BABERGH DISTRICT COUNCIL

TO:	**Cabinet**	**REPORT NUMBER: BCa/21/15**
FROM:	**Councillor John Ward, Cabinet Member for Finance**	**DATE OF MEETING: 2 August 2021**
OFFICER:	**Gavin Fisk, Assistant Director, Housing**	**KEY DECISION REF NO. CAB269**

HOUSING REVENUE ACCOUNT (HRA) FINANCIAL OUTTURN 2020/21

1. PURPOSE OF REPORT

1.1 This report summarises the 2020/21 financial outturn for the Housing Revenue Account and Capital Programme. The Revenue outturn position is an overall surplus of £2.941m and the Capital Programme for the year is underspent by £476k.

1.2 This is subject to the external auditors' report on the Statement of Accounts for the year, which will be presented to the Joint Audit and Standards Committee later in the year once the audit is complete.

2. OPTIONS CONSIDERED

2.1 Transfer funds of £2.941m to the Strategic Priorities earmarked reserve and support the carry forward of £10.323m HRA capital costs. This is the recommended option.

2.2 Transfer funds of £2.941m to the Strategic Priorities earmarked reserve and not support the carry forward of £10.323m HRA capital costs. This is not the recommended option because there would be insufficient capital resources available in 2021/22 to complete the schemes in progress.

3. RECOMMENDATIONS

3.1 That the 2020/21 HRA financial outturn as set out in this report be noted.

3.2 That the transfer of £2.941m, being the HRA revenue surplus for the year (£2.607m more than planned) as per paragraph 6.4, to the Strategic Priorities Reserve be approved.

3.3 That the HRA capital carry-forward requests referred to in paragraph 6.18 of this report totalling £10.323m be approved.

REASON FOR DECISION

To ensure that Members are kept informed of the outturn position for both Housing Revenue and Capital and to approve earmarked reserve transfers and carry forward requests.

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 was achieved by reviewing both capital and revenue budgets.

4.2 The Housing Service continuously identifies savings, efficiencies and income generation opportunities that will 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 Following a period of five years that saw annual rent reductions, which ended in March 2020, councils are allowed to increase rents by the maximum of the Consumer Price Index (CPI) +1% for a period of five years from April 2020. This begins to mitigate the impact of the 1% reduction on the 30-year plan.

4.4 With the Council's housing stock at 3,443 homes there will always be unplanned events that affect the level of income and expenditure in any one financial year. Members should therefore consider annual variances in the context of the medium-term outcomes that the Council wishes to achieve.

4.5 The COVID19 global pandemic has continued throughout 2020/21 and has had an impact on the Councils Housing Revenue Account. Rent levels have been at risk and property repairs and maintenance on the Council's housing stock were initially reduced to emergency repairs for existing tenants and the completion of void work to support the accommodation of the homeless and rough sleepers. This was in accordance with Government guidance and is in the interests of the safety of our staff and tenants.

4.6 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 a backlog of works to be carried out.

4.7 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.

4.8 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 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 personal protective equipment (PPE), however there are several 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, there has been minimal impact on rent levels. As the furlough scheme has been extended to the end of September 2021, there has not been any reduction to income levels in 2020/21. Instead, the impact is likely to extend beyond 2020/21, as tenants who are in employment may be impacted when the furlough scheme ends. 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.

6. 2020/21 Outturn Position

6.1 The report covers:

- The Housing Revenue Account (HRA) Revenue Budget
- The Housing Revenue Account (HRA) Capital programme

6.2 Budget monitoring is a key tool and indicator on the delivery of the council's plans and priorities for the year. There will, of course, always be reasons why there are variances such as:

- Economic conditions and those services that are affected by demand.
- Base budgets being over or understated.
- Uncertainties relating to funding or other changes that were not known at the time the budget was approved.

