Guildford Borough Council

Report to: Corporate Governance & Standards Committee

Date: 16 November 2023

Ward(s) affected: All Wards

Report of Director: Transformation & Governance

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Report Status: Open

Housing Revenue Account – Revenue Outturn Report 2022-23

1. Executive Summary

1.1 The Housing Revenue Account (HRA) is a separate ringfenced account that records all the income and expenditure associated with the provision and management of Council owned residential dwellings and other properties in the Borough. The requirement to maintain a Housing Revenue Account is set out in the Local Government and Housing Act 1989 and the requirements to publish final accounts is set out in the Accounts and Audit Regulations 2003.

1.2 This report includes the actual level of spending on services recorded in the HRA in 2022-23.

1.3 The surplus for the year was £3.12 million less than the budgeted surplus of £10.89 million (Section 7.5) at £7.76 million. The outturn allows a contribution of £2.5 million to the reserve for future capital and a contribution of £5.26 million to the New Build reserve. The HRA working balance at year-end remains at £2.5 million.

1.4 The Chief Finance Officer, in consultation with the Leader of the Council and Lead Councillor for Finance and Property, has used their delegated authority to make the 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.

1.5 The HRA capital programme had budgeted expenditure of £53.9 million with £26.3 million. There was £24.5 million of major repairs estimated with an outturn of £20.3 million. £27.05 million was budgeted for new developments, where actual expenditure was £6 million due to delays in the progression of some of the new schemes.

2. Recommendation

The Committee is asked to comment on the following recommendation that will be included in the report on this matter to the Executive on 23 November 2023:

2.1 That the Executive notes the final outturn position and endorses the decision, taken under delegated authority, to transfer £2.5 million to the reserve for future capital, and £5.26 million to the new build reserve from the revenue surplus of £7.76 million in 2022-23

3. Reason for Recommendation:

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

4. Exemption from publication

4.1. Not exempt.

5. Purpose of Report

5.1 This report sets out the final position on the Housing Revenue Account for 2022-23. It explains the major variances and reports how the available balance has been used.

6. Strategic Priorities

6.1 The Council is the largest social housing landlord in the borough, our activities contribute to each of the Council's strategic priorities. The Council's Corporate Plan 2021-2025 includes a key priority which is that residents will have access to the homes and jobs they need. This service contributes to meeting this priority.

7. Background

7.1 This report sets out the final position on the Housing Revenue Account (HRA) for 2022-23.

7.2 Officers have included the impact of the final position in the unaudited statutory statement of accounts, available on the Council's website.

7.3 The operating surplus for the HRA account in 2022-23 is £7.89 million. Adjustments are then made for statutory reversals bringing the net surplus down to £7.76 million. The net surplus is represented by transfers to the Reserve for Future Capital and the New build Reserve.

7.4 The table below shows the main variances between the operating surplus for 2022-23 under the key headings.

	£000's
Budgeted HRA outturn (surplus) / deficit 2022/23 *Represented by the <u>budgeted</u> contribution to the Reserve for Future Capital and the New Build reserve [£2.5m + £8.3m]*	**(10,884)**
Variance from budgeted position (major variances)	
Employee related [incl. write out of added years and pension strain costs]	1,006
Investment Income and Interest charge payable	1,306
Capital adjustments (depreciation, revaluation, REFCUS)	(905)
Premises (Repairs & maintenance, utilities, cleaning etc)	(2,866)
Supplies and Services and other variances	(892)
Rental Income	(998)
Below Line Adjustments	227
Total	**(3,122)**
Net (surplus)/deficit available to transfer to reserve in 2022/23 *Represented by the proposed contribution to the Reserve for Future Capital and the New Build reserve (£2.5m + £5.2m)*	**(7,761)**

7.5 Officers propose to transfer this surplus to reserves as £2.5 million to the reserve for future capital, with the balance of £5.26 million transferred to the new build reserve.

Outturn Position and Major Variances

Revenue

7.6 Gross expenditure on services was 119% of, or £3.5 million over, the budgeted level, whilst income receivable totalled 97% of, or £1 million under the budgeted level. The reasons for this are set out in paragraphs 7.10 to 7.17 below and summarised in **Appendix 1.**

7.7 The net surplus for the HRA account in 2022-23 is £7.76 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.

7.8 The HRA would still have an operating surplus even 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.

7.9 Rental income from dwellings was £1.0 million (3%) below the estimated (Appendix 1). The service has seen rent loss due to voids but rent collection levels on occupied property remains good.

