

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 11
DATE OF MEETING:	10 FEBRUARY 2022	CATEGORY: RECOMMENDED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	VICKI SUMMERFIELD victoria.summerfield@southderbyshire.gov.uk	DOC: s/finance/committee/2021-22/Feb/budget
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGET, FINANCIAL PLAN AND PROPOSED RENT 2022-23	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: HC 01

1.0 Recommendations

- 1.1 That the proposed revenue income and expenditure for 2022/23, together with the 10-year Financial Plan for the Housing Revenue Account (HRA) as detailed in **Appendix 1**, is approved.
- 1.2 That the HRA is kept under review and measures identified to mitigate the financial risks detailed in the report and to maintain a sustainable financial position.

2.0 Purpose of the Report

- 2.1 The base budget for 2022/23 and financial plan of the HRA was considered in detail by the Housing and Community Services Committee on 6 January 2022. This included an increase in rents of 4.1% for council tenants in 2022/23.
- 2.2 As part of the annual budget cycle, this report summarises the key changes between 2021/22 and 2022/23, an update to the MTFP plus financial risks associated with the HRA.

3.0 Detail

The Position Entering the 2022/23 Budget Round

- 3.1 During the current financial year, the financial position of the HRA has been reviewed and updated to reflect changes to the structure plus the budget out-turn position for 2020/21.

- 3.2 The latest position reported in November 2021, estimated a large deficit on the HRA in 2021/22 of £1.7m, decreasing the HRA's General Reserve to approximately £6.7m.

Formulating the 2022/23 Base Budget

- 3.3 Budgets are generally calculated on a "no increase basis," i.e. they are maintained at the same level as the previous year adjusted only for known changes, price increases and variations due to contractual conditions, etc.
- 3.4 In addition, budgets are also subject to a base line review which is used to justify proposed spending. This process places responsibility on budget holders to justify their spending budgets by specifying their needs in a more constructed manner. This is supported by the Financial Services unit, who analyse recent trends across services compared to current budgets.

On-going Service Provision

- 3.5 The budgets are based substantively on a continuation of existing service provision (in respect of staffing levels, frequency, quality of service, etc.).
- 3.6 The full year effects of previous year's restructures and budget savings have been included, with any non-recurring items removed.

Base Budget 2022/23

- 3.7 The HRA's Base Budget and longer-term financial projection up to 2031/32 is detailed in **Appendix 1**. A projection of this length is required for the HRA to ensure that future debt repayments and capital expenditure are affordable for the longer-term sustainability of the Council's housing stock.
- 3.8 The following table provides an overall summary of the HRA's Net Operating Income position with a comparison to the approved 2021/22 budget.

HOUSING REVENUE ACCOUNT - BUDGET SETTING 2022/23

	Proposed Budget 2022/23 £'000	Approved Budget 2021/22 £'000	Movement £'000
Rental Income	-12,893	-12,385	-508
Non-Dwelling Income	-124	-127	3
Supporting People Grant	-130	-130	0
Other Income	-177	-177	0
General Management	2,053	1,848	205
Supporting People	900	951	-51
Responsive	1,674	1,406	268
Planned Maintenance	1,785	1,975	-190
Bad Debt Provision	125	125	0
Interest Payable & Receivable	1,456	1,738	-282
Depreciation	4,213	4,127	86
Net Operating Income	-1,118	-649	-469
Reversal of Depreciation	-4,213	-4,127	-86
Capital Expenditure	1,620	1,683	-63
Disabled Adaptations	300	300	0
Asbestos and Health & Safety Surveys	100	100	0
Debt Repayment	1,593	1,444	149
Major Repairs Reserve	600	600	0
Asset Replacement Earmarked Reserve	45	45	0
Additional Debt Repayment Transfer	2,500	2,150	350
Capital works non-traditional properties	100	100	0
Potential Pay Award	28	27	1
ICT Upgrades	0	30	-30
Rent Loss Provision	65	0	65
HRA DEFICIT	1,620	1,703	-83

3.9 The above table shows that the HRA's deficit is budgeted to marginally reduce from 2021/22 to 2022/23. There are a number of movements on each of the lines, further detail of which is listed in the report.

