

MID SUFFOLK DISTRICT COUNCIL

COMMITTEE: Cabinet	REPORT NUMBER: MCa/21/18
FROM: Councillor John Whitehead, Cabinet Member for Finance	DATE OF MEETING: 6 September 2021
OFFICER: Katherine Steel, Assistant Director, Corporate Resources	KEY DECISION REF NO. CAB 274

HOUSING REVENUE ACCOUNT (HRA) FINANCIAL MONITORING 2021/22 – QUARTER 1

1. PURPOSE OF REPORT

- 1.1 This report considers the revenue and capital financial performance for the period April to June as well as the impact of COVID19 on the Council's finances and highlights significant variances expected for the financial year 2021/22. The revenue position is forecast to be an adverse variance of £554k.

2. OPTIONS CONSIDERED

- 2.1 At this stage in the year, the financial position is for noting only.

3. RECOMMENDATIONS

- 3.1 That, subject to any further budget variations that arise during the rest of the financial year, the adverse variance of £554k, referred to in section 6.5 of the report, be noted;
- 3.2 The 2021/22 revised Capital Programme referred to in Appendix A and section 6.14 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 2021/22 should be viewed in the context of the 30-year business plan. The budget set in February 2021 showed a forecast surplus position for 2021/22 of £102k 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, 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. Subject to Compliance with the Regulator of Social Housings Rent Standard, this begins to mitigate the impact of the 1% reduction on the 30-year plan.
- 4.4 With the Council's housing stock at 3,230 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 As COVID restrictions ease, property repairs and maintenance work are re-commencing within the Government's COVID19 safety guidelines. However, the impact of the backlog of works to be carried out is likely to incur additional costs during 2021/22.
- 4.6 The new build programme has been 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.

5. 2021/22 Financial Impact of COVID19

- 5.1 The HRA is likely to continue to be impacted by COVID19 during 2021/22 due to additional costs for sub-contractors to deal with backlogs in maintenance, potential delays in the capital programme and additional costs as described below and in 4.5 above.
- 5.2 In terms of income, there has not been any reduction to income levels during the first quarter of 2021/22. This may not be the case when the furlough scheme comes to an end in September 2021 as tenants who are in employment may be impacted. Housing Benefit and Universal Credit tenants are likely to be unaffected. However, 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. As well as the decision last year not to evict any tenant that has generated arrears as a result of COVID19. The team will continue to monitor the situation closely over the coming months and update the financial position accordingly.

6. 2021/22 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 Based upon financial performance and information from April to June 2021 (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.
- 6.4 Taking each area in turn, the position on key aspects of the 2021/22 budget is summarised below:

Revenue

- 6.5 The original budget set for the HRA for 2021/22 shows a surplus of £127k, which would be transferred to reserves to achieve a balanced budget position. The forecast position for the year as at June is an adverse variance of £554k, as detailed in the table below.

	Budget	Full Year Forecast Quarter 1 2021/22	Variance Adverse / (Favourable)	% variance
	£'000	£'000	£'000	
Dwelling Rents	(14,368)	(14,458)	(91)	1%
Service Charges	(704)	(669)	35	-5%
Non Dwelling Income	(355)	(358)	(3)	1%
Other Income	(19)	(19)	-	0%
Interest Received	(9)	(9)	-	0%
Total Income	(15,454)	(15,513)	(59)	0%
Housing Management	3,143	3,099	(44)	-1%
Building Services	3,639	4,297	658	18%
Depreciation	3,911	3,911	-	0%
Interest payable	2,968	2,968	-	0%
Revenue Contribution to Capital	1,599	1,599	-	0%
Bad Debt Provision	92	92	-	0%
Total Expenditure	15,352	15,966	614	4%
Deficit / (Surplus) for Year	(102)	452	554	

- 6.6 The forecast variances identified within this report will be taken into consideration when setting the budgets for 2022/23.
- 6.7 The main items that are included in the overall adverse variance of £554k are detailed below:
- 6.8 **Income** – a favourable variance of £59k is forecast, putting the final position within 1% of budget.
- 6.9 **Housing Management – a favourable variance of (£44k)**
- Unfilled vacant roles have driven the savings against budget.
- 6.10 **Building Services (Responsive Repairs and Maintenance) – an adverse variance of £658k**
- A £690k adverse variance to budget is predicted on the use of sub-contractors to support the Trades Team in completing a backlog of void and responsive jobs, built up because of Covid restrictions. This backlog has also led to an increase in spend on materials. Increases in the cost of materials has not

impacted the Council which works to a national schedule of rates. Actions have been taken to mitigate against scarcity of supply post COVID19.

- £34k adverse position due to disrepair claims because of repairs being restricted to those deemed essential or emergencies during the pandemic.
- Other smaller adverse variances totalling £9k.
- A favourable variance of (£42k) income is forecast from the Renewable Heat Incentive scheme. Quarter one has shown a larger than expected uptake of the scheme following identification of more eligible households.
- A favourable variance of (£33k) is forecast due to a short delay in the adoption of hydro-treated vegetable oil (HVO) fuel vehicles, meaning the higher costs built in to the budget have not yet been required.

6.11 The net £554k adverse position means that the total HRA balances as at 31 March 2022 would be £6.393m. This includes a minimum working balance of £1m, £5.138m in the Strategic Priorities Reserve and £46k 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. A zero-based approach was adopted for the capital programme for 2021/22 to ensure that resources are aimed at delivering the Council's strategic priorities.

6.13 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 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 2021 to June 2021 totals £1.56m, against the budget (including carry forwards) of £39.96m, as set out in Appendix A.

6.15 For the capital programme the full year forecast is currently equal to the budget. It is difficult to predict what the full year position will be at this stage of the year, but past years' experience suggests it is unlikely that this will all be spent. We will continue to monitor this position as the year progresses.

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. 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 have been reviewed.
If we fail to spend retained right-to-buy (RTB) receipts within the 5-year period, then it will lead to a requirement to repay to the 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 Council's 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. Use of the Covid19 reserve. 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 Director, 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 effect on the Council's environmental impact as well as the financial position. They include for example, reduced travel and fuel costs.

14. APPENDICES

Title	Location
APPENDIX A – Capital Programme	Attached

15. BACKGROUND DOCUMENTS

18 February 2021 Housing Revenue Account (HRA) Budget and Four-year Outlook Report 2021/22 – MC/20/25

Capital Programme

Mid Suffolk CAPITAL PROGRAMME 2021/22	Original Budget	Carry Forwards / Budget Adjustments	Current Budget	Actual at end Q1	Full Year Forecast at Q1
HOUSING REVENUE ACCOUNT	£'000	£'000	£'000	£'000	£'000
Housing Maintenance					
Planned maintenance	2,534	2,159	4,693	407	4,693
ICT Projects	200	216	416	-	416
Environmental Improvements	40	40	80	-	80
Disabled adaptions to council dwellings	200	32	232	64	232
Total Housing Maintenance	2,974	2,447	5,421	471	5,421
New Build and Acquisitions					
New build programme inc acquisitions	23,364	11,174	34,538	1,093	34,538
Total HRA Capital Spend	26,338	13,621	39,959	1,564	39,959