

CABINET

14 FEBRUARY 2023

Budget 2023-24 and Medium-Term Financial Plan 2023-27 for the Housing Revenue Account

Report of Councillor Richard Wearmouth, Deputy Leader and Portfolio Holder for Corporate Services

Executive Director: Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Purpose of report

The report seeks Cabinet approval for the updated Budget 2023-24, Medium Term Financial Plan (MTFP) 2023-27 and 30-year Business plan for the Housing Revenue Account (HRA).

Recommendations

Members are requested to:

- 1. Approve the Housing Revenue Account 2023-24 budget as detailed within Appendix 1, which will reduce the balance on the HRA reserve from £29.809 million at 31 March 2023, to £29.121 million at 31 March 2024; and note the indicative budgets to 2026-27 which will reduce the balance of the HRA reserve to £9.294 million.**
- 2. Note that from 1 April 2023, due to current rises in inflation, the government has imposed a rent cap on social housing rent increases of 7.0%, moving away for one year from the previously agreed Rent Standard of consumer price index (CPI) +1.0% (11.1%). The budget detailed in Appendix 1 assumes that rents will rise by the revised Government capped rate of 7.0%, with recoverable service charges rising by CPI 10.10% plus 1.0% for the period 1 April 2023 to 31 March 2024.**
- 3. Approve the increase of 7.0% for Housing rents from 1 April 2023.**
- 4. Approve the increase of 11.1% for Housing Service Charges from 1 April 2023.**

5. **Approve the Non-Recurrent Growth item Hardship fund of £0.350 million for 2023-24 to support NCC tenants who may, due to their income, not be eligible to receive any financial assistance through existing benefits (Housing Benefit/Universal Credit/Discretionary Housing Payment) (detailed in point 9 &16).**
6. **Note the indicative 30-year Housing Revenue Account business plan as detailed within Appendix 1.**
7. **Approve the estimated pay inflationary increase for 2023-24 of 4.0% totalling £0.418 million (detailed in point 15).**
8. **Approve the Non-Pay Inflation Schedule for 2023-24 totaling £0.738 million (detailed in point 15).**
9. **Approve the Recurrent Growth as follows:**
 - a. **Housing Disrepair of £0.250 million for 2023-24 to cover costs of housing disrepair mitigation/resolution (detailed in point 16).**
 - b. **Additional staffing budget of £0.424 million for 2023-24 (detailed in point 16).**
10. **Approve the Recurrent Saving in relation to the Introduction of phased Service Charges for Sheltered Housing tenants, with estimated additional income of £0.100 million in 2024-25 (50.0%), £0.155 million in 2025-26 (75.0%) and £0.212 million 2026-27 (100.0%) (detailed in point 17).**
11. **Note that £45.017 million has been set aside over the 4-year period 2023-24 to 2026-27 in the HRA Capital programme to invest in Affordable Housing. Details are set out in Appendix 1.**

Link to Corporate Plan

The Housing Revenue Account's budget and Medium-Term Financial Plan are aligned to the priorities outlined in the Corporate Plan 2021-24 "A Council that Works for Everyone".

