

Decision Pathway – Report



PURPOSE: Key decision

MEETING: Cabinet

DATE: 24 January 2023

TITLE	Housing Revenue Account (HRA) Budget 2023/24		
Ward(s)	Citywide		
Author: Sarah Spicer	Job title: Business Innovation Manager		
Cabinet lead: Councillor Craig Cheney, Cabinet Member for Finance, Governance and Performance and Councillor Tom Renhard, Cabinet Member for Housing Delivery and Homes	Executive Director lead: Stephen Peacock, Chief Executive		
Proposal origin: Councillor			
Decision maker: Full Council			
Decision forum: Full Council			
Purpose of Report:			
<ol style="list-style-type: none"> To seek Cabinet’s endorsement of the proposed 2023/24 Housing Revenue Account (HRA) Budget and 5-year medium term financial plan (MTFP). To seek delegated authority to appoint all necessary contractors and apply for/receive grants to deliver the Housing Investment Plan (HIP) (Appendix A2) and HRA Development Programme for new council homes (Appendix A3). To note, to ensure long-term viability of HRA finances, the 30-year HRA business plan has been refreshed and updated to reflect the new budget and MTFP requirements. 			
Evidence Base:			
<ol style="list-style-type: none"> The Housing Revenue Account (HRA) is a separate ring-fenced account and covers all activities of Bristol City Council as a landlord. A 1-year revenue budget for 2023/24 and a 5-year capital programme 2023/24 – 2027/28 are being presented for approval. The budget has been set to ensure that the HRA can deliver its essential services, which include repairs, maintenance, and improvements to the housing stock plus delivery of core housing management services. In addition, there is provision for new investment priorities identified in 2022/23, new pressures and contributions to the city’s priorities for housing delivery. These proposals have all been evaluated within our 30-year HRA Business Plan model, to ensure they are affordable and that the plan stays in surplus through the plan period. When setting this year’s (2022/23) HRA Budget there was extensive consultation through the ‘Big Housing Conversation: Investment in Council Housing’. This informed the current budget, MTFP and 30-year business plan. As a result, commitments were made to increase the investment in the existing stock, to be funded through a series of above inflationary increases in rents starting from 2022/23. There are significant pressures affecting the 2023/24 budget, MTFP and 30-year business plan, these include: <ul style="list-style-type: none"> The national 7% social housing rent cap Above inflationary increases in costs for materials, utilities, contracts and development of new homes New costs for fire safety measures within high rise blocks Provision for a transformation programme to replace several housing IT systems with a single platform (outline business case approved by Cabinet June 2022). From 2016-2020 Government policy set a requirement for social landlords to decrease social rents by 1% per year, reducing income levels and capacity. The current Government policy, effective from 2020, allowed social landlords to increase social housing rents by inflation plus 1% each year, for five years. In September 			

2022, with inflation reaching around 10%, the government consulted on a temporary amendment to the rent standard policy (CPI+1%) for 2023-24 and the outcome of 7% rent increase cap was announced in the autumn statement