3.10 The main variances are summarised in the following table.

	Movement £'000
Debt Repayment Contribution	499
Computer Maintenance	51
Repairs and Maintenance	50
Compensation Payments	45
General Fund Recharges	28
Service Charges	20
Council Tax	17
Insurance	14
Trade Waste Recharge	12
Utilities	9
Employee Costs	-41
Capital Expenditure	-63
Interest Charges	-282
Rental Income	-443
Budget Reduction	-83

Council House Rents

- 3.11 The overall change between 2021/22 and 2022/23 is an estimated increase of £443k. This is due mainly to the application of the CPI plus 1% increase to rents as confirmed in the Rent Standard 2020.
- 3.12 The Medium-Term Financial Plan (MTFP) includes an increase of 4.1% for rental income in 2022/23 in line with Government guidance of CPI as at September 2021 of 3.1% plus 1%.
- 3.13 The initial forecast in the MTFP reported in November included an increase in 2022/23 of 2.25%.
- 3.14 The General reserve balance has been impacted by the loss of Careline income from 2023/24 which has resulted in nearly £1.2m deduction to the reserve. Although the loss of income is under review, at this stage the increased rental income included in the MTFP has covered the impact.
- 3.15 In addition to the rental increase, a provision of 0.5% for losses in income due to voids has been included in the MTFP. Void losses have been significant in 2021/22 after a 0.15% increase in the budget for 2021/22. Work is underway to control the losses, but it is prudent to account for the potential risk over the Plan.
- 3.16 Right to Buy (RTB) losses forecasted have remained in line with the budget round in 2021/22 with 20 in 2022/23 reducing to 18 from 2023/24.

Capital Expenditure and Debt Repayment

- 3.17 Proposed capital expenditure is based on stock condition survey data and the fluctuation in required expenditure year-on-year and is included within the MTFP.

3.18 The contribution to the Debt Repayment Reserve is profiled in line with capital expenditure to not only ensure that the HRA General Reserve does not fall below the statutory £1m but to also have available funds to repay debts as they become due. The contribution and repayment of debt is included within the MTFP.

Staffing Costs

3.19 A pay award is not included within the Base Budget at this stage as no official notification has been submitted to the Council. The National Employers are currently in negotiation regarding a proposed pay award for 2021/22 after the Chancellor's original announcement in November 2020 to 'pause' public sector pay (excluding NHS workers).

3.20 The MTFP was updated in November 2021 to include a pay award for 2021/22 and also includes a provision for a potential pay award increase of 2.5% per year for all employees from 2022/23.

3.21 A review of pay grades is currently underway with the Direct Labour Organisation (DLO). The outcome of this will be reported to a future Committee and no costs are yet included within the MTFP.

3.22 Incremental salary increases are included within the MTFP each year and are expected ahead of the Budget round.

3.23 Base salary costs have decreased between years due to staff approved as part of the Housing restructure in 2020 being included as costs in the HRA as opposed to the General Fund. The budgets have now been corrected although the actual charges in year are sitting within the correct fund. This is just a correction of an over budgeted amount in the HRA.

General Fund Recharges

3.24 The total impact of the increase in HRA recharges is £28k and after a full review of all charges, the following table details the movement by General Fund service area.

	Movement £'000
Head of Finance	17
Head of Business Change & ICT	8
Head of Legal & Democratic	6
Strategic Director (Corporate Resources)	3
Head of Organisational Development & Performance	2
Head of Customer Services	1
Head of Corporate Property	-4
Head of Operational Services	-6
	28

3.25 The main increase is for direct support from Finance which is based on transactional volumes and cash responsibility.

3.26 There has also been an increase in the Trade Waste recharge (£12k) which is due to disposal of waste for Housing from the Depot. This has been reported to Environmental and Development Services Committee during the budget round.

Repairs and Maintenance

3.27 Repairs and Maintenance costs have been increased in line with the planned maintenance schedule.

Interest Payable

3.28 The reduction of £282k expected in interest is due to repayment of the first scheduled debt amount of £10m taken out as part of self-financing.

