

Meeting of the Cabinet – 14th December 2022

Joint Report of the Director of Housing and Communities and the Director of Finance and Legal

Review of Housing Finance

Purpose

1. To present the latest financial forecast outturn for 2022/23 and provisional Medium Term Financial Strategy (MTFS) to 2025/26 (revenue and capital) for the Housing Revenue Account (HRA).
2. To consider:
 - a draft HRA budget for 2023/24 in the light of the latest government announcements on housing finance and our latest spending and resource assumptions.
 - a revised Public Sector Housing capital programme for 2022/23 to 2027/28.
 - rents for council homes with effect from 3rd April 2023.
3. Cabinet is not being asked to make final decisions in relation to paragraph 2. The proposals in this report will be considered by the Housing and Public Realm Scrutiny Committee in January, before returning to Cabinet and Council in February 2023.

Recommendations

4. That Cabinet note the latest HRA outturn forecast for 2022/23 (paragraphs 7 - 11 and Appendix 1).
5. That Cabinet note the proposed budget for 2023/24 and provisional Medium Term Financial Strategy (MTFS) to 2025/26 (paragraphs 12 - 21 and Appendix 2) and the revised Public Sector Housing capital programme for 2022/23 to 2027/28 (Appendix 3);

Background

6. The HRA is a ring-fenced revenue account and deals with landlord functions associated with public sector housing. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.

HRA Outturn Forecast 2022/23

7. The current budget for 2022/23 approved by Cabinet on 17th February 2022 shows a deficit on the HRA of £1.8m at 31st March 2023. This included a 3.99% rent increase. There are now a number of variations expected to the budget and further details are shown in Appendix 1.
8. The balance brought forward from 2021/22 was £6m, compared to the £3.5m originally budgeted. This was reported to Cabinet on 27th June 2022.
9. The original 2022/23 budget and the latest forecast for 2022/23 are shown in the following table. The latest forecast shows a deficit of £3.8m leaving a reserves balance of £2.2m at 31st March 2023 as outlined in Paragraph 11.

	Budget 22/23 £m	Forecast 22/23 £m	Variance 22/23 £m
Total income	-93.4	-92.4	1.0
<u>Expenditure</u>			
Access & Prevention	2.4	2.1	-0.3
Finance	2.3	2.3	0.0
Housing Options	5.4	5.5	0.1
Management & Admin	7.2	7.3	0.1
Tenancy & Estates	7.0	7.0	0.0
Strategy	1.1	0.9	-0.2
Technical adjustments	-2.7	-1.9	0.8
Responsive & cyclical repairs	27.5	29.1	1.6
Depreciation and impairments of fixed assets	25.3	24.1	-1.2
Interest Payable	17.5	17.7	0.2
Other Expenditure	2.2	2.1	-0.1
Total expenditure	95.2	96.2	1.0
Total: surplus or deficit for the year	1.8	3.8	2.0

10. The latest forecast for 2022/23 includes the following key variations to the budget:

- Reduced income due to voids being higher than budgeted, stock profiling and other differences £1.0m.
- Increased management costs due to the proposed pay award. The budget assumed a 2% pay award. The actual pay award is £1,925 on all scale points equating to 7% overall £0.8m.
- Increased borrowing costs due to rising interest rates £0.2m and other staff variances £0.2m due to Interim arrangements and temporary posts.
- Increased revenue repairs and maintenance costs due to inflationary increases, energy prices and pressure on voids £1.0m, offset by reduced depreciation costs due to more capitalised works relating to the fabric of the building and depreciated over a longer period of time -£1.2m.