6. However, many costs have increased above average rates of inflation, this includes costs for materials, contracts, utilities and building new homes.
7. Fire safety: This year we started a new inspection programme, following new regulatory requirements known as PAS9980. These inspections provide us with more comprehensive information about the cladding and external wall system as a whole and assesses risks against a new guidance structure. We have received final reports where the external wall system has been considered as part of the fire risk assessment (FRAEW) for three blocks and all reports concluded that the presence of Expanded Polystyrene System (EPS) elevates the fire safety risk in the buildings.
8. Following the tragedy at Grenfell Towers in 2017, Aluminium Composite Material (ACM) cladding was the focus of attention from experts in the industry and was subject to the government's testing regime. At this time, BCC instigated independent checks on 27 clad high-rise blocks. As a result, there was a programme of works carried out to repair cladding, install missing fire breaks, increase ventilation, to increase safety on some blocks. At that point, concern was not raised about the EPS cladding. However, the industry generally and fire safety experts are now considering the risks posted by other cladding types, as well as other components of the external wall systems, e.g., balcony design. Further, we have also had two fires in high rise blocks over the last few months, Twinnell House on 25th September where the cladding was assessed as performing well, and Ecclestone House on 20th October where the assessment was that the (EPS) cladding in the stairwell contributed to the spread of the fire. As a result, additional programmes of work are now included in the 23/24 Housing Investment Plan for cladding removal and interim fire safety measures.
9. Increasing rents by 7%, rather than inflation plus 1%, for 2023/24 limits the capacity available to fund major works without the need to borrow in the long term. This reduces capacity for strategic borrowing aimed towards new builds and housing supply and requires reductions in spend in other areas of the business.
10. These new pressures have provided a significant challenge to ensuring that the 30-year HRA business plan does not fall into deficit. To ensure the long-term viability of the business plan the following changes have been made within the business plan:
 - Built in efficiency savings targets against housing management expenditure from 2025 and response and repairs expenditure from 2024, we will explore the nature of these efficiencies.
 - Commitment to review service charges during 2023/24, to ensure we are compliant with regulatory requirements
 - Other programmes of work have been reviewed to accommodate the new costs and enable capacity to deliver. This includes:
 - **What has slowed** – The laundry refurbishment programme has been extended by 6 years, resulting in the annual budget being reduced accordingly.
 - **What has stopped** – The planned refurbishment of garage sites will end, and the associated annual budget has been removed.
 - **What has slipped** – We have reviewed our major refurbishment programme over the next 10 years and have identified a number of cyclical projects that can be postponed to later years. This will assist with the Major Project team's capacity to deliver on the 10-year EPS cladding programme.
11. We have protected resident priorities identified in the 2022/23 budget consultation, baseline commitment provision excluding inflationary uplifts is:
 - £12.5m over the MTFP for a bathroom replacement programme
 - £8.7m over 5 years up to 2027 to improve standards in communal areas, blocks and estates, with £2.05m per year for the next 4 years
 - £80m to make homes more energy efficient and to reduce carbon emissions, through further wall insulation schemes and a programme of photo-voltaic (PV) panel installations. This will ensure all homes reach a minimum EPC of C by 2030
 - £453m in the MTFP to develop 1715 new homes over the next five years (see details in Appendix A3)
 - £1m for HRA park and play area refurbishment as approved by Cabinet on 04 Oct 2022.
12. There are new programmes for fire safety work, details of these can be found in Appendix A2. The total cost of fire safety works over the next ten years is now £96m – compared to the original £21m set aside for

additional investment in fire safety. In summary:

- EPS (expanded polystyrene) cladding removal - a programme has been developed to remove all EPS cladding over the next 10 years, costs are estimated at £46m.
- Waking watch - 24/7 fire safety patrols are in place at 36 blocks where there are concerns about the cladding (the figure has reduced from 38 as EPS cladding has now been removed from 2 blocks). Where interim measures are needed for longer, we plan to install fire alarms. On 6 December 2022, Cabinet considered the 'Additional resources for fire safety measures' report which set this out in further detail and approved £12.4m over the next 2 years for Waking Watch (please note that costs have been re-evaluated and reduced since that report was approved).
- Fire alarms - installing Simultaneous Evacuation Alarms in all flats affected acts as an interim measure, and as an alternative to waking watch. When the EPS cladding can be removed within the next 12 months, the plan is to have a Waking Watch presence until the EPS is removed. Where the works to remove the EPS is scheduled to take longer, we plan to replace the Waking Watch with an alarm system. A total cost of £8.7m is proposed for installing fire alarms across blocks where longer-term measures will be needed. This is a reduction from the total figure of £9.9m approved by Cabinet in Dec. 2022 due to the restructuring of the EPS cladding removal programme revising down the number of blocks requiring a full alarm system.
- Sprinklers – we are proposing a sprinkler installation programme across all 62 high-rise blocks and the proposed costs allow for the installation of these sprinklers over a 5-year period totalling £32.7m (may be subject to change depending on rates of inflation). Previous commitments from The HRA Budget 2019/20 identified spend to support a sprinkler programme. However, previously earmarked funds were insufficient to cover all high-rise blocks over the five-year MTFP and would have covered approximately 25 blocks. The latest plans therefore represent an acceleration of the previously planned sprinkler programme. This also will require an additional revenue budget to cover the annual costs of servicing and maintaining these sprinklers when installed equating to £23.7m over the 30 years. The annual cost for servicing and maintenance is £10k per block and the servicing and maintenance costs increase each year during the first 5 years as more sprinkler systems are installed. The cost from year 6 onwards is £620k per year excluding inflation once all sprinklers have been installed

