

Agenda Item	5.
Report No	HP/12/23

HIGHLAND COUNCIL

Committee: Housing and Property Committee

Date: 10 August 2023

Report Title: Housing Revenue Account (HRA) and Non-HRA Budget:
Final Outturn 2022/23 and Monitoring Statement to 30 June 2023

Report By: Executive Chief Officer Housing and Property

1 Purpose/Executive Summary

1.1 This report provides the year end outturn figures for the Housing Revenue Account and non-Housing Revenue Account revenue budgets for 2022/2023 and the monitoring statement for Q1 of 2023/2024.

2 Recommendations

2.1 Members are asked to:

- (i) **NOTE** the final outturn figures for the Housing Revenue Account and non-Housing Revenue Account 2022/2023,
- (ii) **APPROVE** the drawdown of £3.965m from the Housing Revenue Account reserves to ensure a balanced budget for 2022/2023,
- (iii) **NOTE** the budget position on the Housing Revenue Account and non-Housing Revenue Account 2023/2024 for the period to 30 June 2023.

3 Implications

3.1 **Resource** – The report requests the use of Housing Revenue Account balances to address the overspend on the HRA budget for 2022/2023.

3.2 **Legal** – There is a legal requirement to ensure that the Housing Revenue Account has a balanced budget at year-end.

3.3 **Community (Equality, Poverty, Rural & Islands)** - There are no implications arising as a direct result of this report.

3.4 **Climate Change / Carbon Clever, Gaelic** – There are no implications arising as a direct result of this report.

- 3.5 **Risk** - There are no implications arising as a direct result of this report.
- 3.6 **Health and Safety** - There are no implications arising as a direct result of this report.
- 3.7 **Gaelic** - There are no implications arising as a direct result of this report.

4 Background

- 4.1 There are two main elements of the Housing Revenue Budget included in this report.
1. The Housing Revenue Account (HRA) budget, which is used to account for income and expenditure associated with the Council's front-line housing services to Council house tenants and the costs associated with Council housing and related assets.
 2. In addition, there is a Non-Housing Revenue Account (Non-HRA) budget, which is part of the Council's overall General Fund, and relates to housing services that are not directly provided to Council tenants but fall within the remit of the Housing Service.

5 Housing Revenue Account

- 5.1 The main elements of the Housing Revenue Account budget are outlined below.
- 5.2 Supervision and Management
This budget covers the staffing and other running costs for the management and repair of Council housing. The budget includes bad debt provision against rent income.
- 5.3 Tenant Participation and Sheltered Housing
These form part of the overall category of Supervision and Management costs but are reported as separate lines on the monitoring statement to provide Members and tenants with information on the separate costs of these service areas. These budgets cover the staff and running costs of the services, including the costs of support to tenant groups and tenant and customer engagement activities.
- 5.4 Homelessness
Some Council housing is used as temporary accommodation to meet our statutory homelessness functions. This budget covers the management costs associated with this accommodation. In line with an existing Council commitment and with revised national guidance on temporary accommodation standards we have been increasing the use of our own housing stock as temporary accommodation.
- 5.5 Repairs and Maintenance
This budget covers the cost of carrying out revenue funded day to day repairs and planned maintenance to Council houses, including repairs to empty houses and revenue funded environmental improvements. This includes the costs of the Council's in-house Building Maintenance teams.

5.6 House Rent Voids

At any time, the Council will have some properties empty as part of its normal letting operations and will therefore have no rent income for those properties. The budget for house rent voids is based on actual rents for vacant council houses.

5.7 Other Rent Void Loss

This budget covers rent loss on other HRA properties, mainly garages and garage sites and houses used for temporary accommodation.

5.8 Central Administration

This budget covers the costs of corporate charges to the HRA for legal, financial, IT and other corporate services in relation to the Council's landlord role.

5.9 Loan Charges

This budget covers the revenue costs of repaying debt held on the Housing Revenue Account. Borrowing takes place to fund capital investment in improvements to Council housing and other assets held on the Housing Revenue Account, as well as to fund the Council house building programme.

5.10 Income

Revenue expenditure on managing and maintaining the Council's housing stock needs be met from income. Housing Revenue Account income is generated mainly from Council house rents. Income is also received through other sources, mainly: garage and garage site rentals, service charges, rechargeable services.

