



Revenue Budget Proposals 2022-23 - Housing Revenue Account (HRA)

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|--|--|
| Corporate Priority: | Providing high quality council homes and landlord services Ensuring the right conditions to support delivery (inward) |
| Relevant Ward Member(s): | All |
| Date of consultation with Ward Member(s): | N/A |
| Exempt Information: | No |
| Key Decision: | No |
| Subject to call-in: | No Not key decision |

1 Summary

- 1.1 The purpose of this report is to update on the financial position of the Housing Revenue Account (HRA) and to set the rents of the Council dwellings with an increase of 4.10%, approve the HRA budget estimates for 2022-23 and set the working balance for 2022-23 at £750k. The HRA 30-year business plan will be brought to Cabinet on 9 March which may contain further recommendation for the 2022-23 budgets and working balance.

2 Recommendation(s)

That Cabinet

- 2.1 notes the financial position on the HRA as at 30 November 2021 and the year-end forecast for both revenue and capital and;
- 2.2 Recommends to Council that:
 - 2.2.1 the budget estimates for 2022-23 be approved;
 - 2.2.2 an average rent increase of 4.10% for all Council dwellings for 2022-23 be approved with effect from 1 April 2022;
 - 2.2.3 the working balance is maintained at the approved minimum balance of £750,000 and any residual amounts be transferred to the Regeneration & Development Reserve as approved in February 2020 when the budget was set for 2021-22;
 - 2.2.4 the 2022-23 capital programme be approved.

3 Reason for Recommendations

- 3.1 The Local Government and Housing Act 1989 requires the Council to produce and publish an annual budget, including the setting of rents, for the HRA which avoids a deficit. It is a requirement that this be scrutinised prior to its submission which falls within the Cabinet's remit.
- 3.2 The rent increase of 4.10% is based on CPI of 3.1% plus a further 1.0%. This is based on Government policy and is the maximum increase allowed.
 - 3.2.1 This will enable the Council to ensure resilience and financial stability of its housing revenue account and will enable the Council to respond to stock investment requirements as identified by a comprehensive stock condition survey, whilst also enabling the Council to remain resilient to increasing contractor cost pressures
 - 3.2.2 The proposed rental increase demonstrates the council meeting its fiduciary duty. However, the Council is mindful of the cost of living pressures for tenants and in response to this, will be providing additional advice and assistance to tenants.

4 Background

- 4.1 The operation of the HRA is governed by the Local Government and Housing Act 1989. Some of the key requirements are detailed below:
 - a) The HRA is a ring-fenced landlord account recording certain defined transactions arising from the powers conferred on local housing authorities by part II of the Housing Act 1985 and certain provisions of earlier legislation;
 - b) The Council has a duty to keep an HRA in accordance with proper accounting practices;
 - c) The Council has a duty to produce and publish an annual budget for the HRA which avoids a deficit;
 - d) The Council has a duty to review and if necessary, revise that budget from time to time if it appears that the HRA is heading for a deficit, all reasonable and practicable steps must be taken to avoid a deficit at the end of the year.

- 4.2 Rent income is one of the main components of the HRA and it is the Government's policy to increase rents by up to CPI + 1% for at least 5 years from 1 April 2020.
- 4.3 The HRA 30 year Business Plan is due to be presented to Cabinet on 9 March 2022 and so the implications have not been able to be included in this budget report. Therefore a one year budget has been included at this time, however the business plan may recommend changes to these budgets.

5 Main Considerations

5.1 Estimated Revenue Year End Position 2021-22:

The estimated year end position for the current financial year 2021-22 is shown below and has been compiled on the basis of the 'best estimate' of income and expenditure for the year provided by budget holders, and is compared to the latest approved budget which includes requests for supplementary estimates that have been approved under the relevant delegation:

| | Approved Budget £ | 2021-22 Estimated Year End Position £ | Variance £ |
|----------------------------------|-------------------------|--|---------------|
| Expenditure | 7,675,100 | 7,355,400 | -319,700 |
| Income | -7,901,490 | -7,753,860 | 147,630 |
| Net Cost of Services | -226,390 | -398,460 | -172,070 |
| Net Interest Charges | 1,107,960 | 1,115,960 | 8,000 |
| Revenue Contribution to Capital | 269,600 | 269,600 | 0 |
| Contribution to/from(-) Reserves | -1,151,170 | -987,100 | 164,070 |
| Working Balance B/fwd | 750,000 | 750,000 | 0 |
| Working Balance C/fwd | 750,000 | 750,000 | 0 |

At 30th November 2021 the Net Cost of Services shows an estimated year end position of a £172k underspend, which will be transferred to the reserve in order to maintain the £750k working balance. The underspend is made up of an underspend in expenditure of £320k, partially offset by a reduction in income of £148k.

