

Title: Housing Revenue Account (HRA) Budget 2023/24 and Housing Rents Setting Report

Lead Officers: Lisa Barker & Victoria Bamber

Portfolio Holder: Councillor Matecki

Wards of the District directly affected: All

Approvals required	Date	Name
Portfolio Holder	26/01/2023	Councillor Matecki
Finance	31/01/2023	Victoria Bamber/ Steven Leathley
Legal Services	N/A	N/A
Chief Executive	31/01/2023	Chris Elliot
Programme Director for Climate Change	N/A	N/A
Head of Service(s)	31/01/2023	Lisa Barker
Section 151 Officer		Andrew Rollins
Monitoring Officer	31/01/2023	Andrew Jones
Leadership Co-ordination Group		
Final decision by this Committee or rec to another Cttee / Council?	Recommendation to: Council	
Contrary to Policy / Budget framework?	No	
Does this report contain exempt info/Confidential? If so, which paragraph(s)?	No	
Does this report relate to a key decision (referred to in the Cabinet Forward Plan)?	Yes, 2023/24 Budget Setting Report	
Accessibility Checked?	Yes	

Summary

The report informs Members on the Council's financial position for the Housing Revenue Account, bringing together the latest and original Budgets for 2022/23 and 2023/24. The report presents a balanced budget for 2023/24.

The report makes recommendations to members in respect of Council tenant housing rents, garage rents and other HRA charges for 2023/24.

Recommendations (1-10) to Council

- (1) That Cabinet approves the proposed increase to rents for all Social & Affordable tenanted dwellings (excluding shared ownership) for 2023/24 in line with the Chancellor of the Exchequer's one year 7% Rent Cap announced in the Autumn Statement on 17th November 2022 in place of the usual National Rent Policy increases, as detailed in section 1.1
- (2) That Cabinet approves that Shared Ownership tenanted dwelling rent increases are Voluntarily capped at 7% for 1 year in line with advice from the National Housing Federation.
- (3) That Cabinet notes that the HRA Social dwelling rents for all new tenancies created in 2023/24 continue to be set at Target Social (Formula) Rent for Social rent properties.
- (4) That Cabinet notes that the HRA Affordable dwelling rents for all new tenancies created in 2023/24 continue to be set at the standard National Affordable rent level.
- (5) That Cabinet notes that any new shared ownership tenancies will continue to adopt lease agreements based on the existing Housing & Communities Agency (HCA) template lease with rents increased by RPI + 0.5% annually.
- (6) That Cabinet approves that garage rents for 2023/24 continue to be increased by 10% per year.
- (7) That Cabinet Approves the new Temporary Accommodation rent review noted in 1.5
- (8) That Cabinet approves the proposed changes to the 2023/23 budget as detailed in section 1.33
- (9) That Cabinet approves the proposed 2023/24 revenue budget, as detailed in section 1.41
- (10) That Cabinet notes the Sheltered Housing Heating, Water and Lighting recharges for 2023/24, (Appendix 4).
- (11) That Cabinet approve the delegation of authority to the Head of Finance in consultation with the Head of Housing and the Portfolio Holders for Housing, and Resources to agree to enter into a Memorandum of Understanding with the Department of Levelling Up, Homes and Communities (DLUCH) for the purchase of 21 properties as part of the Local Authority Housing Fund noting that a full viability appraisal will be included in a report to be submitted to March's Cabinet Meeting.

