

BABERGH DISTRICT COUNCIL

COMMITTEE: Cabinet	REPORT NUMBER: BCa/22/19
FROM: Councillor David Busby, Cabinet Member for Finance	DATE OF MEETING: 5 September 2022
OFFICER: Melissa Evans, Director - Corporate Resources	KEY DECISION REF NO. CAB373

HOUSING REVENUE ACCOUNT (HRA) FINANCIAL MONITORING 2022/23 – QUARTER 1

1. PURPOSE OF REPORT

- 1.1 This report considers the revenue and capital financial performance for the period April to June and highlights significant variances expected for the financial year 2022/23. As at 30th June the revenue position is forecast to be an adverse variance of £527k.

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 £527k, referred to in section 6.5 of the report, be noted.
- 3.2 The 2022/23 revised Capital Programme referred to in Appendix A and section 6.12 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 2022/23 should be viewed in the context of the 30-year business plan. The budget set in February 2022 showed a forecast surplus position for 2022/23 of £511k.
- 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 3,501 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.

5. Inflationary pressures

- 5.1 The UK rate of inflation increased to 9% in April 2022 due to higher food, energy and petrol prices with the Bank of England warning that it is on course to reach 11%. An initial assessment of the potential impact of inflation has been undertaken and the following have been identified as areas where inflation could have a significant impact during 2022/23:

Employees

Employee costs within the 2022/23 budget are £2.9m. An increase of 2.2% is included in the budget but the national pay award for 2022/23 is yet to be agreed and could be significantly higher. For every 1% above the 2.2% included in the budget there would be an additional cost of approximately £28k. Taking an assumption of an 8% increase that would represent a further £162k to the Council.

Electricity

The Council procures electricity via Vertas. The price for summer 2022 has been agreed and is 207% higher than summer 2021. The price for winter 2022/23 is projected to be 280% higher than the previous year. This would give a budget pressure of £250k.

Repairs, servicing, tools and equipment

The Council has already seen increases in costs relating to repairs and servicing. Current information suggests that 8-9% is a reasonable estimate for inflation for these costs in 2022/23.

- 5.2 The impact of inflation will continue to be closely monitored.

6. Quarter 1 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.
- 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 2022 (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 2022/23 budget is summarised below:

Revenue

- 6.5 The original budget set for the HRA for 2022/23 shows a surplus of £511k, which would be transferred to reserves to achieve a balanced budget position. The forecast position for the year as at June is deficit of £16k, an adverse variance of £527k, as detailed in the table below.

	Budget £'000	Outturn 2022/23 £'000	Variance (favourable) / adverse £'000	% variance
Dwelling Rents	(17,273)	(17,445)	(172)	1%
Service Charges	(598)	(573)	24	-4%
Non Dwelling Income	(183)	(190)	(7)	4%
Other Income	(48)	(66)	(19)	39%
Interest Received	(10)	(4)	7	-65%

Total Income	(18,111)	(18,279)	(168)	1%
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Housing Management	3,032	3,187	155	5%
Building Services	4,087	4,626	540	13%
Depreciation	4,548	4,548	-	0%
Interest payable	3,161	3,161	-	0%
Revenue Contribution to Capital	2,633	2,633	-	0%
Bad Debt Provision	139	139	-	0%
Total Expenditure	17,600	18,294	695	4%

Deficit / (Surplus) for Year	(511)	16	527	
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- 6.6 The forecast variances identified within this report will be taken into consideration when setting the budgets for 2023/24.
- 6.7 The main items that are included in the overall adverse variance are detailed below:
- 6.8 **Housing Management – an adverse variance of £155k**

- £37k new positions - Shared Ownership Officer and Defects Co-ordinator
- £36k increased employment costs for agency surveyors in Building Services to give time to fill permanent positions.
- £36k 2021/22 Care Plus invoices received in this year.
- £16k Docusign and Total Mobile software costs that weren't originally included in the budget
- £13k increased costs for software

- £8k completion of electrical Improvement works on William Wood House
- £7k additional Repairs work
- £2k small unbudgeted spends

Building Services (Responsive Repairs and Maintenance) – an adverse variance of £540k

- £949k Repairs overspend on the use of Sub-Contractors to support the Trades Team in completing substandard void properties and a significant increase in cost of materials with some items going up by up to 130%
- (£408k) increased recharges of above repairs work
- Other small favourable variances totalling £1k.

6.9 The net £527k adverse position means that the total HRA balances as at 31 March 2023 would be £15.661m. This includes a minimum working balance of £1m, £15.545m in the Strategic Priorities Reserve and £116k in other earmarked reserves.

Capital

6.10 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 2022/23 to ensure that resources are aimed at delivering the Council's strategic priorities.

6.11 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.

6.12 Actual capital expenditure for the period April 2022 to June 2022 totals £2.37m, against the budget (including carry forwards) of £22.64m, as set out in Appendix A.

6.13 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, We will continue to monitor this position as the year progresses.

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. 4 – We may be unable to respond in a timely and effective way to financial demands and Significant Risk No. 13 – Additional cost pressures may result in a significant overspend that needs to be funded from reserves. 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.	Unlikely - 2	Bad - 3	Provision has been made in the budget and Investment Strategy to enable match funding and spend of Right To Buy 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 are worse than budgeted for it could have an adverse effect on the Council's 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. Impact of inflation is being carefully monitored and Ongoing pressures will be considered when setting the 2023/24 budget and MTFS. 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 previous Director of Housing, 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 in 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

21 February 2022 Housing Revenue Account (HRA) Budget and Four-Year Outlook Report 2022/23 – BC/21/32

2022/23 Capital Programme

CAPITAL PROGRAMME 2022/23	Original Budget	Carry Forwards / Budget Adjustments	Current Budget	Actual to date	Full Year Forecast at Q1	Explanation of Variances
	£'000	£'000	£'000	£'000	£'000	
Housing Revenue Account						
Housing Maintenance						
Planned maintenance	6,100	2,054	8,155	830	8,155	
ICT Projects	111	-	111	33	111	
Neighbourhood Improvements	500	872	1,372	-	1,372	
Council House Adaptations	200	23	223	83	223	
Horticulture and play equipment	70	60	130	-	130	
New Build and Acquisitions						
New Build programme and Acquisitions	5,361	7,293	12,654	1,421	12,654	Delays in some projects have occurred due to difficulties in getting supplies of materials, contractor staff absences due to Covid and planning issues resulting in deferred expenditure of just under £4m. It is possible that some of these projects may not be completed in the year. Some 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	12,342	10,302	22,643	2,367	22,643	