For publication

Housing Revenue Account (HRA) – Budget 2022/23 to 2027/28

Meeting:	Cabinet Council
Date:	21st February 2023 22 February 2023
Cabinet portfolio:	Housing
Directorate:	Finance Housing

1.0 Purpose of report

1.1 To consider the forecast outturn for the Housing Revenue Account (HRA) for the current financial year, 2022/23.

1.2 To consider the draft budget for 2023/24 and the Medium-Term Financial Plan (MTFP) for the years 2023/24 to 2026/27.

2.0 Recommendations

2.1 That the forecast outturn for the Housing Revenue Account in the current financial year, 2022/23 be noted.

That Cabinet recommends to full Council that:

2.2 The draft estimates for the Housing Revenue Account for 2023/24 and future years be approved.

2.3 That delegated authority is given to the Service Director – Housing, in consultation with the Cabinet Member for Housing and the Service Director – Finance, within the one-off funding provision of £500,000, to identify and progress service transformation projects, spend to save initiatives and possible in-year changes in legislation or national housing policy to ensure that the authority continues to meet statutory obligations and has a housing offer which is fit for purpose.

3.0 Reasons for recommendations

3.1 This report presents an updated assessment of the Council's Housing Revenue Account forecast outturn and the progress in addressing financial challenges.

3.2 The report also sets out the context of the financial challenges for 2023/24 and for the medium term and presents a balanced Housing Revenue Account for recommendation to full Council.

4.0 Report Details

Background

4.1 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 the Department of Levelling up, Housing and Communities (DLUHC). This account is ring-fenced and does not receive any subsidy from the Government or from Council Tax, and nor is it allowed to subsidise the General Fund.

4.2 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.

4.3 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 £156m 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. The debt ceiling provides a useful guide to the extent of borrowing that is affordable within the HRA.

4.4 Social rents are usually set according to The Government's National Social Rent policy and the Welfare Reform and Work Act 2016. In accordance with that policy, rents are allowed to increase by CPI plus 1% until April 2024. The basis for annual rent increases is the September Consumer Price Inflation (CPI) i.e., 10.1% in September 2022. The maximum rent for 2023/24 should have been 11.1%.

4.5 Due to the higher rate of Inflation, the Chancellor of the Exchequer announced in the Autumn Statement, that the increases in actual social housing rents – including social and affordable based rents – would have a ceiling of a 7% rise for 2023/24.

4.6 On 24th January 2023, Cabinet considered the rent and service charge levels for 2023/24 and agreed a rent increase of 7% (based on the latest

Government policy highlighted above) and various service charge increases. These changes have been built into the 2023/24 budget forecast.

4.7 Whilst the increase in rent provides additional income to the HRA, it falls short of covering additional cost pressures. Since the HRA was approved in February 2022, the national fiscal and economic situation has changed dramatically and a number of in year pressures have emerged particularly in relation to unprecedented and unpredicted inflationary pressures around energy, fuel, contracts, building materials, interest rates (including the cost of borrowing), and pay budgets. This has led to increased costs in service delivery and an increase in demand for our services. The HRA will need to be monitored carefully to ensure that it remains sustainable over the medium term and over the period of the 30-year business plan.

Information Included

4.8 The Statutory HRA Operating Account is summarised at Annexe 1.

4.9 The following budget assumptions have been used to produce the draft Housing Revenue Account Budgets.

- Rent levels for 2023/24 have been increased by 7%
- Rent Levels for 2024/25 have been increased by 6% (CPI +1%)
- Rent levels for 2025/26 onwards have been assumed at 2% (CPI only)
- Water Charges 2% annually
- Electricity 82% for 2023/24
- Gas 345% for 2023/24
- Pay awards at 4% for 2023/24, 2% for future years

4.10 Due to the global economic situation, there is an increased pressure in relation to the cost of some building and maintenance materials. As a result, the revised repairs budget for 2022/23 has been increased by inflation at 10.1%. For future years the numbers of repairs are forecast to revert to pre covid levels, increased by inflation.

4.11 The repairs programme will be reviewed regularly during the financial year and any amendments will be built into future budgets. A detailed analysis of the recent stock condition is currently underway which will mean the levels of repairs per unit can be estimated more accurately in the following years.

Financial Position at Year End 2022/23

4.12 Table 1 summarises the forecast outturn for 2022/23 against the original budget, based on existing policy.

Table 1: Original Estimate 22/23 - Forecast/ Revised Estimate (Q3) 2022/23 Movement