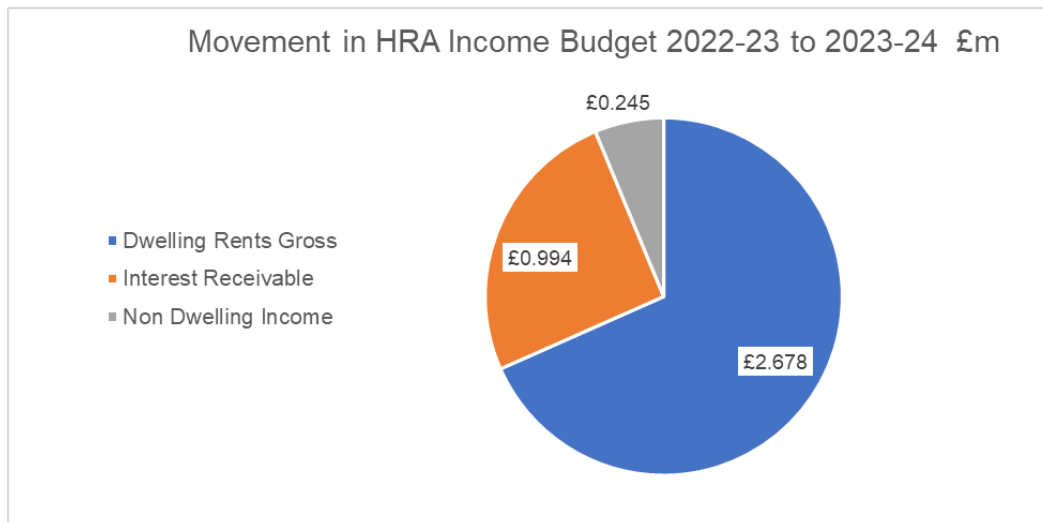
HOUSING REVENUE ACCOUNT

1. The Council is required by the Local Government and Housing Act 1989 to keep a Housing Revenue Account (HRA) which records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is heavily prescribed by statute and the Council is not allowed to fund any expenditure for non-housing/tenant related services from this account.
2. The Council is also obliged to produce a HRA MTFP which is reviewed and updated on an annual basis. The current business plan clearly indicates that the Council can maintain its properties to the Decent Homes Standard for the full 30 years of the plan (which runs to 2053).

3. The Council keeps two HRA specific reserves which are required under statute:
 - Housing Revenue Account Balance – This reserve holds the HRA accumulated surpluses. It can be used to contribute to balance the revenue budget in year or to contribute to fund schemes within the capital programme; and
 - The HRA Major Repairs Reserve (MRR) - This reserve was created to fund capital works to maintain the Council’s housing stock or to repay debt.
4. The balance on the HRA account was £29.873 million as at 31 March 2022 and is planned to decrease to £29.809 million by 31 March 2023.

Rent Increases

5. On 26 February 2019, the Government issued a new Direction that required the regulator of social housing to set a new rent standard for registered providers with effect from 1 April 2020. It is accompanied by a policy statement which sets out the Government’s policy on rents for social housing from 1 April 2020. The standard states that the maximum allowable rent increase for the year will be the Consumer Price Index (CPI) as at September plus 1.0% for the following 5 years (new 2020 Limit Rent).
6. The Government outlined in the Autumn Statement 2022 that under current rules, rents could have risen by up to 11.1% (equivalent of CPI of 10.1% plus 1.0%), but capped the rise to a maximum of 7.0% for 2023-24. For the period 1 April 2023 to 31 March 2024, it has been assumed that the Council will apply a rent increase of 7.0% in line with the governments rent cap.
7. The HRA has 8,326 properties within its housing stock. The majority are charged a social rent with a small number being charged an affordable rent. In terms of rent collection, 34.0% are in receipt of Housing Benefit, 36.0% are in receipt of Universal Credit, and 30.0% are responsible for paying their rent in full. Any rent increases for those on Universal Credit or Housing Benefit (70.0% of tenants) will be paid in full.
8. The proposed 7.0% increase will be used to directly support revenue funded activity, including some limited essential growth whilst enabling the Council, considering inflationary pressures, as set out within the Report Recommendations, to continue to deliver existing services, maintain homes at the same current level and meet new demands and challenges.



The graph shows the expected overall increase in income, assuming a 7% increase in dwelling rent as £3.916 million. It should be noted that in 2022-23, that there was a reduction of £0.700 million in dwelling rent, due to the agreement to introduce a rent-free week for all tenants.

