

29 September 2022		ITEM: 5
Housing Overview and Scrutiny Committee		
Structure of HRA		
Wards and communities affected: All	Key Decision: N/A	
Report of: Mike Jones – Strategic Lead Corporate Finance		
Accountable Assistant Director: Ewelina Sorbjen – Assistant Director Housing		
Accountable Director: Jonathan Wilson – Director Resources and Place Delivery		
This report is Public		

Executive Summary

The purpose of this report is to provide further detail to the Committee of the 2022/23 HRA budget, the HRA structure, and the allocation of income collected.

1. Recommendation(s)

1.1 That the Housing Overview and Scrutiny Committee note and comment on the report.

2. Introduction and Background

2.1 The Housing Revenue Account (HRA) is intended to record expenditure and income on running the Council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants.

2.2 The function of the Housing Revenue Account

The Housing Revenue Account (HRA) is the name of the Council account where all the income and expenditure related to the Council's housing is accounted for. At its core, the HRA pays for the management and maintenance of council-owned housing. The HRA can also fund the provision of new council housing.

2.3 Charge not made to the HRA

Other housing services provided by the Council that meets the needs of customers other than tenants of the Council are **not** funded through the HRA. These are funded from the Council's main operational budget, the General Fund.

These non-HRA housing related services would include:

- the provision of wider housing advice.
- Homelessness
- housing support.
- housing benefit administration, and
- work related to private sector housing

2.4 The main features of the HRA are:

- it is a landlord account, recording expenditure and income arising from the provision of housing accommodation by local housing authorities (under the powers and duties conferred on them in Part II of the Housing Act 1985 and certain provisions of earlier legislation)
- it is not a separate fund but a ring-fenced account of certain defined transactions, relating to local authority housing, within the General Fund
- the main items of expenditure included in the account are management and maintenance costs, major repairs, loan charges, and depreciation costs
- the main sources of income are from tenants in the form of rents and service charges

Legislative features are:

- ring-fenced account within the General Fund
- Credits and Debits are prescribed by statute
- no general discretion to breach the ring-fence
- cannot budget for a deficit
- all borrowing within the HRA is in line with the CIPFA Prudential Code

2.5 HRA Business Plan

The HRA is required to produce a 30-year business model which ensures the long-term position of the HRA is sustainable and that costs of investment are spread over the medium to long term.

The Business model is reviewed annually and data that is input includes:

- Current year expected costs and income
- Future years estimated budgets
- Stock numbers updated for new builds to calculate expected rent

- Inflation and cost of borrowing predictions
- Current outstanding debt
- Assumptions on Bad debt provision required

3. Issues, Options and Analysis of Options

3.1 HRA Budget Allocation

The funding to finance expenditure within the HRA is generated through rent, service charges and other income. Detailed below is the listing for all items of budgeted income and expenditure within the HRA for 2022/23

Table 1

HRA Income and Expenditure	2022/23 £'000
EXPENDITURE	
Operational Service Delivery	25,132
Repairs and Maintenance	14,025
Revenue Contribution to Capital Expenditure	10,719
Interest Payable and Similar Charges	8,795
Movement in the Allowance for Bad Debts	378
Rents, Rates, Taxes and Other Charges	63
Total Expenditure	59,112
INCOME	
Gross Rent from Dwellings	(47,165)
Non-Dwelling Rents:	
Garage Rents	(879)
Premises Income	(50)
Non-Dwelling Rents (sub-total)	(929)
Charges for Services and Facilities:	
Water Charges	(5,679)
Central Heating Charges	(45)
Charges for Services and Facilities (subtotal)	(5,724)
Contributions Towards Expenditure:	
Leaseholder Charges	(936)
Tenants Service Charges	(3,967)
Contributions Towards Expenditure (subtotal)	(4,902)
Miscellaneous Income	(391)
Total Income	(59,112)
Net Expenditure for HRA Services	0

3.2 Expenditure Analysis

The operational service delivery expenditure within the HRA is broken down into individual services. This shown in table below at the 2022/23 budgeted cost.