13. Appendix A1 contains information regarding the 30-year business plan, including key assumptions used to forecast income and expenditure. The 30-year plan contains commitments of £2.1bn expenditure for the Housing Investment Plan and £2b for new build and acquisitions.

for forecasting. The capital programme in the model for Housing Investment Plan (HIP) expenditure (including 2022/23) totals £2.1 billion. New Build & Acquisition projected expenditure over the life of the business plan including 2022/23 is £2 billion.

14. Below is a summary of the headline figures for the 2023/24 budget and MTFP:

Revenue income

The HRA forecasts revenue income of £137m for 2023/24 comprised of:

- **£125.5m** rental income (net, after allowing for rent loss for empty properties)
- **£10.7m** service charges (based on current charges, plus an inflationary uplift)
- **£1.1m** non-dwelling rent (garages and commercial units).

The primary source of income is from rents and service charges. The average weekly rent for council homes is currently £84.82. The recommended increase for 2023/24 of 7% means average rents will rise to £90.76. For 66% of tenants this increase will be met through either fully or partially through benefits (housing benefit or universal credit).

Bristol City Council has submitted funding bids to Government, requesting support from grant funding provision for Social Housing Decarbonisation Fund (SHDF) and Building Safety works. Successful applicants will be notified of decisions regarding SHDF bids in March 2023.

Revenue expenditure

The highest priority for HRA expenditure is to ensure service provision for council tenants and leaseholders, this includes estates and housing services, and repairs, maintenance and improvements to council housing. The budget for 2023/24 will be:

- **£40m** for responsive repairs and maintenance, including compliance safety programmes
- **£35m** to deliver supervision and management functions
- **£16.m** delivering special services (e.g. caretaking, laundry provision, support to older people)

Capital Programme Expenditure

The 5-year Capital Programme consists of:

- **£408m** for the Housing Investment Programme to maintaining and improving the existing stock as set out in Appendix A2 Housing Investment Programme 2022/23.
- **£453m** to deliver 1715 new council homes
- **£4m** for Housing IT transformation and other sundry items

Attached are appendices that provide information regarding the budget, Housing Investment Plan and delivery programme:

- A1: The 2023/24 HRA budget and MTFP
- A2: Housing Investment Plan
- A3: Housing Delivery Programme
- Appendix E: Equalities Impact Assessment
- Appendix F: ECO Assessment

Cabinet Member / Officer Recommendations:

That Cabinet is asked to recommend the following proposals to full Council:

1. Agrees and recommends a rent increase of 7% effective from Monday 03 April 2023 to Full Council, applicable to HRA dwelling (general needs accommodation, supported housing and temporary accommodation).
2. Agrees and recommends the one-year revenue budget of £137.4m for 2023/24 set out in Appendix A1 to Full Council.
3. Agrees and recommends the five-year capital programme 2023/24–2027/28 as detailed in Appendix A1 to Full Council.
4. Authorise the Executive Director of Growth and Regeneration, in consultation with the Cabinet Member for Housing Delivery and Homes, to increase service charges (including district heating) and garage rents in line with inflation.
5. Note the key assumptions in the 30-year business plan and that the finance model is established within the agreed affordability principles summarised in Appendix A1, Table 4.

