

## BABERGH DISTRICT COUNCIL

<b>TO:</b> Overview and Scrutiny Committee	<b>REPORT NUMBER:</b> BOS/21/02
<b>FROM:</b> Councillor Simon Barrett Cabinet Member for Finance	<b>DATE OF MEETING:</b> 17 January 2022
<b>OFFICER:</b> Katherine Steel, Assistant Director – Corporate Resources	<b>KEY DECISION REF NO.</b> N/A.

### HOUSING REVENUE ACCOUNT (HRA) BUDGET 2022/23

#### 1. PURPOSE OF REPORT

- 1.1 Each year, the Overview and Scrutiny Committee is invited to consider budget proposals before Cabinet decides in February what to recommend for approval by Full Council later in February and implementation from 1st April.
- 1.2 Progress against the budget is reported to Cabinet on a quarterly basis throughout the year. This year, proposals for the 2022/23 budget will be presented to Cabinet for approval on 7 February 2022 and to Full Council on 21 February 2022. Before the proposals are considered by Cabinet, this meeting will enable the Overview and Scrutiny Committee, on behalf of the Babergh tenants, to provide constructive challenge.
- 1.3 The budget process has been streamlined for 2022/23, resulting in the budget being presented to Cabinet in February only for onward recommendation to Full Council. As a result of this change, this report to Overview and Scrutiny Committee is in a different format to previous years.
- 1.4 The role of Overview and Scrutiny is to challenge assumptions and look at the risks associated with the budget proposals. The objectives of this scrutiny are to provide Councillors with an opportunity to discuss proposals for the budget for 2022/23 before a final decision is made, and to consider:
  - a) the financial position of the HRA and the economic outlook.
  - b) the proposed revenue and capital budgets compared with the current year and any predicted impact on tenants.

#### 2. OPTIONS CONSIDERED

- 2.1 No other options were considered as one of the roles of Overview and Scrutiny Committee is to review the budget proposals before the final budget is presented to Cabinet and Full Council for approval.

#### 3. RECOMMENDATIONS

- 3.1 That Overview and Scrutiny Committee decides whether it wishes to make any recommendations to Cabinet to consider alongside the budget proposals on 7 February 2022 before Cabinet makes its final recommendation to Full Council.

## **REASON FOR DECISION**

Overview and Scrutiny Committee can contribute to and influence the final budget proposals that are considered by Cabinet and Full Council.

### **4. KEY INFORMATION**

#### **Background**

- 4.1 The Council's current 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 review of the HRA Business Plan is nearing completion. In January 2022 Full Council will discuss the aims and aspirations of the revised business plan before Cabinet considers the detail and then makes a final recommendation back to Council for approval.
- 4.3 The revised business plan will not be ready for sign off until after the budget for 2022/23 needs to be approved, so the information presented to Overview and Scrutiny Committee today and the budget report presented to Cabinet and Full Council in February will focus on the budget for 2022/23. The revised business plan, when it is presented, will set out the longer-term financial implications and ambitions for the HRA and will take into account any decisions or approvals in relation to the 2022/23 budget.
- 4.4 Following a period of five years that saw annual 1% 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. Subject to Compliance with the Regulator of Social Housing's Rent Standard, this has begun to mitigate the impact of the 1% reduction on the 30-year plan.
- 4.5 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.
- 4.6 The 2022/23 budget is aligned to and supports 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.

#### **COVID19**

- 4.7 COVID19 continues to have an impact on the HRA, with a backlog of work built up during restrictions now being addressed, but this is likely to continue into 2022/23 along with increasing material costs when the national schedule of rates is renewed and republished.
- 4.8 The new build programme has also 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 be undertaken safely. A shortage of some construction materials is also causing delays in completion of projects on site.

- 4.9 In terms of income levels from rent collection, there has not been any significant reduction resulting from COVID, as had been originally anticipated. A decision was made last year not to evict any tenant that was in arrears resulting from COVID19. Taking these factors into account, any levels of debt to be written off are therefore 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.

