APPENDIX B

CABINET

16 DECEMBER 2022

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

A.6 UPDATED HOUSING REVENUE ACCOUNT BUSINESS PLAN AND BUDGET PROPOSALS 2023/24

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To set out and seek approval of an updated HRA Business Plan, which includes proposed changes in 2022/23 along with budget proposals for 2023/24.

EXECUTIVE SUMMARY

- Similarly, to the General Fund's long-term forecast, a 'live' HRA Business Plan is maintained on an on-going basis, with the most up to date position in December each year being translated into the detailed budget for the following year for consultation with the Resources and Services Overview and Scrutiny Committee.
- A number of changes have been made to the business plan for 2023/24 onwards that largely reflect increased inflationary pressures. These pressures are also being experienced in 2022/23, with corresponding adjustments set out accordingly.
- As part of the existing guidance from the Regulator for Social Housing, rents are permitted to be increased by CPI + 1% each year. However, the Government have intervened for 2023/24 due to the significantly high CPI rate at the present time. To 'protect' existing tenants, whilst balancing the impact on Local Authorities, the Government have set a rent increase 'cap' of 7% for 2023/24.
- Although Council's can set lower increases, this would be a very difficult approach to adopt in terms of the future sustainability of the HRA business plan, given the 'telescopic' impact this would have. Such an impact was experienced when the Government required Councils to reduce rents by 1% over the 4 year period from 2016/17 to 2019/20 that continues to have impact over the long-term life of the business plan.
- Based on the above, the average weekly rent proposed for 2023/24 is **£93.68** (£87.55 in 2022/23)
- After taking into account the various adjustments set out in **Appendix B1** and discussed in more detail later on in this report, there are estimated budget deficits of **£195,548** and **£278,839** in 2022/23 and 2023/24 respectively.
- One approach to reduce these deficits to enable a balanced budget to be set would be to consider reducing an expenditure budget, such as the money that is used for capital investment. However, the Council remains focused on its overall commitment to balance the investment in the existing homes of tenants and building / acquiring homes for local people. It is also important to acknowledge that asking tenants to pay higher rents whilst

reducing the investment in their homes would be a difficult balance to justify and should be avoided as far as is financially possible.

- In light of the above, it is therefore proposed to fund the estimated deficits for 2022/23 and 2023/24 by calling money from HRA balances as an alternative to reducing expenditure.
- HRA General Balances are currently estimated to total **£3.777m** at the end of 2023/24 (after taking account of the use of balances highlighted above) that remains available to support the 30 year Business Plan and associated risks to the forecast.
- The proposed HRA Capital Programme for 2023/24 reflects the commitment to maintain the necessary investment in existing stock as mentioned above.
- HRA debt continues to reduce year on year as principal is repaid with a total debt position at the end of 2023/24 forecast to be **£33.949m,** which also takes into account the refinancing of an historic loan via an internal borrowing approach.
- In addition to requesting comments from the Resources and Services Overview and Scrutiny Committee, it is also proposed to consult with the Tenant's panel during January, with the outcome reported to Cabinet later that month, where the final HRA budget proposals will be considered for recommending onto to Full Council in February 2023.
- In addition to the above, the recommendations also reflect the associated procurement decisions associated with the purchase of a new IT system that supports the efficient / effective administration of the in-house housing repairs function.

RECOMMENDATION(S)

That Cabinet:

a) approves the updated HRA 30 year Business Plan, which includes the proposed revised position for 2022/23 along with budget proposals for 2023/24;

b) requests the Resources and Services Overview and Scrutiny Committee's comments on this latest HRA financial forecast, including the proposed changes in 2022/23 and proposed position for 2023/24; and

c) subject to a) above, agrees to an exemption from the Procurement Procedure Rules along with the associated purchase of the Oneserve IT system covering a period of 3 years from January 2023, to support the effective administration of the housing repairs function.

