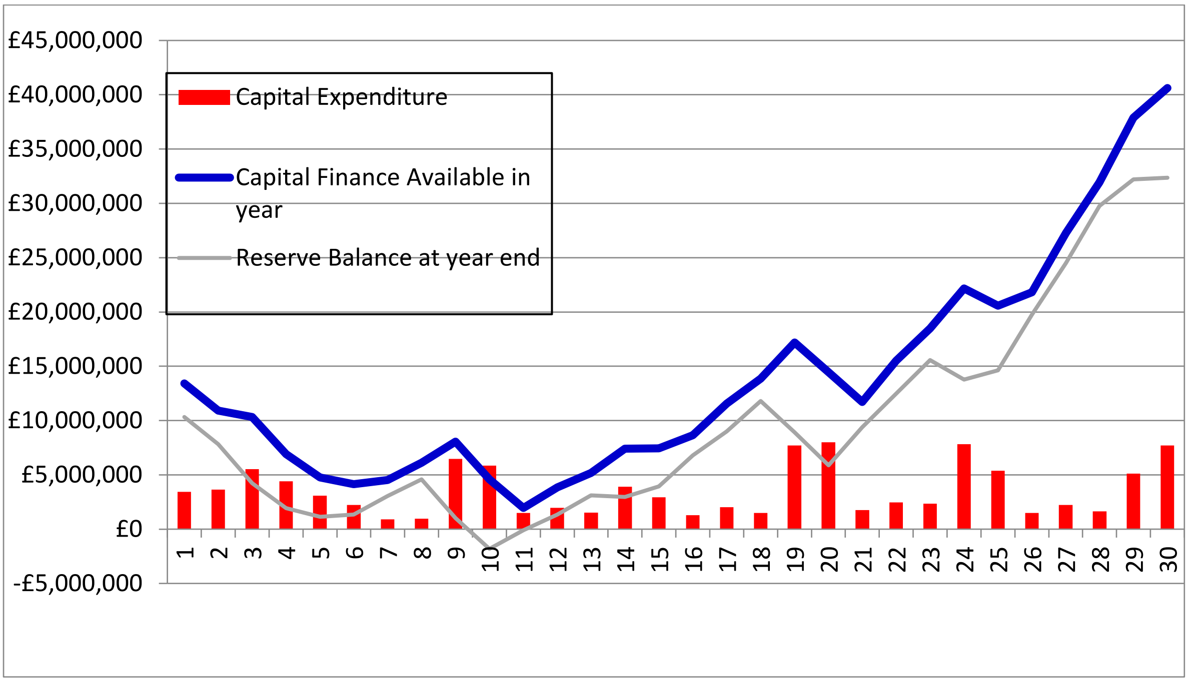
	2023-24 Provisional Actual	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate
Interest Cover	Not covered	1.0	1.14	1.31	1.48
Margin	-3.22%	8.70%	13.38%	14.54%	15.91%

Interest cover as an indicator shows how many times in the year that the annual net interest payable on borrowing is covered by the Net cost of services total, the ideal cover nationally being 1.10–1.25. In 2023-24 the account was unable to service its debt from its annual resource, and reserves were required to make this payment in full. If the council wishes to utilise borrowing to develop further housing then this indicator needs to improve, as the business plan does appear to show going forward with current budgeted spend.

Margin shows the percentage amount of income above revenue expenditure at Net cost of service total level. Nationally this averages around 22%. The margin in 2023-24 equates to an operating deficit per property of £158.40.

5.6.2 These indicators demonstrate that borrowing to fund capital expenditure either for delivery of new housing or support maintenance of the existing housing stock is currently unaffordable. Therefore, until there is an improvement in the net cost of service delivery through either increased income or reduced expenditure, the opportunity that borrowing provides is not possible.

5.6.3 Based on the current Asset Management Plan and on-going revenue requirements the 30 year plan does retain an average £1.07m annual headroom in reserves, however this is more evidently available in the later years of the plan as illustrated in the following table (year 1 was 2022-23):



As previously described the HRA must avoid a deficit and therefore spending in years which show this possibility will require re-profiling to ensure that a surplus is maintained as required by The Local Government and Housing Act 1989.

5.7 **Future action plan**

5.7.1 Actions to address revenue expenditure levels:

5.7.2 Much of the revenue account overspend relates to increased pressure or new requirements that were not apparent at the point of budget setting.

5.7.3 The annual review of the HRA Asset Management Plan includes a review of all revenue budgets. This review looks at spend in previous years and considers any new requirements that had not been accounted for previously. By doing this, budgets can be set as accurately as possible at that point. The 30 year financial plan is also updated.

5.7.4 Key budgets for 2024-25 have already been increased to account for the higher spend we have seen in 2023-24.

5.7.5 Actions to address capital underspends:

5.7.6 The HRA Asset Management Plan includes an action plan which highlights when contracts are due for renewal so that procurement can start in advance, allowing an earlier start on site.

5.7.7 Carry forwards have only been requested for work which has already been committed in 2024. The majority of that work is already complete and paid for.