Table 2

HRA Service	2022/23 £'000
<u>Operational Service Delivery</u>	
Tenants Water Charges	5,679
Overheads	5,619
Estate Action Teams (Caretaking)	2,568
Tenancy and Neighbourhood Team	1,652
Sheltered Housing	1,586
CCTV/Concierge	1,038
Technical Services Team	974
Communal Estate Costs	711
Housing Asset Delivery - Revenue Team	627
Housing Asset Delivery - Capital Team	607
Rent Collection	598
Management & Strategy	524
Business Improvement Team	515
Anti-Social Behaviour	495
Lettings and Allocations	487
Development and Regeneration	410
Homeownership Services	295
Investment Planning and Performance Team	223
Neighbourhood & Resident Engagement	194
Voids Team	174
Specific IT and Systems Budget	156
Total Net Budget	25,132

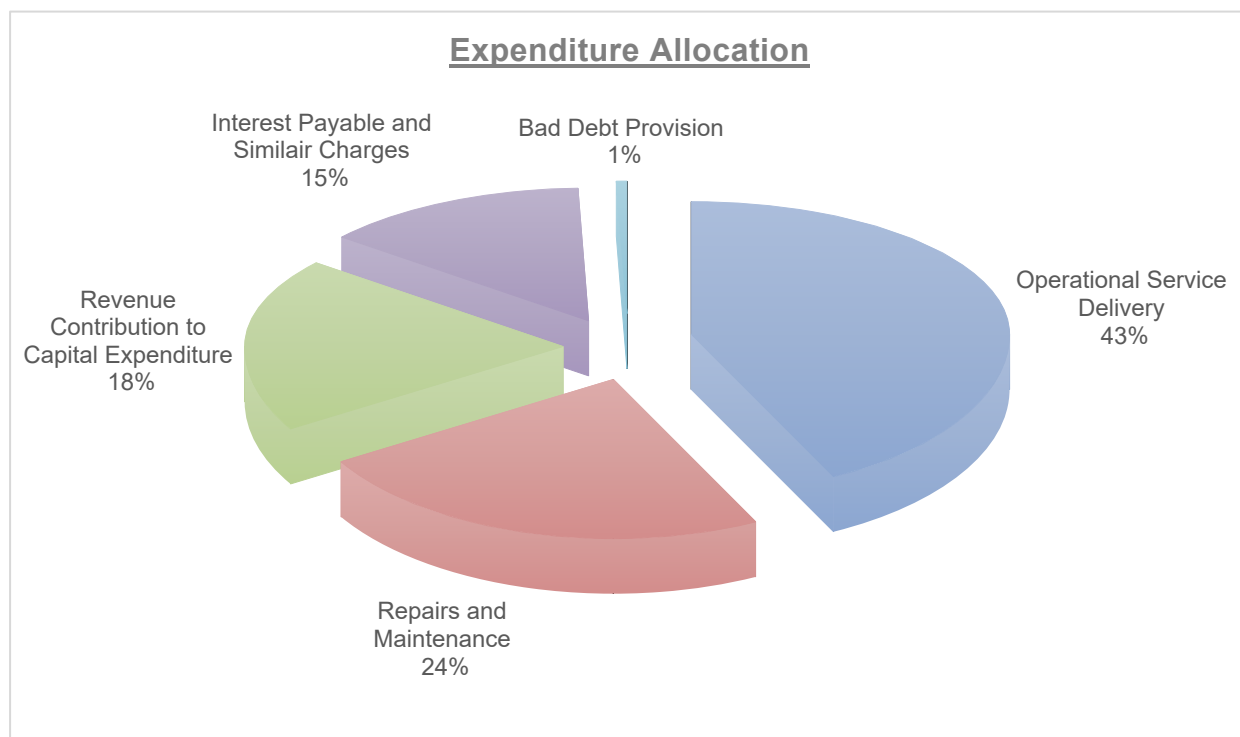
Repair and Maintenance expenditure is allocated across the following service headings:

Table 3

<u>Repairs and Maintenance</u>	
Works under external contract	8,165
Servicing and Assessments	2,505
Planning and Preventative Maintenance	1,484
Door Entry	450
Lifts	210
Environmental Works	1,211
	14,025

The total budgeted expenditure allocation for the HRA is represented in the following chart:

