

Housing Revenue Account Budget 2023/24

Summary

1. This report sets the revenue budget for the Housing Revenue Account (HRA) for 2023/24. This budget must be considered alongside the Medium Term Financial Strategy (Appendix C), and the report by the Director of Finance and Corporate Services (Section 151 Officer) on the robustness of estimates and adequacy of reserves, made under section 25 of the Local Government Act 2003 (Appendix A).
2. This budget makes the following proposals in respect of rents and service charges:-
 - Housing rents for existing tenants will increase by 7% in line with central government policy. The underlying formula rent, which is applied when a property is relet, will increase by 11.1% in line with the September 2022 Consumer Price Index (CPI) + 1%.
 - Garage rents will increase by 10.1% in line with the September 2022 CPI.
 - Service charges will increase in line with estimated costs.
3. The above proposals were reviewed by the Tenant and Leaseholders' Panel on 17 January 2023, and by the Housing Board on 19 January 2023, and were supported by both.
4. The budget for 2023/24 results in a planned operating surplus of £2.866 million. The majority of this surplus will be applied to the financing of capital expenditure on new build housing schemes and the Walden Place sheltered accommodation redevelopment. After this, and other statutory reserve movements, there is a small planned residual surplus of £78,000 which it is proposed is transferred to revenue reserves to be used in future years.
5. The estimates in this report are based on the recommended Medium Term Financial Strategy (Appendix C), Treasury Management Strategy (Appendix D), Capital Strategy (Appendix E), Capital Programme (Appendix F), and 2023/24 General Fund budget (Appendix H).

Housing Revenue Account Business Plan

6. The HRA budget is set in the context of a 30 year Business Plan as approved by Cabinet. The current plan covers the period from 2016-2046 and is available on the Council's website. The Business Plan sets out four key priorities:-
 - i. Operate a sound and viable housing business in a professional and cost effective manner.
 - ii. Ensure that all the Council's tenants live in a decent home in settled communities for as long as needed, consistent with the Council's Tenant Strategy.
 - iii. Help tenants and leaseholders get involved with decisions about their housing.
 - iv. Regenerate the stock/estates and build new affordable rented council housing in an efficient and effective manner.
7. Work is currently underway to refresh this Business Plan, and should any changes be required to the 2023/24 HRA budget as a result these will be subject to the Council's usual Financial Regulations and governance processes.

National Social Rent Policy

8. Since 2002, rents for properties let at 'social rent' have been set based on a formula set by government. This creates a 'formula rent' for each property, which is calculated based on the relative value of the property, relative local income levels, and the size of the property. An aim of this formula-based approach is to ensure that similar rents are charged for similar social rent properties, bringing local authority and housing association rents into alignment. Formula rents were increased by the Retail Price Index (RPI) + 0.5%.
9. In 2011, the government introduced 'affordable rent' alongside social/formula rent, which permits rents to be set at up to 80% of market rent. The policy allows the Council to let new build properties at affordable rent where certain conditions apply. The government requires that any new homes built through its Affordable Homes Grant system are let at 'affordable rent'.
10. Most of the Council's new build properties are let at affordable rent and the additional income this generates makes it possible to build more homes.
11. In 2016, as part of the Welfare Reform and Work Act, the government introduced a new policy whereby social rents would reduce by 1% every year for four years. The main aim of this was to reduce the national housing benefit bill.
12. In October 2017, the government announced a long-term rent deal for social housing landlords in England. The new policy was to permit annual rent increases for both social rent and affordable rent properties of up to the Consumer Price Index (CPI) plus one percentage point from 2020 onwards, for a period of at least five years. Increases are based upon the CPI figure for September in the preceding financial year.
13. In September 2022, CPI stood at 10.1%, indicating a maximum rent increase of 11.1%. However, in recognition of the ongoing high inflation and cost of living pressures, the government has capped 2023/24 rent increases for existing tenants at 7%.
14. It should be emphasised that the 7% cap applies only to existing tenancies. Where current rent for a property sits below the formula rent (e.g. due to the operation of rent caps in the past), the Council has a longstanding policy whereby the formula rent is applied in full when the property is relet. This is allowable under the government's rent setting policy. It is proposed that this policy continues, and that 2023/24 formula rents increase by the maximum 11.1% permitted. This model serves to limit the impact of rent increases on existing tenants, whilst also ensuring that rents can be restored to the correct (formula) level for the type of property upon reletting.

