

## **Meeting of the Cabinet – 13<sup>th</sup> December 2023**

### **Joint Report of the Director of Housing and Community Services and the Director of Finance and Legal**

#### **Review of Housing Finance**

##### **Purpose**

1. To present the latest financial forecast outturn for 2023/24 and provisional Medium Term Financial Strategy (MTFS) to 2026/27 (revenue and capital) for the Housing Revenue Account (HRA).
2. To consider:
  - a draft HRA budget for 2024/25 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 2023/24 to 2026/27.
  - rents for council homes with effect from 1st April 2024.
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 Safer Communities Select Committee in January, before returning to Cabinet and Council in February 2024.

##### **Recommendation**

4. That Cabinet note the latest HRA outturn forecast for 2023/24 (paragraphs 7 - 11 and Appendix 1).
5. That Cabinet note the proposed budget for 2024/25 and provisional Medium Term Financial Strategy (MTFS) to 2026/27 (paragraphs 12 - 21 and Appendix 2) and the revised Public Sector Housing capital programme for 2023/24 to 2028/29 (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 2023/24**

7. The 2023/24 budget approved by Council on 28th February 2023 forecast a surplus on the HRA of £0.8m at 31st March 2024. This included a 7% rent increase. There are now a number of variations expected to the income and expenditure as shown below and further details are shown in Appendix 1.
8. The balance brought forward from 2022/23 was £5.1m, compared to the £2.2m originally budgeted. This was reported to Cabinet on 6<sup>th</sup> July 2023.
9. The original 2023/24 budget and the latest forecast for 2023/24 are shown in the following table. The latest forecast shows a deficit of £3.8m leaving a reserves balance of £1.3m at 31<sup>st</sup> March 2023 as outlined in Paragraph 11.

	<b>Budget 23/24 £m</b>	<b>Forecast 23/24 £m</b>	<b>Variance 23/24 £m</b>
<b>Total income</b>	<b>(98.4)</b>	<b>(98.2)</b>	<b>0.2</b>
<b><u>Expenditure</u></b>			
Finance	2.5	2.4	(0.1)
Community Safety	1.4	1.4	0.0
Strategy	2.0	1.9	(0.1)
Management & Admin	8.1	8.4	0.3
Community Housing	11.2	11.5	0.3
Technical adjustments	0.9	1.0	0.1
Responsive and cyclical repairs (Maintenance)	18.4	24.8	6.4
Programmed Investment Works (Development)	8.0	6.0	(2.0)
Depreciation and impairments of fixed assets	25.7	25.2	(0.5)
Interest Payable	17.7	18.0	0.3
Revenue Contribution	0.0	0.0	0.0
Capital Expenditure			
Other Expenditure	1.7	1.4	(0.3)
<b>Total expenditure</b>	<b>97.6</b>	<b>102.0</b>	<b>4.4</b>
<b>Total: (surplus) or deficit for the year</b>	<b>(0.8)</b>	<b>3.8</b>	<b>4.6</b>

10. The latest forecast for 2023/24 includes the following key variations to the budget:

- Reduced income due to voids being higher than budgeted, stock sales and profiling £0.7m,
- Increased interest on balances (£0.7m)
- Stock condition survey £3.2m
- Management capacity and expertise £0.8m
- Net recovery revenue works £0.7m
- Total savings from vacancies £0.5m after avoiding a cost pressure of up to £0.8m due to the latest employee offer being higher than the 4% budgeted.
- General inflation costs £0.4m
- Increased borrowing costs due to rising interest rates £0.3m.
- Refund from triannual pension settlement (£0.3m)

11. The impact on HRA balances is shown below:

	<b>Budget £m</b>	<b>Latest Forecast £m</b>
Forecast Balance at 31 March 2023	2.2	2.2
Favourable 2022/23 outturn		2.9
<b>Balance at 31<sup>st</sup> March 2023</b>	2.2	5.1
Planned addition to balances	(0.8)	(0.8)
Forecast variance against budget 2023/24		4.6
<b>Balance at 31 March 2024</b>	<b>3.0</b>	<b>1.3</b>

