

Housing Financial Performance 2023/24

Report to: **Communities Committee**

1. Introduction

- 1.1 Council approved the 2023/24 Housing Revenue Account (HRA) and General Fund Housing Services Revenue and Capital budgets on 9 February 2023 and 9 March 2023 respectively as part of agreeing the wider Medium Term Financial Strategy (MTFS). The MTFS supports the delivery of the Council Plan and associated priorities by setting out the framework within which resources are available over the medium term and the financial challenges facing the Council, in doing so, it incorporates all revenue and capital funding and use of reserves.
- 1.2 The purpose of this report is to provide Communities Committee with an update on the forecast position for HRA and General Fund Housing Service for which it has responsibility, to highlight recognised pressures which are impacting on these budgets and provide options on how these could be addressed, including identifying possible use of Reserves.

2. Forecast Revenue Position 2023/24

2.1 Housing Revenue Account

- 2.2 The revenue budget in respect of the HRA was developed through consultation with services and members to identify the resources required to deliver on the Councils priorities in relation to provision of Council housing. As set out in **Table 1**, the HRA had budgeted income of **£70.468m** for 2023/24, of which **£52.256m** supported the delivery of its core functions, leaving the remaining **£18.212m** available to fund the HRA Capital Plan (CFCR).

Table 1: HRA Forecast Outturn vs Revised Budget 2023/24

Type of Spend	Revised Budget 2023/24 £000	Actual to 30 June 2023* £000	Forecast 2023/24 £000	Forecast Under/ (Over) Budget £000
Staff Costs	10,265	2,417	10,058	207
Premises Costs	20,957	5,172	27,917	(6,960)
Transport Costs	230	48	205	25
Supplies & Services	3,864	825	4,537	(673)
Third Parties	181	30	133	48
Central	2,965	767	3,068	(103)
Financing Costs	13,794	-	8,827	4,967
Total Expenditure	52,256	9,259	54,745	(2,489)
Income	(69,268)	(17,090)	(69,065)	(203)
Other	(1,200)	-	(820)	(380)

Total income	(70,468)	(17,090)	(69,885)	(583)
Net Income	(18,212)	(7,831)	(15,140)	(3,072)
Capital Funded from Current Revenue	12,381		9,309	3,072
Payment to General Fund – Capital Pay Award Funding	5,531		5,531	-
Transfer to HRA Risk and Inflation Reserve	300		300	-
Total Capital Funded from Current Revenue	18,212		15,140	3,072
Net Revenue Budget	-		-	-

**Note, actual to date figures may not be representative of the year to date position due to timing of expenditure and income*

- 2.3 The total forecast net income for the year as at 30 June 2023 is **£15.140m, £3.072m under budget**. The main variances being as follows:
- 2.4 Premises costs are forecast to be over budget by **£6.960m**. Approximately £2.2m of this is due to increased contract costs and changes to the scope of the Hard FM contract with more Sheltered Housing complexes being included in the contract. Reactive repairs costs have also increased significantly due to inflationary pressures with average prices seeing rises of around 40% for new repairs and maintenance quotes during 2022/23.
- 2.5 Supplies and Services are forecast to be over budget by **£0.673m** which is a result of the anticipated housing bad debt provision on rent. This is forecast to be at a similar level to 2022/23 (£0.502m) due to the on-going cost of living crisis impacting on tenants ability to pay rents and charges.
- 2.6 Financing costs are expected to be within budget by **£4.967m** due predominately to the Loan's Fund Review impacting the loan charges breakdown. This forecast is indicative and subject to change due to the ongoing risks associated with interest rates rises, timing of HRA borrowing requirement and surplus cash balances available for investments etc.
- 2.7 Ordinarily the total net income of £18.212m would be used to fund the HRA Capital Programme as CFCR. However, in 2023/24 the Scottish Government provided the Council with £5.531m of Capital Funding towards the Local Government Pay Award, as in 2022/23. As Capital funding is not permitted to be used to fund revenue expenditure, Local Government Finance Circular 11/2022 allowed temporary flexibilities to enable this funding to be applied to the HRA Capital Programme, and in its place, the equivalent amount would be transferred to the General Fund from the HRA CFCR to fund the pay award costs.
- 2.8 The impact on the HRA is to reduce the amount of CFCR funding available to fund the Capital Programme, but in its place, the Capital Programme will receive £5.531m of the Capital Grant, therefore the net impact is £nil. This arrangement will not be repeated in 2024/25 as the funding will be baselined into the Revenue Settlement.
- 2.9 **General Fund Housing Services**
- 2.10 For other housing services that do not relate to Council-owned housing, the forecast for the year is **£6.962m** against a revised budget of **£6.070m**, therefore expenditure is anticipated to be over budget by **£0.892m** as set out in **Table 2**.

