

BABERGH DISTRICT COUNCIL

COMMITTEE: Cabinet	REPORT NUMBER: BCa/22/40
FROM: Councillor David Busby, Cabinet Member for Finance	DATE OF MEETING: 6 February 2023
OFFICER: Melissa Evans, Director, Corporate Resources	KEY DECISION REF NO. CAB379

HOUSING REVENUE ACCOUNT (HRA) 2023/24 BUDGET

1 PURPOSE OF REPORT

- 1.1 The report contains details of the revenue and capital budgets and the Council's strategic financial aim. The purpose of this report is to present the HRA Budget for 2023/24.
- 1.2 To enable Members to consider key aspects of the 2023/24 HRA Budget, including council house rent levels.

2 OPTIONS CONSIDERED

- 2.1 The Housing Revenue Account Budget for 2023/24 is an essential element in achieving a balanced budget and sustainable medium-term position, therefore no other options are appropriate in respect of this.

3 RECOMMENDATIONS

- 3.1 That the HRA Budget proposals for 2023/24 set out in this report, be endorsed for recommendation to Council on 21 February 2023.
- 3.2 That an increase of 7% for council house rents, equivalent to an average rent increase of £6.68 for social rent and £9.41 for affordable rent, a week be implemented.
- 3.3 That the CPI increase of 10.1% in garage rents, equivalent to an average rent increase of £4.86 or £4.91 (private rental), a month be implemented.
- 3.4 That an increase of 7% for sheltered housing service charges, equivalent to £12.19 a month, be implemented.
- 3.5 That an increase for sheltered housing utility charges, equivalent to £7.42 a month (8% for heating and 11% for water), be implemented, following no utility increase for 3 years (since 2019/20).
- 3.6 That in principle, Right to Buy (RTB) receipts should be retained within the Housing Revenue Account, to enable continued development and acquisition of new council dwellings.

REASON FOR DECISION

To bring together all the relevant information to enable Cabinet Members to review, consider and comment upon the Councils Housing Revenue Account budget for recommendations to Council.

4 KEY INFORMATION

Background

- 4.1 The Council's current HRA Business Plan presents a financial picture over the longer term (a thirty-year period as required under the self-financing regime). The business plan sets out the aspiration of the Council to increase the social housing stock by either buying existing dwellings or building new ones. In addition, the Business Plan is used to plan and understand any potential borrowing requirements which are needed to adhere to Social Housing Regulations such as the Consumer Standards and the Decent Homes Standard
- 4.2 The housing landscape will look very different in years to come, as such the Council has taken the decision to carry out a full review of the business plan, taking into account all compliance requirements, stock condition data and the emerging Social Housing Regulation Bill. As such a one-year interim budget has been produced. Members can expect a revised and up to date business plan to be presented before the next budget setting period. This will include a series of presentations which provide Members with the appropriate stress testing and scenario planning to enable a longer-term view to be taken. This will also give comfort to our customers as our planned and estate enhancements will be included in the plan.
- 4.3 Members should also note that officers will be working with customers during the year to understand their aspiration around how we create places to be proud of. This forms part of the new housing regulations, and as such officers will consult with customers on what they would like to prioritise in the new business plan.
- 4.4 The information presented to Overview and Scrutiny Committee in January 2023 and this budget report presented to Cabinet and Full Council will focus on the budget for 2023/24. The revised business plan, when it is presented, will set out the longer-term financial implications and ambitions for the HRA and will take into account any decisions or approvals in relation to the 2023/24 budget.
- 4.5 Following a period of five years that saw annual 1% rent reductions, which ended in March 2020, councils were allowed to increase rents by the maximum of the Consumer Price Index (CPI) +1% for a period of five years from April 2020. Subject to compliance with the Regulator of Social Housing's Rent Standard, this has begun to mitigate the impact of the 1% reduction on the 30-year plan. However, the cost of living crisis has resulted in the Government making a change to the rent settlement. This is a significant risk to the HRA as the recent reductions and now the rent cap, leaves the Council at risk of not being able to meet its legal obligations. This is again against the backdrop of aging stock which requires urgent investment.

- 4.6 The removal of the HRA Debt Cap from 29 October 2018 means that local authorities can borrow to fund new homes without worrying about breaching this cap. Any borrowing will be subject to the Council adhering to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code.
- 4.7 The 2023/24 budget is aligned to and supports the Council's Homes and Housing Strategy and the Council's vision for residents to live in affordable and high-quality homes that enable them to build settled, safe and healthy lives.