Expenditure:

Expenditure underspends of over £10k are set out below:

General Management £31k underspend:

£13k expected underspend on professional fees following the tendering exercise for the contract for valuing the HRA assets for the Statement of Accounts which has reduced the cost by £10k.

£18k underspend on Court fees due to the continuation of the effect of the pandemic on court proceedings and the resultant back-log.

Repairs & Maintenance £243k underspend:

£210k professional fees – a successful tender for the stock condition and related surveys has resulted in an overall saving of £90k which can be used as necessary towards any

works identified from the surveys. The contract runs for 4 years with the estimated weighted cost for 2021-22 at £140k and the remaining £120k spread over the next 3 years, this against a one off in year budget of £350k. The weighting will cover the stock condition surveys in this financial year with Energy Performance Certificates (EPC) and structural and garage surveys completed over the 4 year term.

£150k underspend on employee costs - the Council is continuing to rebuild and strengthen the service but there have been underspends arising from some vacant posts which have not been fully offset by agency costs.

These underspends are offset by third party claims settlements for compensation paid out in respect of disrepair legacy claims which are expected to be £15k overspent and a £57k reduction in the expected offset from the capitalisation of housing inspector costs due to the vacant posts noted above, which will be mirrored by reduced costs from the capital programme as well as £42k estimated overspend on the Schedule of Rates costs from an expected inflation uplift which is being negotiated. However, it should be noted that the Northgate system and its ability to cleanse invoices remains a risk as there is a lack of clarity around what is being ordered and paid, with the possible requirement of external consultancy to clear the issue, therefore forecasting remains difficult.

Special Services £52k underspend:

£37k underspend on employee costs – this is due to budgeting for full establishment whilst vacancies are proactively being filled for key roles, the upcoming IHMS review results are also awaited meaning vacant posts being held for the time being.

£15k underspend on food and drink provisions - reduced requirement for food supplies during the pandemic as no lunch clubs have been held in the early part of this year in addition to high void numbers of Gretton Court residents.

Income:

Shortfalls in income over £10k are set out below:

Sales of Meals £13k income shortfall due to the pandemic with lunch clubs ceasing for some months of the year.

Meal rent debit income £19k shortfall due to the high voids rate at Gretton Court.

Rent Income £80k, IHMS Income £10k, and Accommodation Charges Income £22k shortfall - assuming voids continue at their current level. Taken into account is also the excellent work of the team in reducing the current voids and the anticipated level of new void properties and their level of decency, as well as any new or continuing unknown impact from the pandemic.

5.2 Estimated Capital Year end Position 2021-22

The capital programme summary is attached at Appendix B and shows the latest spend forecast of £3.900m against a £6.542m budget. This would result in an underspend of £2.642m.

The larger variances are summarised below:

| Project | Total Budget £'000 | Actual April 2021 To Nov 2021 £'000 | Year End Forecast £'000 | Variance (-) = Underspend £'000 | Reason |
|---|-------------------------------|--|------------------------------------|--|---|
| Replace Exterior Doors & Windows | 612 | 232 | 300 | (312) | This project will further mobilise from the stock condition survey results, with a robust programme in place from April 2022. |
| Fire Safety works | 1,212 | 3 | 400 | (812) | In the final stages of procuring a supplier, once complete a more detailed plan of expenditure will be forthcoming over the coming years. |
| Fairmead Regeneration | 100 | 0 | 0 | (100) | Will follow from development strategy once complete as appropriate |
| Affordable Housing - Gretton Court Extra Care | 100 | 0 | 0 | (100) | Will follow from development strategy once complete as appropriate |
| Affordable Housing (Use of RTB Monies) | 1,460 | 203 | 260 | (1,200) | Purchase of a property completed, RTB spend deadlines have been extended by two years which enables the time to develop plans |
| Energy Efficiency | 200 | 0 | 640 | 440 | LAD Phase 1B for which £340k funding has been received which must be matched, for 68 properties, deadline has been extended to be completed by 31 March 2022. Any matched grant not spent must be returned. |

| Project | Total Budget £'000 | Actual April 2021 To Nov 2021 £'000 | Year End Forecast £'000 | Variance (-) = Underspend £'000 | Reason |
|-----------------------|-----------------------|---|----------------------------|--|---|
| Scooter Pods | 253 | 24 | 60 | (193) | A number of units have been deployed and are currently looking to expand the programme in to future years |
| Void Catch up Repairs | 100 | (1) | 0 | (100) | Unlikely that separate voids works would not be contained in other lines. To be considered for future years |

