

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	09 FEBRUARY 2023	CATEGORY: RECOMMENDED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
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SUBJECT:	HOUSING REVENUE ACCOUNT BUDGET, FINANCIAL PLAN AND PROPOSED RENT 2023-24	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: HC 01

1.0 Recommendations

- 1.1 That the proposed revenue income and expenditure for 2023/24, for the Housing Revenue Account (HRA) as detailed in **Appendix 1** are considered and approved.
- 1.3 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 2023/24 for the HRA was considered in detail by the Housing and Community Services Committee on 2nd February 2023. This included an increase in rents of 3% for council tenants in 2023/24.
- 2.2 As part of the annual budget cycle, this report summarises the key changes between 2022/23 and 2023/24, an update to the MTFP plus financial risks associated with the HRA.

3.0 Detail

The Position Entering the 2023/24 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 staffing structure previously approved plus the budget out-turn position for 2022/23.

3.2 The latest position reported in November 2022, highlighted that large deficits were projected, due to be funded from the HRA Reserves the lowest point is reached in 2026/27 where the estimated reserve falls to £1.5m.

Formulating the 2023/24 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 2023/24

3.9 The HRA’s Base Budget and longer-term financial projection up to 2032/33 is detailed in Appendix 1. A projection of this length is considered good practice 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.

3.10 The following table provides an overall summary of the HRA’s cost of services with a comparison to the approved 2022/23 budget, including the rental income.

HOUSING REVENUE ACCOUNT - BUDGET SETTING 2023/24

	Proposed Budget 2023/24 £'000	Approved Budget 2022/23 £'000	Movement £'000
Rental Income	-12,826	-12,854	28
Non-Dwelling Income	-107	-124	17
Supporting People Grant	-130	-130	0
Other Income	-190	-169	-21
General Management	2,226	2,067	159
Supporting People	994	946	48
Responsive	1,777	1,724	53
Planned Maintenance	1,761	1,810	-49
Bad Debt Provision	131	125	6
Interest Payable & Receivable	1,362	1,453	-91
Earmarked Reserve	-45	0	-45

Depreciation	4,844	4,213	631
Net Operating Income	-203	-939	736

3.11 The above table shows that the HRA's budget is estimated to increase from 2022/23 to 2023/24 by £736K. Excluding depreciation which is an accounting adjustment and not a cost to the Council, the actual increase in expenditure proposed in the budget is £105k.

3.12 The main variances are summarised in the following table.

	Movement £'000
Depreciation	631
General Fund Recharges	116
Housing Programme Manager Recharge	51
Employee Costs	26
Computer Maintenance	31
Rental Income	28
Utilities	15
Materials	11
Professional fees	12
Council Tax	8
Tools & Equipment Purchase	7
Repairs and Maintenance	4
Income	2
Interest Payable	-91
Insurance	-71
Earmarked Reserves	-45
Budget Increase	736

Staffing Costs

3.13 A pay award is not included within the Base Budget at this stage as no official notification has been submitted to the Council.

3.14 The MTFP was updated in November 2022 to include a pay award for 2022/23 and also includes a provision for a potential pay award increase of 3.5% per year for all employees from 2023/24.

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

3.16 Base salary costs have increased between years due to Direct Labour Organisation (DLO) transferring from Craft JNC pay scales to the National Joint Council (JNC) spinal column points, as approved at Finance and Management Committee in April 2022.

3.17 As a result of the recent pensions valuation, the Councils contribution has increased from 14.8% to 20.3%. The additional expense of £18k has been included in the MTFP for approval.

General Fund Recharges

3.17 The total impact of the increase in HRA recharges is £116k and after a full review of all charges, the following table details the movement by General Fund service area.

	Movement £'000
Head of Finance	27
Head of Business Change & ICT	15
Head of Legal & Democratic	4
Strategic Director (Corporate Resources)	9
Head of Organisational Development & Performance	18
Head of Customer Services	14
Head of Corporate Property	7
Head of Operational Services	22
	116

3.18 The increases for each area represent the rise in the costs for providing direct support from each of the service areas. The biggest increase is due to staff costs resulting from the recent pay award, and the increased rates of inflation added to costs of service.

Repairs and Maintenance

3.19 Repairs and Maintenance costs have remained consistent in line with the existing planned maintenance schedule.

Interest Payable and Receivable

3.20 The overall movement in interest payable and receivable shows the increase in receivable income, due to the current interest rates yielding higher returns on the Councils Investment Portfolio. The budget for interest payable remains static at £1.5m, until the next repayment of £10m in March 2024 for the scheduled debt taken out as part of self-financing.

3.21 Additional investment income receivable has been included within the plan over the next 5 years. This is to reflect the level of investment income on deposit and the current level of interest rates received.

Insurance

3.22 Insurance savings (£71k) are the result of the Council's tendering of its insurance services as reported in November.

Computer Maintenance Agreements

3.23 Increases to licence and maintenance fees are expected year on year in line with inflation and is included within the MTFP at 2.5%. The financial year has recorded record highs in inflation resulting in licenses and maintenance

agreements increasing by 10.1%, the £31k budget increase reflects this percentage uplift.

