

<b>HOUSING AND ANTI-POVERTY SCRUTINY PANEL</b>	<b>DATE</b> 25/11/2021	<b>ITEM NO.</b> 5
<b>TITLE</b> HRA Expenditure	<b>WARD(S)</b> All	
<b>CHIEF OFFICER</b> Director of Housing and Safer Communities	<b>CABINET MEMBER</b> Housing and Safer Communities	
<b>DECISION CLASSIFICATION</b> Information Only	<b>IS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING?</b>  NA	

1. **Decision required**

This report makes the following recommendation to the decision-maker:

- 1.1 To note the update on the Housing Revenue Account (HRA)'s framework and processes around budget setting and subsequent actions taken to address the budget pressures.

2. **Links to the Royal Greenwich high level objectives**

- 2.1 This report relates to the Council's agreed high-level objectives as follows:
- A strong, vibrant, well run borough.

3. **Purpose of Report**

- 3.1 This report is requested by Housing Anti-Poverty Overview and Scrutiny for the purposes of good governance.

4. **Introduction and Background**

- 4.1 The HRA budget setting process is governed by various pieces of legislation included in the Housing act 1985, the Local Government and Housing Act 1989, and Local Government Act 2003.

- 4.2 The HRA is a ring-fenced account which is required to set a balanced budget annually.

- 4.3 Central Government rent policy is mandatory and determines the level of increase or decrease per year.
- 4.4 The current RBG policy requires an increase in rents by up to CPI plus 1% for each of the 4 years commencing from April 2020.
- 4.5 A Cabinet decision setting rents and service charges is made annually in the February preceding the start of the financial year on the 1<sup>st</sup> April.

## **5. Budget 2021-22**

- 5.1 Cabinet met in February 2021 and agreed the HRA budget for 2021-22.
- 5.2 It was agreed that in line with Government policy rents would be increased by CPI plus 1%.
- 5.3 It was agreed to apply full cost recovery to Tenant service charges. In 2016 members agreed to separate service charges from rents and uplift them by 1.5% annually. The 1.5% increase has not kept pace with the true cost to the Council therefore full cost recovery equalises the position.
- 5.4 As set out in the MTFS, after applying the 1.5% rent increase, the financial effects of changes to stock numbers, the 1.5% increase to Tenants Service Charges, inflationary pressures for staffing and repairs, 1.5% construction inflation, there remained a gap of £3.862m for 21/22. The proposals to meet this gap and which have been applied to the HRA Business Plan are shown in Table I.

6 **HRA Budget 2021/22**

**Table I: Housing Revenue Account Budget 2021/22**

<b>Description</b>	<b>2021/22 £000</b>
Opening BP Gap/Surplus	<b>1,498</b>
Pay Inflation	301
General & Repairs Inflation	318
Vehicle Rates	119
Stock Loss (RTB disposals)	505
Budget Realignment	271
Contribution to in year projected Structural Deficit	850
<b>Total</b>	<b>3,862</b>
<b>Proposals to meet Gap</b>	
Rents & Service charge 1.5% increase & relets	(1,152)
CEC and Recharges Reduction	(1,000)
Increasing Leaseholder Collection	(780)
Caretaking Income	(500)
Efficiencies in Tenancy Services	(180)
Increased Garage Income	(250)
<b>Total</b>	<b>(3,862)</b>
<b>Gap/ Surplus</b>	<b>0</b>

A 2% pay increase was allocated to staffing budgets for 20/21 but the actual pay increase was 2.75% so the additional 0.75% requires funding of £301k. Repairs inflation of 1.5% has been applied to all Repairs budgets at a cost of £318k.

Vehicle rates increased by 10% in 20/21 but no funding was given as the increase was not known at the time of setting the budget. The main areas within HSC that have vehicles are Caretaking and R&I and the cost of the increase is £119k. These charges include a contribution to the replacement fund.

It was estimated that by the 31<sup>st</sup> March between 80 – 100 RTB sales would have been completed. The impact on loss of rental income is estimated at £505k.

As with the General Fund a review was carried out on all budgets and realignment was carried out where needed at a cost of £271k.

There is an on-going budget deficit within R&I to help reduce this deficit in

2021/22 £850k has been allocated against these budgets.

All the above have resulted in a gap of £3.862m.

## **7. Budget 2021-22**

7.1 Government rent policy reverts to a CPI + 1% increase from 2020/21.

7.2 In summary the HRA budget position for 2021/22 is set out in the table below

**Table 2: Housing Revenue Account Budget 2021/22**

<b>HRA Budget position</b>	<b>2021/22</b>
<b>Income</b>	
Rent	(96,475)
Tenant Service Charges	(15,297)
Leasehold Charges	(5,281)
Other rents (non-dwelling)	(2,822)
Other Income	(2,013)
Contribution to Expenditure(MWB)	(3,769)
Interest on balances	(10)
<b>Total</b>	<b>(125,667)</b>
<b>Expenditure</b>	
General Management	28,945
Repairs	21,467
Other Budgets, rents and rates	29,131
Capital Financing	16,404
Depreciation MRR	28,916
<b>Total</b>	<b>125,667</b>

## **8. HRA monitoring Position at Q1 2021/22**

As at June 2021 the HRA was reporting a pressure of £3.1m on the HRA.