1 Reasons for the Recommendations

1.1 Social Rent Setting and National Rent Policy

- 1.2 From April 2020, a new national rent policy came into effect, which included the ability for Councils to increase rents annually by up to CPI (at September) + 1% per annum. The Council would have increased rents for Social and Affordable rent dwellings by CPI at September 2021+ 1% which was 10.1% +1% with the total rent increase being 11.1% from April 2023.
- 1.3 However, after a short consultation, in the Autumn Statement on 17th November 2022 the Chancellor of the Exchequer announced a one year 7% Rent Cap would be applied in the place of the National Rent Policy using a Direction to the Regulator of Social Housing and advised this would support people in social & affordable housing in England with the cost of living crisis by limiting the increase in their rents
- 1.4 Details of current rents and those proposed because of these recommendations are set out in Appendix 1. It is noted that from April 2016 Target Formula rents are applied when a dwelling becomes void and re-let, existing tenancies prior to this policy change, continue under the historic rent regime with inflation linked in line with national rent policy. Appendix 1 contains the average rents for both Target Formula Rent and Historic Rent policy dwellings.
- 1.5 A comparison of the Councils proposed 2023/24 rents to Local Market Rents, National Formula Rent Caps and Local Housing Allowance Rents is set out in Appendix 2. The Councils Social Rents are 41% lower than the Local Average Weekly Market Rent. This means that the Council's housing service reduces the cost of living for tenants, allowing more money to be spent in the wider economy and reducing the social welfare costs of helping lower income tenants afford their rent.
- 1.6 From April 2016 landlords were permitted to set the base rent as the Target Social Rent (also known as Target Formula Rent) for new Social tenancies. These tenancies are subject to agreed rental policy to comply with the Welfare Reform and Work Act 2016.
- 1.7 The Council adopted the policy to introduce Target Formula Social Rents on new tenancies issued upon a dwelling becoming void and re-let. This phased approach equates to approximately 400 dwellings per year transferring from the prior social rent policy to Target Formula Rents. Existing tenancies commencing prior to April 2016 will remain on the prior rent policy with rents being inflated by the 7% Rent Cap for 2023/24 and thereafter CPI+1 in line with Target Social Rents Dwellings.
- 1.8 **New Affordable Housing Tenancies**
- 1.9 New Affordable Housing tenancies within the HRA will continue to have their rents set in line with the National Affordable Housing Rate which is 80% of the Local Market Rent in line with planning permission and grant approvals from Homes England.
- 1.10 Prior to 2020 existing Affordable Housing tenancies were set at a special "Warwick Affordable Rent" which was a mid-point between Social and affordable rent. Any existing historic tenancies will continue to pay "Warwick Affordable" rents for the remainder of their tenancy to ensure there are no negative financial implications for existing tenants.

- 1.11 Affordable rents and 'Warwick Affordable' rents are usually inflated in line with national rent policy at CPI (at September) + 1%. CPI at September was 10.1% and so with the total rent increase would have been 11.1% from April 2023 but for 2023/24 will also be capped at the new one year only 7% rent cap
- 1.12 **Shared Ownership**
- 1.13 Shared owners purchase a percentage of the property from the Council and are required to pay rent on the proportion of their home which they do not own
- 1.14 The shared ownership properties' rent increases are not governed by National Rent Policy instead, the Council adopted the Homes England (previously the Homes and Communities Agency - HCA) template lease agreement which includes a schedule on rent reviews. Schedule 4 of the lease agreement determines that the rent will be increased by RPI (at November) + 0.5% from April each financial year
- 1.15 RPI at November 2022 was 14% +0.5% would have meant the total rent increase being 14.5% from April 2023. In comparison to November 2021, RPI was 7.1%+0.5% totaling 7.6%.
- 1.16 The National Housing Federation commissioned Anthony Collins Solicitors LLP to publish an advice note on the "Implementing a cap on Shared Ownership rent increases" In this document that was circulated to Registered Social Housing Providers it states the Government had no intention of compelling Registered Social Housing Providers to limit rent increases for shared owners but does have some expectation that Social Landlords across the sector will treat shared owners in a similar manner to the Social and Affordable Housing and DLUHC.
- 1.17 Where shared ownership properties have been purchased using relevant Grant Funding from Homes England, then there is an additional requirement to seek permission from Homes England to cap the Rent at 7% for one year only in place of the Homes England Lease Terms of RPI+0.5%. Permission must be sought as the Rental increase of RPI +0.5% is a condition of the Shared Ownership Affordable Housing Program Grant Agreement, however as social Housing Providers are collectively requesting to undertake a Voluntary 7% Rent Cap seeking permission should not be a problem as Homes England are aware of this likely outcome.
- 1.18 The Council will continue to use lease agreements based on the existing HCA template lease for all new shared ownership tenancies which will be increased annually by RPI+0.5%.
- 1.19 **Garage Rents**
- 1.20 Garage rent increases are not governed by national guidance. In 2020/21 as part of the HRA Rent Setting Report, Cabinet approved garage rents to be increased by 10% per year over a 5-year period with following years being inflated by CPI. The Council does not have a formal policy for the setting of rents for garages, but the points below contributed to the decision to increase the rents.
- 1.21 Two different rent charges apply to garages depending upon whether the renter is an existing WDC tenant or not. There are also parking spaces and cycle sheds which are charged for.

