

Item No. 5.	Classification: Open	Date: 10 January 2024	Meeting: Overview and Scrutiny Committee
Report title:		Housing Revenue Account – Budget Variances	
Ward(s) or groups affected:		All	
From:		Clive Palfreyman - Strategic Director, Finance	

RECOMMENDATION

1. To note the overspend on the Housing Revenue Account and the contributing factors.

BACKGROUND INFORMATION

2. The Month 4 HRA budget monitor to cabinet was presented to OSC on 11 December 2023. Committee members requested that additional detail be provided to explain the adverse variance reported. This report provides an update based on the latest forecast (Month 8) published on the council's website in the week commencing 8 January 2024 in advance of the cabinet meeting on 17 January.

KEY ISSUES FOR CONSIDERATION

HRA Overview

3. The headline position for the HRA for month 8 (November 2023) is a deficit of £16.757m, an increase of £2.945m from the position reported at month 4.
4. The following summary table shows that this is largely down to adverse variances in Tenant Facing Services, partially offset by favourable variances elsewhere.

	<u>Budget</u> <u>£000's</u>	<u>Forecast</u> <u>£000's</u>	<u>Variance</u> <u>£000's</u>
Income	-309,545	-308,731	813
Tenant Facing Services	137,108	162,160	25,052
Other Services	172,436	163,328	-9,108
Total HRA	0	16,757	16,757

5. Annually, Service Directors have the opportunity to plan for changes to income and expenditure for their areas of responsibility. For the purposes of this report, financial variances are shown against approved budgets.

Tenant Facing Services

6. Tenant Facing Services is forecast to be £25.052m over the approved budget, an increase of £12.592m over that reported at month 4.

	<u>Budget</u>	<u>Forecast</u>	<u>Variance</u>
	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
Resident Services	59,636	70,343	10,707
Asset Management	69,629	81,950	12,321
Customer Services	5,272	6,982	1,710
New Homes	670	1,165	495
Directorate	1,902	1,720	-181
Subtotal Tenant facing services	137,108	162,160	25,052

7. The following table highlights the expenditure categories making the most significant contribution to the overspend. These are further broken down into the individual service areas later in this report.

Cost Type	Variance
Repairs, Alterations & Maintenance	17,209
Property Services/Charges	3,279
Cleaning & Domestic Supplies	1,927
Payments to Other Bodies	1,250
Other Recharges	708
DHP Match Funding and Compensation	668
Professional Fees & Services	517
Recharges to Capital	333
Communications & Computing	261
Equipment, Furniture & Materials	200
Service Contracts (Private Sector)	118
Fees and Charges	-141
Staffing Budgets	-516
Recharges	-721

8. Overall, the cost pressure within Tenant Facing Services is partially offset by a decrease in the forecast from other services of £9.108m, mostly arising from changes in the Capital Programme:

- The council is now expecting to reduce its revenue contribution to the capital programme, which reduces pressure on the revenue account but will result in additional borrowing.
- A number of capital projects have been paused or re-profiled meaning that borrowing costs originally anticipated to be borne in 2023-24 have been avoided or postponed.

Main variances by Service

Resident Services

9. The forecast for Resident Services is an overspend of £10.707m, key variances are shown below.

Cost Type	Variance £'000's	Narrative
Repairs, Alterations & Maint	4,033	Voids and works to Sheltered Housing Units
Property Services/Charges	3,274	Electricity Charges
Cleaning & Domestic Supplies	1,933	Estate Cleaning
Payments to Other Bodies	1,231	TA Placements for vulnerable residents
Other Recharges	694	Legal Recharges and Parking

This is offset by

Cost Type	Variance £'000's	Narrative
Fees and Charges	-158	Parking Income
Services	-542	Legal and Court Fees, Removal Expenses

Note: only significant variances shown

Asset Management

10. The forecast for Asset Management is £12.321m, £6.626m of which is attributable to Southwark Repairs (forecast Southwark Repairs Operational Deficit now £10.226m). The remainder consists mostly of additional Repairs and Maintenance, totalling £6.559m summarised by contract below:

Contract	Variance
SBS Surplus/ Deficit	6,626
Communal Repairs	4,244
Voids (North)	2,383
Disrepair	2,273
Roofing & Rainwater	1,317
R&M Contracts (North)	385
Fire Protection	296
Electricity & Lighting	181

Metal Works	125
R&M Contracts (South)	-100
Repairs Operations	-146
Major Repairs	-250
Door Entry Programme	-254
Lifts	-441
Asbestos R&M (North)	-1,662
Heating & Hot Water	-1,757

This is offset by further underspends on non-repairs and maintenance of £0.865m, mostly on staffing and associated costs.

