BABERGH DISTRICT COUNCIL

TO:	**Cabinet**	**REPORT NUMBER: BCa/20/40**
FROM:	**Councillor John Ward, Cabinet Member for Finance**	**DATE OF MEETING: 11 March 2021**
OFFICER:	**Gavin Fisk, Assistant Director, Housing**	**KEY DECISION REF NO. CAB227**

HOUSING REVENUE ACCOUNT (HRA) FINANCIAL MONITORING 2020/21 – QUARTER 3

1. PURPOSE OF REPORT

1.1 This report considers the revenue and capital financial performance for the period April to December as well as the impact of COVID19 on the Councils HRA finances and highlights significant variances expected for the financial year 2020/21.

2. OPTIONS CONSIDERED

2.1 The options that have been considered are;

a) At this stage in the year, the financial position is for noting only.

3. RECOMMENDATIONS

3.1 That the Council's financial position for the Housing Revenue Account at the end of Quarter 3 be noted.

REASON FOR DECISION

To ensure that Members are kept informed of the current budgetary position for both the HRA Revenue and Capital Budgets.

4. KEY INFORMATION

Strategic Context

4.1 The financial position of the HRA for 2020/21 should be viewed in the context of the updated 30-year business plan. The budget set in February 2020 showed a forecast surplus position for 2020/21 of £334k this has been achieved by reviewing both capital and revenue budgets.

4.2 A fundamental review of the housing service was undertaken during 2019/20 to identify savings, efficiencies and income generation opportunities to achieve a sustainable business plan into the future. 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.

4.3 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 will start to mitigate the impact of the 1% reduction on the 30-year plan.

4.4 With the Council's housing stock at 3,418 homes there will always be unplanned events that affect the level of income and expenditure in any one financial year. None more so than the outbreak of COVID19 which hit the UK in March. This will certainly have a financial impact on the Councils Housing Revenue Account as rent levels are at risk and property repairs and maintenance on the Council's housing stock was reduced to emergency repairs for existing tenants and the completion of void work in order to support the accommodation of the homeless and rough sleepers. This follows Government guidance and is in the interests of the safety of our staff and tenants.

4.5 Property repairs and maintenance work slowly re-commenced within the Government's COVID19 safety guidelines and was impacted further by the second national lockdown in January 2021. It will take some time before normal service levels resume and there is likely to be an impact in terms of backlog of works to be carried out.

4.6 The new build programme will also be impacted as development ground to a halt during lockdown and has been slow to recover, and as it does, now carries additional COVID19 related costs for site works to re-commence safely.

4.7 As the year has progressed this financial impact has been forecast with more certainty, but section 5 below sets out in more detail the impacts based on the knowledge we have to date.

5. 2020/21 Financial Impact of COVID19

5.1 To date additional costs for COVID19 impacting on the HRA mainly consist of additional PPE amounting to £47k, however there are a number of savings that can help to mitigate the increased expenditure. These are detailed further in section 6 of this report.

5.2 In terms of income, the first nine months of the year, has seen minimal impact on rent levels. As the furlough scheme has now been extended to the end of April 2021, it is anticipated that tenants who are in employment may be impacted next year. Housing Benefit and Universal Credit tenants are likely to be unaffected. 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 because of secure tenancies. The team will continue to monitor the situation closely over the coming months and update the financial position accordingly. Given the extension to the furlough scheme, we are not anticipating any reduction to income levels for 2020/21, instead the impact is likely to extend beyond this financial year.

6. Quarter 3 Position

6.1 Based upon financial performance and information from April to December 2020 (with trends extrapolated to the end of the financial year) and discussions with budget managers and the Senior Leadership Team, key variations on expenditure and income compared to budget have been identified.

6.2 Taking each area in turn, the position on key aspects of the 2020/21 budget is summarised below:

Revenue

6.3 The original budget set for the HRA for 2020/21 shows a surplus of £334k, which would be transferred to reserves. The forecast position at December is a surplus of £2.8m, a favourable variance of £2.467m, as detailed in the table below.