- 1.22 Market Research shows that in the private sector, garages are being marketed in the district with rents ranging from £40-£85 per month (local market valuations last reviewed January 2021). The average monthly rent for a Council garage is currently £46.71.
- 1.23 The Garage Rents have increased by 10% per year from April 2021. For 2023/24, a tenant's weekly charge will increase on average by £1.08 per week from £11.86 to £13.04. Non-tenants also pay VAT on the charge, so VAT inclusive rates will increase by £1.42 per week, from £14.23 to £15.65. There are a number of Garages of non-conventional size which are charged varying rates, these rents will also be increased by 10%.
- 1.24 **HRA Dwellings being Leased to the General Fund for Temporary Accommodation**
- 1.25 The HRA owns a number of dwellings that are sub-leased to the Councils General Fund to be used as Temporary Accommodation. The reason for the dwellings being sub-let is that Homelessness is a General Fund function and must be financed separately from the HRA Ringfence which means the HRA cannot cross subsidise General Fund costs and vice versa in line with legislation.
- 1.26 The way the Lease financing works is that the HRA charge the General Fund an annual lease charge based on the weekly rent that would be charged for a Temporary Accommodation Dwelling. The General Fund temporary accommodation team allocate the temporary accommodation tenants and charge them rent which is then collected and paid into the General Fund. At year end an internal transfer of this rent is made by the Accountancy Team to enable the General Fund to transfer enough Rent to the HRA to pay for the annual lease charge.
- 1.27 Most of the Temporary Accommodation rent is funded by tenants claiming Housing Benefit due to the nature of the service.
- 1.28 During the 2021/22 Social Housing Rent Regulator's inspection of the HRA Rents It became apparent that the HRA dwellings being sublet to the general fund as Temporary Accommodation were deemed to have low rents. Although Temporary Accommodation falls outside of the Social Rent Regulators Remit, it was stated that it is good practice to have an annual rent review in place and a firm inflation policy adopted where the HRA owns the stock being sub-let to the General Fund.
- 1.29 There is no official national rent policy where Temporary Accommodation is concerned as providers vary greatly across the sector from B&B's, Hotels, Private Landlords, Local Authorities and Housing Associations so one flat rate of rental inflation has not been legislatively applied to this sector.
- 1.30 It is proposed that during the 2023/24 financial year a full review of the HRA Temporary Accommodation Rents is completed to comply with the Social Rents Regulator's suggestions, and consultation will need to take place with the Local Benefits Office.
- 1.31 The lease agreements between the HRA and General Fund would be updated to factor in these new revised rents and an annual agreed inflation policy will be implemented.

- 1.32 It is not expected that this review of Temporary Accommodation Rents will generate any more income for the General Fund or HRA and should not negatively impact tenants due to the short-term nature of the service. The rent review and policy update will demonstrate good practice.
- 1.33 **HRA Revenue Budgets 2022/23 latest and 2023/24 base**
- 1.34 The Council is required to set a balanced budget for the HRA each year, approving the level of rents and other charges that are levied. The Executive makes recommendations to Council that take into account the base budgets for the HRA and current Government guidance on national rent policy.
- 1.35 Appendix 3 summarises the adjustments from 2022/23 base budgets to the 2022/23 latest budgets and 2023/24 base budgets.
- 1.36 The Housing Investment Programme (HIP) is presented as part of the separate February 2022 report 'Revenue and Capital Budget 2023/24'. The recommendations will enable the proposed latest HIP to be delivered and contribute available resources to the HRA Capital Investment Reserve for future development whilst maintaining a minimum working balance for the HRA of at least £1.5m plus annual inflation in line with Council policy.
- 1.37 The dwelling rents projected income has been adjusted to take account of the loss of rent resulting from actual and anticipated changes in property numbers and changes based on the number of actual and forecast Right-To-Buy sales and acquisitions.
- 1.38 The following table summarises the figures in Appendix 3 and shows how the latest 2022/23 HRA budget has been calculated and how this has changed from the original 2022/23 approved budget:

	£
Original Approved Net HRA Operational Income Surplus 2022/23	(8,795,400)
Net Increase in Expenditure (Recharges Adjustment?)	4,059,100
Net Increase in Income	0
Latest Net HRA Surplus 2021/22	(4,736,300)

- 1.39 **Key drivers of the increase in Expenditure budgets include:**
- An increase of £1,355,400 in HRA Repairs and maintenance costs caused by increased inflation on contracts and new budget requirements for emergency works
 - An increase of budget for an Earmarked Reserve Approval of £119,400
 - An increase of £955,000 being charged to Supervision & Management – General which consist of increased Gas and Electricity Costs, inflation on contracts and staff costs and a revision of the GF Recharges to the HRA budget was approved mid-year in the Q1 Finance Report presented to Cabinet which has increased the charges made to the HRA

- An increase of £906,900 being charged to the Supervision & Management – Special budget line which is linked to the revision of the GF Recharges to the HRA budget, approved mid-year in the Q1 Finance Report presented to Cabinet, which has increased the charges to the HRA
- A £722,400 increase on interest to be paid on Borrowing Costs for new Development Schemes for new Dwellings due to the timing of the borrowing being taken by the Council

1.40 As a result of the above variations to the 2022/23 HRA budgets, the forecast contribution to the HRA Capital Investment Reserve for the year will be £281,000.

1.41 HRA Revenue Budgets 2023/24 base

1.42 In determining the 2023/24 Base Budget, the over-riding principle is to budget for the continuation of services at the agreed level. The following adjustments need to be made to the 2022/23 Original Budgets:

- Removal of any one-off and temporary items
- Addition of inflation (contractual services and pay only)
- Addition of previously agreed growth items
- Addition of unavoidable growth items
- Inclusion of any identified savings

1.43 The table below summarises the figures in Appendix 3 and shows how the 2023/24 HRA base budget has been calculated.

	£
Original Approved Net HRA Surplus 2022/23	(8,795,400)
Net Increase in Expenditure	4,994,800
Net increase in Interest on Borrowing	1,678,200
Net Increase in Income	(1,908,700)
Original Net HRA Surplus 2023/24	(4,031,100)

1.44 Key drivers of the change in Expenditure budgets include:

- A net increase in Expenditure from General Supervision & Management of £4,994,800 consisting in the main of:
- An increase of £2,083,400 in HRA Repairs and maintenance costs caused by increased inflation on contracts and new budget requirements for emergency works
- An increase of £1,773,400 being charged to Supervision & Management – General which consist of increased Gas and Electricity Costs, inflation on contracts and staff costs and a revision of the GF Recharges to the HRA budget, approved mid-year in the Q1 Finance Report presented to Cabinet, which has increased the charges to the HRA
- An increase of £1,138,000 being charged to the Supervision & Management – Special budget line which is linked to the revision of the GF Recharges to the HRA budget, approved mid-year in the Q1 Finance Report presented to Cabinet, which has increased the charges to the HRA

- £1,678,200 Increase in Interest on Balances Costs due to a change in treasury policy from internal borrowing for additional HRA borrowing for Development schemes changed to external borrowing from the PWLB and this increase is the estimated interest cost on borrowing in real terms.
- A £1,908,700 increase of HRA dwelling and Garage rents as per Rent Policy and Inflation.