9. It will further allow for the provision of a **£0.350 million Hardship Fund**, which would be specifically targeted to assist those NCC tenants, who may, due to their income, not be eligible to receive any financial assistance through existing benefits (Housing Benefit/Universal Credit/Discretionary Housing Payment) but may be struggling with rent payments as a result of the proposed increase in rent or general cost of living.
10. The fund would be administered internally by the Housing Income Team, with each request considered on merit and subject to individual objective assessment to establish if any arrears were attributable to the rent increase and if so, assistance would be provided.
11. Regrettably, as we do not hold specific income information about each tenant, it is not possible to forecast how many of the 30.0% tenancies, not in receipt of Universal Credit or Housing Benefit, may require assistance, and to what extent. However, the proposed fund would be able to provide funding, (up to 80.0% of the average cost of the rent increase) for approximately 1500 tenancies.
12. It is envisaged that the fund may be used to apply a credit to the rent account, or supplement living costs by way of a grant or purchase of an item which may alleviate hardship under certain circumstances.
13. In addition, the Income Team will continue to assist tenants experiencing hardship through signposting and referral to specialist advice and support services.
14. A rent increase of lower than 7.0%, would result in either an inability to improve services offered to tenants, or existing revenue budgets actually being reduced, both of which would lead to a reduction in service to tenants, either through reduced staffing numbers or available budget to carry out essential repairs and maintenance

to their homes. This would lead to an immediate increase in the number of complaints and disrepair claims, thereby exposing the council to risk of intervention from the Social Housing Regulator.

What does a 7.0% increase cost our tenants

An analysis of the average weekly increase in rent at 7.0% is as follows:

| Payment Type | 1 Bed | 2 Bed | 3 Bed | 4 Bed+ | Total (Average) |
|------------------------|--------------|--------------|--------------|--------------|-----------------|
| Housing Benefit | £4.60 | £5.45 | £5.85 | £6.61 | £5.63 |
| Universal Credit | £4.52 | £5.41 | £5.83 | £6.47 | £5.56 |
| CASH | £4.59 | £5.46 | £5.87 | £6.50 | £5.61 |
| Total (Average) | £4.57 | £5.44 | £5.85 | £6.53 | £5.60 |

Overall, based on the average weekly rent of a three-bedroom property in 2015-16, this represents an average increase of £9.21 per week over the 7-year period.

Pressures

15. A number of potential risks that would have a significant effect on the HRA MTFP were identified as part of the 2022-23 budget setting process. The current 'cost of living crisis' has seen a number of these risks now having an impact on the plan.
 - **Government's influence in rent setting** – Government have implemented a rent cap for 2023-24 limiting rent increases to a maximum of 7.0% due to rising prices and to protect social housing tenants.
 - **Increased borrowing costs due to interest rate increases** - interest rates for borrowing have increased from an average of 2.0% in 2021-22 to an estimated 4.5% in 2023-24;
 - **The need for unplanned capital expenditure** - the HRA has had to absorb the costs of damage to HRA land and property due to Storm Arwen with an estimated cost of over £1.300 million. This is in addition to costs incurred during the Covid-19 pandemic of £0.900 million;
 - **Higher levels of pay awards and inflation than included in the plan** - the agreed pay award for 2022-23 was a flat rate of £1,925 for every 1FTE. This equates to an average of 7.0% across the pay bands with those on lower spinal points receiving a 10.5% increase at an additional cost of £0.443 million. An estimated further inflationary increase of 4.0% totalling £0.418 million has been included for 2023-24. These additional costs have been built into the staffing budgets within the MTFP; and,
 - **Non pay inflation** - costs of fuel, utilities and materials have significantly increased during 2022-23 and higher levels of costs have been identified for 2023-24. This has impacted on both revenue and capital costs, resulting in

less outputs for existing budgets. Some of the more significant budget increases are as follows:

| Budget | Inflationary Increase | |
|----------------------|-----------------------|--------------|
| | % | £m |
| Consumable Materials | 6.00 | 0.258 |
| Council Tax | 1.99 | 0.009 |
| Electricity | 116.00 | 0.018 |
| Gas | 246.00 | 0.212 |
| Insurance | 16.00 | 0.004 |
| Internal Recharges | 3.00 | 0.091 |
| Vehicle Fuel | 24.00 | 0.084 |
| Water | 3.00 | 0.062 |
| Total | | 0.738 |

Growth

16. The following growth items are included within the 2023-24 budget and MTFP:

- **Housing Disrepair** - £0.250 million to provide budget provision in response to increased number of housing disrepair claims across the sector to support legal costs, mitigation, and resolution.
- **Additional staffing budget** – increased staffing for repairs and maintenance and housing management of £0.424 million has been added recurrently from 2023-24. Following the Government’s White Paper – A Charter for Social Housing Residents, there are a number of areas which need additional resources to ensure compliance; and,
- **Hardship fund** - A hardship fund of £0.350 million to support NCC tenants who may, due to their income, not be eligible to receive any financial assistance through existing benefits.