5.11 As indicated at paragraph 6.17 of this report, the annual Revenue Estimates will be submitted to this Committee ahead of the 2024/25 financial year. It is essential that the rent charged for 2024/25 is set at a level which ensures sufficient budget to deliver key housing services, while keeping rents as affordable as possible for our tenants.

6 Housing Revenue Account – Outturn 2022/23

6.1 The outturn position for 2022/2023 is attached as **Appendix 1** and shows that the HRA revenue budget was overspent by £3.965m in 2022/2023. A forecasted overspend had been reported in the quarterly revenue monitoring reports to The Housing and Property Committee leading up to the 2022/23 year-end, for the reasons set out below.

6.2 Repairs and maintenance

The main reason for the overspend is the increased repairs and maintenance costs. During 2022/2023 there was an overspend in repairs and maintenance of £5.403m. This reflects significant additional costs of materials post-pandemic and significant additional costs incurred through a reliance on more expensive external contractors where no in-house Building Maintenance resource was available.

6.3 In line with experience nationally, significant additional costs were also incurred in relation to transport/fuel costs and utility costs.

6.4 Committee on 17 November 2022 agreed to suspend non-essential housing repairs in order to mitigate the projected overspend in 2022/2023. This included non-essential repairs largely associated with the external fabric of properties and environmental improvement works. This included repairs to fencing, gates, garages, and pathways.

- 6.5 The financial impact of delaying these repairs has been minimal as a result of the reasons explained above at section 6.2.
- 6.6 More intensive cost controls are required to minimise repair spend in 2023/2024. These have been implemented from June 2023 and involve the following:
- Cyclical work has been reviewed to prioritise statutory works such as electrical inspections ahead of cyclical painting, gutter-cleaning and air source heat pump servicing.
 - Non-emergency works are only to be allocated to external contractors where in-house resources are unable to do the works within a reasonable time frame.
 - Re-letting works have been reviewed to ensure that they comply with the re-let requirements of Highland's Empty Homes Standard, rather than carrying out more extensive void works.
- 6.7 There will be ongoing discussion with tenants in regard to the impact of the above on service delivery. Feedback from tenants to date has largely been supportive. Most are realistic about how much works currently cost and how this needs to be viewed within the context of maintaining rent levels at an affordable level during the Cost of Living Crisis.
- 6.8 The issue will be the primary focus of the annual rent consultation later in 2023 and also the comprehensive tenant satisfaction survey scheduled in 2023/2024.
- 6.9 Repairs performance is included in the Housing Performance Report to this Committee. Performance in 2022/2023 was positive in comparison with national benchmarking performance. There is consequently scope to reduce costs in non-emergency and re-let works in 2023/2024, whilst still performing well in terms of national benchmarking.
- 6.10 It should be noted that the Housing Service remains committed to the principle of a revised trades contractor framework as approved previously by the Council's Redesign Board. Discussion will be scheduled with Members later in 2023 as to the scope of the framework and how works will be allocated to external contractors to achieve the right balance of best value and customer service.
- 6.11 **Other Costs**
During 2022/2023 staff and other direct costs were lower than budgeted across the supervision and management, sheltered housing and tenant participation functions of the Service. This underspend is largely attributable to the long-term effect of Covid-19 on recruitment, in particular with challenges recruiting to some trades posts in 2022/23.
- 6.12 **HRA Reserves**
The Council has Housing Revenue Account Reserves of **£7.874m**. These are made up of revenue surpluses generated in previous years. Reserves need to be used to offset any annual overspends on the Housing Revenue Account. Recent movement on Reserves is set out in the table below.

Movement on HRA Reserves	£'000
Reserves at 1 April 2020	7.328
2020/2021 surplus added to reserves (based on repairs not able to be completed during Covid-19)	+4,474
Reserves at 31 March 2021	11.802
Drawdown to fund additional repairs expenditure from Covid-19 backlog	-2.755
Drawdown to fund additional costs to meet Covid-19 safe working requirements	-1.173
Reserves at 1 April 2022	7.874

