HRA Budget 2023/24

Council	9 February 2023
Report Author	Chris Blundell (Acting Deputy Chief Executive)
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 2023/24 budget and 2023-27 capital programme for the Housing Revenue Account.

Recommendation(s):

1. That the HRA budget for 2023/24 is approved;
2. That the revised Housing Revenue Account capital programme (Annex 1) for 2023-27 is approved; and
3. That the HRA business plan is noted.

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 Acting Deputy Chief Executive and this report is helping to carry out this function.

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.

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. Introduction and Background

1.1. This report seeks approval of the 2023/24 Housing Revenue Account (HRA) budget and associated capital programme. 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.

1.2. The draft 2023/24 HRA budget was presented to Cabinet at its meeting on 12 January 2023 and was subsequently recommended to Council for approval. The HRA budget was also considered by the Overview and Scrutiny Panel at its meeting on 17 January 2023, where no recommendations were made for change and subsequently the budget estimates presented to Council remain the same as those presented to Cabinet at its meeting on 12 January 2023.

2. Housing Revenue Account Strategic Priorities

2.1. The Housing Revenue Account Business Plan sets out the main strategic priorities for investment in homes and services over the long term. The strategic priorities, set out below, were adopted as part of last year's budget report:

- 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. 2023/24 Housing Revenue Account Revenue Budget

3.1. The proposed HRA revenue budget for 2023/24 is set out below.

Table 1: 2023/24 HRA Budget

DRAFT - HOUSING REVENUE ACCOUNT BUDGET	
	2023/24 Proposed
	£'000
Income	
Dwelling Rents (gross)	-14,922
Non-dwelling Rents (gross)	-277
Charges for services and facilities	-579
Contributions towards expenditure	-520
Income Subtotal	**-16,298**
Expenditure	
Repairs & Maintenance	5,255
Supervision & Management – General	4,859
Supervision & Management – Special	1,042
Rents, rates, taxes and other charges	246
Bad or doubtful debts provision	260
Depreciation/impairment of fixed assets	4,310
Capital Expenditure funded from HRA	300

Debt Management Costs	9
Expenditure Subtotal	**16,281**
Net Costs of Services Sub Total	**-17**
Share of Members and Democratic Core	148
HRA Investment Income	-770
Debt Interest Charges	1,487
Government Grants and Contributions	0
Adjustments made between accounting basis and funding basis	588
(**Surplus)/Deficit on HRA**	**1,436**
Housing Revenue Account Balance:	
Forecast Surplus at Beginning of Year	-4,771
(Surplus)/Deficit for Year	1,436
Estimated Surplus at End of Year	**-3,335**

3.2. The estimates show that the 2023/24 HRA revenue budget has a deficit of £1.436m. This means that the council is expecting to spend £1.436m on the HRA for the forthcoming financial year that it will receive in income for rents and other sources.

3.3. Furthermore, it can be seen that in running at this deficit £1.436m is forecast to be taken from the HRA balance, reducing the balance from £4.771m to £3.335m; this represents a reduction of 30% in the value of the HRA balance.

3.4. As set out in the legal implications, although the HRA budget for an individual year may be in a deficit, it is a requirement of the Local Government and Housing Act 1989 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. How the council seeks to move into surplus and the assumptions underpinning achieving this are set out in the HRA Business plan at section 8.

3.5. The key aspects of the draft budget are set out in detail in the following sections.

4. Details of the HRA Expenditure Budgets

4.1. **Contract and Price Inflation** - For direct expenditure budgets, price increases have been included at 50% for gas/electric and 5% for insurances, 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.

4.2. **Repairs and Maintenance -** Since the service was brought back in house it has become clear that across both revenue and capital that there had 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.

This coupled with the high inflationary increases required due to the majority of contracts being linked to CPI, has led to growth of £479k in the repairs and maintenance budget.

4.3. **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 are completed. One-off growth of £328k is required in 2023/24 to facilitate this funded from HRA revenue balances.

4.4. **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 £15k is proposed.

4.5. **Depreciation for Fixed Assets –** The estimated depreciation charge for dwellings and other assets is calculated at £4.310m in 2023/24.

4.6. **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 31 December 2022, the HRA had £12.6m of loans outstanding.

5. Details of the HRA Income Budgets

5.1. **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. Normally the Council has the flexibility to increase rents by Consumer Price Index (CPI)+1% for social and affordable rent tenants.