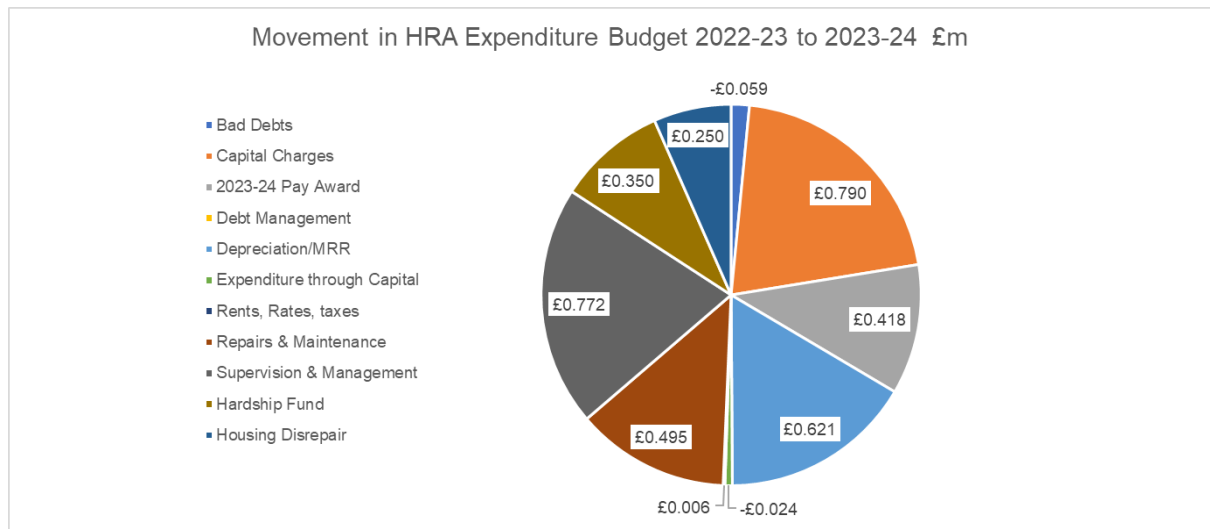
Savings

17. The following savings are included within the 2023-24 budget and MTFP:

- **Interest Receivable** - the increase in interest rates has given the HRA budget a boost of £1.000 million as the estimated interest rate received on HRA reserves has increased from 0.02% in 2021-22 to 3.0% in 2023-24; and,
- **Introduction of phased Service Charges for Sheltered Housing tenants** - since the withdrawal of supporting people grant in 2015 the HRA has been subsidising sheltered housing schemes. The implementation of service charges will bring the Council in line with other sector providers both locally and nationally. Estimated additional income is £0.100 million in 2024-25 (50.0%), £0.155 million in 2025-26 (75.0%) and £0.212 million 2026-27 (100.0%).

Income and Expenditure Summary

18. As stated above, assuming a 7.0% increase in dwelling rent, additional revenue through interest and non-dwelling rent, and accounting for the “rent-free” week in 2022-23, the overall increase in income has been calculated as £3.916 million. It has further been calculated, as shown below, that the overall increase in expenditure in 2023-24, will be £3.619 million. Based upon this and taking into account all other matters within the HRA MTFP, this would produce an in-year operating surplus of £0.312 million.