2022/23 Budget and Forecast Outturn

- 4.8 On 21 February 2022 the Council set the HRA budget for 2022/23 showing a surplus of £511k
- 4.9 The second quarter 2023 budget monitoring report was presented to Cabinet on 5 December 2022 showing a forecast adverse variance of £825k against the budgeted surplus of £511k. The key factors in this position are the additional costs being incurred to address the backlog in void and responsive repairs, as well as increasing materials costs due to inflation.
- 4.10 The third quarter position will be presented to Cabinet on 6 March 2023.

2023/24 Budget Proposals

- 4.11 In preparing the budget for 2023/24 the various headings have been thoroughly reviewed against the forecast for 2022/23, to ensure that they are set on a realistic basis for next year.
- 4.12 Assumptions made when constructing the budget for 2023/24 were reviewed and assessed by the Overview and Scrutiny Committee in November 2022 and January 2023, report references BOS/22/01 and BOS/22/02 and so have not been repeated here.
- 4.13 The budget for 2022/23 was a surplus of £511k however due to a continuation of financial pressures described above and in the quarter 2 financial monitoring the position for next year has worsened by £755k as shown in table 1.

Table 1: budget changes

	£'000	£'000
2022/23 Surplus		(511)
Pressures		
Pay award, increments, pay review (Reserve/grant funded £25k)	1,319	
Repairs inc. voids (inflation and increase based on outturn)	1,735	
Sheltered schemes (utility costs)	369	
Depreciation	269	
Recharge from General Fund for grounds maintenance	448	
Stock conditions survey	125	
Software Licenses (inflation)	116	
Equipment, Tools and Materials (inflation)	92	
Fixtures and Fittings for Sheltered Housing improvements	41	
Property Servicing (heating) – remedial works & ongoing service requirements	82	
Other small items (net)	142	
Total Draft Pressures		4,738
Savings/additional Income		
Rental income – based on 7% increase	(1,483)	
Garage Rents Increased by 10%	(55)	
Increased Building Services Recharges – work on GF assets	(811)	
Interest payable	(93)	
Reducing in Revenue contribution to capital	(1,541)	
Total Draft Savings/additional Income		(3,983)
Total Net increase		755
2023/24 Draft Deficit		244

4.14 The current draft position for 2023/24 shows an overall deficit of £244k.

4.15 The Councils' total cost of service has increased by £3.672m or 50%, and income has increased by £1.551m or 8%, as shown in table 2 below.

Table 2: Summary

	Budget 2022/23	Budget 2023/24	Movement 22/23 vs Budget 23/24
	£'000	£'000	£'000
Dwelling Rents	(17,273)	(18,740)	(1,467)
Service Charges	(598)	(607)	(9)
Non-Dwelling Income	(183)	(238)	(55)
Other Income	(48)	(67)	(19)
Interest Received	(10)	(10)	-
Total Income	(18,111)	(19,662)	(1,551)
Housing Management	3,096	4,768	1,672
Building Services Surveyors and Compliance	1,178	1,902	724
Housing Trade Team	2,361	3,130	769
Repairs and Maintenance (all areas except Trades Team)	484	1,030	545
Bad Debt Provision	139	100	(39)
Total cost of service	7,258	10,929	3,672
Depreciation	4,548	4,817	269
Interest payable	3,161	3,068	(93)
Revenue Contribution to Capital	2,633	1,092	(1,541)
Deficit / (Surplus) for Year	(511)	244	755

4.16 In calculating the 2023/24 budget, the following assumptions have been made:

Income

4.17 **Dwelling Rents** - an increase of 7% (rent cap) has been built into the budget for 2023/24. It is assumed that no properties will be purchased by the tenant through the Right to Buy mechanism and the number of voids is expected to be 7% higher than the forecast 2022/23 outturn position (current void rate is 1.2%). All budget changes mentioned will generate £1.467m additional income.

