

<b>SUBJECT:</b>	<b>HOUSING FINANCE</b>
<b>REPORT BY:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>LEAD OFFICER:</b>	<b>COLLEEN WARREN, FINANCIAL SERVICES MANAGER</b>

## 1. Purpose of Report

- 1.1 To present to the Housing Scrutiny Sub Committee the Council's Housing out-turn position for 2022/23.

## 2. Summary

- 2.1 This report will provide members with the provisional summary of actual income and expenditure compared to revised budget for the HRA and HRS services and shows how any surpluses have been allocated to reserves.
- 2.2 The full out-turn report for the Authority will be presented to Executive in July 2023.

## 3. Housing Revenue Account

- 3.1 For 2022/23 the Council's Housing Revenue Account (HRA) net revenue budget was set at a £38,670 contribution to balances, resulting in an estimated level of general balances at the year-end of £1,063,872.
- 3.2 The financial performance quarterly monitoring report for the 3rd quarter predicted an underspend of £961. The provisional outturn for 2022/23 now indicates an improvement of £119,614, resulting in an overall budget underspend of £120,575 (including additional transfers to/from earmarked reserves). This would result in HRA balances as at 31<sup>st</sup> March 2023 of £1,184,447.
- 3.3 The out-turn summary is set out in the table below:

<b>HRA PROVISIONAL OUTTURN - 2022/23</b>				
		<b>Revised Budget £'000</b>	<b>Outturn £'000</b>	<b>Variance £'000</b>
Gross Rental Income	A	(30,571)	(30,494)	77
Charges for Services & Facilities	B	(510)	(544)	(34)
Contribution towards Expenditure	C	(50)	(20)	30
Repairs Account Income	D1	0	(74)	(74)
Supervision & Management – General	D2	(659)	(725)	(66)
Supervision & Management – Special	D3	(1)	(73)	(71)
Repairs & Maintenance	E	10,022	8,982	(1,039)

Supervision & Management - General	F1	6,837	7,163	326
Supervision & Management – Special	F2	1,533	1,613	79
Rents, Rates and Other Premises	G	486	621	135
Increase in Bad Debt Provisions	H	250	300	50
Insurance Claims Contingency	I	169	284	115
Contingencies	J	(29)	0	29
Depreciation	K	7,450	7,862	412
Impairments	L	0	0	0
Debt Management Expenses	M	15	9	(6)
HRS Trading Deficit/(Surplus)	N	0	222	222
<b>Net Cost of Service</b>	<b>O</b>	<b>(5,058)</b>	<b>(4,873)</b>	<b>186</b>
Loan Charges Interest	P	2,580	2,432	(148)
Investment/Mortgage Interest	Q	(66)	(614)	(547)
<b>Net Operating Inc/Exp</b>	<b>R</b>	<b>(2,544)</b>	<b>(3,054)</b>	<b>(510)</b>
Capital Accounting Adjustments	S	0	0	0
Major Repairs Reserve Adjustment	T	2,559	2,147	(412)
Transfers to/from reserves	U	(53)	748	801
<b>(Surplus)/Deficit in Year</b>	<b>V</b>	<b>(39)</b>	<b>(159)</b>	<b>(121)</b>
Pension Reserve	W	0	0	0
<b>Balances b/f @ 1st April 22</b>	<b>X</b>	<b>(1,025)</b>	<b>(1,025)</b>	<b>0</b>
(Increase)/Decrease in Balances	Y	(39)	(159)	(121)
<b>Balances c/f @ 31st March 23</b>	<b>Z</b>	<b>(1,064)</b>	<b>(1,184)</b>	<b>(121)</b>

There are a significant number of provisional year-end variations in income and expenditure against the approved budget, full details of the main variances are provided in Appendix B while the table below sets out the key variances:

<b>Housing Revenue Account</b>	<b>Forecast</b>
<b>Forecast year-end key variances:</b>	<b>£'000</b>
Additional transfers to Reserves (see para 4.6)	680
Increased depreciation following revaluation of HRA assets	412
Pay award settlement	212
Energy inflation increases	135
Insurance Claims	115
Housing IT Cloud License Fee	107
Less:	
Increased Investment Interest	(547)
Direct Revenue Financing Adjustment	(412)
Repairs and Maintenance – Painting and Pre-Painting	(641)
Repairs and Maintenance – Other underspends on repairs accounts	(282)
Reduction in Loan Charges	(148)
HRS Recharges:	
Housing Repairs Service Overall Deficit Repatriation	222

Repairs and Maintenance – Responsive Repairs	(537)
Repairs and Maintenance – Voids, Aids & Adapts & Cleansing work increase	274
Skip charges	143
Net Other Variances	147
<b>Overall forecast deficit/(surplus)</b>	<b>(120)</b>

Whilst the movement from Q3 to provisional outturn position is not significant, there have been a number of significant movements, which include:

	£'000
Additional Contribution to Earmarked Reserves (see para 3.6)	680
Insurance Claims	115
Reduction in HRS recharges, predominantly due to increase in capitalised works	(238)
Final outturn position in the HRS – repatriation reduction	(181)
Reduction in Repairs Account expenditure	(157)
Reduction in loan charges interest	(148)
Increase Rent & Service Charge income	(100)

#### 3.4 The main variances for HRA cover:

- Nationally agreed pay inflation – the pay offer, made by the National Employers for Local Government Services, was accepted by the Trade Unions in early November and saw a flat rate increase of £1,925 to all employees, equivalent to a 10.5% increase for the lowest paid members of staff and with the majority of officers receiving pay rises above 5%.
- HRA Repairs Account – repairs and maintenance costs, predominantly on Painting and Pre-painting, are significantly underspent as a result of delays in the procurement of a new contractor. In addition, the level of responsive repairs requested and recharged from the HRS has reduced (see section 4 for further details)
- Housing Repairs Services (HRS) – the service has reported a deficit, which is consequentially repatriated to the HRA, see section 5 for further details.
- Investment income – as a result of the rising Bank of England Base Rate, which has further increased to 4.25%, the level of interest earned on the HRA's cash balances has increased significantly. At present there has been limited consequent impact on the cost of borrowing all debt is at fixed rates and no new borrowing has been undertaken.

3.5 In line with the General Fund, many of the key variances are predominately driven by the rapidly escalating levels of inflation and the impact of external economic factors, which were unforeseen and far exceed the assumptions underpinning the MTFS. In addition, the HRA is experiencing a number of other variances due to demand pressures and current recruitment and retention challenges.

3.6 The provisional outturn of a £120,575 budget underspend includes four additional transfers to earmarked reserves, in addition to those transfers to/from earmarked

reserves already approved and budgeted for. These further contributions to/from earmarked reserves are set out below:

- Invest to Save Reserve - £240,000, to support future initiatives to deliver ongoing efficiencies.
- Strategic Priority Reserve - £240,000, to support future projects in support of Vision 2025 and the HRA Business Plan.
- HRA 30 Year Business Plan reserve - £100,000, to fund consultancy, additional software requirements and specialist advice.
- HRA IT Reserve - £100,000, to fund further costs in relation to the current replacement of the main housing IT system.

3.7 Following contributions to earmarked reserves the underspend of £120,575 would result in HRA general balance of £1,184,447 as at 31<sup>st</sup> March 2023, remaining within prudent levels.

3.8 The level of each of the current earmarked reserves, as at 31<sup>st</sup> March 2023 is attached at Appendix D. The appendix takes account of the contributions to earmarked reserves agreed as part of the revised budget and the drawdown of funding to cover expenditure and the additional transfers set out in para. 3.6 above.

#### 4. Housing Repairs Service

4.1 For 2022/23 the Council's Housing Repairs Service (HRS) net revenue budget was set at zero, reflecting its full cost recovery nature.