Reserves

19. The HRA cannot be subsidised by the Council’s General Fund and therefore needs to maintain an adequate level of reserves. The HRA maintains a significant level of reserves in the early years of the plan. However, the plan includes the use of additional reserves to fund the capital programme and the removal of £15.000 million borrowing from the MTFP to save additional interest costs on borrowing. This reduces the reserves to £9.294 million by 2026-27. A risk assessment on the reserves balances will be completed to allow the Section 151 Officer to give an opinion on the adequacy of the HRA reserves as part of the budget report in February 2023. The reserves balance will gradually grow by 2031-32 to approx. £14.000 million and is maintained at this level for the remainder of the plan.

Loans

20. At this time, it is not proposed that current loans are repaid; and any loans maturing will be refinanced.

Right to Buy

21. The HRA MTFP assumes that the current Right to Buy (RTB) policy will continue, and this is reflected throughout the plan as a reduction in rental income. Significant increases in the number of RTB’s has been experienced in the previous two years and the MTFP has been updated to reflect this. Capital receipts from Right to Buy

sales are estimated to contribute £8.579 million towards the HRA Capital Programme between 2023-24 to 2026-27.

Existing Housing and Housing Investment Programme

22. The HRA MTFP and 30-year Business Plan have been updated to fund £45.017 million of capital expenditure towards the Housing Investment Programme for the period 2023-24 to 2026-27.

| 2023-24 | 2024-25 | 2025-26 | 2026-27 | Total 2023-24 to 2026-27 |
|---------|---------|---------|---------|--------------------------|
| £m | £m | £m | £m | £m |
| 8.117 | 14.730 | 11.115 | 11.055 | 45.017 |

23. In order to fund this programme, the MTFP includes:

- External grant support of £9.108 million from Homes England. The next tranche of Affordable Homes Funding (2021 to 2026) has been launched by Homes England, and the Council are currently working up schemes that could be bid for under the Continuous Market Engagement (CME) route on a scheme-by-scheme basis. Applications will be assessed against:
 - a. Cost Minimisation (grant per home); and,
 - b. Deliverability (within funding timeframe); and,
 - c. how they align with strategic objectives - use of Modern Methods of Construction (MMC), use of the National Design Guide, working with local small to medium sized (SME) house builders, provision of rural housing and supported housing.

In recognition of the costly nature of addressing such objectives indications are that the Council will be able to secure higher grant rates than previously achieved if our schemes are aligned to them. Six of the Homes England Strategic Partners (Karbon, Riverside, Thirteen, Places for People, Vistry and Sage) already operate in Northumberland and due to their strategic status have secured significant longer-term funding that they have indicated could be used to support schemes within the County if they identify the right sites:

- Utilisation of the Investment Reserve totalling £24.930 million; and,
- Use of capital receipts of £8.579 million generated from the Right to Buy sales.

24. The commitment, as set out within the Housing Strategy for Northumberland, to grow its own housing stock and seek to facilitate up to 1,000 new homes for rent has evolved and we are now progressing the delivery of new homes through a combination of direct delivery, acquisitions and partnership work with other developers and registered providers of social housing. The priority is to deliver the right tenure of housing on the right scale for the local area by the right landlord. The

Housing Delivery team will work with other registered providers where Northumberland are not best placed to deliver what is required.

25. The extent to which the HRA will contribute to the delivery of new homes will be informed by both the need to bring forward new council housing in areas of greatest priority and the investment needs of the existing stock. A revised Housing Asset Management Strategy is being developed that will reflect emerging investment pressures and priorities for social landlords as well as the key strategic aims of the Council.
26. As part of the commitment to bring forward new affordable homes, the following schemes have been completed:
 - Conversion of warden's accommodation to form 3 new affordable units;
 - A targeted acquisition programme, to purchase affordable Section 106 units from developers including Advance Northumberland. To date 11 acquisitions at Wooler are completed;
 - A targeted purchase and repair programme bringing 10 empty properties and former RTB properties back into use as affordable rented homes in areas where we already have stock was completed in 2021-22; and
 - Acquisition of a town centre site for which design proposals are being progressed.
27. As part of the ongoing commitment to bring forward new affordable homes, the following schemes are actively being progressed:
 - Building new affordable homes on 12 identified Council sites is currently progressing, including development of infill sites on existing estates;
 - Conversion of 8 Council owned garage sites into 28 new accessible bungalows using the HUSK model.
 - A targeted acquisition programme, to purchase affordable Section 106 units from developers including Advance Northumberland. Two acquisitions at Longframlington from Cussins are at contract exchange stage, 8 acquisitions at Alnwick from Story Homes have been approved by Cabinet and are progressing to contract exchange stage, 10 acquisitions at Amble from Tantallon Homes are at preliminary discussion stage.
 - A targeted purchase and repair programme bringing 8 former RTB properties back into use as affordable rented homes in areas where we already have stock is being progressed for 2022-2023. This reduced number (from plan of 10) reflects the increased capital cost of the homes but the repair costs are lower due to them not being empty properties and being better maintained by their current owners;
 - Demolition of an obsolete block of 16 flats and re-provision at a higher volume, likely to be 21 or 26;