7.10 Employee related expenditure was £1 million lower than estimated and includes the in-year benefit of writing out accrued added years and pension strain costs.

7.11 The Direction on the Rent Standard 2019 required the Regulator of Social Housing to set a rent standard for social housing which came into effect from 2020, which was CPI +1% from the preceding September rate.

7.12 However, it was announced as part of the Autumn Statement 2022 by the Government that rent increases would now be capped at 7%. As part of the budget setting process the Council rather than adopting the directed cap, adopted a 5% rent cap.

7.13 Expenditure on the responsive and planned maintenance service within the HRA was more than the budget by £2.1 million or 133% (Appendix 1). 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 increase in 2022-23.

7.14 Total investment in the stock, including both revenue and capital funded maintenance and improvement works was £34.8 million.

7.15 Rent arrears remain at consistent low 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 additional contribution was made in 2022-23. The budgeted contribution for 2022-23 was £0.1 million. This approach equates to a provision coverage ratio of 75%.

7.16 The table below sets out the outturn for the headline categories across the HRA. There is a large increase in support costs attributable to the HRA from the GF in the year, due to a review of the recharge's apportionment across the Council now the Future Guildford programme has been implemented. This will be further reviewed as we progress through the collaboration.

Account	Budget	Actual	Variance
	£000's	**£000's**	**£000's**
Employee related	3,993	3,384	(608)
Premises related	6,067	8,933	2,866
Supplies and services	1,506	1,439	(66)
Support services	1,626	2,588	963
Transport related	64	60	(4)
Expenditure	**13,255**	**16,405**	**3,150**
Income (including recharges)	(35,000)	(34,001)	998
Net Expenditure/(Income)	**(21,745)**	**(17,597)**	**4,148**
Comparison to net cost of services in Appendix 1			
Depreciation	5,525	6,427	902
Transfer from reserve: REFCUS		118	118
Transfer from reserve: Revaluation	0	(649)	(649)
Transfer from reserve: Intangible assets	0	15	15
Sub Total	**(16,220)**	**(11,686)**	**4,534**
Comparison to budgeted reserve contribution variance			
Investment income	(54)	(1,107)	(1,053)
Interest payable	5,052	4,799	(253)
REFCUS - Revenue funded from capital	75	0	(75)
HRA share of CDC	263	111	(152)
Transfer from reserve: Revaluation	0	649	649
Transfer from reserve: Intangible assets	0	(15)	(15)
Transfer from reserve: Pension contribution	0	(398)	(398)
Transfer from reserve: Income from sale of assets	0	(118)	(118)
Revenue funded from capital (REFCUS – specific item)	0	3	3
Total	**(10,884)**	**(7,762)**	**3,122**

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

7.17 Right to Buy (RTB) sales and one-for-one receipts: Under the Government's one-for-one homes replacement scheme, for this year the Council can retain an element of the RTB capital receipt to invest in the provision of new dwellings (the amount retained in 2022-23 is shown in the table in paragraph 7.21 below).

7.18 A maximum of 40% of the overall cost of new home provision can be funded from the one-for-one receipts reserve. 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.

7.19 Seventeen properties (with equity shares being 1.1) were sold under RTB in 2022-23. In relation to the number of properties held by the HRA. A continuation or acceleration in RTB sales, without the addition of new stock replacing RTB losses is a 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.

7.21 A summary of RTB for 2022-23 is set out in the table below:

	£000's
Receipts in Year	3,932
Admin Costs	(25)
Gross receipts	**3,908**
Pooled in year	0
Net receipts before 141 repay	**3,908**
141 repaid to Govt	0
Total retained in 2022/23	**3,908**

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

Reconciliation of Spend to RTB	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000	2028-29 £000	2029-30 £000
Value of receipts that will need surrending if no further spend	**0**	**0**	**0**	**0**	**2,871**	**3,328**	**3,279**	**2,782**
HIP Expenditure required to avoid RTB repayments	0	0	0	0	0	8,321	8,198	6,955
Forecast HIP Expenditure from the Approved Capital progra	(0)	20,194	7,847	400	0	0	0	0
Cumulative Expenditure forecast	6,048	26,242	34,089	34,489	34,489	34,489	34,489	34,489
Forecast additional receipts that will be used (c x 40%)	0	8,078	3,139	160	0	0	0	0
Cumulative additional receipts that will be used ((cumulative	**(0)**	**8,078**	**11,216**	**11,376**	**8,506**	**5,178**	**1,898**	**1,898**
Revised value of receipts that might need to be surrendered			0	0	0	0	0	0

