Executive Report

Report of Chief Finance Officer

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Housing Revenue Account
Revenue Outturn report 2021-22

Executive Summary

The Housing Revenue Account (HRA) records all the income and expenditure associated with the provision and management of Council owned residential dwellings in the Borough. The requirement to maintain a HRA is set out in the Local Government and Housing Act 1989 and the requirement to publish final accounts is set out in the Accounts and Audit (England) Regulations 2015.

This report sets out the actual level of revenue spending on day-to-day services provided to tenants recorded in the HRA in 2021-22.

The operating surplus for the HRA in 2021-22 was £368,000 less than the budgeted surplus of £11.220 million (Section 5) at £10.339 million. The outturn allows a contribution of £2.5 million to the reserve for future capital and a contribution of £7.84 million to the New Build reserve. The HRA working balance at year-end remains at £2.5 million.

The Chief Finance Officer, in consultation with the Leader of the Council and Lead Councillor for Community and Housing and Lead Councillor for Resources have used their delegated authority to make the necessary transfers to reserves. This continues the policy adopted in previous years, whereby the year-end surplus is applied to each of the above two reserves.

Recommendation to Executive

The Executive is asked to note the final outturn position and endorse the decision, taken under delegated authority to transfer £2.5 million to the reserve for future capital, and £7.84 million to the new build reserve from the revenue surplus of £10.339 million in 2021-22.

Reason for Recommendation
To allow the Statutory Statement of Accounts to be finalised and subject to external audit prior to approval by the Council.

Is the report (or part of it) exempt from publication? No

1 Purpose of Report

1.1 This report sets out the final position on the Housing Revenue Account (HRA) for the 2021-22 fiscal year. It explains the major variances and reports how the available balance has been used.

2 Strategic Priorities

2.1 The Council is the largest social housing landlord in the borough, our activities contribute to each of the Council's strategic priorities. Within the 'Homes and Jobs' Strategic Priority of the Council's Corporate Plan 2021-2025, the Council seeks to "Provide and facilitate housing that people can afford." This report helps to achieve this priority.

3 Background

3.1 This report sets out the final position on the HRA.

3.2 Officers have included the impact of the final position in the statutory statement of accounts, which the Chief Finance Officer has now published on our website. The public inspection period commenced from 22 August until 3 October 2022.

3.3 The HRA is an integral part of the Statement of Accounts.

4 Background

4.1 The Local Government and Housing Act 1989 requires the Council to keep a HRA that records all revenue expenditure and income relating to the provision of council residential dwellings and related services. The use of this account is heavily prescribed by statute and the Council is not allowed to fund any expenditure for non-housing related services from this account.

4.2 Since April 2012, the HRA has operated independently of the previous national income redistributive system. The Council made a one-off payment to the Government of £192.3 million as part of the settlement, this was funded through a portfolio of loans from the Public Works Loan Board.

4.3 The HRA Business Plan seeks to maximise the advantages of the new financial environment and the associated flexibility it offers.

4.4 The business plan objectives are set out below.

- operate a sound, viable housing business in a professional and cost-effective manner
- provide good quality homes in settled communities for as long as needed by tenants, consistent with our Tenancy Strategy
- increase the supply of affordable homes, including by direct provision where it is appropriate and viable to do so
- continue to strengthen communities by making our estates places people value and want to live
- value and promote tenant involvement in decision making
- widen the range of housing options open to tenants, ensuring they can make informed choices.

The 2021-22 budget reflected these objectives and priorities.

5 Summary

5.1 The operating surplus for the HRA account in 2021-22 is approximately £9.9million. This is different to the £10.8million shown in Appendix 1 due to the reversal of statutory pension (IAS19) costs and capital items. The operating surplus is represented by the contributions to the Reserve for Future Capital and the New Build Reserve.

5.2 The table below shows the main variances between the budgeted and actual operating surplus for 2021-22 under the key headings.