Void Dwellings

- 3.24 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 charges the increase (£8k) in budget is due to the high levels of voids currently experienced. The costs of utilities have also been increased (£15k) to allow for the increased costs of prepayment meter, standing charges and to allow for refurbishment works to be carried out.
- 3.25 Since the budget in January the results from the Council's Brokers' (Monarch) tendering exercise have been received. We can fix our electricity tariff to a new energy supplier ahead of our current fixed term tariff ending in September 23. The costs are anticipated to increase by £30k. The additional costs for a 1-year fixed deal are included in the MTFP for approval.

Other Factors

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

Depreciation

- 3.27 The increase is due to the revaluation of all Council dwellings in March 2022 which will be depreciated in accordance with accounting practice.
- 3.28 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.

Council House Rents

- 3.30 The overall change between 2022/23 and 2023/24 is an estimated decrease of £28k. This is due to the application of 3% increase in rents as approved at the Housing and Community Services Committee on the 2nd February 2023. The Government issued a Direction on the Rent Standard 2023 to cap increases on Social Housing Rents to a maximum of 7%, the percentage increase applied to the rental income in 2023/24 complies with the Rent Standard Direction 2023.
- 3.31 The Medium-Term Financial Plan (MTFP) includes an increase of 3% for rental income 2023/24 . The initial forecast in the MTFP in November 2022 was 3%.
- 3.32 The provision for losses in income due to void properties has been included at 3.41% this has increased from 1% previously provided for over the life of the plan. The void loss relates to 2023/24 and will be reviewed through out the year.
- 3.33 There is a requirement that the statutory balance on the HRA must be at least £1m in any one year and where there appears to be a risk to that balance,

measures have to be taken to ensure that the Council reviews costs and income to ensure the HRA is sustainable.

- 3.34 The General reserve balance has been impacted by the loss of Careline income from 2024/25 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.
- 3.35 Right to Buy (RTB) losses forecasted have remained in line with the budget 2022/23 with 8 sales recorded to date. Losses have reduced to a forecast of 18 from 2023/24.
- 3.36 It is likely that this assumption is too low, but the forecast does not currently take into account any future properties purchased or built by the Council over the Plan beyond 2022/23. A programme of new build homes and acquisitions is, however, currently under discussion with the Council House Development Group with a view to updating Members once all options have been considered. This forecast of income losses is a worst-case scenario but will be kept under review.
- 3.37 Rental income for HRA garages has been proposed in the fees and charges to increase at the same level as Dwellings.

Capital Expenditure and Debt Repayment

- 3.38 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.
- 3.39 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.
- 3.40 Due to the approved agreement under self-financing to repay debt of £30m from 2022 to 2027, the HRA has significant pressure over the next five years to generate enough in reserve to afford the repayments. The debt repayment contribution is included over the life of the MTFP.
- 3.41 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.
- 3.42 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.

3.43 Where the depreciation charge is higher than actual capital expenditure/debt repayment, the HRA would be charged with the difference in that particular year. For 2023/24, expenditure is in excess of depreciation.

The Longer-term Financial Projection

3.44 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.

3.45 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.

3.46 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

3.52 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

- 3.53 Following the base budget review, the 10-year Financial Plan for the HRA has been reviewed and updated to reflect the rental income, pension contributions, electricity, and increased investment income. This is detailed in **Appendix 2**.
- 3.54 The General Reserve remains above the statutory £1m for the duration of the 10-year projection.
- 3.55 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.
- 3.56 There are a number of sites in development for acquisition pending future approvals, however 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

- 3.57 The Council took on the management of debt valued at £58m in 2012. No additional borrowing has been required. The current level of debt is £48m following the first repayment of £10m in March 2022.
- 3.57 The following debt repayments are due over the life of the current financial plan:
- 2023/24 - £10m
 - 2026/27 - £10m
 - 2031/32 - £10m
- 3.58 The financial projection to 2031/32 shows that these repayments can be met. The next repayments are not then due until 2032/33.

Key Variables and Assumptions

- 3.59 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 with the volatile fiscal markets assumption of CPI are difficult to predict and economic experts predict that inflation will level off in 2024/25 to around 2%. 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% - Capped in 2023/24 due to high inflation (to be announced) 3% per year thereafter.

Council house sales – “Right to Buys”	18 from 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 until 2024 after the second tranche of £10m due in 2023/24. There after the interest will reduce and remain fixed until the next payment in 2026/27.

Financial Risks

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

Future Rent Levels

3.62 The biggest risk in the Financial Plan is considered to be future rent levels. Government guidance expects the rent levels to increase by CPI plus 1% each year. The MTFP assumes that the rent will increase by 3.0% in 2024/25 and remains at that level each year.

3.63 The HRA is dependent on rental income (currently £13m 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

3.64 A decrease in current properties from sales continues to be 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.

3.65 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

3.66 Derbyshire County Council has confirmed the extension of the current contract until March 2024 after that it will no longer support the Careline service.