- 1.45 A number of assumptions have been made in setting the budgets for 2023/24 as follows.
- 1.46 Inflation has been applied in line with specific guidance for each expenditure type, for instance the Gas and Electricity inflation has been advised by ESPO the Commercial Energy Broker that the Council buys its energy from. The Russian War with Ukraine has caused utility costs to increase by huge and unexpected amounts. Price Caps were implemented by central government to protect consumers and businesses from these extreme price rises but because ESPO Broker affordable contracts for the Council the Caps are a lot higher than the actual usage so are not able to be applied. In real terms the increases have meant that from October 2022 the Electricity cost has doubled, and from April 2023 the Gas cost has quadrupled. Further increases are expected on electricity in October 2023 of another 30% increase on electricity and in April 2024 also 30% increase on gas on top of the previous increases. This increased cost is included in the Supervision and Management part of the Budget Appendix 3.
- 1.47 Other inflation factors such as for the major works has been inflated at between 10-14% depending on the contract, Staff costs have been inflated in line with the National Local Government 2-year Pay agreement and where there are no clear inflation factor % a 4% estimate has been applied to general budgets where applicable which is an increase from 2% used in previous years.
- 1.48 Rents - The base rent budget in this report is a baseline calculated from the 7% Rent Cap assumptions as noted in paragraphs above. This Cap has meant that the rental income has not been increased at the same rate as corresponding inflation. Although increased rents higher than the 7% Cap would have been a further financial demand on tenants, in real terms the Rent Cap has meant that the increased income does not cover the costs of the increased inflation on other operation costs. If rents were inflated by national rent policy then income increases of approx. £3m would have been anticipated but the 7% cap has meant an increase of only £1.9m. Considering that the inflation on costs has increased by £6.6m in section 1.17.2 there is a £4.7m gap between the two figures.
- 1.49 Growth / Income Reductions from unavoidable and previously committed growth have been included in the Base Budget.
- 1.50 HRA Capital Investment Reserve - Any HRA operational surplus above the amount required to maintain the appropriate HRA working balance of

£1.5m is transferred into the HRA Capital Investment Reserve (CIR) to be used on future HRA capital projects. If the costs increase to the point that there is a requirement to draw money out of the CIR then this is noted in the same place in the budget appendix 3. The 2023/24 Base Budget required £268,500 contribution from the reserve into the HRA Operating budgets to enable the budget to be balanced, this means that there are no top ups being paid into the HRA CIR in 2023/24.

- 1.51 The Current Balance of the HRA CIR is £29.206m but there are numerous demands on this reserve particularly from new build development schemes, Climate Change and Fire Safety works. The CIR is also being used to support the Major Repairs Reserve as that has been used in full in recent years to support the ongoing improvement works on the Councils Housing Stock. The full impact of having to drawdown from the HRA CIR will be documented in the forthcoming HRA Business Plan Report being presented to March Cabinet but in future years budgets will need to be adjusted to ensure that there are sufficient surpluses to enable the HRA CIR to continue to be topped up.
- 1.52 Notional Interest budgets have been removed in 2023/24 as they are no longer required by CIPFA Accounting Rules, previously they were charged and reversed out to represent the cost of tying up resources in the HRA assets.
- 1.53 **Sheltered Housing Heating, Water and Lighting recharges for 2023/24**
- 1.54 Costs for electricity, gas, water, and laundry facilities are provided at some sheltered housing schemes and are recovered as a weekly charge. These utility charges are not eligible for Housing Benefit. Tenants are notified of these charges at the same time as the annual rent increase. Appendix 4 contains the charges for 2023/24 which will commence on the 1st April 2023.
- 1.55 A policy of full cost recovery was adopted in the report to Cabinet "Heating, Lighting and Water Charges 2018/19 – Council Tenants' on 7th February 2018." Recharges are levied to recover costs of electricity, gas, and water supply usage to individual properties within one of the sheltered and the five very sheltered housing schemes.
- 1.56 The costs of maintaining communal laundry facilities are also recharged at those sites benefitting from these facilities under the heading of miscellaneous charges.
- 1.57 Utility costs are reviewed in line with Council contracts to ensure affordability. The gas and electricity used to deliver communal heating and lighting is supplied under the provisions of the Council's energy supply contracts. Other measures such as installing Photovoltaic cells (solar panels) at James Court, Tannery Court and Yeomanry Court in April 2012 assist with reducing tenant's costs with the electricity generated reducing consumption from the national grid.