	£000
Budgeted HRA outturn (surplus) / deficit 2021-22 *Represented by the budgeted contribution to the Reserve for Future Capital and the New Build reserve [£2.5m + £8.13m]*	**(11,220)**
Variance from budgeted position (major variances)	
Employee related [incl. writes out of added years and pension strain costs]	(393)
Investment Income and Interest charge payable	230
Capital adjustments (depreciation, revaluation, REFCUS)	310
Premises (Repairs & maintenance, utilities, cleaning etc)	(16)
Supplies and Services and other variances	990
Rental income	233
Total	**1355**
Operating (surplus)/deficit available to transfer to reserve in 2021-22 *Represented by the proposed contribution to the Reserve for Future Capital and the New Build reserve (£2.5m + £7.84m)*	**(9,866)**

5.3 Officers propose to transfer £2.5 million to the reserve for future capital, with the balance of £7.84 million transferred to the new build reserve.

6 Outturn position and major variances

Revenue

6.1 Gross expenditure on services was 95.98% of the budgeted level, whilst income receivable totalled 97.56% of the budgeted level. The reasons for this are set out in paragraphs 6.4 to 6.10 below and summarised in **Appendix 1.**

6.2 The operating surplus for the HRA account in 2021-22 is approximately £9.9 million, which is significantly better than would have been the case under the previous redistributive regime. This surplus, however, makes no provision for the repayment of debt principal; in line with the approach set out in the HRA business plan approved by the Executive.

6.3 The HRA would still have an operating surplus if we had made provision to repay the debt over the 30-year plan period. To repay the debt over the 30-year plan period a sum in the region of £6.4 million would need to be set aside from the operating surplus each year, reducing the level of available capital to invest to a figure in the region of £3.8 million. This is an overly simplistic representation designed to highlight the underlying surplus. It ignores the impact of any premium and discounts arising on the early redemption of debt, and more significantly the impact inflation would have on the debt, which is fixed in cash terms and would erode in real terms as the result of inflation.

6.4 Rental income from dwellings was £29,177,122, which was 4.4% below the estimated (see Appendix 1). The service has seen rent loss due to voids but rent collection levels on occupied property remains good.

6.5 Employee related expenditure was £117,651 higher than estimated and includes the in-year benefit of writing out accrued added years and pension strain costs.

6.6 Each year the Department for Levelling Up, Housing & Communities (DLUHC) sets a formula rent for each Council to apply to its housing stock along with a guideline rent increase/decrease. When our rents are higher than the prescribed "limit rent" then rent rebate subsidy limitation (RRSL) applies. RRSL is a mechanism that ensures that councils do not simply increase rents above the guideline level in the knowledge that the cost of doing so would fall on the Department for Work and Pensions (DWP) in higher housing benefit costs. The actual average rent for 2021-22 was below the prescribed limit rent; consequently, no RRSL charge has been applied to the HRA.

6.7 Expenditure on repairs and maintenance was less than the budget by £87,892 or 1.5%. The budget provides for both planned and responsive repairs, so an element of demand driven cost is inherent in the expenditure. The service has seen expenditure on void properties decrease in 2021-22. Void units typically incur additional repair and improvement expenditure in order to prepare them for reletting and these costs are often significant.

6.8 Total investment in the stock, including both revenue and capital funded maintenance and improvement works was £21.4 million.

6.9 Rent arrears remain at consistent levels, in contrast to the overall housing sector, which is experiencing an increase in the level of arrears. Although several welfare reform changes have now taken effect, migration delay in the roll out of universal credit has deferred any potential impact on arrears levels. It was felt the level of bad debt provision was adequate, so no contribution was made in 2021-22. The budgeted contribution for 2021-22 was £100,000. This approach equates to a provision coverage ratio of 75%.