Housing Rents

15. In common with all organisations, the HRA is currently experiencing significant financial pressure as a result of high inflation and increased utility costs. The 7% rent cap imposed by government will limit the ability of the Council to pass these additional costs on to tenants. Since the rent cap is applied annually there is likely to be no option to recoup these costs through higher rent increases in future years, so this represents a permanent loss of income to the HRA.
16. Furthermore, the HRA business model relies upon the operating surplus generated to fund the development of new council homes, including both general needs and sheltered accommodation.
17. As such, it is proposed that the Council applies the maximum permitted rent increase of 7%, recognising that this has already been capped by government at a level which is 3.1% below CPI, to support tenants who are facing rising costs of living. The full proposed increase will be within the scope of housing benefit, for our tenants who are in receipt thereof (approximately 33%).

18. The average weekly rent as at September 2022 was £106.94. However, the Council has identified that many of its general needs tenants are being overcharged by approximately 1% as a result of administrative errors in calculating the rent increases for 2021/22 and 2022/23. Work is ongoing to recalculate and correct each individual tenant's rent, and the 7% increase will be applied to the corrected rent in each case.
19. The proposed rent increase will generate additional income of £953,000 as compared to the 2022/23 HRA budget. Nevertheless, with additional costs arising from inflationary pressures and increased depreciation charges, the net operating surplus of the HRA is budgeted to reduce by £486,000.

Garage Rents

20. The Council manages a total of 450 garages, of which 293 are rented by private residents. Garage rents are excluded from the government's rent setting policy. It is proposed to increase the garage rents by CPI of 10.1% (as at September 2022). The current weekly rent is £11.53, and this will increase to £12.69 (excluding VAT) for 2023/24.

Service Charges

21. The Council manages a number of leasehold and freehold properties where service and sewerage charges are payable. These are calculated and set in line with estimated actual costs. As a result, the current high levels of inflation will result in significant increases to these charges in 2023/24. Heating charges will be particularly affected by the rising cost of energy.
22. Whilst large increases are never welcome, it is important that these costs are passed on to the tenants who use the relevant services. To do otherwise would mean that one group of council tenants would end up subsidising another. There is no mechanism to recover any shortfall of income from council tenants in future years.
23. Service charges are calculated individually for each property depending upon the estimated cost of services used. The average charges for 2023/24 are set out in the following table:

Average HRA Service Charges	2022/23	2023/24	Includes VAT?
	Average Charge £ per week	Average Charge £ per week	
General service charge	2.76	3.29	No
General service charge - Sheltered accommodation	16.40	17.97	No
General service charge - Temporary accommodation (General Fund and HRA)	22.46	24.73	No
Water charges	2.29	3.47	No
Sewerage charges	8.23	11.63	No
Heating charges	8.17	28.83	No

24. Recognising the significant increase in heating charges this year, the Council will monitor this during the year and may consider reducing the charge should an opportunity arise (for example if there is a significant fall in the Council's energy costs). However, the likelihood of this is anticipated to be low.
25. Service charges for lessees are legally required to be set to meet the cost of services provided. If the estimated charges do not meet the cost of services in a year then there is a retrospective charge in the following year to meet the difference.