REASON(S) FOR THE RECOMMENDATION(S)

To enable Cabinet to consider the most up to date HRA Business Plan, which sets out a revised position for 2022/23, along with the proposed HRA budget for 2023/24, for consultation with the Resources and Services Overview and Scrutiny Committee.

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ALTERNATIVE OPTIONS CONSIDERED
Not applicable as this report reflects the budget setting requirements that are set out within the Council's Constitution

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.
OUTCOME OF CONSULTATION AND ENGAGEMENT
N/A

<table>
<tr><th colspan="4">LEGAL REQUIREMENTS (including legislation & constitutional powers)</th></tr>
<tr><td rowspan="2">Is the recommendation a Key Decision (see the criteria stated here)</td><td rowspan="2">Yes</td><td>If Yes, indicate which by which criteria it is a Key Decision</td><td>☐ Significant effect on two or more wards
X Involves £100,000 expenditure/income
☐ Is otherwise significant for the service budget</td></tr>
<tr><td>And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)</td><td>This item has been included within the Forward Plan for a period in excess of 28 days.</td></tr>
<tr><td colspan="4">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</td></tr>
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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. However, the Government have intervened for 2023/24 due to the current level of CPI and will issue a Directive, which sets a 'ceiling' of 7% to rent increases for the upcoming year. Further details, including the impact on the HRA are set out later on in this report.

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. In continuing with the approach agreed last year, given the very challenging administrative issues associated with charging higher rents to high-income tenants, it is not proposed to introduce this in 2023. 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 2023/24 reflects the latest / updated forecast position set out in **Appendix B1.**

YES	**The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:**

Although there are no additional comments above those set out in this report, it is important to highlight that further decisions may be necessary to take actions forward that are reflected in the business plan.

FINANCE AND OTHER RESOURCE IMPLICATIONS

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.

YES	**The Section 151 Officer confirms they have been made aware of the above and any additional comments from them are below:**

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The Section 151 Officer is the co-author of this report.
USE OF RESOURCES AND VALUE FOR MONEY
The following are submitted in respect of the indicated use of resources and value for money indicators:

A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	This is addressed in the body of the report.
B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and	
C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	

MILESTONES AND DELIVERY

This report sets out the most up to date HRA Business Plan and proposed budget for 2023/24 for consultation with the Resources and Services Overview and Scrutiny Committee (RSOSC) in January.

Final budget proposals, taking into account the comments of the RSOSC, will be considered by Cabinet at the end of January 2023, which will include their associated recommendations to Full Council.

In February 2023, Full Council will be asked to consider the detailed HRA Budget proposals for 2023/24 as recommended by Cabinet.

ASSOCIATED RISKS AND MITIGATION

There are significant risks associated with forecasting such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process. These have been brought into even sharper relief given the current challenging economic environment. The Council's initial / short-term response is set out in the body of this report and will continue to be addressed as part of the future financial update reports.

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 **£3.777m** at the end of 2023/24. This is after drawing down money in both 2022/23 and 2023/24 from balances to support the Council through the difficult financial position faced by the Council in the immediate term. The remaining balance continues to be available to support the delivery of the HRA business plan in the medium to longer term.

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.

EQUALITY IMPLICATIONS

See comments below within the *'Other Relevant Considerations or Implications'* section.

SOCIAL VALUE CONSIDERATIONS

See comments below within the *'Other Relevant Considerations or Implications'* section.

IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2030

See comments below within the *'Other Relevant Considerations or Implications'* section.

OTHER RELEVANT CONSIDERATIONS OR 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.

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 and decision making processes will recognise and include such issues where appropriate and relevant.

Whilst this report does not have a direct impact on the Council's commitment to carbon neutrality, any work undertaken within the HRA and associated capital programme will take into account any opportunities to contribute to this key priority where possible. The planned stock condition survey will also support this approach.

