

Meeting of the Cabinet – 15th February 2024

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

Review of Housing Finance

Purpose

1. The purpose of this report is:
 - a. To present the latest HRA financial forecasts for 2023/24.
 - b. To set rents for council homes for 2024/25.
 - c. To set the Housing Revenue Account (HRA) budget for 2024/25.
 - d. To update the capital expenditure budget for strategic investment and necessary programmed maintenance of the Council's housing stock for 2023/24 to 2026/27.
 - e. To approve the Medium Term Financial Strategy

Recommendation

2. That Cabinet:
 - note the latest HRA outturn forecast for 2023/24 (paragraphs 8 - 14 and Appendix 1)
 - approve the increase in rents for HRA dwellings by 7.7% from 1st April 2024 (paragraphs 15 - 17)
 - approve the introduction of service charges at full cost recovery (paragraph 18)

That Cabinet recommends to Council:

- approve the HRA revenue budget for 2024/25 (paragraph 19 - 21 and Appendix 2)
- approve the public sector housing revised capital budgets for 2024/25 to 2026/27 attached as Appendix 3, noting consultation arrangements outlined in paragraphs 4 - 7.
- authorise the Director of Housing and Communities and the Director of Finance and Legal to bid for and enter into funding arrangements for additional resources to supplement investment in the public sector housing stock as outlined in paragraphs 24 to 29 and Appendix 3 and that expenditure funded from such resources be added to the Capital Programme
- authorise the Director of Housing and Communities, in consultation with the Cabinet Member for Housing and Safer Communities, to manage and allocate resources to the capital programme as outlined in paragraphs 24 to 29 and Appendix 3
- authorise the Director of Housing and Communities, in consultation with the Cabinet Member for Housing and Safer Communities, to develop and implement service charges as outlined in paragraph 18
- confirm that all capital receipts arising from the sale of HRA assets (other than any receipts that may be specifically committed to support private sector housing) should continue to be used for the improvement of council homes (paragraphs 24 to 29 and Appendix 3)
- authorise the Director of Housing and Communities to continue to buy back former right to buy properties, to buy other properties, and to buy land where required to assemble a viable site for housing development, subject to a robust assessment of good value for money and sustainability in terms of lettings, maintenance and major works (paragraphs 24 to 29 and Appendix 3)

- authorise the Director of Housing and Communities to procure and enter into contracts for the delivery of the capital programme, as outlined in paragraphs 24 to 29 and Appendix 3
- receive the HRA medium term financial strategy.

Background

3. 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.

Budget Consultation

4. Officers have met with the Board of the Dudley Federation of Tenants' and Residents' Associations (DFTRA) and the Housing Board in January 2024 to discuss proposals for rent levels and sundry charges in 2024/25 onwards and the priorities in the HRA budget, including the capital programme.
5. These proposals were also detailed in the Review of Housing Finance report, which was presented to Cabinet in December 2023 and formed the basis of a report to the Housing and Safer Communities Select Committee in January 2024. There were no formal resolutions to make recommendations to Cabinet.
6. The proposals were also discussed at the Housing Assurance Board in February 2024, and the Board formally recorded its support for the proposals.
7. Throughout the consultation and discussions outlined in paragraphs 4 to 6 above the main theme of conversation has focused upon affordability for customers and the need to ensure appropriate advice and support for customers who may be financially impacted by the proposals. Proposals to introduce a discretionary transitional fund were welcomed by all involved in the discussion.

HRA Outturn Forecast 2023/24

8. 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.
9. The balance brought forward from 2022/23 was £5.1m, compared to the £2.2m originally budgeted. This was reported to Cabinet on 6th July 2023.
10. 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 £3.6m leaving a reserves balance of £2.3m at 31st March 2024 as outlined in paragraph 12.

	Budget 23/24 £m	Forecast 23/24 £m	Variance 23/24 £m
Total income	(98.4)	(98.3)	0.1
<u>Expenditure</u>			
Finance	2.6	2.4	(0.2)
Community Safety	1.4	1.3	(0.1)
Strategy	2.0	1.6	(0.4)
Management & Admin	9.0	8.9	(0.1)
Community Housing	11.2	10.8	(0.4)
Technical adjustments	0.0	0.0	0.0
Responsive and cyclical repairs (Maintenance)	18.3	20.8	2.5
Programmed Investment Works (Development)	8.0	10.4	2.4
Depreciation and impairments of fixed assets	25.7	25.2	(0.5)
Interest Payable	17.7	18.3	0.6
Revenue Contribution	0.0	0.0	0.0
Capital Expenditure			
Other Expenditure	1.7	1.4	(0.3)
Total expenditure	97.6	101.1	3.5
Total: (surplus) or deficit for the year	(0.8)	2.8	3.6