Insurance

3.29 The overall proposed insurance budget has increased the cost to the Council by £48k but this is split over a number of individual policies. The increased cost to the HRA is £14k which is due mainly to material damage to housing properties (£12k). This insurance cost is based on the value of the assets which have increased between the years.

Computer Maintenance Agreements

3.30 Increases to licence and maintenance fees were expected and included within the MTFP due to the upgrade to housing software in 2021.

Compensation

3.31 It is proposed to increase the budget for compensation and home loss claims due to the significant expenditure over the last two years. Compensation claims have been made and reported to the Committee for disrepair and claims have seen an increasing trend.

3.32 It is not foreseen that there will be any further home loss payments but there are potential concerns with subsidence and damp and a tenant cannot remain in the property whilst works of this nature are undertaken. Any planned works will be reported to the Committee by the Head of Housing.

Void Dwellings

3.33 The impact of void properties not only effects the income losses as noted earlier in the report, but also costs the HRA. When dwellings become void, they are subject to Council Tax and charges are higher than budget in 2021/22 due to the high levels of voids but there is also a cost of utilities to not only keep the properties in reasonable condition whilst empty, but also for the workforce when refurbishing.

Service Charges

- 3.34 It is proposed to include a budget for service charges for the Careline service being based at Oaklands Village in Swadlincote. As part of the contract to reside in the premises, the Council is subject to charges from Trident Housing for overheads such as utilities.
- 3.35 To-date, only one invoice has been received by the Council from 2013 to 2015 but this is in dispute and has not yet been settled. The Finance team accrue expected costs for Careline and so these are already taken account of, but a formal budget is required.

Other Factors

- 3.36 The following detail is for information on the HRA position and are not variances between budgeted years.

Depreciation

- 3.37 The increase is due to the revaluation of all Council dwellings in March 2021 which will be depreciated in accordance with accounting practice.
- 3.38 Depreciation is calculated on the existing use value and age of each property in the HRA. This is designed to ensure that the Council sets-aside sufficient resources to maintain and replace properties in future years.
- 3.39 The Council has an on-going capital programme and properties generally have a substantial useful life if maintained properly. Although the depreciation charge is included as a cost charged in the net operating income of the HRA, it is reversed out when calculating the overall surplus or deficit on the HRA.
- 3.40 However, under accounting regulations, the annual amount of capital expenditure, plus sums set-aside to repay debt, need to be equal to or greater than the depreciation charge for the year. This is effectively testing that the Council is properly maintaining and financing the liabilities associated with its housing stock.
- 3.41 Where the depreciation charge is lower than actual capital expenditure/debt repayment, the HRA would be charged with the difference in that particular year. For 2022/23, expenditure is in excess of depreciation.

The Longer-term Financial Projection

- 3.42 Following the introduction of the self-financing framework for the HRA in 2012, this generated a surplus for the HRA as the Council was no longer required to pay a proportion (approximately 40%) of its rental income to the Government in accordance with a national redistribution framework.
- 3.43 This released resources, which in the early years of the Housing Business Plan, were available for capital investment in the existing stock, together with

resources for New Build. Surpluses in later years are to be used to repay the debt that the Council inherited in return for becoming “self-financing” and to continue a programme of capital maintenance in future years.

3.44 The HRA budget and projection is based on the principles that the HRA will carry a minimum unallocated contingency of at least £1m as a working balance and that sufficient resources are set-aside in an earmarked reserve to repay debt as instalments become due.

HRA Reserves

3.45 The HRA has 5 separate reserves as detailed in the following table.

General Reserve	Held as a contingency with a minimum balance of at least £1m.
New Build Reserve (Capital Receipts Reserve)	Accumulated Capital Receipts pending expenditure on building new properties/acquisition of properties. The financial model assumes that these are drawn down each year to finance new build or acquisition ahead of any further borrowing. The carrying balance from year to year remains low.
Debt Repayment Reserve	Sums set-aside to repay debt; contributions to the Reserve started from 2016/17 in accordance with the debt repayment profile.
Major Repairs Reserve	A Capital Reserve with sums set-aside each year for future programmed major repairs on the housing stock. A large balance is accruing in this reserve to be utilised against future capital and environmental works.
Earmarked Reserve	Sums set-aside for future replacement of vehicles for the Direct Labour Organisation.

