

HRA Budget 2022-23

Council	10 February 2022
Report Author	Chris Blundell (Director of Finance)
Portfolio Holder	Cllr David Saunders, Cabinet Member for Finance
Status	For Decision
Classification:	Unrestricted
Key Decision	Budget and Policy Framework

Executive Summary:

This report presents the 2022-23 budget and 2022-26 capital programme for the Housing Revenue Account.

Recommendation(s):

That Council approves:

1. That the revised HRA budget estimates for 2022-23 are approved;
2. That the revised Housing Revenue Account capital programmes (Annex 1) for 2022-26 are approved;
3. That the HRA business plan is noted.
4. That the cap on leasehold insurance at £100 per annum is removed.

Corporate Implications

Financial and Value for Money

The financial implications of the budget are laid out within the body of the report.

Legal

Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Deputy Chief Executive and this report is helping to carry out this function.

The requirements of other relevant statutes have been referenced within the body of this report, where relevant.

Corporate

Corporate priorities can only be delivered with robust finances. Both the draft budget and the level of reserves recommended in this report are believed to be sufficient to contribute towards meeting those priorities and to deliver services.

Equality Act 2010 & Public Sector Equality Duty

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.

Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- *Growth*
- *Environment*
- *Communities*

1.0 Introduction and Background

1.1 This report seeks approval of the 2022-23 Housing Revenue Account (HRA) budget and associated capital programme.

1.2 A review of the council's HRA reserves for both revenue and capital is included. The report further sets out the assumed housing rent increases to assist in funding the budget.

1.3 The budget is set against the background of the Tenant and Leasehold service coming back in house from 1st October 2020.

2.0 Housing Revenue Account Revenue Budget

2.1 The council's responsibilities in respect of the need to keep a Housing Revenue Account (HRA) are contained within Section 74 of the Local Government and Housing Act 1989 ('The Act') and its use is heavily prescribed through statute. The HRA records all of the revenue expenditure and income relating to land, dwellings

and other buildings provided under Part II of the Housing Act 1985 and corresponding earlier legislation. It must be separate from the General Fund Revenue Account and therefore is to all intents and purposes ring-fenced. Although the HRA for an individual year may result in a deficit, it is a requirement of 'The Act' that overall it must maintain a surplus, which means that expenditure must be carefully planned to remain within the limits of the anticipated income streams over the medium term.

2.2 The Housing Revenue Account Business Plan sets out the main strategic priorities for investment in homes and services over the long term. The draft strategic priorities, set out below, were prepared as part of the review of HRA budgets ready for the launch of the new in-house service on 1 October 2020 and subsequently were the subject of consultation with representatives of the council's tenants and leaseholders. This report now recommends that these draft strategic priorities are adopted:

- To maintain a Housing Revenue Account that is self-financing and reflects both the requirements of residents and the strategic visions and priorities of the council.
- To provide opportunities for tenants and leaseholders to become involved in the management of their homes.
- To provide safe, well maintained and energy efficient homes.
- To invest in long-term improvements to the council's housing stock and provide homes that people choose to live in.
- To increase the council's housing stock through programmes of new build and refurbishment.
- To review the alternative options for homes that cannot be maintained to meet current and future standards.
- To maintain a rent and charging policy that is both affordable for residents and ensures the resources needed for investment in homes and services.
- To maintain a minimum level of HRA reserves of £1m.

3.0 Details of the HRA revised expenditure estimates

3.0.1 **Contract and Price Inflation** - For direct expenditure budgets, price increases have been included at 10% for gas/electric and 5% elsewhere, which is the best estimate of the level of inflation at this point in time, unless there is a known inflation factor within a specific contract, in which case this has been used.

3.0.2 **Repairs and Maintenance** - Since the service was brought back in house it has become clear that across both revenue and capital that there has been significant under investment in the housing stock by East Kent Housing and that across revenue budgets and capital programmes an element of catchup is required.

There are also additional requirements on local authorities to move towards net zero carbon for their housing stocks, as a result £60.9k is required in 2022-23 to update Energy Performance Certificates (EPCs) across the whole housing stock in order to determine the best way forward for our poorest performing stock.

