

BABERGH DISTRICT COUNCIL

COMMITTEE: Cabinet	REPORT NUMBER: BCA/22/33
FROM: Councillor David Busby, Cabinet Member for Finance	DATE OF MEETING: 5 December 2022
OFFICER: Melissa Evans, Director, Corporate Resources	KEY DECISION REF NO. CAB376

HOUSING REVENUE ACCOUNT (HRA) FINANCIAL MONITORING 2022/23 – QUARTER 2

1. PURPOSE OF REPORT

- 1.1 This report considers the revenue and capital financial performance for the period April to September and highlights significant variances expected for the financial year 2022/23. As at 30th September the revenue position is forecast to be an adverse variance of £313k.

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 £825k, 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 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 Housing's Rent Standard, this begins to mitigate the impact of the 1% reduction on the 30-year plan.

- 4.3 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 10.1% in September 2022 due to higher food, energy and petrol prices. The forecast outturn in section 6.5 includes the estimated impact of inflation in 2022/23. Inflation is having a significant impact for 2022/23 in the following areas:

Employees

Employee costs within the 2022/23 budget are £2.9m. An increase of 2.2% is included in the budget. However, a pay award of £1,925 per employee has been agreed for all staff on 'Green Book' terms and conditions which is significantly higher (8% on average across the Council). A settlement is yet to be agreed for employees on 'Red Book' terms and conditions.

Electricity

The Council procures electricity via Vertas. The Government energy price cap has reduced the potential impact in 2022/23 but costs are still forecast to be 169% higher in 2022/23 than in 2021/22.

Repairs, servicing, tools and equipment

The Council has seen significant increases in costs relating to repairs and servicing, with some materials more than doubling in price. The impact of cost increases in each area has been built into the forecast and is detailed in section 6.8 below.

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

6. Quarter 2 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 September 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 September is deficit of £313k, an adverse variance of £825k, as detailed in the table below.

	Budget	Q2 Outturn 2022/23	Variance (favourable)/ adverse	% variance
	£'000	£'000	£'000	
Dwelling Rents	(17,273)	(17,513)	(240)	1%
Service Charges	(598)	(569)	29	-5%
Non Dwelling Income	(183)	(216)	(33)	18%
Other Income	(48)	(65)	(17)	36%
Interest Received	(10)	(4)	7	-65%

Total Income	(18,111)	(18,366)	(255)	1%
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Housing Management (includes Tenancy Services, Housing Solutions and Corporate Resources)	3,096	3,464	369	12%
Building Services	3,539	3,723	184	5%
Repairs and Maintenance (all areas except Trades Team)	484	1,012	527	109%
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	18,680	1,080	6%

Deficit / (Surplus) for Year	(511)	313	825	
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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 £369k

- £130k Increase in staff costs for the pay award and new posts to support service transformation and a Shared Ownership Officer and Defects Co-ordinator
- £85k increased utility costs
- £36k missing 2021/22 Care Plus invoices
- £33k reduction in sheltered rent and service charge income

- £32k Grounds Maintenance contract increase from Public Realm
- £26k Docusign and Total Mobile software costs missed from Budget and some upgrades
- £14k completion of Electrical Improvement works on William Wood House
- £13k increased costs for software

Building Services – an adverse variance of £184k

- £1,017k Repairs overspend on the use of Sub-Contractors to support the Trades Team in completing void properties and a significant increase in cost of materials with some items going up by up to 130%
- £19k inflationary increases to supplies and services
- £7k transport expenses increase
- £2k small unbudgeted spends
- (£50k) salary underspends
- (£811k) increased recharges

Repairs and Maintenance – an adverse variance of £527k

- £527k 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

6.9 The net £825k adverse position means that the total HRA balances as at 31 March 2023 would be £16.899m. This includes a minimum working balance of £1m, £15.783m 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 September 2022 totals £5.82m, against the budget (including carry forwards) of £22.64m, as set out in Appendix A.

6.13 For the capital programme it is difficult to predict what the full year position will be at this stage of the year. We will continue to monitor it as the year progresses. All potential carry forwards will be reviewed as part of the 2023/24 budget setting process, with a view to establishing which projects will be required and what the profile of spend is likely to be across future years.

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.

Risk Description	Likelihood	Impact	Mitigation Measures
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

5 September 2022 Housing Revenue Account (HRA) Financial Monitoring 2022/23 -
Quarter 1 - BCa/22/19

2022/23 Capital Programme

CAPITAL PROGRAMME 2022/23	Original Budget	Carry Forwards / Budget Adjustments	Current Budget	Actual to date	Full Year Forecast at Q2	Potential Carry Forwards	Explanation of Variances
HOUSING REVENUE ACCOUNT	£'000	£'000	£'000	£'000	£'000	£'000	
Housing Maintenance							
Planned maintenance	6,100	1,954	8,055	2,283	6,406	1,649	There was a lack of technical officer capacity to define needs. Posts subsequently filled and contracts now being procured. Asset Management Strategy will be developed as part of the Building Services Transformation Programme.
ICT Projects	111	-	111	33	66	44	It is expected that the tenant surveys and half of the tenant census exercise will be complete by year end. Carry forward will be to finish the projects in 2023/24.
Neighbourhood Improvements	500	872	1,372	-	354	1,018	Actively procureing contracts for fencing and hard landscaping works.
Council House Adaptations	200	123	323	230	323	-	
Horticulture and play equipment	70	60	130	-	130	-	The expectation is that the full £130k will be spent on various projects in 2022/23, however, any not achieved before year end will need to be carried forward to complete unfinished projects in 2023/24.
New Build and Acquisitions							
New Build programme and Acquisitions	5,361	7,293	12,654	3,272	6,762	5,892	Delays in some projects have occurred mainly due to problems with supplies of materials, contractor staff absences and planning issues. It is likely that some of these projects may not be completed before year end. Some projects were scheduled to complete in the next 2-3 years, so it is likely that final delivery will be later than originally intended.
Total HRA Capital Spend	12,342	10,302	22,643	5,818	14,041	8,603	