5.3 HRA Estimate and Rent Increases 2022-23:

In terms of the HRA Revenue budgets proposed below, Members will be aware this covers the day-to-day expenditure to deliver services to Council tenants. As such, it pays not only for the staffing costs for the employees that provide housing management (tenancy terminations and sign-ups and other statutory landlord activities, asset management and support), but also the responsive repairs needed to maintain the housing stock to a decent standard. In a typical year, around 160 tenancies are created and around 10-15 Right to Buy applications received, and in 2019/20, 1449 properties had a responsive repair undertaken. In December 2020, the Council provided its tenants with the first Annual Report; a further report was sent out in November 2021 to all tenants. A summary of the proposed budget estimates for the HRA is attached at Appendix A.

The table below shows the summary of that appendix. The figures assume that rents will increase by 4.10% compared to 2021-22.

| | |
|----------------------------------|--------------------------|
| | 2022-23 Estimate £ |
| Expenditure | 7,167,180 |
| Income | -8,181,560 |
| Net Cost of Services | <u>-1,014,380</u> |
| Net Interest Charges | 1,092,960 |
| Revenue Contribution to Capital | 262,670 |
| Contribution to/from(-) Reserves | <u>-341,250</u> |
| Surplus(-)/Deficit in year | <u>0</u> |
| | |
| Working Balance B/fwd | <u>750,000</u> |
| Working Balance C/fwd | <u>750,000</u> |

The residual items from the Housing Improvement Plan (HIP) have been included in the expenditure estimates above as far as the costs are known. Any additional costs arising from these compliance works will be considered and supplementary estimates completed in line with the approved delegation as appropriate.

The carried forward working balance is maintained at the targeted working balance of £750k with additional funds taken from the reserve to support the spending in the new year budget as noted above and in Appendix A to this report.

Under the Local Government Act 2003 new borrowing freedoms for Councils to fund their capital programmes if affordable and sustainable were introduced. This is known as prudential borrowing or unsupported borrowing and does not attract any form of Government financial support for the debt repayment. Where unsupported borrowing is undertaken for the HRA it is considered prudent to make a provision for repayment. The debt cap that had been imposed on Councils since self-financing was introduced has been removed. The Council's HRA actual borrowing is expected to be around £31m at 1 April 2023, assuming no other borrowing is undertaken by the end of this or the next financial year.

For the self-financing settlement the Government has stated that the repayment of borrowing is not required but the Council can opt to repay the debt rather than build up cash reserves where it considers it to be in the best interests of the Council and the Housing Service. No repayment of debt is proposed in 2022-23.

5.4 HRA Capital Programme 2022-23

The proposed capital programme for 2022-23 is attached at Appendix C, and shows a budgeted spend of £4.638m over the year. The HRA Business Plan will be informed by stock condition surveys and so may change this programme.

5.5 HRA Reserves

In addition to the working balance the HRA has access to four reserves; these are the Major Repairs Reserve, the Regeneration & Development Reserve, the Capital Receipts Reserve and the Water Arrears reserve.

Major Repairs Reserve

This reserve holds amounts set aside as depreciation from the HRA, based on a calculation which includes depreciation and additional revenue to support the HRA capital programme. This programme is substantially used to support the Council's current housing stock.

Regeneration & Development Reserve

This reserve is for specific HRA development and regeneration needs within the HRA ring fence.

Capital Receipts Reserve

Capital receipts received from the sale of Council dwellings set aside for HRA capital expenditure.

Water Arrears Reserve

On the cancellation of the Agency Agreement that the Council had with Severn Trent Water to collect water rates on their behalf, Severn Trent Water agreed to continue to fund future written off amounts of water arrears by means of a one-off payment.

5.6 Section 25 of the Local Government Act 2003 imposes a duty on the Chief Finance Officer to report formally to council on the adequacy of the proposed financial reserves and the robustness of the estimates.

Whilst this is specific to the Council Tax calculation, it is good practice to apply this across the board. The Section 151 Officer has confirmed that, based on the information available from budget holders and the assumptions in the interim business plan, there are no concerns at the present time. However, as stock condition surveys are undertaken and the resulting financial implications assessed and fed into the fully updated 30 year business plan, this will have to be reassessed. As noted above the updated 30 year business plan is due to be presented to Cabinet on 9 March.