The refurbishment of 3 playgrounds is also required, at a cost of £36k in 2022-23.

The combination of these 3 key growth elements means the repairs and maintenance programme will require growth of £584k in 2022-23, although this also incorporates an element of annual uplift in contract value.

- 3.0.3 **Supervision and Management General** – Additional revenue budget is required to continue the requirements laid out by Kent Fire and Rescue for a ‘waking watch’ provision at the tower blocks, whilst the associated on-going capital works cabinet are completed. One-off growth of £330k is required in 2022-23 to facilitate this. Additional costs associated with the increase in provision of Housing Response Officers at tower blocks, as per 16 December 2021 Cabinet report, are factored into the budget.
- 3.0.4 **Bad or Doubtful Debts Provision** – The bad debt provision is budgeted at 1.75% of rental income and a corresponding increase in the bad debt provision of £11.89k is proposed.
- 3.0.5 **Depreciation for Fixed Assets** – The estimated depreciation charge for dwellings and other assets is calculated at £4.31m in 2022-23.
- 3.0.6 **Debt charges** – Since the self-financing settlement, the council has operated a two loan pool approach whereby the HRA and GF are each responsible for the repayment of their own apportionment of loans. As at 1 April 2022, the HRA had £12.6m of loans outstanding.

3.1 **Details of the HRA income estimates**

- 3.1.1 **Rent Increases** – Social rents have been set based on government rent guidance. Affordable Rents are linked to local market rents and to the Local Housing Allowance for the area. Rents are applied to individual properties at the lower of either 80% of the local market rent or the Local Housing Allowance. The budget presented has been set based on the inflation measure Consumer Price Index (CPI)+1% increase for social and affordable rent tenants. Based on the proposed increase across the whole stock the average rent is £88.63, this is an average increase of £3.69p per property per week.

The proposed average rent of £88.63 is substantially below the Local Housing Allowance levels - LHA rents are in the order of 50% higher - and actual private sector rents are higher still. It should also be noted that approximately three quarters of council tenants are in receipt of either Housing Benefit or Universal Credit. Whilst individual cases may vary due to specific circumstances, it is reasonable to assume that in general, increased rent will be matched by increased benefit.

The HRA has been running at a deficit now for a number of years due to the requirement by the government to reduce social and affordable rents by 1% per annum for the four years starting in 2016/17.

This coupled with other one-off costs, such as the waking watch and bringing the service back in house has meant that increasing rents by the maximum CPI + 1% is essential to ensure the HRA comes back to a surplus position over time.

In addition the HRA needs to maintain a surplus so that should unforeseen capital expenditure be required the HRA has sufficient revenue resources so it can

undertake additional borrowing. For example to finance future requirements in relation to net zero carbon.

3.1.2 **Non Dwelling Rents** - Garage rents are to remain at £12 per week. All sites are being reviewed for development and regeneration opportunities, as well as a new planned maintenance programme.

3.1.3 **Service Charge Increases** – Service charges are calculated based on actual cost. Tenant service charge increases continue to be capped at £3 a week. The new service charge associated with the increase in the provision of Housing Response Officers at the tower blocks, in line with the 16 December 2021 Cabinet report, has been factored into the budget.

3.1.4 **Heating Charges** – Heating charges will be recovered on actual cost based on usage and contract price and then apportioned across the block dependent on bedroom size.

3.1.5 **Investment Income** – This consists of interest accruing on HRA balances. The budget for 2022-23 of £75k is based on achieving an average interest rate of 0.5%.

3.2 **The Housing Revenue Account Reserves**

The council operates three main HRA reserves: a HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties Reserve:

3.3 **Housing Revenue Account Major Repairs Reserve** – An amount equivalent to the actual depreciation charge for dwellings is transferred to the Major Repairs Reserve to fund capital works to the existing stock. In-line with the depreciation calculation, the estimated transfer to the Major Repairs Reserve for 2022-23 is £4.31m.

The funding held in this reserve is used to fund the Major Repair schemes included on the capital programme, enabling the council to maintain the housing stock in a good condition. The council currently maintains its social housing to Decent Homes Plus standard.