However as CPI was 10.1% in September 2022 and it is this month that is used to calculate maximum rental increases from April 2023, the government released a consultation proposing to cap the maximum rental increase allowed at 3%, 5% or 7%.

As part of the Autumn budget the government settled on a cap of 7%, which due to the inflationary pressures on the HRA, was welcomed to ensure the business plan remains as sustainable as possible.

Based on the proposed increase across the whole stock the average rent is £94.84, this is an average increase of £6.20p per property per week. Table 2 sets out the proposed average rents across the different property types within the HRA portfolio.

Table 2: Average rents 2023/24

AVERAGE RENTS 2023/24		
PROPERTY TYPE	SOCIAL RENT	AFFORDABLE RENT (inclusive of service charges)
BEDSITS	64.38	91.29
1 BED HOUSE	88.42	84.84
1 BED FLAT	76.36	94.75
2 BED HOUSE/BUNGALOW	96.16	121.25
2 BED FLAT	86.35	135.80
3 BED HOUSE	104.94	166.04
3 BED FLAT	102.51	172.05
4 BED HOUSE	115.87	180.28
4 BED FLAT	102.37	182.09
5 BED HOUSE	126.04	n/a

The proposed average rent of £94.84 is substantially below the Local Housing Allowance levels - LHA rents are in the order of 40% 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.

10 properties would see their rents increase over and above the LHA rate as a result of the 7% increase. To ensure on-going affordability for these tenants the Council caps rents at the relevant LHA rate for the property type, meaning a lower than 7% increase in these cases.

The HRA has been running at a deficit now for a number of years, mainly 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 7% 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 to finance the undertaking of additional borrowing (for example to finance future requirements in relation to net zero carbon).

5.2. **Non Dwelling Rents** - Garage rents are to be increased to £1,250 per annum (inc.VAT) for non tenants and £1,000 per annum for tenants. These proposed increases have been benchmarked against private sector rentals. Some sites are being reviewed for development and regeneration opportunities.

5.3. **Service Charge Increases** – Service charges are calculated based on actual cost. Tenant service charge increases continue to be capped at £3 a week.

5.4. **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.

5.5. **Investment Income –** This consists of interest accruing on HRA balances. The budget for 2023/24 of £770k is based on achieving an average interest rate of 4.4%.

6. The Housing Revenue Account 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. The council operates three main HRA reserves: a HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties Reserve:

6.3. **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 2023/24 and smooth out any peaks and troughs within the 30 year business plan. As at 1 April 2023 the forecast reserve balance is £4.7m.

6.4. **Housing Revenue Account Major Repairs Reserve** – 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.

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 2023/24 is £4.310m. As at 1 April 2023 the forecast reserve balance is £15.0m.

6.5. **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 2023 the forecast reserve balance is nil, due to it being budgeted to be fully utilised in 2022/23 Capital Programme. Income generated from affordable rents (£300k) will be used annually for further capital investment. As at 1 April 2023 the forecast reserve balance is £x.xm

6.6. 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 3 below for information.

Table 3 HRA Reserves

Reserves	31 Mar 23	Movement	31 Mar 24	Movement	31 Mar 25
	£000	£000	£000	£000	£000
HRA - Balances Reserve	4,771	-1,436	3,335	108	3,443
HRA - New Prop/ Repairs Reserve	0	0	0	0	0
HRA - Major Repairs Reserve	14,952	-3,722	11,230	-4,466	6,764
Total	**19,723**	**(5,158)**	**14,565**	**(4,358)**	**10,207**

7. The HRA Capital Programmes for 2023/24 to 2026/27

7.1. The proposed capital programme for 2023/24 totals £12.5m, with a further £43.1m programmed for the following three financial years, resulting in a capital spend over the four year programme totalling £55.6m.

7.2. **Annex 1** contains the full breakdown of the HRA Capital Programme.

7.3. Key schemes included within the four year programme are:

- **Tower Block Works** - £14.1m over three years. The budget for the tower block works including cladding replacement has been reviewed and provisionally reprofiled across the financial years 2023-2026 whilst a more detailed cost plan is compiled by quantity surveyors.

- **Structural Repairs -** £2.4m, this budget covers the major structural repairs to our housing stock such as balcony renewal.

