

MID SUFFOLK DISTRICT COUNCIL

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| COMMITTEE: Cabinet | REPORT NUMBER: MCa/22/7 |
| FROM: Councillor John Whitehead, Cabinet Member for Finance | DATE OF MEETING: 4 July 2022 |
| OFFICER: Melissa Evans, Assistant Director, Corporate Resources | KEY DECISION REF NO. CAB346 |

HOUSING REVENUE ACCOUNT (HRA) DRAFT FINANCIAL OUTTURN 2021/22

1. PURPOSE OF REPORT

- 1.1 This report summarises the 2021/22 financial outturn for the Housing Revenue Account and Capital Programme. The Revenue outturn position is an overall surplus of £113k and the Capital Programme for the year is underspent by £412k.
- 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 once the audit is complete.

2. OPTIONS CONSIDERED

- 2.1 Transfer funds of £113k to the Strategic Priorities earmarked reserve and support the carry forward of £24.631m HRA Capital costs. This is the recommended option.
- 2.2 Transfer funds of £113k to the Strategic Priorities earmarked reserve and not support the carry forward of £24.631m HRA Capital costs. This is not the recommended option because there would be insufficient capital resources available in 2022/23 to complete the schemes in progress.

3. RECOMMENDATIONS

- 3.1 That the 2021/22 HRA financial outturn as set out in this report be noted.
- 3.2 That the transfer of £113k, being the HRA revenue surplus for the year (£11k more than planned) as per paragraph 6.4, to the Strategic Priorities Reserves be approved.
- 3.3 That the HRA capital carry-forward requests referred to in paragraph 6.19 of this report totalling £24.631m 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 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 3,304 homes (as at 31 March 2022) 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 eased, property repairs and maintenance work re-commenced within the Government's COVID19 safety guidelines. However, the impact of the backlog of works to be carried out means additional costs were incurred during 2021/22.
- 4.6 The new build programme has been impacted as development ground to a halt during lockdown and was slow to recover. A shortage of some construction materials caused 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 2021/22.

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 The position on key aspects of the 2021/22 budget is summarised below:

Revenue

6.4 The original budget set for the HRA for 2021/22 shows a surplus of £102k. The final position for 2021/22 is a surplus of £113k, a favourable variance of £11k. The variances identified during 2021/22 have been taken into consideration when setting the budgets for 2022/23.

6.5 The main items that are included in the overall favourable variance of £11k are detailed in the text and tables below:

| | Original Budget | Budget | Outturn 2021/22 | Variance Adverse / (Favourable) |
|---------------------|-----------------|----------|-----------------|---------------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Dwelling Rents | (14,368) | (14,368) | (14,425) | (57) |
| Service Charges | (704) | (704) | (642) | 62 |
| Non Dwelling Income | (355) | (355) | (352) | 3 |
| Other Income | (19) | (23) | (121) | (98) |
| Interest Received | (9) | (9) | (1) | 8 |

| | | | | |
|---------------------|-----------------|-----------------|-----------------|-------------|
| Total Income | (15,454) | (15,458) | (15,541) | (82) |
|---------------------|-----------------|-----------------|-----------------|-------------|

| | | | | |
|---------------------------------|---------------|---------------|---------------|-----------|
| Housing Management | 3,143 | 3,200 | 3,257 | 57 |
| Building Services | 3,639 | 3,685 | 4,093 | 407 |
| Depreciation | 3,911 | 3,911 | 4,489 | 578 |
| Interest payable | 2,968 | 2,968 | 2,643 | (325) |
| Revenue Contribution to Capital | 1,599 | 1,599 | 1,021 | (578) |
| Bad Debt Provision | 92 | 92 | 24 | (68) |
| Total Expenditure | 15,352 | 15,455 | 15,527 | 72 |

| | | | | |
|-------------------------------------|--------------|--------------|--------------|-------------|
| 2020/21 Carry-forward | | (99) | (99) | - |
| Deficit / (Surplus) for Year | (102) | (102) | (113) | (11) |

6.6 **Income – a favourable variance of £82k**

- Dwelling rents – increase in rental income due to increase in properties not included in budget, £57k.
- Service Charges – £33k Warden Communal Service charges below budget, but in line with year-on-year increase (last year was £35k below budget) and £25k heating charges also below budget, but they were also below budget last year and some tenants have moved over to heat pump systems. £4k Rent budget too high for Orwell Housing Service Charge.
- Other Income – a favourable variance of £98k. The majority of which can be attributed to the one-off receipt of an easement.