### 2021/22 Budget and Forecast Outturn

- 4.10 On 23 February 2021 the Council set the HRA Budget for 2021/22, showing a surplus of £127k.
- 4.11 The second quarter budget monitoring report was presented to Cabinet on 6 December 2021 showing a forecast adverse variance of £499k as at 31 March 2022. The key factor in this position is the additional costs being incurred to address the backlog in void and responsive repairs, through both the volume of materials being purchased and sub-contractor costs to work alongside the Trades Team.
- 4.12 The third quarter position will be presented to Cabinet on 7 March 2022.

### 2022/23 Budget Proposals

- 4.13 In preparing the budget for 2022/23 the various headings have been thoroughly reviewed against the actuals for the last four years, taking account of 2020/21 and the impacts of COVID19, to ensure that they are set on a realistic basis for next year.
- 4.14 A surplus position is forecast for 2022/23 of £486k compared to the 2021/22 budget surplus of £127k.
- 4.15 The table below shows the 2022/23 budget compared to the 2021/22 budget, with explanations for the movements being shown in paragraph 4.16 below.

<b>Babergh District Council Budgets 2022/23</b>				
	<b>Budget 2021/22</b>	<b>Budget 2022/23</b>	<b>Movement</b>	<b>Percentage change</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
Dwelling Rents	(16,454)	(17,273)	(819)	5%
Service Charges	(584)	(598)	(13)	2%
Non Dwelling Income	(183)	(183)	0	0%
Other Income	(50)	(48)	2	-4%
Interest Received	(10)	(10)	0	0%
<b>Total Income</b>	<b>(17,281)</b>	<b>(18,111)</b>	<b>(830)</b>	
Housing Management	2,959	3,044	85	3%
Building Services	3,564	4,100	535	15%
Depreciation	4,280	4,548	268	6%
Interest payable	3,161	3,161	0	0%
Debt Repayment	150	0	(150)	-100%
Revenue Contribution to Capital	2,901	2,633	(268)	-9%
Bad Debt Provision	139	139	0	0%
<b>Deficit / (Surplus) for Year</b>	<b>(127)</b>	<b>(486)</b>	<b>(360)</b>	

4.16 In drafting the 2022/23 budget, the following assumptions have been made:

### Income

- Dwelling rents – an increase of 4.1% (CPI + 1%). It has been assumed that there will be 12 properties purchased by the tenant through the Right to Buy mechanism. The number of voids has been reduced from 1.3% to 1% to reflect work undertaken by the Housing team to reduce the length of time a property is void for. An annual addition of 21 properties has been assumed. All of these assumptions generate £819k additional income. The tables below show the impact on income levels that would be available to the HRA for some alternative options for a rent increase in 2022/23 compared to the maximum that is currently built into the budget. The first table shows the impact on the 2022/23 budget and the second table shows the cumulative impact over 1, 5, 10 and 30 years.

Babergh Rents	Current Budget				
	(CPI +1%)	CPI (3.1%) only	2% increase	1% increase	No increase
Social housing rents	(£16,278,346)	(£16,122,581)	(£15,951,247)	(£15,795,635)	(£15,639,933)
Affordable rents	(£1,151,909)	(£1,140,850)	(£1,128,684)	(£1,117,621)	(£1,106,548)
Shared Ownership Properties (RPI 4.9%)	(£75,986)	(£75,986)	(£75,986)	(£75,986)	(£75,986)
Less 12 RTB	£59,593	£59,593	£59,593	£59,593	£59,593
Less 1% Voids	£173,707	£172,038	£170,203	£168,537	£166,869
Total Rents	(£17,272,941)	(£17,107,786)	(£16,926,121)	(£16,761,112)	(£16,596,005)
Deficit / (Surplus) for Year	(£310,804)	(£145,650)	£36,016	£201,024	£366,131
Net Increase	(£676,936)	(£511,781)	(£330,116)	(£165,107)	£0

Babergh	Impact on overall HRA Plan			
Rent Increase	One Year	Five Years	10 Years	30 Years
1%	£165,107	£825,536	£1,651,072	£4,953,215
2%	£330,116	£1,650,578	£3,301,155	£9,903,465
3.1% (CPI)	£511,781	£2,558,905	£5,117,810	£15,353,430
4.1% (CPI + 1%)	£676,936	£3,384,678	£6,769,355	£20,308,066

- Sheltered housing – no increase to the service, heating or water charges is being proposed as current charges recover the expected costs. The budget is being brought in line with current actuals, with the resulting impact being an increase in income of £13k.
- Garage rents are being kept at the same level as 2021/22 with the budget being based on the existing stock level, which has resulted in no change to the budget. Garages can be hard to let in some areas and sites are under review to assess their suitability for development.
- Other income – no income has been received over the last two years from recovering legal costs, so the budget has been reduced by £2k for 2022/23 to reflect this position.
- A new Rent and Service Charge Policy is being developed and will be presented to Cabinet in the first half of 2022.

