

**REPORT TO: CABINET**

**DATE: 1 DECEMBER 2022**

**TITLE: HOUSING REVENUE ACCOUNT, QUARTER 2  
FINANCE AND PERFORMANCE REPORT 2022/23**

**PORTFOLIO HOLDERS: COUNCILLOR JAMES LEPPARD, PORTFOLIO  
HOLDER FOR FINANCE**

**COUNCILLOR DAN SWORDS, DEPUTY LEADER AND  
PORTFOLIO HOLDER FOR REGENERATION**

**LEAD OFFICERS: SIMON FREEMAN, DEPUTY CHIEF EXECUTIVE AND  
DIRECTOR OF FINANCE (01279) 446228**

**ANDREW MURRAY, DIRECTOR OF HOUSING  
(01279) 446676**

**SENIOR MANAGEMENT BOARD**

**This is not a Key Decision**

**It is on the Forward Plan as Decision Number I013858**

**The decision is not subject to Call-in Procedures for the following reason:**

The recommendations are within the scope of the budget approved by Full Council in January 2022.

**This decision will affect no ward specifically.**

**RECOMMENDED that Cabinet:**

- A** Notes the Quarter 2 - HRA Budget and performance Monitoring report as set out in the following paragraphs and in Appendix 1 to the report.
- B** Notes that the forecast HRA general working balance as at 31 March 2023 will be £9.438 million.

**REASON FOR THE DECISION**

- A** The report compares the original budget with actual income and expenditure as at 30 September 2022 and following consultation with budget managers forecasts the projected outturn at year end This comparison identifies operational variations and this report provides explanations for the variances.

## **BACKGROUND**

1. In January 2022 Cabinet approved the 2022/23 HRA Budget together with the capital programme, and HRA Business Plan. This budget was prepared following consultation with budget managers and in conjunction with the medium-term financial strategy.
2. Local Authority Housing has its own ring- fenced Housing Revenue Account (HRA). This operates as a “business” of its own, separate to the Council’s other accounting operations. The HRA takes its income from rents and service charges spending resources exclusively on building and maintaining its housing, providing services to tenants and leaseholders. Meetings its statutory/regulatory requirements, performs well in its landlord’s duties (e.g. rent collection, repairs, blocks and empty property management) ensuring the customer experience is well regarded, has housing that is safe and well maintained. Listening to tenants and leaseholders, providing housing related support where required. The Business Plan is due to be updated in January 2023.
3. The HRA Business Plan delivery plan has various work streams that has been aligned to the wider Corporate Plan Strategy ambitions. As of 30 September 2022 “milestones” are on target with none being reported significantly off track, cancelled or suspended.

## **ISSUES/PROPOSALS**

4. As is the case with the Council’s General Fund budget planning, the HRA is required to seek to secure savings or introduce new ways of working to ensure it can deliver a sustainable budget whilst providing support for priority services where possible.
5. Set out in Appendix 1 to the report is the Quarter 2 HRA budget monitoring report which summarises all the significant variations between the current budget and the projected outturn. The variations amount to £14k(-) net underspend.

### **Expenditure – Operational**

#### **General Management (Predicted Underspend of £1.429m)**

6. A review of the establishment has been completed together with progress on the recruitment plan itself, which is demonstrating ongoing challenges, nationally and locally. It is anticipated the salary budget forward forecast therefore will underspend by £139k.
7. Pension Fund deficit £1.323m(-). Following receipt of information from Essex County Council, no pension fund deficit is now expected in 2022-23 and therefore this will underspend by £1.323m.
8. Insurance Premiums £124k. Increased premiums following confirmation of 22-23 increase in the cost of premiums.