6.10 The table below sets out the outturn for the headline categories across the HRA.

Account	Budget £	Draft Actual £	Variance £
Employee related	2,350,845	2,468,496	117,651
Premises related	6,034,690	6,018,192	(16,498)
Supplies and services	1,199,819	1,193,702	(6,117)
Support services	1,392,958	2,418,758	1,025,800
Transport related	75,930	46,366	(29,563)
Expenditure	**11,054,242**	**12,145,513**	**1,091,272**
Income (including recharges)	**(33,142,259)**	**(32,907,357)**	**234,902**
Other Income			
Net Expenditure/(Income)	**(22,088,017)**	**(20,761,843)**	**1,326,174**
Comparison to net cost of services in Appendix A			
Depreciation	5,525,000	5,864,693	339,693
Recharge to general fund for Housing Advice service			
IAS 19 pension adjustment	-	27,632	27,632
Transfer from reserve: REFCUS		136,260	136,260
Revaluation and other capital items	-	(1,174,479)	(1,174,479)
Sub Total	**(16,563,017)**	**(15,907,736)**	**(655,281)**
Comparison to budgeted reserve contribution variance			
Investment income	-598,260	-105,900	492,360
Interest payable	5,142,230	4,879,544	-262,686
Transfer from reserve: Revaluation	0	1,147,655	1,147,655
Recharge to general fund for Housing Advice service	256,800	297,990	41,190
Transfer from reserve: Pension contribution	0	-510,826	-510,826
Transfer from reserve: Intangible assets	0	-27,632	-27,632
Transfer from reserve: Income from sale of assets	0	-136,260	-136,260
Revenue funded from capital (REFCUS – specific item)	0	-3,263	-3,263
Total	**(11,762,247)**	**(10,366,430)**	**85,256**

Appendix 1 sets out the position across the main service areas in detail.

6.11 **Right to Buy (RTB) sales and one-for-one receipts:** Under the Government's one-for-one homes replacement scheme, the Council can retain an element of the RTB capital receipt to invest in the provision of new dwellings (the amount retained in 2021-22 is shown in the table in paragraph 6.16 below).

6.12 A maximum of 40% of the overall cost of new home provision could be funded from the one-for-one receipts reserve before March 2022 (40% from 1 April 2022). If the Council is unable to deliver new homes within the timeframe set by Government, the receipt must be returned with interest. As a result, the first source of funding for new homes provision will be the one-for-one receipt reserve, with the balance (60%) being funded from the new build reserve or the reserve for future capital.

6.13 A total of 28.3 properties (with equity shares being 1.3) were sold under RTB in 2021-22. In relation to the number of properties held by the HRA, this is not a material number. A continuation or acceleration in RTB sales, without the addition of new stock replacing RTB losses is cause for concern. Over a sustained period, net stock losses will increase the fixed overhead costs attributable to each unit of stock. This would reduce our ability to generate operating surpluses to support our development programme.

6.14 Councillors will be aware that the expenditure on the provision of new homes has been less that it should have been in the past and as such, we have had to previously repay the Government 141 RTB receipts. This money has been recycled by the Government to others who have been able to spend the capital money. A summary of RTB for 2021-22 is set out in the table below:

	£
Receipts in Year	5,654,516
Admin Costs	-35,100
Gross receipts	**5,619,416**
Pooled in year	-691,795
Net receipts before 141 repay	**4,927,621**
141 repaid to Govt	0
Total retained in 2021-22	**4,927,621**

Based on us selling 20 properties each year and spending £18.2 million by March 2025 we will not start having to repay 141 receipts until 2028-29.

6.15 **Reserves:** The HRA holds several reserves each for a specific purpose. They allow the Council to fund peaks in future years' projected expenditure and will be a key funding source for the Council's development programme.

6.16 The table below shows the balance on each reserve at the start of 2021-22, along with the expenditure financed in year and the proposed transfers arising from the appropriation of the revenue surplus in 2021-22.

	Balance 01 April 2021	Transfer in 2021-22	Used in 2021-22	Balance 31 March 2022	Proposed transfer in 2021-22	Closing balance 31 March 2022
	£0	£0	£0	£0	£0	£0
Reserve for future capital works	33,328	0	0	40,829	2,500	43,329
New build reserve	59,383	0	-3,824	55,559	0	55,559
Major Repairs Reserve (MRR)	11,876	0	-8,153	9,588	7,854	17,442
Total Earmarked Reserves	**104,587**	**0**	**-11,977**	**105,976**	**10,354**	**116,330**
Usable capital receipts (HRA Debt)	4,262	1,017	0	5,280	0	5,280
Usable capital receipts (1-4-1 receipts)	4,526	3,680	-2,980	5,226	0	5,226
Usable capital receipts (housing and regeneration statutory) – Post 2013-14	0	802	-752	50	0	50
Total Capital Receipts Reserves	**8,788**	**5,499**	**-3,732**	**10,556**	**0**	**10,556**

6.17 **Use of operating surplus:** An operating balance of £2.5 million will be retained. This is a prudent approach and provides a degree of in-year flexibility.