Table 4



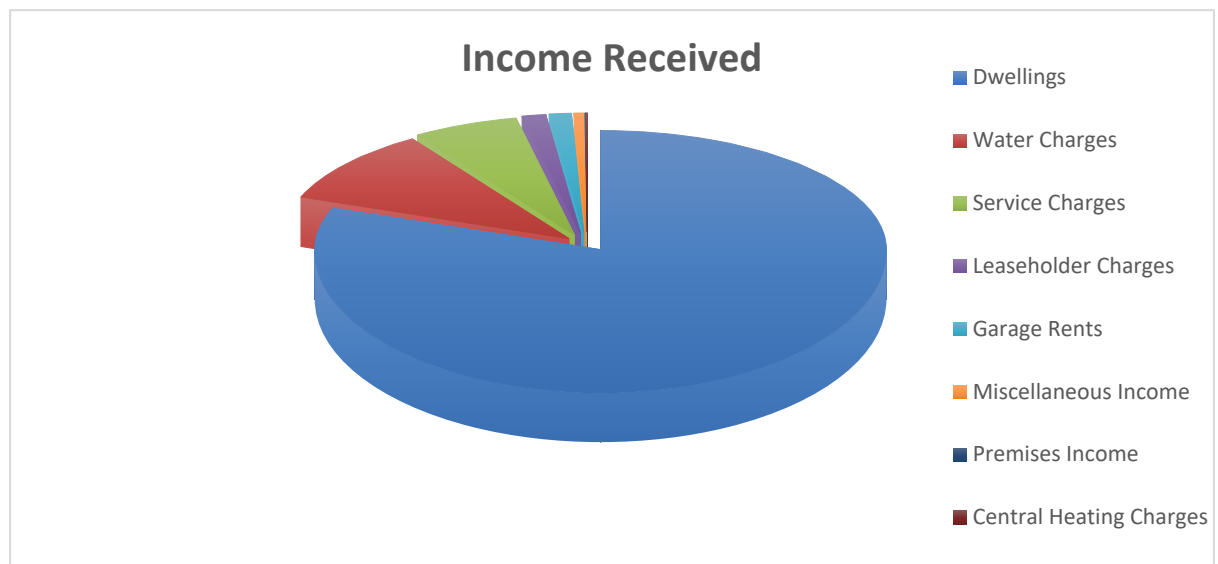
To put the funding allocation into further context, for every £1 that is collected, this will be spent as follows:

Table 5

Expenditure per £1 of Income		
Operational Service Delivery	£	0.43
Repairs and Maintenance	£	0.24
Revenue Contribution to Capital Expenditure	£	0.18
Interest Payable and Similar Charges	£	0.15
Bad Debt Provision	£	0.01
	£	1.00

3.3 Income

The majority of the revenue received into the HRA is through dwelling rent. However, there are further items of income which also contribute to the total level of available resources ring fenced to the HRA

Table 6**Table 7**

Income Received	
	£000's
Dwellings	(47,165)
Water Charges	(5,679)
Service Charges	(3,967)
Leaseholder Charges	(936)
Garage Rents	(879)
Miscellaneous Income	(391)
Premises Income	(50)
Central Heating Charges	(45)
	(59,112)

3.4 Capital Programme

Major repairs and improvements to the HRA stock are delivered through the Capital Programme. These works include transforming homes, major component replacements and also ensuring that the Council meets legislative requirements. In recent years, this has also meant legislation changes have included carbon reduction commitments.

The Capital programme is funded through a required revenue contribution to capital expenditure, and prudential borrowing

Table 8

Investment in Stock	2022/23 Revised Budget	2023/24 Base Budget	2024/25 Base Budget	2025/26 Base Budget	2026/27 Base Budget
	£'000	£'000	£'000	£'000	£'000
Transforming Homes	11,910	10,300	10,300	10,300	10,300
Major / Disabled Adaptations	300	200	200	200	200
Fire Safety Works	3,646	1,000	1,000	1,000	1,000
Stock Condition Survey	300				
Tower Block Refurbishment	21,157				
Carbon Reduction (Tower blocks)	6,648	2,250	2,750	5,500	
Sheltered Improvements Project	349				
Non-Traditional Refurbishment	5,280				
HRA Garages	682	500	500	500	500
Heating Replacement Programme	824	600	600	600	
Lifts Refurbishment	184	190	190	190	190
Door Entry Installation	507	500	500	500	500
Water Mains	138	160	160	160	160
Staffing Costs Capital Programme	160	160	160	160	160
Highways and Lighting	400	400	300	300	300
Carbon Reduction Requirements External	300	2,000	2,000	2,000	1,954
Electrical infrastructure	500	250	250		
Total Capital Programme	53,285	18,510	18,910	21,410	15,264

3.5 Rent Setting policy for 2022/23

Local authorities and registered providers have the ability to increase social and affordable rents in line with the Governments policy statement on Rents for Social Housing 2018.