That Cabinet Agree:

6. Authorise the Executive Director of Growth and Regeneration in consultation with the Cabinet Member for Housing Delivery and Homes and the Council's Section 151 Officer to submit appropriate funding applications (including Homes England grants for development) and if successful to:
 - accept funding and agree associated grant terms/conditions (additional consultation required with Legal Services); and
 - spend the funding by delivery of the projects (set out in appendices A2 and A3) via compliant procurement routes; and
 - use HRA investment plan funds and or reserves to match fund projects to maximise funding opportunities; and

- such authority to include decisions above £500K.
- Delegated decisions relating to funding applications and associated projects will be published (Officer Executive Decisions).

7. Authorises the Executive Director of Growth and Regeneration in consultation with the Cabinet Member for Housing Delivery and Homes and the Council's Section 151 Officer, subject to keeping within the approved overall HIP budget:

- a. To approve the priority of the procurement projects set out in Appendix A2, take all steps required to select the appropriate procurement route and to award the contract in line with the Council's procurement rules and regulations. Such authority to include decisions above £500K.
- b. to adjust and/or defer (from within the current year's programme, including those set out in Appendix A2) any project(s) to fund the increased cost of any other project and/or to accommodate other changes in the programme subject to keeping within the approved overall budget. Delegated decisions to adjust or defer the programme will be published (Officer Executive Decisions).

8. Authorise the Executive Director Growth and Regeneration consultation with the Cabinet Member for Finance, Governance and Performance and the Cabinet Member for Housing Delivery and Homes and the Council's Section 151 Officer to:

- a. Approve the priority of the procurement projects set out in Appendix A3 and take all steps required to procure and award contracts (including goods, works and professional services) during 2023/24 to deliver the HRA Development Programme capital investment plans detailed in Appendix A3 (notwithstanding those individual contracts may exceed the key decision threshold)
- b. agree the allocation of financial expenditure on schemes within the Programme and to authorise changes to the schemes as required to deliver the development proposals. Such authority to include decisions above £500k
- c. to determine the appropriate nature/mix of tenure appropriate for each scheme
- d. to identify and authorise suitable sites and properties for the programme, including both Council property and acquiring additional land or properties.
- e. Delegated decisions relating to development will be published (Officer Executive Decisions).

Corporate Strategy alignment:

Fair and inclusive:

- Management of council homes is pivotal in providing residents with safe warm, secure and affordable accommodation
- The HRA development programme will ensure the provision of over 2000 new affordable homes, helping alleviate the housing crisis and ensuring the provision of affordable homes across the city

Wellbeing

- Additional funding for energy efficiency and reducing carbon emissions supports the city's response to the climate emergency and ambitious carbon reduction targets

City Benefits:

- a) Fourteen percent of housing in Bristol is owned and managed by Bristol City Council, therefore decisions about the HRA budget impact directly on a significant number of households, as well as contributing to delivery of objectives in the Council's Corporate and Housing strategies.
- b) A total of £69.8m of HRA capital will be re-invested in the maintenance and investment programmes of our homes in 2023/24, helping to safeguard the value of HRA assets; positively impact on the well-being of residents; and ensuring health and safety obligations are complied with.