Crime and Disorder	Please see comments above
Health Inequalities	
Area or Ward affected	

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The HRA is the Council's landlord account and it is 'ring fenced' for this purpose. Comprehensive rules and requirements surround the HRA such as specific accounting treatment and what items can or cannot be charged to the account. Authorities are required to set a balanced HRA budget each year and agree the level of rents it wishes to charge.

From April 2012, the Housing Revenue Account has operated under the self-financing approach introduced as part of the Localism Act 2011, which required the Council to 'buy' itself out of the previous subsidy arrangements via a debt settlement process.

From 2016/17, the Government imposed annual rent reductions of 1% each year for a period of 4 years. As mentioned earlier, 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 rate of CPI used is the figure for September of the preceding year that the increase will apply to. For 2023/24, the figure for September 2022 was 8.8%. However due to the very high level of inflation at the moment and in light of the cost of living challenges facing households, the Government consulted on ‘capping’ rent increases for 2023/24. In recognising the need to balance the ‘protection’ of existing tenants with the financial sustainability of the housing revenue account, the Government have recently confirmed a rent ‘cap’ of 7% for 2023/24. Although the detailed outcome from the consultation has yet to be published, the Government have indicated that they are be minded to continue with a ‘cap’ in 2024/25 based on current inflation forecasts. This can be considered as part of future financial performance reports once the position is confirmed.

As highlighted within budget reports from previous years, 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 regulatory regime emerging from the Hackett review, which followed the Grenfell fire incident. This is in addition to the national trend of increases in housing disrepair claims made against local authorities. Regardless of this latter point, the Council has always been committed to providing good quality housing whilst also recognising the ambition of building / acquiring new homes for local people. Given the financial issues set out in this report, this balance is becoming increasingly more challenging in the short term.

The Council remains alert to any changes that may be required in managing its housing stock, which are reflected in the 30 year business plan as necessary, with further commentary set out below.

HOUSING REVENUE ACCOUNT UPDATED BUSINESS PLAN, PROPOSED IN-YEAR BUDGET CHANGES FOR 2022/23 ALONG WITH THE PROPOSED BUDGET FOR 2023/24

The latest iteration of the 30 year HRA Business Plan is set out within **Appendix A2.**

Similarly to the General Fund position reported elsewhere on the agenda, many of the issues that will have an impact in 2023/24 are also having an impact in 2022/23. Columns (3) and (6) of **Appendix B1** highlight the changes against the previously reported figures for 2022/23 and 2023/24 respectively. **Appendix B1** also includes a RAG risk rating against each line of the forecast.

The table below sets out the changes proposed in 2022/23 along with additional commentary:

The relevant line of the 30 year Business Plan	Change / Impact in 2022/23 £	Change / Impact in 2023/24 £	Comments
Line 1 - Maintenance	0	296,207	The figure for 2023/24 represents an inflationary uplift along with the annual cost of a new housing repairs IT system that is discussed

			in more detail later in this report. At the present time, the existing budget for 2022/23 is expected to be sufficient to meet the associated costs for the year.
Lines 2 & 3 - Depreciation and the Revenue Contribution to the Major Repairs Allowance	0	137,830	The increase for 2023/24 represents a continuation of an in-house approach that includes additional officer capacity to support the delivery of the capital programme. Similarly to the line above, the existing 2022/23 is expected to be sufficient to meet the various planned activities for the year.
Line 4 - Management Costs	23,870	774,797	These increases primarily reflect the move to charging officer time directly to the HRA rather than from the General Fund via recharges (a corresponding adjustment is therefore highlighted against the recharges line of the budget below). This line of the budget also reflects the increase in estate sweeping which is part of the wider street cleansing contract that is expected to be increased in line with RPI from January / February 2023.
Line 5 - Utilities	141,860	275,756	The increase to this budget reflects the