3.4 **Housing Revenue Account Balance Reserve** – This reserve holds the accumulated balance of prior year surpluses and deficits relating to the HRA. Accordingly, it is used to draw down to budgeted deficit for 2022-23 and smooth out any peaks and troughs within the 30 year business plan. As at 1 April 2022 the forecast reserve balance is £6.121m.

3.5 **HRA New Properties Reserve** – This reserve holds funds set aside to fund either new build properties or the acquisition of suitable properties for use within the HRA. Earmarked match funding for the Margate Intervention, New Build Programme and 141 Acquisition Programme has been set aside in this reserve as agreed by Cabinet. As at 1 April 2022 the forecast reserve balance is £0.7m and is due to be drawn down during 2022-23. Income generated from affordable rents will continue to be set aside in this reserve for re-investment.

3.6 The proposed HRA revenue budget for 2022-23 is set out below.

Table 1: 2022-23 HRA Budget

DRAFT - HOUSING REVENUE ACCOUNT BUDGET	
	2022-23 Proposed
	£'000
Income	
Dwelling Rents (gross)	-14,025
Non-dwelling Rents (gross)	-228
Charges for services and facilities	-615
Contributions towards expenditure	-572
Income Subtotal	-15,440
Expenditure	
Repairs & Maintenance	4,983
Supervision & Management – General	4,483
Supervision & Management – Special	798
Rents, rates, taxes and other charges	254
Bad or doubtful debts provision	245
Depreciation/impairment of fixed assets	4,310
Capital Expenditure funded from HRA	1,300
Debt Management Costs	9
Expenditure Subtotal	16,382
Net Costs of Services Sub Total	942
Share of Members and Democratic Core	148
HRA Investment Income	-75
Debt Interest Charges	989
Government Grants and Contributions	0
Adjustments made between accounting basis and funding basis	-411
(Surplus)/Deficit on HRA	1,593
Housing Revenue Account Balance:	
Forecast Surplus at Beginning of Year	-6,121
(Surplus)/Deficit for Year	1,593
Estimated Surplus at End of Year	-4,528

3.7 Leasehold Insurance Recharges

Currently leaseholders are capped at £100 per annum in relation to the recharge of insurances. It is proposed to remove this arbitrary cap so that leaseholders are recharged with the actual cost of insurance for their properties. This approach is supported by recent legal advice that states that HRA tenants should not subsidise leaseholders costs. This should result in additional income of around £20k to the HRA. The annual average cost per leaseholder will rise from £100 to £159.

4.0 The HRA Capital Programmes for 2022-23 to 2025-26

- 4.1 The Capital Programme like revenue has required some extensive revisions since the service came back in house.
- 4.2 From 2022-23 due to the general condition of our estates an additional £200k per annum has been built into the Capital Programme to deal with the required capital improvements.
- 4.3 Extensive fire precaution works are required across the stock in order to meet fire regulations and as such an additional £230k has been added for this purpose.
- 4.4 As the government's net zero carbon commitment is firmly in place following COP26, an additional £20k has been built into the programme annually to allow for the installation of thermal insulation.
- 4.5 As part of the lift replacement programme following further review a further 2 lifts require replacing at Invicta House and so a further £412k has been added to the programme.
- 4.6 £50k has been added in order to undertake works to the HRA garage sites.
- 4.7 The most significant capital programme in 2022-23 and beyond is the £12.3m allocated to tower block works. An element of these budgeted works relates to cladding replacement, associated scaffolding and consultancy costs. The Council currently has had 4 of its 5 applications to the Building Safety Fund progressed. These once all finalised and if approved will significantly reduce the amount of Major Repairs Reserve required to finance the cladding replacement. The £12.3m is also unlikely to all be spent in 2022-23 as per the current programme and work is currently underway to reprofile this into future years which will further alleviate the pressure on the Major Repairs Reserve.
- 4.8 **Annex 1** contains the full breakdown of the HRA Capital Programme.
- 4.9 Going forward a large capital scheme will be required in order to ensure the stock meets net zero carbon. Currently the forecast cost of this is £38m at today's prices, approximately £12m of this requirement is built in the capital programme over the next 30 years through a combination of heating and insulation budgets, although this leaves a substantial shortfall that will need to be financed either via the major repairs reserve or borrowing or through external grant funding, such as the Social Housing Decarbonisation Fund.
- 4.10 A new build programme from 2024-25 onwards of £8.1m, financed through borrowing and other sources of capital finance has been factored into the programme and revenue assumptions. The programme aims to create an additional 30 units of affordable housing per annum.