12. In addition there are forecast earmarked balances at 31st March 2024, mainly resulting from externally funded grants £2.6m.
13. Inflationary pressures are expected to continue into 24/25 and interest rates are causing an adverse impact on overall budget.
14. Forecast reserve balances are less than budgeted figures for March 2024, and are forecast to stand at 1.4% of income. Across England HRA's with similar income profiles hold an average reserve of 34% of income. Local comparators hold on average a reserve equalling 11% of income.

#### Rent Increase

15. 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 18th October was 6.7% which would allow weekly rents to be increased by 7.7% compared to 2023/24 levels.
16. Last year the Government 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, no such rent cap is proposed for 2024/2025.

17. It is proposed that the full rent increase of 7.7% is implemented to partly mitigate the impact of inflationary increases on pay, utilities and the cost of borrowing along with the outcomes of the Stock condition Survey. Paragraph 18 illustrates the impact of a 7.7% rent increases.
18. The current average rent for 2023/24 is £89.33, the proposed increase of 7.7% for 2024/25 will move average rents to £96.21 an average increase of £6.88 per week.

<b>Year</b>	<b>Rent increase %</b>	<b>Average weekly rent</b>	<b>Weekly Increase on 22/23</b>
<b>2024/25</b>	+7.7%	£96.21	£6.88

### Service Charges

19. In February 2023 council approved the introduction of service charges at a nominal rate of £5.20 a week. It is now proposed service charges are introduced at full cost recovery, on average this will be £12.46 per week for tenants in homes with communal areas.

### Medium Term Financial Strategy 2024/2025 to 2026/2027

20. Inflationary pressures are expected to continue into 2024/25, with assumed pay awards of 4% for 2024/25 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.
21. The proposed draft HRA budget for 2024/25 to 2026/27 is shown in Appendix 2. This budget is based on implementing the maximum allowed 7.7% rent increase, and service charges at direct cost recovery, which would take effect from 1<sup>st</sup> April 2024, and building in additional resources to meet inflationary pressures.
22. A number of savings and growth proposals were prepared and prioritised before being presented at the HRA budget summit on 22<sup>nd</sup> November. These proposals are outlined in the following table.

	<b>24/25 £m</b>	<b>25/26 £m</b>	<b>26/27 £m</b>
<b>Base budget deficit + / Surplus (-)</b>	<b>(6.4)</b>	<b>(4.7)</b>	<b>(1.6)</b>
<b>Proposed Savings</b>			
Reduction in sub-contractor costs through reduced usage, reduced material usage and greater financial controls	(0.2)	(0.3)	(0.3)
Housing Maintenance Team staffing savings - vacant posts	(0.8)	(1.1)	(1.3)
Closure of Asbestos laboratory.	(0.1)	(0.1)	(0.1)
Asset Management Team Staffing savings - vacant posts	(0.1)	(0.2)	(0.2)
Outsourcing Call Handling Service for Out of Hours Service	(0.1)	(0.1)	(0.1)
<b>Total Proposed Savings</b>	<b>(1.3)</b>	<b>(1.8)</b>	<b>(2.0)</b>
<b>Unavoidable Additional Spending</b>			
Compliance costs	1.3	0.0	0.0
ICT Improvements including Northgate	0.3	0.0	0.0
Increase in temporary accommodation costs	0.7	0.7	0.8
<b>Total Unavoidable Additional Spending</b>	<b>2.3</b>	<b>0.7</b>	<b>0.8</b>
<b>Additional Spending</b>			
Grounds Maintenance in Communal areas	0.3	0.3	0.3
Cleaning in flatted communal areas	0.7	0.7	0.7
<b>Total Additional Spending</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>
<b>Net Savings and Growth</b>	<b>2.0</b>	<b>(0.1)</b>	<b>(0.2)</b>
<b>Revised deficit (+) / Surplus (-)</b>	<b>(4.4)</b>	<b>(4.7)</b>	<b>(1.8)</b>
<b>Unearmarked Balances b/f</b>	<b>1.3</b>	<b>5.7</b>	<b>10.4</b>
<b>Unearmarked Balances c/f</b>	<b>5.7</b>	<b>10.4</b>	<b>12.2</b>