			continuing / volatile environment of significant energy price increases.
Line 7 - Council Tax in Empty Properties	0	53,788	Although performance in the management of voids has improved over the past year, there continues to be a cost associated with a limited number of long-term voids along with Spendells House until such time as it is redeveloped / occupied.
Line 8 - Debt Management Expenses	3,288	4,734	These reflect small inflationary increases in costs.
Line 9 - HRA Interest Payments on Debt	(29,600)	(69,382)	These changes largely reflect the reduced costs from not refinancing an existing loan of £800k via external finance. Further comments are set out later on in this report.
Line 10 - Principal Repayments on Debt – MRP	(13,330)	(26,667)	
Line 11 - Revenue Contribution to the Capital Programme	0	0	Although there are no proposed changes, it is worth highlighting that within the total contribution of **£613k** set out within **Appendix B1, £281k** was originally set aside to meet the financing costs associated with borrowing to pay for the redevelopment of the Honeycroft site. Although further details are set out later on in this report, it is no longer proposed to borrow money for this project which therefore effectively 'releases' this

			funding for alternative capital investment.
Line 12 - Recharges	120,950	(514,506)	The figures include underlying increases in recharges from the General Fund that reflect increased cost such as employee, utility and other expenditure included within the updated forecast. In terms of 2023/24, this also reflects a 'saving' as Officer time previously charged to the HRA from the General Fund is now being directly charged within the Management Cost line of the budget above.
Total Change / Impact on Expenditure	**247,038**	**933,058**	
Line 13 - Dwelling Rents	0	(431,869)	This reflects a proposed 7% increase – further commentary is set out later on in this report.
Line 14 - Service Charges	0	(28,006)	
Line 15 - Garage Rents	0	(6,249)	
Line 17 - Misc. Income	4,290	4,290	This minor change reflects the outcome of the annual rent review across various non-dwelling properties 'held' within the HRA.
Line 18 - Investment Income	(55,780)	(124,910)	Similarly to the General Fund, recent / forecast increases in interest rates will deliver additional investment income to the HRA in both years.
Line 19 - Capital Receipts	0	6,500	This reflects a lower number of right to buy sales expected during 2023/24.
Total Change / Impact on Income	**(51,490)**	**(580,244)**	

Net Change Impact	**195,548**	**352,813**	

** Although the table above reflects the changes for 2022/23 and 2023/24, the 30 year Business Plan set out in **Appendix B1** includes inflationary uplifts where necessary from 2024/25 onwards along with known changes such as those relating to the repayment of debt and interest charges as they represent fixed costs over the life of the respective loans.*

Some additional commentary against the major items highlighted (including those with a red RAG rating) within **Appendix B1** are set out below.

***Line 1* - Maintenance**

Although an inflationary uplift of just over 10% has been reflected in the forecast for 2023/24, there is the risk that additional inflationary pressures may emerge in the short term. This will remain under review over the next stages of the budget cycle and in-year as part of the regular financial performance reports.

***Lines 2 and 3* - Depreciation and the Revenue Contribution to the Major Repairs Allowance**

This line of the plan represents the capital investment in existing stock that is over and above the more routine maintenance highlighted above. This therefore includes major items such as replacement kitchens, bathrooms, windows and doors etc.

The risk to this line of the plan is not only inflationary pressures, but it also includes potential responses to outcome of the Hackett review that followed the Grenfell Tower tragedy and those associated with any revised ‘decent homes’ standards.

A stock condition survey is planned to be undertaken shortly, which will help shape the forecast going forward.

This issue will be kept under review, but it is recognised that there is a continuing need to balance the focus of maintaining the existing stock with the affordability, scale and speed of other activities such as investing in housebuilding / acquisitions.

To support the investment in the existing homes of tenant’s, further revenue contributions are included in the business plan, which are discussed further on in this report.

***Line 5* - Utilities**

Although at a smaller scale to the issues facing the General Fund, the volatility in energy prices will impact on HRA budgets. Additional estimated amounts have been included in both 2022/23 and 2023/24, which will be kept under review going forward to enable further action to be taken as necessary during 2023.