	Budget	Full Year Forecast Quarter 3 2020/21	Full Year Forecast Variance to Budget (favourable) / adverse
	£'000	£'000	£'000
Dwelling Rents	(15,996)	(16,184)	(188)
Service Charges	(575)	(590)	(15)
Non Dwelling Income	(183)	(195)	(12)
Other Income	(10)	(79)	(69)
Interest Received	(10)	(10)	-
Total Income	**(16,774)**	**(17,059)**	**(285)**
Housing Management	3,282	3,119	(163)
Responsive Repairs and Maintenance	2,007	1,816	(191)
Building Services	1,204	1,044	(160)
Depreciation	3,313	3,313	-
Interest payable	3,161	3,161	-
Debt Repayment	500	500	-
Revenue Contribution to Capital	2,875	1,206	(1,669)
Bad Debt Provision	98	98	-
Total Expenditure	**16,440**	**14,257**	**(2,183)**
Deficit / (Surplus) for Year	**(334)**	**(2,801)**	**(2,467)**

6.4 The forecast variances identified within this report have been taken into consideration when setting the budgets for 2021/22.

6.5 The main items that are included in the overall favourable variance of £2,467k are detailed below:

6.6 **Income – a favourable variance / income surplus of £285k**

- **Dwelling rents** – as mentioned in section 5.2 of this report, it is now unlikely that our estimated income from dwelling rents will be impacted by COVID19 in 2020/21. The favourable variance of £188k is as a result of the income budget being set too low.
- **Other Income** – a favourable variance of £69k. The majority of which can be attributed to the one-off receipt of an easement for land located west of Airey Close in Sudbury.
- There are also small favourable variances totalling £27k for service charges and non-dwelling rents which include utilities for sheltered schemes as well as garage rents.

6.7 **Housing Management – a favourable variance of £163k**

A number of items make up the favourable variance of £163k. These are largely due to the impact of COVID19 and the changes in working practices to keep our employees and tenants safe. These can be broken down as follows:

- A underspend of £101k relating to employee costs - 4 fte vacant posts (shared between the two Councils) and delayed start dates for those posts that have now been appointed to.
- A favourable variance of £23k for reduced travel costs as a consequence of COVID19.
- It is anticipated that more time will be charged to Babergh's General Fund and Capital Projects for surveyors' time resulting in higher levels of income via recharges and a favourable variance of £21k.
- Other items (net) – a favourable variance of £18k, this is made up of a number of smaller items.

6.8 **Building Services (Responsive Repairs and Maintenance) – a favourable variance of £191k**

There are a number of items that contribute to the favourable variance of £191k. These are largely due to the impact of COVID19 and the changes that the Council has made to safely deliver its repairs and maintenance services. This can be broken down as follows:

- Due to the prioritising of urgent / emergency jobs only, spend on materials and fuel is less than expected resulting in a favourable variance of £108k.
- The use of sub-contractors has reduced and so a favourable forecast of £60k is expected.
- A favourable variance of £15k for employee costs due to vacant posts (4 fte, shared 50:50 with Mid Suffolk, 2 of which have now been appointed to).
- Other items (net) – a favourable variance of £8k.

6.9 **Building Services (Planned Maintenance) – a favourable variance of £160k**

- Whole House Servicing contract (WHS) - due to the impact of COVID19 there are expected delays and so less work being carried out as part of the WHS contract. As a result, an underspend of £100k is anticipated.
- Asbestos inspections ceased during the initial lockdown period resulting in an underspend of £60k. These inspections have now recommenced.

6.10 **Revenue Contribution to Capital – a favourable variance of £1.669m**

- A favourable variance of £1.669m is expected, because of slippage in the 2020/21 capital programme, due to the impact of COVID19. Future contributions have been reviewed as part of the budget setting process for 2021/22, based on the updated capital programme.

6.11 The net £2.801m surplus position means that the total HRA balances at 31 March 2021 are forecast to be £16.757m. This includes a minimum working balance of £1m, £15.641m in the Strategic Priorities Reserve and £116k in other earmarked reserves.

Capital

6.12 Use of capital and one-off funds is critical and needs to be linked into our future delivery plans. Actual expenditure is even lower than normal for this time of year as a result of the COVID19 impact. A number of projects have fallen behind schedule, there have been supply difficulties and increased costs raised by our suppliers to cover the cost of PPE etc.

