Appendix A1 - The 2022/23 Housing Revenue Account Budget

1. Executive Summary

The Housing Revenue Account (HRA) is a separate ring-fenced account and covers all activities of BCC as landlord of circa 26.8k housing stock. In addition, there are 1.7k leasehold properties which have been sold under Right to Buy, but which are in blocks where the Council continues to maintain the common areas and the fabric of the building. The Council has a duty to develop a balanced HRA budget for the next financial year, as well as a sustainable long term business plan, which considers both the capital investment needs of its stock and the revenue costs of managing and maintaining it. This paper presents the 2022/23 budget for approval.

2. Strategy

The one-year budget focuses on three main areas of activity:

- repairing, maintaining and improving existing stock with investment identified as city priorities through the *Big Housing Conversation: Investing in Council Homes* consultation
- providing services for council tenants and leaseholders; and
- an accelerated and increased programme to deliver new affordable homes, in support of ambitious city targets.

The longer-term perspective is crucial to ensure that the HRA can continue with a new build programme and make sure that our primary assets, the housing stock, are fit for purpose and there is sufficient financial capacity to carry out essential repairs and improvements.

3. Assumptions for Budget 2022/23

The assumptions in setting the budget for 2022/23 are tabled below:

Table 1 – Assumptions in the proposed budget for 2022/23

Item	Assumption	Sensitivity
Rent Increase (Dwellings)	4.1% (CPI+1%)	Applying CPI only to rents in 2022/23 would reduce income by circa £1.2m per year. Over the life of a 30-year business plan this would be a cumulative loss on revenue in the region of £36m
Rent Increase (Non-dwellings)	4.1% (CPI+1%)	Applying CPI only to rents would reduce income by circa £0.012m per year. Over the life of a 30-year business plan this would be a cumulative loss on revenue in the region of £0.36m
Bad Debt Provision	£1.9m (1.5% of gross rental income)	A 10% increase in bad debts (to 1.65%) would increase losses by £0.19m
Void Rate	£1.3m 1.06%	A 10% increase in voids (to 1.17%) would increase losses by £0.13m
Average Stock Figure for 2022/23	26,729	Considers assumed right to buys and additional units
Right to Buy's (RTB's)	Estimated number of housing units lost through RTB - 130 (0.5% of stock)	The level of RTB is projected to have a downward trend in future years
Additional units - new build & acquisitions	Projected 145 units delivered in 2022/23	Each new build unit provides a minimum rental yield of circa £3,000 per annum to the business plan

New development/acquisitions	Each scheme will be appraised for viability and impact on overall business plan	There is an expectation that any new schemes will deliver a positive NPV
HRA revenue balances from 2021/22 to be transferred to reserves at year end	£0.7m projected underspend	This is based on forecast outturn position as at P8
HRA Debt	£245m	For every £1m of additional borrowing, there would be an increase in interest cost of £0.025m per year.
Average cost of capital	4.48%	Existing loans are currently all on a fixed rate, fixed term basis and are not subject to interest rate risk.
Debt Repayment	No provision made for repayment of debt	All debt is currently fixed rate / fixed term debt. Any early repayment would attract a penalty/premia in excess of any future interest cost savings
Interest on balances	0.10%	Investment income would reduce by £0.01m for every base point reduction
Funding of capital programme	For 2022/23 there will be £3.5m prudential borrowing	Each £1m of borrowing would cost £0.025m per year compared to utilising reserve.

Rents**:** Rents are set following the rent standard within parameters set by Government.

To ensure the HRA generates sufficient financial capacity to be able to meet its future stock maintenance liabilities, it is proposed to increase rents by CPI plus 1% in line with the Rent Policy and Rent Standard. The proposed increase would take average rents to £84.84 per week (significantly lower than Local Housing Allowance rates). A significant proportion of the proposed rent increase would be met from Housing Benefit and Universal Credit rather than fall wholly on tenants. If the rent increase is not applied, as per the Government's Rent Policy, the impact on the 30-year business plan of no rent increase would be a loss of approximately £36m income.

4. Proposed Revenue & Capital Budget 2022/23

Table 2 shows the proposed HRA budget for revenue and capital expenditure for 2022/23, and the movement from the 2021/22 budget. Table 3 shows the proposed HRA five-year capital programme

Table 2: Proposed Housing Revenue Account Budget 2022/23

HRA Income and Expenditure	2021.22 Budget £000	2021.22 @P8 Forecast £000	2021.22 Variance £000	2022.23 Budget £000	Movement £000
Dwelling rents	(113,495)	(113,606)	(111)	(118,248)	(4,753)
Voids	1,200	1,079	(121)	1,253	53
Non-dwelling rents	(1,171)	(914)	257	(1,206)	(35)
Charges for services and facilities	(8,621)	(9,263)	(642)	(8,927)	(306)
Contributions towards expenditure	(30)	9	39	0	30
TOTAL INCOME	**(122,117)**	**(122,696)**	**(579)**	**(127,127)**	**(5,011)**
Repairs & Maintenance	33,854	33,067	(786)	37,289	3,435
Supervision & Management	32,219	30,159	(2,060)	31,661	(558)
Special Services	9,771	11,031	1,260	10,602	831
Rents, rates, taxes and other charges	755	660	(95)	754	(1)
Depreciation & impairment of non-current assets	29,444	29,444	0	30,357	913
Debt management	41	41	0	41	0
Movement in the allowance for bad debts	1,362	1,362	0	1,362	0
Movement on Impairment provision	421	2,021	1,600	412	(9)
TOTAL EXPENDITURE	**107,867**	**107,786**	**(81)**	**112,477**	**4,611**
NET COST OF HRA SERVICES	**(14,250)**	**(14,910)**	**(660)**	**(14,650)**	**(400)**
Net interest payable, pension costs and other non operational charges	11,043	11,043	0	11,043	0
Capital Expenditure Funded From The HRA	3,206	3,204	(2)	3,606	400
SURPLUS FOR THE YEAR ON HRA SERVICES	**0**	**(662)**	**(662)**	**(0)**	**(0)**