***Line 13* - Dwelling Rents**

Ordinarily rents would be increased by CPI + 1% in 2023/24 in-line with the position set out by the Regular of Social Housing, which is a policy that covers the period 2020 to 2025.

Given the current high level of CPI, the Government acknowledged that the ‘usual’ increase of CPI + 1% would put considerable pressure on those households living in social housing. As highlighted earlier in this report, the Government have confirmed that they will issue a Directive that will effectively ‘cap’ increases in rent for 2023/24 to 7%.

The figures set out in **Appendix B1** therefore reflect this level of increase. Local Authorities are allowed to set lower increases in rents for the year, but this would add risk to the future sustainability of the HRA given the 'telescopic' impact over the remaining years of the business plan along with the fact that many HRA expenditure lines of the budget are likely to see increases above this 7% limit. It is also important to highlight that this approach also helps the continuation of recovering from the unsustainable 1% reduction in rents over the period 2016/17 to 2019/20 that was imposed by the Government.

Based on the 7% increase, this results in an average rent of **£93.68** (an increase from **£87.55** in 2022/23). After taking account of other adjustments such as estimated void periods and the level of right to buy sales, this will raise additional income of **£0.432m** compared to the figure originally included in year 12 of the business plan (or **£0.796m** over and above the budget for 2022/23).

Although it will only make a marginal difference to the overall level of income receivable, the 7% 'cap' does not apply to new properties or relets during the year as the policy was only designed to 'protect' existing tenants. In such circumstances, the rent will move to the underlying formula rent for the associated property rather than be restricted by the 7% limit.

In line with the increases above, the figures set out within **Appendix B1** also reflect 7% increases in service charges and non-dwelling rents. This approach reflects the underlying cost of providing the associated services and current inflationary increases to expenditure.

In conclusion, the business plan from 2023/24 onwards continues to react to changes in costs / prices, demands on the service, loan refinancing and other timely changes to the forecast.

The following table sets out a summary of the overall HRA position for 2022/23 and 2023/24 after taking into account the adjustments set out above:

	2022/23 **£**	**2023/24** **£**
Estimated Expenditure	14,558,848	15,554,389
Estimated Income	(14,363,300)	(15,280,550)
Net Deficit Position	**195,548**	**273,839**

There is a net deficit forecast in both 2022/23 and 2023/24. As the ability to increase income is subject to restrictions as previously discussed, to meet the statutory requirement of setting a balanced budget, there are therefore two primary options as follows:

1) **Identify corresponding reductions in expenditure –** looking down the various budget lines, there are many areas of the budget where this is more challenging such as loan financing where loans are fixed over a number year or staff capacity, which currently reflects the demands on the service.

   The main area of the budget where reductions in expenditure could be considered is the revenue repairs and capital improvements to the existing homes of tenants.

However, the Council remains focused on the overall commitment to balance the investment in the existing homes of tents and building / acquiring homes for local people. It is also important to acknowledge that asking tenants to pay higher rents whilst reducing the investment in their homes would be difficult to justify and should be avoided as far as is financially possible.

With this in mind, it is proposed to choose the alternative option, which is as follows:

2) **Draw down money from HRA Balances –** Although further details are set out later on in this report, it is proposed to draw down **£195,548** and **£273,839** from the HRA general balance for 2022/23 and 2023/24 respectively.

   This approach strikes the right balance of 'protecting' the investment in tenant's homes whilst recognising the need to use reserves to respond to the very challenging financial environment that the Council currently faces. Is recognised that this is not a sustainable long-term solution, but it enables the Council to meet its key priorities in the immediate term, which can be revisited as part of the HRA Business Plan in future years.

Similarly to the long-term forecast approach taken in the General Fund, the HRA Business plan remains a 'live' process and will be updated accordingly as part of the current budget cycle and during 2023.

