

## BABERGH DISTRICT COUNCIL

<b>COMMITTEE:</b> Cabinet	<b>REPORT NUMBER:</b> <b>BCa/21/42</b>
<b>FROM:</b> Councillor Simon Barrett, Cabinet Member for Finance	<b>DATE OF MEETING:</b> 7 March 2022
<b>OFFICER:</b> Katherine Steel, Assistant Director, Corporate Resources	<b>KEY DECISION REF NO.</b> CAB290

### HOUSING REVENUE ACCOUNT (HRA) FINANCIAL MONITORING 2021/22 – 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 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 £617k.

#### 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 £617k, 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 6.13 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 £127k 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. 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 3,443 homes (as at 31 March 2021) 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 continuing 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. A shortage of some construction materials is also causing delays in completion of projects on site.

## **5. 2021/22 Financial Impact of COVID19**

- 5.1 The HRA has continued 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 9 months of 2021/22, but there is still the potential with the furlough scheme having ended 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.

## **6. Quarter 3 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 December 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 December is an adverse variance of £617k, as detailed in the table below.

<b>Babergh District Council 2021/2022 Quarter 3 Monitoring</b>				
	<b>Budget</b>	<b>Full Year Forecast Quarter 3 2021/22</b>	<b>Variance (favourable) / adverse</b>	<b>% variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
Dwelling Rents	(16,454)	(16,551)	(97)	1%
Service Charges	(584)	(574)	11	-2%
Non Dwelling Income	(183)	(196)	(13)	7%
Other Income	(50)	(56)	(6)	13%
Interest Received	(10)	(10)	-	0%
<b>Total Income</b>	<b>(17,281)</b>	<b>(17,386)</b>	<b>(106)</b>	<b>1%</b>
Housing Management	2,959	2,977	18	1%
Building Services	3,681	4,385	704	19%
Depreciation	4,280	4,280	-	0%
Interest payable	3,161	3,161	-	0%
Debt Repayment	150	150	-	0%
Revenue Contribution to Capital	2,901	2,901	-	0%
Bad Debt Provision	139	139	-	0%
<b>Total Expenditure</b>	<b>17,271</b>	<b>17,993</b>	<b>723</b>	<b>4%</b>
2020/21 Carry-forward	(117)	(117)	-	
<b>Deficit / (Surplus) for Year</b>	<b>(127)</b>	<b>490</b>	<b>617</b>	

- 6.6 The forecast variances identified within this report have been taken into consideration when setting the budgets for 2022/23.
- 6.7 The main items that are included in the overall adverse variance of £617k are detailed below:
- 6.8 **Dwelling Rents income – a favourable variance of £97k**
- Favourable variance due to an increase in the total number of properties

## 6.9 **Housing Management – an adverse variance of £18k**

- A favourable variance of £96k for vacant posts not filled and agency costs. The posts are in the process of being recruited to, but the team has struggled to fill some positions quickly.
- Favourable variance of £31k funding from Suffolk County Council for Housing Programme Manager role.
- Increased rent and service charge income for The Lees and The Firs £10k.
- Adverse variances forecast for Fire Prevention Covid catch up costs of £66k and an increase in demand for repairs work of £21k.
- Adverse variances for Improvements £18k, Utilities £29k and Tree Maintenance £9k.
- £12k other small increases on car mileage allowance etc.

## 6.10 **Building Services (Responsive Repairs and Maintenance) – an adverse variance of £704k**

- A £729k adverse variance to budget is predicted on the use of suppliers of material and services 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. Actions have been taken to mitigate against scarcity of supply post COVID19. The HRA had a surplus in 2020/21 resulting in £2.939m being transferred in to the HRA Strategic Priorities Reserve. This could be used to fund this overspend in 2021/22.
- Due to the Trades Team being redirected, an adverse variance of £73k is expected as a result of reduced income recharged for voids work.
- An adverse variance of £41k is forecast for an increase in contracted services to help with the Covid backlog and increased cost of materials.
- Vacant posts currently being recruited to gives a forecast favourable variance of (£91k).
- A favourable variance of (£48k) income is forecast from the Renewable Heat Incentive scheme. There has been a larger than expected uptake of the scheme following identification of more eligible households.
- A previously reported favourable variance, due to the short delay in adoption of HVO for vehicle fuel has now been offset by increased payments from repair claims and compensation to tenants.