26. In addition, it is proposed that the following fixed service charges are increased as below:

Service Charges 2023/24	2022/23 Charge £	2023/24 Charge £	Includes VAT?
Sheltered housing scheme management service			
Intensive Housing Management (IHM) - per week	16.86	18.53	No
Housing Related Support (HRS) - per week	6.26	7.21	No
Total charge - Sheltered housing scheme management service	23.12	25.74	
Garden welfare service			
One-off clearance	60.00	66.00	Yes
One-off substantial clearance (where the majority of the garden is higher than 1m; this includes bramble, grass and weeds)	96.00	105.60	Yes
Grass cutting (throughout the growing season and up to 2 hedge cuts per year) - weekly charge*	4.50	4.96	Yes
* This charge is payable throughout the year and is not covered by housing benefit			

27. The Intensive Housing Management (IHM) charge may be covered by housing benefit for those tenants who are eligible. The Housing Related Support (HRS) charge, however, must be paid by all sheltered housing tenants and is not eligible for housing benefit support.

Self-referral to the Regulator of Social Housing

28. On 23 August 2022, the Council notified the Regulator of Social Housing of a potential breach of the Home Standard, in respect of its obligations under health and safety legislation and regulations.
29. As a result, the Council has engaged external consultants through the East of England Local Government Association (EELGA), to assist in putting into place a comprehensive remedial action plan.
30. The Council is currently on track to complete the required actions before the end of March 2023, therefore for the purposes of setting this budget there are no additional consultancy costs anticipated in respect of 2023/24. However, where the review has identified actions which will result in ongoing costs (for example the need to procure and maintain a new asset management system to keep track of stock condition), these have been included within the budget as service investment.
31. The review is still ongoing, and clearly should additional issues be identified this may have further financial implications for the HRA going forwards.

Regulatory Framework for Social Housing

32. With the Social Housing Regulation Bill currently passing through Parliament, significant changes are anticipated in the coming years to the Regulatory Framework for Social Housing. For example, from 1 April 2023, social landlords will be required to report under a number of Tenant Satisfaction Measures, which will require a statutory annual tenant survey and, where required, an improvement plan.
33. This budget anticipates that any new requirements can be met from existing resources – however should this not prove the case this may have financial implications in the future.

Housing Revenue Account Budget

34. A summary of the 2023/24 HRA budget is shown in the table below. A more detailed summary is set out at Annexe G1.

Housing Revenue Account Budget	2022/23 Original Budget £'000	2022/23 Current Budget £'000	2023/24 Original Budget £'000	Increase/ (Decrease) £'000
Service income				
Dwelling rents	(15,553)	(15,553)	(16,506)	(953)
Non-dwelling rents	(226)	(226)	(279)	(53)
Service charges and other income	(1,053)	(1,053)	(1,448)	(395)
Subtotal - Service income	(16,832)	(16,832)	(18,233)	(1,401)
Service expenditure				
Finance and business management	78	78	114	36
Maintenance and repairs service	4,071	4,071	4,822	751
Management and homelessness	977	977	1,054	77
Subtotal - Service expenditure	5,126	5,126	5,990	864
Other operating income and expenditure				
Depreciation	3,957	3,957	4,768	811
Borrowing costs	2,570	2,570	2,618	48
Net recharges from General Fund	1,747	1,747	1,967	220
Other	80	80	24	(56)
Subtotal - Other operating income and expenditure	8,354	8,354	9,377	1,023
Subtotal - Operating (surplus)/deficit	(3,352)	(3,352)	(2,866)	486
Capital financing	3,590	3,590	2,758	(832)
Transfers to/(from) earmarked reserves	(238)	(238)	108	346
(Surplus)/deficit	-	-	-	-

35. After allowing for the financing of capital expenditure and statutory reserve movements, the HRA is forecast to deliver a small surplus of £78,000 in 2023/24. It is proposed that this is transferred to revenue reserves to fund expenditure in future years, and this assumption has been built into the table above in order to set a balanced budget.

Service Income and Expenditure

36. The increase to service income of £1.401 million can be explained by the increases to rent and service charges as set out in paragraphs 15 to 26. It should be noted again that the increased income will not fully cover the increased anticipated costs, resulting in a reduction in budgeted net operating surplus of £486,000.