6.7 **Housing Management – an adverse variance of £57k**

A number of items make up the adverse variance of £57k. These can be broken down as follows:

- Additional fire prevention costs as we prepare for a new contract and prepare for new legislation £83k.
- Corporate recharges were £60k lower than expected for Surveyors and Engineers time.
- £39k increased Overhead Recharges from General Fund
- Additional Repairs work £38k for catch up on backlog.
- Sheltered Housing utility costs have resulted in an adverse variance of £36k. Two-thirds of the adverse variance is attributed to one-off expenditure for prior year water usage at Elizabeth Court dating back to August 2017
- Reduced rental income due to closure of Eric Jones House £33k
- New build expenditure write offs on cancelled builds £24k.
- The adverse variances above are partly offset by an underspend of £57k relating to employee costs - vacant posts not filled (shared between the two Councils) and delayed start dates for those posts that have now been filled
- NNDR savings £43k
- Grounds Maintenance Recharged to Building Services £38k
- Reduction in use of Miscellaneous Supplies and Services £35k
- Funding for Housing Programme Manager role £31k
- Reduction in Agency Staff usage £20k
- Corporate and Democratic Core recharge reduction £19k
- Other items (net) – a favourable variance of £13k.

6.8 **Building Services – an adverse variance of £407k**

- £1.569m Repairs overspend on the use of Sub-Contractors to support the Trades Team in completing a backlog of Void and Responsive jobs built up as a result of Covid restrictions

- £35k Grounds Maintenance (Budget in Housing Management)
- £28k increase in Surveyors recharges
- £27k tenants disrepair claims as a result of only essential and emergency repairs being undertaken during the pandemic
- £16k increase Asbestos Prof & Consultancy Fees for Covid catch up.
- The adverse variances above are partly offset by £681k Repairs recharges increased in line with costs
- £150k External Painting saving (to be partly carried forward to 22/23)
- £138k Property heating servicing reduction (this may require catch up next year)
- £130k Employee costs reduced due to vacant posts not filled
- £65k Insurance claim
- £55k income from Heat incentive scheme for Heat Pumps
- £42k Lease cars saving (although spend is in line with last year) due to new leases postponement to 2022/23
- Other items (net) – a favourable variance of £7k.

6.9 **Depreciation – an adverse variance of £578k**

- An adverse variance of £578k is due to Increase in the valuation of the housing stock between 31/03/20 and 31/03/21.

6.10 **Interest payable – a favourable variance of £325k**

- 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 £325k for the year.

6.11 **Revenue Contribution to Capital – a favourable variance of £578k**

- £578k less than budget to compensate for adverse variance on depreciation, which is taken to the Major Repairs Reserve to fund capital expenditure.

6.12 **Bad Debt Provision – a favourable variance of £68k**

- Following a build-up of the provision, a re-evaluation of the bad debt procedure resulted in a lower balance required for bad debts.

6.13 The net £113k surplus position means that the total HRA balances as at 31 March 2022 are £7.073m, subject to financing of the HRA capital programme from the Strategic Priorities Reserve yet to be finalised. A breakdown of the HRA earmarked reserves is attached at Appendix B.

Capital

- 6.14 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.
- 6.15 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.
- 6.16 Actual capital expenditure for the period April 2021 to March 2022 totals £13.907m, against the budget (including carry forwards) of £39.959m, as set out in Appendix A. The outturn shows a net favourable variance of £412k (after carry-forward requests) as summarised in the table below and is described further in sections 6.18 and 6.19.

| MID SUFFOLK DC | |
|---|---------------|
| £'000 | |
| CAPITAL PROGRAMME 2021/22 - Position as at 31 March 2022 | |
| Revised Capital Programme | 39,959 |
| Actual Expenditure | 13,907 |
| Contractual Commitments (Paragraph 6.19) | 1,009 |
| Carry forward requests (Paragraph 6.20) | 24,631 |
| Total Expenditure and Carry Forward requests | 39,547 |
| Net Capital Programme (favourable) / adverse variance | (412) |

