

## **Meeting of the Council – 27<sup>th</sup> February, 2023**

### **Report of the Cabinet**

### **Deployment of Resources: Housing Revenue Account and Public Sector Housing Capital**

#### **Purpose**

1. This report deals with the following issues:
  - The latest Housing Revenue Account (HRA) financial forecasts for 2022/23.
  - The setting of rents for Council homes for 2023/24.
  - The setting of the HRA budget for 2023/24.
  - The update of the capital expenditure budget for strategic investment and necessary programmed maintenance of the Council's housing stock for 2022/23 to 2027/28.
  - Approval of the Medium-Term Financial Strategy.

#### **Recommendation**

2. That the Council:
  - Note the latest HRA outturn forecast for 2022/23 (paragraphs 5 - 9 and Appendix 1).
  - Note the increase in rents for HRA dwellings by 7% from 3<sup>rd</sup> April, 2023 (paragraphs 10 - 13).
  - Approve the HRA revenue budget for 2023/24 (paragraph 18 and Appendix 2).
  - Approve the public sector housing revised capital budgets for 2023/24 to 2027/28 attached as Appendix 3, noting consultation arrangements outlined in paragraph 4
  - 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 19 to 28

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 Communities, to manage and allocate resources to the capital programme as outlined in paragraphs 19 to 28 and Appendix 3.
- 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 19 to 28 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 19 to 28 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 19 to 28 and Appendix 3.
- Endorse 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 2023 to discuss proposals for rent levels and sundry charges in 2023/24 onwards and the priorities in the HRA budget, including the capital programme. These proposals were also detailed in the Review of Housing Finance report, which was presented to Cabinet in December 2022 and formed the basis of a report to the Housing and Public Realm Scrutiny Committee in January 2023.

## HRA Outturn Forecast 2022/23

5. The current budget for 2022/23 approved by Cabinet on 17th February 2022 shows a deficit on the HRA of £1.8m at 31st March 2023. This included a 3.99% rent increase. There are now a number of variations expected to the budget and further details are shown in Appendix 1.
6. The balance brought forward from 2021/22 was £6m, compared to the £3.5m originally budgeted. This was reported to Cabinet on 27<sup>th</sup> June 2022.
7. The original 2022/23 budget and the latest forecast for 2022/23 are shown in the following table. The latest forecast shows a deficit of £3.8m leaving a reserves balance of £2.2m at 31<sup>st</sup> March 2023 as outlined in Paragraph 11.

	<b>Budget 22/23 £m</b>	<b>Forecast 22/23 £m</b>	<b>Variance 22/23 £m</b>
<b>Total income</b>	<b>-93.4</b>	<b>-92.4</b>	<b>1.0</b>
<b>Expenditure</b>			
Access & Prevention	2.4	2.1	-0.3
Finance	2.3	2.2	-0.1
Housing Options	5.4	5.4	0.0
Management & Admin	7.2	7.3	0.1
Tenancy & Estates	7.0	7.0	0.0
Strategy	1.1	1.0	-0.1
Technical adjustments	-2.7	-1.9	0.8
Responsive & cyclical repairs	27.5	29.3	1.8
Depreciation and impairments of fixed assets	25.3	24.1	-1.2
Interest Payable	17.5	17.7	0.2
Other Expenditure	2.2	2.1	-0.1
<b>Total expenditure</b>	<b>95.2</b>	<b>96.2</b>	<b>1.0</b>
<b>Total: surplus or deficit for the year</b>	<b>1.8</b>	<b>3.8</b>	<b>2.0</b>

8. The latest forecast for 2022/23 includes the following key variations to the budget:

- Reduced income due to voids being higher than budgeted, stock profiling and other differences £1.0m.
- Increased management costs due to the proposed pay award. The budget assumed a 2% pay award. The actual pay award is £1,925 on all scale points equating to 7% overall £0.8m.
- Increased borrowing costs due to rising interest rates £0.2m and other staff variances £0.2m due to Interim arrangements and temporary posts.
- Increased revenue repairs and maintenance costs due to inflationary increases, energy prices and pressure on voids £1.0m, offset by reduced depreciation costs due to more capitalised works relating to the fabric of the building and depreciated over a longer period of time -£1.2m.