37. The movement in the service expenditure budget can be summarised as follows:-

Service Expenditure	£'000
2022/23 current budget	5,126
Inescapable growth (e.g. inflation, utility costs, staff pay awards)	725
Service investment	122
Efficiency savings	(3)
Other adjustments	20
2023/24 proposed budget	5,990

38. As shown above, the Council is facing significant budgetary pressure from factors outside of its control, such as high general inflation, increased utility costs, and the impact of nationally negotiated staff pay awards. These factors form the bulk of the increase to the service expenditure budget for 2023/24.
39. Some service investment will be required in 2023/24 to address specific urgent needs, although this has been kept to a minimum.
40. A full list of all service expenditure budget changes greater than £10,000 is set out at Annex G2.

Other Operating Income and Expenditure

41. The budget for depreciation charges will increase by £811,000 to £4.768 million. This charge is dependent upon the annual valuation of the Council's housing stock, which can not be carried out until after 31 March, therefore there is a risk that the actual charge will be higher or lower than budgeted. The main reason for the significant increase this year is that there was a significant upwards revaluation as at 31 March 2022 which came too late to be reflected in the 2022/23 budget.
42. The depreciation amount to be charged in any given year must be transferred to the ringfenced Major Repairs Reserve, which is used to fund capital improvements of the Council's existing housing stock.
43. Recharges from the General Fund are made in respect of General Fund services which are also used by the HRA, for example Financial Services, ICT, HR, and office accommodation. These are calculated on the basis of estimated costs, therefore the increase of £220,000 (or 13%) broadly reflects the increases to General Fund service budgets across the Council. At the year-end, an exercise is carried out to ensure that the HRA is charged the correct amount based upon actual costs incurred.

Capital Financing

44. The budget for capital financing reflects the required contribution from the HRA towards the current Capital Programme. This will vary from year to year depending upon the programme agreed, and availability of other resources to support this (such as capital grants, and receipts from the sale of right-to-buy properties). The full Capital Programme, including planned financing sources, is set out in detail at Appendix F.

Risks and Assumptions

45. The key areas of risk to the achievement of the 2023/24 budget (both adverse and favourable) are detailed in the Section 25 Report – Robustness of Estimates and Adequacy of Reserves

(Appendix A), together with the Section 151 Officer's assessment of the main assumptions used. A full analysis of key financial risks and assumptions specific to the HRA has also been included at Annexe G3.

Reserves

46. The forecast total revenue reserves balance at 1 April 2023 will be £1.652 million. The 2023/24 budget assumes a net contribution to reserves of £108,000, leaving a forecast balance as at 31 March 2024 of £1.760 million. Forecast revenue reserve movements are set out in detail below:

Housing Revenue Account Revenue Reserves	Balance at 1 April 2022	Forecast Additions to Reserves 2022/23	Forecast Use of Reserves 2022/23	Forecast Balance at 31 March 2023	Budgeted Additions to Reserves 2023/24	Budgeted Use of Reserves 2023/24	Forecast Balance at 31 March 2024
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Ringfenced reserves							
Working balance	471	80	-	551	30	-	581
Subtotal - Ringfenced reserves	471	80	-	551	30	-	581
Usable reserves							
Revenue reserves	292	639	-	931	78	-	1,009
Revenue projects	160	-	-	160	-	-	160
Subtotal - Usable reserves	452	639	-	1,091	78	-	1,169
Earmarked for capital purposes							
Capital projects	884	-	(884)	-	-	-	-
Potential projects reserve	10	-	-	10	-	-	10
HRA capital slippage reserve	1,484	-	(1,484)	-	-	-	-
Subtotal - Earmarked for capital purposes	2,378	-	(2,368)	10	-	-	10
Total - HRA revenue reserves	3,301	719	(2,368)	1,652	108	-	1,760

47. The Council sets a prudent minimum level of reserves known as the working balance, to manage unexpected financial impacts during the year. This amount is determined by the Section 151 Officer and is calculated by reference to variable gross income plus expenditure. The minimum working balance for 2023/24 will be £581,000.
48. Usable reserves are available to support future one-off deficits in the HRA, or to fund future revenue projects or service transformation. The forecast balance on the usable reserves as at 31 March 2024 will be £1.169 million, equivalent to just over 40% of the budgeted operating surplus for 2023/24.
49. Reserves earmarked for capital purposes will be used almost in their entirety to support capital expenditure in 2022/23. The full Capital Programme is set out at Appendix F.