5.7.8 Actions to address income levels:

5.7.9 The sharp focus on rental income and the dedicated resources and refined approach will continue to see the rent collection figure improving.

5.8 Likewise, the commitment to let more properties will also deliver income and reduce the costs related with void properties such as council tax and standing charges obligations.

6 Options Considered

6.1 No other options considered as if the report was not provided councillors would not be aware of ongoing developments and therefore would not be able to represent their residents effectively. It is also important that Cabinet are aware of the financial position of the Council so they can make informed decisions that are affordable and financially sustainable for the Council.

7 Consultation

7.1 The statement of accounts (subject to audit) which includes the HRA revenue out-turn position was advertised from 1 June to 12 July 2024 as available for public inspection on the website and the auditors available to answer questions.

8 Next Steps – Implementation and Communication

8.1 The provisional out-turn as part of the draft statement of accounts will be considered by Audit and Standards at a future Committee once External Audit have completed their 2023-24 audit work.

8.2 External Audit will be undertaking their independent assessment of the council's financial statement position and accounts production as part of the statutory duties through the audit process. Grant Thornton, as the Councils new Auditors for 2023-24 have indicated they will be undertaking their review later in the year during the Autumn.

9 Financial Implications

9.1 The planned spend over the next four years leaves the level of revenue reserves above the working balance low at £1,914k by 2028. Future overspends are therefore not sustainable. It is recognised that the reserves start to increase briefly after 2029 but it is important that spend is brought into line with budgets set. The Senior Leadership Team will be working to identify actions that can be taken to ensure where there are unavoidable overspends on repairs and income shortfalls savings can be identified to offset these in year by reducing more discretionary spend.

Financial Implications reviewed by: Assistant Director for Resources

10 Legal and Governance Implications

10.1 The HRA is regulated by the Local Government and Housing Act 1989 which introduced a separate ring-fenced accounting process. The 1989 Act imposes a strict structure within which the HRA must operate, specifies the nature of sums which may be credited and debited to it, and provides rules as to its operation.

10.2 There are no direct legal implications associated with this report however, the substantive content reflects the requirements of the 1989 Act.

Legal Implications reviewed by: Monitoring Officer.

11 Equality and Safeguarding Implications

11.1 Equalities and Safeguarding issues were addressed in setting the current year's budget. There are no further equalities issues arising from this report.

12 Data Protection Implications (Mandatory)

A Data Protection Impact Assessments (DPIA) has not been completed as there are no risks to the rights and freedoms of natural persons as a result of this report.

13 Community Safety Implications

13.1 Community safety issues were addressed in setting the current year's budget. There are no further community safety issues arising from this report.

14 Environmental and Climate Change Implications

14.1 There are no direct implications arising.

15 Other Implications (where significant)

15.1 No other implications have been identified.

16 Risk & Mitigation

16.1 The HRA is a high-risk service account that the Council has a duty under the Local Government and Housing Act 1989 to ensure that it avoids being in a deficit situation. This requires that effective budget monitoring procedures are set in place to monitor HRA expenditure and income against the budget and careful consideration is given to determining the level of the working balance.

Risk No	Risk Description	Likelihood	Impact	Risk
1	Repairs continue to overspend against budget in future years, following low spend in previous years. It important to note here that we have no choice but to carry out statutory repairs, but as we increase the spend on planned maintenance, this will reduce over time	High	Critical	High Risk
2	Economic climate and welfare reform changes continue to cause hardship on tenants causing higher levels of rent arrears and reduced collection performance, coupled with the accessibility debt relief orders etc. which infringe our ability to collect revenue	High	Critical	High Risk
3	Increasing right to buy sales over those budgeted for cause reductions to rent income streams. This can be in part off set by the acquisition of new homes	High	Marginal	Medium Risk
4	Ability to fully cleanse historic repairs commitments from Northgate Housing System. These commitment records are no longer commitments as they were paid on another system and so misrepresent spend on financial reports.	Significant	Critical	Medium Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High		3	1, 2	
	4 Significant			4	
	3 Low				
	2 Very Low				
	1 Almost impossible				

Risk No	Mitigation
1	The HRA Asset Management Plan aims to focus spend on planned investment in key areas of high spend on revenue repairs. For example, targeted and planned investment to address damp and mould in properties will reduce the strain on the revenue repair budgets.
2	A sharp focus on income recovery, and implementing the income strategy, plus dedicated resources will significantly improve performance. It is important to note that there was no dedicated resource managing income for over two years, and whilst good results can be achieved with relatively new debts, the high level of older debts which the HRA holds will prove challenging.
3	The commitment to reduce void times, and allocate properties which have been void for a considerable time, will increase revenue, and as we implement the new voids procedure, an overall reduction in the amount of time properties are void, and conversely rent lost, will reduce,
4	Significant progress has been made to reduce the historic commitments. This work will continue with the aim to remove all historic commitments by Q2 of 2023-24. The finance system will be integrated with the repairs system to eliminate the risk of double commitments.

17 Background Papers

17.1 None

18 Appendices

18.1 Appendix 1 – HRA Provisional Year End Position

Appendix 2 – HRA Capital Provisional Year End Position