Based on current projections, the 30 Year Business Plan is still expected to deliver annual surpluses in the medium to longer term to support the on-going financial viability of the HRA in the years ahead.

<u>HRA Capital Programme</u>

Although a more detailed schedule will be included in the report to Cabinet in January as part of finalising the budget for presenting to Full Council in February, it is not proposed to reduce the existing level of investment in 2023/24 as highlighted earlier.

However, it is worth highlighting the following two key HRA capital projects:

- **The Redevelopment of the Honeycroft Site in Lawford** – the associated procurement process has now been undertaken with the expected overall cost being lower than the expected **£4.000m** mentioned in previous reports. To enable the project to be progressed, a separate report is currently being prepared that is planned to be presented to Cabinet at its meeting in January.

  As discussed earlier in the year, it is no longer proposed to fund this scheme via external borrowing given the likely interest rate 'premium' that would be payable at the present time. It is therefore proposed to fund this project primarily from capital receipts with the potential for a contribution to be made via an external grant. In terms of the latter, discussions with an associated grant funding body remain in progress.

- **The Redevelopment of Spendells House in Walton –** A budget of **£0.600m** was originally included the HRA Capital Programme. However, following a recent procurement exercise, global / national impacts on commodity prices / supply side disruption etc. have resulted in estimated costs increasing to **£1.400m.** For similar reasons set out for the Honeycroft site above, it is proposed to fund the additional costs from capital receipts. A separate report is planned to be included elsewhere on the agenda to enable this project to be progressed. Unlike the redevelopment of the Honeycroft site, the opportunity to seek external funding is not possible, as this scheme relates to the refurbishment of existing stock rather than new units, which appears to be a primary consideration of external grant funding bodies.

Any use of capital receipts will have a knock on impact in terms of future opportunity costs but this can be revisited as part of the development of the forecast and the 30 year HRA Business Plan looking ahead.

Although the above two projects are subject to separate reports, associated changes will be made to the HRA budgets that will be included in the final HRA budget proposals that will be considered by Cabinet / Full Council in January / February (The use of capital receipts at the level proposed are required to be approved by Full Council).

HRA BALANCES / RESERVES

The forecast position for HRA balances at 31 March 2023 and 31 March 2024 will vary over time depending on the outturn positions for 2022/23 and 2023/24 as well as the emergence of other unexpected or unplanned matters that could occur in or across these years.

Based on the updated Business Plan attached, the total HRA reserves are forecast to total **£8.510m** by the end of 2023/24, with the general balances element within this amount being **£3.777m**.

The above figures reflect the proposed call down from reserves of **£195,548** and **£273,839** for 2022/23 and 2023/24 respectively as highlighted earlier in this report.

HRA DEBT

The total HRA debt at the end of 2022/23 is estimated to be **£35.363m.**

With forecast repayments of principal along with the proposed refinancing of an historic loan highlighted earlier, the level of HRA debt at the end of 2023/24 is forecast to be **£33.949m**

With the Government's removal of the HRA debt cap, any future borrowing will need to be considered against the 30 Year Business Plan and underlying prudential code principles.

It is possible to use the Major Repairs Reserve that currently supports the capital programme to pay down historic debt where it is financially advantageous to do so. The total of this reserve is estimated to be **£4.735m** at the end of 2022/23, but a balance needs to be struck between investing in capital projects and tenant's homes and reducing / managing debt repayment costs. Although no adjustments are included within the proposed budget for 2023/24, this option can be revisited in future years of the business plan.

<u>HRA Interest Payments on Debt and Principal Repayments on Debt – MRP</u>

Loans taken out to support the self-financing reforms back in 2012 continue to be repaid each year, with individual loans being completely paid off on a five year cycle that reflects the loan structure agreed at the time. This approach results in lower debt and interest payments from on an on-going basis over the 30 years of the business plan.