## Estimates, Assumptions & Risk Analysis

23. The proposals in this report are based on a number of estimates, assumptions and professional judgements, which are subject to continuous review:
- i. Outcome of the Stock Condition Survey;
  - ii. that pay inflation does not vary materially from current forecasts;
  - iii. 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;
  - iv. that borrowing costs remain within existing forecasts;
  - 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.
24. 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

25. In February 2023, 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.

26. In light of the changing economic climate and the impact of the 7% rent cap announced in the 2022 Autumn Statement the five year capital programme was reviewed and the amended approach and options were approved by Cabinet on 28<sup>th</sup> February 2023. The revised capital programme focused on:
  - Ensuring regulatory compliance and building safety
  - Ensuring adequate investment in void properties to reduce void loss and meet an acceptable void standard.
  - During 2023/24 the council commissioned stock condition surveys on 100% of homes to gain a robust and up to date position on property condition and compliance. The stock condition surveys will be completed by March 2024 and the data gathered will be used to inform a new capital investment programme and asset management strategy, ensuring that appropriate planned investment works are delivered in occupied properties to maintain and improve the decent homes position
27. The 100% Stock Condition Survey is also delivering a fully revised EPC certificate for every property we gain access too. This will allow the resetting of the energy performance for all properties and add previously unavailable data to the viability modelling and potential future investment for all properties which will not benefit our tenants or the authority as a long term asset
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 in new homes and remodelling, we do so recognising that these plans will be put on hold until investment in our priorities is complete and until we have realigned our asset management strategy with the themes and priorities identified through surveying all of our homes.
29. The proposed capital programme at Appendix 3 sets out current anticipated spend for 2024/25, 2025/26 and 2026/27 based on what is currently known about investment needs. However the five year capital programme will need to be further reviewed following the completion of the stock condition surveys, which may inform a change in programme spend in the first three years. At this stage the



programme spend has not been profiled for 2027/28 and 2028/29 as this will need to be informed by longer term investment needs and the robust and up to date property information that the surveys will provide.

### **Finance**

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

### **Law**

31. 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**

32. 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**

33. 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.
34. 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**

35. 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**

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

## **Environment / Climate Change**

37. 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**

38. 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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## Appendix 1

### HRA Budget and Forecast 2023/24

	Budget 2023/24 £m	Latest Forecast 2023/24 £m	Forecast Variance 2023/24 £m	Comment
<b><u>Income</u></b>				
Dwelling rents	(96.2)	(95.5)	0.7	Higher void losses budgeted 2%, actual 2.5% -£0.5m, stock profile differences £0.2m
Non-dwelling rents	(0.8)	(0.8)	0.0	No material variance, includes Garage and Shop rents
Charges for services and facilities	(0.2)	(0.2)	0.0	No material variance, includes heating and lighting charges
Contributions towards expenditure	(1.1)	(0.9)	0.2	No material variance, includes leaseholder and tenant recharges
Interest on balances	(0.1)	(0.8)	(0.7)	Increased interest rates 1.5% budgeted, 4% actual, increased capital receipts pooling reserves.
<b>Total income</b>	<b>(98.4)</b>	<b>(98.2)</b>	<b>0.2</b>	
<b><u>Expenditure</u></b>				
Finance	2.5	2.4	(0.1)	Vacancies (£0.2m) offsetting pay award impact £0.1m
Community Safety	1.4	1.4	0.0	Vacancies (£0.1m) offsetting pay award impact £0.1m
Strategy	2.0	1.9	(0.1)	Vacancies (£0.1m)
Management & Admin	8.1	8.4	0.3	Harbour dilapidations £0.3m
Community Housing	11.2	11.5	0.3	Vacancies (£0.1m) offsetting pay award impact £0.2m, Utilities inflation £0.2m