The Council does review the level of working balance required based on an assessment of risk which is the minimum revenue reserve required on an annual basis and this will be re-considered with the business plan.

The reserves balances based on the estimates included in this report are estimated as follows:

| Year | 2021-22 | 2022-23 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Major Repairs Reserve | 2,549 | 2,636 |
| Regeneration & Development Reserve | 4,460 | 3,096 |
| Capital Receipts Reserve | 2,446 | 728 |
| Total HRA Reserve Balances | 9,455 | 6,460 |
| Comparable amounts reported in February 2021 | 6,960 | 4,809 |

5.7 HRA Business Plan/Future Considerations

The HRA Business Plan is currently in development and is expected to be brought to the Cabinet in April 2022. As this is after a budget is set for 2022-23, only a one-year budget has been included in this report, with any changes and further years being included in that subsequent report. The business plan will take information from the Stock Condition Surveys that have been completed to inform both Capital and Revenue expenditure over the 30 years of the business plan.

Other reports which will inform the future budgets are the Housing Asset Management Strategy and the Development Strategy for new affordable housing.

Additionally, there is currently a review of the Intensive Housing Management Service being undertaken, the results from this will also inform future budgets and service delivery arrangements.

As part of the development of a robust HRA business plan, engagement is taking place with tenants to shape the business plan priorities and focus.

6 Consultation and Engagement

- 6.1 These proposals were considered by Budget Scrutiny Committee on 25 January 2022. A separate report is included elsewhere on this agenda, on the comments made by the Council's Scrutiny Committee.
- 6.2 The Council is not required to consult with tenants on rent increases. However, there is a statutory notification period of 28 days prior to an increase, which the Council will ensure is in place.
- 6.2.1 Average rents for Melton Borough Council tenants in 2021-22 are £77.02 and they will increase to £80.24 (an average increase of £3.22 per week). Currently, 54% MBC tenants are in receipt of benefits (Universal Credit or Housing Benefit) which will mitigate the impact of the increase for those households.
- 6.3 The Council approved a new Tenant Engagement Framework in January 2022 to ensure dialogue with tenants and leaseholders on important issues. The proposals were discussed with a focus group of tenants on 27 January 2022 which led to a number of concerns being raised about the cost of living. In response to these concerns, the Portfolio Holder for Council Homes and Landlord Services has requested that officers work with tenants to:
- 6.3.1 Develop a package of proactive support in relation to rising energy costs
- 6.3.2 Review and consult upon future service charges (to commence Autumn 2022)
- 6.3.3 Carry out a full review of the quality and associated charges of the Intensive Housing Management Service (currently delivered to 630 tenants)

In summary, as set out in section 3 of this report, the Council needs to maximise rental income to deliver a balanced annual budget. For this reason, a 4.1% rental increase is recommended.

However, to assist tenants and in recognition of the increase to the costs of living, a range of measures and support has been requested by the Portfolio Holder for council Homes and Landlord Services as set out at paragraph 6.3 above.

7 Next Steps – Implementation and Communication

- 7.1 The recommendations arising from this report will be submitted to the Council meeting on 24 February 2022 as appropriate.

8 Financial Implications

- 8.1 All financial and resource implications have been addressed within section 5 and appendices A, B & C.

Financial Implications reviewed by: Director for Corporate Services

9 Legal and Governance Implications

- 9.1 Under Section 76 of the Local Government and Housing Act 1989, the Council is required, in advance of the financial year, to formulate proposals which satisfy the requirement that on certain stated assumptions, the HRA for that year does not show a debit balance.

- 9.2 Under Section 24 of the Housing Act 1985, the Council can make such reasonable charges as it determines for the tenancy or occupation of its dwellings. The Council is obliged, from time to time, to review rents charged and make such changes, as circumstances may require. This is a decision for Council as it forms part of the Council's budget and policy framework.
- 9.3 A decision to adjust rents constitutes a variation of the terms of a tenancy under Section 103 of the Housing Act 1985, in respect of secure tenancies, a note of variation (specifying the variation and the date on which it takes effect) must be served on each tenant. For non-secure tenancies (excluding introductory tenancies), a notice must be served that complies with Section 25 of the Housing Act 1985.
- 9.4 In considering the recommended rent adjustments and other matters proposed in this report, Cabinet is exercising a public function. It must therefore comply with the duties in Section 149 Equality Act 2010 to have 'due regard' to the need to eliminate discrimination, advance equality, and foster good relations between those with a protected characteristic (pregnancy and maternity, age discrimination, disability, gender re-assignment, marriage and civil partnerships, race, religion or belief, sex and sexual orientation) and those who do not share it.
- 9.5 Cabinet must consider tenant's human rights, in particular Article 8 of the European Convention on Human Rights (right to respect a person's home) and Article 1 of the first Protocol (right to peaceful enjoyment of possessions), when considering what recommendations to make to Council. Members will need to consider whether the proposals strike a fair balance between the rights of the individuals who may be adversely affected by them, and the legitimate aims of the Council, setting a balanced budget, targeting social housing at those who are most in need and generating income that can be invested back into social housing so that more people in need can benefit from it.