5.0 Proposed Average Rents

Table 3 Average rents 2022-23

AVERAGE RENTS 2022-23		
PROPERTY TYPE	SOCIAL RENT	AFFORDABLE RENT (inclusive of service charges)
BEDSITS	60.30	85.70
1 BED HOUSE	82.66	79.29
1 BED FLAT	71.38	83.71
2 BED HOUSE/BUNGALOW	89.88	113.33
2 BED FLAT	80.71	126.91
3 BED HOUSE	98.08	153.72
3 BED FLAT	95.80	160.80
4 BED HOUSE	108.29	171.09
4 BED FLAT	95.67	176.74
5 BED HOUSE	117.79	n/a

6.0 Working Balances and Reserves

- 6.1 Section 32 of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure. The Section 151 Officer is responsible for providing advice, so that decisions taken on reserves represent proper stewardship of public funds. Reserves should be set and maintained at a level at least sufficient to meet any unexpected increase in expenditure or shortfall in income in the ensuing year that cannot be met from within the approved budget. Any decision that fails to take into account their advice may require a report to be made to the council under Section 114 of the Local Government Finance Act 1988.
- 6.2 These reserves are required in order to comply with proper accounting practice, whilst others have been created to earmark resources for known or predicted liabilities. A summary of the projected reserves, allowing for the budget proposals, is shown in Table 1 below for information.

Table 2 HRA Reserves

Reserves	31 Mar 22	Movement	31 Mar 23	Movement	31 Mar 24
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	£000	£000	£000	£000	£000
HRA - Balances Reserve	6,120	-1,593	4,527	-470	4,058
HRA - New Prop/ Repairs Reserve	700	-700	0	0	0
HRA - Major Repairs Reserve	14,099	-13,150	949	1,575	2,524
Total	20,919	-15,443	5,476	1,105	6,581