9. Legal costs £69k. Increased external legal support costs due to increased number of disrepair claims.
10. Moving expenses / Tenants Removal Expenses £118k (-). Reduced costs due to lower demand forecasted.
11. Redecoration Allowances £27k(-). Reduced number of allowances due to lower demand forecasted.
12. Other Minor Variations £13k(-). Other minor variances totalling £13k

### **Special Management (Predicted Underspend of £425k)**

13. Lower than anticipated use of temporary accommodation and use of grant, it is anticipated to underspend by £415k.
14. Other minor variances £10k(-)

### **Repairs and Maintenance (Predicted Underspend of £11k)**

15. HTS (Property and Environment) Ltd undertake housing and environmental maintenance previously carried out by Kier Harlow Ltd. Comparison of “work in progress” (WIP) for responsive repairs and planned works to September 2022 illustrates an ongoing increase in the repairs backlog due to resource capacity and programming.
16. HTS (Property and Environment) Ltd continues to prioritise, within existing resources through the performance management processes with service improvement reporting, and report weekly for further financial implications to be identified.
17. In addition, there are a number of favourable forecast variations totalling £41k including cyclical maintenance, water hygiene contract and other minor reductions due to efficiencies in project management.
18. The increase in formal Housing Disrepair Cases required to be settled. Adverse variance of £30,000.

### **Rent, Rates, Taxes & Other Charges (Predicted Overspend of £50k)**

19. There is a predicted £50k variance above forecasted amounts for empty home costs which include security and council tax.

### **Expenditure – Non-Operational**

#### **Impairment Allowance - Provision for Bad Debts (Predicted Underspend £140k)**

20. Collection rates for rents and service charges have slightly reduced from last year's performance, and from Quarter 1. In Quarter 2 of 2022/23, 97.61 per cent

have been collected, 0.39 per cent below the target set. The latest data for quarter 2 also shows, however, the total cases in arrears increasing by 29.64 per cent from quarter 1 with a 19 per cent increase in serious arrears cases over £1,000 and 17 per cent increase in cases over £2,000 compared to 2021/22.

21. It should be noted however that a significant factor in the number of cases is the fact that unlike in 2021/22, this year the direct debit payments taken on 1 October were not included in the week 26 figures, as the first of the month fell on a Saturday. These payments were subsequently applied to accounts the following week. By comparison week 27 figures show a 3.34 per cent increase in the total cases in arrears from quarter 1.
22. Following Government restrictions being lifted, as highlighted in quarter 1, there was still a backlog in Court cases, which meant that substantive hearings were taking up to nine months to be listed in Court. These timescales have been significantly reduced due to measures being put in place by the Court, and as at the end of September cases were taking on average 12 weeks to be heard at Court. This is particularly important in allowing cases of persistent non-payment and high arrears to be addressed by the Court at an earlier stage.
23. Historic former tenants' arrears have reduced due to write-offs in 2022/23. The current budget provision for bad debts is suggested to reduce and keep under review.

#### **Major Repairs Reserve Contribution (Predicted Overspend £315k)**

24. The 2021/22 outturn showed a £291k overspend on this budget heading, therefore on this basis it is considered prudent to support the Housing Capital Programme if required and assume £315k forecasted adverse variance for this year.

#### **Capital Financing Charges (Predicted Underspend £168k)**

25. Due to the requirement to reprofile the Housing Capital Programme at quarter 2, the amount of capital financing charges required is forecasted to be £168k less than the amount budgeted for in the 2022/23 budget.

#### **Income - Operational**

##### **Dwelling Rents and Void Properties (Predicted Shortfall of £173k)**

26. The turnaround time from a property becoming empty to it being re-let also continues to maintain at post pandemic levels at 28 days, which is higher than business plan assumptions. It has, however, improved compared to its highest level of 56 days. This means more properties available to let in tackling the local housing needs with properties being fast tracked where possible ensuring that those in the greatest need are able to be accommodated. There is, however, still an increase in properties requiring major works as well as the number of applicants refusing properties, such as size of rooms and property suitability.

Works continues to be ongoing to reduce void figures and reduce turnaround times.

27. The adverse variance reflects an increase of void loss to be 1.3 per cent at the end of March 2023, due to original business plan assumptions being over-stated. When aligned to updated HRA Business Plan assumptions of 1.37 per cent. Adverse variance £173,000.