6.11 The net £617k adverse position means that the total HRA balances as at 31 March 2022 would be £5.966m. This includes a minimum working balance of £1m, £4.849m in the Strategic Priorities Reserve, assuming capital expenditure is incurred as anticipated and £116k in other earmarked reserves.

Transfers to / from Earmarked Reserves	Balance	Outturn trf to £'000	Budget trf from £'000	Balance 31
	31 March			March 2022
	2021			2022
	£'000			£'000
Working Balance	(1,000)			(1,000)
Big 20	(96)			(96)
Strategic Priorities	(15,778)	490	10,439	(4,849)
Building Council Homes Programme (BCHP)	(20)			(20)
<b>HRA Revenue</b>	<b>(16,895)</b>	<b>490</b>	<b>10,439</b>	<b>(5,966)</b>

## 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 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.
- 6.14 Actual capital expenditure for the period April 2021 to December 2021 totals £12.17m, against the budget (including carry forwards) of £27.51m, as set out in Appendix A.
- 6.15 Some items in the capital programme, such as planned maintenance, new build and acquisitions and neighbourhood improvements are unlikely to be fully spent in the year. The table in Appendix A includes further explanations and anticipates that a request will be made to carry forward any unspent balance at year-end.

## 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:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
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 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.
- 13.2 Since 2020, Babergh has installed 85 Air Source Heat Pumps in council owned homes.
- 13.3 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.
- 13.4 Oil fired / storage communal heating has been replaced with individual heat pumps.
- 13.5 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.
- 13.6 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.

## **14. APPENDICES**

Title	Location
APPENDIX A – Capital Programme	Attached

## **15. BACKGROUND DOCUMENTS**

23 February 2021 Housing Revenue Account (HRA) Budget and Four-Year Outlook Report 2020/21 – BC/20/25

6 September 2021 - Housing Revenue Account (HRA) Financial Monitoring 2021/22 Quarter 1 - BCa/21/19

6 December 2021 - Housing Revenue Account (HRA) Financial Monitoring 2021/22 Quarter 2 - BCa/21/29

## Capital Programme

BABERGH CAPITAL PROGRAMME 2021/22	Original Budget	Carry Forwards / Budget Adjustments	Current Budget	Actual at end Q3	Full Year Forecast at Q3	Potential Carry Forwards	Variance after Carry Forwards (favourable) / adverse	Comments
HOUSING REVENUE ACCOUNT	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Housing Maintenance</b>								
Planned maintenance	3,351	4,202	7,553	3,125	5,825	1,727		Contractual Commitments likely to be completed, but there may still be some carry forwards due to procurement delays
ICT Projects	200	213	413	-	10	-	(403)	A review of ICT requirements has been undertaken and concluded that there are no further software upgrades or developments planned for 2021/22.
Neighbourhood Improvements	500	991	1,491	615	712	779		
Council House Adaptations	200	174	374	246	292	82		
Horticulture and play equipment	30	30	60	-	30	30		
<b>Total Housing Maintenance</b>	<b>4,281</b>	<b>5,609</b>	<b>9,891</b>	<b>3,987</b>	<b>6,869</b>	<b>2,618</b>	<b>(403)</b>	
<b>New Build and Acquisitions</b>								
New build programme inc acquisitions	7,474	10,141	17,615	8,180	12,654	4,962		Delays have occurred due to supply and procurement issues and arranging legal agreements on the latest developments. Potential underpends in this year are expected to be carried forward into 2022/23. Some projects are scheduled to complete in the next 2-3 years, so there is potential for final delivery to be later than planned.
<b>Total HRA Capital Spend</b>	<b>11,755</b>	<b>15,750</b>	<b>27,506</b>	<b>12,167</b>	<b>19,523</b>	<b>7,580</b>	<b>(403)</b>	