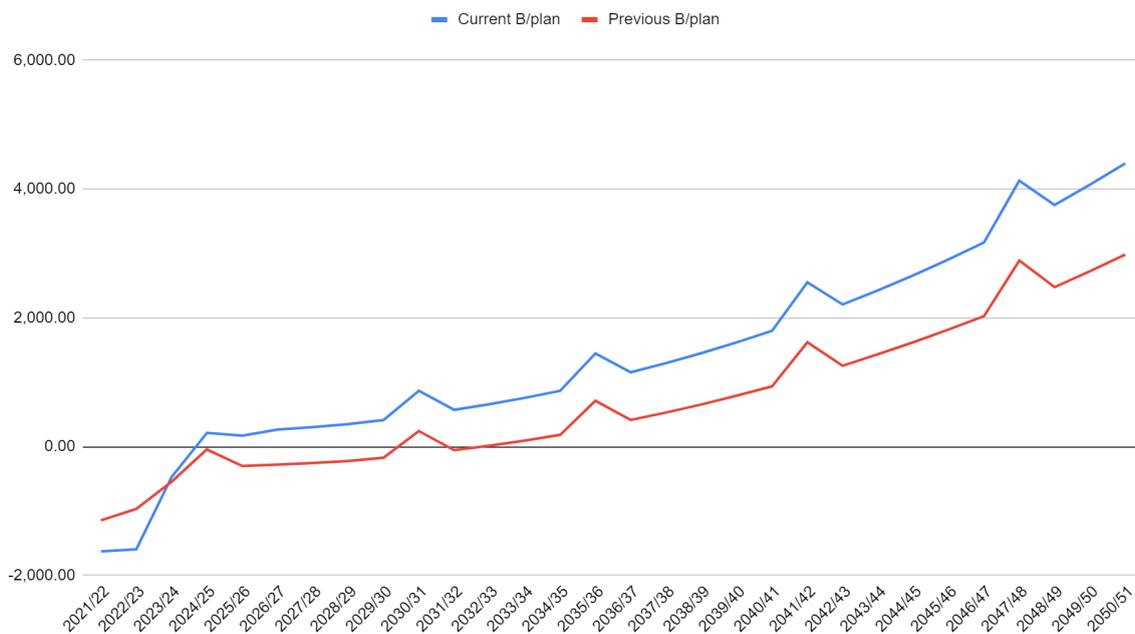
7.0 30 year HRA Business Plan

- 7.1 When considering the annual budget and effects of inflation (measured by CPI and RPI), to ensure the HRA remains sustainable in the longer term a review of the HRA 30 year business plan has been undertaken.
- 7.2 However in order to produce a business plan certain assumptions have to be made in order to forecast both expenditure and income. The two key indices used within the business plan are the CPI and Retail Price Index (RPI).
- 7.3 Income to the HRA is linked in the main to CPI. The current business plan assumes a CPI + 1% increase annually for rental income, the maximum allowed under statute. Members have the authority to freeze rental income or set a rent increase below CPI +1%. However the financial impact on the business plan would be significant if this was agreed and it would take longer to make a surplus. It would also limit the revenue resources to the HRA in the affordability to undertake additional borrowing, if required, to deal with emerging issues such as net zero carbon.
- 7.4 Expenditure is mainly linked to RPI in the business plan model and this is also subject to variations over the term of the business plan. Our current assumptions are 5% in 2022-23, reducing to 3% in the longer term.
- 7.5 When we compare the previous business plan assumptions to the latest, we can see that the current business plan model generates surpluses much sooner.
- 7.6 This is as a result of a much higher CPI rate, forecast in line with Bank Of England assumptions, the previous plan assumed CPI at 2%, whereas we've seen CPI increase to 3.1% in September 21 and the future forecast is now 4.5% in Q3 2022-23 and 3.5% in Q3 2023-24.
- 7.7 The full impact of this increase is offset in earlier years as a result of increased costs of the waking watch and repairs and maintenance and in later years by RPI being forecast to be a similar level to that of CPI.
- 7.8 However, at least in the short term, it's important to keep rent levels at their maximum possible level as both indexes have seen significant changes over recent months and this looks set to continue.

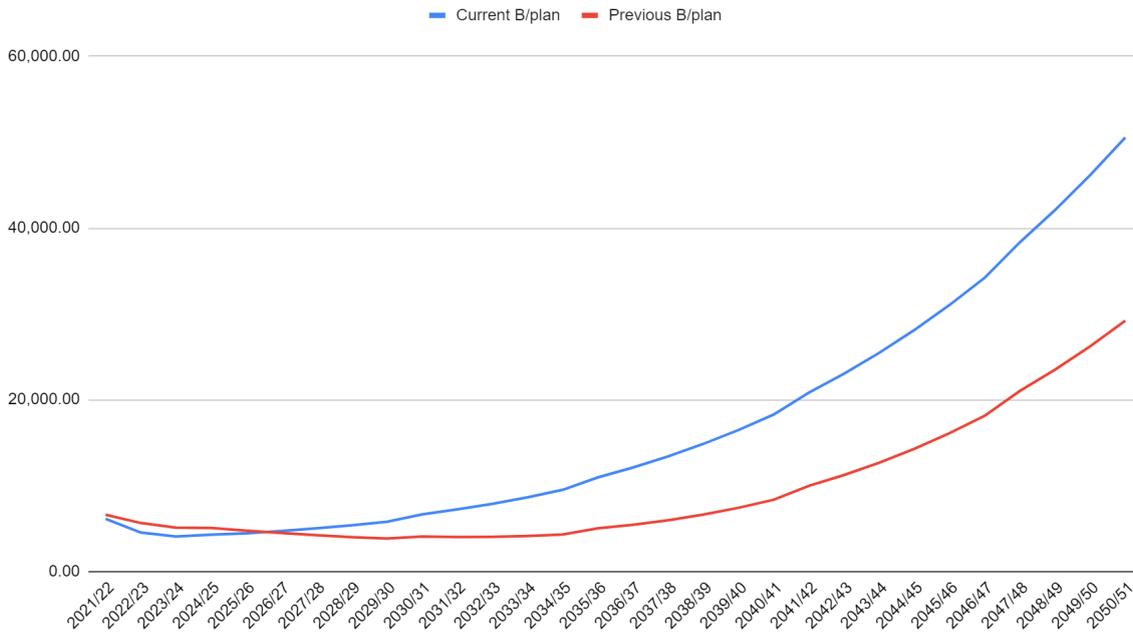
7.9 With these variations in mind efficiency savings may be required from 2024 onwards once the indexation position begins to settle. Some efficiencies can naturally be gained from the repairs and maintenance programme once capital works are completed to some assets, such as lifts and when repairs bringing the condition of the stock back to expected levels has occurred.

