ADUR DISTRICT COUNCIL

Adur Cabinet
1st February 2024

Key Decision [Yes/~~No~~]

Ward(s) Affected: All

Housing Revenue Account: 2024/25 Budget

Report by the Director for Sustainability & Resources and the Director for Housing and Communities

Executive Summary

1. Purpose

1.1 This report sets out the current and future financial prospects for the Housing Revenue Account and requests that members agree to set the rent levels and service charges for 2024/25 as set out in the report. The report also considers the significant strategic challenges facing the Housing Revenue Account and the need to maximise income in order to continue to deliver the improvement plan following the self-referral to the social housing regulator.

1.2 Members will be very aware that the rent limitation announced in 2015/16 has significantly affected the financial viability of the Housing Revenue Account for the past few years, which has been in deficit for six years. However, the council is now permitted to increase rents on social rent properties by up to the September Consumer Price Index (CPI) +1% each year from 2020.It is the government's intention that this arrangement should remain in place for a period of at least five years.

1.3 The following appendices have been attached to this report:

(i) **Appendix 1** Proposed budget for 2024/25

(ii) **Appendix 2** 30-year financial forecast

(iii) **Appendix 3** HRA Treasury Management Strategy

2. Recommendations

2.1 The cabinet is recommended to:

(i) consider and approve the Housing Revenue Account estimates for 2024/25 as set out in Appendix 1

(ii) approve that the rents of council dwellings will increase by 7.7%, increasing the average council dwelling rent by £8.16 to £114.26 per week (average rent currently £106.10 per week, paragraph 6.2)

(iii) determine the level of associated rents and charges with effect from week one of 2024/25

(a) **Rents of council garages** – agree an increase of 6.7% to £13.11. (currently £12.29 per week, plus VAT for non-Council tenants, paragraph 6.6)

(b) **Service charges** - delegate to the Assistant Director for Housing and Homelessness Prevention and Chief Financial Officer in consultation with the cabinet member for Adur Homes and customer services, the setting of the service charges (paragraph 9.2)

(iv) To approve the HRA Treasury Management Strategy contained in Appendix 3.

3.0 CONTEXT

3.1 This report seeks to explain the current challenges impacting the budgets for the Housing Revenue Account (HRA) to enable members to set rent levels for 2024/25.

3.2 The HRA represents the total costs and income of the council in its provision of the housing landlord service. This account is ring-fenced and is separate from all other income and expenditure of the council.

3.3 From 1 April 2012 the Localism Act replaced the former complicated HRA subsidy system with a new self-financing regime. The regime allows the council more freedom to determine its own budget, albeit some financial restrictions still apply, most notably around the use of Right To Buy (RTB) capital receipts and limitations on the level of rent that can be levied.

3.4 The council is required to operate the HRA on a sustainable basis at no detriment to the General Fund (and vice versa). To facilitate this the council, as with all housing authorities, was required to produce a 30-year financial business plan showing how the HRA could be run on a self-financing basis. Members are asked to note that the business plan is being drafted. This report updates the financial part of this overall business plan and informs members of the key budgetary assumptions which underpin the financial projections from 2024/25 onwards.

3.5 The challenge of creating a sustainable business plan was made more difficult by the announcement by the Chancellor in the Spring Budget 2015 that rent levels would be reduced by 1% for four years from 2016/17. This is now at an end and a new rental regime was introduced for 2020/21 onwards.

3.6 The setting of rent levels is now an integral part of the financial planning decision-making process. The underlying government policy is that the council can increase rents by up to CPI +1% for a period of at least 5 years from 2020/21 to 2024/25. However, the current economic situation has meant that inflation is running much higher than the government target of 2%. The September 2023 CPI upon which the 2024/25 rental increases would be based is 6.7%. Officers are recommending the maximum increases to allow the HRA to gradually return to financial stability.

4.0 STRATEGIC RISKS AND CHALLENGES

4.1 There are some specific challenges faced by the Housing Revenue Account over the next 5 years which will influence the 30-year business plan.

- Government rent policy and the legacy of rent limitation
- Impact of Right to Buy
- The strategic and operational priorities as set out in the Adur Homes improvement plan as the result of the self referral to the Regulator of Social Housing
- The new regulatory standards as part of the reforms for social housing.
- Changes to Housing Benefit and welfare reform
- Impact of new housing developments and regeneration

4.2 **Government rent policy**

4.2.1 The rent limitation measure announced by the Chancellor in 2015 has had a profound impact on the HRA and still continues to impact on the HRA's future financial sustainability. Over the period of the reduction, the council has lost and continues to lose a substantial amount of annual rental income of around £2m per year. Limits on rent levels are summarised in the most recent document from the Regulator of Social Housing (Limit on annual rent increases 2024/25).

This lost income has compromised the financial stability of the HRA and, more importantly, affected the amount that can be invested both in existing homes and in the development of new homes.