Table 3: Proposed Capital Programme 2022/2023 to 2026/27

	Housing Revenue Account DRAFT Capital Programme	2022/23	2023/24	2024/25	2025/26	2026/27	TOTAL
		£000s	£000s	£000s	£000s	£000s	£000s
HRA 1 & 3	Housing Investment	53,473	80,751	75,447	66,684	62,394	338,749
HRA 2	New Build & Land Enabling	68,658	113,110	89,132	42,472	31,000	344,372
HRA 4	HRA Infrastructure & Disposal	550	569	581	593	605	2,897
	GROSS HRA Capital	122,681	194,430	165,160	109,749	93,999	686,018
	Capital Financing						
	Capital Receipts & Grant	56,424	15,181	20,225	6,752	5,218	103,800
	Revenue and Reserves	62,795	71,881	33,061	33,968	34,722	236,427
	Prudential Borrowing	3,462	107,368	111,874	69,029	54,059	345,792
	NET HRA Capital Programme	0	0	0	0	0	0

5. Reasons for movement on the budget between 2021/22 and 2022/23

Rents: The proposed budget assumes that rents are increased by CPI +1%, generating an additional £5m in income in 2022/23.

Net Service Charges: The 2022/23 budget is based on the planned expenditure on the properties.

Revenue repairs: The increase in budget for 2022/23 is partly due to the planned programmes in the HIP.

Depreciation: is the calculated level of basic re-investment needed to keep homes in reasonable repair (calculated using lifecycles / element costs as per our investment planning approach). This sets the minimum level of revenue funding to capital investment in homes to be applied in that year (or set aside in a separate reserve account to be invested in homes in the future). Depreciation is shown as an expenditure item in revenue, and an income item in capital.

Capital receipts: These are from the sale of council homes under the Right to Buy (RTB) to sitting tenants at a discount. Sales for 2022/23 are forecast to be 130, with an average sale price after discount of £103k. The receipts will be reinvested to build new council homes, enabling a greater percentage to be retained.

The 5 year capital programme includes a baseline programme, which aims to deliver 1720 new council homes. These will be financed by a mix of unapplied capital reserves, pooled RTB receipts, Homes England grant funding and income from the first tranche sale of Affordable Homes. Further details of the new build and acquisition programmes are set out in Appendix A3.

The proposed budget incorporates the Housing Investment Plan (HIP) for 2022/23. The HIP covers both revenue and capital expenditure, the full detail of which can be found in Appendix A2.

6. Risks

The following risks have been identified in relation to the proposed HRA budget for 2022/23

Risk	Potential impact	Mitigation
Pay award higher than assumed 1.75% increase	Every additional 1% equates to additional £370K cost	The employee budget will have to be managed within the resource envelope available
New Contracts cost more than assumed inflation	Reduced capacity to deliver services, new homes, and maintain current stock to the required standard.	Robust contract management
Failure of contractors	Impact on cost and delivery of planned programme	Effective contract management and procurement framework.
Bad debt higher than budget assumed and impact of Universal Credit	A 10% increase in Bad Debts (to 1.65%) would increase losses by £0.18m. If tenants have reduction in benefits may affect ability to pay rent.	Early intervention on rising arrears
Interest on debt repayments	Only applicable to non-hedged debt (currently £NIL)	Minimum amount of hedging of debt should be determined
Cost of retro fitting zero carbon	Lack of capacity resulting in either failure to hit target, or inability to fund required repairs/maintenance	Robust business cases and procurement to ensure the option delivering the best Value for Money is selected.
Delays in delivering new units	Reduced rental income. Reputational risk of failing to deliver target number of units	Robust management of development partners to ensure adherence to timescales. Penalty clauses within development agreements to compensate for late/non-delivery
Repayment of right to buy receipts due to level of development required and limited time to use receipts	Loss of income to subsidise delivery of new homes	Forward planning to match 1-4-1 receipts against development programmes

Government policy changes	Not anticipated for 2022/23, but may impact on 30 year business plan	Business plan continually to be reviewed
Zero Carbon	No detailed costs available at present	Options appraisal and strategy development. Need to identify funding source from Government

7. Risks

As at the beginning of 2021/22 the HRA General Reserve balance was £97.8m and the Unapplied Capital Reserves balance was £53.7m. Based on the forecast outturn position for 2021/22 as at P8, it is anticipated that a further £0.6m will be added to the General Reserve. The 2022/23 budget proposal assumes that £32.4m of the General HRA reserve and £53m of the Unapplied Capital Receipts Reserve will be utilised in the year in order to fund the Capital Programme. This would leave a balance on the General Reserve of £61.1m as at the 31 March 2023 while the Capital Receipts reserve will have been fully utilised. The HRA will maintain a minimum level of reserves on the General reserve at £21m being the equivalent of 3 months cashflow and a further £10m on the Major Repairs Reserve. The application and use of reserves supports the achievement of service delivery and improvements to housing stock.