4.2 The outturn for 2022/23 shows a trading deficit of £221,845, a movement of £198,439. The movement is as a result of the delay in billing of void jobs as highlighted at Quarter 3, which made forecasting the outturn position difficult.

4.3 The net trading deficit of £221,845 is the result of several year-end variations in income and expenditure against the approved budget. The main over and underspends included within the provisional outturn are detailed in Appendix F, while the key variances are summarised below:

<b>Housing Repairs Service Forecast year-end key variances:</b>	<b>Forecast £'000</b>
Increased use of sub-contractors and increases in sub-contractor prices	1,417
Pay award settlement	110
Skip & equipment hire	103
Less:	
Reduction in material costs due to less jobs being carried out by HRS operatives	(326)
Staff vacancies due to recruitment and retention challenges	(277)
Overachieved income due to high level of voids works	(855)
Net other variances	50
<b>Overall forecast deficit/(surplus)</b>	<b>222</b>

- 4.4 The main contributory factor to the deficit is the ongoing recruitment and retention challenges, which is being felt not just by the council but across the construction industry as a whole. This inability to attract and retain staff results in a greater reliance on the use of sub-contractors to ensure that service demands are met. The cost of using subcontractors is however more expensive than the HRS's own workforce, due to the ongoing impact of Covid19, the current inflationary crisis and a reduced pool of contractors from which to secure services. These additional costs are therefore not fully offset by the vacancy and material savings achieved by not carrying out the work internally. These increased costs are further compounded by increased demands resulting from the higher level of voids currently being experienced, although this is partially offset by a reduction in responsive repairs works being requested.
- 4.5 As the increased subcontractor costs are not reflected in the service hourly rate and overhead recovery is not recouped on sub-contractors this results in an under recovery of full costs from the HRA. Despite this, the overall level of rechargeable income is overachieved due to the volume of voids works being undertaken (of both a capital and revenue nature), albeit at a higher cost, compensating for a reduction in responsive repairs works.
- 4.6 The forecast deficit also includes the impact of the nationally agreed pay award implemented in December, which was significantly over and above the assumptions included within the MTFS, and the impact of increased inflation on utilities as a result of the escalating cost of gas and electricity supplies as outlined in both the General Fund and HRA variances.
- 4.7 The deficit of £221,845 has been recharged to the HRA, which is the major service user. This is reflected in the HRA outturn within this report.

## **5. Resource Implications**

- 5.1 The financial implications are contained within the report.
- 5.2 There are no legal implications arising from this report.

## **6. Recommendations**

- 6.1 That Housing Sub Committee note the provisional out-turn position for HRA and HRS for 2022/23.

**Is this a key decision?** No

**Do the exempt information categories apply?** No

**Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?** No

**Does this report contain appendices?** Yes

**List of Background Papers:** None

**Lead Officer:** Colleen Warren, Financial Services Manager  
[colleen.warren@lincoln.gov.uk](mailto:colleen.warren@lincoln.gov.uk)