11. 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 £0.5m,
- Increased interest on balances (£0.8m)
- Non delivery of tenant recharges £0.2m
- Other income variances £0.2m
- Stock condition survey £3.3m
- Management capacity and expertise £0.3m
- Net recovery revenue works £1.6m
- Increased reactive works £0.6m

- Depreciation adjustment (£0.5m)
- Total net savings from vacancies (£2.6m) 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 £0.2m
- Increased borrowing costs due to rising interest rates £0.6m.
- Refund from triannual pension settlement (£0.3m)
- Other variances £0.3m

12. The impact on HRA balances is shown below:

	Budget £m	Latest Forecast £m
Forecast Balance at 31 March 2023	2.2	2.2
Favourable 2022/23 outturn		2.9
Balance at 31st March 2023	2.2	5.1
Planned addition to balances	(0.8)	(0.8)
Forecast variance against budget 2023/24		3.6
Balance at 31 March 2024	3.0	2.3

13. In addition there are forecast earmarked balances at 31st March 2024, mainly resulting from externally funded grants £2.6m.
14. Forecast reserve balances are less than budgeted figures for March 2024, and are forecast to stand at 2.4% 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 2023 was 6.7% which would allow weekly rents to be increased by 7.7% compared to 2023/24 levels.

16. 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 17 illustrates the impact of a 7.7% rent increases.
17. 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.

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

Service Charges

18. 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 £11.54 per week for tenants in homes with communal areas. £0.2m has been set aside to support tenants unable to pay and a policy is being written.

Medium Term Financial Strategy 2024/2025 to 2026/2027

19. 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.
20. The proposed draft HRA budget for 2024/25 to 2026/27 is shown below. This budget is based on implementing the maximum 7.7% rent increase, and service charges at full cost recovery, which would take effect from 1st April 2024, and building in additional resources to meet inflationary pressures. It is anticipated inflation will reduce and rent increases are assumed at 3% in 25/26 and 2% in 26/27.

	2024/25 £m	2025/26 £m	2026/27 £m
<u>Income</u>			
Dwelling rents	(101.9)	(102.8)	(102.9)
Non-dwelling rents	(0.8)	(0.8)	(0.8)
Charges for services and facilities	(4.5)	(4.6)	(4.7)
Contributions towards expenditure	(0.9)	(1.1)	(1.1)
Interest on balances	(1.2)	(1.6)	(1.8)
Total income	(109.3)	(110.9)	(111.3)
<u>Expenditure</u>			
Finance	2.8	2.8	2.9
Community Safety	1.6	1.6	1.7
Strategy	2.4	2.1	2.2
Management & Admin	11.0	11.2	11.4
Community Housing	13.5	13.8	14.0
Responsive and cyclical repairs (Maintenance)	17.3	15.8	15.9
Programmed Investment Works (Development)	9.8	10.0	10.1
Depreciation and impairments of fixed assets	26.5	27.0	27.6
Interest Payable	19.0	20.5	21.7
Revenue Contribution Capital Expenditure	0.0	0.0	0.0
Other Expenditure	1.7	1.8	1.8
Total expenditure	105.6	106.6	109.3
Surplus (-) / Deficit (+) in year	(3.7)	(4.3)	(2.0)
Surplus brought forward	(2.3)	(6.0)	(10.3)
Surplus carried forward	(6.0)	(10.3)	(12.3)

21. The movements from the proposals presented to Cabinet in December 23 are detailed in Appendix 2.

Estimates, Assumptions & Risk Analysis

22. 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 the savings proposals and implementation of service charges will be delivered as planned;
 - iii. that pay inflation does not vary materially from current forecasts;
 - iv. that cash limited non-pay budgets will be managed so as to absorb any price inflation not specifically provided for in 2024/25 and any inflationary pressures in 2025/26 and 2026/27 will be no more than the amount provided for;
 - v. that borrowing costs remain within existing forecasts;
 - vi. that employer contributions to the Local Government Pension Scheme (LGPS) from 2026/27 onwards are in line with contributions in the current triennial review period;
 - vii. 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.
23. 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

24. In February 2023, a three-year housing public sector capital programme was agreed, which reflected enhanced investment using the HRA's new borrowing flexibility. The three-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.

25. 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 28th 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.
26. 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 to. 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, uncertainty around the outcomes of the stock condition survey and Decent Homes 2 could have a significant impact on the Councils ability to provide landlord services. In view of the 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. Although the MTFS shows an increased level of reserves these provide some contingency to address any unforeseen

cost pressures mainly arising from the stock condition survey and Decent Homes 2.

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 spending controls include controls over recruitment.

Commercial / Procurement

- 36. This report relates to our statutory functions as a social housing landlord and there are no direct commercial implications.
- 37. The spending controls include controls over letting of contracts.

