

BABERGH DISTRICT COUNCIL

TO:	Overview and Scrutiny Committee	REPORT NUMBER: BOS/20/3
FROM:	Councillor John Ward Cabinet Member for Finance	DATE OF MEETING: 18 January 2021
OFFICER:	Gavin Fisk, Assistant Director, Housing	KEY DECISION REF NO. N/A

DRAFT HOUSING REVENUE ACCOUNT (HRA) 2021/22 BUDGET AND FOUR-YEAR OUTLOOK

1 PURPOSE OF REPORT

- 1.1 The report contains details of the draft revenue and capital budgets and the Council's strategic financial aim. The purpose of this report is to present the draft HRA Budget for 2021/22 and four-year outlook.
- 1.2 To enable Members to consider key aspects of the 2021/22 HRA Budget, including Council House rent levels.

2 OPTIONS CONSIDERED

- 2.1 The Housing Revenue Account Budget for 2021/22 and four-year outlook is an essential element in achieving a balanced budget and sustainable medium-term position, therefore no other options are appropriate in respect of this.

3 RECOMMENDATIONS

- 3.1 That the draft HRA Budget proposals for 2021/22 and four-year outlook set out in the report be endorsed for recommendation to Council on 23 February 2021, subject to further consideration at the next Cabinet meeting on 4 February 2021.
- 3.2 That the CPI + 1% increase of 1.5% in Council House rents, equivalent to an average rent increase of £1.35 a week be implemented.
- 3.3 That garage rents are kept at the same level as 2020/21.
- 3.4 That Sheltered Housing Service charges be increased by £0.69 per week to ensure recovery of the actual cost of service.
- 3.5 That Sheltered Housing utility charges are kept at the same level as 2020/21.
- 3.6 That the budgeted surplus of £127k be transferred to the Strategic Priorities reserve in 2021/22.
- 3.7 That in principle, Right to Buy (RTB) receipts should be retained to enable continued development and acquisition of new council dwellings.

REASON FOR DECISION

To bring together all the relevant information to enable Cabinet Members to review, consider and comment upon the Councils Housing Revenue Account budget before the February Cabinet and recommendations to Council.

4 KEY INFORMATION

Background

- 4.1 The Councils HRA Business Plan presents a positive financial picture over the longer term (a thirty-year period as required under the self-financing regime). The business plan sets out the aspiration of the Council to increase the social housing stock by either buying existing dwellings or building new ones.
- 4.2 The HRA Business Plan is currently being reviewed to understand how income over the medium and long term can be balanced against the requirements to invest in the existing housing stock including environmental 'retrofit' improvements and new safety enhancements in response to Building Safety and Fire safety. As well as building new homes that meet the draft Design Guide and new build specification. It is intended that a new Business Plan which articulates the vision for council housing will be presented to Cabinet and Council in the first six months of 2021.
- 4.3 The Welfare Reform and Work Act 2016 requiring all social landlords to reduce rents by 1% each year came to an end in March 2020. This means rents can increase by Consumer Price Index (CPI) +1% for five years from April 2020, which have begun to mitigate the impact of the 1% reduction on the 30-year plan.
- 4.4 The removal of the HRA Debt Cap from 29 October 2018 means that local authorities can borrow to fund new homes without worrying about breaching this cap. Any borrowing will be subject to the Council adhering to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code.
- 4.5 The 2021/22 budget and medium term outlook is aligned to the Councils Homes and Housing Strategy and the Council's vision for residents to live in affordable and high-quality homes that enable them to build settled, safe and healthy lives, within sustainable and thriving communities.

COVID19

- 4.6 The outbreak of COVID19 which hit the UK in March 2020 has had a significant impact nationally and locally. More specifically for the Council's Housing Revenue Account, rent levels are at risk and property repairs and maintenance on the Council's housing stock were reduced to emergency repairs for a period of time for existing tenants, whilst the completion of void work in order to support the accommodation of the homeless and rough sleepers continued. This work followed Government guidance in the interests of the safety of both our staff and tenants.
- 4.7 Property repairs and maintenance work recommenced in the summer whilst following COVID19 safe systems of work and within the Government's COVID19 safety guidelines.

