Appendix 1

HOUSING REVENUE ACCOUNT

1 SUMMARY

The Housing Revenue Account includes and expenditure associated with the Council's function as a social housing landlord. The items that can be debited and credited to the account are determined by statute

	2021/22 Budget £'000	2021/22 Forecast £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000
EXPENDITURE						
Management	1,838	1,796	1,958	1,996	2,036	2,077
Repairs and maintenance	1,039	1,130	1,067	1,088	1,110	1,132
Council Tax	10	10	10	10	10	10
Debt Management	10	10	10	10	10	10
Depreciation (MRA cont.)	1,373	1,580	1,580	1,612	1,644	1,677
Provision for Bad Debts	100	65	75	77	78	80
Gross Expenditure	**4,370**	**4,591**	**4,700**	**4,793**	**4,888**	**4,985**
INCOME						
Rents - Dwelling	(4,800)	(4,797)	(4,985)	(5,110)	(5,237)	(5,368)
Rents - Non Dwellings	(102)	(90)	(93)	(95)	(98)	(100)
Charges for Services and Facilities	(184)	(195)	(197)	(202)	(207)	(212)
Gross Income	**(5,086)**	**(5,082)**	**(5,275)**	**(5,407)**	**(5,542)**	**(5,681)**
Interest payable	630	570	630	630	630	630
Interest Receivable	(5)	(5)	(5)	(5)	(5)	(5)
Revenue Contribution to Capital						
Transfers to/(from) Reserves	91	0	0	0	0	0
Total Capital Charges and Appropriations	**716**	**565**	**625**	**625**	**625**	**625**
(Surplus)/Deficit for the Year	**0**	**74**	**50**	**11**	**(29)**	**(70)**
Opening Balances						
Housing Revenue Account	(1,139)	(1,338)	(510)	(530)	(540)	(550)
Universal Credit Reserve	(140)	(140)	0	0	0	0
Housing Levy	(220)	(220)	0	0	0	0
Debt Management Reserve	0	0	(1,115)	(1,044)	(1,024)	(1,043)
Closing Balances						
Housing Revenue Account	(1,139)	(510)	(530)	(540)	(550)	(570)
Universal Credit Reserve	0	0	0	0	0	0
Housing Levy Reserve	0	0	0	0	0	0
Debt Management Reserve	(451)	(1,115)	(1,044)	(1,024)	(1,043)	(1,093)

Service Statistics

	2021/22	2022/23	2023/24	2024/25	2025/26
Average Number of Dwellings	1,195	1,189	1,186	1,183	1,180
Housing Rent					
Rent per dwelling	78.70	81.93	83.97	86.07	88.23
Unpooled Service Charge	1.62	1.69	1.73	1.77	1.82
Total Rent	80.32	83.61	85.70	87.85	90.04

2 Specific Charges

In addition to Dwelling Rents the HRA makes charges for other associated services offered to tenants. It is proposed that these increase by 4.1% which is in line with the rent increases CPI+1% for September 2021

	2021/22 Current Charge £	**2022/23 Proposed Charge £**
Garage Spaces		
48 Week Basis	4.23	4.41
52 Week Basis	3.91	4.07
Lock up Garages		
48 Week Basis	7.82	8.14
52 Week Basis	7.22	7.51
Caretaking Charge (Lower Rate)		
48 Week Basis	3.37	3.51
52 Week Basis	3.11	3.23
Caretaking Charge (Higher Rate)		
48 Week Basis	6.75	7.03
52 Week Basis	6.23	6.49

Heating and Hot Water Charges in Sheltered Schemes	Increase for 2022/23 %
Chartwell House, Oadby	4.1
Marriott House, Oadby	4.1
William Peardon Court, Oadby	4.1
Mobility Scooter Garaging	4.1

3 CAPITAL PROGRAMME

The Council is currently undergoing a full stock condition survey which will layout the amount of work required to;

- Keep the current stock up to the 'Decent Homes Standard'. Early indications are that the stock will require approximately £12million of capital work which will put pressure on both the financial position of the HRA but also the Department's capacity to carry out the work.
- Identify the work required to bring the housing stock to a position of 'zero carbon' by 2050. This is a major project for every Housing Authority in the country the size of which has yet to be determined however, it is likely to require between £25m and £30m of investment to achieve this.

The works to be carried out include;

- Refitting of kitchens and bathrooms
- Replacement of boilers and central heating systems
- Re-wiring
- Health and Safety works including the removal of any category 1 hazards.
- Insulation for both energy efficiency and sound
- Replacement of doors and windows both individual and communal.