List of Annexes

- Annexe G1 – Housing Revenue Account Budget 2023/24
- Annexe G2 – HRA Service Expenditure Budget Movements 2023/24
- Annexe G3 – Housing Revenue Account Service Budget Risks and Assumptions
- Annexe G4 – Equality and Health Impact Assessment

Housing Revenue Account Budget 2023/24

Annexe G1

Housing Revenue Account Budget 2023/24	2022/23 Original Budget £'000	2022/23 Current Budget £'000	2023/24 Original Budget £'000	Increase/ (Decrease) £'000
Service income				
Dwelling rents	(15,553)	(15,553)	(16,506)	(953)
Garage rents	(225)	(225)	(245)	(20)
Other rents	(1)	(1)	(34)	(33)
Charges for services and facilities	(987)	(987)	(1,448)	(461)
Contributions towards expenditure	(66)	(66)	-	66
Subtotal - Service income	(16,832)	(16,832)	(18,233)	(1,401)
Finance and business management expenditure				
Rents, rates and other property charges	78	78	114	36
Subtotal - Finance and business management expenditure	78	78	114	36
Maintenance and repairs service expenditure				
Common service flats	256	256	574	318
Estate maintenance	2	2	2	-
Housing sewerage	16	16	20	4
Newport Depot	5	5	10	5
Property services	49	49	256	207
Housing repairs (Norse)	3,743	3,743	3,960	217
Subtotal - Maintenance and repairs service expenditure	4,071	4,071	4,822	751
Management and homelessness expenditure				
Housing services	516	516	572	56
Sheltered housing services	461	461	482	21
Subtotal - Management and homelessness expenditure	977	977	1,054	77
Subtotal - Service expenditure	5,126	5,126	5,990	864
Other operating income and expenditure				
Bad debts	100	100	100	-
Depreciation	3,957	3,957	4,768	811
Borrowing costs	2,570	2,570	2,618	48
Treasury investment income	(10)	(10)	(95)	(85)
Corporate pension costs (added years and deficit repair)	-	-	29	29
Share of corporate and democratic core costs	360	360	403	43
Other recharges from General Fund	1,387	1,387	1,564	177
Right to buy administration allowance	(10)	(10)	(10)	-
Subtotal - Other operating income and expenditure	8,354	8,354	9,377	1,023
Subtotal - Operating (surplus)/deficit	(3,352)	(3,352)	(2,866)	486
Capital financing				
Financing of capital expenditure in year	3,590	3,590	2,758	(832)
Subtotal - Capital financing	3,590	3,590	2,758	(832)
Transfers to/(from) earmarked reserves				
Working balance	32	32	30	(2)
Revenue reserves	-	-	78	78
Capital projects	(270)	(270)	-	270
Subtotal - Transfers to/(from) earmarked reserves	(238)	(238)	108	346
(Surplus)/deficit	-	-	-	-