The Updated Financial Position

3.46 Following the base budget review, the 10-year Financial Plan for the HRA has been reviewed and updated. This is detailed in **Appendix 1**. The overall position has improved compared to the previous forecast due to the increased income projections.

3.47 The General Reserve remains above the statutory £1m for the duration of the 10-year projection.

3.48 After review of the capital programme, sums are being set-aside in the Major Repairs Reserve to ensure that future capital improvements can be funded. A revised stock condition survey has been completed and an update regarding profiling of the works over the next 30 years was reported during 2019/20.

3.49 There are a number of sites approved for acquisition, but the Capital Receipts Reserve is set to increase each year due to receipts from the sale of houses

under the Right to Buy Scheme. The reserve has increased in line with the expected losses of properties through RTB noted earlier in the report.

Debt Repayments and Borrowing

3.50 The Council took on the management of debt valued at £58m in 2012. No additional borrowing has been required.

3.51 The following debt repayments are due over the life of the current financial plan:

- 2021/22 - £10m
- 2023/24 - £10m
- 2026/27 - £10m

3.52 The financial projection to 2030/31 shows that these repayments can be met. The next repayments are not then due until beyond 2031.

Key Variables and Assumptions

3.53 The Financial Plan is based on certain assumptions in future years regarding what are considered to be the key variables. These are summarised in the following table.

Cost inflation	2.5% per year. This is lower than the current level of inflation and economic forecasts predict that a level of 2.4% will be seen as an average across the current year. A provision of 2.5% in the short-term is considered prudent to reflect that prices for materials in the building industry tend to rise quicker than average inflation.
Annual rent increases	CPI + 1% giving a 4.1% increase in 2022/23, 2.75% in 2023/24 and 3% per year thereafter.
Council house sales – “Right to Buys”	20 in 2021/22 and 22/23 reducing to 18 in 2023/24 and going forwards. Targets set by the Government in calculating the self-financing settlement expect sales of 10 per annum.
Interest Rates	Fixed after the first tranche of £10m due in 2021/22.

Financial Risks

3.54 The main risks to the HRA are considered to be those as detailed in the following sections.

Future Rent Levels

3.55 The biggest risk in the Financial Plan is considered to be future rent levels. The rent level has been confirmed as CPI plus 1% which will increase rent levels by 4.1% in 2022/23.

3.56 The HRA is dependent on rental income (currently £12.8m per year) for its resources. Even small variations in rent changes can have significant implications in monetary terms for the Financial Plan over the longer-term.

Right to Buys

- 3.57 A decrease in current properties from sales is built into the Budget and Financial Plan and this reflects the current level of sales. Therefore, the HRA will continue to generate resources for further new build and acquisition in the future, although on-going rental income is lost.
- 3.58 The main risk relates to a sudden surge in sales which has been apparent in recent years; although this generates capital, the loss in on-going rental income could have a much more adverse impact on the HRA which has now been built into the MTFP at a higher level.

Supporting People

- 3.59 It has been confirmed that Derbyshire County Council will no longer support the Careline service past March 2023.
- 3.60 The MTFP included a contribution of £130k per annum over the life of the Plan which has now been removed. Service provision is currently under review and a new working model will be reported to the Committee during 2022.
- 3.61 In addition to the loss of income, there are likely to be significant costs incurred for the transfer of the service from analogue to digital. The estimated costs are still unknown but further detail will be included in a report to the Committee during 2022.