11. The impact on HRA balances is shown below:

	Budget £m	Latest Forecast £m
Forecast Balance at 31 March 2022	3.5	3.5
2021/22 outturn (as reported to June Cabinet)		2.5
Balance at 31st March 2022	3.5	6.0
Planned use of balances	-1.8	-1.8
Forecast variance against budget 2022/23		-2.0
Balance at 31 March 2023	1.7	2.2

Rent Increase

12. The self-financing system introduced in April 2012 for Housing assumed that rent increases would be in line with government guidance at the time relating to social housing rents: that is, a maximum increase of September CPI plus 1%. September CPI as announced on 19th October was 10.1% which would allow weekly rents to be increased by 11.1% compared to 2022/23 levels.
13. The Government recently conducted a consultation on proposed rent caps for social landlords, the outcome of that consultation was announced in the Autumn Statement and introduced a rent cap increase of 7% for 2023/2024.
14. It is proposed that the full rent increase of 7% is implemented to partly mitigate the impact of inflationary increases on pay, utilities and the cost of borrowing. Paragraph 15 illustrates the impact of a 7% rent increases.

15. The current average rent for 2022/23 is £83.49, the proposed increase of 7% for 2023/24 will move average rents to £89.33 an average increase of £5.84 per week.

Year	Rent increase %	Average weekly rent	Weekly Increase on 22/23
2023/24	+7%	£89.33	£5.84

Medium Term Financial Strategy 2023/2024 to 2025/2026

16. Inflationary pressures are expected to continue into 2023/24, with assumed pay awards of 4% for 2023/24 and 2% thereafter. Borrowing costs are expected to remain high in the short term and utility prices are assumed to increase in line with inflationary increases.
17. The proposed draft HRA budget for 2023/24 to 2025/26 is shown in Appendix 2. This budget is based on implementing the maximum allowed 7% rent increase which would take effect from 3rd April 2023, building in additional resources to meet inflationary pressures.
18. Despite the proposed rent increase of 7% in 2023/24 and an assumed 3% increase in subsequent years, the HRA was expected to have deficits of £2.6m, £3.8m and £5.0m in each year respectively as per the following table.

	23/24 £m	24/25 £m	25/26 £m
2022/23 Base Income	(93.4)	(93.4)	(93.4)
Rent increase (7%, 3%, 3%)	(6.4)	(9.5)	(12.5)
Void level adjustments	0.3	0.4	0.4
Stock profile adjustments	0.8	1.9	2.5
Other income	0.0	0.0	0.0
Base budget forecast income	(98.7)	(100.6)	(103.0)
2022/23 Base Expenditure	95.2	95.2	95.2
Pay Award	2.6	3.1	3.7
Interest rates rise & borrowing	1.0	0.4	0.6
General Inflation	2.5	5.7	8.5
Base budget forecast expenditure	101.3	104.4	108.0
Base budget deficit	2.6	3.8	5.0

19. In order to return the HRA to a surplus and sustainable position, a number of savings and growth proposals were prepared and prioritised before being presented at the HRA budget summit on 22nd November. These proposals are outlined in the following table.

	23/24 £m	24/25 £m	25/26 £m
Base budget deficit (+) / Surplus (-)	2.6	3.8	5.0
Proposed Savings			
Transfers to grants	(0.1)	(0.1)	(0.1)
Transfers to General Fund	(1.3)	(1.3)	(1.3)
Recharges for damages	(0.2)	(0.3)	(0.5)
Increase leaseholder fee	(0.1)	(0.1)	(0.1)
Reduce social decorations	(0.1)	(0.1)	(0.2)
Review garden clearance	(0.2)	(0.3)	(0.3)
Freeze vacancies	(1.0)	(1.0)	(1.0)
Remove Voluntary Repayment of Principal	(0.1)	(0.3)	(0.5)
Introduction of service charges	0.0	(1.9)	(1.9)
Reduce borrowing costs by reducing the existing capital programme	(0.3)	(0.9)	(2.1)
Total Proposed Savings	(3.4)	(6.3)	(7.9)
Additional Spending			
Grounds Maintenance in Communal areas	0.0	0.3	0.3
Cleaning in flatted communal areas	0.0	0.7	0.7
Total Additional Spending	0.0	1.0	1.0
Net Savings and Growth	(3.4)	(5.3)	(6.9)
Revised deficit (+) / Surplus (-)	(0.8)	(1.5)	(1.9)
Balances b/f	2.2	3.0	4.5
Balances c/f	3.0	4.5	6.4

