

BABERGH DISTRICT COUNCIL

COMMITTEE: Cabinet	REPORT NUMBER: BCa/22/7
FROM: Councillor David Busby, Cabinet Member for Finance	DATE OF MEETING: 5 July 2022
OFFICER: Melissa Evans, Assistant Director, Corporate Resources	KEY DECISION REF NO. CAB346

HOUSING REVENUE ACCOUNT (HRA) FINANCIAL DRAFT 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 £409k and the Capital Programme for the year is underspent by £409k.
- 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 £409k to the Strategic Priorities earmarked reserve and support the carry forward of £5.51m HRA capital costs. This is the recommended option.
- 2.2 Transfer funds of £409k to the Strategic Priorities earmarked reserve and not support the carry forward of £5.51m 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 £409k, being the HRA revenue surplus for the year (£282k 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 6.19 of this report totalling £5.51m 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 £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 3,538 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 £127k. The final position for 2021/22 is a surplus of £409k, a favourable variance of £282k. 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 £282k are detailed in the text and tables below:

	Original Budget £'000	Budget £'000	Outturn 2021/22 £'000	Variance (favourable) / adverse £'000
Dwelling Rents	(16,492)	(16,454)	(16,627)	(173)
Service Charges	(584)	(584)	(575)	10
Non Dwelling Income	(183)	(183)	(200)	(17)
Other Income	(11)	(50)	(62)	(12)
Interest Received	(10)	(10)	(3)	7

Total Income	(17,281)	(17,281)	(17,466)	(186)
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Housing Management	2,959	2,959	2,953	(6)
Building Services	3,564	3,681	4,125	444
Depreciation	4,280	4,280	4,595	315
Interest payable	3,161	3,161	2,797	(364)
Debt Repayment	150	150	150	-
Revenue Contribution to Capital	2,901	2,901	2,586	(315)
Bad Debt Provision	139	139	(31)	(170)
Total Expenditure	17,154	17,271	17,175	(96)

2020/21 Carry-forward		(117)	(117)	-
Deficit / (Surplus) for Year	(127)	(127)	(409)	(282)

6.6 **Income – a favourable variance / income surplus of £186k**

- Dwelling rents –The favourable variance of £173k is as a result of new properties not included in the income budget.
- Non Dwelling Income –The favourable variance of £17k is as a result of a reduction in Garage Rent voids.

- Other Income – a favourable variance of £12k from sale of land adjustment for a property, not included in the budget and increased lease income.
- There is also a small adverse variance of £10k for service charges which include increase in Sheltered Void Warden communal services.

6.7 **Housing Management – a favourable variance of £6k**

- A number of items make up the favourable variance of £6k. These can be broken down as follows:
- An underspend of £114k 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.
- £31k Funding for Housing Programme Manager role
- 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 £31k.
- Increased Temp Accommodation rent income and reduced voids £18k.
- The favourable variances above are partly offset by additional fire prevention costs as we prepare for a new contract and prepare for new legislation £98k.
- New build expenditure write offs on cancelled builds £41k.
- Utility cost increases £27k
- Additional Repairs work £13k for catch up on backlog.
- General Fund recharges were £11k lower than expected.
- Other items (net) – a favourable variance of £2k.

6.8 **Building Services (Responsive Repairs and Maintenance) – an adverse variance of £444k**

- £965k 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
- £57k increase on Surveyors recharges
- £47k increase Asbestos Prof & Consultancy Fees following catch up after Covid restrictions
- £37k Equipment, Tools & Materials usage increased to use on Repairs work
- £29k Contracted Services increased to help with the backlog and increased cost of materials
- £24k Compensation payments to Tenants
- £21k reduction in recharge to General Fund

- £13k increased Skip usage for Repairs work.
- The adverse variances above are partly offset by £418k Repairs recharges increased in line with costs
- £130k Employee costs reduced due to vacant posts not filled
- £77k income from Heat incentive scheme for Heat pumps
- £74k Grounds Maintenance Contract now carried out internally
- £27k Lease cars saving (although spend is in line with last year) due to new leases postponement to 2022/23
- £14k fire insurance claim
- Other items (net) – a favourable variance of £9k.

6.9 Depreciation – an adverse variance of £315k

- An adverse variance of £315k is due to an increase in the valuation housing stock between 31/03/20 and 31/03/21

6.10 Interest payable – a favourable variance of £364k

- 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 £364k for the year.

6.11 Revenue Contribution to Capital – a favourable variance of £315k

- £315k 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 £170k

- 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 £409k surplus position means that the total HRA balances as at 31 March 2022 are £17.315m, 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 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.

- 6.16 Actual capital expenditure for the period April 2021 to March 2022 totals £16.794m, against the budget (including carry forwards) of £27.505m, as set out in Appendix A. The outturn shows a net favourable variance of £409k (after carry-forward requests) as summarised in the table below and is described further in sections 6.17 and 6.18.

BABERGH DC	
CAPITAL PROGRAMME 2021/22 - Position as at 31 March 2022	£'000
Revised Capital Programme	27,505
Actual Expenditure	16,794
Contractual Commitments (Paragraph 6.18)	4,788
Carry forward requests (Paragraph 6.19)	5,514
Total Expenditure and Carry Forward requests	27,095
Net Capital Programme (favourable) / adverse variance	(410)

- 6.17 The favourable variance of £409k 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	3,834
Planned maintenance	603
Neighbourhood Improvements	351
Total Contractual Commitments	4,788

- 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	3,459
Planned maintenance	1,452
Neighbourhood Improvements	520
Horticulture and play equipment	60
Council House Adaptations	24
Total HRA Capital Spend	5,514

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.	Unlikely - 2	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 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
APPENDIX B – Earmarked Reserves	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

7 March 2022 Housing Revenue Account (HRA) Financial Monitoring 2021/22 - Quarter 3 – BCa/21/42

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	3,351	4,202	7,553	5,498	603	1,452	0	There have been procurement delays due to staff turnover and supply issues
ICT Projects	200	213	413	4	-	-	(409)	A review of ICT requirements has been undertaken and concluded that the level of budget required can be reduced
Neighbourhood Improvements	500	991	1,491	620	351	520	(0)	
Council House Adaptations	200	174	374	350	-	24	(0)	
Horticulture and play equipment	30	30	60	-	-	60	-	
New Build and Acquisitions								
New Build programme and Acquisitions	7,473	10,141	17,614	10,322	3,834	3,458	(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	11,754	15,751	27,505	16,794	4,788	5,514	(409)	

Earmarked Reserves

	Balance at 1 April 2021 (£'000)	Transfers to (£'000)	Transfers from (£'000)	Balance at 31 March 2022 (£'000)
Working Balance	(1,000)			(1,000)
Strategic Priorities Reserve	(15,780)	(419)	TBC	(16,200)
Building Council Homes Programme (BCHP) Reserve	(20)			(20)
Big 20'	(96)			(96)
TOTAL RESERVE BALANCES	(16,896)	(419)	-	(17,315)