- 1.58 The charges necessary to fully recover costs for electricity, gas, water, and laundry facilities in 2023/24 are calculated annually from average consumption over the last three years, updated for current costs such as average void levels, Solar panel feed in tariff income, Biomass Boiler feed in tariff subsidy and adjusted for estimated inflation for the forthcoming year. The use of a 3-year adjusted average ensures that seasonal and yearly variations are reflected in the calculation.
- 1.59 The cost of gas and electricity has increased due to the Russian War and Cost of Living Crisis. The Councils electricity Contract was Renewed in October 2022 and the gas contract is to be renewed in April 2023. As part of these contract renewals inflation of 100% on top of current electricity cost has been advised and inflation on 200% has been advised on gas, meaning electric has doubled in cost and gas has tripled.
- 1.60 To protect the general public from the huge increases in energy costs the Government implemented an Energy Price Guarantee which protects customers from increases in energy costs by limiting the amount suppliers can charge per unit of energy used. It currently brings a typical household energy bill in Great Britain for dual-fuel gas and electricity down to around £2,500 per year.
- 1.61 With the Councils ESPO Contract increases the total charges to be paid by Sheltered Housing Tenants for their energy is below this Cap as noted in Appendix 4. Depending on the location and the number of bedrooms in the dwelling the total annual bills range from £608.40 - £1583.40 which at the top end of this range is £916.60 less than the £2,500 Energy Price Cap.
- 1.62 This 3-year average cost calculation will shield tenants to some extent from the huge increases in gas and electricity bills which have been experienced in the current financial year, but costs are likely to increase in the next financial year as the second year of increased costs will increase the 3-year average cost unless energy costs start to decrease.
- 1.63 The total cost to the Council in 2023/24 has been calculated at £323,181 for Electricity, Heating, Lighting and Laundry and £37,352 for Water. This will be recovered by being recharged to the tenants of applicable Sheltered Housing Schemes with the service charges being itemised on Appendix 4.
- 1.64 **Local Authority Housing Fund**
- 1.65 DLUHC has advised that it is able to award up to a total of £2,820,431 in Grant Funding to Warwick District Council to purchase 21 Dwellings.
- 1.66 The objective of the funding is to ensure arrivals on Afghan and Ukraine resettlement schemes are provided with sufficient longer-term accommodation and relieve the increased pressures on local authority homelessness and housing resources. Of this funding £2,268,600 is allocated to 19 of these homes; and an additional £551,831 in funding, referred to as "bridging funding" is to purchase 2 larger 4-bedroom properties to support households currently residing in bridging accommodation. The level of grant is 40% for the 19 properties and 50% for the 2 x 4-bedroom properties.

- 1.67 It is anticipated additional match funding from the HRA of approximately £3,954,731 would be required to support the purchases. A full viability appraisal of the scheme will be completed and will be included in a further Cabinet report to be submitted at March's Meeting. It is anticipated the total Scheme costs will be approximately £6,775m including Grant and additional Funding.
- 1.68 The funding would be granted under section 31 of the Local Government Act 2003 and is programmed to be spent by November 2023. A "validation form" was required to be submitted by 25 January 2023 clarifying that the programme aims can be met, and a Memorandum of Understanding by 1 March 2023, authorised by the s151 officer."

2 Alternative Options

- 2.1 The purpose of this report is to produce budgets as determined under the requirements of the Financial Strategy, in line with current Council policies. Any alternative strategies will be the subject of separate reports.
- 2.2 **Garage Rents** - The Council has discretion over the setting of Garage rents. It would be possible to set Garage rents higher than those proposed to maximise income; however significantly higher rents may make Garages harder to let and so reduce income. Similarly, rents could also be reduced but this would reduce income to the HRA Budget when it is needed.
- 2.3 **Dwellings** - The Council does have the discretion to decrease rents for existing tenants. However, following the negative impact of the previous rent policy of a four-year fixed -1% rental income reduction and the negative impact of the Covid-19 Pandemic and now the 7% rent cap not matching inflationary operational costs any decreases would further reduce the level of income for the HRA, which in turn could impact upon the viability of future projects and business requirements.
- 2.4 **Shared Ownership** - The Council does not have the discretion to change the rent schedule for existing shared ownership dwellings without permission from Homes England, which is determined by the existing terms of the lease. As noted above permission to apply the 7% Rent Cap will be sought.

3 Legal Implications

- 3.1 The proposals are in line with current legislation where applicable.

