

**Housing Revenue Account  
Revenue Budget and Capital Plan 2022/23**

**Report by David Gladwin, Chief Finance Officer (Acting).**

**Report for Decision**

**1 Recommendations**

Council is recommended to:

- Note the contents of this report;
- Approve the reallocation of the £10 million earmarked capital budget for Retrofit Fire Safety Sprinkler Systems to the New Social Housing Phase 3-4 project as covered in section 3.1 below;
- Approve the release of a further £0.020m from the HRA Reserve to support the developing strategy for Dalkeith Town Centre.

**2 Purpose of Report/Executive Summary**

The purpose of this report is to provide Council with a summary of expenditure and income to 26<sup>th</sup> September 2022 for the Capital Plan and a projected outturn for both the Housing Revenue Account (HRA) and Capital Plan for 2022/23.

The summarised financial performance for 2022/23 is:

- Capital Investment in the year totalling £53.842 million;
- A net underspend of £0.171 million on the Revenue Account;
- A projected HRA general reserve at 31<sup>st</sup> March 2023 of £32.264 million.

**Date 26<sup>th</sup> October 2022**

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### **3 Background**

#### **3.1 Capital Plan 2022/23**

The Capital Plan Budget has been revised to reflect the current profile of spend as shown in appendix C. Capital investment in the year is projected to be £53.842 million and there are currently no material variances to be reported.

The construction industry in Scotland and the UK is currently experiencing unprecedented adverse market conditions, which is leading to significant rises in tender prices for a wide range of materials. There is evidence that inflation of between 10% and 15% beyond BCIS predictions is affecting projects and whilst measures such as value engineering are partially mitigating cost increase there is a risk that the capital budgets provided for delivery of the New Social Housing project will need to be increased with a resultant impact on the funding strategy. Spend in 2022/23 is largely determined by contracts awarded prior to the acceleration of market influences thus the principal risk at this stage relates to future financial years.

Currently there is an approved budget of £156.258 million allocated to Phase 3 and 4 of the New Social Housing project phased over 2019/20 to 2026/27. Due to the factors mentioned above the current projected overall project cost is £18 million more than budgeted. To address this, two sites, where there is current uncertainty to their progression, will now be included as part of phase 5 thus reducing overall projected cost by approximately £8 million.

The approved Environmental improvements budget includes an allocation of £10 million for fire safety sprinkler systems which was earmarked as a precaution should Scottish Ministers require that the Council retrofit fire safety sprinkler systems to our social housing stock in response to the Grenfell Tower incident. The Ministerial Group on Fire & Building Regulations has since announced that there is not a requirement to carry out these works and it is therefore recommended to reallocate this budget to the New Social Housing Phase 3 and 4 project to address the remaining £10 million projected cost over-run therefore bringing the current approved capital plan back within budget.

#### **3.2 Revenue Account 2022/23**

Dalkeith Town Centre Masterplan and Outline Business Case  
Council on 14<sup>th</sup> December 2021 approved the utilisation of £0.060m from the General Fund Reserve and £0.020m from the Housing Revenue Account Reserve to fund work needed to update the masterplan and strengthen the economic, financial and commercial case.

Work has been progressing well and a final report will be presented to Members early in 2023. Additional consultant input to support attendance at meetings and consultation events not originally scoped for and also to work through some additional analysis is anticipated to cost a further £0.020m to that already approved. The nature of this additional work relates to possible housing options in Dalkeith Town Centre and as such is properly chargeable to the Housing Revenue Account. Members are asked to approve an additional release of £0.020m from the HRA Reserve to support this.

The overspend reported to Council on 23<sup>rd</sup> August 2022 was £0.294 million. Projected spend at quarter 2 for 2022/23 has decreased by £0.465 million principally due to reduced borrowing costs aligned to lower forecast in-year capital expenditure. Projections now show an underspend of £0.171 million against budget, as shown in appendix D.

The HRA general reserve balance is projected to be £32.264 million at 31<sup>st</sup> March 2023 and is committed to finance existing investment plans through to 2037/38.

### **3 Report Implications**

#### **3.1 Resource**

There are no direct resource implications arising from this report.

#### **3.2 Digital**

There are no direct digital implications arising from this report.

#### **3.3 Risk**

The principal risks are around the issue of affordability, ensuring that the investment in new build and the existing stock can be made without having to impose unacceptable increases on weekly rents. This is mitigated by the adoption of a long term financial strategy and modelling which demonstrates that existing investment commitments are sustainable.

There is also the risk of capital spend being lower than projected due to delays on projects, particularly in the current climate, this could result in lower debt charges causing the Housing Revenue Account Reserve balance to increase more than projected.

#### **3.4 Ensuring Equalities**

There are no equality issues arising directly from this report.

#### **3.5 Additional Resource Implications**

See Appendix A.

### **Appendices**

Appendix A – Additional Resource Implications

Appendix B – Background Information

Appendix C - Capital Plan 2022/23

Appendix D – Revenue Account 2022/23

## **APPENDIX A – Report Implications**

### **A.1 Key Priorities within the Single Midlothian Plan**

Not applicable

### **A.2 Key Drivers for Change**

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious
- None of the above

### **A.4 Delivering Best Value**

The report does not directly impact on Delivering Best Value.

### **A.5 Involving Communities and Other Stakeholders**

The report does not directly relate to involving communities.

### **A.6 Impact on Performance and Outcomes**

The report does not directly impact on Midlothian Council's performance and outcomes.

### **A.7 Adopting a Preventative Approach**

The report does not directly relate to adopting a preventative approach.

### **A.8 Supporting Sustainable Development**

The report does not directly relate to supporting sustainable development.

**APPENDIX B**

**Background Papers/Resource Links**

HRA Capital Plan and Revenue Budget enclosed