For publication

Housing Revenue Account (HRA) – Budget 2022/23 to 2026/27

Meeting:	Council
Date:	23 February 2022
Cabinet portfolio:	Housing
Directorate:	Finance Housing

1.0 Purpose of report

1.1 To consider the probable outturn for the current financial year.

1.2 To consider the draft budget for 2022/23.

2.0 Recommendations

2.1 That the probable outturn for the current financial year be noted.

2.2 That the draft estimates for 2022/23 and future years be approved.

3.0 Reasons for recommendations

3.1 To keep Members informed about the council's current financial standing for the Housing Revenue Account and the budget estimates for 2022/23.

4.0 Report Details

4.1 Background

4.1.2 The Council is required to keep a separate account for its activities as a housing landlord. This is called the Housing Revenue Account (HRA). The HRA is closely governed by the Local Government and Housing Act 1989 and by Determinations made under this Act by DLUHC. This account is ring-fenced and does not receive and subsidy from the Government or from Council Tax, and nor is it allowed to subsidise the General Fund.

4.1.3 As a result of the introduction of self-financing in April 2012 the council is required to produce a 30-year HRA Business Plan that is financially viable, that delivers a reasonable standard for tenants and maintains at least the minimum Decent Homes Standard.

4.1.4 Self-financing has, in the main, improved the financial position of the HRA. We can determine our own financial future and can also borrow to finance improvements. Initially the level of borrowing was limited by the Government (the £156 million debt ceiling for Chesterfield). However, the borrowing cap was removed by the Government in October 2018 to encourage councils to build new homes. Any extra borrowing must be affordable within the HRA 30-year Business Plan.

4.1.5 For 2022/23, 2023/24 & 2024/25 social housing rents will increase by CPI plus 1%, as set out in the Government's National Social Rent Policy which came into effect from 1st April 2020, thereafter it has been assumed increases will be at CPI only.

4.1.6 On 18th January 2022, Cabinet considered the rent and service charge levels for 2022/23 and agreed a rent increase of 4.1% (based on the latest Government policy highlighted above) and various service charge increases. These changes have been built into the 2022/23 budget forecast.

4.1.7 Rent increases are necessary to ensure that the objectives as set out in the Council Plan can be achieved. These objectives include building new Council homes, ensuring that 100% of Council homes will meet Decent Homes standard and carrying out major improvements to Council homes such as new kitchens, bathrooms, heating systems and windows.

4.1.8 This report is due to be considered by Cabinet at its meeting on 22 February, 2022 where it is recommended that the report be supported and referred to Council for approval.

4.2 <u>Information Included</u>

4.2.1 The Statutory HRA Operating Account is summarised at Annexe 1

4.2.2 The following budget assumptions, as approved by Cabinet on 23rd November as part of the Council's financial strategy, have been used to produce the draft Housing Revenue Account Budgets.

- Rental Income is increased annually by CPI plus 1% - for April 2022/23 rent has been increased by 4.1%

- Water Charges 2% annually
- Energy Inflation as advised by the Facilities Maintenance Manager
- Pay awards at 2% for 2022/23 onwards

4.2.3 Due to the ongoing situation regarding Covid-19, there is an increased cost pressure around the cost of some raw materials. As a result, the revised repairs budget for 2021/22 has been increased by BCIS index of 3.99%. A further contingency of 5% has been included to account for extra costs relating to the pandemic. For 2022/23 and future years the budget has been increased by CPI.

The repairs programme will be reviewed regularly during the financial year and any amendments will be built into the revised budgets. It is expected that a stock condition survey will be caried out in 2022/23 which will mean the levels of repairs per unit can be estimated more accurately in the following years.

4.3 Financial Position at Year End 2021/22

4.3.1 Based on existing policy and the assumptions already outlined, HRA balances for year ending 31st March 22 are estimated as follows. (See Annexe 1 for full details)

	Original Estimate 2021/22 £000	**Revised Estimate 2021/22 £000**
(Surplus)/Deficit in year on HRA Services	(4,368)	(4,899)
Capital Expenditure Funded from Revenue	5,740	14,579
Financing of debt repayment	1,897	1,897
Transfer to Major Repairs Reserve	2,611	2,545
Decrease in the HRA Balance	**5,880**	**14,121**
Estimated balance 1.4.22	(9,286)	(20,460)
Estimated balance 31.3.22	(3,405)	(6,339)

4.3.2 As can be seen in the table above, the original 2021/22 budget forecasted a reduction in the HRA balance of £5.9m. The revised 2021/22 budget shows a reduction in the HRA balance of £14.1m, a difference of £8.2m. The revised estimate includes the approved carried forward capital works of £9.6m which were not completed in 2020/21 due to the impact of coronavirus. An increase in revenue funding of £8.8m is included in the revenue budget to fund these works.