Legal Implications reviewed by: Monitoring Officer

10 Equality and Safeguarding Implications

- 10.1 An equalities impact assessment has been deemed as not appropriate as rent increases are defined by the Rent Standard in line with Government Policy.

11 Community Safety Implications

- 11.1 There are no community safety issues arising from these recommendations.

12 Environmental and Climate Change Implications

- 12.1 There are no environmental or climate change implications arising from these recommendations.

13 Risk & Mitigation

- 13.1 The HRA is a high risk service account that the Council has a duty under the Local Government and Housing Act 1989 to ensure avoids being in a deficit situation. This requires that effective budget monitoring procedures are set in place to monitor HRA

expenditure and income against budget and careful consideration is given to determining the level of working balance.

13.2 Self-financing puts pressure on the Council to continue to provide decent housing for its tenants outside of the subsidy system, with only our own resources available to fund our priorities. The requirement to profile spending to need may mean that large short-term balances within the HRA are built up and it is imperative that these balances are saved for future spending.

| Risk No | Risk Description | Likelihood | Impact | Risk |
|---------|--|-------------|----------|-------------|
| 1 | Interest rate fluctuation on short and long term borrowing undermines the business plan | Very Low | Critical | Low Risk |
| 2 | Proportion of RTB receipts not retained within the HRA due to pressures on other funds | Very Low | Critical | Low Risk |
| 3 | Long term ability to fund stock to ensure kept within the decent homes standard | Significant | Critical | Medium Risk |
| 4 | Maintenance of stock within budget constraints | Significant | Critical | Medium Risk |
| 5 | Affordability of the outcome of the final stock condition survey | Low | Critical | Medium Risk |
| 6 | Economic climate, cost of living, COVID-19 and welfare reform changes cause hardship on tenants causing higher levels of rent arrears and reduced collection performance | High | Critical | High Risk |
| 7 | Ability to cleanse repairs commitments from Northgate housing system and accurately show spend against budgets | High | Critical | High Risk |

| | | Impact / Consequences | | | |
|------------|---------------------|-----------------------|----------|----------|--------------|
| | | Negligible | Marginal | Critical | Catastrophic |
| Likelihood | Score/ definition | 1 | 2 | 3 | 4 |
| | 6 Very High | | | | |
| | 5 High | | | 6,7 | |
| | 4 Significant | | | 3,4 | |
| | 3 Low | | | 5 | |
| | 2 Very Low | | | 1,2 | |
| | 1 Almost impossible | | | | |

| Risk No | Mitigation |
|----------------|--|
| 1 | Beyond the Council's immediate control, this risk is mitigated through a robust HRA Business Plan, developed taking into account reasonable and prudent assumptions regarding interest rate changes |
| 2 | Mitigated through clear plans related to the use of RTB receipts, tying in with the current structure creating resources to deliver |
| 3 | Mitigated through the updated stock condition survey and appropriate capital programmes |
| 4 | As risk 3 above |
| 5 | As risk 3 above |
| 6 | Provision of support to tenants to offset the impact of Welfare Reform, coupled with clear income collection policies embedding financial sustainability of tenants as a key theme. Support with the following requested by the Portfolio Holder: <ul style="list-style-type: none"> - Develop a package of proactive support in relation to rising energy costs - Review and consult upon future service charges - Carry out a full review of the quality and cost of the Intensive Housing Management |
| 7 | The team is working to obtain a clear picture of the commitments in Northgate and find a way forward in cleansing the system and ensuring budgets are sufficient to the required repairs and maintenance spend |

14 Background Papers

None

15 Appendices

15.1 Appendix A – HRA Estimates

15.2 Appendix B – HRA Capital Programme 2021-22

15.3 Appendix C – HRA Capital Programme 2022-23

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