

Appendix D1 HRA Budget Report 2022/23

1 Introduction

- 1.1 This report includes a proposal for Housing Revenue Account (HRA) rent setting for 2022/23 and provides an update to the HRA Business Plan, along with highlighting the key assumptions required to reflect national policies and financial impacts to the HRA.
- 1.2 The business plan projections reflect the income and expenditure required to manage the landlord function and, at the same time, work towards the Council's objectives to investing in existing tenants' homes and creating capacity to fund the development of affordable homes for rent.
- 1.3 This report does not attempt to summarise all aspects of the HRA business plan but aims to highlight areas where issues should be noted and consider options for future budget strategy.

2 National and local policies that can impact the HRA Business Plan

- 2.1 The Housing Revenue Account (HRA) self-financing system for council housing was implemented in April 2012. Under HRA self-financing, the Council's HRA continues to be a ring-fenced account (income and expenditure) for Council dwellings. HRA self-financing is intended to allow local authority landlords to manage and maintain their own stock from the rental income they generate.
- 2.2 The government introduced a new policy (after the Welfare Reform Act 2016 ended) effective from April 2020, which allows Local Authority Landlords and Registered Providers (housing associations) to increase rents by CPI plus 1%, modelled for 5 years from April 2020 which should provide some stability and certainty over planned investment in the current stock, service improvements and new developments, at least in the short to medium term.
- 2.3 The approach to be taken by the government beyond 2025 remains uncertain for all local authorities. In the absence of this information, the HRA business plan assumes that rent will remain as CPI after 2025.
- 2.4 Increasing rents by CPI plus 1% over the next 3 years allows major works to be funded without the need to borrow in the long term. This creates the possibility for a borrowing strategy to be exclusively aimed towards new builds and housing supply. It is important to consider both short and long-term impacts of rent setting, as it will have an accumulated impact on future budget availability, like the way council tax is modelled.
- 2.5 Increasing rents by CPI plus 1% will also help the Council to deliver its commitment to fire safety improvement works, address the gaps identified

from the stock condition survey, as well as fund agreed uplifts in contracts without affecting the delivery of essential services.

- 2.6 In May 2019, the UK government declared a climate change emergency, committing to target net zero carbon emissions by 2050. The Council has already made significant progress on its journey to reducing its own corporate carbon emissions. Amongst the programmes that are contributing to achieving these objectives and reducing the council's carbon footprint is the RE:FIT Programme, an energy efficiency and renewable energy refurbishment programme of council owned buildings. The programme is designed to reduce energy consumption by at least 20% reducing carbon emissions and energy costs. There is more work required to establish the level of investment required for the decarbonisation works.

3 Rent Setting proposal for 2022/23

- 3.1 The Council intends to follow the current government guidelines and legislation to facilitate the investment in stock and will apply this to all Council-owned rented accommodation. Council house dwelling rents for 2022/23 will increase by 4.1% (CPI + 1%) over the 2021/22 rent with effect from Monday 4th April 2022.
- 3.2 The proposed average weekly rent for HRA socially rented tenancies 2022/23 will be £109.76, which was £105.41 in 2021/22. This represents an overall average increase for all council rents for 2022/23 of 4.1%.
- 3.3 The table shows the current average rent levels and the proposed rents for 2022/23. All new re-lets are charged at target rent, which is reflected in the current average rent. A rent increase of 4.1% is estimated to result in an additional £1.197m of income when compared to the 2021/22 projected outturn.

Table 1: Average rents by bedroom size (to be added)

No. of beds	Average rents
0	£82.02
1	£94.30
2	£116.46
3	£129.23
4	£137.72
5	£156.45
6	£152.71

4 Service Charges and Other Costs for 2022/23

- 4.1 Service charges area recharges to tenants and leaseholders based on actual costs incurred in providing specific services, such as estate cleaning.