6.13 With complex capital schemes it is difficult to accurately assess the level of payments that will be made during the financial year. The Council continues to embark on new projects e.g. building new homes, where it is difficult to accurately predict at the planning stage how payments will fall. Members should therefore focus on whether overall outcomes are being achieved as a result of the capital investment rather than variances against the plan for a particular year.

6.14 Actual capital expenditure for the period April to December 2020 totals £7m, against the budget (including carry forwards) of £28.8m, as set out in Appendix A. As mentioned in section 6.12, a number of projects have fallen behind schedule as a consequence of COVID19. Development of some sites will be commencing soon but we anticipate that a number of budgets will be carried forward to meet expenditure incurred in 2021/22.

6.15 New Build - Babergh's capital programme is being reviewed to refine the pipeline of new build development and acquisitions in conjunction with a review of the 30-year business plan and the affordability of these schemes. The updated business plan will be coming forward later this year.

7. LINKS TO THE CORPORATE PLAN

7.1 Ensuring that the Councils make best use of their resources is what underpins the ability to achieve the priorities set out in the Corporate Plan. Specific links are to financially sustainable Councils, managing our housing assets effectively, and property investment to generate income.

8. FINANCIAL IMPLICATIONS

81 These are detailed in the report.

9. LEGAL IMPLICATIONS

9.1 There are no specific legal implications.

10. RISK MANAGEMENT

10.1 This report is most closely linked with the Council's Significant Risk No. 11 – We may be unable to respond in a timely and effective way to financial demands and also Corporate Risk No. SE05 – 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.
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 an additional 4% interest.	Unlikely - 2	Bad - 3	Provision has been made in the updated HRA 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.	Probable - 3	Bad - 3	Understanding and acting on intelligence from the Local Government Association (LGA) and CIPFA.
If economic conditions and other external factors like COVID19 change for the worse then it could have an adverse effect on the Councils financial position	3 - Probable	2 - Noticeable	Focus is on monitoring key income and expenditure streams (including a monthly COVID19 return MCHLG), but Government changes and economic conditions continue to affect costs and income for a number of services
If capital data is inaccurate it could lead to problems with treasury	Unlikely - 2	Bad - 3	Work closely with treasury management when setting capital budgets and how this will be financed.

Risk Description	Likelihood	Impact	Mitigation Measures
management debt and cashflows.			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 analysis has not been completed because there is no action to be taken on service delivery as a result of this report.

13. ENVIRONMENTAL IMPLICATIONS

13.1 There are a number of areas that as a result of COVID19 have had a positive impact on the Council's environmental impact as well as the financial position. They include for example, reduced travel and fuel costs as mentioned in sections 6.7 and 6.8 of the report.

14. APPENDICES

Title	Location
APPENDIX A – Capital Programme	Attached

15. BACKGROUND DOCUMENTS

26 February 2020 Housing Revenue Account (HRA) Budget and Four-Year Outlook Report 2020/21 – BC/19/36

7 September 2020 Quarter 1 Housing Revenue Account (HRA) Financial Monitoring 2020/21– BCa/19/61

10 December 2020 General Fund Financial Monitoring 2020/21 – BCa/20/12

Appendix A

2020/21 Capital Programme

BABERGH CAPITAL PROGRAMME 2020/21	Original Budget	Carry Forwards / Budget Adjustments	Current Budget	Actual Spend	Full Year Forecast at Q3	Expected Carry Forward	Full Year Forecast LESS Budget (favourable) / adverse	Explanation of major variances since previous quarter
HOUSING REVENUE ACCOUNT	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Housing Maintenance								
Planned maintenance	4,558	2,546	7,104	1,571	4,249	2,455	(400)	Further lockdown restrictions have resulted in less internal work to properties. A higher carry forward amount will now be required
ICT Projects	200	50	250	37	55	195	-	
Environmental Improvements	500	510	1,010	4	150	860	-	
Disabled adaptions to council dwellings	200	83	283	68	110	173	-	Further lockdown restrictions have resulted in less internal work to properties. A higher carry forward amount will now be required
Horticulture and play equipment	30	-	30	-	30	-	-	
						-	-	
New build programme including acquisitions								
New build programme including acquisitions	5,996	14,151	20,147	5,394	12,998	7,149	-	
Total HRA Capital Spend	11,484	17,340	28,824	7,073	17,592	10,833	(400)	