- 4.8 The new build programme was also impacted as development ground to a halt during the initial lockdown and has been slow to recover, and now carries additional COVID19 related costs for site works to re-commence safely.
- 4.9 The financial costs for the HRA as reported at quarter 2 mainly consists of additional PPE amounting to £47k, and in terms of income, in the first half of the year, there has been minimal impact on rent levels, however a 15% reduction has been modelled for the last 26 weeks of the financial year totalling £882k.
- 4.10 As the furlough scheme comes to an end in March 2021, it is anticipated that tenants who are in employment may be impacted. Housing Benefit and Universal Credit tenants are likely to be less affected.
- 4.11 Levels of debt to be written off are expected to be very low, if any, as any outstanding rents are likely to be reclaimed, but over a longer period of time because of the commitment the Council made to pledging not to evict any tenants in which rent arrears could be contributed to COVID19. No adjustment has been made in the 2021/22 budget to rental income collection levels, any impact of this would be covered by the Strategic Priorities Reserve with recovery continuing in future years.
- 4.12 The Government has not yet announced any financial support specifically for the Housing Revenue Account.

2020/21 Quarter 2 position

- 4.13 The quarter 2 financial monitoring report presented to Cabinet in December 2020 was showing a forecast surplus for 2020/21 of £1.7m. The main reason for this is as a result of slippage in the capital programme due to COVID19, which means that the Council has not used as much of the revenue contribution to fund the capital programme.
- 4.14 The position will be kept under review and the quarter 3 position will be reported to Cabinet in March 2021, any surplus at the year-end will be transferred to the Strategic Priorities Reserve.

5 2021/22 BUDGET

- 5.1 A surplus position of £127k is forecast for 2021/22 compared to the 2020/21 position which was a surplus of £334k.
- 5.2 Table 1 below shows the 2021/22 budget compared to the 2020/21 budget, explanations for movements are shown in paragraph 5.5 below.

Table 1 2021/22 Budget compared to 2020/21 Budget

	Budget 2020/21	Budget 2021/22	Movement
	£'000	£'000	£'000
Dwelling Rents	(15,996)	(16,492)	(496)
Service Charges	(575)	(584)	(9)
Non Dwelling Income	(183)	(183)	0
Other Income	(10)	(11)	(1)
Interest Received	(10)	(10)	0
Total Income	(16,774)	(17,281)	(507)
Housing Management	3,282	2,959	(323)
Building Services	3,211	3,564	353
Depreciation	3,313	4,280	967
Interest payable	3,161	3,161	0
Debt Repayment	500	150	(350)
Revenue Contribution to Capital	2,875	2,901	26
Bad Debt Provision	98	139	41
Deficit / (Surplus) for Year	(334)	(127)	207

- 5.3 The approach for the 2021/22 budget setting included “budget challenge sessions” which consisted of Corporate Managers taking a group of peers (comprising other Corporate Managers and Assistant Directors) through their budgets line by line. The peer group provided challenge and review to the budgets. As a result, a number of savings and efficiencies were identified, as shown in the following explanations.
- 5.4 This work will continue throughout 2021/22 as there were a number of areas that were identified which require further work in order to deliver efficiencies.
- 5.5 In calculating the 2021/22 budget, the following assumptions have been made:

Income

- Rental increase of 1.5% - CPI + 1%, with the average weekly rent set at £91.70 an increase of £1.35 a week, generating approximately £250k additional income. The remainder of the increase is to reflect the current rental income levels being achieved and assumed increase in housing stock.
- Garage rents kept at the same level as 2020/21. Work will continue in 2021/22 to identify alternative use of long term/unviable garage sites.
- Sheltered housing – to ensure recovery of the actual cost, it is proposed that the 2021/22 charges are increased by £0.69 per week.
- It is proposed that utility charges are kept at the same level as 2020/21
- A Rent & Service Charge Policy will be developed over the coming year. It is because of the need to develop the methodology as part of the wider policy work that it is not possible to implement these changes any sooner than 2022/23.

Housing Management and Building Services

- A review of housing management and building services coding has been undertaken with finance and the service managers to allow more effective financial management and monitoring. As a result of this, £346k has moved from the housing management to the building services budget line.
- There has been an increase to the inhouse trades team to cover the work of fencing, UPVC repairs and asbestos inspections work previously undertaken by external contractors. The financial impact of this is cost neutral as there is an equal reduction in subcontractor costs.
- Pay award of 2% and increments totalling £73k
- Contracts – 2.5% inflation to major contracts has been included totalling £23k, however, savings have been achieved with the Orwell management fee of £35k.

Depreciation

- The depreciation charge has increased by £967k this is due to the increase in the valuation of the housing stock.

Debt Repayment

- One of the Council's PWLB loans will be fully repaid in June 2021, therefore loan repayments will reduce by £350k.

Bad Debt Provision

- The level of bad debt provision has been reviewed based on the level of debt write off to date, an increase to the provision of £41k has been included. The level of arrears and collectability of debt will be kept under review during 2021/22.

