

## Appendix A

## NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – TUESDAY, 10 JANUARY 2023



<b>Title of Report</b>	<b>DRAFT HOUSING REVENUE ACCOUNT BUDGET AND RENTS 2023/24</b>	
<b>Presented by</b>	Councillor Roger Bayliss Housing, Property & Customer Services Portfolio Holder  PH Briefed <input type="checkbox" value="Y"/>	
<b>Background Papers</b>	<a href="#">Budget &amp; Council Tax 2022/23</a> – 24 February 2022	<b>Public Report:</b> Yes
<b>Financial Implications</b>	This report sets out the draft Housing Revenue Account budget including both capital and revenue for 2023/24.  It also sets out the proposed increase in rents along with other planned changes to the fees and charges levied by the Council for some services delivered within the scope of the Housing Revenue Account.	
	<b>Signed off by the Section 151 Officer:</b> Yes	
<b>Legal Implications</b>	No direct legal implications arising	
	<b>Signed off by the Monitoring Officer:</b> Yes	
<b>Staffing and Corporate Implications</b>	The report and its appendices set out plans to create new posts to improve services.	
	<b>Signed off by the Head of Paid Service:</b> Yes	
<b>Purpose of Report</b>	This report seeks Cabinet approval to consult on the draft Housing Revenue Account budget for 2023/24 and the proposals contained within. The outcome of this consultation exercise will be fed back into subsequent reports to Cabinet and Council to seek approval for the final budget in February 2023.	
<b>Recommendations</b>	<b>CABINET IS RECOMMENDED TO PROPOSE THE FOLLOWING FOR CONSULTATION:</b> <ul style="list-style-type: none"> <li>• DRAFT 2023/24 HOUSING REVENUE ACCOUNT BUDGET</li> <li>• RENT INCREASE</li> <li>• DRAFT MTFP FOR 2023/24 TO 2027/28</li> <li>• DRAFT 2023/24 BUDGET PROPOSALS</li> <li>• DRAFT 2023/24 FEES AND CHARGES AS CONTAINED WITHIN THIS REPORT.</li> </ul>	

## **1.0 BACKGROUND AND DISCUSSION**

1.0.1 The Housing Revenue Account (HRA) Medium Term Financial Plan (MTFP) sets out the financial strategic direction for the HRA and is updated as it evolves and develops throughout the year, to form the framework for financial planning.

1.0.2 The purpose of the HRA MTFP is to set out the key financial management principles, budget assumptions and service issues. It is then used as the framework for the detailed budget setting process to ensure that resources are effectively managed and are able to deliver the aspirations of the Council, as set out in the Council Plan, over the medium term.

### **1.1 Context**

1.1.1 The Council is setting the HRA budget at a time when it and residents face a range of issues to contend with. In broad terms these can be split into two categories: economic and housing. Each of these is explored below:

#### **1.2 Economic**

1.2.2 The national economic position has been influenced by a number of factors in recent years including the Covid-19 pandemic, Brexit, Russian invasion of Ukraine and the cost of living crisis. Nationally this has led to high inflation and increases in borrowing costs.

1.2.3 For the Council this means an increase in the cost of all of its inputs, 100% increase in energy costs, other costs inflating between 9% and 30%. The cost of borrowing to fund capital expenditure has also increased significantly.

#### **1.3 Housing**

1.2.3 The government has introduced zero carbon policy initiatives which have implications for housing. In the November 2022 Autumn Statement, the government sought to address affordability of social rent increases by announcing a 7% cap for 2023/24. There has also been media focus on disrepair in rented housing and the high demand for rented housing.

1.2.4 Recognising the wider context within which the budget is being set, the Council has used a new process to develop its draft budget plans for 2023/24 and over the medium term. This recognises the greater focus within the organisation on its finances. The new process, coupled with that used in previous years, has involved:

- Services completing budget proposal forms to justify the need for any changes to the budget.
- Budget challenge sessions, with follow ups as required, between the Chief Finance Officer and Heads of Service.
- Regular reporting to the Corporate Leadership Team of the Council's overall budget position.
- Engagement with councillors through Portfolio Holder briefings and an all councillor budget briefing.
- Further engagement is planned through scrutiny, consultation with the public and the Tenant and Leaseholder Consultation Forum

### 1.3 Budget Assumptions

1.3.1 The following budget assumptions have been built into the forecast:

- Pay award – £1,925 per full time equivalent (FTE) 2022/23 (actual), 4% in 2023/24, 3% in 2024/25 and 2% from 2025/26.
- Contracts have been linked to the CPI/RPI as per individual agreements.
- Inflation – fuel has been increased by 30%, gas by 86% and electricity by 100%.
- Fees and charges – there have been some fees and charges increased by inflation and where appropriate these have taken been into account where demand has changed (please see section 2.3 for more detailed information on fees and charges).
- In broad terms other expenditure has not had any inflationary factor applied with a few exceptions where material costs have had to be increased to keep up with rising prices (e.g. Grounds Maintenance).
- Rent is assumed to increase by 7% in 2023/24 and revert to CPI+1% thereafter.
- Properties sold through Right to Buy is assumed to remain steady at 44 per year.
- Future borrowing is assumed to cost 4.5% in interest.