- 6.13 The table confirms previous Committee decisions to:
- Add the surplus in 2020/21 to Reserves (the surplus was primarily a result of Covid-19 limitations on carrying out repair works);
 - Drawdown of Reserves in 2021/22 to fund additional repairs work (the Covid-19 backlog of repairs); and
 - Drawdown of Reserves in 2021/22 to fund additional costs to meet Covid-19 safe working requirements.
- 6.14 As indicated at sections 6.1 and 6.2 above, the overspend on repairs and maintenance in 2022/2023 has resulted in an overspend of £3.965m on the Housing Revenue Account 2022/2023.
- 6.15 As HRA legislation dictates the requirement to maintain a balanced budget, it is recommended that £3.965m is drawn down from the HRA reserves of £7.874m.
- 6.16 Future reports to Committee will provide updates on spend during the current financial year and the impact on performance of spending controls.
- 6.17 The annual Housing Revenue Account Estimates for 2024/2025 will be submitted to Committee in early 2024. Significant analysis is required to ensure that an appropriate rent increase is applied for 2024/2025 to meet service delivery requirements while maintaining Highland's excellent record of keeping rents as affordable as possible for our tenants. As yet, there is no indication that the Scottish Government intend to implement a rent cap on social rents for 2024/25.
- 6.18 For a number of years, Highland has been in the lowest quartile of Council house rents across Scotland's local authorities, but this provides challenges in terms of delivering essential services during a sustained period of high inflation and increased costs. As referenced in section 6.8 of this report, every Council tenant will be invited to respond to the annual rent consultation which takes place later in 2023.

7 Non-Housing Revenue Account – Outturn 2022/23

- 7.1 The Non-Housing Revenue Account (Non-HRA) budget is part of the Council's overall General Fund and relates to housing services that are not directly provided to Council tenants but are also delivered by the Housing Service. This covers the costs of providing homelessness services and accommodation through external accommodation providers as well as housing support services. The Council's four Gypsy/Traveller sites are also funded through the Non-HRA. Income from rents on temporary accommodation and for gypsy/traveller site pitches partly offsets costs.

- 7.2 The outturn on the non-HRA budget was an underspend of £0.402m, mainly relating to reduced expenditure on non-HRA homelessness functions. The main factor was an underspend on housing support with shorter average support times for clients and also providers citing recruitment issues.
- 7.3 As part of the production of the annual accounts, spend from the Landbank and Evergreen affordable housing initiatives which are fully funded by their respective funds are shown against Housing & Property within the cost of services in the Comprehensive Income and Expenditure Account (CIES) and in the Expenditure and Funding Analysis (EFA).
- 7.4 In 2022/23 the total net expenditure in the CIES for Housing & Property was £90.592m. In the EFA this is split between the amount chargeable to the General Fund of £85.229m and statutory accounting adjustments of £5.363m.
- 7.5 Of the £85.229m chargeable to the General Fund, £73.317m is reported within the Property & FM Statement and £3.176m is reported within the HRA and non-HRA Statement. The remaining £8.736m relates to Evergreen and Landbank expenditure shown as part of the cost of services in the CIES.
- 8. Housing Revenue Account Monitoring Statement to 30 June 2023**
- 8.1 **Appendix 2** provides details of the Housing Revenue Account income and expenditure to 30 June 2023.
- 8.2 Expenditure to date is largely in line with budget with an anticipated year-end overspend of £0.088m. This relates mostly to the pressures on delivering repairs as highlighted above and the Service will continue to take steps to manage this downwards.
- 8.3 On the income side, income from rental income including from the new build programme is projected to be £0.051m less than budgeted.
- 8.3 Taking all these factors into account the Housing Revenue Account is currently projected to overspend by £0.139m. The action referred to at section 6.6 of this report will reduce this overspend and return a balanced budget by year end.
- 9 Non-Housing Revenue Account – Monitoring to 30 June 2023**
- 9.1 The Non-Housing Revenue Account budgets for 2023/24 are set out at **Appendix 2**. This reflects the General Fund savings approved at Council in March 2023 with reductions of £0.070m to the Homelessness budget and £0.070m to the Supporting People budget. Year to date expenditure on the Non-Housing Revenue Account is broadly in line with the budget with expenditure of £0.682m against a budget of £3.367m.
- 9.2 The estimated year-end outturn is currently anticipated at £0.003m under-budget.
- 9.3 The Non-Revenue Account also includes £8.3m of government grant funding for resettlement programmes. This has been received in advance of expenditure incurred and is ringfenced for resettlement activities.