4.18 Tables 3 and 4 below show the impact on income levels that would be available to the HRA as alternative options for a rent increase in 2023/24 compared to the maximum that is currently built into the budget. Table 3 shows the impact on the 2023/24 budget and Table 4 shows the cumulative impact over 1, 5, 10 and 30 years

Table 3: Rent Scenarios

Babergh Rents	Current (2022/23) £	2023/24 Budget (7% increase) £	3% increase £	5% increase £
Social housing rents	16,218,215	17,353,468	16,704,781	17,029,185
Affordable rents	1,299,845	1,390,828	1,338,834	1,364,850
Other rents	145,166	155,327	149,521	152,424
Shared ownership properties	174,856	187,096	180,102	183,599
Less 1% voids	(229,978)	(245,673)	(236,877)	(241,477)
Total rents	17,608,104	18,841,047	18,136,360	18,488,580
Deficit / (Surplus) for the year	1,447,124	214,181	918,867	566,647
Net increase	-	1,232,943	528,256	880,477

Table 4: Rent increase – impact on HRA Business Plan

Rent increase	One year £	Five years £	10 years £	30 years £
3%	528,256	2,641,282	5,282,565	15,847,694
5%	880,477	4,402,383	8,804,765	26,414,295
7% (rent cap)	1,232,943	6,164,715	12,329,430	36,988,289

4.19 The average weekly social rent will increase by £6.68, from £95.47 to £102.15. For affordable housing, the weekly rent will increase by an average of £9.41 from £134.39 to £143.80.

4.20 Of the Council's 3,453 tenants, 1,127 (32%) that we know of are in receipt of Housing Benefit and 1,189 (34%) in receipt of Universal Credit. As Universal Credit is paid direct to the tenant, rather than the landlord, the Council no longer knows the total number of tenants in receipt of support to pay their rent.

4.21 **Sheltered Housing** - it is proposed that service charges are increased by 7% to recover expected costs in 2023/24. Increases to utility costs are also being proposed:

- Heating - an increase of 8% which equates to an average of £1 per week or £5.72 per month.
- Water - an increase of 11% which equates to an average £0.26 per week or £1.70 per month.
- The increases which are based on historic costs should recover 50% of the recent increase in gas and electricity prices, ensuring that the overall package of cost increases is manageable for our tenants. The increase will mean an element of subsidy to tenants in 2023/24 until the prices are increased again in 2024/25.

4.22 Garage rents are being increased in line with RPI, officers will be prioritising this in 2023/24 as we are currently receiving around 40 enquiries per month. Garages can be hard to let in some areas and sites are under review to assess their suitability for development.

- 4.23 **Other income** – the level of income from leaseholders is higher than the current budget and so been increased by £6k in 2023/24. Additional income £12k for wayleaves and easements is also included in the budget for 2023/24.

Housing Management

- 4.24 An overall increase to the budget of £1.672m is proposed for 2023/24.
- 4.25 Increases are required for the annual pay award and increments in staffing costs (£467k), inflationary increases (£591k), Pay review (£150k), Stock condition survey (£125k), Transformation Project (£83k), Capita One housing costs moved to HRA budget from the General Fund (£83k), Sheltered Housing furniture update (£41k), additional grounds maintenance charges from Public Realm (£108k) and increase in temporary accommodation charges (£24k).

Building Services

- 4.26 A decision was made in 2022 to carry out a diagnostic and transformation programme within Building Services. This followed a significant period of increasing costs and reducing customer satisfaction. The programme which aims to provide and implement excellence within Building Services is well underway. There are 3 separate work streams - compliance, assets, and Direct Labour Organisation (DLO). The journey to excellence will take several years to complete however Members can expect to see steady progress over the next 18 months.
- 4.27 An overall increase to the budget of £2.039m is proposed for 2023/24.
- 4.28 The most significant area of change is an increase to the repairs budget of £1.245m. In recent years this budget has not been able to accommodate the level of demand for repairs with overspends being reported, so the proposed budget for next year is set at a more realistic level.
- 4.29 Increases are also required for the transformation project, annual pay award and increments in staffing costs (£563k) and inflationary increases (£231k).

Depreciation

- 4.30 The depreciation charge has increased by £269k due to the revaluation of the housing stock at 31 March 2022. The value of the housing stock at 31 March 2022 is £268.3m. The valuation basis that the Council is required to use for the financial accounts equates to 38% of market value.

Interest Payable and Bad Debt Provision

- 4.31 A reduction of £93k to interest payable is included in the budget for 2023/24 due to the new/build and acquisition programme not progressing as quickly as forecast in 2022/23. The interest payable figure is based on total long-term debt of £84.7m and recharges from the General Fund for short-term borrowing costs. £83.6m of the long-term debt is the debt that the Council took on when the HRA Self-financing regime was introduced in 2012.