## 2.0 HOUSING REVENUE ACCOUNT BUDGET AND MTFS 2022/23 to 2027/28

### 2.1 HRA Budget Summary

2.1.1 Appendix 1 shows the HRA budget position for 2022/23 and the draft budget for 2023/24 to 2027/28.

2.1.2 Table 1 below highlights that in 2023/24 the net revenue expenditure has increased by £1,674k compared to 2022/23 whilst the anticipated income has increased by £1,525k.

**Table 1: Changes to the Housing Revenue Account budget from previous year**

	<b>2022/23</b>	<b>2023/24</b>	<b>Movement</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Income	-18,524	-20,050	-1,526
Operating Expenditure	15,235	16,908	1,673
<b>Operating (surplus)/deficit</b>	<b>-3,289</b>	<b>-3,142</b>	<b>147</b>
Targeted J2SS/MTFP savings	-325	-	325
Appropriations	3,550	8,718	5,168
<b>Net (surplus)/deficit</b>	<b>-64</b>	<b>5,576</b>	<b>5,640</b>

2.1.3 The table shows the Journey to Self Sufficiency (J2SS) budgeted savings for 2022/23. This is unlikely to be achieved in 2022/23 so due to this the Council has had to reset its strategy. In line with the guiding principles of financial stability and sustainability, savings targets have not been built into budget. Instead, the focus is on developing a robust Medium Term Financial Plan (MTFP) which can be implemented and delivered.

2.1.4 The appropriations in the table is the use of the HRA working balance to fund the capital programme as well as contributing to the loan repayment reserve. These appropriations are significantly higher in 2023/24 in order to set aside £3.2m funding towards repaying debt. In line with best practice the MTFP maintains the working balance at £1m to cater for unforeseen in-year costs which could otherwise cause the HRA to go into deficit.

## 2.2 Rents

2.2.1 As a self-financing account, the HRA's main source of income is the rents tenants pay for their homes. The Council proposes to increase the rents for 2023/24 to 7% which is in line with the sub-inflation cap set by the Government on social rents for 2023/24. The impact on our most vulnerable tenants will be reduced as the Government's announcements regarding benefit uplifts are in excess of the proposed 7% rental increase. The increase is expected to result in a total rental income of £19.3 million in 2023/24.

2.2.2 The Council will maintain its policy of capping rents for Affordable Rent homes at the level of the relevant Local Housing Allowance. Local Housing Allowance is used as a measure of affordability.

2.2.3 The average weekly rent for the 3,965 Social Rent properties, will increase from £86.92 to £93.05, an average increase of £6.13 per week. For the 133 affordable rent properties, the average increase will be £8.45, giving a rent of £129.24 for these properties. Both of these rents are based on 50 weeks per year.

## 2.3 Budget Proposals

2.3.1 Appendix 2 summarises the proposed changes to the HRA budgets that exceed £15k. Looking at 2023/24 specifically, the total budget proposals of £473k include:

- **Changes in income totalling £1,542k.** This is largely due to the increased rental income described in paragraph 2.2.1.
- **Cost pressures totalling £2,897k.** The most significant cost pressures relate to:
  - inflation of £1,724k has impacted across the service but energy costs £529k, general materials £387k, repairs £282k and grounds maintenance £250k are particularly significant.
  - pay related costs are due to increase by £515k, due to a combination of funding the unbudgeted balance of the pay award for 2022/23 and a forecast pay award of 4% for 2023/24
  - service pressures totalling £658k include £113k for Energy Performance Certificates to cover 1,300 surveys required in 2023/24 and a removal of the £325k savings budget which cannot be achieved due to the acute budget pressures impacting services.
- **Service developments of £179k.** The planned restructure of the Asset Management team costing £115k will equip the team to effectively deliver the service including the proposed Zero Carbon programme.

## 2.4 Fees and charges

2.4.1 In addition to the rental charged for dwellings, there are a number of other fees and charges in relation to services provided within the HRA. Some properties have service charges, on top of the rent, to pay for specific services relevant to their properties. The proposed fees and charges for 2023/24 are listed in Appendix 3. The main changes are listed below:

- Energy Charges for shared/common parts increasing by 20%
- Central Heating – Increasing by 20% due to energy price increases

Further work is being undertaken between draft and final to ensure these increased charges are fair both to tenants who receive this service and tenants who do not.