3.67 The MTFP has removed the contribution of £130k per annum from March 2024. Service provision is currently under review and a new working model will be reported to the Committee during 2023.

3.68 In additional 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 2023.

Impairment

- 3.69 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.
- 3.70 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.
- 3.71 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.
- 3.72 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.
- 3.73 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

- 3.74 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)

- 3.75 A greater number of Council tenants are now receiving Universal Credit and not Housing Benefit. There is a risk that this change leads to an increase in rent arrears.
- 3.76 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.
- 3.77 The rebate directly received from Housing Benefit by the HRA has noticeably reduced during 2022/23 compared to 2021/22.

3.78 The debt position at this stage is lower than in last financial year. Rent arrears have decreased over the year by £78k from March 2022. This is due to a review of debt recovery and new processes for collecting rent arrears being introduced.

Rent Levels

3.79 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.

3.80 The Council is currently reviewing the impact of the Rent Standard and will report to Committee with an updated Rent Policy during 2023.

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 to be delivered.

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 - FEBRUARY 2023

	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33
	Proposed Budget £'000	Forecast £'000									
INCOME											
Rental Income	-12,893	-12,872	-13,449	-13,766	-14,089	-14,420	-14,758	-15,103	-15,456	-15,816	-16,184
Non-Dwelling Income	-124	-112	-115	-118	-122	-125	-129	-133	-136	-140	-144
Supporting People Grant	-130	-130	0	0	0	0	0	0	0	0	0
Other Income	-177	-185	-185	-185	-185	-185	-185	-185	-185	-185	-185
Total Income	-13,324	-13,299	-13,749	-14,069	-14,396	-14,730	-15,072	-15,421	-15,777	-16,141	-16,520
EXPENDITURE											
General Management	2,065	2,229	2,279	2,330	2,382	2,436	2,490	2,546	2,604	2,663	2,723
Supporting People	908	994	1,021	1,050	1,080	1,111	1,144	1,178	1,214	1,251	1,291
Responsive	1,678	1,778	1,821	1,864	1,909	1,955	2,001	2,050	2,099	2,150	2,202
Planned Maintenance	1,790	1,761	1,803	1,847	1,892	1,938	1,985	2,034	2,083	2,134	2,186
Bad Debt Provision	125	131	134	137	140	144	147	151	154	158	161
Interest Payable & Receivable	1,456	1,362	1,093	1,093	1,093	792	792	792	792	792	462
Depreciation	4,213	4,844	4,417	4,393	4,369	4,345	4,321	4,297	4,274	4,250	4,226
Net Operating Income	-1,089	-200	-1,181	-1,355	-1,531	-2,009	-2,192	-2,373	-2,557	-2,743	-3,269
Known variations:											
Reversal of Depreciation	-4,213	-4,844	-4,417	-4,393	-4,369	-4,345	-4,321	-4,297	-4,274	-4,250	-4,226
Capital Expenditure	1,620	1,433	1,877	1,916	1,847	2,182	2,261	2,489	2,403	1,805	2,301
Disabled Adaptations	300	300	300	300	300	300	300	300	300	300	300
Asbestos and Health & Safety Surveys	100	100	100	100	100	100	100	100	100	100	100
Debt Repayment - Balance of Depreciation	1,593	2,561	1,640	1,577	1,972	1,213	1,110	908	971	1,545	1,025
Major Repairs Reserve	600	550	600	600	250	650	650	600	600	600	600
Asset Replacement Earmarked Reserve	45	45	45	45	45	45	45	45	45	50	50

HOUSING REVENUE ACCOUNT FINANCIAL PROJECTION - FEBRUARY 2023

Asset Replacement	0	0	270	0	0	0	0	0	280	0	0
Reserve C/fwd	-298	-298	-73	-118	-163	-208	-253	-298	-63	-113	-163

HOUSING REVENUE ACCOUNT FINANCIAL PROJECTION - FEBRUARY 2023

	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33
	Forecast	Forecast									
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Major Repairs Reserve											
Balance B/fwd	-4,457	-5,157	-5,707	-6,307	-6,907	-7,157	-7,807	-8,457	-9,057	-9,657	-10,257
Transfers to reserve	-600	-550	-600	-600	-250	-650	-650	-600	-600	-600	-600
Earmarked non-traditional properties	-100	0	0	0	0	0	0	0	0	0	0
Reserve C/fwd	-5,157	-5,707	-6,307	-6,907	-7,157	-7,807	-8,457	-9,057	-9,657	-10,257	-11,692
New Build Reserve											
Capital Receipts B/fwd	-2,935	-3,376	-3,991	-4,602	-5,214	-5,826	-6,437	-7,049	-7,660	-8,272	-8,884
Acquisitions in year	280	0	0	0	0	0	0	0	0	0	0
RTB Receipts in year	-721	-615	-612	-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	-3,376	-3,991	-4,602	-5,214	-5,826	-6,437	-7,049	-7,660	-8,272	-8,884	-9,495