- **New Build Phase 4** - £12.3m over three years, with £4.0m and £8.1m planned for 2023/24 and 2024/25 respectively. This funding is required to complete the affordable development programme as laid out in 17th November 2022 report to Cabinet.

- **Acquisitions/Development Programme** - £7.9m in 2025/26 and £8.1m in 2026/27, 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.

- **Wooden Windows** - the 2023/24 & 2024/25 Capital Programmes include an additional £150k additional budget to install wooden windows across a number of sites.

- **Churchfields and Royal Crescent -** The major refurbishment schemes at Churchfields and Royal Crescent have been reprofiled from 2022/23 to 2023/24.

- **Princess Margaret playground** - A £50k budget for works to Princess Margaret playground has been added to be financed through Section 106 contributions.

7.4. 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.

8. 30 year HRA Business Plan

8.1. The 2023/24 HRA revenue budget has a planned deficit of £1.436m. This means that expenditure must be carefully planned and anticipated income streams optimised over the medium term in order to return the HRA budget to a sustainable position.

8.2. To ensure the HRA remains sustainable in the longer term a review of the HRA 30 year business plan has been undertaken.

8.3. 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 Consumer Price Index (CPI) and Retail Price Index (RPI).

8.4. 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 that is typically allowed under statute (for 2023/24 it has been capped at 7%).

8.5. Members have the authority to reduce, 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 for the HRA to generate a surplus. Fundamentally, it would also limit the capacity to undertake additional borrowing to finance future capital expenditure to deliver more affordable homes and issues such as net zero carbon.

8.6. 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. The current assumptions are for RPI to return to around 2% in the longer term.

8.7. Comparing the previous business plan assumptions to the latest, it can be seen that the current business plan model generates higher surpluses. 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% across the medium term, whereas CPI increased to 10.1% in September 2022 and the future forecast is now 9.84% at quarter 2 2023/24 and 3.5% in quarter 3 2023/24. As such, it is assumed that members will approve higher inflation linked rental increases in future years, in accordance with a return to the CPI+1% rent framework.

8.8. The full impact of this rental income 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.

8.9. However, at least in the short to medium term, it's recommended to approve rent increases to their maximum possible level in order to return the HRA to a surplus; in particular, as both CPI and RPI indexes have seen significant changes over recent months and this looks set to continue.

8.10. With these variations in mind, efficiency savings may be required from 2024 onwards once the inflation position begins to settle. It is expected that 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. However, if members do not elect to increase rents by the maximum amount permissible in the future then it may be necessary to implement a more stringent array of savings in order to balance the HRA budget.

8.11. 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:

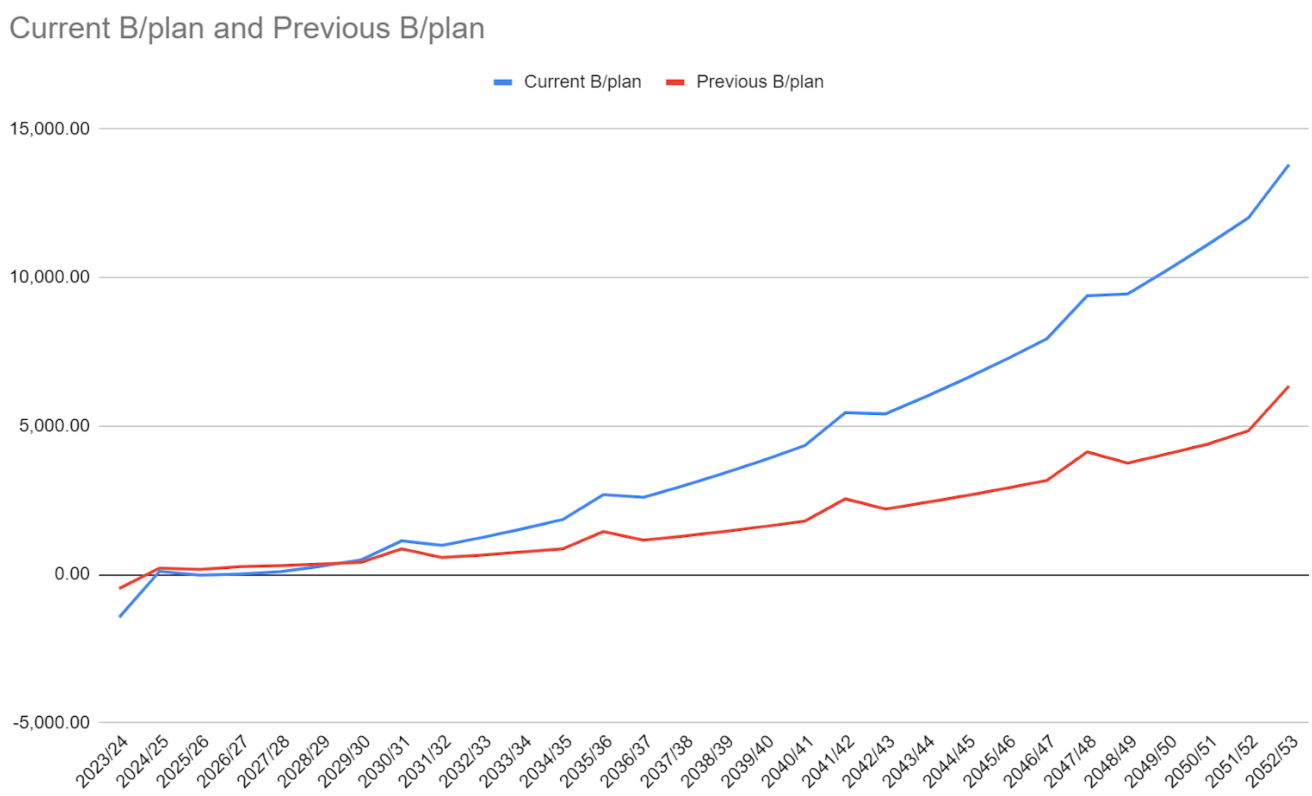

Chart 1 - annual operating surplus estimates 2023-2053

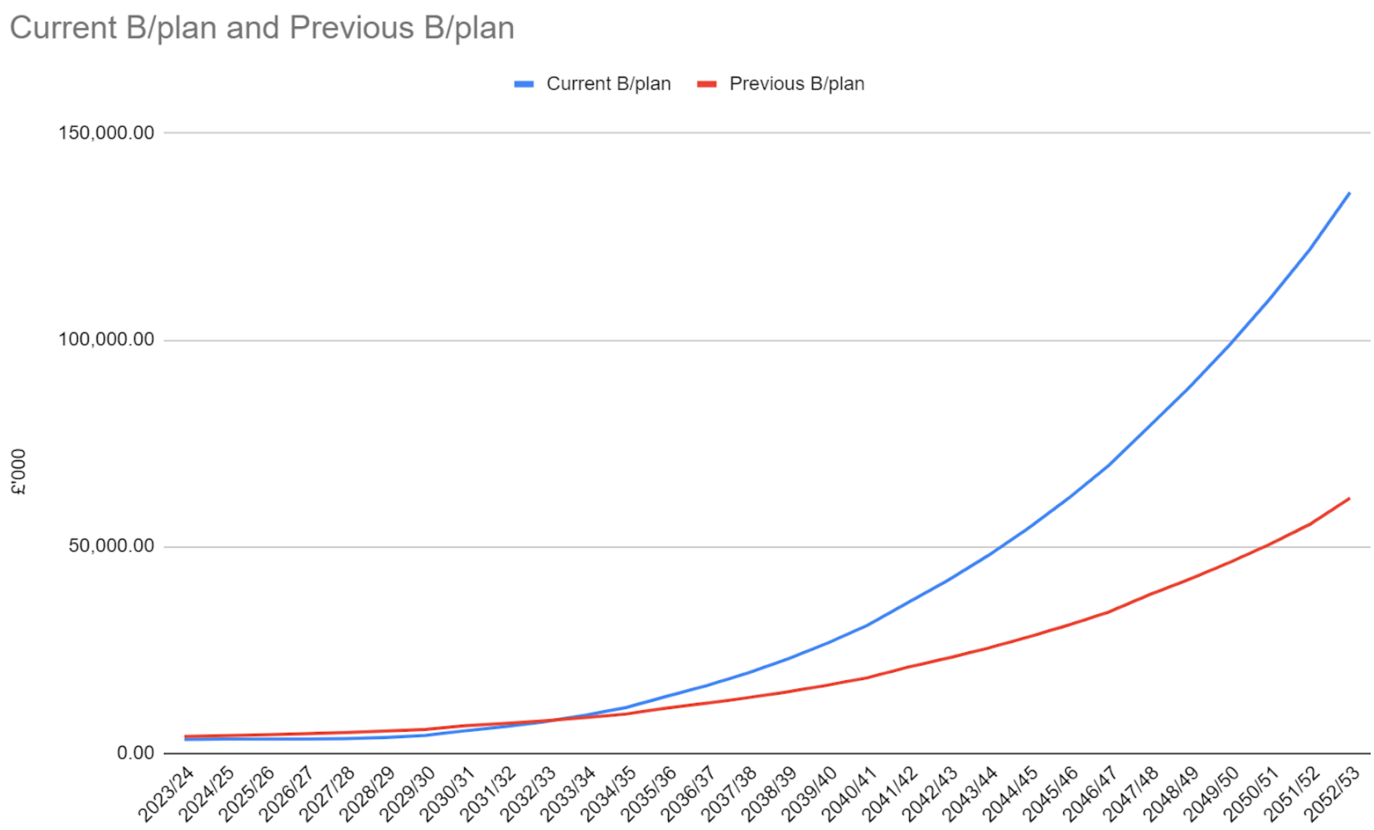

Chart 2 - Chart showing cumulative surpluses on the HRA

8.12. The charts demonstrate that the annual surplus/deficit remains fairly low and constant until 2028/29 when more significant surpluses should be realised. HRA balances will follow suit and stay at a level of around £3.3m until 2028/29, when they increase in line with the increased surplus.

8.13. New Build and Acquisition Programme

To date the Council has delivered 161 additional homes over the last nine years, with funding already in place for 47 more (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 an average of 30 new units from year 3 of the business plan once current units budgeted are completed and the units are developed using the £8.1m annual acquisitions/development budget.

This investment should also have a direct impact on homelessness in the district by creating additional units of affordable housing, which will provide a financial benefit for the General Fund by reducing costs in that service area. In the last few years the district has seen 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.

8.14. 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. Although for 2023/24 the government has implemented a cap of 7% for rental increases due to high inflation.

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

9. Budget Estimates

9.1. 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.

9.2. Realistic assumptions have also been incorporated with regards to inflationary increases for 2023/24. This includes a 4% increase in staff pay that has been agreed with the unions, and inflationary budget adjustments for energy and other key expenditure lines. Sufficient budgetary requirements have also been included for the continuation of the waking watch service.

9.3. Regardless of the level of planning or security, budget estimates are inherently uncertain due to their forward looking nature. Key risks that could result in a departure from this budget during the forthcoming financial year include:

- **Interest Income** - reduced income may be achieved either due to a reduction in interest rates, or exceleated expenditure which would reduce the levels of balances against which the interest is accrued.

- **Repairs and Maintenance** - There is still a significant degree of catch up works being undertaken, following the return of the service from EKH. Until the major works in the capital programme have been completed and the overall R&M schedules have cleared the backlog, there remains a risk that this budget line may be stretched.

- **Waking Watch -** Current arrangements are fully financed, but these could vary in future depending on the requirements of Kent Fire and Rescue Service.

10. Adequacy of HRA Reserves

10.1. The level of HRA reserves remains relatively healthy overall.

10.2. HRA balances in excess of the minimum £1m limit, even after the pressure of forecast annual deficits in the HRA in the short term. The Business Plan projects that balances should drop to around £3.3m at March 2024, but this should be approximately the lowest point; assuming the HRA is balanced and then in surplus in future years depending on members' decisions on rental decisions.

10.3. The New Properties Reserve is likely to be fully utilised by the end of 2023/24 due to further progression of the Council's new build housing and refurbishment schemes. This is as expected, in future years the reserve will have contributions and use of the same value.

10.4. The Major Repairs Reserve reduces over the next few years due to the size of the capital programme although it will still maintain a healthy balance. The forecast budget will reduce the reserve to £4.904m at the end of 2025/26.

11. Options

11.1. 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 (Acting Deputy Chief Executive)*
Reporting to: Colin Carmichael (Interim Chief Executive)

Annex List

Annex 1: Housing Revenue Account Capital Programme 2023-27 Budget

Background Papers

Title: Held in Financial Services

Corporate Consultation

Finance: *N/A*
Legal: *Sameera Khan (Interim Head of Legal & Monitoring Officer)*