## 3.0 HRA CAPITAL PROGRAMME 2023/24 TO 2027/28

3.1.1 The proposed HRA capital programme is outlined in Appendix 4. In 2022/23 there is forecast delivery of less than 50% of the programme and there is potential for further slippage in the 2023/24 programme particularly the £4.5m Home Improvement Programme which has historically underspent. Therefore, with a focus on what programme can be delivered, no carry-over of unspent 2022/23 budgets is assumed in the proposed programme.

Further work is being undertaken between draft and final to review deliverability of the capital expenditure profile. Governance improvements are being made via the Capital Strategy for managing capital programmes through their life cycle. The programme has been split into Approved and Development Pool to allow development schemes in early stages to go through further governance before being allocated a full budget and getting into contract. A summary of the capital programme is shown in Table 2.

**Table 2: Summary Capital Programme**

	<b>2023/24 Budget £'000</b>	<b>2024/25 Indicative £'000</b>	<b>2025/26 Indicative £'000</b>	<b>2026/27 Indicative £'000</b>	<b>2027/28 Indicative £'000</b>
Stock Investment	8,539	8,039	7,400	7,250	7,250
Estate Improvements	1250	620	720	620	620
Fleet Replacement	55	211	699	0	0
Other Capital	2,382	925	800	650	650
<b>Total Approved Programme</b>	<b>12,226</b>	<b>9,795</b>	<b>9,619</b>	<b>8,520</b>	<b>8,520</b>
<b>Total Development Pool</b>	<b>2,948</b>	<b>3,805</b>	<b>2,378</b>	<b>3,750</b>	<b>1,000</b>
<b>Total HRA Capital Programme</b>	<b>15,174</b>	<b>13,600</b>	<b>11,997</b>	<b>12,270</b>	<b>9,520</b>

3.1.2 Over the five-year period, the total programme comes to £62.6 million, a reduction of £4.2 million over the previous five-year programme. Which is chiefly a reduction in the

Zero Carbon programme partly offset with an increase in the Off-Street Parking budgets.

- **Zero Carbon:** The programme has been reviewed with a focus on deliverability and this process has reduced the budgeted expenditure by £6.3 million. The Council has applied for grant funding to part fund this programme and this grant is assumed in the financing of the programme.
- **Off-Street Parking:** The increase of £1.5m to improve the parking provision.

### 3.2 Funding the Capital Programme

3.2.1 The capital programme is funded from a variety of sources, including revenue, grants, capital receipts and borrowing. Table 3 below summarises the funding sources identified for each year of the proposed HRA capital programme.

**Table 3: Sources of funding for the capital programme**

	<b>2023/24 Budget £'000</b>	<b>2024/25 Indicative £'000</b>	<b>2025/26 Indicative £'000</b>	<b>2026/27 Indicative £'000</b>	<b>2027/28 Indicative £'000</b>
Capital Receipts	4,840	1,953	1,691	942	2,205
Government Grants	1,384	1,384	0	0	0
Reserves	3,465	4,900	4,228	3,909	4,086
Revenue contributions	5,485	0	0	0	0
External Borrowing	0	5,363	6,078	7,419	3,229
<b>Housing Revenue Account Total</b>	<b>15,174</b>	<b>13,600</b>	<b>11,997</b>	<b>12,270</b>	<b>9,520</b>

3.2.2 Table 3 shows a borrowing requirement of £22.1 million over five years to fund the programme. This has increased by £13 million from the five year plan from 2022/23. The increase is due to a combination of reserves being used to fund 2022/23 as well as the impact of inflation and other service pressures on the availability of revenue contributions to capital.

### 4.0 DEBT

4.1 The loan balance for the HRA is forecast to be £51.9 million at the end of 2022/23. There are annuity loan repayments of approximately £1.3 million to make each year, these repayments are usually funded from working balances but once working balances reach the £1 million minimum, they will be funded from other capital resources.

4.2 There are also loans to be repaid at maturity. The next of these to repay is a £10 million repayment in 2026/27. In accordance with the strategy agreed in 2012 when self-financing for the HRA was introduced, the Council sets aside funding each year in a Debt Repayment Reserve to ensure there is sufficient funding to repay the debt. The budget assumes £2 million is set aside each year from capital resources in order to make the repayment.

