



Revenue Budget Proposals 2023-24 - Housing Revenue Account (HRA)

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 7.21%, approve the HRA budget estimates for 2023-24 and set the working balance for 2023-24 at £1m.

2 Recommendation(s)

That Cabinet notes the financial position on the HRA as at 30 November 2022 and the year-end forecast for both revenue and capital and;

Recommends to Council that;

- 2.1 **the budget estimates for 2023-24 be approved**
- 2.2 **an average rent increase of 7.21% for all Council dwellings be approved with effect from 1 April 2023**

- 2.3 **A hardship fund be developed for the benefit of those tenants in need to a maximum of £50k, and for awards granted to be in the form of vouchers**
- 2.4 **the 2023-24 capital programme be approved**
- 2.5 **That delegated authority be given to the Director for Housing and Communities in consultation with the Director for Corporate Services and Portfolio Holder for Council Homes and Landlord Services to approve virements within the HRA capital programme during the year to provide flexibility to meet emerging needs and maintain decent homes.**
- 2.6 **That delegated authority be given to the Director for Housing and Communities in consultation with the Portfolio Holder for Council Homes and Landlord Services to finalise and implement the policy and criteria for a hardship fund for tenants.**

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. This report sets out detail for Cabinet to consider prior to making recommendations to Council. It is a requirement that this be scrutinised prior to its submission which will be undertaken by the Scrutiny Committee in January 2023. The proposed rent increase is in line with the rent ceiling applied by Government. The implementation of a one-off hardship fund is intended to enable additional support to tenants who are experiencing financial hardship.

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. For 2023-24 this could have meant an increase of up to 11.1% but following a period of such high inflation the rent increase has been capped at 7% for all general needs dwellings with supported housing being allowed to retain the CPI+1 increase. Increasing the supported housing properties by 11.1% results in an average increase of 7.21%. In addition, as approved within the HRA business plan, the rent for re-let void properties will be set to the 5% upward tolerance allowed on formula rent which will for 2023-24 be a 16.1% increase on 2022-23 formula rent.
- 4.3 The HRA 30 year Business Plan was presented to Cabinet in July 2022 and its recommendations are included in this budget report. The Asset Management Plan was presented to Cabinet in November 2022 and a rolling 5 year capital programme is being set

here in line with that plan. Both of these evidence-based plans provide for robust budget setting and clear plans to invest in council homes.

5 Main Considerations

5.1 Estimated Revenue Year End Position 2022-23:

The estimated year end position for the current financial year 2022-23 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 £	2022-23 Estimated Year End Position £	Variance £
Expenditure	7,422,390	7,647,760	225,370
Income	-8,254,710	-8,139,070	115,640
Net Cost of Services	-832,320	-491,310	341,010
Net Interest Charges	1,092,960	959,960	-133,000
Revenue Contribution to Capital	262,670	262,670	0
Contribution to/from(-) Reserves	-523,310	-731,320	208,010
Working Balance B/fwd	750,000	750,000	0
Working Balance C/fwd	750,000	750,000	0

At 30th November 2022 the Net Cost of Services shows an estimated year end position of a £341k overspend, this is partially offset by the expected increase in interest on investment balances. The £208k remaining overspend will increase the transfer from the reserve in order to maintain the £750k working balance. The overspend is made up of an overspend in expenditure of £225k, and a reduction in income of £116k, of this overspend £59k is attributable to the increase in support costs charged to the HRA, following the increased staff pay award as staff costs are directly linked.

Expenditure:

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

General Management £31k overspend:

£21k expected overspend on professional fees following the use of consultants for the business plan and review and draft housing tender is offsetting an estimated underspend of £26k on staffing costs following staff vacancies for fixed term posts which have now ended.

£9k overspend on the newly procured insurance policy and the high voids rates are continuing to result in an estimated £20k overspend.

Repairs & Maintenance £158k overspend:

An estimated overspend of £141k across the repairs service is expected as some budgets are seeing high levels of spend, most notably the voids and the contractor works outside of the price per property (PPP) arrangements. Budgets have already been moved from underspending lines. A proactive approach is being taken to voids and repairs so larger, long-standing and complicated voids are being completed and larger scale, high value repairs being undertaken. The budgets for next year have been assessed on this basis and with less back-log, voids should return to a more normal level. It is important to note that void performance has improved as a result of close contract management.

Gas and electricity costs have increased with the effects of inflation so an overspend of £8k is currently anticipated and the costs associated with Agency staff have exceeded staffing budgets by an estimated £9k, staffing levels have evened out and so Agency costs should now cease for this service.

Special Services £28k underspend:

£24k underspend on employee costs – this is due to budgeting for full establishment whilst vacancies are proactively being filled for key roles, the upcoming Intensive Housing Management Service review results are also awaited meaning vacant posts being held for the time being.

£10k underspend on food and drink provisions - reduced requirement for food supplies with lunch clubs slowly returning following the pandemic, 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 reduced lunch club take-up.

Meal rent debit income £16k shortfall due to the high voids rate at Gretton Court.

Rent Income £92k - assuming voids continue at their current level. The repairs works on voids property should result in increased income as these properties are re-let.

Performance for rent collected as a percentage of the rent due (in year) as at the end of 2021-22 was 94.85 %. This was outside the 96.50% tolerance for the end of the year by 1.65%. Income management in housing has been identified as a risk and is a key focus for the housing service. Performance for period 8 was 92.90% which was 1.25% down on performance for 2021-22. The outstanding debt owed on current rent accounts was £605,133.73 at the end of November 2022. Action is being taken to address income collection performance, including through the successful appointment to the post of Income and Tenancy Sustainment Officer in October 2022.