Key achievements

- Introduction of locality-based working within the Building Service to reduce travel times, save fuel costs and improve service deliver, including establishing an operational hub in Great Wenham
- Development of a Data Dashboard for each service area which provides real time performance statistics.
- Reducing the work in progress (WIP) in Building Services from 7,500 outstanding jobs to 1,500 jobs.
- A review of the Travis Perkins materials contract which has delivered savings and efficiencies as well as improvement in customer service.
- Introduction of mobile video software to allow remote repair inspections and assisted viewings.
- Introduction of new software 'Rent sense' to intelligently predict which rent arrear cases officers should focus their time and attention on.

- New Neighbourhoods Team and Tenant Engagement officer delivering significant improvements in the condition of neighbourhoods, and an increase in the number of tenants engaged in the management of landlord services.
- Void performance being maintained at an average of 18 days.
- Housing Conference held for all Housing staff.

Reserves

- 5.6 When setting the budget for the forthcoming year the Council must have regard to the level of reserves needed to provide enough resources to finance estimated future expenditure plus any appropriate allowances that should be made for contingencies.
- 5.7 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.
- 5.8 The 2021/22 budget position means that the Council will increase its Strategic Priorities Reserve by £127k however the 2021/22 capital programme assumes funding from reserves of £2.617m followed by borrowing as shown in appendix A. The balance in earmarked reserve as at 31 March 2022 is forecast to be £12.05m.
- 5.9 Table 2 below shows the earmarked reserves balance from 31 March 2020, forecast through to 31 March 2022.

Transfers to / from Earmarked Reserves	Forecast trf to	Forecast trf from	Balance 31 March 2021	Forecast trf to	Forecast trf from	Balance 31 March 2022
Working Balance			(1,000)			(1,000)
Big 20			(96)			(96)
Strategic Priorities	(1,700)		(14,541)	(127)	2,617	(12,050)
Building Council Homes Programme (BCHP)			(20)			(20)
HRA Revenue	(1,700)	-	(15,657)	(127)	2,617	(13,167)

Capital

- 5.10 The new build and acquisitions funding within the Capital Programme 2021/22 to 2024/25 totals £16.2m, with an additional £7.8m anticipated carry forward from 2020/21. Table 3 below shows the capital expenditure and financing over this period. The detailed capital programme is attached at Appendix A.

Table 3 Capital Expenditure and Financing 2021/22 to 2024/25

Expenditure	£m
Housing Maintenance Programme	21.5
New Build & Acquisitions	16.2
Total	37.7
Financing	
Capital receipts, disposals & RTB receipts and Grants	10.1
Major Repairs Reserve (Depreciation)	15.1
Revenue Contributions	3.1
Strategic Priorities Reserve	4.0
Borrowing	5.4
Total	37.7

- 5.11 The engagement of Iceni to work with the Council to identify development sites for new homes has led to a proposed Capital Programme for 2021-2024 of 161 affordable homes and 44 shared ownership homes.
- 5.12 The major areas being developed over the next three years include sites in Shotley, Angel Court in Hadleigh, Waldingfield Road Sudbury, and Klondyke Field, Wherstead.
- 5.13 The Corporate Plan sets out clearly the Council's aligned corporate outcomes. The key housing projects supporting delivery of the priorities are outlined in the HRA Business Plan.
- 5.14 New homes have delivered New Homes Bonus for the Council, additional rent and Council Tax and local businesses will also benefit. All these factors will bring growth to our local economy. Analysis by the Local Government Association* and Capital Economics found;
- Investment in a new generation of social housing could return £320 billion to the nation over 50 years.
 - Every £1 invested in a new social home generates £2.84 in the wider economy.
 - Every new social home would generate a saving of £780 per year in Housing Benefit.
 - Every new social home would generate a fiscal surplus through rental income.

* **LGA Report June 2020** - Delivery of council housing Developing a stimulus package post pandemic

- 5.15 Right to Buy (RTB) sales for Babergh were lower than those projected in the business plan. In 2019/20 Babergh sold 11 against an original projection of 20 sales.
- 5.16 The money received from RTB sales can only be used a 30% contribution towards the cost of a replacement home. The remaining 70% of the replacement cost must be found from other HRA resources. As sales increase, it means that the level of match funding required (70%) increases. If the receipts are not spent within the 3-year period allowed, they must be repaid to Government with 4% above the base rate interest added.
- 5.17 The restrictions imposed as a result of COVID19 have caused serious delays in the Council's housing development programme during 2020/21 and its ability to spend all of the receipts within the required 3-year period. The Government is allowing an extension of the timescales for the receipts to be spent which has been extended to the end of the financial year. Developers/contractors are now working but restricted to what they can do, this may have an impact on the Council's ability to achieve the full amount of spend required.
- 5.18 Officers have focused on an alternative programme to achieve the spend by purchasing existing houses and suitable land from the open market before the March 2021 extension ends. These actions will minimise any repayments that may be due back to the government.