- 4.2 Service charges are expected to increase by 4.1% with effect from Monday 4th April 2022. This is based upon the September CPI figure plus 1%.
- 4.3 Garage rents, heating, utility, and ancillary charges are expected to increase by 4.1% with effect from Monday 4th April 2022. This is based upon the September CPI figure plus 1%.
- 4.4 Supervision and management costs include allowances for pay inflation uplifts in the business plan. An assumed 4.9% (September 2021 RPI) inflation in 2022/23 and efficiency savings of 3% will amount to an additional £0.3m budget requirement compared to previous year.
- 4.5 Repairs and maintenance contracts include an annual RPI inflationary uplift assumed at 4.9% and 3% thereafter, this will result in an additional £0.459m budget requirement in 2022/23.
- 4.6 Efficiency savings targets are incorporated into the budget setting process and business plan, in line with the Council's overall budget setting process. A 3% efficiency target across management will result in a £0.3m budget reduction for 2022/23.
- 4.7 The provision for bad debt is a key budget risk arising from the ongoing global pandemic, adding to the risk of under-recovery resulting from the rollout of Universal Credit. Covid-19 and Universal Credit are expected to have an impact on rental income collection rates, which could lead to an increased likelihood of bad debts arising. The average collection rate in 2021/22 is 96%.
- 4.8 The HRA operating reserve as at 31st March 2021 was £16.265m. Currently, the business plan models to achieve a minimum operating reserve balance that represents an estimated 4% of income (£250 per unit), which is approximately £1.5m. The operating reserve is necessary to manage unexpected deficits, or for smoothing in-year budget pressures due to timing differences between the cost of building new homes and receiving rental income, so that it can offset increase in borrowing costs.
- 4.9 In addition to the need for the HRA to balance competing demands, such as investing in supply of new homes, the current pandemic has further stressed the importance of maintaining an adequate level of reserves.

5 Summary of key assumptions in the HRA Business Plan

- 5.7 The HRA business plan provides long-term financial forecasts resulting from the implications of the Council's spending, investment, and rent-setting decisions, based on the authority's current income, assumptions on how costs and income might change in the future to illustrate what the authority can reasonably expect to happen, using the best available information.
- 5.8 The HRA Business Plan was recently refreshed to reflect the latest assumptions on inflation, expenditure, and income budgets. The latest plan

includes the latest investment and capital resources budgeted for existing and new affordable homes

- 5.9 A summary of the key assumptions that underpins the 30-year business plan is below:

Table 2 - HRA Business Plan Assumptions

Descriptions	Assumptions used in the Business Plan
Efficiency Savings	3% efficiency savings annually between 2022/23 and 2024/25
Affordable Housing Supply	Current year and 2022/23, 20 new build properties assumed. From 2023/24 to 2040/41, 10 additional new builds annually and 5 properties annually afterwards.
Minimum working balances	Minimum working balance assumed in the HRA Business Plan is £1.5million.
Rental Income	Based on CPI plus 1% increase manually to 2024/25. CPI increase only afterwards
Other non-dwelling income	CPI plus 1% increase annually
Supervision and Management	RPI increase annually. Efficiency savings on Management cost.
Service Charges	CPI plus 1% increase annually
Voids	Voids rate - 1.5% on Council dwellings
Bad Debts	Bad debt - 4%
Repairs and Maintenance	RPI increase annually
Interest rate on borrowing	No new borrowings. Existing borrowings based on Consolidated Rate of Interest (CRI) of 3.4%
HRA Debt Balance	HRA CFR opening balance 2021/22 £146.5m
RTB receipts	RTB disposals - 20 properties annually
Capital Programme – Major Works	RPI increase annually
Affordable Housing Supply	RPI increase annually

6 Risks

- 6.7 The business plan is based on a set of assumptions, and there will always be an element of risk of significant changes in cash flow projections in the revenue and capital accounts, if any of the assumptions fail to materialise, such as the efficiency savings target of 3% on management costs each year between 2022/23 and 2024/25.

- 6.8 Impacts of national housing policies and any changes proposed in future Government papers can have an adverse impact on the HRA and could require additional resources to address any unexpected changes. These include the effects of Climate Change and the implementation of Building Safety Regulation Act.
- 6.9 The HRA debt cap has been removed and significant borrowing maybe required to invest in stock to increase housing supply in Slough. The HRA is exposed to interest rate fluctuations, which can have a significant impact on revenue budgets and the overall business plan.