HRA Service Expenditure Budget Movements 2023/24

Annexe G2

Service Budget Line	Description	Movement £'000
Inescapable growth		
Various	Estimated impact of increased utility costs across the HRA estate - note that most of this is recovered through increased service charges to tenants and leaseholders	334 Ongoing
Various	Estimated impact of staff pay awards and pay increment progression on staff directly employed by the HRA (including on-costs) - includes 2% increase to employer pension contributions as determined by scheme actuary	96 Ongoing
Rents, rates and other property charges	Increase in empty property council tax charges due to vacant sheltered housing units awaiting redevelopment	29 One-off - 3 years
Housing repairs (Norse)	Inflationary increase to revenue cost of Norse contract in the HRA	261 Ongoing
Various	Other items individually <£10,000	5
	Subtotal - Inescapable growth	725
Service investment		
Property services	Investment in improved contract management of Norse contract (currently external consultancy but will review in year and may look to create a permanent post)	50 Ongoing
Property services	New budget to support feasibility studies in respect of future potential new developments	50 Ongoing
Property services	Ongoing revenue cost of licensing and maintaining an in-house asset management system to monitor stock condition, as recommended by the EELGA review	15 Ongoing
Various	Other items individually <£10,000	7
	Subtotal - Service investment	122
Efficiency savings		
Various	Items individually <£10,000	(3)
	Subtotal - Efficiency savings	(3)
Other adjustments		
Property services	Align budget with actual current spend in respect of legal and compensation costs relating to disrepair claims	60 Ongoing
Property services	Align budget with actual current spend in respect of legal costs relating to obtaining injunctions for access for electrical testing	20 Ongoing
Housing repairs (Norse)	Reduction to Norse revenue budget (prior to inflation) to align with 2022/23 actual spend	(44) Ongoing
Housing services	Increase to subscriptions budget to align with current actual spend	13 Ongoing
Various	Other items individually <£10,000	(29)
	Subtotal - Other adjustments	20
	Total - Changes to service expenditure budgets	864

Introduction

The tables below set out the key financial risks (both favourable and adverse) identified by budget managers in relation to the service income and expenditure budgets set for 2023/24. This is not intended to be an exhaustive list of all potential financial risks which could be faced by the HRA, rather it highlights the areas where it is considered most likely that outturn could differ from the budget, primarily for reasons outside of the Council’s control.

Key

Each risk is assessed using the following framework:-

Risk Framework	Low	Medium	High
Probability of variance arising	Possible, but unlikely	Probable	Almost certain
Impact (adverse and/or favourable)	£5,000 - £20,000	£20,001 - £50,000	> £50,000

Note that risks with an anticipated impact of less than £5,000 are not reported here.

Risks

Budget Line	Budget Item	Key Assumptions and/or Variable Outcomes	Probability of Variance Arising	Favourable Impact	Adverse Impact
All service income	All service income	Whilst there is a prudent provision made within the budget for some non-collection of rents and other income, there is a risk that the collection rate could fall, particularly in light of current cost of living pressures. This is mitigated to some extent by the fact that approximately 33% of Council tenants are in receipt of housing benefit which covers some or all of their rent.	Low	N/A	High
All service expenditure	All service expenditure	Following its self-referral to the Regulator of Social Housing, the Council has engaged external consultants through EELGA to undertake a review of the issues raised. It is intended that this review concludes in 2022/23 - however should any unexpected issues arise there is a risk that the work may need to continue into 2023/24 at additional cost. In addition, there is a risk that some of the review's recommendations may require additional resources (either on a one-off or ongoing basis) for implementation.	High	N/A	High
All service expenditure	All service expenditure	Forthcoming changes to the Regulatory Framework for Social Housing may place new burdens upon the Council which can not be met from existing resources.	Medium	N/A	High
Common service flats	Utility costs	Budgeted electricity and gas costs have been based upon forecasts provided by an external consultant. Fluctuations in energy costs and/or consumption may result in a charge which is higher or lower than budgeted. However, any significant movements (up or down) will be passed on to tenants and leaseholders, so the residual impact on the HRA should be minimal.	Medium	Low	Low
Housing services; Sheltered housing services	Employee costs	The actual pay award agreed nationally for 2023/24 may vary from the assumptions made when setting the budget.	High	Medium	Medium

Budget Line	Budget Item	Key Assumptions and/or Variable Outcomes	Probability of Variance Arising	Favourable Impact	Adverse Impact
Other recharges from General Fund	Employee costs	The HRA is recharged for its share of General Fund employee costs. This includes the post of Assistant Director - Housing, Health and Communities, which is currently vacant. Should the post prove difficult to recruit, additional agency costs may be incurred.	Medium	N/A	Medium
Other recharges from General Fund	Employee costs	The Council has identified that it is currently overcharging rent to its general needs tenants by approximately 1%. Work is ongoing to recalculate the correct rent in each case so that refunds can be issued. It is currently assumed that this work can be undertaken by existing resources - however should additional resource be required this may come at additional cost which would need to be recharged to the HRA.	Low	N/A	High