Consultation Details:

Internal consultation only:

- Workshops with Cabinet Member for Homes and Housing Delivery and Cabinet Member for Finance and Section 151 officer on 15 Dec 2022 and 03 Jan 2023
- Workshops with Cabinet Member for Homes and Housing Delivery and Section 151 officer on 21 Nov 2022 and 5 Dec 2022
- Cabinet Member briefing 13 Dec 2022

- EDM 19 Dec 2022
- Budget Scrutiny 09 Jan 2023

Background Documents:

Rent Standard (<https://www.gov.uk/government/publications/rent-standard>)

[HRA budget amendment 2022/23](#)

[Housing IT and Transformation programme – approval of Outline Business Case](#)

Revenue Cost	£137.4m	Source of Revenue Funding	Housing Revenue Account
Capital Cost	£865m	Source of Capital Funding	Grants, Prudential Borrowing, Capital Receipts & RCCO
One off cost <input type="checkbox"/>	Ongoing cost	Saving Proposal <input type="checkbox"/>	Income generation proposal <input type="checkbox"/>
<input type="checkbox"/>			

Required information to be completed by Financial/Legal/ICT/ HR partners:

1. Finance Advice:

This report seeks approval of next financial year HRA Revenue budget which includes authorising a dwelling rent increase of 7% for next financial year (2023/24), increasing services charges by CPI+1 and garage rents in-line with September 2022 CPI.

Cabinet is also asked to note the updated HRA Business Plan over the 30-year period from 2022/23. The Plan is based on a financial model which reflects assumptions for rents, service charge income and expenditure requirements over a 30-year period.

Rental income is the largest single budget within the HRA and is usually calculated in accordance with the national rent policy. However, due to the high level of inflation this year the Government went out to consultation to temporarily amend the CPI plus 1% policy in the autumn statement, announcing that rents would be capped at 7%.

The increase in dwelling rents is essential to ensure the continuing investment in high-quality housing service for our tenants. Failure to increase the rents by the statutory cap will have significant impact on income in the current year and in each year going forward. With an increase in rental income of 7% from dwellings, effective from April 2023, the HRA would generate £9.3m more in turnover in the financial year than is forecast to be achieved in 2022/23.

The level of service charges should be set to enable full recovery of the costs of providing the service. It is proposed that service charges are increased by 11.1% in line with CPI in September for 2023/24. The additional service charge income has been reflected in the draft budget position. It is also proposed that district heating is uplifted by 12% reflecting the current market prices.

The Authority is experiencing cost inflation of up to 20% for various services including utilities, materials and contractor costs. As shown in the 2023 HRA Business plan Bristol City Council will have to accommodate previously unplanned activities during 2023/24, arising from fire safety works (Waking Watch) and therefore a further drawdown from the HRA reserves of £6.5m will be necessary in 2023/24 to cover the net shortfall in activity cash flows.

The Council continues to monitor closely the impact of welfare reforms which is likely to have an impact on rent collection and therefore impact the overall HRA position. The levels of arrears and required level of bad debt provision will continue to be monitored, but the latest estimates show that due to proactive arrears management the forecast rent arrears are not increasing at the levels previously anticipated. The draft HRA budget assumes 1% increase in the provision for bad debts based on current performance.

This report also seeks approval of the Council 5-year HRA Capital programme (2023/24 to 2027/28) and proposes delegation of authority to the Executive Director of Growth and Regeneration in consultation with the Cabinet Member

for Housing Delivery and Homes to consider and approve the scope of all projects including the approval and rephrasing of capital budgets for individual schemes, within the overall £865m budget proposed in the report.

The proposed capital programme budget for new build developments (HRA 2) and the Housing Investment Plan (HIP) is £453m and £408m respectively over the 5-year period from 2023/24 - 2027/28. In addition, the Authority plans to invest approximately £4m in renewing its IT Infrastructure.

The 2023 HRA business plan seeks to resource as much council housing as is considered affordable based on the income and assumptions built into the financial model. The plan reflects significant expenditure on both new build and improvements in current stock over the 5 years that must be part funded by borrowing. This leaves recurring costs of servicing borrowing to be funded over the life of the business plan.

The report seeks approval from Cabinet to authorise the Executive Director of Growth and Regeneration in consultation with the Cabinet Member for Housing Delivery and Homes and the Council's Section 151 Officer to submit appropriate funding applications (including Homes England grants for development) to finance the HRA capital programme. The HRA business plan seeks to fund capital expenditure by utilising all available capital receipts as the first call, then grant funding after that balances available within the Major Repairs Reserve.

