AGENDA ITEM NO 4

REPORT 38/23

ANGUS COUNCIL

COMMUNITIES COMMITTEE – 21 FEBRUARY 2023

HOUSING CAPITAL AND REVENUE BUDGET PERFORMANCE REPORT – 2022/23

REPORT BY THE DIRECTOR OF VIBRANT COMMUNITIES AND SUSTAINABLE GROWTH AND THE DIRECTOR OF FINANCE

ABSTRACT

This report relates to the Housing Revenue Account (HRA) Capital and Revenue performance to date in 2022/23. It sets out the actual Capital and Revenue spend to 31 December 2022 together with projected outturns for the year to 31 March 2023 and any required updated capital funding proposals.

1 RECOMMENDATIONS

It is recommended that the Committee review and scrutinise:

(i) the contents of this report; and

(ii) the projected year end positions on capital and revenue expenditure as indicated in **Appendix 1** and **2**, and the indicative funding proposals for the programme.

2 ALIGNMENT TO THE COUNCIL PLAN

2.1 ECONOMY

- An Inclusive and sustainable economy
- Attractive employment opportunities

PEOPLE

- To maximise inclusion and reduce inequalities
- Safe, secure, vibrant sustainable communities

PLACE

- An enhanced, protected and enjoyed natural built environment
- A reduced carbon footprint

3 BACKGROUND

3.1 The responsibilities of Chief Officers with regard to revenue and capital monitoring are set out in Sections 3 and 7 of the Council's Financial Regulations. This report seeks to ensure that budgetary control is exercised in line with those Regulations.

4 2022/23 CAPITAL BUDGET

4.1 The HRA capital monitoring budget for 2022/23 is £12.703 million and this report presents the latest estimated outturn against the revised net monitoring budget. An update on the final actual outturn position will be presented to members of the Communities Committee following the summer 2023 recess.

5 2022/23 CAPITAL MONITORING OUTTURN POSITION

5.1 Table 2 below sets out the position of the overall Housing Capital Programme for 2022/23 as at 31 December 2022. The actual spend achieved to that date is £5.862 million which equates to 46.1% of the monitoring budget of £12.703 million. It is projected at this time, that by the end of the financial year 2022/23 net expenditure will total £12.273 million which represents a potential underspend of 3.4%. The main reasons for this are contained in section 6 below.

Table 2 – Housing Capital Programme 2022/23

Programme	Monitoring Budget £m	Actual Expenditure 31 Dec 2022 £m	Outturn 2022/23 £m	Projected (over)/ under Spend £m
New Build	4.111	1.731	2.157	1.954
Shared Equity	(0.732)	(0.740)	(0.733)	0.001
Conversion	0.344	0.005	0.377	(0.033)
Aids and Adaptations	0.400	0.788	1.034	(0.634)
Improvements	0.680	0.000	0.680	0.000
Energy Savings/Towards Zero Carbon	5.828	3.684	6.822	(0.994)
Sheltered Housing	0.194	0.179	0.274	(0.080)
Internal Upgrades	1.460	0.011	1.319	0.141
Miscellaneous	0.400	0.278	0.400	0.000
Balances on Completed Projects	0.018	(0.074)	(0.057)	0.075
Total Programme	**12.703**	**5.862**	**12.273**	**0.430**

6 COMMENTARY ON SIGNIFICANT CAPITAL BUDGET MONITORING ISSUES

6.1 Members are asked to note the following projects, either because there are aspects out of the ordinary, or they potentially carry more risk for achievement of budgeted spend in 2022/23 due to their stage of development, the involvement of other parties, or the expected outturn is + or - £100K from the monitoring budget.

6.2 **New Build.** Volatility in world markets has continued to affect the construction industry, with shortages of components and raw materials causing supply chain and logistical issues for contractors. This is compounded by the global cost of energy, the war in Ukraine, and high interest rates in the UK and worldwide. As a result, price inflation indices across all forms of construction including new build, are at a much higher rate than the consumer price index (CPI). As new build projects can span many years from conception to completion, the resultant market uncertainty and rising tender prices must be considered alongside decisions about future rent increases. For this reason, the timeline for new build projects in particular has had to be adjusted. This is to ensure, not only that projects can be delivered with confidence at reasonable cost, but also that we continue to achieve a balanced budget.

6.3 **Aids and Adaptations.** The delays to adaptations work through the pandemic had been compounded by resourcing issues in the Angus Health and Social Care Partnership, which meant that there had been a backlog in assessments. Now that resources are in place, occupational therapy assessments and the subsequent approved work, have been accelerated so that the programme can catch up with the original identified need.

6.4. **Energy Saving/Towards Zero Carbon.** This section of the programme combines energy efficiency, window replacements and heating work. Contracts continue to progress well, with 620 energy saving interventions being carried out across tenanted homes. The programme has been accelerated further because of the current energy crisis, particularly where stock performs poorly, and the incidence of social deprivation is higher. This has resulted in a higher spend profile and projected overspend. However, this is considered a sensible acceleration of the 25 year programme to improve the energy efficiency of tenants' homes quicker and achieve zero carbon across the housing stock by 2045. This faster delivery is especially important, given the considerable increase in fuel bills being experienced by tenants.