4 Financial

- 4.1 The HRA is a key component of the Council's budget framework and the budgets proposed are in accordance with the long term HRA Business Plan. The gross increased income generated from inflating rents in line with Governments one year only 7% Rent Cap in place of National Rent Setting Policy in relation to, Social Rents, Affordable Rents, Shared Ownership Rents, and the other increases such as Garage Rents, and service charges is estimated as a total budget growth of £1,908,700 as noted in Appendix 3.
- 4.2 The recommended budgets maintain the minimum working balance of approximately £1.5m on the HRA expected under current Council policy, increasing by inflation each year. This minimum balance is separate to any

contributions to the HRA Capital Investment Reserve (HRA CIR) or the Major Repairs Reserve, all of which can be seen in the HRA Budget Appendix 3

- 4.3 The HRA Business Plan will be presented to March Cabinet 2023 and will be reviewed throughout 2023/24 to take account of the changes proposed through the budget setting process and outlined within this report, and also subsequent changes to national policy or adjustments needed to reflect changes to existing spending priorities throughout the year.

5 Business Strategy

- 5.1 **Health, Homes, Communities,** The HRA budgets provide the necessary resources to enable tenants' needs to be met and support improvement of services relating to Council Housing Stock.
- 5.2 **Green, Clean, Safe,** setting sufficient budgets and planning for the future ensures the business plan remains viable to meet service provision and provide a safe environment for residents.
- 5.3 **Infrastructure, Enterprise, Employment,** Better return/ use of our assets. Full Cost accounting continued cost management. Seek best value for money. Ensuring that the HRA is able to set a balanced budget whilst maintaining service provision.
- 5.4 **Effective Staff,** in line with the recent Housing restructure all staff are properly trained, all staff have the appropriate tools. All staff are engaged, empowered, and supported. The right people are in the right job with the right skills and right behaviours.
- 5.5 **Maintain or Improve Services,** the HRA Business plan ensures the model is able to focus on our customers' needs, continuously improve our processes Increase the digital provision of services to deliver a Firm Financial Footing over the Longer Term.

6 Environmental/Climate Change Implications

- 6.1 As part of the HRA repairs, maintenance, replacement and investment work, consideration is given to the Environmental impact. The Council has a work programme for decarbonising the housing stock in response to the Climate Emergency declared by the Council. The Council is focused on delivering Council dwellings and services which enable them to meet their agreed strategic outcomes.

7 Analysis of the effects on Equality

- 7.1 None

8 Data Protection

- 8.1 None

9 Health and Wellbeing

- 9.1 None.

10 Risk Assessment

- 10.1 The Council's Significant Business Risk Register contains several risks which are finance related. Shortage of finance will impact upon the Council's plans for the provision of services. Reduced income or increased expenditure will reduce the

funding available. The risks, and appropriate control mechanisms, for the 2023/24 HRA Budget and the rent increase process are considered below.

10.2 The main sources of income which may be subject to increases/decreases include:

- Rental income, including the new 7% Cap, increased arrears from Covid-19 pandemic and bad debts, void rent loss and Sale of Council Houses (SOCH) through Right to Buy (RTB)
- Service Charges
- Fees and charges
- Investment interest
- Grants

10.3 Increased expenditure in service provision may be due to:

- Inflation and price increases for supplies and services
- Increased demand for services increasing costs
- Changes to taxation regime
- Unplanned and unexpected responsive expenditure
- Assumed savings in budgets not materialising
- Changes in Government legislation.

10.4 When setting the HRA budget for 2023/24, a sensitivity analysis of assumptions relating to these risks and their potential impact on the budget is as follows:

- Further years of rent caps enforced on the HRA dwelling rents would be damaging to the business model. After the announcement of the 7% rent Cap in the Autumn Statement it has been stated that the cap will only be enforced for one financial year. The housing sector is lobbying for a rent clawback scheme to be implemented to enable Registered Social Housing Providers to claw back the lost income in future years above the current CPI+1% and RPI+0.5% Rent Policies in place but nothing has been confirmed at the time of writing this report.
- The Covid-19 Pandemic impact on Central and Local Government finances is expected to affect the economy for the next 3-5 years. There are several potential risks for instance in regard to the Government's ability to continue to support housing development with grants from Homes England and the ability to continue to fund Homelessness initiatives. Central Government's stance on these matters will have to be monitored closely as changes to current arrangements will impact this model negatively.
- Inflation is a lot higher than expected due to the impact of the Russian War, the Cost-of-Living Crisis, Brexit and the Covid-19 pandemic has had on the UK's economy. Prior to these fluctuations an expectation of CPI and RPI inflation was 1.5%-2.00% annually prior to the pandemic occurring. In comparison CPI has reached 11.1% and RPI 14.0% in 2022/23. Industry experts are projecting that inflation will return to near 4% in March 2024 with a steady decline in rates expected however, this it is very uncertain at this point in time whether this will be achievable and realistic.
- COVID-19's ongoing negative financial impact on housing tenants is still unknown. Rent Arrears have increased nationally, and it is