Revenue Contribution to Capital

4.32 The revenue contribution to capital has been decreased by £1,541k to partially offset the cost of service and depreciation charge as depreciation can be used to fund capital expenditure.

Reserves

4.33 When setting the budget for the forthcoming year the Council must have regard to the level of reserves needed to provide enough resources to finance estimated future expenditure plus any appropriate allowances that should be made for contingencies.

4.34 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.

4.35 The 2023/24 budget position means that the Council will reduce its Strategic Priorities Reserve by £1,508k compared to the 2022/23 budgeted contribution to reserve of £511k.

4.36 The total balance of all earmarked reserves at 31 March 2024, as a result of the budget proposals, is forecast to be £10.693m, which equates to less than £3,064 per property. This is dependent on the new build and acquisition programme being delivered on target in the current financial year. Full details of the Councils earmarked reserves are shown in table 5 below.

Table 5: Earmarked reserves

BDC Reserves	Balance at 31 March 2022	Forecast Balance at 31 March 2023	2023/24 Budget Capital Programme Financing	2023/24 Budget Deficit	Forecast Balance at 31 March 2024
	£'000	£'000	£'000	£'000	£'000
Strategic Reserves	(16,096)	(12,087)	1,264	244	(10,578)
Big 20 Reserve	(94)	(94)	0	0	(94)
Building Council Homes Programme	(20)	(20)	0	0	(20)
Total Reserves	(16,210)	(12,201)	1,264	244	(10,693)

4.37 In addition to this, the Council continues to hold £1m in the working balance general reserve which equates to less than £300 per property.

Capital

4.38 The proposed capital programme for 2023/24 and the indicative programme for the following three years is shown in table 6 below.

Table 6: HRA Capital Programme 2023/24 to 2026/27

BABERGH DC	2022/23 Indicative Carry Forwards (A)	2023/24 Budget for approval (B)	2023/24 Total Spend Required (A + B)	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
CAPITAL PROGRAMME BUDGET	£'000	£'000	£'000	£'000	£'000	£'000
Housing Revenue Account						v3
Planned Maintenance & Response						
Planned Maintenance	900	3,326	4,226	2,611	2,605	2,584
Other Maintenance	0	2,000	2,000	2,000	2,000	2,000
ICT Projects	44	163	207	200	200	200
Neighbourhood Improvements	0	500	500	500	500	500
Council House Adaptations	0	400	400	200	200	200
Horticulture and play equipment	130	220	350	30	30	30
Total Housing Maintenance	1,074	6,609	7,683	5,541	5,535	5,514
New build programme including acquisitions	0	802	802	2,480	3,750	750
TOTAL HRA Capital Spend	1,074	7,411	8,485	8,021	9,285	6,264
HRA Financing						
External Grants and contributions	0	190	190	0	0	0
Capital Receipts (from SO Sales)	0	291	291	1,488	0	0
New build 1-4-1 capital receipts	0	321	321	992	1,500	300
Major Repairs Reserve	0	4,817	4,817	4,809	4,809	4,727
Revenue Contributions	0	1,092	1,092	0	0	0
Borrowing	1,074	700	1,774	732	2,976	1,237
Total HRA Capital Financing	1,074	7,411	8,485	8,021	9,285	6,264

- 4.39 The new funding within the Capital Programme for 2023/24 totals £7.4m, with an additional £1.1m anticipated to be carried forward from 2022/23 to give a total programme of £8.5m.
- 4.40 The new build and acquisition programme, which includes development sites for additional homes, are expected to deliver a total of 26 affordable homes by the end of March 2027.
- 4.41 The major areas being developed over the next four years includes a site in Sudbury.
- 4.42 Right to Buy (RTB) sales for Babergh were higher than those projected in the business plan. In 2021/22 Babergh sold 24 against an original projection of 20 sales.
- 4.43 The money received from RTB sales can only be used as a 40% contribution towards the cost of a replacement home. The remaining 60% of the replacement cost must be found from other HRA resources. If sales increase, it means that the level of match funding required (60%) increases. During 2020/21 the Government extended the time period by which RTB receipts have to be spent from 3 to 5 years. If the receipts are not spent within the 5-year period allowed, they must be repaid to Government with 4% above the base rate interest added.
- 4.44 The Council can enter into agreements with the Secretary of State to retain the full RTB receipt from the sale of nominated homes newly built or acquired since

July 2008. Officers continue to explore every opportunity to enter into agreements so that any capital receipts received in future from the sale of nominated homes can be retained in full and used as part of the 60% match funding required.