Table 2: General Fund Housing Service Forecast Outturn vs Revised Budget 2023/24

Budget Page	<i>Original Budget 2023/24 £000</i>	<i>Revised Budget 2023/24 £000</i>	<i>Actual to 30 June 2023* £000</i>	<i>Forecast 2023/24 £000</i>	<i>Forecast Under/ (over) Budget £000</i>
Affordable Housing	275	275	59	244	31
Homeless Persons	3,913	3,936	1,265	4,521	(585)
Improvement and Repairs Grants	937	937	232	1,449	(512)
Gypsies / Travelers	168	168	22	158	10
Sheltered Housing Support	351	351	123	187	164
Community Safety	403	403	107	403	-
Total General Fund Housing	6,047	6,070	1,808	6,962	(892)

**Note, actual to date figures may not be representative of the year to date position due to timing of expenditure and income*

2.11 Homeless Persons

The over budget position within the Homelessness service is attributed to a reduction in the levels of income being generated from the use of Temporary Accommodations Units (TAUs) and Hostels. This is due to Homeless Persons being placed into mainstream housing a lot quicker than previous years in response to Government Legislation relating to the Unsuitable Accommodation Order and Rapid Rehousing Plan. In addition to this, the Service requires to maintain a supply of empty rooms within Hostels and TAUs for emergency use. While these rooms/properties are not occupied, this results in lost revenue and contributes to the reduced income levels.

The Service is currently undertaking a review of temporary accommodation with a recommendation in a separate report to this Committee to increase charges for temporary accommodation. This will increase income in Homeless Persons however it is important to note that this would have a detrimental impact on the Housing Benefit budget. The financial impact of the proposed charging changes on the Housing Benefit budget are complex due to the interaction of Housing Benefit entitlement, eligible and ineligible services and subsidy. There is also the issue of affordability of the charges for those not eligible for Housing Benefit. The financial impact on the Housing Benefit budget is being assessed and will be reported through the Business Services Committee as part of the Finance budget.

The Service is also reviewing the hostels, specifically the length of stay and the way these hostels operate. A cautious approach is required as any proposed changes could lead to a breach of legislation and increased risk of litigation against the Service.

2.12 Improvement and Repairs Grants

Improvement and Repairs Grants are forecast to be over budget by £0.512m. The Council has a statutory obligation to provide this service which is funded by the Capital Plan. The current year capital allocation of Private Sector Housing grants is £0.75m against an anticipated demand of £1.2m. The Capital Plan is currently being reviewed corporately to address pressures with an increase to this allocation being unlikely. In addition to

pressures on demand for this service, repairs have seen a 20% inflationary increase to costs. The service are considering how to manage the demand for this service, with any reduction in spend potentially impacting on service users ability to remain in their homes and consequently having a knock on impact on services within Health and Social Care and the NHS. The team are looking at ways to mitigate the impact of the budget pressures with on-going discussions with Aberdeenshire Health and Social Care Partnership (AH&SCP) on how to manage the service and budgets. A paper will be presented to the Housing Management Team and shared with the Capital team to consider options on how to manage the service going forward. Additional work has been carried out to retender contracts and look for more competitive pricing for the works required.

2.13 **Sheltered Housing Support**

An under budget position within Sheltered Housing Support is being forecast due to historic contracts with Registered Social Landlords (RSL's) being reviewed, and as a result are in the process of being terminated. This will result in a recurring saving of £0.351m in 2024/25 which is over and above the £0.091m saving agreed for 2023/24. This will help mitigate pressures elsewhere in the Housing Service Budgets.

3. **The Risks**

- 3.1 As set out in the [Medium Term Financial Strategy](#) the Council is facing unprecedented financial challenges due to events out with our control, including ongoing economic challenges, recovery from the pandemic and the global impact of Russia's war in Ukraine, all of which have contributed to rising inflation and interest rates, volatility in our supply chains and the Cost of Living crisis. Rising costs, increased demand for local services and reducing real term financial settlements from Scottish Government has created a challenging operating environment for 2023/24.
- 3.2 To respond to these challenges, the budget agreed by Council included significant assumptions and acceptance of risk to enable a balanced position, as well as agreement of a range of savings and efficiencies.
- 3.3 Budget risks refer to potential threats or uncertainties that could impact on the Council's ability to meet its objectives within the constraints of the budget. These risks could arise from a range of factor and should some or all these risks materialise during the year, they may create a budgetary pressure which will require to be addressed, either through efficiencies elsewhere within the Service or the Council, a policy change or the use of reserves.
- 3.4 The budget risks relating to the HRA and General Fund Housing Services are set out in [Appendix 5C](#).
- 3.5 Local Government Pay Awards continue to be a significant risk to the Council's budget as a whole. Scottish Government have provided funding of £155m towards a revised pay offer, of which Aberdeenshire Council anticipate to receive £7.088m. £4.6m of this funding was assumed in the budget setting process for the General Fund and was

transferred to an earmarked reserve. It will be recommended to Council that the additional funding is also transferred to the reserve pending agreement. The latest offer to Trade Unions which was within the Scottish Government funding envelope, of 5.5% was rejected. Any offer agreed above this level without additional funding will create a pressure on all services. Council agreed to transfer £0.3m to a HRA Risk & Inflation Reserve to mitigate against potential inflationary and pay award pressures within the HRA.

