

<b>Key Decision Required:</b>	<b>Yes</b>	<b>In the Forward Plan:</b>	<b>Yes</b>
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## CABINET

**28 JANUARY 2022**

### **JOINT REPORT OF THE HOUSING PORTFOLIO HOLDER AND CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER**

#### **A.4 HOUSING REVENUE ACCOUNT BUDGET PROPOSALS 2022/2023**

(Report prepared by Richard Barrett and Richard Hall)

#### **PART 1 – KEY INFORMATION**

##### **PURPOSE OF THE REPORT**

To seek Cabinet's approval of the final HRA budget proposals 2022/23 (including fees and charges, capital programme and movement in HRA Balances) for recommendation to Council on 15 February 2022.

##### **EXECUTIVE SUMMARY**

- At the meeting on the 17 December 2021, Cabinet considered the Housing Revenue Account Business Plan and Budget Proposals 2022/23. The budget proposals at that time provided for a surplus of **£0.143m** that was agreed to be contributed to the Capital Programme.
- The initial budget proposals were subject to consultation with the Resources and Services Overview and Scrutiny Committee, which met on the 12 January 2022 to consider them and their comments are considered elsewhere on the agenda.
- Since the Cabinet's meeting on 17 December 2021, a small number of changes have been required, the most significant of which relates to the recharges from the General Fund.
- The changes required have resulted in the overall surplus increasing to **£0.333m** a change of **£0.190m** compared to the surplus of **£0.143** presented to Cabinet in December. **Appendix A** sets out the updated Business Plan, in terms of 2021/22 and 2022/23, with **Appendix B** setting out the proposed detailed budgets that reflect this latest position.
- This position remains subject to further adjustments that may be required as part of finalising the budget for presenting to Council on 15 February 2021, with a delegation included in the recommendations to respond to this possibility.
- The revised forecast surplus in 2022/23 remains committed to investing in capital works, which includes the delivery of new affordable housing but also the continued investment in the homes of our existing tenants. The surplus set out above of **£0.333m** therefore remains as a contribution to the HRA capital programme.
- **Appendix C** sets out the proposed fees and charges for 2022/23, which broadly reflect inflationary uplifts where relevant or changes to better reflect the cost of providing the associated service.

- The proposed HRA Capital Programme for 2022/23 is set out in **Appendix D**, which now includes the additional contribution of **£0.333m** above.
- The average weekly rent remains unchanged to the figure reported in December at **£87.55**, an increase of 4.1% over the comparable figure of **£84.10** for 2021/22.
- As mentioned within the report to Cabinet in December, due to the relatively volatile CPI rates experienced since the start of the COVID 19 pandemic, if the proposed level of rent increase in 2022/23 is taken together with the relatively low figure of 1.5% last year, then the average annual increase would be 2.8% over the two years.
- The HRA general balance is forecast to total **£4.325m** at the end of 2022/23, which retains a strong financial position against which the Housing Strategy and associated HRA 30 year Business Plan can be continue to be delivered / developed.
- The HRA balances, together with the proposed rent increase for 2022/23 are important elements of the overall business plan, especially against the background of the risks that are expected to emerge from the Hackett Review and new decent homes standards along with delivery actions underpinned by the Housing Strategy.
- HRA debt continues to reduce year on year as principal is repaid with a total debt position at the end of 2022/23 forecast to be **£35.350m** (A reduction of **£1.427m** compared with the figure at the end of this year).
- The Tenant's Panel play an important role in developing the HRA Business Plan and budget proposals and it is proposed to consult with them during January, with the outcome planned to be reported to members ahead of / alongside Cabinet considering this report.

#### **RECOMMENDATION(S)**

- (a) **That if the financial position changes prior to Council considering the HRA budget on 15 February 2022, Cabinet agrees a delegation to the Assistant Director Finance & IT to adjust the forecast / budget, including the use of reserves, in consultation with the Housing Portfolio Holder.**

*That subject to a) above, Cabinet approves and recommends to Full Council on 15 February 2022:*

- (b) **A 4.1% increase in dwelling rents in 2022/23 along with the detailed HRA Budget proposals for 2022/23 as set out in Appendices B to E.**

#### **PART 2 – IMPLICATIONS OF THE DECISION**

##### **DELIVERING PRIORITIES**

The HRA budget and Business Plan plays a significant role in the delivery of affordable and decent housing in the district and the Council's responsibilities as a landlord has direct implications for the Council's ability to deliver on its objectives and priorities.

##### **FINANCE, OTHER RESOURCES AND RISK**

###### **Finance and other resources**

The financial implications are set out in this report and its appendices.

Although the availability of financial resources is a key component in the delivery of HRA

services, there will also be a need for appropriate input of other resources such as staffing, assets, IT etc.