Repairs budgets have increased by £0.5m for the increased costs of some raw materials. The movement on bad debts provision has been reduced by £1.3m as this was over provided for in the previous financial year.

4.3.3 As approved as part of the Council's financial strategy (Cabinet, 10th November 2020), in September 2020 OSD moved to a cost recovery model where the HRA meets in full the costs of providing the service rather than payments being made in accordance with the current schedule of rates. Although there has been a reduction in the number of repairs carried out due to the ongoing problems caused by Covid19, any repairs budget savings have been offset by the additional costs being incurred in working in a Covid19 secure way.

4.4 Financial Strategy 2022/23

4.4.1 The financial strategy for the HRA is to deliver a balanced and sustainable budget which is self-financing in the longer term, and which reflects both the requirements of tenants and the strategic vision and priorities of the council.

4.4.2 The HRA cannot run at an overall deficit and risks will continue to be identified and managed effectively. A minimum balance of 3.4m (inflated yearly) is maintained to avoid the risk of a negative balance in the event of an exceptional cost arising.

4.4.3 It is important to note that the budget projections shown in this report assume that the loss of rental income through bad debts (rent arrears written off) and void (empty) properties continues to be minimised through robust management procedures. Should these losses increase above the assumptions contained in the budget there is the real risk that HRA balances will be lower than forecast.

4.4.4 The HRA Summary Operating Account at Annexe 1 shows that the HRA balance is anticipated to fall to £6.3m in 2022/23 due to the impact of increased capital spend. Full details are contained in the HRA capital programme budget report elsewhere on the agenda.

4.5 Initial Budget Forecast 2022/23

4.5.1 The table below summarises the financial position for 2022/23 and compares to the original forecast for 2021/22
(Full details are shown at Annexe 1)

	Original Estimate 2021/22 **£000**	**Original Estimate 2022/23** **£000**
(Surplus)/Deficit in year on HRA Services	(4,368)	(4,916)
Capital Expenditure Funded from Revenue	5,740	3,405
Financing of debt repayment	1,897	1,869
Transfer to Major Repairs Reserve	2,611	2,545
Decrease in the HRA Balance	**5,880**	**2,902**
Estimated balance 1.4.22	(9,286)	(6,339)
Estimated balance 31.3.22	(3,405)	(3,436)

The original 2021/22 budget forecast showed a reduction in the HRA balance of £5.9m. The original 2022/23 budget shows a decrease in the HRA balance of £2.9m, a difference of £3.0m. Much of the variation relates to a reduction in direct revenue financing of the capital programme of £2.3m.

The surplus on the HRA Income and Expenditure Account for 2022/23 is £4.9m which is an increase of £0.5m. Much of this surplus relates to an increased budget for income of £1.3m.

Management and maintenance costs and the HRA's share of corporate and democratic support increased overall by £0.8m. Included within this increase is the cost of the phase 1 reshape of housing, the additional estimated cost of increases in raw materials and the reduction in the movement of bad debt provision, as well as other inflation increases relating to pay, energy, and facilities costs.

It can be seen from the table above that the HRA balance stays within the parameters set of maintaining a minimum working balance of £3.4m.

4.6 Housing Directorate Reshape

4.6.1 As an ambitious council there is a need to continue to strive to make improvements in the way that the council is managed, services are operated and value for money achieved, within the overall budget envelope available to the Council.

4.6.2 The housing reshape is to be delivered in two phases. Phase one covers the housing management, careline and statutory housing functions. The associated cost of £0.75m of the phase one reshape has been factored into the HRA budgets, medium term financial plan and the 30-year business plan. The Business Plan shows the cost of the restructure is affordable over both the medium and long-term forecasts. It is envisaged that once the restructure is fully implemented the additional investment in the service will achieve future savings and efficiencies. Further details of the Housing Directorate Reshape is set out in the report to Cabinet on 22 February 2022.