- 3.6 Future financial performance reports will provide updates on the monitoring of these risks and any envisaged impacts and mitigations.

4. General Fund Savings

- 4.1 Savings of **£0.161m** were agreed by Council in relation to General Fund Housing Services. These are detailed in **Appendix 5D**.
- 4.2 Of the £0.121m saving identified, **£0.091m** are on target to be achieved by the end of the financial year.
- 4.3 Savings in respect of a reduction in small repairs budgets unlikely be achieved due to demand pressures on the Private Sector Housing Grant.
- 4.4 Savings of **£0.040m** of Vacancy Management were also agreed to be achieved by the Housing Service within the General Fund meaning that when posts become vacant, services may be required to consider how to deliver services differently to avoid the need to recruit to the vacant post. Services are managing this carefully to ensure that delivery of services is not adversely impacted by reduced staffing numbers. To date, services look to be on track to achieve these.
- 4.5 Corporate savings of £2m were also agreed in relation to Voluntary Severance. Savings in relation to staff leaving the organisation under this scheme will be removed from the relevant General Fund budgets throughout the year as they are identified, and updates provided to committee. If sufficient savings are not able to be generated from Voluntary Severance, services may be required to find additional savings to mitigate.
- 4.6 Monitoring of the achievement of these savings will continue to be undertaken throughout the year and reported to future Committees as part of the financial performance reporting. Should it become apparent during the year that these savings will not be achieved, this will be reported to Committee as part of future financial performance reports, with details of the services options to mitigate any resultant budget pressure.

5. Reserves

- 5.1 Reserves are an important resource for the Council and the level, purpose and planned use of these reserves was set out in the Medium Term Financial Strategy. Balances held in respect of the HRA and General Fund Housing Service are summarised in **Table 3** below:

Table 3: Reserves at 30 June 2023

Reserve	Balance at 1 April 2023 £000	Balance at 30 June 2023 £000
HRA Working Balance	2,000	2,000
HRA Risk & Inflation Reserve	300	300
Total HRA Reserves	2,300	2,300
Affordable Housing Reserve	7,868	7,868
Total Housing Service Reserve	7,868	7,868

5.2 Council agreed an HRA Working Balance Reserve of £2.0m when it approved the budget for 2023/24. It should be recognised that were an unforeseen event to occur that could impact on the HRA revenue budget, which may require a call on this reserve, consideration would be made by Council as to how to reinstate the balance to the agreed level. In addition to this Council also agreed to create an earmarked reserve of £0.3m for known risks and inflation increases including any pay award above the 3% budgeted as highlighted above.

5.3 The Affordable Housing Reserve is available to support the Housing Service in the delivery of new affordable housing. This reserve is a revolving fund. It includes legally ring-fenced funds from 2nd homes council tax and supports delivery of new builds. £0.820m has been committed against three Council new build projects which are currently on site with spend anticipated by March 2024. A further £6.299m has been committed in principle to assist in the delivery of 262 units over the course of the next 5 years subject to appropriate approvals and funding. Given the ongoing challenges in the construction market with increased development costs, this fund will continue to be required to further subsidise the delivery of the new build programme.

5.4 It should be noted that the balances available in reserves are provisional and may be subject to change until the annual accounts for 2022/23 have been reviewed by External Audit. Any changes will be reflected in future financial performance monitoring reports together with updates on the use of these reserves throughout 2023/24.

6. Capital

6.1 The Capital Plan forms part of the Medium-Term Financial Strategy and reflects the Council's capital priorities. The capital projects identified in the 2023/24 budget were agreed as part of the Council's Capital Plan on 9 March 2023 and those that specifically relate to Housing are detailed in [Appendix 5B](#) and summarised in [Table 4](#).

Table 4: Capital Plan Forecast vs Revised Budget 2023/24

	Revised Budget 2023/24 £000	Actual to 30 June 2023 £000	Forecast at 30 June 2023 £000	Under/ (over) budget £000
Housing General Fund	4,081	338	4,054	27
HRA Capital Programme	78,320	11,871	76,518	1,802
Total Capital Expenditure	82,401	12,209	80,572	1,829

- 6.2 Whilst the general services capital plan for 2023/24 was presented in detail on 9 March 2023, a detailed review of the Capital Plan is being undertaken during 2023/24 to allow a comprehensive, affordable, and deliverable Capital Plan to be developed for the financial years 2024 to 2028.
- 6.3 The level of borrowing required to support the capital investments presents an ongoing challenge to the Council's financial sustainability. The repayment of borrowing used to fund capital expenditure incurred today, creates a future revenue budget commitment over the entirety of the anticipated life span of the new asset.
- 6.4 The affordability of the HRA Capital Programme will be assessed as part of the HRA Business Plan Review ahead of the budget and rent setting being agreed for 2024/25.