## **Housing Management**

- An overall increase to the budget of £85k is proposed for 2022/23.
- Increases are required for the annual pay award and increments in staffing costs (£61k), recharges from the General Fund (£30k), transport related expenses (£14k), the electricity budget (£28k) and other minor costs (£6k).
- These increases are being partially offset by an increase in rental income from temporary accommodation (£54k).

## **Building Services**

- An overall increase to the budget of £535k is proposed for 2022/23.
- The most significant area of this overall change is an increase to the repairs budget of £426k. In recent years this budget has not been able to accommodate the level of demand for repairs with overspends being reported, so the proposed budget for next year is being set at a more realistic level.
- Increases are also required for the annual pay award and increments in staffing costs (£52k), recharges from the General Fund (£61k), skip hire usage (£11k) and other small cost increases in line with current spend (£6k).
- All of the increases are being partially offset by an increase in the Renewable Heat Incentive (RHI) income (£21k).

## **Depreciation**

- The depreciation charge has increased by £268k due to the revaluation of the housing stock as at 31 March 2021. The value of the housing stock as at 31 March 2021 is £260.4m. The valuation basis that we are required to use for our accounts equates to 38% of market value.

## **Interest Payable and Bad Debt Provision**

- No change is proposed from the 2021/22 budget. The interest payable figure is based on total debt of £84.7m, £83.6m of which is the debt that the Council took on when the HRA Self-financing regime was introduced in 2012.

## **Debt Repayment**

- A loan from the Public Works Loan Board (PWLB) was fully repaid in 2021/22, so the budget of £150k has been removed for 2022/23.

## **Revenue Contribution to Capital**

- The revenue contribution to capital has been decreased by £268k to offset the increase in the depreciation charge as depreciation can be used to fund capital expenditure.

## **Reserves**

- 4.17 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.

- 4.18 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.
- 4.19 The 2022/23 budget position means that the Council will increase its Strategic Priorities Reserve by £486k, which is £360k more than the 2021/22 budget. The balance in the reserve as at 31 March 2023, as a result of the budget proposals, is forecast to be £5.339m, but is dependent on the new build and acquisition programme being delivered on target in the current financial year.

Transfers to / from Earmarked Reserves	Balance 31 March 2021	Budget trf to	Budget trf from	Balance 31 March 2022	Budget trf to	Budget trf from	Balance 31 March 2023
Strategic Priorities	(15,778)	-	10,439	(5,339)	-		(5,339)

- 4.20 In addition to this, the Council continues to hold £1m in the working balance.

### Capital

- 4.21 The proposed capital programme for 2022/23 and the indicative programme for the following three years is shown in the table below.

BABERGH DC	2021/22 Indicative Carry Forwards (A)	2022/23 Budget for approval (B)	2022/23 Total Spend Required (A + B)	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	Total Spend Required 2022/23 - 2025/26
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Housing Revenue Account</b>							
<b>Planned Maintenance &amp; Response</b>							
Planned maintenance	1,727	6,100	7,828	4,662	4,641	4,620	21,751
Replacement Vehicles (IFRS 16 leases)	0	156	156	0	0	0	156
ICT Projects	0	111	111	200	200	200	711
Environmental Improvements	779	500	1,279	500	500	500	2,779
Council House Adaptations	82	200	282	200	200	200	882
Horticulture and play equipment	30	70	100	80	30	30	240
<b>Total Housing Maintenance</b>	<b>2,618</b>	<b>7,137</b>	<b>9,755</b>	<b>5,642</b>	<b>5,571</b>	<b>5,550</b>	<b>26,518</b>
<b>New build programme inc acquisitions</b>	<b>3,523</b>	<b>5,361</b>	<b>8,883</b>	<b>2,504</b>	<b>1,000</b>	<b>1,768</b>	<b>14,155</b>
<b>TOTAL HRA Capital Spend</b>	<b>6,141</b>	<b>12,498</b>	<b>18,638</b>	<b>8,146</b>	<b>6,571</b>	<b>7,318</b>	<b>40,673</b>