Estimates, Assumptions & Risk Analysis

20. The proposals in this report are based on a number of estimates, assumptions and professional judgements, which are subject to continuous review:
- i. that pay inflation does not vary materially from current forecasts;
 - ii. that cash limited non-pay budgets will be managed so as to absorb any price inflation not specifically provided for in 2023/24 and any inflationary pressures in 2024/25 and 2025/26 will be no more than the amount provided for;
 - iii. that borrowing costs remain within existing forecasts;
 - iv. that government policy on maximum rent increases for 2023/24 will be as announced in the Autumn Statement, and future years will revert back to CPI plus 1%;
 - v. that employer contributions to the Local Government Pension Scheme (LGPS) are in line with the indicative figures provided pending completion of the triennial review;
 - vi. that there will be no material losses to the Council as a result of loans, guarantees and/or grant clawback;
 - vii. that the savings proposals set out in paragraph 19 will be delivered as planned;
 - viii. that there will be no other unplanned expenditure (including any resulting from demographic, legislative or case law pressures) or shortfalls in income, which cannot be met from reserves.
21. The assumptions set out above are subject to uncertainty. In the event that outcomes are more negative than the assumptions in this report, then action (to reduce levels of expenditure or increase income) may become urgent.

Public Sector Housing Capital Programme

22. In February 2022, a five-year housing public sector capital programme was agreed, which reflected enhanced investment using the HRA's new borrowing flexibility. The five-year capital programme was developed based upon the themes set out within the Council's ten year Housing Asset Management Strategy (HAMS) approved by Cabinet in October 2019. The HAMS details the Council's strategic approach to managing and maintaining our properties, whilst also delivering and providing new homes and housing solutions to help meet the projected levels of social housing need.
23. In light of the changing economic climate and the impact of the 7% rent cap announced in the Autumn Statement the HRA capital and revenue budgets are under pressure and consequently the five year capital programme has been reviewed to ensure that planned investment prioritises works which will ensure the safety and quality of our existing homes. The revised capital programme reflecting latest forecasts is shown at Appendix 3.
24. To ensure a viable HRA, the capital programme for 2023/24 to 2025/26 includes a reduction in borrowing which, while reducing revenue spend on interest repayments, requires capital investment in certain elements of the themes within the HAMS to be either reduced or, in some cases, put on hold. In summary, capital borrowing and investment over the next three financial years will prioritise:
- Ensuring regulatory compliance and building safety
 - Ensuring adequate investment in void properties to reduce void loss and meet an acceptable void standard.
25. We will invest, where financially possible, in measures which improve the efficiency of our homes, seeking to reduce fuel poverty and poor energy efficiency.
26. We will ensure that we meet our financial obligations arising out of contractual arrangements with suppliers and, where possible, will seek to honour commitments to match funding.

27. While building new homes provides additional rental income to the HRA, we recognise that we will need to build less new homes that we had planned to in the next three financial years in order to divert capital spend to fund our compliance, repair and housing quality priorities and obligations.
28. While we retain our aspirations to build new homes, remodel existing stock and invest in community improvements, we cannot do this at the detriment of our priorities set out above so while we will continue to plan for investment on new homes and remodelling, we do so recognising that these plans will be put on hold until investment in our priorities is complete or until we are in a position to increase borrowing to widen out our capital programme and realign it with the themes within our HAM.
29. Grant funding will be accessed where possible to support investment. The Council continues to be qualified as a Homes England Investment Partner and is also qualified to participate in the new Affordable Homes Programme 2021 – 26.
30. The proposed five year capital programme at Appendix 3 sets out a reduced capital programme developed in line with these principles. The financial consequences to the HRA revenue budget have also been factored into our Medium Term Financial Strategy.
31. The proposed capital programme continues to follow the principles approved in February 2022 and reflects the priorities of the Council Plan, and the Housing Asset Management Strategy 2019 – 2029, while acknowledging the need to have a more targeted approach to capital investment reflecting the reduced borrowing capacity. A revised capital programme reflecting latest forecasts is shown at Appendix 3.