### **Tenants and Leaseholders Service Charges (Predicted Reduction in Income of £1.293m)**

28. The Accounting treatment of Leaseholders' contributions to major works has been reviewed and changed to allow for ongoing years profiling as well as shown as a direct contribution towards the cost of the corresponding works in the core housing external works capital programme. This adverse variation will be offset by an equivalent reduction in Direct Revenue Financing to support the ongoing working balance position.

### **Transfers from the General Fund (Predicted Increased Income of £255k)**

29. The HTS Group Ltd Business Plan was approved in March 2022. As part of the plan, it was requested for HTS an efficiency reduction in the Annual Service Charges. The £255,000 represents the ongoing efficiency reduction which was not included in the original budget. This is currently being jointly reviewed to explore whether further efficiencies can be realised.

## **Income – Non-Operational**

### **Interest on Revenue Balances (Predicted Increase of £23k)**

30. Higher than expected reserves and balances within the HRA will lead to an increase in interest due.

### **Direct Revenue Financing (NET Predicted Increase in Requirement of £606k million)**

31. Leaseholder Major Works Income forecast which spread over usually more than one year will now be shown as a "capital contribution" towards the cost of the capital works. This representation results in the current annual forecast of - £1.293 million to be recast aligned to current HRA Business Plan assumptions with a corresponding reduction in the amount of Direct Revenue Financing required for this particular item. This represents the two funding sources more appropriately with the business plan going forward.
32. The recent recasting of the 30-Year HRA Business Plan shows that, in order to finance the HRA Capital Programme, £5.432 million of Direct Revenue Financing would be required. This represents an increase of £606k when compared to the amount allowed for in the 2022/23 budget and prevents the necessity to borrow to support the HRA Capital Programme this year to support priority areas.

**Table 1 – HRA Projected Working Balance at 31 March 2023**

	<b>£'000</b>
Actual balance in hand 1 April 2022 (pre-Audit)	12,372
Current estimate deficit	-2,948
Operational variances	604
Non-Operational variances	-590
Projected Working Balance at 31 March 2022	9,438

Table 1 above shows the projected working balance for 2022/23.

### **SIGNIFICANT RISKS/OPPORTUNITIES**

33. The HRA Business Plan assumes a continued contribution from revenue to support the Housing Capital Programme (RCCO). Works Contractors, including HTS (Property and Environment) Ltd, are continuing to report ongoing impacts on delivery of the approved works programmes in the short and medium term due to industry capacity issues, lack of supplies, and specialist resources. This will be kept under review, together with the Major Works income assumptions which will need to be realigned to current HRA Business Plan forecasts.
34. New Government regulations on Building Safety was introduced in the first quarter of 2022/23. This has increased the “regulatory”, responsibilities and associated costs on works in maintaining its assets to the new required standards following the ongoing Public Enquiry established from the tragic fire in Grenfell London in 2017. These regulations continue to be enhanced and aligned to current Asset Management Plans to identify next steps in terms of priorities and funding. The Housing White Paper is expected to be implemented in 2023/24.
35. Included in the 30-year HRA Business Plan, is an assumption there will at any one time 1.37 per cent of the total housing stock void. Were the voids to increase from forecasted figures this will have a further financial implication on the HRA Business Plan.
36. The backlog of outstanding response repairs contained within the Annual Service Charge (ASC) continues to pose significant risk.

### **IMPLICATIONS**

#### **Strategic Growth and Regeneration**

None specific.

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**Finance**

As contained in the body of the report.

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**Housing**

As contained in the body of the report.

**Author: Andrew Murray, Director of Housing**

**Communities and Environment**

None specific.

**Author: Jane Greer, Director of Communities and Environment**

**Governance and Corporate Services**

None specific.

**Author: Simon Hill, Director of Governance and Corporate Services**

**Appendices**

Appendix 1 – Housing Revenue Account 2022-23 - Quarter 2 Budget Monitoring Summary

**Glossary of terms/abbreviations used**

HRA – Housing Revenue Account