9. The impact on HRA balances is shown below:

	<b>Budget £m</b>	<b>Latest Forecast £m</b>
Forecast Balance at 31 March 2022	3.5	3.5
2021/22 outturn (as reported to June Cabinet)		2.5
<b>Balance at 31<sup>st</sup> March 2022</b>	3.5	6.0
Planned use of balances	-1.8	-1.8
Forecast variance against budget 2022/23		-2.0
<b>Balance at 31 March 2023</b>	<b>1.7</b>	<b>2.2</b>

### Rent Increase

10. 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 19th October was 10.1% which would allow weekly rents to be increased by 11.1% compared to 2022/23 levels.

11. The Government recently 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.
12. The full rent increase of 7% is being implemented to partly mitigate the impact of inflationary increases on pay, utilities and the cost of borrowing.
13. The current average rent for 2022/23 is £83.49, the proposed increase of 7% for 2023/24 will move average rents to £89.33 an average increase of £5.84 per week.

<b>Year</b>	<b>Rent increase %</b>	<b>Average weekly rent</b>	<b>Weekly Increase on 22/23</b>
<b>2023/24</b>	+7%	£89.33	£5.84

#### Medium Term Financial Strategy 2023/2024 to 2025/2026

14. Inflationary pressures are expected to continue into 2023/24, with assumed pay awards of 4% for 2023/24 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.
15. The proposed HRA budget for 2023/24 to 2025/26 is shown in Appendix 2. This budget is based on implementing the maximum allowed 7% rent increase which would take effect from 3<sup>rd</sup> April 2023, building in additional resources to meet inflationary pressures.
16. Despite the proposed rent increase of 7% in 2023/24 and an assumed 3% increase in subsequent years, the HRA was expected to have deficits of £2.6m, £3.8m and £5.1m in each year respectively, before any specific spending or savings were identified as per the following table.

	<b>23/24 £m</b>	<b>24/25 £m</b>	<b>25/26 £m</b>
<b>2022/23 Base Income</b>	<b>(93.4)</b>	<b>(93.4)</b>	<b>(93.4)</b>
Rent increase (7%, 3%, 3%)	(6.4)	(9.5)	(12.5)
Void level adjustments	0.3	0.4	0.4
Stock profile adjustments	0.8	1.9	2.5
Other income	0.0	0.0	0.0
<b>Base budget forecast income</b>	<b>(98.7)</b>	<b>(100.6)</b>	<b>(103.0)</b>
<b>2022/23 Base Expenditure</b>	<b>95.2</b>	<b>95.2</b>	<b>95.2</b>
Pay Award	2.6	3.1	3.7
Interest rates rise & borrowing	1.0	0.4	0.6
General Inflation	2.5	5.7	8.6
<b>Base budget forecast expenditure</b>	<b>101.3</b>	<b>104.4</b>	<b>108.1</b>
<b>Base budget deficit</b>	<b>2.6</b>	<b>3.8</b>	<b>5.1</b>

17. In order to return the HRA to a surplus and sustainable position, 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>23/24 £m</b>	<b>24/25 £m</b>	<b>25/26 £m</b>
<b>Base budget deficit (+) / Surplus (-)</b>	<b>2.6</b>	<b>3.8</b>	<b>5.1</b>
<b>Proposed Savings</b>			
Transfers to grants	(0.1)	(0.1)	(0.1)
Transfers to General Fund	(1.3)	(1.3)	(1.3)
Recharges for damages	(0.2)	(0.3)	(0.5)
Increase leaseholder fee	(0.1)	(0.1)	(0.1)
Reduce social decorations	(0.1)	(0.1)	(0.2)
Review garden clearance	(0.2)	(0.3)	(0.3)
Freeze vacancies	(1.0)	(1.0)	(1.0)
Remove Voluntary Repayment of Principal	(0.1)	(0.3)	(0.5)
Introduction of service charges	0.0	(1.9)	(1.9)