5.2 Estimated Capital Year End Position 2022-23

The capital programme summary is attached at Appendix B and shows the latest spend forecast of £5.444m against a £5.895m budget. This would result in an underspend of £451k. It is important to note that this underspend is attributed specifically to the development / acquisition of affordable housing, and that all monies allocated to investing in and improving tenants homes has been committed and remains on track to be spent within the current financial year, representing significant progress in investing in and improving council homes.

This underspend shown in the table below will be carried forward specifically for this purpose in 23/24.

Project	Total Budget £'000	Actual April 2022 to Nov 2022 £'000	Year End Forecast £'000	Variance (-) = Underspend £'000	Reason
Affordable Housing (Use of RTB Monies)	1,720	0	1,352	-368	Key achievement includes decision taken to acquire 8 affordable homes within the current financial year in line with commitments in HRA Business Plan and Affordable Housing Development Plan. Remaining balance in this budget line to be carried forward to 23/24 and will be retained specifically for the development and / or acquisition of affordable homes.

5.3 HRA Estimate and Rent Increases 2023-24:

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.

For 2023-24 only it is also proposed to provide a one-off hardship fund for the Council's tenants to help with the cost of living. The proposal is to allow tenants in need to apply for funding and for funding to be provided in the form of a voucher. The details and criteria for the scheme will be developed in February 2023 and will allow housing officers to identify tenants in need of additional financial assistance, as part of supporting tenants. The tenant representatives group will be asked to share ideas on how such a scheme could work. This proposed hardship fund is in addition to the ongoing cost of living support available for residents across the borough.

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 7.21% compared to 2022-23.

	2023-24 Estimate £
Expenditure	8,281,620
Income	-8,795,050
Net Cost of Services	<u>-513,430</u>
Net Interest Charges	923,960
Revenue Contribution to Capital	112,090

Contribution to/from(-) Reserves	-772,620
Surplus(-)/Deficit in year	-250,000
Working Balance B/fwd	750,000
Working Balance C/fwd	1,000,000

The carried forward working balance is increased to the targeted working balance of £1m as approved as part of the when the HRA business plan 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. 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 2024, assuming no other borrowing is undertaken by the end of this or the next financial year. Following the introduction of the business plan, new projects will be considered on whether the plan as a whole remains affordable based on newly introduced indicators of affordability. These include the interest cover ratio which measures whether the business plan can afford to cover the interest payments on any new and existing borrowing. This indicator for 2023-24 shows that we only cover 0.43% of our interest payable, however in the business plan this does gradually increase so 100% is covered from year 7.

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 2023-24.

5.4 **HRA Capital Programme 2023-24**

The proposed capital programme for 2023-24 to 2026-27 is attached at Appendix C, and shows a budgeted spend of £2.592m over the next year. In line with the Asset Management Plan (approved by Council in December 2022) the capital budget will be a rolling 5 year programme, to include the current year, re-assessed annually.

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. For the Housing Revenue Account this includes directly incurred costs and income as well as recharges from other service areas.

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.

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 was increased following the production of the 30 year business plan to £1m.

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

Year	2022-23	2023-24	2024-25	2025-26	2026-27
	£'000	£'000	£'000	£'000	£'000
Major Repairs Reserve	3,197	3,253	3,288	1,439	828
Regeneration & Development Reserve	3,281	2,509	1,901	1,433	1,074
Capital Receipts reserve	1,082	369	99	-192	-525
Total HRA Reserve Balances	7,560	6,131	5,288	2,680	1,377
Comparable Amounts reported in February 2022	6,460	N/A	N/A	N/A	N/A

Over the first 12 years of the business plan reserves do reduce and some re-profiling of expenditure will be required in order to fund the capital programme and maintain the working balance. From year 13 balances do start to recover based on the current known profile of major works. The capital receipts reserve projections are particularly prudent as the number of house sales under the right to buy scheme is wholly demand led and take-up has been low in recent years due to COVID, however some of the funding to this reserve will be required to be spent on the provision of new affordable housing alongside spending from our other reserves.

5.7 HRA Business Plan/Future Considerations

There is currently a review of the Intensive Housing Management Service being undertaken, the results from this will also inform future budgets.

6 Consultation

- 6.1 The Budget Holders and the Assistant Director for Housing Management carried out the review of estimates with the assistance of the service accountant as required with reference to current budget monitoring protocols.
- 6.2 Tenant consultation regarding service charges have been carried out at various venues across the Borough via the new tenant engagement arrangements.
- 6.3 This report was considered by Scrutiny Committee on 24 January 2023. A separate report is included elsewhere on this agenda, on the comments made by this Scrutiny Committee.

7 Next Steps – Implementation and Communication

- 7.1 The recommendations arising from this report will be submitted to the Council meeting on 23 February 2023 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: Deputy Monitoring Officer 16.01.23

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	The economic climate and welfare reform changes cause hardship on tenants causing higher levels of rent arrears and reduced collection performance	High	Critical	High Risk
6	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			5,6	
	4 Significant			3,4	
	3 Low				
	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	Provision of support to tenants to offset the impact of financial hardship, coupled with clear income collection policies embedding financial sustainability of tenants as a key theme. One off hardship fund proposed.
6	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

14.1 None.

15 Appendices

- 15.1 Appendix A – HRA Estimates
- 15.2 Appendix B – HRA Capital Programme 2022-23
- 15.3 Appendix C – HRA Capital Programme 2023-27

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