6 30 YEAR BUSINESS PLAN

6.1 The current version of the HRA Business Plan is attached at Appendix B and shows additional detail for years 1-10, The main assumptions are:

- Annual rent increase of 1.5% in 2021/22 then increasing by CPI +1% from 2022/23 for three years. The remaining 25 years are based on an annual rent increase of CPI only.
- Funding to support spend of RTB receipts and capital programme expenditure.

6.2 As explained in paragraph 4.2 the new HRA Business Plan will be presented to Cabinet and Council in the first six months of 2021.

7. LINKS TO THE CORPORATE PLAN

7.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Corporate Plan, and ensuring the Council has a robust financial strategy. Specific links are to the Council's Homes and Housing Strategy and the Council's vision for residents to live in affordable and high-quality homes that enable them to build settled, safe and healthy lives, within sustainable and thriving communities.

8. FINANCIAL IMPLICATIONS

8.1 These are detailed in the report.

9. LEGAL IMPLICATIONS

9.1 There are none that apply.

10. RISK MANAGEMENT

10.1 This report is most closely linked with the Council's Significant Risk No. 13 – We may be unable to respond in a timely and effective way to financial demands and also Corporate Risk No. 5E05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered. Other key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If we do not consider the ongoing impacts of the Welfare and Funding Reforms, then it could lead to unpreparedness for further changes.	Unlikely - 2	Bad – 3	Ensure adequate bad debt provision and that the Income Management Strategy seeks to mitigate the impact of the changes on residents, the Council's income streams and budgets.

Risk Description	Likelihood	Impact	Mitigation Measures
If there are increases in inflation and other variables, then Council Housing self-financing could result in a greater risk to investment and service delivery plans.	Unlikely - 2	Noticeable – 2	Inflation and interest rate assumptions have been modelled in the HRA business plan. Capital receipts and capital programme funding reviewed.
If we fail to spend retained RTB receipts within 3-year period, then it will lead to requirement to repay to Government with interest.	Probable - 3	Bad - 3	Provision has been made in the budget and Investment Strategy to enable match funding and spend of RTB receipts.
If we borrow too much to fund New Homes, we will not be able to pay the loan interest.	Unlikely - 2	Bad - 3	Follow the CIPFA Prudential Code which states Capital investment plans must be affordable, prudent and sustainable.
If Brexit has a negative impact on the Economy, then interest rates/inflation/house prices and demand/jobs could be impacted.	Unlikely - 2	Bad - 3	The Council has nominated a Brexit lead to work with Government and to plan for the impacts of Brexit across the Council. A corporate Brexit risk register has been created in consultation with all service areas
If capital data is inaccurate it could lead to problems with treasury management debt and cashflows.	Unlikely - 2	Bad - 3	Work closely with treasury management when setting capital budgets and how this will be financed. Monitor the capital spend quarterly and raise any changes with treasury management.

11. CONSULTATIONS

- 11.1 Consultations have taken place with Assistant Directors, Corporate Managers and other Budget Managers as appropriate.

12. EQUALITY ANALYSIS

- 12.1 An equality impact assessment will be undertaken with each Assistant Director for any changes within the budget proposals.

13. ENVIRONMENTAL IMPLICATIONS

13.1 In support of the Council's commitment to be Carbon Neutral by 2030, a review of the existing housing stock will be undertaken and affordable options will be costed, including investing in environmental 'retrofit' improvements as well as building new homes that meet the draft Design Guide and new build specification. These will form part of the revised 30-year Business Plan for the HRA.