Impairment

- 3.62 Impairment is an accounting adjustment that reflects a sudden reduction in the value of an asset. An asset becomes impaired where a one-off event (e.g. fire, vandalism, etc.) causes significant damage or there is a significant change in market conditions, which reduces the value of the asset.
- 3.63 In accordance with accounting regulations, provision has to be made in an organisation's accounts for the loss in an asset's value through impairment. However, as with depreciation, this is purely an accounting exercise for local authorities. Impairment charges are reversed out of revenue accounts to ensure that it does not affect the "bottom line" and Rent (in the HRA's case) payable by Council Tenants.
- 3.64 The Government has been reviewing this accounting treatment to bring local authorities into line with other organisations in accordance with International Reporting Standards. This has been challenged by the relevant professional bodies.
- 3.65 Large impairment adjustments are rare. In addition, impairment needs to affect the wider asset base. For example, damage to one property would not affect the overall value of the Council's stock, which is currently valued at £130m in total.

3.66 If there was a wider event affecting many properties however, this would lead to an impairment charge. It is considered that the most likely scenario is a sudden fall in property values as this would affect the overall valuation of the stock. The potential for impairment charges could have serious implications for all housing authorities and this is why it has been challenged.

Changes in Central Government Policy

3.67 Although the HRA continues to operate under a self-financing framework, Central Government retain the power to change policy in many areas which can impact upon the Financial Projection.

Universal Credit (UC)

3.68 A greater number of Council tenants (668) are now receiving Universal Credit and not Housing Benefit, following the implementation of UC in South Derbyshire for all working age new claimants during 2018. There has been concern amongst housing professionals that changes will see a reduction in payment of rent and an increase in arrears.

3.69 Housing Benefit is paid directly to a tenant's Rent Account where this is due. In a system of Universal Credit, the benefit element is effectively paid direct to the Tenant and this gives the potential for tenants to default on their rent payments and increases rent arrears.

3.70 The rebate directly received from Housing Benefit by the HRA has noticeably reduced during 2021/22 compared to 2020/21 and the debt position at this stage is higher than in last financial year. Rent arrears were just over £696k at end of November 2021, an increase of £70k since March 2021. This is being kept under review.

Rent Levels

3.71 As part of Welfare Reform, rent charges from Registered Providers have been scrutinised and a standard format of charges has been updated within the Rent Standard 2020.

3.72 The Council is currently reviewing the impact of the Rent Standard and will report to Committee with an updated Rent Policy during 2022.

Proposed Rent Levels 2022/23

3.73 In accordance with the statutory provisions, current rents will be increased by CPI of 3.1% as at September 2021 plus 1%.

Effect on Individual Tenants

3.74 Having calculated rents for individual tenants, the average rent level for existing council tenants residing in any form of dwelling (temporary, new build, sheltered

or general needs) will increase from £81.24 per week in 2021/22 to £84.37 in 2022/23, an average increase of £3.32 per week.

4.0 Financial Implications

4.1 As detailed in the report.

5.0 Corporate Implications

Employment Implications

5.1 None.

Legal Implications

5.2 None.

Corporate Plan Implications

5.3 The proposed budgets and spending included in the HRA provides the financial resources to enable on-going services and Council priorities.

Risk Impact

5.4 The Financial Risk Register is detailed in the Medium-Term Financial Plan and financial risks specific to the HRA are detailed in Section 3.

6.0 Community Impact

Consultation

6.1 There is no statutory requirement to consult with tenants or other stakeholders, although it is considered good practice to do so. Traditionally, the Council has disseminated proposals through Area/Community Forums and via a presentation at the South Derbyshire Partnership Board. Many authorities do consult formally regarding their budget proposals and medium-term financial plans prior to setting budgets, using panels, representative groups, etc. as a way of fully engaging local people.

Equality and Diversity Impact

6.2 None.

Social Value Impact

6.3 None.

Environmental Sustainability

6.4 None.

7.0 Conclusions

7.1 That the proposed base budgets are scrutinised and approved to provide the financial resources for continuation of service delivery.