#### Risk

There are inherent risks associated with the forecast such as:

- Changes in income achieved and future rent setting policy
- Emergence of additional areas of spend
- Emergence of new or revised guidance
- New legislation / burdens
- Changing stock condition requirements
- Adverse changes in interest rates
- National welfare reforms

In view of the above, it is important that a sufficient level of balances / reserves is available to support the HRA. HRA General Balances are currently forecast to be **£4.325m** at the end of 2022/23, which although required to support the business plan and HRA investment in future years, provides a ‘buffer’ to the 30 year Business Plan if, for example, some of the items highlighted above emerge or are required to deal with changing financial and service demand issues.

A 30 year HRA Business Plan is maintained on an on-going basis that continues to demonstrate the sustainability and resilience of the HRA within a self-financing environment and the ability to provide opportunities for housing investment and associated housing services in the future, although it is acknowledged that the longer term view always remains subject to the Government’s housing policies.

To date the HRA has been largely unaffected financially from the impact of the COVID 19 pandemic and at the present time it is not expected that this situation will significantly change over the remainder of this financial year and into 2022/23. However, the position will be kept under on-going review and the financial sustainability of the HRA remains underwritten by the current level of general balances, which are forecast to be **£4.325m** at the end of 2022/23 as mentioned above.

#### **LEGAL**

It is a statutory requirement on a local authority to determine its Housing Revenue Account budget before the upcoming financial year and to ensure that its implementation will not result in an overall debit balance on the Account.

The self-financing regime for the Housing Revenue Account that came into effect from April 2012 was enabled by the Localism Act 2011.

The Regulator of Social Housing and its predecessor bodies have, at the Direction of Government, issued requirements and guidance to registered providers of social housing (which includes Local Authorities) in respect of rents. This has included the maximum levels of rent they can charge and annual increases in rents.

In 2016, Parliament passed the Welfare Reform and Work Act, which, together with Regulations made under it, created a legislation-based regime of rent reduction across the sector by 1% per year until 2020. Therefore, over this 4-year period, providers were required to reduce rents by 1% per year across its housing stock.

In October 2017, the Government announced that at the end of the 4 year rent reduction period it intended to return to annual rent increases of up to CPI + 1%, implemented through the

regulator's Rent Standard rather than through legislation.

The Secretary of State for Housing, Communities and Local Government published on 26 February 2019 a 'Direction to the Regulator' to set a Rent Standard that will apply from 1 April 2020. That Direction was published alongside the Government's Policy Statement on Rents (the Policy Statement) and the regulator is required to have regard to this when setting its Rent Standard.

The regulator may under section 194(2A) of the Housing and Regeneration Act 2008 set standards for registered providers requiring them to comply with specified rules about their levels of rent (and the rules may, in particular, include provision for minimum or maximum levels of rent or levels of increase or decrease of rent).

The Regulator of Social Housing has confirmed rents can be increased by up to CPI+1% per year for a period of 5 years starting from 1 April 2020. The rent standard does not apply to properties let to high-income social tenants, so rather than this being a mandatory requirement that the Government had previously looked to implement, it is now a voluntary decision taken at a local level. However, given the very challenging administrative issues associated with charging higher rents to high-income tenants, it is not proposed to introduce this at the present time. However, it is acknowledged that this flexibility may be subject to review in future years, for example, as part of developing future policy decisions within the HRA.

The Housing and Planning Act 2016 introduced a number of changes that had an impact on social housing, which via associated regulations are reflected in the HRA estimates as necessary.

The original HRA 30 Year Business Plan was agreed as part of the self-financing reforms and associated borrowing agreed by Full Council in February 2012 and the budget proposed for 2022/23 reflects the latest / updated forecast position set out in **Appendix A**.

## **OTHER IMPLICATIONS**

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

**Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

In carrying out its functions as a social landlord, the Council has regard to the need to reduce the potential for criminal activity by improving the security of dwellings as part of maintenance and repair programmes and for combating anti-social behaviour through effective management procedures.

Although there are no direct equality and diversity issues, the overall HRA and associated financial planning processes aim to recognise and include such issues where appropriate and relevant.

Investment decisions will also reflect the Council's commitment to carbon neutrality, as schemes and projects that are supported by the proposed budgets and business plan are developed.

## PART 3 – SUPPORTING INFORMATION

### LATEST HRA BUSINESS PLAN AND BUDGET PROPOSALS 2022/23

On 17 December 2021, Cabinet considered the Housing Revenue Account Business Plan and Budget Proposals 2022/23 for consultation with the Resources and Services Overview and Scrutiny Committee. The report set out an estimated surplus of **£0.143m** in 2022/23, which was proposed to be contributed to the HRA Capital Programme.