6.3 The position on key aspects of the 2020/21 budget is summarised below:

Revenue

6.4 The original budget set for the HRA for 2020/21 shows a surplus of £334k. The final position for 2020/21 is a surplus of £2.941m, a favourable variance of £2.607m. The variances identified during 2020/21 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 £2.607m are detailed in the text and tables below:

	Budget £'000	Outturn 2020/21 £'000	Variance to Budget (favourable) / adverse £'000	% variance
Dwelling Rents	(15,996)	(16,184)	(188)	1%
Service Charges	(575)	(575)	(0)	0%
Non Dwelling Income	(183)	(197)	(14)	8%
Other Income	(10)	(73)	(63)	630%
Interest Received	(10)	(10)	-	0%
Total Income	**(16,774)**	**(17,039)**	**(265)**	**2%**
Housing Management	3,173	2,974	(199)	-6%
Building Services	3,320	3,506	186	6%
Depreciation	3,313	4,316	1,003	30%
Interest payable	3,161	2,805	(356)	-11%
Debt Repayment	500	400	(100)	-20%
Revenue Contribution to Capital	2,875	-	(2,875)	-100%
Bad Debt Provision	98	98	-	0%
Total Expenditure	**16,440**	**14,098**	**(2,342)**	**-14%**
Deficit / (Surplus) for Year	**(334)**	**(2,941)**	**(2,607)**	

6.6 **Income – a favourable variance / income surplus of £265k**

- Dwelling rents – as mentioned in section 5.2 of this report, income from dwelling rents was not 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 £63k. 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 is also a small favourable variance of £14k for non-dwelling rents which include garage rents.

6.7 **Housing Management – a favourable variance of £199k**

- A number of items make up the favourable variance of £144k. 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:
- An underspend of £88k relating to employee costs - 4 fte vacant posts (shared between the two Councils) and delayed start dates for those posts that have now been filled.
- More time has been 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 £29k.
- Less staff travel due to pandemic restrictions has resulted in a favourable variance of £25k.

- A favourable variance of £40k is due to software licence costs being moved to the General Fund ICT budget.

- The favourable variances above are partly offset by additional fire prevention costs for sheltered schemes of £42k.

- Corporate recharges were £40k lower than expected.

- Other items (net) – a favourable variance of £19k.

6.8 **Building Services (Responsive Repairs and Maintenance) – an adverse variance of £186k**

- The adverse variance of £186k has arisen due to an overspend on subcontractors used to complete outstanding jobs resulting from service suspension due to the outbreak of the pandemic.

6.9 **Depreciation – an adverse variance of £1.003m**

- An adverse variance of £1.003m is due to an increase in HRA dwellings values in the valuation for the 2019/20 accounts, which was completed after the budget for 2020/21 was finalised.

6.10 **Interest payable – a favourable variance of £356k**

- Lower than anticipated interest charged on loans, due to less new borrowing being required than in the budget and low short-term rates for borrowing taken, has resulted in a favourable variance of £356k for the year.

6.11 **Revenue Contribution to Capital – a favourable variance of £2.875m**

- A favourable variance of £2.875m arising from 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.

6.12 The net £2.941m favourable position means that the total HRA balances as at 31 March 2021 are £16.896m. A breakdown of the HRA earmarked reserves is attached at Appendix B.

Capital

6.13 Use of capital and one-off funds is critical and needs to be linked into our future delivery plans. A zero-based approach was adopted for the capital programme for 2020/21 to ensure that resources are aimed at delivering the council's strategic priorities.

6.14 With complex capital schemes it is difficult to accurately assess the level of payments that will be made during a particular 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 be scheduled. 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.

6.15 Actual capital expenditure for the period April 2020 to March 2021 totals £12.602m, against the budget (including carry forwards) of £28.824m, as set out in Appendix A.

The outturn shows a net favourable variance of £476k (after carry-forward requests) as summarised in the table below and is described further in sections 6.17 and 6.18.