Environment / Climate Change

- 38. Individual projects and major schemes are assessed for their environmental impact before they commence. The Council declared a Climate Emergency in July 2020 and has a goal to become carbon net zero by 2030. It is also committed to addressing United Nations Sustainable Development Goals, including those relating to poverty, health and wellbeing and reducing inequalities.

Council Priorities and Projects

- 39. This report relates to our statutory functions as a social housing landlord and will contribute to the health, wellbeing, and safety of our tenants. Through the destination of choice priority of the 2022-25 council plan, housing which is affordable and accessible is a key outcome. This will be achieved through investment and maintenance

of the council's housing stock. This report also reflects the importance of financial sustainability which will be a key council priority for the coming year.



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List of Background Papers - none

Appendix 1

HRA Budget and Forecast 2023/24

	Budget 2023/24 £m	Latest Forecast 2023/24 £m	Forecast Variance 2023/24 £m	Comment
<u>Income</u>				
Dwelling rents	(96.2)	(95.7)	0.5	Higher void losses budgeted 2%, actual 2.5% £0.5m
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)	(0.7)	0.4	Tenant recharges £0.2m, Other variances £0.2m
Interest on balances	(0.1)	(0.9)	(0.8)	Increased interest rates 1.5% budgeted, 4.5% actual, increased capital receipts pooling reserves.
Total income	(98.4)	(98.3)	0.1	
<u>Expenditure</u>				
Finance	2.5	2.4	(0.1)	Vacancies (£0.2m) offsetting pay award impact £0.1m
Community Safety	1.4	1.3	(0.1)	Vacancies (£0.2m) offsetting pay award impact £0.1m
Strategy	2.0	1.6	(0.4)	Vacancies (£0.4m)
Management & Admin	9.0	8.9	(0.1)	Release contingency (£0.1m)

	Budget 2023/24 £m	Latest Forecast 2023/24 £m	Forecast Variance 2023/24 £m	Comment
Community Housing	11.2	10.8	(0.4)	Vacancies (£0.8m) offsetting pay award impact £0.2m, Utilities inflation £0.2m
Responsive and cyclical repairs (Maintenance)	18.4	20.8	2.4	Net vacancies (£1.4m), Stock condition survey £3.3m, Management capacity and expertise £0.3m, Revenue works £0.2m
Programmed Investment Works (Development)	8.0	10.4	2.4	£1.6m recovery works, £0.6m Section 11 disrepair costs, £0.2m other variances
Depreciation and impairments of fixed assets	25.7	25.2	(0.5)	Rebased calculation with adjusted asset lives
Interest Payable	17.7	18.3	0.6	Increasing interest rates on loans 4% budgeted, 6% actual
Other Expenditure	1.7	1.4	(0.3)	Refund from triannual pension settlement
Total expenditure	97.6	101.1	3.5	
(Surplus) / Deficit in year	(0.8)	2.8	3.6	

Appendix 2

HRA Proposed Budgets for 2024/25 to 2026/27

	2024/25 £m	2025/26 £m	2026/27 £m
Previously reported Surplus (-) in year	(4.4)	(4.7)	(1.8)
Service charges – reduced based on detailed calculation	0.4	0.5	0.5
Service charge void rate included	0.1	0.1	0.1
Rent – increased stock due to reduced disposals in 23/24	(0.3)	(0.4)	(0.4)
Interest on balances due to higher interest rate assumptions	(0.1)	(0.7)	(0.8)
Interest payable due to increased borrowing	0.4	0.8	0.4
Temporary accommodation growth removed, to be funded by grants	(0.7)	(0.7)	(0.7)
Include support fund for service charges	0.2		
Increased capacity within community housing service	0.3	0.3	0.3
Increased programmed investment works (Development)	0.4	0.5	0.4
Surplus (-) in year	(3.7)	(4.3)	(2.0)
Surplus brought forward	(2.3)	(6.0)	(10.3)
Surplus carried forward	(6.0)	(10.3)	(12.3)

Appendix 3

Proposed capital programme 2023/24 to 2026/27

	2023/24 latest £m	2024/25 £m	2025/26 £m	2026/27 £m
Responsive and cyclical repairs (Maintenance)	17.9	17.5	18.2	18.9
Programmed Investment Works (Development)	41.0	69.9	74.1	74.5
Total	58.9	87.4	92.3	93.4

Resources

	2023/24 latest £m	2024/25 £m	2025/26 £m	2026/27 £m
Borrowing	9.2	19.2	21.7	39.2
Major repairs reserve	25.1	26.4	26.9	27.5
Usable capital receipts	22.7	40.8	43.7	26.7
Other (grants)	1.9	1.0	0.0	0.0
Grand Total	58.9	87.4	92.3	93.4