4.6.3 The second phase will cover the asset management, capital programme and operational property functions. Phase two is expected to commence in Spring 2022.

4.7 30-year Business Plan

4.7.1 There is a requirement for the Housing Revenue Account (HRA) Business Plan to forecast over a 30-year period. Here at Chesterfield our Business Plan is forecast over 40 years to see whether the vision and ambitions for social housing in Chesterfield are affordable and viable. The parameters of the HRA are:

- To ensure that the HRA Reserve Balance does not go into a negative balance (legal requirement to stay positive)
- HRA loans can be repaid as they fall due (or be refinanced)
- Interest on loans is affordable within the annual operating surplus
- A minimum standard of the Decent Homes Standard of investment is maintained
- All provisions of the White Paper on Social Housing are resourced to ensure that customer standards are achievable.

4.7.2 The business plan measures the expected cashflows coming into the Housing Service and those going out on annual basis. The business plan combines the HRA which accounts for revenue cashflows and the capital programme which provides the investment in the existing stock and the development aspirations of the Council. Taking the two together, we are able to estimate whether there are sufficient revenue balances to fund both revenue and capital plans.

4.7.3 Where total spend on revenue and capital in a year exceeds the expected income from both revenue and capital receipts, and reserves have been used, then the Council will either:

- Need to borrow
- Scale back spending either on service provision or the capital programme.

4.7.4 The Business Plan has been refreshed based on the assumptions set out in this report including the increased costs of the Housing Directorate Reshape. The forecasts for the HRA show that the HRA balance can be maintained at or above the minimum set by the Council and that borrowing is affordable and can be repaid in line with current expectations.

5 Alternative options

5.1 There are no alternative options to consider.

6 Implications for consideration – Council Plan

6.1 To provide quality housing and improve housing conditions across the borough.

7 Implications for consideration – Financial and value for money

7.1 Financial and value for money implications are detailed in section 4.

8 Implications for consideration – Legal

8.1 This budget is set under the Local Government and Housing Act 1989 and by Determinations made under this Act by DLUHC.

9 Implications for consideration – Human resources

9.1 There are no human resource implications to consider in this report.

10 Implications for consideration – Risk management

10.1 There are a number of significant risks inherent in any budget forecasting exercise and the risks increase as the period covered increases. The key budget risks for the HRA are detailed below:

Description of the Risk	Impact	Likelihood	Mitigating Action	Impact	Likelihood
The Impact of Covid 19 on bad debts	Medium	High	Monitoring of debt levels and collection rates. Ensuring sufficient provision	Medium	High
The Impact of Universal credit on bad debts	Medium	High	Monitoring of debt levels and ensuring sufficient provision	Medium	High
Ability to deliver the capital programme and maintain Decent Homes standard	High	High	A 5-year programme of works will allow sufficient time for growth in the workforce. To meet existing demand and backlog. Regular meetings with both internal & external contractors to identify any slippage at the earliest stage and to	Medium	Low

			put in place mitigating actions to prevent any further slippage.		
Repayment of Right to Buy receipts if the new build programme is not completed as planned	High	Medium	New legislation means repayments of right to buy receipts have been extended to be used 5 years from the financial year end. The planned development uses all of the existing forecasted receipts over the next 5 years.	Low	Low
Future limits on rent increases	High	Medium	Increasing rents within the maximum allowance whilst possible will protect income for future years.	Medium	Medium
Future economic changes	Medium	Medium	Maintaining the adequate working balance of £3.4m. Budget	Medium	Medium

			monitoring to identify cost pressures.		

11 Implications for consideration – community wellbeing

11.1 There are no community wellbeing implications to consider in this report.

12 Implications for consideration – Economy and skills

12.1 There are no economy and skills implications to consider in this report.

13 Implications for consideration – Climate Change

13.1 Individual climate change impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

14 Implications for consideration – Equality and diversity

14.1 Individual equality and diversity impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

Decision information

Key decision number	**1079**
Wards affected	**All**

Document information

Report author	**Contact number/email**
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Annexes to the report	
Annexe 1	Statutory HRA Operating Account