- 6.17 The £412k favourable variance can be attributed to an underspend on ICT Projects, which has undergone a review of service needs.
- 6.18 Contractual commitments are detailed in the table below. These funds were committed in 2021/22 and will be spent in 2022/23. Resources to finance the capital expenditure e.g. capital receipts, will also transfer from 2021/22 into 2022/23.

| Contractual Commitments | £'000 |
|--------------------------------------|--------------|
| New Build programme and Acquisitions | 917 |
| Planned maintenance | 73 |
| Council House Adaptations | 19 |
| Total Contractual Commitments | 1,009 |

- 6.19 The remainder represents plans or aspirations for investment, for which a carry forward to 2022/23 is requested along with the appropriate capital resources to fund this. It is proposed that the capital resources are carried forward into 2022/23 and reviewed as part of the Business 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 and Acquisitions | 22,734 |
| Planned maintenance | 1,817 |
| Neighbourhood Improvements | 80 |
| Total HRA Capital Spend | 24,631 |

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 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 | Probable – 3 | Noticeable - 2 | Maintain the focus and momentum on reducing |

| Risk Description | Likelihood | Impact | Mitigation Measures |
|--|--------------|---------|--|
| like Covid19 are worse than budgeted for it could have an adverse effect on the Councils 2021/22 and medium-term financial position. | | | the budget deficit throughout the financial year. Announcement about additional Covid19 funding from the Government into 2021/22. 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, Mid Suffolk has installed 87 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 |
| APPENDIX B – Earmarked Reserves | Attached |

15. BACKGROUND DOCUMENTS

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

6 September 2021 Housing Revenue Account (HRA) Financial Monitoring 2021/22 – Quarter 1 - MCa/21/18

6 December 2021 Housing Revenue Account (HRA) Financial Monitoring 2021/22 – Quarter 2 - MCa/21/30

7 March 2022 Housing Revenue Account (HRA) Financial Monitoring 2021/22 - Quarter 3 MCa/21/40

Capital Programme

| CAPITAL PROGRAMME 2021/22 | 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 |
|--------------------------------------|-----------------|-------------------------------------|----------------|---------------|----------------------------|--------------------------------|--|--|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Housing Revenue Account | | | | | | | | |
| Housing Maintenance | | | | | | | | |
| Planned maintenance | 2,534 | 2,039 | 4,573 | 2,683 | 73 | 1,817 | (0) | There have been procurement delays due to staff turnover and supply issues |
| ICT Projects | 200 | 216 | 416 | 4 | - | - | (412) | A review of ICT requirements has been undertaken and concluded that the level of budget required can be reduced |
| Neighbourhood Improvements | 40 | 40 | 80 | - | - | 80 | - | |
| Council House Adaptations | 200 | 152 | 352 | 333 | 19 | - | (0) | |
| New Build and Acquisitions | | | | | | | | |
| New Build programme and Acquisitions | 23,364 | 11,174 | 34,538 | 10,887 | 917 | 22,734 | (0) | Delays have occurred due to supply and procurement issues and arranging legal agreements on the latest developments. Some delayed projects were scheduled to complete in the next 2-3 years, so it is likely that final delivery will be later than planned. |
| Total HRA Capital Spend | 26,338 | 13,621 | 39,959 | 13,907 | 1,009 | 24,631 | (412) | |

Earmarked Reserves

| | Balance at 1 April 2020 (£'000) | Transfers to (£'000) | Transfers from (£'000) | Balance at 31 March 2021 (£'000) |
|---|---------------------------------------|----------------------------|------------------------------|---|
| Working Balance | (1,209) | | | (1,209) |
| Strategic Priorities Reserve | (5,705) | (113) | TBC | (5,818) |
| Building Council Homes Programme (BCHP) Reserve | (20) | | | (20) |
| Leaseholder Reserve | (26) | | | (26) |
| TOTAL RESERVE BALANCES | (6,960) | (113) | - | (7,073) |