Details are shown below:-

<b>Service Area Analysis</b>	<b>2021/22 £m</b>
Asset Management	<b>3.7</b>
Estates	0.7
Rents and Voids	0.9
General Department costs	0.1
Repairs and Investment	(0.5)
Housing Services	(0.5)
Tenancy	(0.3)
Leaseholder Service Charges	(1.0)
<b>Total</b>	<b>3.1</b>

The pressure of £3.7m on Asset Management is broken down into further detail below.

**Table 2: Asset Management Forecast as at June 2021**

	<b>Budget 2021-22 £</b>	<b>Forecast Outturn 2021-22 £</b>	<b>Variance £</b>
<b>Expenditure</b>			
Direct Labour	10,290,658	13,233,285	2,942,627
Apprentices		274,279	274,279
Materials	3,575,000	3,540,616	(34,384)
Sub-contractors	7,600,000	9,064,046	1,464,046
Indirect overheads	4,026,942	3,708,739	(318,203)
Central Costs	941,750	941,750	-
<b>Total Expenditure</b>	<b>26,434,350</b>	<b>30,762,715</b>	<b>4,328,365</b>
<b>Income</b>			
Total Income	(26,434,350)	(27,081,657)	(647,307)
<b>(Surplus)/Loss</b>	<b>0</b>	<b>3,681,058</b>	<b>3,681,058</b>

8.1 The pressures reflect the structural costs in the Asset Management service around direct labour and sub-contractor which have been ongoing for a number of years. Covid 19 lockdown saw a significant decrease in the number of repairs undertaken as the service moved to essential repairs only for nine months before remobilising in a planned way to ensure safe working practices. This had a number of financial effects as fewer repairs have meant less income for the DLO resulting in an overspend on the Asset Management budget due to wages and subcontractor costs with the DLO not generating sufficient income.

- 8.2 Another financial effect is the loss of income through voids which is currently forecast to the end of the financial year at approximately £2.4m. Voids rent loss as a percentage has risen from 1.64% at the end of March 2021 to 2.07% at the end of August 2021. As lockdown has lifted, voids have been prioritised and significant work is underway to get properties refurbished and let. As a result, the service continues to spend a significant amount on sub-contractors in order to clear the backlog as not all of the works can be undertaken by the inhouse team.
- 8.3 An upgrade of housing systems is being undertaken to better support job scheduling, management and improved monitoring and performance. The quickest and most cost-effective way of doing this is improving and investing in our current housing systems and new contracts have been agreed with NPS, Civica and Advanced in support of the council's digital strategy.
- 8.4 Changes in working arrangements, improved systems and reforms to the trade staff Pay and Reward Scheme are expected to generate improved productivity to enable more work to be done in-house. Part of this capacity will be utilised to start delivery planned maintenance programmes.

The outturn for financial years 2019/20 and 2020/21 in this area were as follows:-

2020-21 - £5.6m overspend (this was offset by a saving of £4.1m in repairs charges due to less work being undertaken).

2019-20 - £2.4m overspend

- 8.5 As at August 2021, there is a forecast overspend of £2.4m across the whole of the HRA. The £3.7m deficit on Asset Management is offset by a saving of £800k on the Repairs Service however the saving is unlikely to be ongoing as repairs begin following the lifting of lockdown. The loss of income due to the backlog of voids is offset by the increases in rent, service charges and rental income from garages leading to an overall loss in this area of £322k. There continues to be a favourable variance of £1.1m around leaseholder charges. Adverse variances on DMT salaries of £110k (agency staff), Estate Services of £643k and the Housing IT areas of £212k are offset by favourable variances in the Caretaking and Tenancy services of £295k and Housing Services of £558k.

## 9. **Available Options**

- 9.1 Overview and Scrutiny are asked to note the contents of this report.

## 10. Preferred Options

10.1 Overview and Scrutiny are asked to note the contents of this report.

## 11. Reason for Recommendation

11.1 Overview and Scrutiny are asked to note the contents of this report.

## 12. Consultation

12.1 No formal consultations have been carried out in connection with this report.

## 13. Cross-Cutting Issues and Implications

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Legal</b> including Human Rights Act	The purpose of this report is to update the Panel in respect of the Council's Housing Revenue Account (HRA)'s framework, processes around budget setting and subsequent actions taken to address the budget pressures. No decisions are required, and no legal issues arise	<i>Azuka Onuorah</i> <i>Head of Legal Services</i> 15 <sup>th</sup> November 2021
<b>Finance</b> and other resources	The purpose of this report being presented to the Housing and Anti-Poverty Scrutiny Panel is to identify the framework and processes around HRA budget setting and subsequent actions taken to address budget pressures.  There are no decisions required from the report and therefore no direct financial implications. Any subsequent decisions would be subject to separate reporting and financial consideration.	Joanne Stark Head of Accounting & Business Change 11.11.21
<b>Equalities</b>	There are no equalities implications arising from this report.	Akosua Boachie

		Accountancy Business Change Manager  11 <sup>th</sup> November 2021
<b>Climate Change</b>	There are no climate change implications arising from this report.	Akosua Boachie Accountancy Business Change Manager  11 <sup>th</sup> November 2021

Report Author: Akosua Boachie, Accountancy Business Change Manager  
Tel: 020 8921 3005  
Email: akosua.boachie@royalgreenwich.gov.uk

Reporting To: Joanne Stark, Interim Head of Accountancy and Business Change  
Tel: 020 8921 5336  
Email: joanne.stark@royalgreenwich.gov.uk

Chief Officer: Jamie Carswell, Director of Housing and Safer Communities  
Services  
Tel: 0208 921 8291  
Email: jamie.carswell@royalgreenwich.gov.uk