expected this will result in bad debts being written off as a result in future financial years. An analysis of the changes in the HRA rent arrears from 2019/20 to 2020/21 was reported in the December 2021 HRA Business Plan using an extract from the Council's 2020/21 Financial Statements. Net arrears had increased by £326k which meant the council had to increase its bad debt provision to £385k in the last financial year. A number of approaches have been adopted to reduce the levels of arrears caused by the Covid-19 pandemic and it is anticipated that this is a temporary increase which will return to pre-pandemic levels in due course as the economy recovers. Arrears will be re-assessed regularly and monitored. The Arrears position will be reviewed again in the HRA Business Plan being presented to March Cabinet 2023

- The UK's Brexit transition period ended on the 31st December 2020 although Brexit was not expected to immediately impact rents and the business plan there could be impacting circumstances that could affect the UK construction industry such as delays on imported construction supplies being received and European labour losses may result in higher construction labour costs. As these outcomes are very uncertain all housing development schemes will be re-appraised and checked for viability regularly.
- A 0.5% change in void housing rent losses = £144,236 increase or decrease to rental income.
- On average the loss of rental income due to RTB sales is £4,900 per property for a full year for each home sold, assuming RTB sales are spread fairly evenly throughout the year, however a capital receipt is received which can be retained in part in line with RTB Pooling Rules to fund the acquisition of new/replacement housing.
- In some circumstances, ex-RTB properties must be offered to the Council in advance of the property being advertised on the market. An annual reoccurring budget of £500,000 has been included in the most recent version of the Housing Investment Plan presented to December 2021 Cabinet as part of the HRA Business Plan Report to enable a modest number of properties to be repurchased each year, mitigating the rental loss upon the longer-term Business Plan. Furthermore, the Council has agreed proposals to build new council housing, effectively replacing those sold through the RTB.
- Were any, or all, of these possibilities to arise the impact could be accommodated within the proposed HRA budget for 2023/24 and HRA Business Plan.

10.5 Many controls and mitigations are in place to help manage these risks. These include:

- The comprehensive Budget Review process. This entails all budget managers reviewing their budgets, considering previous, current, and future years, along with any possible issues that may impact upon their budgets. As part of this process, Budget Review reports are issued to the Cabinet and Senior Leadership Teams.
- Financial Planning with the Housing Business Plan, bringing together all known/projected issues that will impact on HRA finances in the medium and long term. The next revision is due to be presented to Cabinet in March 2023.

- Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
- Project Management and associated controls.
- Trained staff and access to appropriate professional advice (e.g., Legal, Local Government Futures for advice on local government funding and developments in housing).
- Scrutiny by Members of the Council's finances, including Budget Reports and the financial implications of all proposals brought to them for consideration.
- Maintaining a HRA Capital Investment Reserve (CIR) to fund capital investment, such as providing new homes, and to fund any unexpected HRA costs.
- In addition to Reserves, the HRA Balance stands at £1.5m. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level, increased by RPI each year, and replenish any monies that are drawn down.
- The HRA follows the same Risk Management process as all Service Areas across the Council, including the on-going review and maintenance of risk registers.
- Specific causes of reductions to income or increased expenditure
- should continue to be managed by the Service Area as part of managing risks within the Service Risk Register.

11 Consultation

11.1 Consultations have taken place with other providers in relation to voluntary rents caps and the Portfolio Holder for Housing has been consulted in relation to the voluntary proposals contained within this report.

Background papers:

HRA Business Plan presented to Cabinet on the 9th December 2021

Housing Revenue Account (HRA) Budget 2020/21 and Housing presented to Cabinet on 10th February 2022

Supporting documents:

Appendix 1 HRA Rent Setting Report - Rent Summary

Appendix 2 HRA Rent Setting Report – Rent Comparison

Appendix 3 HRA Budgets 2023/24

Appendix 4 Heating, Lighting, Water, Misc Recharges 2023/24