Description	Original Estimate 2022/23 £'000	Forecast /Revised Estimate £'000	Variance £'000
Net rents	(37,038)	(36,657)	380
Non-Dwelling Rents	(950)	(946)	4
Service Charges and other income	(1,032)	(1,059)	(27)
Total Income	(39,020)	(38,662)	357
Expenditure			
Supervision and Management -General	8,278	7,836	(443)
Supervision and Management -Special	2,240	2,203	(37)
Rent, rates, taxes and other charges	248	344	97
Repairs and Maintenance	9,483	11,294	1,811
Depreciation and contribution to Major Repairs Reserve	11,803	12,132	329
Interest and Debt Management Expenses	4,598	4,173	(423)
Provision for the repayment of debt	1,869	1,869	0
Direct Revenue Financing	3,405	5,452	2,047
Total Expenditure	41,924	45,303	3,381
Deficit / (Surplus)	**2,904**	**6,641**	**3,738**
HRA working balance B/F	(6,339)	(13,576)	(7,237)
HRA working balance C/F	**(3,435)**	**(6,935)**	**(3,499)**

4.13 The original 2022/23 budget forecasted a deficit in the year of £2.9m. The forecast outturn is a deficit of £6.6m, which will provide for a working balance carried forward of £6.9m. The main variances are set out below:

- Rents are forecast to reduce by £0.38m due to an increase in the level of void properties. Void properties currently stand at 2.8%.
- Supervision and Management costs are forecast to reduce by £0.48m. This is after allowing for the pay increase of £1,925 on all Green Book pay points, with effect from 1 April 2022. The pay inflation has been mitigated by the number of vacant posts in the housing service, due to the delays in recruitment, particularly in relation to the phase 1 reshape.
- Repairs and Maintenance budgets have been reviewed and are estimated to increase by £1.8m. Inflation has risen dramatically since the 2022/23 budget was set and the repairs and maintenance budget has been increased by the Consumer Price Index (CPI) in September 2022 i.e., 10.1%. This is to reflect the increased costs of raw materials combined with supply chain issues impacting on staff productivity and the ability to cover costs. There is also a backlog of repairs work as we have emerged from the pandemic which has been factored into 2022/23. As approved as part of the Council's financial

strategy (Cabinet, 10th November 2020), in September 2020 Housing Property Services moved to a cost recovery model. The full cost of providing the service is retained within the HRA.

- Depreciation charges have increased to reflect the increase in valuation of the housing stock – this has been transferred to the Major Repairs Reserve and used to fund the Capital Programme.
- Interest receivable has increased by £0.3m due to increased interest rates and higher working balances than forecast. Interest payments have reduced in correlation with the principal repayment of long-term borrowing.
- Direct Revenue Financing - Capital expenditure funded from revenue has increased by just over £2m. The capital budget for 2022/33 is £21.8m and this is funded from capital receipts, depreciation/major repairs reserve, with the remainder funded from revenue balances. As the revenue account can maintain the minimum working balance of £3.4m, revenue financing has been used to fund the capital programme, as opposed to borrowing, therefore reducing future interest payments.

Financial Strategy 2023/24

4.14 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.

4.15 The HRA is not permitted to run at an overall deficit and risks will continue to be identified and managed effectively. A minimum balance of £3.4m is maintained to avoid the risk of a negative balance in the event of an exceptional cost arising.

4.16 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.

4.17 The HRA Summary Operating Account at Annexe 1 shows that the HRA balance is anticipated to fall to **£3.86m** in 2023/24, primarily due to increased capital spend. Full details are contained in the HRA capital programme budget report elsewhere on the agenda.

Initial Budget Forecast 2023/24

4.18 Table 2 summarises the financial estimates for 2023/24 and compares the movements to the original forecast for 2022/23. The MTFP to 2027/28 is attached at appendix 1 and maintains a working balance, over and above the minimum of £3.4m, in all years.

Table 2: Original Estimate 22/23 - 23/24 Movement			
Description	Original Estimate 2022/23 £'000	Original Estimate 2023/24 £'000	Variance £'000
Net rents	(37,038)	(38,947)	(1,910)
Non-Dwelling Rents	(950)	(960)	(10)
Service Charges and other income	(1,032)	(1,162)	(131)
Total Income	(39,020)	(41,069)	(2,051)
Expenditure			
Supervision and Management -General	8,278	9,274	997
Supervision and Management -Special	2,240	2,858	618
Rent, rates, taxes and other charges	248	245	(2)
Repairs and Maintenance	9,483	10,196	713
Depreciation and contribution to Major Repairs Reserve	11,803	12,132	329
Interest and Debt Management Expenses	4,598	4,215	(382)
Provision for the repayment of debt	1,869	1,841	(28)
Direct Revenue Financing	3,405	3,389	(16)
Total Expenditure	41,924	44,150	2,229
Deficit / (Surplus)	**2,904**	**3,081**	**178**
HRA working balance B/F	(6,339)	(6,937)	(598)
HRA working balance C/F	**(3,435)**	**(3,856)**	**(420)**

4.19 The original 2022/23 budget forecast an in-year deficit of £2.90m. The original 2023/24 budget shows an increase in the deficit to £3.08m and an overall HRA working balance of £3.9m, which is in line with the financial strategy. The main variances are set out below:

- Rental Income has increased by £2.13m, this is the net effect of the 7% rental increase and an allowance for void properties of 2.5%. There is also an increase in the bad debt provision contribution of £0.219 to £0.589k. This will be reviewed periodically, as more tenants transition to Universal Credit and the impact of the current cost of living crisis becomes clearer.
- Supervision and management costs have increased overall by £1.6m. Included within this figure is an estimated £0.6m relating to the pay award for 2022/23 and a further inflation increase on pay at 4% for 2023/24. Premises costs have increased by £0.4m largely relating to expected increases in energy prices.
- An additional provision, of £0.5m (£300k in 2023/24 and £200k in 2024/25) has been retained within the HRA to allow investment in service transformation projects, spend to save initiatives and to allow a quick response to in-year changes in legislation or major changes in

national housing policy. The fund can be allocated to one-off projects or to meet ongoing commitments. It is recommended that responsibility for identification and approval of funding for suitable projects, is delegated to the Service Director - Housing, in consultation with the Cabinet member for Housing and the Service Director - Finance, who are responsible for ensuring that the authority continues to meet statutory obligations and has a housing offer which is fit for purpose.

- Repairs and maintenance costs have been assumed to be at pre-pandemic levels, indexed to account for inflation. This also takes account of the capital programme requirements where resources will be directed to capital works.
- Depreciation is charged on HRA properties, which is re-invested to fund the capital programme.
- Capital expenditure funded from revenue balances is £3.08m, a slight decrease from that originally set aside. Capital expenditure is forecast at £30.6m for 2023/24. It is assumed that revenue balances are utilised before borrowing externally. This ensures that interest payments are minimised. In 2023/24 to remain within our parameters of maintaining a minimum balance of £3.4m, the capital programme requires £10.4m of external borrowing.

30-year Business Plan

4.20 There is a requirement for the Housing Revenue Account (HRA) Business Plan to forecast over a 30-year period (for Chesterfield we choose to do this over a 40 year period), this provides a financial assessment of the affordability and viability of the vision and ambitions for social housing in Chesterfield. The parameters for the business plan are set out below:

- 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.

4.21 The business plan measures the expected cashflows coming into the Housing Service and those going out on an 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.

4.22 The increase in costs set out in the MTFP, lower than inflationary increases in income and, increased spending on the capital programme, will have a detrimental impact on HRA balances and reduce the ability to provide a revenue contribution to capital spending. This will necessitate the requirement for additional borrowing (if within the parameters of the business plan) or for spending to be scaled back either on service provision or within the capital programme.

4.23 The business plan will be kept under review as part of ongoing revenue monitoring and will be updated when the full impact of the 2022 stock condition survey has been reviewed and understood.

4.23 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 – Financial and value for money

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

7 Implications for consideration – Legal

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

8 Implications for consideration – Human resources

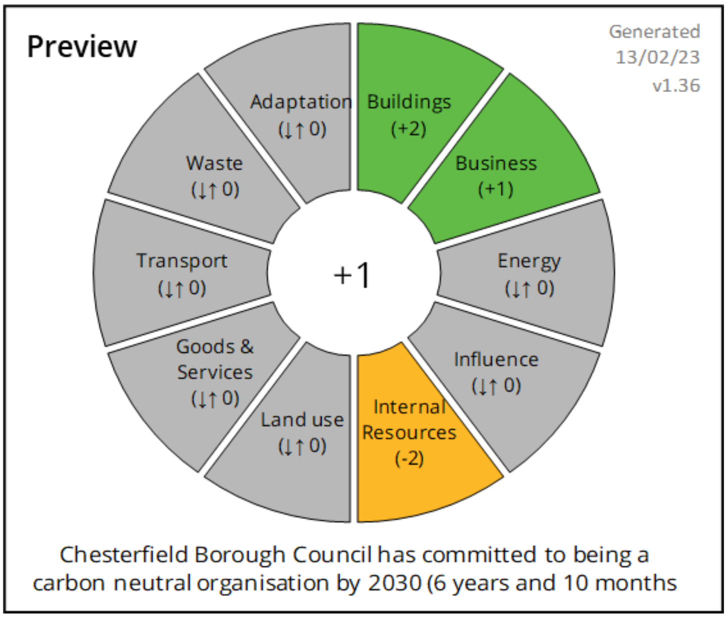
8.1 There are no human resource implications to consider in this report.

9 Implications for consideration – Council Plan

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

10 Implications for consideration – Climate Change

10.1 Climate Change Impact Assessments are undertaken for specific spending options and activities and form a key part of informed decision making.



11 Implications for consideration – Equality and diversity

11.1 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.

12 Implications for consideration – Risk management

12.1 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 the cost-of-living crisis 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	High	High	A 5-year programme of works will allow	Medium	Low

programme and maintain Decent Homes standard			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 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 monitoring to identify cost pressures.	Medium	Medium

Decision information

Key decision number	
Wards affected	**All**

Document information

Report authors	**Contact number/email**
Theresa Channell Rachael Ayre	Theresa.channell@chesterfield.gov.uk 01246 936275 Rachael.ayre@chesterfield.gov.uk
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
This must be made available to the public for up to 4 years.	
Annexes to the report	
Annexe 1	Statutory HRA Operating Account