Reduce borrowing costs by reducing the existing capital programme	(0.3)	(0.9)	(2.1)
<b>Total Proposed Savings</b>	<b>(3.4)</b>	<b>(6.3)</b>	<b>(7.9)</b>
<b>Additional Spending</b>			
Grounds Maintenance in Communal areas	0.0	0.3	0.3
Cleaning in flatted communal areas	0.0	0.7	0.7
<b>Total Additional Spending</b>	<b>0.0</b>	<b>1.0</b>	<b>1.0</b>
<b>Net Savings and Growth</b>	<b>(3.4)</b>	<b>(5.3)</b>	<b>(6.9)</b>
<b>Revised deficit (+) / Surplus (-)</b>	<b>(0.8)</b>	<b>(1.5)</b>	<b>(1.8)</b>
<b>Balances b/f</b>	<b>2.2</b>	<b>3.0</b>	<b>4.5</b>
<b>Balances c/f</b>	<b>3.0</b>	<b>4.5</b>	<b>6.3</b>

#### Detailed 2023/24 Budget Proposals

18. The following revenue budget allocations to services are now recommended to the Council. Latest budgets for the MTFS are shown at Appendix 2.

	<b>2023/24 £m</b>
<u>Income</u>	
Dwelling rents	-96.2
Non-dwelling rents	-0.8
Charges for services and facilities	-0.2
Contributions towards expenditure	-1.1
Interest on balances	-0.1
<b>Total income</b>	<b>-98.4</b>
<u>Expenditure</u>	
Finance	2.5
Housing Options	5.6
Management & Admin	9.0
Tenancy & Estates	7.0
Strategy	1.2
Technical adjustments	0.4
Responsive and cyclical repairs (Maintenance)	20.5
Programmed Investment Works (Development)	6.3

Depreciation and impairments of fixed assets	25.7
Interest payable	17.7
Revenue contribution to capital expenditure	0
Other expenditure	1.7
<b>Total expenditure</b>	<b>97.6</b>
<b>Surplus (-) / Deficit (+) in year</b>	<b>-0.8</b>
<b>Surplus brought forward</b>	<b>-2.2</b>
<b>Surplus carried forward</b>	<b>-3.0</b>

### Public Sector Housing Capital Programme

19. In February 2022, 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.
20. In light of the changing economic climate and the impact of the 7% rent cap announced in the Autumn Statement the HRA capital and revenue budgets are under pressure and consequently the five year capital programme has been reviewed to ensure that planned investment prioritises works which will ensure the safety and quality of our existing homes. The revised capital programme reflecting latest forecasts is shown at Appendix 3.
21. To ensure a viable HRA, the capital programme for 2023/24 to 2025/26 includes a reduction in borrowing which, while reducing revenue spend on interest repayments, requires capital investment in certain elements of the themes within the HAMS to be either reduced or, in some cases, put on hold. In summary, capital borrowing and investment over the next three financial years will prioritise:
- Ensuring regulatory compliance and building safety
  - Ensuring adequate investment in void properties to reduce void loss and meet an acceptable void standard.



22. We will invest, where financially possible, in measures which improve the efficiency of our homes, seeking to reduce fuel poverty and poor energy efficiency.
23. We will ensure that we meet our financial obligations arising out of contractual arrangements with suppliers and, where possible, will seek to honour commitments to match funding.
24. While building new homes provides additional rental income to the HRA, we recognise that we will need to build less new homes than we had planned to in the next three financial years in order to divert capital spend to fund our compliance, repair and housing quality priorities and obligations.
25. 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 on new homes and remodelling, we do so recognising that these plans will be put on hold until investment in our priorities is complete or until we are in a position to increase borrowing to widen out our capital programme and realign it with the themes within our HAM.
26. Grant funding will be accessed where possible to support investment. The Council continues to be qualified as a Homes England Investment Partner and is also qualified to participate in the new Affordable Homes Programme 2021 – 26.
27. The proposed five year capital programme at Appendix 3 sets out a reduced capital programme developed in line with these principles. The financial consequences to the HRA revenue budget have also been factored into our Medium Term Financial Strategy.
28. The proposed capital programme continues to follow the principles approved in February 2022 and reflects the priorities of the Council Plan, and the Housing Asset Management Strategy 2019 – 2029, while acknowledging the need to have a more targeted approach to capital investment reflecting the reduced borrowing capacity. A revised capital programme reflecting latest forecasts is shown at Appendix 3.