- 4.22 The new funding within the Capital Programme for 2022/23 totals £12.5m, with an additional £6.1m anticipated to be carried forward from 2021/22 to give a total programme of £18.6m.
- 4.23 The new build and acquisition programme has identified development sites for new homes that will deliver 68 affordable homes and 18 shared ownership homes by the end of March 2026.
- 4.24 The major areas being developed over the next four years include sites at Sudbury, Boxford, Wherstead and Lavenham.
- 4.25 Right to Buy (RTB) sales for Babergh were lower than those projected in the business plan. In 2020/21 Babergh sold 13 against an original projection of 20 sales.
- 4.26 The money received from RTB sales can only be used as a 40% contribution towards the cost of a replacement home. The remaining 60% of the replacement cost must

be found from other HRA resources. If sales increase, it means that the level of match funding required (60%) increases. During 2020/21 the Government extended the time period by which RTB receipts have to be spent from 3 to 5 years. If the receipts are not spent within the 5-year period allowed, they must be repaid to Government with 4% above the base rate interest added.

- 4.27 The Council can enter into agreements with the Secretary of State to retain the full RTB receipt from the sale of nominated homes newly built or acquired since July 2008. Officers will investigate opportunities to enter into agreements so that any capital receipts received in future from the sale of nominated homes could be retained in full and used as part of the 60% match funding required.

## 5. LINKS TO CORPORATE PLAN

- 5.1 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.

## 6. FINANCIAL IMPLICATIONS

- 6.1 These are detailed in the report.

## 7. LEGAL IMPLICATIONS

- 7.1 There are none that apply to this report.

## 8. RISK MANAGEMENT

- 8.1 This report is most closely linked with the Council's Corporate / Significant Business 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. 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	Unlikely - 2	Noticeable – 2	Inflation and interest rate assumptions have been modelled in the HRA business plan.

could result in a greater risk to investment and service delivery plans.			Capital receipts and capital programme funding reviewed.
If we fail to spend retained RTB receipts within the 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 2022/23 and medium-term financial position	Probable – 3	Noticeable - 2	Maintain the focus and momentum on reducing the budget deficit throughout the financial year. 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	Capital plans form part of the Treasury, Capital and Investment strategy. Monitor the capital spend quarterly.

## 9. CONSULTATIONS

- 9.1 Consultations have taken place with the Assistant Director, Corporate Managers and other Budget Managers as appropriate.

## 10. EQUALITY ANALYSIS

- 10.1 The Assistant Director and Corporate Managers will undertake an Equality Impact Assessment for any individual budget proposals that have the potential to impact any of the protected characteristics.

## 11. ENVIRONMENTAL IMPLICATIONS

- 11.1 In support of the Council's commitment to be Carbon Neutral by 2030, several initiatives have and are being undertaken in relation to the housing and sheltered accommodation stock. These are set out in more detail below.

- 11.2 Since 2020, Babergh has installed 85 Air Source Heat Pumps in council owned homes.
- 11.3 Working alongside the Energy Savings Trust, every property within our housing stock (via a desktop exercise) has been evaluated, which has provided the council with current energy efficiency levels compared with what could be achieved and the level of investment required to achieve improved energy efficiency. The 'hardest to heat' homes will be targeted first. This now allows us to quantify the cost of capital environmental works to existing homes.
- 11.4 Oil fired / storage communal heating has been replaced with individual heat pumps.
- 11.5 The new homes 'design and technical specification' that incorporates carbon saving solutions will be launched alongside our 30-year Housing Business Plan from in the first half of 2022.
- 11.6 Surveyors have been studying for the Retrofit Co-ordinators Diploma by the Retrofit Academy to better support the Council's ambition to retrofit existing properties.

## **12. BACKGROUND DOCUMENTS**

- 12.1 Housing Revenue Account (HRA) 2021/22 Budget and Four-Year Outlook - BC/20/25
- 12.2 Housing Revenue Account (HRA) Financial Monitoring 2021/22 - Quarter 2 - BCa/21/30