Members should note that although there is overspend in this category this financial year, it is stressed that this is an advancement of future spend and the overall cost of the project remains broadly on track, but subject to volatility in the market conditions and potential cost impacts described above. Allowance for the overall cost is already included within the energy upgrades section of the Capital Plan and can be re-phased to accommodate this change.

6.5. **Internal Upgrades.**
As a result of the termination of the contractor delivering the bathrooms contract and the related adjudication there has been a significant delay in bathroom delivery. The adjudication has found in Angus Council's favour, requiring the terminated contractor to cover any tender variance in delivery of those installations not carried out. A Procurement Authority Report will be brought to committee seeking approval for contract arrangements to replace the outstanding 776 bathrooms. An internal upgrade contract is also about to commence delivering kitchens and bathrooms Angus-wide where facilities have been assessed by Housing Officers as requiring upgrading as a priority.

The outcome of these tenders will be used to review the future bathroom programme in light of ongoing supply issues, material costs and labour shortages, caused by various global factors which are continuing to increase costs.

7 2022/23 CAPITAL RECEIPTS UPDATE

7.1 As at 31 December 2022 Capital Receipts amounted to £0.221 million.

7.2 As with previous practice, and subject to the ultimate year-end revenue outturn (section 9 refers), it is intended that these receipts will be retained on the Council's balance sheet at 31 March 2023 and applied in the funding of the HRA capital programme in 2023/24.

8 2022/23 CAPITAL FUNDING UPDATE

8.1 At the time of setting the 2022/23 monitoring budget, estimated resources assumed to be available to finance the capital programme were as detailed in Table 3 below. These resources have been reviewed to reflect the 2022/23 latest projected capital expenditure levels.

8.2 Table 3 below therefore details: the original funding of the monitoring budget; projected funding movements; and the projected year end funding position.

Table 3 - Capital Funding 2022/23

2022/23 Capital Budget	**Revised Monitoring Budget £m**	**Projected Funding Movement £m**	**Projected Year End Funding £m**
Funding Sources:			
- Prudential Borrowing	5.091	(0.430)	4.661
- Capital Receipts	0.622	0.000	0.622
- Capital Financed from Current Revenue (CFCR)	5.990	0.000	5.990
- Transfer from Earmarked Reserves	1.000	0.000	1.000
Total Funding Sources	**12.703**	**(0.430)**	**12.273**

Note 1: The projected year end transfer of £1.000 million from earmarked reserves comprises £0.700 million from HRA balances and £0.300 million from the Affordable Housing Revenue Account (AHRA).

8.3 As part of the 2022/23 rent setting process, officers have also reviewed the Capital Plan and potential future capital projects to determine the most appropriate use for HRA balances ring-fenced for Scottish Housing Quality Standard / New Build purposes. The rent setting report also on the agenda for this meeting incorporates plans to utilise these balances over future financial years to reduce borrowing levels and extend future capital spend flexibility.

9. 2022/23 REVENUE BUDGET PERFORMANCE

9.1 In line with the provisions of Section 3 of the Financial Regulations, the revenue budget performance statement is intended to be presented at three key points during the year. The statement below indicates the actual spend to 31 December 2022, together with a percentage of the budget spent to date; a projected outturn to the end of the financial year; and a projection against the original budget. It can be seen from Table 4 that for the 9 month period to 31 December 2022 the HRA is currently indicating a surplus of £ 9.549 million. This however reflects the position that several significant costs and recharges are only made as part of the year-end accounts process and once these are allowed for in the full year outturn projection, a small net deficit is projected. Such costs include, financing charges (including CFCR), bad debt provision, homelessness recharges, central support recharges, other internal recharges such as ACCESS service and business support.

9.2 Based on information available at this time it is projected that by the end of the 2022/23 financial year, the HRA will generate a deficit of £0.115 million. Should this be the ultimate year-end position once all final accounts processes have completed, officers from Finance and Housing will determine the best way to address that deficit. Options that will be considered include: funding the deficit by drawing on reserves; reducing CFCR and utilising part of the in-year capital receipts instead; or reducing CFCR and using more AHRA funding instead.

9.3 Should a net surplus ultimately arise within the HRA Revenue Account, this will be set aside within the HRA balances, initially as a contingency against increased repairs and maintenance costs as works delayed by COVID-19 continue to catch up over 2023/24. Any unused contingency will be used to reduce the 2023/24 capital borrowing requirement, which will allow the HRA Capital Plan additional flexibility in future years.

9.4 It can be seen from Table 4 that there are a number of projected over and underspends within various budget heads of the HRA. The main reasons for these projected over and underspends are highlighted in Section 10 of this report.