CAPITAL PROGRAMME 2020/21 - Position at 31 March 2021	£'000
Revised Capital Programme	**28,824**
Actual Expenditure	12,602
Contractual Commitments (Paragraph 6.17)	5,422
Carry forward requests (Paragraph 6.18)	10,323
Total Expenditure and Carry Forward requests	**28,348**
Net Capital Programme (favourable) / adverse variance	**(476)**

6.16 The majority of the favourable variance of £476k can be attributed to an underspend on planned maintenance. Due to lockdown restrictions less internal work has been undertaken to properties resulting in a favourable variance of £458k.

6.17 Contractual commitments are detailed in the table below. These funds were committed in 2020/21 and will be spent in 2021/22. Resources to finance the capital expenditure e.g. capital receipts will also transfer from 2020/21 into 2021/22.

Contractual Commitments	£'000
New build programme including acquisitions	4,009
Planned maintenance	1,361
Disabled adaptions to council dwellings	49
Environmental Improvements	3
Total Contractual Commitments	**5,422**

6.18 The remainder represents plans or aspirations for investment, for which a carry forward to 2021/22 is requested along with the appropriate capital resources to fund this. It is proposed that the capital resources are carried forward into 2021/22 and reviewed as part of the Corporate Plan to assess whether it meets the objectives to build new homes and make the best use of our existing assets.

Carry Forward Requests	£'000
New build programme including acquisitions	6,132
Planned maintenance	2,835
Environmental Improvements	988
ICT Projects	213
Disabled adaptions to council dwellings	125
Horticulture and play equipment	30
Total HRA Capital Spend	**10,323**

7. LINKS TO 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. Specific links are to a financially sustainable Council, managing our housing assets effectively, and property investment to generate income.

8. FINANCIAL IMPLICATIONS

8.1 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. 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 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 5-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 economic conditions and other external factors like Covid19 are worse than budgeted for it could have an adverse effect on the Councils 2021/22 and medium-term financial position.	Probable – 3	Noticeable - 2	Maintain the focus and momentum on reducing the budget deficit throughout the financial year. Announcement about additional Covid19 funding from the Government into 2021/22.

Risk Description	Likelihood	Impact	Mitigation Measures
			Maintain sufficient minimum reserve level to withstand the impact.
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 the 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 section 6.7 of the report.

14. APPENDICES

Title	Location
APPENDIX A – Capital Programme	Attached
APPENDIX B – Earmarked Reserves	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

11 March 2021 Housing Revenue Account (HRA) Financial Monitoring 2020/21 - Quarter 3 – BCa/20/40

APPENDIX A

Capital Programme

BABERGH CAPITAL PROGRAMME 2020/21	Original Budget	Carry Forwards / Budget Adjustments	Current Budget	Outturn	Contractual Carry Forwards	Non-Contractual Carry Forwards	Variance after Carry Forwards (favourable)/ adverse	Explanation of Variances
HOUSING REVENUE ACCOUNT	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	
Housing Maintenance								
Planned maintenance	4,558	2,546	7,104	2,449	1,361	2,835	(458)	due to lockdown restrictions less internal work has been undertaken to properties
ICT Projects	200	50	250	37	-	213	-	
Environmental Improvements	500	510	1,010	14	3	988	(5)	
Disabled adaptions to council dwellings	200	83	283	107	49	125	(2)	
Horticulture and play equipment	30	-	30	-	-	30	-	
New Build and Acquisitions								
New build programme including acquisitions	5,996	14,151	20,147	9,995	4,009	6,132	(11)	
Total HRA Capital Spend	**11,484**	**17,340**	**28,824**	**12,602**	**5,422**	**10,323**	**(476)**	

APPENDIX B

Earmarked Reserves

	Balance at 1 April 2020 (£'000)	Transfers to (£'000)	Transfers from (£'000)	Balance at 31 March 2021 (£'000)
Working Balance	(1,000)			(1,000)
Strategic Priorities Reserve	(12,839)	(2,941)		(15,781)
Building Council Homes Programme (BCHP) Reserve	(20)			(20)
Big 20'	(96)			(96)
TOTAL RESERVE BALANCES	**(13,955)**	**(2,941)**	**-**	**(16,896)**