## **Finance**

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

## **Law**

30. 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**

31. The proposals in this report are based on a number of estimates, assumptions and professional judgements, which are subject to continuous review:
- i. that pay inflation does not vary materially from current forecasts;
  - ii. 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;
  - iii. that borrowing costs remain within existing forecasts;
  - iv. that government policy on maximum rent increases for future years will revert back to CPI plus 1%;
  - v. that there will be no material losses to the Council as a result of loans, guarantees and/or grant clawback;
  - vi. that the savings proposals set out in paragraph 34 will be delivered as planned;
  - 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.
  - viii. that the HRA maintains a sufficient level of reserves to sustain its financial resilience
32. 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.

33. 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**

34. In line with the Public Sector Equality Duty, Heads of Service have been asked to identify which savings proposals for 2023/24 may have a significant impact on people who share a protected characteristic and to complete equality impact assessments on these proposals in order to establish the extent of the impact. Following this review, there are no new savings proposals for 2023/24 which have been identified as having a significant equality impact, requiring any mitigation.

### **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. While the current financial position requires us to review budgets to focus upon ensuring the safety and regulatory compliance of Dudley MBC homes, all works will take into consideration the environmental impact and will seek to reduce carbon and tackle fuel poverty wherever possible to do so. The Council also remain committed to exploring all opportunities to source additional grant funding to support HRA investment in improving the energy efficiency of Council homes and reducing carbon emissions.

## **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

A handwritten signature in black ink, appearing to read 'P. Hand', is written over a light grey grid background.

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**Leader of the Council**

## Appendix 1

### HRA Budget and Forecast 2022/23

	<b>Original Budget 2022/23 £m</b>	<b>Latest Forecast 2022/23 £m</b>	<b>Forecast Variance 2022/23 £m</b>	<b>Comment</b>
<b>Income</b>				
Dwelling rents	-91.0	-89.8	1.2	Higher void losses budgeted 1.8%, actual 2.4% £0.6m, stock profile differences: 62 Properties not in management £0.3m, other £0.3m
Non-dwelling rents	-0.9	-0.7	0.2	Reduced telecoms income
Charges for services and facilities	-0.2	-0.2	0.0	
Contributions towards expenditure	-1.3	-1.5	-0.2	Increased volume of leaseholder recharges
Interest on balances	0.0	-0.2	-0.2	Increased interest rates 0.5% budgeted, 1.5% actual
<b>Total income</b>	<b>-93.4</b>	<b>-92.4</b>	<b>1.0</b>	

	<b>Original Budget 2022/23 £m</b>	<b>Latest Forecast 2022/23 £m</b>	<b>Forecast Variance 2022/23 £m</b>	<b>Comment</b>
<b><u>Expenditure</u></b>				
Access & Prevention	2.4	2.1	-0.2	Pay award pressure £0.1m, offset by recharges for GF services (£0.3m)
Finance	2.3	2.3	0.0	Vacancies (£0.1m) offsetting pay award impact £0.1m
Housing Options	5.4	5.4	0.0	Pay award pressures £0.3m partially offset by vacancies and other savings (£0.3m)
Management & Admin	7.2	7.3	0.1	Interim costs £0.1m
Tenancy & Estates	7.0	7.0	0.0	Vacancies (£0.3m) offsetting pay award pressure £0.3m.
Strategy	1.1	1.0	-0.1	Vacancies (£0.1m)
Technical adjustments	-2.7	-1.9	0.8	Staff turnover Savings not realised.
Responsive & cyclical repairs	27.5	29.3	1.8	Increased major repair costs £0.9m and voids costs £0.9m
Depreciation and impairments of fixed assets	25.3	24.1	-1.2	Nature of capital works reviewed and depreciated over a longer period of time.
Interest Payable	17.5	17.7	0.2	Increasing interest rates 0.5% budgeted, 1.5% actual
Other Expenditure	2.2	2.1	-0.1	Pension recharge lower than budgeted
<b>Total expenditure</b>	<b>95.2</b>	<b>96.2</b>	<b>1.0</b>	
Surplus (-)/ Deficit (+) in year	<b>1.8</b>	<b>3.8</b>	<b>2.0</b>	

