

## **Meeting of the Cabinet – 27th October 2022**

### **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 revenue outturn for the Housing Revenue Account (HRA) for 2022/23.

##### **Recommendation**

2. That Cabinet note the latest HRA outturn forecast for 2022/23 (paragraph 6 and Appendix 1).

##### **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.

##### **HRA Outturn Forecast 2022/23**

4. 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.

	<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>-92.3</b>	<b>1.1</b>
<b><u>Expenditure</u></b>			
Access & Prevention	2.4	2.4	0.0
Finance	2.3	2.3	0.0
Housing Options	5.4	5.7	0.3
Management & Admin	7.2	7.3	0.1
Tenancy & Estates	7.0	7.0	0.0
Strategy	1.1	1.1	0.0
Technical adjustments	-2.7	-2.0	0.7
Responsive & cyclical repairs	27.5	28.7	1.2
Depreciation and impairments of fixed assets	25.3	24.1	-1.2
Interest Payable	17.5	17.6	0.1
Revenue Contribution			
Capital Expenditure	-	-	-
Other Expenditure	2.2	2.1	-0.1
<b>Total expenditure</b>	<b>95.2</b>	<b>96.3</b>	<b>1.1</b>
<b>Total: surplus or deficit for the year</b>	<b>1.8</b>	<b>4.0</b>	<b>2.2</b>

5. 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 £1.1m.
  - Increased management costs due to the proposed pay award. The budget assumed a 2% pay award. The employers' offer is £1,925 on all scale points equating to 7% overall £0.8m.
  - Increased borrowing costs due to rising interest rates £0.1m 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 £1.2m, 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.

6. 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		-2.2
<b>Balance at 31 March 2023</b>	<b>1.7</b>	<b>2.0</b>

7. Inflationary pressures are expected to continue into 23/24 and increasing interest rates are causing an adverse impact on overall budget. The Government has consulted on the rent cap that has been in place for a number of years, which is based on September CPI + 1%. The consultation has been based around a rent cap of 3%, 5% or 7%, at the time of writing the outcome of this consultation is unknown. Further work is being undertaken to assess these pressures and a draft HRA budget will be brought to Cabinet in December.
8. Forecast reserve balances are similar to budgeted outturn figures for March 2023, however inflationary pressures, pay award and interest rate changes have adversely impacted on current year spend. The compounding impact of inflationary and cost of borrowing pressures require further work to determine the full impact.

## **Finance**

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

## **Law**

10. 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**

11. 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 Council's ability to provide landlord services. In view of the worsening outlook, this risk has been elevated to the maximum rating of 25 (Extreme).

## **Equality Impact**

12. 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.
13. 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**

14. 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**

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

## **Environment / Climate Change**

16. 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**

17. 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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**List of Background Papers - none**

## Appendix 1

### HRA Budget and Forecast 2022/23

	Original Budget 2022/23 £m	Latest Forecast 2022/23 £m	Forecast Variance 2022/23 £m	Comment
<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	-1.4	-0.1	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>-92.3</b>	<b>1.1</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>Expenditure</b>				
Access & Prevention	2.4	2.4	0.0	Pay award pressure £0.1m, offset by vacancies (£0.1m)
Finance	2.3	2.3	0.0	Vacancies (£0.1m) offsetting pay award impact £0.1m
Housing Options	5.4	5.7	0.3	Temporary staff pressures £0.1m, pay award pressures £0.3m partially offset by vacancies and other savings (£0.1m)
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	1.1	0.0	
Technical adjustments	-2.7	-2.0	0.7	Staff turnover Savings not realised.
Responsive & cyclical repairs	27.5	28.7	1.2	Increased void repair costs £1.4m partially offset by compliance repairs savings (£0.2m)
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	17.6	0.1	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>96.3</b>	<b>1.1</b>	
<b>Surplus / Deficit in year</b>	<b>1.8</b>	<b>4.0</b>	<b>2.2</b>	