6.18 The Council has clearly stated its ambition to increase the number of affordable homes in the borough and work is underway to bring forward several development opportunities. A combination of usable one-for-one receipts, and capital receipts have been used to finance capital expenditure on the new build programme.

6.19 With this in mind, officers are proposing that £7.84 million is transferred to the new build reserve.

6.20 It is critical that we properly maintain our asset base to secure future income streams. A depreciation charge based on the value of the housing assets employed is made in the HRA. The 2021-22 depreciation charge was £5.865 million and the cost of maintaining the stock £8.153 million. We would normally expect to fully utilise this depreciation charge in the year with an additional contribution from the reserve for future capital to fund the difference, but in 2021-22, we used £2.288 million more than the calculated charge, leaving a balance of £9.588 million in the major repairs reserve, as shown in the table in paragraph 6.16 above. The major repairs reserve (MRR) is ring fenced for improvements to existing stock.

6.21 The outcome of recent stock condition surveys indicates, in the short term, the level of depreciation charge will significantly exceed the level of investment required in the existing stock. This will result in an increased balance on the MRR, which could be used to repay debt. Any recommendation to repay debt would be considered in the context of an updated HRA business plan, as well as by treasury management considerations at that time.

6.22 As a result of changes in the legislative and regulatory framework particularly in connection to the housing stock and the health and safety of residents the Council is reviewing the impact of these changes and it is expected that there will be a need to make changes to the current programme of work to reflect these issues. These will, however, be reported through the normal budgetary reporting framework.

7 Financial implications

7.1 The report covers the financial implications.

8 Legal implications

8.1 The Accounts and Audit (England) Regulations 2015 state that the Council must prepare, in accordance with proper practices in relation to accounts, a statement of accounts for each year, which must include such of the following accounting statements as are relevant to the functions of the relevant body:

- Housing Revenue Account
- Collection Fund
- any other statements relating to each and every other fund in relation to which the body is required by any statutory provision to keep a separate account

8.2 The proper practice referred to above is the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the Code).

8.3 The Code is based on International Financial Reporting Standards (IFRSs) and has been developed by the CIPFA/Local Authority Scotland Accounts Advisory Committee (LASAAC) Code Board under the oversight of the Financial Reporting Advisory Board (FRAB). It constitutes a proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

8.4 The Chief Finance Officer will sign the Statement of Accounts on or before 31 August. Our external auditors, Grant Thornton will then audit the accounts in September 2022 before they are presented to the Corporate Governance and Standards Committee for consideration and approval. Specifically, the role of the committee is to “review the annual statement of accounts with specific emphasis on whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.”

8.5 The Accounts and Audit (England) Regulations 2015 require the Chief Finance Officer to re-certify the accounts before approval and for the person presiding at the meeting (i.e., the chairman of Corporate Governance and Standards Committee) to sign and date them after approval. We must then publish the Statement of Accounts, together with any certificate, opinion or report issued by the external auditor.

9 Human Resource Implications

9.1 There are no human resource implications.

10 Summary of Options

10.1 As the treatment of the year-end balance has been decided under delegated authority, there are no options to consider.

11 Conclusion

11.1 The HRA delivered an operating surplus of £9.9 million. No provision for the repayment of debt principal is included in this figure.

11.2 The HRA is better placed under the new financial regime than it was under the old national redistributive system.

11.3 The outturn is broadly in line with the assumptions set out in the approved 2015-45 HRA Business Plan. The HRA can support the initial development programme outlined in the development strategy and has the capacity to support material contributions to both the new build reserve and the reserve for future capital programmes.

12 Background Papers

HRA Budget Report 2021-22 and 2015-2045 HRA Business Plan
Accounts and Audit (England) Regulations 2015
Code of Practice on Local Authority Accounting
Accounts and Audit (Coronavirus) (Amendment) Regulations 2020

13 Appendices

Appendix 1: HRA Summary 2021-22