Work to achieve the net zero target will need to be done alongside 'decent homes' work going forward

The Capital programme is financed by two principal sources of funding.

a) The Major Repairs Allowance
b) Borrowing.

For the 2021/22 programme any unspent balances or unfinished schemes will be determined at year end and bought to members to carry forward in the July cycle of meetings.

The initial allocation for capital works (excluding property purchases and new builds) in 2022/23 is proposed at £1.5million

4 HOUSING REVENUE ACCOUNT BUDGET BACKGROUND CONSIDERATIONS FOR THE REVENUE BUDGET & CAPITAL PROGRAMME 2022/23

BACKGROUND CONSIDERATIONS

This provides commentary on the background considerations and key issues on which the draft budget. It also summarises the overall financial position. The structure of this commentary is as follows:

1. Basis for preparation of the draft budget.
2. Rent Policy
3. Changes in Stock Levels
4. Treasury Management
5. HRA Capital Programme
6. Level of Reserves
7. Other budget considerations

1. <u>Basis for preparation of the draft budget and forward forecast</u>

The revenue budget for 2021/22 sets out the costs of delivering current levels of service while taking into account the effect of current government legislations regarding changes to housing finance including rent increases of no more than CPI +1%. This follows four years of rent reductions imposed by the Government which ran between 2016/17 and 2019/20.

The budget has been set assuming that a 2% pay award will be implemented for 2022 and that non contractual upward inflation will be 0% to encourage value for money.

2. Rent Policy

From 2003 the Council had adhered to the guidelines laid down in the Governments rent restructuring policy and up to 2016/17 had gradually moved its rents up towards the target rents. However at the point at which restructuring ended less than 5% of the stock had converged.

From 2016/17 the Government imposed four years of rent reductions where in the Council had to reduce rent by 1% in each of these years.

In 2020/21 the Authority was able to increase its rents for the first time in five years, by CPI +1%, resulting in an overall increase of 2.7%. The government has indicated that this method of calculating this increase would continue for a five year period before being reviewed. This 'settlement' is about to enter its third year and with inflation on the increase (CPI at 3.1%) the 2022/23 increase is recommended to be 4.1%.

However the regressive rent policy employed by the government this has left a continuing gap, between actual and formula rents, which can no longer be closed by the annual increase year on year. The gap between total actual and formula rents currently equates to around £190,000 of potential income per annum which the Council cannot access.

The Council should therefore place new tenants coming in, as well as tenants transferring to a larger property, directly onto the formula rent for that property. In order not to discourage tenants who are living in a property, larger than their needs, to downsize they would be placed on the lower of their new property's formula rent or the rent they were paying at their current property.

The COVID 19 pandemic saw a temporary suppression of CPI which at September 2020 stood at 0.5%. The principal drivers behind this fall have been a sharp decrease in oil prices in the first half of 2020 and the governments 'Eat Out to Help Out' stimulus to the hospitality industry which saw the cost of eating out fall. This drop however has now unwound and inflation has increased, driven by a sharp rise in oil prices and shortages of workers in the supply chain which has driven wages up.

The table below shows the new, old and average rent for each of the four sizes of properties in the Council's portfolio.

Property Type	Average Rent 2021/22	Average Rent 2022/23	Increase £
Bedsits	£59.78	£62.23	£2.45
1 Bedroom	£70.51	£73.40	£2.89
2 Bedroom	£77.81	£81.00	£3.19
3 Bedroom	£86.11	£89.64	£3.51
4 Bedroom	£96.97	£100.94	£3.97

Each year the Council expects to lose a small proportion of rent during periods between tenancies, known as void losses. It is assumed that this will equate to 2% of the gross rent.

3. Changes in Stock Levels

When the Government reinvigorated the ‘Right to Buy’ discount scheme the Council saw a pickup in sales to tenants, this however has flattened off before dropping slightly over the last couple of years. This, together with the Council’s policy of purchasing properties to replenish the stock where possible through the 1-4-1 scheme, suggests stock levels will only decline slightly over the next few years.

As a result of this, assumptions have to be made about the sale and acquisitions of properties from the current stock. Sales of dwelling have decreased in recent years with the COVID-19 pandemic supressing them further. Going forward it is assumed that there will be seven sales each year of the plan counterbalanced by two purchases – a net reduction of five properties from its current stock.