The rent increase for 2022/23 used the formula of the September 2021 CPI rate of inflation (3.1 per cent) plus 1 per cent. This equated to a maximum

level of increase applicable to a dwelling of 4.1 per cent. This was applied as follows:

Table 9

Social Rent properties

Number of Dwellings by Bedroom	Number of Properties	Average 2021/22 Actual Rent	Average CPI +1% uplift 2022/23	Average 2022/23 Actual Rent	2022/23 Annual Rent Yield £000's
0	240	£ 61.78	£ 2.53	£ 64.31	£ 802.55
1	2768	£ 74.17	£ 3.03	£ 77.21	£ 11,112.83
2	2169	£ 81.17	£ 3.32	£ 84.49	£ 9,529.54
3	4114	£ 100.82	£ 4.13	£ 104.95	£ 22,452.35
4	239	£ 113.11	£ 4.61	£ 117.71	£ 1,462.95
5	11	£ 130.15	£ 5.09	£ 135.24	£ 77.36
6	2	£ 123.13	£ 5.05	£ 128.18	£ 13.33
Total / Average	9,543	£ 87.99	£ 3.60	£ 91.59	£ 45,450.90

Table 10

Affordable Rent properties

Number of Dwellings by Bedroom	Number of Properties	Average 2021/22 Actual Rent	Average CPI +1% uplift 2022/23	Average 2022/23 Actual Rent	2022/23 Annual Rent Yield £000's
1	49	£133.61	£ 5.48	£139.09	£ 354.39
2	92	£157.72	£ 6.47	£164.19	£ 785.47
3	31	£193.93	£ 7.95	£201.89	£ 325.44
Total / Average	172	£157.38	£ 6.45	£163.83	£ 1,465.30

The definition of rent for affordable housing (inclusive of service charges) must not exceed 80% of gross market rent. Gross market rent means the rent (inclusive of any applicable service charges) for which the accommodation might reasonably be expected to be let in the private rented sector. Property size, location type and service provision must be taken into account when determining what gross market rent a property might achieve if let in the private rented sector.

3.6 Service Charges

In order to ensure that the HRA recovers the cost of providing services to tenants which are specific to their tenancies, an increase to the current charge was applied in accordance with the Table

Table 11**Increases to service charges in line with increased costs**

Service	2021/22 Weekly Charge (50 Weeks)		2022/23 Weekly Charge (50 weeks)	
	£		£	
Lift Maintenance	£	3.31	£	3.47
Door Entry	£	3.49	£	3.66
Communal Electricity	£	1.55	£	1.63
Bruyns Court Electricity	£	3.49	£	3.66
Caretaking	£	0.62	£	0.66
Caretaking	£	2.86	£	3.05
Caretaking	£	8.11	£	8.64
Caretaking	£	9.51	£	10.13
Caretaking	£	12.46	£	13.27
Caretaking	£	13.51	£	14.39
Caretaking	£	14.92	£	15.89
Caretaking - Bruyns court	£	14.72	£	15.67
Caretaking - Heathlyn Close	£	7.81	£	8.64
Concierge	£	34.25	£	36.37
Concierge - Piggs Corner	£	36.93	£	39.22
Sheltered Housing Service	£	10.35	£	11.04
Heating - Sheltered Complex	£	6.04	£	6.34
Heating - Helford Court	£	9.63	£	10.10
SCH	£	28.59	£	30.00
Emergency Lighting	£	0.19	£	0.20
Enhanced Tenancy Management	£	42.61	£	44.70

Service charges are not subject to the prescribed rental increase of CPI + 1% but are based on full cost recovery.