Designation: Executive Chief Officer Housing and Property

Date: 14 July 2023

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Appendix 1

1 April 2022 to 31 March 2023	Financial Detail				Variance Breakdown		
	£000	£000	£000	£000	£000	£000	£000
BY ACTIVITY	Actual	Annual	Year End	Year End	staffing	other	Income
	YTD	Budget	Estimate	Variance	Variance	spend	Variance
						Variance	Variance
Housing Revenue Account							
Supervision and Management	8517	9,359	8517	(842)	(244)	(598)	
Tenant Participation	248	304	248	(56)	(54)	(2)	
Sheltered Housing	582	723	582	(141)	(70)	(71)	
Homelessness	1631	1,246	1631	385	(71)	456	
Repairs and Maintenance	24908	19,505	24908	5,403	(174)	5,577	
House Rent Voids	817	828	817	(11)		(11)	
Other Rent Voids	270	336	270	(66)		(66)	
Central Support	3946	4,246	3946	(300)		(299)	
Loan Charges	22651	23,441	22651	(790)		(790)	
Capital Funded from Current Revenue	0	0	0	0		0	
Gross Expenditure	63,570	59,988	63,570	3,582	(613)	4,195	0
House Rents	(55,886)	(56,093)	(55,886)	207			207
Other Rents	(2,980)	(3,497)	(2,980)	517			517
Other Income	(561)	(337)	(561)	(224)			(224)
Interest on Revenue Balances	(178)	(61)	(178)	(117)			(117)
Gross Income	(59,605)	(59,988)	(59,604)	384	0	0	383
HRA TOTAL	3,965	0	3,965	3,965	(613)	4,195	383

BY SUBJECTIVE							
Staff Costs	13,088	13,701	13,088	(613)			
Other Costs	50,482	46,287	50,482	4,195			
Gross Expenditure	63,570	59,988	63,570	3,582			
Grants	(503)	(187)	(503)	(316)			
Other Income	(59,102)	(59,801)	(59,102)	699			
Total Income	(59,605)	(59,988)	(59,605)	383			
	3,965	0	3,965	3,965			
Non-Housing Revenue Account							
Homelessness	2,299	2,028	2,299	271	(43)	151	163
Supporting People	833	1,544	833	(711)	0	(711)	0
Gypsy Traveller Sites	43	5	43	38	(16)	29	25
NON-HRA TOTAL	3,175	3,577	3,175	(402)	(59)	(531)	188
BY SUBJECTIVE							
Staff Costs	2,247	1,783	2,247	464			
Other Costs	5,561	5,390	5,561	171			
Gross Expenditure	7,808	7,173	7,808	635			
Grants	(1,355)	(171)	(1,355)	(1,184)			
Other Income	(3,278)	(3,425)	(3,278)	147			
Total Income	(4,633)	(3,596)	(4,633)	(1,037)			
	3,175	3,577	3,175	(402)			

BY SUBJECTIVE							
Staff Costs	3,049	14,997	12,560	(2,437)			
Other Costs	7,274	47,974	50,499	2,525			
Gross Expenditure	10,323	62,971	63,059	88			
Grants	(51)	(192)	(200)	(8)			
Other Income	(13,066)	(62,779)	(62,720)	59			
Total Income	(13,117)	(62,971)	(62,920)	51			
	(2,794)	0	139	139			
Non-Housing Revenue Account							
Homelessness	558	1,893	1,949	56	(71)	1	127
Supporting People	117	1,474	1,424	(50)	0	(50)	0
Gypsy Traveller Sites	7	0	(9)	(9)	(8)	3	(5)
Resettlement Funding	(8,130)	0	0	0	0	0	0
NON-HRA TOTAL	(7448)	3,367	3,364	(3)	(79)	(46)	122
BY SUBJECTIVE							
Staff Costs	423	1,348	1,269	(79)			
Other Costs	1,228	5,476	5,430	(46)			
Gross Expenditure	1,651	6,824	6,699	(125)			
Grants	(8,356)	(23)	(60)	(37)			
Other Income	(743)	(3,434)	(3,275)	159			
Total Income	(9,098)	(3,457)	(3,335)	122			
	(7,448)	3,367	3,364	(3)			