It is prudent to set aside funds into specific HRA reserves to finance future HRA expenditure including capital financing, service improvements and risk exposure. The proposed 2023/24 budget assumes reserve draw down of £54.2, with £6.5m required to fund revenue expenditure and £47.7m to finance the 2023/24 proposed capital programme.

A prudent level of working balance, along with appropriate application of reserves, should be part of the overall budget. The approved minimum HRA balance for 2023/24 is £21m and is designed to cope with unpredictable circumstances which cannot be addressed by management or policy action within the year. An additional £5 million has been provided in the general reserves to reflect the current economic climate and risk exposure.

There are factors such as the unprecedented increases in energy prices, material costs and repair & maintenance contracts costs that would suggest any Government decision to set rents at less than CPI+1, will inevitably lead to significant risks to the sustainability of the HRA. Interest rate fluctuations are also among the major risks the HRA is facing and will need to be managed in the coming years. This can have a significant impact on revenue budgets, future borrowings, and the overall business plan.

The business plan has been refreshed during a period of significant financial uncertainty with inflation and interest rates currently at much higher levels than we have experienced in recent years. The 2023 HRA business plan is based on the assumptions set out in Appendix A1.

The 2023 HRA 30-year business plan will continue to be reviewed and refreshed annually allowing for horizon scanning & the identification and mitigation of risks in the short, medium & long term.

Finance Business Partner: Archa Campbell 16th January 2023

2. Legal Advice: The Council is required to maintain and review annually, a Housing Revenue Account in accordance with the provisions of the Local Government and Housing Act 1989 and directions issued thereunder. The report seeks endorsement of the proposed budget for approval by Full Council, including its proposed revenue and capital spending plans.

The report also seeks broad delegated authority for the Executive Director Growth & Regeneration to all necessary steps to implement those plans, across a range of activities, notwithstanding that any one of these may be a matter which would otherwise require specific cabinet approval by virtue of it exceeding the £500k key decision threshold. This authority is to include all procurement activities, (for all goods, works and services) necessary to deliver the Housing Investment Plan and Housing Delivery Programme, and authority to acquire property to meet the HDP

programme. To ensure the implementation of the plan and programme is lawful, all procurement and contracting activities must comply with the appropriate Procurement Regulations and the council's own procurement rules.

Legal Team Leader: Eric Andrews, 12 Jan 2023

3. Implications on IT: IT continue to support Housing in their digital transformation program and are fully engaged, insuring improvements to the service and potential savings.

IT Team Leader: Alex Simpson – Senior Solution Architect

4. HR Advice: There are no HR implications evident

HR Partner: Celia Williams, HRA Business Partner, 21 December 2022

EDM Sign-off	Stephen Peacock, Chief Executive	17 th January 2023
Cabinet Member sign-off	Cllr Craig Cheney, Cabinet Member for Finance, Governance and Performance and Councillor Tom Renhard, Cabinet Member Housing Delivery and Homes	17 th January 2023
For Key Decisions - Mayor's Office sign-off	Mayor's Office	17 th January 2023

Appendix A – Further essential background / detail on the proposal Appendix A1 - HRA Budget Appendix A2 – Housing Investment Plan Appendix A3 – Housing Delivery Programme	YES
Appendix B – Details of consultation carried out - internal and external	NO
Appendix C – Summary of any engagement with scrutiny	NO
Appendix D – Risk assessment	NO
Appendix E – Equalities screening / impact assessment of proposal	YES
Appendix F – Eco-impact screening/ impact assessment of proposal	YES
Appendix G – Financial Advice	NO
Appendix H – Legal Advice	NO
Appendix I – Exempt Information	No
Appendix J – HR advice	NO
Appendix K – ICT	NO
Appendix L – Procurement	NO