**HOUSING REVENUE ACCOUNT FUND SUMMARY – OUTTURN 2022/23**

<b>HRA PROVISIONAL OUTTURN – 2022/23</b>				
		<b>Revised Budget £'000</b>	<b>Outturn £'000</b>	<b>Variance £'000</b>
Gross Rental Income	A	(30,571)	(30,494)	77
Charges for Services & Facilities	B	(510)	(544)	(34)
Contribs towards Expenditure	C	(50)	(20)	30
Repairs Account Income	D1	(0)	(74)	(74)
Supervision & Management – General	D2	(659)	(725)	(66)
Supervision & Management – Special	D3	(1)	(73)	(71)
Repairs & Maintenance	E	10,022	8,982	(1,039)
Supervision & Management – General	F1	6,837	7,163	326
Supervision & Management – Special	F2	1,533	1,613	79
Rents, Rates and Other Premises	G	486	621	135
Increase in Bad Debt Provisions	H	250	300	50
Insurance Claims Contingency	I	169	284	115
Contingencies	J	(29)	0	29
Depreciation	K	7,450	7,862	412
Impairments	L	0	0	0
Debt Management Expenses	M	15	9	(6)
HRS Trading Deficit/(Surplus)	N	0	222	222
<b>Net Cost of Service</b>	<b>O</b>	<b>(5,058)</b>	<b>(4,873)</b>	<b>186</b>
Loan Charges Interest	P	2,580	2,432	(148)
Investment/Mortgage Interest	Q	(66)	(614)	(547)
<b>Net Operating Inc/Exp</b>	<b>R</b>	<b>(2,544)</b>	<b>(3,054)</b>	<b>(510)</b>
Capital Accounting Adjustments	S	0	0	0
Major Repairs Reserve Adjustment	T	2,559	2,147	(412)
Transfers to/from reserves	U	(53)	748	801
<b>(Surplus)/Deficit in Year</b>		<b>(39)</b>	<b>(159)</b>	<b>(120)</b>
Pension Reserve	W	0	0	0
<b>Balances b/f @ 1st April</b>	<b>X</b>	<b>(1,025)</b>	<b>(1,025)</b>	<b>0</b>
(Increase)/Decrease in Balances	Y	(39)	(159)	(120)
<b>Balances c/f @ 31st March</b>	<b>Z</b>	<b>(1,064)</b>	<b>(1,184)</b>	<b>(120)</b>

### **Housing Revenue Account Variances - Outturn 2022/23**

The variances analysed in the table below exclude any technical adjustments and only cover the true under or overspends. Figures in brackets indicate an under spend of expenditure or additional income.

<b>Ref</b>		<b>£</b>	<b>Reason for variance</b>
<b><u>Reduced Income</u></b>			
A	Gross Rental Income	43,960	Reduction to Rental income predominantly due delayed occupancy in tenants in De Wint Court.
A	Gross Rental Income	29,870	Non-dwelling rental income reduced due to increase in garage voids.
C	Court Costs	29,700	Reduction in recovered income from court costs as less cases in year than anticipated.
B	Charges for Services and Facilities	20,760	Reduction in De Wint Service Charge income due to delay in tenancy start dates.
<b><u>Increased Income</u></b>			
Q	Investment Interest	(547,450)	Increased investment income as a result of higher interest rates.
D1	Supervision & Management – Special	(69,040)	Additional income from rechargeable void works
F1	Supervision & Management – General	(58,100)	Credit relating to overpayment from previous financial year.
D2	Supervision & Management – General	(46,560)	Additional income from recoverable garden void works
D2	Supervision & Management – General	(32,660)	Surplus on NSAP & RSAP properties attributable to HRA.
<b><u>Reduced Expenditure</u></b>			
E	Repairs & Maintenance	(641,010)	Reduction on Painting & Pre-painting costs due to delays in tendering process.
E	Repairs & Maintenance	(281,830)	Other material underspends on Repairs Account.



T	Major Repairs Reserve Adjustment	(412,250)	Reduced contribution to Major Repairs Reserve to offset the increase in depreciation costs following revaluations of properties in year.
E	Repairs & Maintenance	(537,500)	Reduced HRS expenditure on Responsive Repairs, offset by increases on Voids, A&A and Cleansing below (net underspend £263.1k)
F	Supervision & Management	(183,200)	Reduced expenditure on Employee Costs due to staff vacancies.
P	Loan Charges Interest	(148,050)	Reduction in loan charges interest due to no borrowing undertaken in year due to high interest rates.