Finance

32. This report is financial in nature and relevant information is contained within the body of the report.

Law

33. HRA finances are governed by Section 74-78B and 85-88 in Part IV of the Local Government and Housing Act 1989. Sections 167-175 in Part VII of the Localism Act 2011 abolish the HRA Subsidy system (Sections 79-84 in Part IV of the Local Government and Housing Act 1989) and introduce self-financing. The HRA also has to be mindful of the Department of Levelling Up, Housing and Communities guidance on the operation of the HRA ring-fence published in November 2020.

Risk Management

34. The Corporate Risk Register recognises the risk that the Council may be unable to set and/or manage its budget so as to meet its statutory obligations within the resources available. Uncertainty around inflation, interest rates, and rent cap consultation could have a significant impact on the Councils ability to provide landlord services. In view of the worsening outlook, this risk has been elevated to the maximum rating of 25 (Extreme). The forecasts and proposals in this report improve the outlook. However, significant risks and uncertainties remain. The risk rating will be reviewed in due course once the budget proposals have been finalised.

Equality Impact

35. The proposals take into account the Council's Policy on Equality and Diversity and Equality Impact Assessments will be completed as required where changes to service provision are proposed.
36. This is a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure are intended to promote independence and improve quality of life for protected groups.

Human Resources / Organisational Development

37. The employers' flat rate pay offer is (in percentage terms) more valuable at the bottom end of the scale than at the top end, reflecting the fact that the cost of living crisis impacts most severely on low income households.

Commercial / Procurement

38. This report relates to our statutory functions as a social housing landlord and there are no direct commercial implications.

Environment / Climate Change

39. Individual projects and major schemes are assessed for their environmental impact before they commence. The Council is committed to addressing United Nations Sustainable Development Goals including those relating to poverty, health and wellbeing and reducing inequalities.

Council Priorities and Projects

40. This report relates to our statutory functions as a social housing landlord and will contribute to the health, wellbeing, and safety of our tenants. The report supports our aims for Housing summarised in the Council Plan:

- the provision of excellent services for tenants
- offering high quality housing
- supporting vulnerable people

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List of Background Papers - none

Appendix 1

HRA Budget and Forecast 2022/23

	Original Budget 2022/23 £m	Latest Forecast 2022/23 £m	Forecast Variance 2022/23 £m	Comment
Income				
Dwelling rents	-91.0	-89.8	1.2	Higher void losses budgeted 1.8%, actual 2.4% £0.6m, stock profile differences: 62 Properties not in management £0.3m, other £0.3m
Non-dwelling rents	-0.9	-0.7	0.2	Reduced telecoms income
Charges for services and facilities	-0.2	-0.2	0.0	
Contributions towards expenditure	-1.3	-1.5	-0.2	Increased volume of leaseholder recharges
Interest on balances	0.0	-0.2	-0.2	Increased interest rates 0.5% budgeted, 1.5% actual
Total income	-93.4	-92.4	1.0	