Customer Services

11. Customer Services is currently forecasting an overspend of £1.71m, arising from Salaries and Wages and additional agency staff for the 'Winter Plan' where the service can be operating with up to 28 additional headcount.

New Homes

12. The New Homes team forecast is an overspend of £0.495m arising largely from changes to the future New Homes programme leading to costs that would have otherwise be charged to capital being a revenue cost.

Other Services

13. As highlighted earlier in this report, the pressures reported in Tenant Facing Services are offset by forecast underspends in other services.

	<u>Budget</u>	<u>Forecast</u>	<u>Variance</u>
	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
Exchequer Services	4,466	4,419	-47
Home Ownership	10,201	14,369	4,168
Garages Team	1,772	1,758	-14
Heating Account	15,498	19,240	3,742
Commercial Properties	1,372	2,054	682
Central Services	30,636	26,099	-4,536
Debt Financing	32,505	28,502	-4,003
Depreciation (Dwellings)	50,000	50,000	0
Depreciation (Non-Dwellings)	3,000	1,500	-1,500
Revenue Contribution to Capital	22,987	15,387	-7,600
Subtotal Other Services	172,436	163,328	-9,108

Debt Financing

14. Debt financing represents the revenue cost (interest payments) on existing HRA borrowing together with further borrowing for New Homes and to support the Asset Management HIP over and above the available HRA revenue resources.
15. For the purposes of this report an assessment has been made of the likely interest charges to be incurred by the HRA given:
 - The HRA has cash balances
 - Rents from tenants are paid weekly or monthly
 - When Housing Benefit is received
 - Payroll costs are made monthly in arrears
 - Contractor payments are made 2 months in arrears following their claim
16. Taking this into account, the present interest on borrowing has been assessed at reduced by £3.003m relative to the month 4 forecast. Including additional interest receivable of £1m, the total favourable variance is assessed at £4.003m.

Revenue Contributions to Capital

17. Revenue contributions to Capital consists of 2 elements – HRA resources and Homeowner's contributions. The Homeowner's contribution is set based on the capital spend on eligible Major Works projects. As the expenditure profile on these projects changes, the amount contributed by Homeowners changes. Within the latest forecast, the Major Works programme for this year has been forecast to be much lower than originally planned (c £8.0m), leading to reduced resources from Homeowners (c.£7.6m).
18. The second element of the revenue contribution to the capital programme is used to fund the wider asset management programme (alongside the more substantial depreciation budget). Ideally, the depreciation and the revenue contribution to capital would be sufficient to cover the full cost of capital works. However with increasing financial pressure on the revenue account, and additional requirements arising from regulation driving up the cost of the AM programme, it is likely that the council will reduce its revenue contribution to capital in 2023-24 and some future years and borrow to make up the resulting shortfall.

Other Services

19. Inflation and contingencies have been released to partly compensate for the additional payroll costs and contract inflation included in service forecasts. These amount to a reduction of £4.123m.

20. There are also additional forecast costs for IT networking (c.717k) along with a further cost forecast adjustment for Energy consumed heating Tenants homes via our heat networks.
21. Home Ownership costs are over budget due to the increased costs of buildings insurance attributable to those properties. This is recoverable from Homeowners.
22. There is also a reduction in the rent receivable, due to a larger number of properties remaining Void longer than budgeted.

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Finance	
Report Author	Timothy Jones, Departmental Finance Manager	
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Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	No	No
Strategic Director of Finance and Governance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team / Scrutiny Team	9 January 2024	