Note - no repayment will be required in 2022-23 - based on 20 RTB sales and only including current expenditure -repayment will not be required in future years unless actual expenditure does not occur in line with forecast

7.22 **HRA capital programme**: the HRA approved capital programme had £52.9 million budget, with £24.5 million for major repairs, and £27 million for new dwellings, either by purchase or redevelopment. Actual spend was £26.3 million, £20.3 million on major repairs and £6 million on provision of new dwellings (£4.1 million purchases and £1.9 million mainly on the Guildford Park project). The provisional programme had £7.3 million budgeted on provision of new homes with £nil expenditure.

7.23 The council used £2.4 million of RTB 141 receipts towards the cost of the new dwellings, the rest of the capital expenditure being funded from reserves.

7.24 **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.

7.25 The table below shows the balance on each reserve at the start of 2022-23, along with the expenditure financed in year and the proposed transfers arising from the appropriation of the revenue surplus in 2022-23.

	Balance 01 April 2022	**Transfer in 2022/23**	**Used in 2022/23**	**Balance 31 March 2023**	**Proposed transfer in 2022/23**	**Closing balance 31 March 2023**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Reserve for future capital works	40,829	0	(10,719)	30,110	2,500	32,610
New build reserve	63,788	0	(2,982)	60,806	5,261	66,067
Major Repairs Reserve (MRR)	9,588	0	(9,588)	0	6,427	6,427

Total Earmarked Reserves	**114,205**	**0**	**(23,289)**	**90,916**	**14,188**	**105,104**
Usable capital receipts (HRA Debt)	5,280	579	0	5,859	0	5,859
Usable capital receipts (1-4-1 receipts)	5,226	(2,372)	3,328	6,182	0	6,182
Usable capital receipts (housing and regeneration statutory) – Post 2013-14	50	645	(695)	(0)	0	(0)
Total Capital Receipts Reserves	**10,556**	**(1,148)**	**2,633**	**12,041**	**0**	**12,041**

7.26 **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.

7.27 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.

7.28 With this in mind, officers are proposing that £5.26 million is transferred to the new build reserve.

7.29 It is critical that we properly maintain our asset base to secure future income streams. The major repairs reserve (MRR) is ring fenced for improvements to existing stock. Under the accounting code of practice, a charge equivalent to the annual depreciation charge is transferred into the Major Repairs Reserve which, for 2022-23, was £6.4 million.

7.30 If the level of depreciation charge exceeds the level of investment required in the existing stock, there will be 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 each year.

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

8. Consultations

8.1. Officers have consulted the Leader of the Council and Lead Councillor for Finance and Property about the recommendations in this report.

9. Key Risks

9.1. The final accounts for 2022-23 have yet to be audited and may be subject to further change.

10. Financial Implications

10.1 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 as a separate ringfenced account. 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.

10.2 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 £194 million as part of the settlement, this was funded through a portfolio of loans from the Public Works Loan Board.

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

10.4 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.

10.5 The 2022-23 outturn being reported on reflected these objectives and priorities.

11. Legal Implications

11.1 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 every other fund in relation to which the body is required by any statutory provision to keep a separate account

11.2 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)

11.3 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.

11.4 The unaudited Statement of Accounts are available on our website, and will be audited by our external auditors, Grant Thornton in due course. They will be 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."

11.5 The Accounts and Audit (England) Regulations 2015 require the Chief Financial 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.

12. Human Resource Implications

12.1 There are no human resource implications.

13. Equality and Diversity Implications

13.1 There are no direct equality and diversity implications because of this report.

14. Climate Change/Sustainability Implications

14.1 There are no direct climate/sustainability implications because of this report.

15. Summary of Options

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

16. Conclusion

16.1 The HRA delivered an operating surplus of £7.8 million. No provision for the repayment of debt principal is included in this figure.

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

16.3 The outturn is broadly in line with the assumptions set out in the approved 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.

17. Background Papers

HRA Budget Report 2022-23 and HRA Business Plan
Accounts and Audit (England) Regulations 2015
Code of Practice on Local Authority Accounting
Accounts and Audit (Coronavirus) (Amendment) Regulations 2020

18. Appendices

Appendix 1: 2022-23 HRA

Appendix 2: HRA Capital Programme