3.7 Retained right to buy receipts

In April 2012, the government raised the maximum cash cap on Right to Buy discounts to £75,000 and confirmed that receipts generated by additional sales resulting from the discount increases (against a baseline of sales forecast before the increases) would be used to fund replacement stock on a one-for-one basis nationally. At the same time, the government offered to enter into an agreement with any local authorities that wished to retain their

own receipts from additional RTB sales so that they could reinvest them in new affordable housing themselves.

If the authority cannot spend the required amount within five years, it must send the receipts to MHCLG through a process known as Local Authority Housing Capital Receipts Pooling.

How the level of retainable additional receipts is calculated

The level of an authority's additional retainable receipts in any year is the total amount of its receipts arising from RTB sales, net of the following elements:

i. Transaction costs (retained by authority unconditionally) a set amount per RTB sale to partially cover the authority's costs of administering the RTB scheme.

ii. Allowable debt (retained by authority unconditionally) calculated to cover that part of the authority's housing debt it is obliged to pay off that is in excess of the debt its 2012 Self-Financing Payment has allowed for.

iii. Local authority share (retained by authority unconditionally) calculated to approximate to what authorities would have retained had the pre-2012 pooling system continued when they retained 25% of all net RTB receipts.

iv. Treasury share (paid to the Secretary of State) calculated to approximate to what authorities would have paid the Secretary of State had the pre-2012 pooling system continued when authorities paid over 75% of all net RTB receipts.

From 1 April 2021 the rules on spending retained additional receipts have changed:

The changes

- Increasing the time limit for the use of the receipts from three to five years.
- Requiring yearly rather than quarterly pooling returns and payments
- Increasing the cap on the cost of a replacement home that can be met from RTB receipts from 30 percent to 40 percent
- Setting a percentage cap on the use of RTB receipts for acquisitions – i.e., "a percentage of a local authority's total delivery each year using Right to Buy receipts". This will be phased, 50 per cent in 2022/23, 40 per cent in 2023/24 and 30 per cent from 2024/25 onwards. The first 20 units each year will be excluded.

Table 12**Right to Buy receipts projections**

	£000's	£000's
Opening 2022/23 Position		(12,132)
Projected receipts receivable		
2022/23	(6,329)	
2023/24	(3,100)	
2024/25	(3,100)	
2025/26	(3,100)	
Additional Receipts		(15,629)
Total 5-year receipts		(27,761)
Development Scheme funding	23,998	
Property Acquisition	3,763	
		27,761
Total		0

3.8 2023/24 Base budget

The 2023/24 base budget is currently under consideration, with a report coming to the Committee in January 2023.

Unprecedented levels of inflation, energy costs, as well as increases to interest rate are all significant factors when estimating costs in the next financial year, and the affordability within the business plan

The current rent methodology allows for a CPI (as of September 2022) + 1% uplift in dwelling rents. However, the government has recently issued a consultation document to consider imposing a cap on the level by which rents can be increased, with a ceiling of between 3% to 7%.

If such a cap is imposed, it needs to be understood that at the current rate of inflation, and increasing interest rates, it is unlikely that the Council would be able to set a balance HRA budget without having to make cost savings or reduce the level of services which are currently being delivered. In addition, increasing borrowing rates alongside material and labour costs, could pose a significant risk to the Councils ability to deliver some of its planned regeneration and new build programme.

4. Reasons for Recommendation

- 4.1 Committee requested the report to provide further detail on the structure of the Housing Revenue Account

5. Consultation (including Overview and Scrutiny, if applicable)

- 5.1 This paper provides opportunity for Members of this Committee to review the structure of the Housing Revenue Account.

6. Impact on corporate policies, priorities, performance and community impact

None

7. Implications

7.1 Financial

Implications verified by: **Joanne Freeman**
Strategic Lead – Corporate Finance

There are no financial implications directly arising from this update report. The financing of the schemes is considered as part of the HRA 30-year business plan.

7.2 Legal

Implications verified by: **Gina Clarke**
Corporate Lawyer and Deputy Monitoring Officer

There are no direct legal implications as it is an update report.

7.3 Diversity and Equality

Implications verified by: **Roxanne Scanlon**
Community Engagement and Project Monitoring Officer

There are no equalities implications to this update report.

8. Other implications (where significant) – i.e. Staff, Health Inequalities, Sustainability, Crime and Disorder or Looked After Children

None

9. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

None

10. List of Appendices

None

Report of

Mike Jones

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