7.10 The charts below show the current overall position of the HRA based on these assumptions over the next 30 years and compares this to the previous business plan:

Current B/plan and Previous B/plan



Current B/plan and Previous B/plan



7.11 New Build and Acquisition Programme

To date the Council has delivered 162 additional homes over the last nine years, with funding already in place for 28 more (Foy House and new build phase 4).

The business plan incorporates new build expenditure of £8.1m per annum from 2024-25 funded via borrowing and other sources inc. capital receipts.

The plan assumes 20 new units over the first 5 years of the business plan and then 30 new units per year from year 6, once the units are developed using the first tranche of £8.1m investment.

This investment should also have a direct impact on homelessness in the district by creating additional units of affordable housing. Covid has led to a reduction in the amount of affordable private rented accommodation in the district, through a combination of people using previously rented accommodation as a place to now work by the coast or maximising income through Airbnb.

7.12 Financing the Business Plan

The main source of income for the HRA is the rents paid by Council tenants. From 1st April 2020 the Government announced that Council landlords could increase their rents again by CPI + 1% for a period of 5 years.

In addition the HRA receives income from other services such as service charges for services provided over those covered by their rental charges.

As expenditure is split between revenue and capital, resources to finance that expenditure are also split between revenue and capital. The key financing streams are:

Revenue:

- Dwelling Rents (from both social and affordable rents)
- Non-dwelling Rents (from garage rentals, aerials on roof tops etc.)
- Charge for services and facilities (charges for services not included in rental)
- Contributions towards expenditure (leaseholder charges, rechargeable repairs, other income)

Capital

- Major Repairs Reserve (revenue monies are set aside annually to fund major capital expenditure on dwellings)
- New Properties Reserve (revenue monies set aside to build new dwellings)
- Capital Receipts (from sales of dwellings or other assets)
- Borrowing

8.0 Budget Estimates

8.1 The estimates are considered to be robust and have been subject to significant review and scrutiny by the Section 151 Officer, the Corporate Management Team, and Financial Services Officers.

8.2 In general, realistic assumptions have also been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and fees and charges income.

9.0 Adequacy of HRA Reserves

9.1 The level of HRA reserves remain healthy with HRA balances in excess of the targeted £1m even after the pressure of forecast annual deficits in the HRA in the short term.

9.2 The New Properties Reserve is likely to be fully utilised by the end of 2022-23 due to further progression of the Council's new build housing and refurbishment schemes. This is as expected, although in future years, the reserve will continue to be replenished with affordable housing rents.

9.3 The Major Repairs Reserve is under considerable pressure over the short term due to the large capital programme spend forecast in 2022-23. This spend is forecast to reduce the reserve to £949k at the end of 2022-23, although over the following years the reserve is forecast to be replenished.

10.0 Options

10.1 Council could choose not to accept some or all of the proposals. This could include the proposed housing rent increases. However, Council would also need

to consider the impact on the business plan and potential ways of bridging the budget gap if the level of balances fall below the recommended amount.

Contact Officer: *Chris Blundell (Director of Finance)*

Reporting to: *Madeline Homer (Chief Executive)*

Annex List

Annex 1: Housing Revenue Account Capital Programme 2022-26 Budget

Background Papers

Title: Held in Financial Services

Corporate Consultation

Finance: *N/A*

Legal: *Estelle Culligan (Director of Law and Democracy)*