5. LINKS TO THE CORPORATE PLAN

5.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Corporate Plan, and ensuring the Council has a robust financial strategy. Specific links are to the Council's Homes and Housing Strategy and the Council's vision for residents to live in affordable and high-quality homes that enable them to build settled, safe and healthy lives.

6. FINANCIAL IMPLICATIONS

6.1 These are detailed in the report.

7. LEGAL IMPLICATIONS

7.1 There are none that apply.

8. RISK MANAGEMENT

8.1 Key risks are set out below:

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
We may be unable to react in a timely and effective way to financial demands	3 - Probable	4 - Disaster	Continued monitoring and reporting of the Councils financial forecast via quarterly reports to Cabinet	Strategic Risk Register - SRR004 BDC
If we do not consider the ongoing impacts of the Welfare and Funding Reforms, then it could lead to unpreparedness for further changes.	Unlikely - 2	Bad – 3	Ensure adequate bad debt provision and that the Income Management Strategy seeks to mitigate the impact of the changes on residents, the Council's income streams and budgets.	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007
If there are increases in inflation and other variables, then Council Housing self-financing could result in a greater risk to	Unlikely - 2	Noticeable – 2	Inflation and interest rate assumptions have been modelled in the HRA business plan. Capital receipts and capital	Finance, Commissioning and Procurement Operational Risk Register –

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
investment and service delivery plans.			programme funding reviewed.	005BDC and 007
If we fail to spend retained RTB receipts within the 5-year period, then it will lead to requirement to repay to Government with interest.	Probable - 3	Bad - 3	Provision has been made in the budget and Investment Strategy to enable match funding and spend of RTB receipts.	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007
If we borrow too much to fund New Homes, we will not be able to pay the loan interest.	Unlikely - 2	Bad - 3	Follow the CIPFA Prudential Code which states capital investment plans must be affordable, prudent and sustainable.	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007
If capital data is inaccurate it could lead to problems with treasury management debt and cashflows.	Unlikely - 2	Bad - 3	Capital plans form part of the Treasury, Capital and Investment strategy. Monitor the capital spend quarterly.	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007

9. CONSULTATIONS

- 9.1 Consultations have taken place with the Director, Corporate Managers and other Budget Managers as appropriate.

10. EQUALITY ANALYSIS

- 10.1 The Director and Corporate Managers will undertake an Equality Impact Assessment for any individual budget proposals that have the potential to impact any of the protected characteristics under the Equality Act 2010.

11. ENVIRONMENTAL IMPLICATIONS

- 11.1 Directors, Corporate Managers and other Budget Managers will continue to consider the environmental impact of their budgets and take the opportunity to reduce their carbon footprint as opportunities arise.
- 11.2 In support of the Council's commitment to be Carbon Neutral by 2030, several initiatives have and are being undertaken in relation to the housing and sheltered accommodation stock. These are set out in more detail below.
- 11.3 The new homes 'design and technical specification' that incorporates carbon saving solutions and improve energy efficient standards for all new homes built by the Council and its Growth Company, has now been adopted by the Council.

- 11.4 A review of Social Housing solar systems performance is underway and will be used to further inform social housing energy generation.
- 11.5 Social Housing - we are preparing a programme of energy retrofits to the poorest performing properties rated with an Energy Performance Certificate rating of E and below, with a view to submitting match funding bids to the Government's Social Housing Decarbonisation Fund. A five-year programme of energy retrofits is under development aimed at raising all social housing to an Energy Performance Certificate rating of C or above.

12. BACKGROUND DOCUMENTS

BCa/22/33 Housing Revenue Account Fund Financial Monitoring 2022/23 – Quarter 2

BOS/22/01 Draft General Fund (GF) and Housing Revenue Account (HRA) 2023/24 Review of Assumptions

BOS/22/02 Draft General Fund (GF) and Housing Revenue Account (HRA) 2023/24 Review of Savings Proposals and Updated Position