	<b>Budget 2023/24 £m</b>	<b>Latest Forecast 2023/24 £m</b>	<b>Forecast Variance 2023/24 £m</b>	<b>Comment</b>
Technical adjustments	0.9	1.0	0.1	Repairs Management centre costs transferred across to Dudley Council Plus and recharged here.
Responsive and cyclical repairs (Maintenance)	18.4	24.8	6.4	Stock condition survey £3.3m, Management capacity and expertise £0.7m, Recovery revenue works £1.6m
Programmed Investment Works (Development)	8.0	6.0	(2.0)	Vacancies and savings identified to fund recovery works
Depreciation and impairments of fixed assets	25.7	25.2	(0.5)	Rebased calculation with adjusted asset lives
Interest Payable	17.7	18.0	0.3	Increasing interest rates on loans 4% budgeted, 6% actual
Other Expenditure	1.7	1.4	(0.3)	Refund from triannual pension settlement
<b>Total expenditure</b>	<b>97.6</b>	<b>102.0</b>	<b>4.4</b>	
(Surplus) / Deficit in year	<b>(0.8)</b>	<b>3.6</b>	<b>4.4</b>	

## Appendix 2

### HRA Draft Budgets for 2024/25 to 2026/27

	2024/25 £m	2025/26 £m	2026/27 £m
<u>Income</u>			
Dwelling rents	(101.6)	(102.4)	(102.5)
Non-dwelling rents	(0.8)	(0.8)	(0.8)
Charges for services and facilities	(5.0)	(5.2)	(5.3)
Contributions towards expenditure	(0.9)	(1.1)	(1.1)
Interest on balances	(1.0)	(0.8)	(1.0)
<b>Total income</b>	<b>(109.3)</b>	<b>(110.2)</b>	<b>(110.6)</b>
<u>Expenditure</u>			
Finance	2.8	2.9	2.9
Community Safety	2.3	2.3	2.4
Strategy	2.1	2.1	2.1
Management & Admin	11.3	11.2	11.4
Community Housing	13.1	13.4	13.7
Responsive and cyclical repairs (Maintenance)	17.7	16.2	16.4
Programmed Investment Works (Development)	8.9	9.0	9.2
Depreciation and impairments of fixed assets	26.5	27.0	27.6
Interest Payable	18.6	19.7	21.3
Revenue Contribution Capital Expenditure	0.0	0.0	0.0
Other Expenditure	1.7	1.8	1.8
<b>Total expenditure</b>	<b>105.0</b>	<b>105.6</b>	<b>108.8</b>
<b>Surplus (-) / Deficit (+) in year</b>	<b>(4.3)</b>	<b>(4.6)</b>	<b>(1.8)</b>
<b>Surplus brought forward</b>	<b>(1.4)</b>	<b>(5.7)</b>	<b>(10.3)</b>
<b>Surplus carried forward</b>	<b>(5.7)</b>	<b>(10.3)</b>	<b>(12.1)</b>

## Appendix 3

### Proposed capital programme 2023/24 to 2026/27

	<b>2023/24 latest £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Responsive and cyclical repairs (Maintenance)	12.1	17.5	18.2	18.9
Programmed Investment Works (Development)	37.9	69.9	74.1	74.5
<b>Total</b>	<b>58.0</b>	<b>87.4</b>	<b>92.3</b>	<b>93.4</b>

### Resources

	<b>2023/24 latest £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Borrowing	0.0	16.3	21.7	41.2
Major repairs reserve	25.1	26.4	26.9	27.5
Usable capital receipts	32.0	43.7	43.7	24.7
Other (grants)	0.9	1.0	0.0	0.0
<b>Grand Total</b>	<b>58.0</b>	<b>87.4</b>	<b>92.3</b>	<b>93.4</b>