### **Increased Expenditure**

U	Transfers to/from Reserves	680,000	Additional contributions to reserves (as set out in para 4.6).
K	Depreciation	412,250	Increase in depreciation costs following revaluation of housing stock, offset by a Major Repairs reserve.
E	Repairs & Maintenance	274,360	Increased HRS expenditure on Voids, Aids & Adaptations & Cleansing, wholly offset by reduced cost on Responsive Repairs above.
N	HRS Surplus/Deficit	221,850	HRS deficit position (refer to HRS variances).
F1	Supervision & Management – General	193,670	Cost of agency staff to cover staff vacancies within Supervision & Management.
F1	Supervision & Management – General	107,070	Licensing costs for Housing IT system replacement.
E	Repairs & Maintenance	142,920	Unattributable skip charges from HRS.
F2	Supervision & Management – Special	129,190	Implementation of revised staffing structure to deliver ongoing efficiencies.
I	Insurance Claims	115,330	Insurance claims not funded from the insurance reserve.
G	Rent, Rates & Other Premises	101,570	Utility cost increases across the HRA.
F1	Supervision & Management – General	95,940	Additional voids work costs.

F1	Supervision & Management – General	51,390	Further consultancy support required for housing IT system replacement project and 30 Year Business Plan development.
K	Bad Debt Provision	50,400	Increase in Bad Debt provision, based on level of year end arrears.

**Housing Revenue Account Reserves 2022/23**

<b><u>HRA</u></b>	<b>Revised Opening Budget £000's</b>	<b>Budgeted Contribution £000's</b>	<b>In Year Movements £000's</b>	<b>Closing Balance £000's</b>
Capital Fees Equalisation Reserve	110	-	-	110
De Wint Court Reserve	73	-	-	73
De Wint Court Sinking Fund	-	-	10	10
Disrepairs Management Reserve	300	-	-	300
Housing Business Plan Reserve	77	-	100	177
Housing Repairs Service	126	-	11	137
HRA IT Reserve	-	-	135	135
HRA Repairs Account	1,351	-	-	1,351
HRA Strategic Priority Reserve	582	(15)	197	764
Invest to Save (HRA)	253	(81)	244	416
NSAP/RSAP Sinking Fund	-	-	9	9
Strategic Growth Reserve	5	-	-	5
Tenant Satisfaction Survey	-	-	22	22
<b>Total HRA Reserves</b>	<b>2,876</b>	<b>(96)</b>	<b>729</b>	<b>3,509</b>

**Housing Repairs Service Summary – Outturn 2022/23**

	<b>Revised Budget £'000</b>	<b>Outturn £'000</b>	<b>Variance £'000</b>
Employees	3,403	3,235	(167)
Premises	118	131	13
Transport	418	397	(21)
Materials	1,415	1,089	(326)
Sub-Contractors	2,044	3,460	1,417
Supplies & Services	307	492	185
Central Support Costs	579	556	(23)
Capital Charges	0	0	0
<b>Total Expenditure</b>	<b>8,283</b>	<b>9,361</b>	<b>1,077</b>
Income	(8,283)	(9,139)	(855)
<b>(Surplus)/Deficit</b>	<b>0</b>	<b>222</b>	<b>222</b>

### **Housing Repairs Service Variances - Outturn 2022/23**

The table below provides a summary of the provisional outturn position.

	£	Reason for Variance
<b><u>Reduced Expenditure</u></b>		
Employee Costs	(395,570)	Vacancies within the Operative staff.
Direct Materials	(326,420)	Reduced levels of materials spend mainly due to use of sub-contractors instead of own workforce due to vacancies.
<b><u>Increased Expenditure</u></b>		
Employee Costs	118,370	Agency and backfill costs covering vacancies offset by savings above.
Employee Costs	110,000	Impact of nationally agreed pay award above budget assumptions.
Sub-Contractors	1,416,770	Increased use of sub-contractors to cover vacancies within the operative team.
Supplies & Services	103,230	Increased skip and equipment hire costs.
Supplies & Services	79,525	Contractual costs, mobile phone & utility inflation costs.
<b><u>Increased Income</u></b>		
Income - Other	(855,410)	Increase in income due to additional void works carried out. This is offset by the increase in void sub-contractor spend.