## 5.0 KEY RISKS TO THE BUDGET

5.1 Table 4 below provides an assessment of the key risk areas to determine the robustness of the estimates and adequacy of reserves included in the HRA budgets:

**Table 4: Key Risks to the Budget**

Area	Comments
The reasonableness of the underlying budget assumptions	All budget proposals have been justified by service managers, reviewed by finance and subject to budget challenge sessions in the new process.
The availability of un-earmarked reserves to meet unforeseen cost pressures	The HRA has minimum general reserve of £1m which is approximately 5% of the rent debit.
Have realistic income targets been set and 'at risk' external funding been identified?	Rental income is set in accordance with the Rent Standard, other income has been increased at an appropriate rate of inflation. External funding is assumed in the capital programme, however, the programme can be flexed if the bid is unsuccessful.
Has a reasonable estimate of demand cost pressures been made?	The enhanced budget process used in the development of the draft budget has improved the reasonableness of estimates. The budget proposals were required to be justified/assessed using a form, then were reviewed by finance and subject to budget challenge sessions.
Has a reasonable estimate of future income been made?	
Have one-off cost pressures been identified?	All pressures have been reviewed to assess if they are one-off or ongoing in nature. One-off proposals are to be funded from reserves. The service will need to ensure exit plans exist for one off expenditure.
Is there a reasonable contingency available to cover the financial risks faced by the council?	The Council has incorporated estimates for pay award, inflationary and demand pressures into its budget. It has also made a provision for bad debt on rents.
Is there a reasonable level of reserves, which could be used to mitigate any issues arising and are they reducing as the risks decrease?	The Council has a range of earmarked, reserves for the HRA as well as minimum working balance to ensure its financial stability.
Has there been a degree and quality of engagement with colleagues and councillors in the process to develop and construct the budget?	There has been a fundamental step change in the approach to engaging the organisation during this budget process. This has included a series of budget challenge sessions between the CFO and Heads of Service, as well as engagement with Corporate Leadership Team, Portfolio Holders and an all- councillor briefing.

## 6.0 CONCLUSIONS AND NEXT STEPS

- 6.1 Based on the assumptions made for the HRA in the Draft Budget 2023/24 and MTFS 2023-28 for income and expenditure, the Council can set a balanced draft HRA budget for 2023/24 and indicative budgets to 2027/28.
- 6.2 Going forward there will be work on delivering services in a more cost efficient approach to offset the additional cost through inflation and loss of income in real terms.
- 6.3 There is still further work to be carried out between the draft and final budget position to review the capital programme and profile for deliverability, review the financing of the capital programme and repayment of debt to ensure reserves are utilised effectively, any further changes to proposals, further detailed work on net financing costs and technical finance work around recharges. There will also be equality impact assessments carried out during this period.
- 6.4 Shown below in Table 5 is the key deadlines and meetings Finance is working towards in the budget approval cycle:

**Table 5: Budget Timetable**

<b>Key Meetings in Budget Approval Cycle</b>	<b>Date</b>
<b>Corporate Scrutiny Meeting - To scrutinise draft Budgets and related strategies</b>	<b>04/01/2023</b>
Tenants Forum – To consult with tenants on the draft HRA Budget	09/01/2023
<b>Cabinet Meeting - To consider draft budget proposals, related strategies and launch consultation</b>	<b>10/01/2023</b>
<b>Cabinet Meeting - To approve of 2023/24 Council Tax Base</b>	<b>10/01/2023</b>
Commencement of statutory consultation	16/01/2023
End of statutory consultation	27/01/2023
<b>Cabinet Meeting - To receive consultation feedback and recommend final budget to Council</b>	<b>31/01/2023</b>
<b>Council - approval of final budget</b>	<b>23/02/2023</b>

- 6.5 As can be seen from the timelines above we will be consulting with the public between 16 and 27 January and will feedback these responses to Cabinet on 31 January when the final budget will be recommended.

## 7.0 EXEMPTION FROM CALL IN

- 7.1 The approval of the Chairman of the Council has been given to the exemption of the Council's Scrutiny Procedure rules in relation to the call-in of the decision on this item, since any call-in would prejudice the ability of the Council to commence the statutory consultation period commencing 16 January 2023. The Chairman has considered the timetable for the consultation period and agrees that the matter before Cabinet is urgent for this reason.



<b>Policies and other considerations, as appropriate</b>	
Council Priorities:	The budget provides funding for the Council to deliver against the priorities for the HRA.
Policy Considerations:	None
Safeguarding:	None
Equalities/Diversity:	The equality impact assessment will be completed for the draft budget to be presented to Cabinet.
Customer Impact:	Customers are likely to be impacted by the changes to fees and charges.
Economic and Social Impact:	The HRA capital programme allocates £38.5m over five years to improve homes and in the same period, £13.9m on new homes to give home to more people.
Environment and Climate Change:	The budget includes a capital programme of Zero Carbon works to dwellings worth £13.8m.
Consultation/Community Engagement:	Corporate Scrutiny Committee – 04/01/23 Public consultation will run from 16 to 27 January 2023
Risks:	The budgets will be monitored throughout the year to ensure the Council remains within its funding envelope and planned budget savings are delivered. Key risks to the budget are discussed in further detail in section 5 of the report.
Officer Contact	Glenn Hammons Head of Finance and Section 151 Officer <a href="mailto:glenn.hammons@nwleicestershire.gov.uk">glenn.hammons@nwleicestershire.gov.uk</a>