As part of previous business plan reviews it was agreed that more historic debt would be considered in future years, especially as it became repayable. Historic debt was traditionally based on 'interest only' type loans, which were 'replaced' as they matured. With this in mind, an historic loan of **£0.800m** matured in 2022/23. However rather than simply refinance the loan with a further external loan, it has instead been refinanced via internal borrowing that takes advantage of the current positive cash flow position of the Council. This reduces interest costs, which has been reflected in the attached business plan. Although no provision has been made to repay the loan off at the present time, the position will be considered in future years along with the other historic HRA loans that were in place before the self-financing reforms to provide a prudent / sustainable approach to managing this debt in the longer term.

OTHER HRA RELATED MATTERS

Although there are no underlying / significant issues to raise at this stage of the budget setting process, it is acknowledged that the Government may reconsider previous housing policy decisions or introduce new housing related initiatives / requirements on local authorities.

As highlighted in an earlier table above, the maintenance budget has been increased to accommodate the cost of new IT system that supports the efficient / effective management of the in-house repairs function. A corresponding annual on-going budget of **£58,000** has therefore been included from 2023 (an initial budget of **£50,000** was included in 2022/23 as part of an earlier decision).

A software system called Oneserve was trialled following a selection process and was implemented for a one-year period in January 2022. Some resource was applied to iron out teething issues in the setup of the system and the project team is augmenting this work with a review of processes in the repairs function and its development.

In considering the next steps following the end of the 12 month period mentioned above, the project team considered options available from other external providers as well as a potential in-house solution that could be developed by the Council's own IT team. The considerations included presentations by suppliers. A visit was also made to a London Borough Council where the team there demonstrated Oneserve's full functionality (having been deployed and jointly developed over a period of years) and how well it served them in undertaking the repair and maintenance of their vast housing stock.

The other software providers investigated were unable to warrant full deployment of a comprehensive system within the timescale of the residual period with Oneserve.

It is worth highlighting that colleagues from the IT and Internal Audit teams have assisted with the research and trialling of a system to support the needs of the Service. In terms of the option of developing an in-house solution, this will be reviewed in future years as it would not have been possible to fully develop a solution set against the timescales highlighted above.

In terms of the Oneserve system, if fully implemented, it will provide a platform for the management of repairs and other works primarily for the housing stock but also for the wider property estate based on the following key functions:

- Holding and making available asbestos and other safety information
- Holding/making available general property information
- Holding/ making available maintenance records

- Providing for the reporting of repair issues by tenants/occupants
- Allocating repairs to external contractors or to in house tradespersons
- Facilitating and recording post inspections
- Facilitating payment of external contractors
- Recording time and materials used by in house tradespeople
- Allocating costs to service areas and budgets
- Holding and making available records of works completed and inspections carried out

These functions are essential to meeting the various challenges facing the housing team and other services. In light of the pressures all Local Authorities will be facing from regulators, who have made it clear that they will more proactively encourage residents to make complaints to drive service improvements, having a robust system that can capture and centralise the relevant data can only benefit the Council in response to complaints, challenges as well as help drive service improvements.

The annual cost to acquire the system is £57,897.50 which includes user licences, data storage, and test site. The proposed approach also responds to improvements and recommendations identified as part of an earlier review by Internal Audit. The costs identified are in line with other specialist systems acquired by the Council.

Taking the above into account, the recommendations included in this report not only seek approval of the HRA Business plan, that includes the cost of the Oneserve System, but also an exemption from procurement rules to enable the system to be purchased for a further 3 year period.

There is also further potential to roll the system out to include public realm service areas at little additional cost because of economies of scale, which will be considered in due course.

PREVIOUS RELEVANT DECISIONS

The last iteration of the HRA 30 Year Business Plan was report to Cabinet on 17 December 2021 with further general updates included in subsequent budget reports and regular financial performance reports.

BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL

None

APPENDICES

Appendix B1 – Updated HRA 30 Year Business Plan

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APPENDIX B

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