- Delivery of 13 new build Dementia Care bungalows on a Council site to reflect the objectives set out within the Extra Care and Supported Housing Strategy;
 - Delivery of 9 new build bungalows on an Advance Northumberland owned site;
 - Part of the HRA Asset Strategy will be to identify further opportunities for regeneration, development, and conversion within existing estates, which is likely to require additional funding streams to be explored that can maximise the investment from the HRA e.g. Brownfield Housing funding and Energy Efficiency funding.
28. In addition to the Affordable Homes Programme, referenced above, officers are actively involved in bidding for grant to bring forward housing development in its widest sense through partnership with the North of Tyne Combined Authority and Homes England. This includes funding from the Brownfield Housing Fund, designed to address viability gaps on challenging sites and a wider pipeline of strategic regeneration priority sites for the Council. Where sites fall within HRA operating areas and there is an opportunity to bring forward developments that will enhance the portfolio of council housing these will be explored.

Major Repairs Reserve

29. The Council is required to maintain a Major Repairs Reserve (MRR) with the main credit to the reserve being an amount equal to the total depreciation charge for all HRA assets.
30. The HRA MTFP includes provision for depreciation charges to increase in line with new capital expenditure and then by 0.5% each year with an assumption that the value of housing stock will increase. Any deviation from this assumption will affect the amount that is transferred into the MRR to fund future capital works.
31. The HRA MTFP assumes that the current adjustment factor for valuation of the housing stock for Northumberland of 44.0% of Market Value (Existing Use Value-Social Housing) will continue to apply throughout the plan for the purpose of valuation and depreciation.
32. The expenditure within the HRA MTFP for MRR, includes a planned programme of replacement roofs, kitchens, bathrooms, rewires and heating systems, along with other improvement schemes. The current 8-year plan which started in 2018-19 assumes that £75.000 million will be spent on maintaining the housing stock to a decent homes standard. £40.685 million for the period 2023-24 to 2026-27. In addition, for the same period the MRR will contribute £2.400 million towards the affordable homes programme.

Current Priorities

33. Alongside the development of new homes, there are a number of emerging challenges and pressures on the existing stock that will need to be managed through increased investment and funded from the Major Repairs Reserve:

- Energy Efficiency – Linked to the Climate Change Commitment, work is ongoing to attract external funding to tackle homes with low thermal efficiency and/or are hard to heat and invariably this will require an element of capital funding to subsidise the cost of works. The Council are currently delivering a successful Social Housing Decarbonisation Fund (SHDF) Wave 1 bid to install energy efficiency measures to non-traditional homes in Blyth and Amble. The Council are also working in conjunction with the Climate Change team on a bid for SHDF Wave 2 funding to continue the installation of energy efficiency measures in rural, off-gas areas, adopting a fabric first approach;
- Building Safety – Through the Housing White Paper there will be increased obligations placed on social landlords in terms of areas of compliance and building safety (Fire Safety, electrical testing etc);
- Housing Disrepair – the Fitness for Human Habitation Act that came into force for existing social tenants in April 2019, is giving rise to potential disrepair claims across the sector. The situation is being monitored;
- Decent Homes and Housing Act 2004/Housing Health and Safety Rating System – Post the tragic death of Awaab Ishak and subsequent criticism of Rochdale Boroughwide Housing, Mr Michael Gove MP – Secretary of State for Department of Levelling Up Housing and Communities has written to all social housing providers emphasising the need to ensure all homes meet all of the legal standards and are free from Category 1 Hazards, including damp and mould.
- Beyond Decent Homes – Alongside cyclical replacement of key decent homes elements (kitchens, bathrooms, heating systems etc) there are emerging investment needs linked to structure and age of the properties within the portfolio. Northumberland holds a number of non-traditional homes that will require significant investment or intervention. Additionally, environmental improvements that are contributing to low demand in some areas may need to be prioritised and feature in the capital programme to ensure continued viability; and
- The Independent Supported Living Agenda – working alongside adult services, to ensure that the offer in terms of specialist and supported accommodation is aligned to local need and properties are fit for the future. Internal refurbishments of the communal areas of existing dated Sheltered Schemes are being progressed with the aim to improve the living environment for our current residents and to attract new residents.

Annual Review

34. The HRA MTFP is subject to formal annual review and is part of existing budget monitoring arrangements, which allows any policy changes or impact upon the plan to be identified and any significant changes to be reported.

Summary

35. The proposed 2023-24 Housing Revenue Account budget and HRA MTFP 2023-27 is attached at Appendix 1. An indicative 30-year business plan, showing the projected position at five yearly intervals, is also included for information.
36. Appendix 2 – Operational Impact and Risks, includes some background and context to the HRA MTFP report, including benefits, risks and impact.

Implications

| | |
|--|--|
| Policy | The HRA Budget and Medium-Term Financial Plan fully supports the priorities outlined in the Corporate Plan 2021-24 - A Council that Works for Everyone. |
| Finance and value for money | The financial implications of the 2023-24 HRA Budget and the Medium-Term Financial Plan are detailed within this report. |
| Legal | The provisions of the Local Government Finance Act 1992 set out what the Council has to base its budget calculations upon and require the Council to set a balanced budget with regard to the advice of its Chief Finance Officer. The Act also states that the Council has got to set its budget before 11 March in the financial year preceding the one in respect of which the budget is set. The Housing Revenue Account, is governed by the Housing Act 1989. From 1 April 2020, registered providers must set rents in accordance with the government's policy statement on Rents and Social Housing 2019. |
| Procurement | There are no specific Procurement implications within this report. |
| Human Resources | The budget will have an impact on staffing levels across the HRA. The Council will continue to try and mitigate this impact by the management of vacancies and voluntary redundancy wherever possible. |
| Property | All of the Capital Programme refers to HRA property and assets. |
| Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> | The nature of the main HRA Budget proposal aims to ensure that the Council is able to provide services to all tenants, maintain existing homes to the decent home standard, and develop new housing to meet the needs of current and future tenants. The proposal does not therefore adversely impact on any member of staff, or public due to individual or multiple protected characteristics. Further, it has been recognised that for those tenants who are responsible for the payment in full of their rent, that any rent increase, coupled with the cost of living crisis, may have an adverse impact on them and their ability to pay their rent. To support those tenants, it is proposed that a hardship fund be established. If agreed to introduce service charges for tenants of sheltered housing schemes, a further report and EIA, will be produced in respect of the proposal. |
| Risk Assessment | The risks associated with the budget proposals will continue to be reviewed up to and including implementation of the detailed proposals. |
| Crime & Disorder | There are no specific Crime & Disorder implications within this report. |

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|-------------------------------|---|
| Customer Consideration | The individual proposals will carefully consider the impact upon both customers and residents of Northumberland. |
| Carbon reduction | The Council continues to develop proposals concerning the management of energy which are supported by the budget. |
| Health & Wellbeing | The Council's budget is founded on the principle of promoting inclusivity. |
| Wards | South East Northumberland, Alnwick, Allendale |

Background papers:

None

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

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|---|-------------------|
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| Interim Executive Director of Finance & Section 151 Officer | Jan Willis |
| Relevant Executive Director | Jan Willis |
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