## Appendix 2

### HRA Proposed Budgets for 2023/24 and Draft Budgets for 2024/25 to 2025/26

	2023/24 £m	2024/25 £m	2025/26 £m
<b>Income</b>			
Dwelling rents	-96.2	-98.2	-100.5
Non-dwelling rents	-0.8	-0.8	-0.8
Charges for services and facilities	-0.2	-2.2	-2.2
Contributions towards expenditure	-1.1	-1.2	-1.4
Interest on balances	-0.1	-0.1	-0.1
<b>Total income</b>	<b>-98.4</b>	<b>-102.5</b>	<b>-105</b>
<b>Expenditure</b>			
Finance	2.5	2.7	2.7
Housing Options	5.6	5.6	5.7
Management & Admin	9.0	9.2	9.4
Tenancy & Estates	7.0	8.1	8.3
Strategy	1.2	1.2	1.3
Technical adjustments	0.4	1.0	1.3
Responsive and cyclical repairs (Maintenance)	20.5	20.8	21.1
Programmed Investment Works (Development)	6.3	6.6	6.9
Depreciation and impairments of fixed assets	25.7	26.2	26.7
Interest payable	17.7	17.9	18
Revenue contribution to capital expenditure	0	0	0
Other expenditure	1.7	1.7	1.8
<b>Total expenditure</b>	<b>97.6</b>	<b>101</b>	<b>103.2</b>
<b>Surplus (-) / Deficit (+) in year</b>	<b>-0.8</b>	<b>-1.5</b>	<b>-1.8</b>
<b>Surplus brought forward</b>	<b>-2.2</b>	<b>-3.0</b>	<b>-4.5</b>
<b>Surplus carried forward</b>	<b>-3.0</b>	<b>-4.5</b>	<b>-6.3</b>

## Appendix 3

### Proposed capital programme 2022/23 to 2027/28

Thematic Programme	2022/23 latest £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Maintaining Existing Homes	15.3	14.7	14.2	14.3	13.8	16.0
Major Works to Empty Homes	13.3	9.1	9.4	9.7	10.0	10.3
Building Safety	0.0	6.0	4.5	4.5	3.9	2.8
Independent Living	16.2	5.1	4.0	3.0	3.0	3.0
Energy, Decarbonisation and Fuel Poverty	7.4	4.4	4.0	4.0	4.0	4.0
Community and Estate Improvements	2.0	1.8	1.4	1.4	1.4	1.4
New Council Housing	7.9	17.5	12.5	5.8	9.8	7.3
Strategic Asset Management	1.3	1.2	0.8	1.4	0.9	0.9
<b>Total</b>	<b>63.4</b>	<b>59.7</b>	<b>50.8</b>	<b>44.1</b>	<b>46.8</b>	<b>45.9</b>

### Resources

	2022/23 latest £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing	0.0	9.0	6.0	0.0	0.0	0.0
Major repairs reserve	23.9	25.5	26.0	26.5	27.1	27.6
Usable capital receipts	32.7	21.6	17.2	16.1	18.7	17.2
Other (grants)	6.8	3.6	1.6	1.5	1.1	1.1
<b>Grand Total</b>	<b>63.4</b>	<b>59.7</b>	<b>50.8</b>	<b>44.1</b>	<b>46.8</b>	<b>45.9</b>