14. APPENDICES

Title	Location
Appendix A – Capital Programme	Attached
Appendix B – HRA Business Plan	Attached

15. BACKGROUND DOCUMENTS

Housing Revenue Account (HRA) financial monitoring 2020/21 – quarter 2 BCa/20/12

CAPITAL PROGRAMME FOR 2021/22 to 2024/25

	OUTTURN	BUDGET	BUDGET	FORECAST	FORECAST	FORECAST	
BABERGH CAPITAL PROGRAMME BUDGET	2020/21 Outturn	2020/21 Indicative Carry Forwards	2021/22 Budget	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	Total Spend 2021/22 - 2024/25
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Housing Revenue Account							
Planned Maintenance & Response							
Planned maintenance	4,729	1,976	3,351	4,724	4,792	4,771	17,637
Replacement Vehicles (IFRS 16 leases)	0	0	0	156	0	0	156
ICT Projects	55	195	200	200	200	200	800
Environmental Improvements	262	748	500	500	500	500	2,000
Disabled Facilities Work	217	66	200	200	200	200	800
Horticulture and play equipment	30	0	30	30	30	30	120
New build programme inc acquisitions	12,326	7,822	7,473	6,054	688	2,001	16,216
							0
New build programme & acquisitions	12,326	7,822	7,473	6,054	688	2,001	16,216
TOTAL HRA Capital Spend	17,618	10,808	11,755	11,863	6,409	7,701	37,729
HRA Financing							
External Grants and contributions	2,366	0	59	280	0	0	339
s106	0	0	0	0	375	0	375
Capital Receipts(from SO Sales)	0	0	1,521	1,052	0	0	4,367
Other Capital Receipts	5,653	0	381	471	471	471	0
New build 1-4-1 capital receipts	1,723	0	2,982	1,438	0	600	5,020
Major Repairs Reserve	4,281	2,986	1,294	4,484	4,614	4,746	15,138
Borrowing	1,490	0	0	2,738	737	1,884	5,359
Revenue Contributions	2,105	0	2,901	0	212	0	3,113
Strategic Priorities Reserve	0	7,822	2,617	1,400	0	0	4,018
Total HRA Capital Financing	17,618	10,808	11,755	11,863	6,409	7,701	37,730

HRA Business Plan updated 2021/22 – 2030/31

Year	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
£'000	1	2	3	4	5	6	7	8	9	10
INCOME:										
Rental Income	(16,591)	(17,631)	(18,246)	(19,126)	(19,055)	(19,349)	(19,648)	(19,951)	(20,258)	(20,965)
Void Losses	99	106	110	115	115	117	119	120	122	126
Other rental income	0	0	0	0	0	0	0	0	0	0
Service Charges	(584)	(595)	(607)	(621)	(633)	(646)	(659)	(672)	(685)	(699)
Non-Dwelling Income	(183)	(186)	(190)	(194)	(198)	(202)	(206)	(210)	(215)	(219)
Grants & Other Income	(11)	(11)	(11)	(12)	(12)	(12)	(12)	(13)	(13)	(13)
Total Income	(17,271)	(18,317)	(18,944)	(19,837)	(19,783)	(20,093)	(20,407)	(20,726)	(21,049)	(21,770)
EXPENDITURE:										
General Management	2,179	2,214	2,256	2,305	2,353	2,421	2,471	2,518	2,566	2,615
Special Management	779	796	812	830	847	864	881	899	917	935
Other Management	0	0	0	0	0	0	0	0	0	0
Bad Debt Provision	139	149	155	162	161	164	166	169	172	178
Responsive & Cyclical Repairs	3,564	3,633	3,729	3,838	3,958	4,169	4,297	4,411	4,527	4,647
Total Revenue Expenditure	6,662	6,792	6,951	7,136	7,320	7,617	7,816	7,997	8,182	8,374
Interest Paid	3,161	2,920	2,865	2,846	2,734	2,524	2,466	2,451	2,451	2,553
Interest Received	(10)	(5)	(5)	(6)	(7)	(8)	(7)	(9)	(12)	(16)
Depreciation	4,280	4,484	4,615	4,746	4,866	4,989	5,115	5,245	5,377	5,513
Net Operating Income	(3,178)	(4,126)	(4,518)	(5,115)	(4,870)	(4,970)	(5,017)	(5,042)	(5,051)	(5,345)
APPROPRIATIONS:										
Revenue Provision (HRACFR)	150	4,289	4,127	5,118	4,854	4,948	601	0	0	17,534
Revenue Contribution to Capital	2,901	0	365	0	0	21	681	715	751	0
Total Appropriations	3,051	4,289	4,492	5,118	4,854	4,970	1,282	715	751	17,534
ANNUAL CASHFLOW	(127)	164	(25)	3	(16)	(0)	(3,735)	(4,327)	(4,299)	12,189
Opening Balance	1,140	1,267	1,103	1,129	1,126	1,142	1,142	4,877	9,204	13,503
Closing Balance	1,267	1,103	1,129	1,126	1,142	1,142	4,877	9,204	13,503	1,314