8.0 Background Papers

8.1 None.

HOUSING REVENUE ACCOUNT FINANCIAL PROJECTION - JANUARY 2022

	2021.22 Approved Budget £'000	2022.23 Forecast £'000	2023.24 Forecast £'000	2024.25 Forecast £'000	2025.26 Forecast £'000	2026.27 Forecast £'000	2027.28 Forecast £'000	2028.29 Forecast £'000	2029.30 Forecast £'000	2030.31 Forecast £'000	2031.32 Forecast £'000
Additional Debt Repayment Transfer	2,150	2,500	2,100	1,500	1,300	1,850	750	750	750	1,000	800
Investment Income	0	0	25	25	25	25	25	25	25	25	25
Capital works non-traditional properties	100	100	0	0	0	0	0	0	0	0	0
Potential Pay Award	27	28	29	30	30	31	32	33	33	34	35
ICT Upgrades	30	0	0	0	0	0	0	200	0	0	0
Rent Loss Provision	0	65	66	68	69	71	73	74	76	78	80
Incremental Salary Increases	0	0	5	5	5	5	6	6	6	6	6
HRA Surplus (-) / Deficit	1,703	1,620	1,598	556	180	552	-1,028	-1,012	-1,396	-1,334	-1,717
HRA General Reserve											
HRA Reserve B/fwd	-8,430	-6,727	-5,107	-3,509	-2,952	-2,772	-2,221	-3,249	-4,261	-5,657	-6,991
(Surplus) / Deficit for year	1,703	1,620	1,598	556	180	552	-1,028	-1,012	-1,396	-1,334	-1,717
HRA Reserve C/fwd	-6,727	-5,107	-3,509	-2,952	-2,772	-2,221	-3,249	-4,261	-5,657	-6,991	-8,708
RESERVES											
Debt Repayment Reserve											
Balance B/fwd	-8,006	-1,600	-5,693	-14	-3,218	-6,160	-48	-2,079	-4,008	-5,737	-7,779
Depreciation balance	-1,444	-1,593	-2,221	-1,704	-1,642	-2,038	-1,281	-1,179	-979	-1,042	-1,618
Transfers to reserve	-2,150	-2,500	-2,100	-1,500	-1,300	-1,850	-750	-750	-750	-1,000	-800
Repayment of loan	10000	0	10,000	0	0	10,000	0	0	0	0	10,000
Reserve C/fwd	-1,600	-5,693	-14	-3,218	-6,160	-48	-2,079	-4,008	-5,737	-7,779	-197
Earmarked Reserve											
Balance B/fwd	-401	-401	-298	-298	-73	-118	-163	-208	-253	-298	-63
Vehicle Replacement Transfer to Reserve	-45	-45	-45	-45	-45	-45	-45	-45	-45	-45	-50
Software Upgrade	45	148	45	0	0	0	0	0	0	0	0
Asset Replacement	0	0	0	270	0	0	0	0	0	280	0
Reserve C/fwd	-401	-298	-298	-73	-118	-163	-208	-253	-298	-63	-113

HOUSING REVENUE ACCOUNT FINANCIAL PROJECTION - JANUARY 2022

	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32
	Approved Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000

Major Repairs Reserve

Balance B/fwd	-4,592	-5,292	-5,992	-6,542	-7,142	-7,742	-7,992	-8,642	-9,292	-9,892	-10,492
Transfers to reserve	-600	-600	-550	-600	-600	-250	-650	-650	-600	-600	-600
Earmarked non-traditional properties	-100	-100	0	0	0	0	0	0	0	0	0
Reserve C/fwd	-5,292	-5,992	-6,542	-7,142	-7,742	-7,992	-8,642	-9,292	-9,892	-10,492	-11,092

New Build Reserve

Capital Receipts B/fwd	-1,642	-1,861	-2,582	-3,197	-3,808	-4,420	-5,031	-5,643	-6,255	-6,866	-7,478
Acquisitions in year	505	0	0	0	0	0	0	0	0	0	0
RTB Receipts in year	-724	-721	-615	-612	-612	-612	-612	-612	-612	-612	-612
Borrowing in year	0	0	0	0	0	0	0	0	0	0	0
Balance c/fwd	-1,861	-2,582	-3,197	-3,808	-4,420	-5,031	-5,643	-6,255	-6,866	-7,478	-8,089