There is a risk that stock losses do not follow the pattern assumed in the budget and forecast. This could mean that either savings in costs are made ahead of time or that that they are not made in time. The Council’s Finance and Housing teams will monitor the developments in this area very closely.

4. Treasury Management

In 2012 the Council borrowed £18.114million in order to finance the retaking control of its Housing Stock. The debt consisted of 18 loans of £1.06millon, these were due to be repaid between March 2020 and 2037. The Council has not able to repay in 2020 and instead refinanced it using short-term borrowing which has been at an advantageously low interest rate for some time, particularly compared to Public Works Loans Board (PWLB) rates which had been pushed up by the Government towards the end of 2019.

Profile of HRA Financing Debt

Under 12 months	3,018,999	17%
1 - 2 Years	1,006,333	6%
2 - 5 Years	2,012,666	11%
5-10 Years	5,031,665	28%
Over 10 Years	7,044,337	39%
	18,114,000	**100%**

However, at the end of 2020 as new rules regarding PWLB were introduced to restrict its use while lowering rates once again for those Council's investing in areas the Government deemed appropriate. One area where the government is keen to see investment is housing which gives the Council the opportunity to invest in its stock, develop new sites and refinance debt. The Council could potentially take this opportunity to push some of the original debt out to beyond 2037 so it fits into the repayment profile of the Debt Management Reserve.

The Section 151 officer together with the Treasury Management team will assess the available interest rates as each loan comes to its settlement date. As the Council is building up a reserve to pay off substantial amounts it is suggested that these replacement loans are kept as maturity type loans, with interest only being paid, until the whole repayment becomes due.

The ongoing capital programme will be jointly funded with MRA and Borrowing. The amount of borrowing required will be dictated by the stock condition survey to be procured. This extra borrowing can be repaid over the life of the assets which is between 15 and 20 years depending on the work being done.

5. HRA Capital Programme

The capital programme will continue to balance the need to maintain decent homes and other priorities such as health and safety, aids and adaptations, sustainability, energy efficiency, the Governments 'zero carbon' targets and meeting tenants' aspirations. When the stock condition survey is completed a new Asset Management Strategy will be drawn up

The cycle of works identified in the plan will be funded by the MRA, Capital receipts and borrowing. Careful planning of the capital programme will be needed, bearing in mind the uncertainty of Government Policy, to ensure that it not only meets the needs of the tenants but is also affordable and sustainable.

6. Level of Reserves

Council policy has for some years required the HRA main reserve to retain a minimum balance of £300,000. This should now be reviewed in order to provide a more robust and prudent financial structure.

It is recommended that the minimum balance on the main reserve be increased to 10 percent of the HRA's annual Income, moving it to just over of £500,000 for 2022/23. This in itself does not present a problem because currently the reserve contains in excess of £1million. The remainder will be moved to a Debt Management Reserve.

The Debt Management Reserve will have two uses;

- To repay the long-term debt the Council incurred for the HRA 'New Financing Arrangements' from 2012 and
- To act as a balancing account for the main reserve in years of annual deficit.

The HRA currently has two capital reserves

1) The Regeneration Reserve - For the provision of new properties in the stock. This can be utilised to support either new building in the HRA or the buying back of former Council Houses.

2) The Major Repairs Reserve (MRR) – To support and fund the annual capital programme agreed by the Council and holds any unused amounts of the annual Major Repairs Allowance (MRA). Normally it would be planned to fully utilise this funding each year.

There are no plans to change the way these Capital reserves are operated

7. Other Budget Considerations

Provision for Uncollectible Debts and Collection Costs

The provision for uncollectible debts at 31 March 2021 was £236,000. A provision for bad debts is made in respect of both former tenant arrears and current tenants. The Council included £100,000 in each year's original budgets for further provision against write-offs of bad debt. This is considered to be a prudent measure against a back drop of the exiting from the pandemic and the Government's policy of Welfare Reform with Universal Credit awards for those out f work going back to pre-Covid levels.

General Fund Recharges

Recharges between the General Fund and the HRA will be continuously reviewed in the light of structural changes within both the HRA and the rest of the Council. These will be proportionate and fair.

Service Charges

Tenant's service charges for 2021/221 have been increased by 4.1%, in line with general rent and other charges.

HRA Business Plan

The HRA Business Plan is in the process of being reviewed and will outline the long-term future for a sustainable HRA. Significant developments in the plan are incorporated within this document including next year's budget outlined in Section 1 of this appendix.