	Original Budget 2022/23 £m	Latest Forecast 2022/23 £m	Forecast Variance 2022/23 £m	Comment
Expenditure				
Access & Prevention	2.4	2.1	-0.3	Pay award pressure £0.1m, offset by vacancies (£0.1m) Recharges for GF services (£0.3m)
Finance	2.3	2.3	0.0	Vacancies (£0.1m) offsetting pay award impact £0.1m
Housing Options	5.4	5.5	0.1	Temporary staff pressures £0.1m, pay award pressures £0.3m partially offset by vacancies and other savings (£0.2m)
Management & Admin	7.2	7.3	0.1	Interim costs £0.1m
Tenancy & Estates	7.0	7.0	0.0	Vacancies (£0.3m) offsetting pay award pressure £0.3m.
Strategy	1.1	0.9	-0.2	Vacancies (£0.2m)
Technical adjustments	-2.7	-1.9	0.8	Staff turnover Savings not realised.
Responsive & cyclical repairs	27.5	29.1	1.6	Increased major repair costs £1m and voids costs £0.8m partially offset by compliance repairs savings (£0.2m)
Depreciation and impairments of fixed assets	25.3	24.1	-1.2	Nature of capital works reviewed and depreciated over a longer period of time.
Interest Payable	17.5	17.7	0.2	Increasing interest rates 0.5% budgeted, 1.5% actual
Other Expenditure	2.2	2.1	-0.1	Pension recharge lower than budgeted
Total expenditure	95.2	96.2	1.0	
Surplus (-)/ Deficit (+) in year	1.8	3.8	2.0	

Appendix 2

HRA Draft Budgets for 2023/24 to 2025/26

	2023/24 £m	2024/25 £m	2025/26 £m
<u>Income</u>			
Dwelling rents	-96.2	-98.2	-100.5
Non-dwelling rents	-0.8	-0.8	-0.8
Charges for services and facilities	-0.2	-2.2	-2.2
Contributions towards expenditure	-1.1	-1.2	-1.4
Interest on balances	-0.1	-0.1	-0.1
Total income	-98.4	-102.5	-105
<u>Expenditure</u>			
Access & Prevention	0.1	0.1	0.1
Finance	2.5	2.6	2.7
Housing Options	5.6	5.7	5.8
Management & Admin	8.1	8.3	8.4
Tenancy & Estates	6.9	8.1	8.2
Strategy	1.2	1.2	1.3
Technical adjustments	-1.5	-1.0	-0.6
Responsive and cyclical repairs	28.7	29.4	30
Depreciation and impairments of fixed assets	25.7	26.2	26.7
Interest payable	17.7	17.9	18
Revenue contribution to capital expenditure	0	0	0
Other expenditure	2.6	2.5	2.5
Total expenditure	97.6	101	103.1
Surplus (-) / Deficit (+) in year	-0.8	-1.5	-1.9
Surplus brought forward	-2.2	-3.0	-4.5
Surplus carried forward	-3.0	-4.5	-6.4

Appendix 3

Proposed capital programme 2022/23 to 2027/28

Thematic Programme	2022/23 latest £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Maintaining Existing Homes	13.4	14.7	14.2	14.3	13.8	16.0
Major Works to Empty Homes	10.8	9.1	9.4	9.7	10.0	10.3
Building Safety	3.2	6.0	4.5	4.5	3.9	2.8
Independent Living	16.1	5.1	4.0	3.0	3.0	3.0
Energy, Decarbonisation and Fuel Poverty	7.1	4.4	4.0	4.0	4.0	4.0
Community and Estate Improvements	2.8	1.8	1.4	1.4	1.4	1.4
New Council Housing	8.3	17.5	12.5	5.8	9.8	7.3
Strategic Asset Management	0.5	1.2	0.8	1.4	0.9	0.9
Total	62.2	59.7	50.8	44.1	46.8	45.9

Resources

	2022/23 latest £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing	0.0	8.0	6.0	0.0	0.0	0.0
Major repairs reserve	23.9	25.5	26.0	26.5	27.1	27.6
Usable capital receipts	31.5	22.6	17.2	16.1	18.7	17.2
Other (grants)	6.8	3.6	1.6	1.5	1.1	1.1
Grand Total	62.2	59.7	50.8	44.1	46.8	45.9