Table 4 – HRA Revenue Monitoring

	Monitoring Budget £m	Actual to 31/12/22 £m	Budget Spent %	Projected Outturn £m	(Over) / Under Spend £m
EXPENDITURE					
Financing Charges	10.073	0.000	0.0	9.260	0.813
Supervision & Management	8.874	3.632	40.9	8.394	0.480
Repairs & Maintenance	10.475	6.174	58.9	11.287	(0.812)
Loss of Rents	2.050	1.151	56.1	2.413	(0.363)
Other Expenditure	0.624	0.027	4.3	0.622	0.002
GROSS EXPENDITURE	**32.096**	**10.984**	**34.2**	**31.976**	**0.120**
INCOME					
Rents & Service Charges	31.422	20.527	65.3	31.130	(0.292)
Other Income	0.249	0.006	2.4	0.306	0.057
Homelessness	0.425	0.000	0.0	0.425	0.000
GROSS INCOME	**32.096**	**20.533**	**64.0**	**31.861**	**(0.235)**
NET SURPLUS / EXPENDITURE	**0.000**	**(9.549)**	**n/a**	**0.115**	**(0.115)**

Appendix 2 gives further detail on the 2022/23 position on the Housing revenue budget.

10 COMMENTARY ON SIGNIFICANT REVENUE BUDGET MONITORING ISSUES

10.1 The volatile economic environment continues to impact on the HRA Revenue Budget. Tenants' household incomes are under pressure as high domestic energy costs add to cost of living difficulties being experienced, making it harder for some to keep up with rent payment responsibilities. There also continue to be challenges in repairs and maintenance as contractors not only work hard to catch up with the backlog from the previous supplier failure, but also as a result of material and component supply difficulties and staff shortages.

The overall projected outturn also includes several year-end recharges that are projected as on-budget. These include elements highlighted at 9.1 above, which could move in either a favourable or unfavourable direction once the year-end process is undertaken. These are elements of the HRA budget that it is intended to review during 23/24 to ensure that they are services which remain relevant to the HRA and provide Value for Money to the HRA.

The commentary provided below is on an exception basis. Where there is no narrative, there are no significant issues to report.

10.2 Financing Charges
Financing charges are anticipated to be less than budgeted by £0.813 million. This is as a result of implementing the Loans Fund review agreed as part of the 2022/23 Council Tax setting process.

10.3 Supervision and Management.
The underspend in Supervision and Management of £0.480 million is mainly due to staff slippage.

10.4 Repairs and Maintenance.
There is likely to be an overspend this year in Repairs and Maintenance of £0.812 million, as the work to carry out the backlog of repairs caused by the previous supplier failure is completed. Good progress has been made by the replacement supplier, but extra expenditure is being incurred in this financial year as a result.

10.5 Loss of Rents
Loss of rents is experienced when properties are void. This year there has been a higher than anticipated loss of rents for a number of reasons. Changes of tenancy were taking longer to complete as a result of the material supply shortages and contractor staff shortages described above. We also continue to experience challenges with utility companies, resolving debt on meters and meter reconnections, which is impacting on the length of voids. A number of properties have also been intentionally held vacant to help provide housing destinations for those in humanitarian need as a result of the war in Ukraine, and also whilst major upgrade works have been carried out. These inevitably impact on rental income. Overall though, there is an improving trend.

10.6 Rental Income
Rental income is likely to be lower than initially forecast by £0.292 million due to new build projects being held back, resulting in fewer additional properties coming on stream in the current year.

11. FINANCIAL IMPLICATIONS

11.1 The financial implications for the Council detailed in the body of the report, and in accompanying appendices, are summarised in Table 5 below. There are several known commitments for which HRA balances will be utilised in financial year 2022/23 and beyond, and these are also detailed in Table 5. Members should note that Scottish Government targets and priorities can change over time, but the commitments and planned expenditure contained within the Housing Capital Plan are thought sufficient to meet Housing needs at this time. The information in the table is presented at this time on the basis that the projected year-end deficit is funded from a drawdown of reserves, however as noted at 9.2 above, there are other options that can be considered at the year-end should the final position for the year be a deficit.

Table 5 - HRA Balances

	Monitoring Budget £m	Projected Outturn £m
Audited Housing Balance as at 01/04/22	4.370	4.370
Less Minimum Balance Requirement	(1.000)	(1.000)
Audited Available Housing Balance as at 01/04/22	3.370	3.370
Less: Projected capital funding drawdown (per paragraph 8.3)	(0.700)	(0.700)
Less: Anticipated 2022/23 Housing Revenue Account Deficit	0.000	(0.115)
Anticipated Housing Revenue Account Balance as at 31/03/2023	2.670	2.555
Known / Potential Commitments:		
SHQS/New Build Housing (Future Years)	(2.670)	(2.555)
Total Known / Potential Commitments	(2.670)	(2.555)

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing this report.

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List of Appendices:
Appendix 1: Housing Capital Monitoring Statement
Appendix 2: Housing Revenue Monitoring Statement