The development of the forecast / budget has continued since Cabinet's meeting on 17 December 2021, to reflect the most up to date information.

The above position has subsequently been revised to a surplus of **£0.333m**, an increase of **£0.190m** compared with the surplus of **£0.143m** reported in December.

**Appendix A** sets out the revised figures for 2022/23 within a revised Business Plan (excludes later years of the plan), with the last column within that appendix highlighting the changes since December. Apart from some relatively minor changes against maintenance and management lines of the forecast that reflect the most up to date information, the major change required relates to recharges from the General Fund. The recharges included in this latest forecast reflect the accounting treatment of pension costs.

All other figures reported to Cabinet in December and considered by the Resources and Services Overview and Scrutiny Committee remain unchanged with some key headlines as follows:

- Rents are proposed to be increased by 4.1% (CPI + 1%) resulting in an average weekly rent of **£87.55** in 2022/23.
- **£6.997m** is included within the forecast that relates to the major refurbishment and repairs to the housing stock along with supporting the delivery of new homes.
- Current estimates put the total HRA reserves at **£8.992m** by the end of 2022/23, with the general balances element within this amount being **£4.325m**.
- With forecast repayments of principal of **£1.427m** in 2021/22, the level of HRA debt at the end of 2021/22 is forecast to be **£35.350m**.

As set out in the report to Cabinet in December, one area that is important to note as it may have a bearing on the overall financial position of the HRA in future years, is the possible responses required from Hackett review along with changes that are likely to emerge from the upcoming review into the 'decent homes standard'. The cost of a stock condition survey is included in the 2022/23 budget to inform the necessary investment across the later years of the current business plan. This issue will be kept under review, but it is recognised that there is a need to balance the maintenance of the existing stock with the affordability, scale and speed of investing in housebuilding / acquisitions.

The business plan will be updated during 2022/23 to reflect the required adjustments to the forecast, which will be required before any major investment in housebuilding or acquisitions is undertaken given the potential financial risks to the long term sustainability of the HRA.

## BUDGET SUMMARIES

Based on all of the adjustments set out elsewhere in this report, the proposed HRA budget for 2022/2023 is summarised below.

### HRA Revenue Budget

*Table 1*

	2021/22 Original Budget £m	2022/23 Original Budget £m
<b>Direct Expenditure</b>	6.572	7.072
<b>Direct Income</b>	(13.690)	(14.312)
Indirect Income / Expenditure including Financing Costs	7.140	7.240
<b>NET (SURPLUS) / DEFICIT</b>	<b>0.022</b>	<b>0</b>
<b>Contribution to / (from) Reserves</b>	(0.022)	0
<b>Contribution to the Capital Programme</b>	0.281	0.614

### HRA Capital Programme

*Table 2*

	2022/23 Original Budget £m
<b>EXPENDITURE</b>	3.790
<b>FINANCING</b>	
Major Repairs Reserve	3.176
Direct Revenue Contribution	0.614
<b>Total Financing</b>	<b>3.790</b>

Although the redevelopment of the Honeycroft, Lawford site was agreed by the Leader in 2021, it has not yet been included within the capital programme figures above. However, depending upon the final development design and density, build costs are estimated to be in the region of £4.000m.

Within the report agreed by the Leader referred to above, it was confirmed that a further report would be presented to Cabinet once a tender exercise had been undertaken for the design and build of the scheme. It was also stated that this same report would set out the funding required for the development and seek approval for prudential borrowing within the HRA. £0.281m remains set aside within the HRA on an on-going basis that can be used to support the borrowing costs that are likely to be required to meet the cost of the redevelopment of Honeycroft. It is anticipated that borrowing / capital investment costs can be reduced by seeking grant from Homes England through the Affordable Homes Programme and officers are still exploring this option to establish the level of grant subsidy that the Council may be able to access.

The final borrowing decision will need to be made by Full Council following a recommendation by Cabinet. Although a separate report will be presented to Cabinet as mentioned above, the potential to borrow money to support the cost of the site will be further explored as part of the Treasury Strategy that will be presented to both Cabinet and Full Council in March.

## **BACKGROUND PAPERS FOR THE DECISION**

Working Papers in Accountancy

## **APPENDICES**

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|-------------------|--|
| <b>Appendix A</b> | Updated HRA Business Plan (Revised figures for 2022/23 and Comparison with 2021/22 only) |
| <b>Appendix B</b> | Detailed HRA Budget Proposals 2022/23  |
| <b>Appendix C</b> | HRA Proposed Service Charges / Fees and Charges 2022/23                                  |
| <b>Appendix D</b> | HRA Capital Programme  |
| <b>Appendix E</b> | HRA Reserves 2022/23   |