4.2.2 However, council rents have been under the remit of the Regulator of Social Housing who has set rent standards since April 2020. Consequently the council now has greater freedom in setting the rent for at least the next 5 years. The key features of the current rental arrangements are:

- Local authority-registered providers will be able to increase formula rents by up to CPI +1% (as at September of the previous year) each year for a period of at least five years. Any affordable rent can only be increased by CPI.
- Local authorities have the same rent standard as registered providers.
- Formula rent (with a 5% flexibility level) will be the limit on the initial rent that can be charged for a social rent property.
- The council can let property at an affordable rent with the agreement of the Secretary of State or Homes England. Affordable rent is defined as a rent that must not exceed 80% of gross market rent.
- With the introduction of Universal Credit, not all local authority tenants receive Housing Benefit. Consequently, limit rent (the maximum chargeable for which the HRA will be reimbursed via the Housing Benefit system) has been abolished.

4.2.3 The fall in income resulting from rent limitation to the HRA has limited the scope to address both the issues raised by the stock condition surveys and our ability to invest in new properties. In addition, the council is continuing to seek opportunities to increase the number of homes within the HRA provided that there is a business case for such development.

4.3 Impact of Right to Buy

4.3.1 Council housing stock numbers have reduced over the past few years and will continue to decline in the short term as follows:

	Stock at 1st April	**Plus:** Additions	**Less:** Sites being redeveloped	**Less:** Right to Buy sales	Stock at 31st March
2014/15 - Actual	2,631	2		16	2,617
2015/16 - Actual	2,617	1		9	2,609
2016/17 - Actual	2,609	0		10	2,599
2017/18 - Actual	2,599	0		8	2,591
2018/19 - Actual	2,591		30	9	2,552
2019/20 - Actual	2,552	2		12	2,542
2020/21 - Actual	2,542			4	2,537
2021/22 - Actual	2,537	16	21	15	2,517
2022/23 - Actual	2,517			7	2,510
2023/24 - Estimate	2,510	14		3	2,521
2024/25 - Estimate	2,521	71		8	2,584

4.3.2 For 2024/25 the signs are that interest from tenants in the possible take up of RTB sales continues. The consequential loss of rental income from these sales may in future be partly mitigated by the aim to purchase or develop additional dwellings each year.

4.3.3 A depleting housing stock base means that the fixed costs per property increase and rental income available to fund these costs reduces. The level of capital receipts retained by the council to replace the reducing housing stock base is limited due to the increase in the level of discount offered and the Department of Levelling Up, Housing and Communities (DLUHC) restrictions placed under the new RTB arrangements. Underpinning this constraint are the principles contained in the 2012 government publication “Reinvigorating Right To Buy and One For One Replacement – Information for Local Authorities” and the subsequent revised RTB agreement from 1st April 2021.

4.3.4 The RTB scheme applies to all secure tenants who have been tenants for more than 3 years. The maximum percentage discount for a property is 70% up to a maximum cash value (the current maximum discount is £96,000). The cash cap increases in April every year in line with CPI.

4.3.5 As a condition of being able to retain capital receipts arising from RTB sales, the council entered into an agreement with the Secretary of State in 2012. The terms of this agreement were revised with effect 1st April 2021, the key features now being:

(i) the retention of receipts only applies to RTB sales above the number assumed each year in the HRA self-financing settlement. For Adur the original 75% central pooling arrangement continued for the first 4 properties sold post 1 April 2012, and thereafter is calculated in accordance with a DLUHC formula

(ii) the council uses the receipts for the provision of "affordable" rented homes (i.e. those with rents up to 80% of market rents), albeit that in practice the council may exercise discretion to set rent below this figure

(iii) the retained share of receipts constitutes no more than 40% of total investment in such homes (net of any contribution from another public body)

(iv) the retained receipts are used within 5 years to provide new affordable homes, otherwise they will be required to be paid into the government pool plus accrued compound interest of 4% above base rate.

4.3.6 Properties may be built by Adur Homes or another registered provider. Receipts from RTB will be returned to the government if we cannot allocate the receipts to any new homes.

4.3.7 The impact of the RTB policy has significant implications for both the HRA and the wider housing strategy. The council will see a fall in the number of social housing units for rent in the area as the policy applies equally to all social housing providers. The limitation on land availability makes it difficult to build additional units to replace those lost, whether these are built directly by the council or via others. Current demand for affordable housing far outstrips supply which has inevitable consequences for the local community. The loss of units will also compromise the financial viability of the HRA as outlined in paragraph 4.3.3.

4.4 Changes to housing benefit and the cost of living

4.4.1 The Welfare Reform Act 2012 introduced the most significant changes in the welfare system in over 60 years. The expected roll out of Universal Credit for all claimants is expected to continue over the next few years with the migration of legacy benefits. Around two thirds of Adur Homes tenants are in receipt of Housing Benefit or the housing element of Universal Credit.

4.4.2 The enduring impacts of the cost of living is having a significant impact on some residents. Evidence and experience from other areas has shown that these reforms have been increasing the financial pressures on some of the most vulnerable people of society, due to the introduction of caps within the Housing Benefit system on the total amount of weekly benefit paid and introducing further reductions for the under-occupation of homes. Pressures on people have also been felt due to some of the issues around transferring to Universal Credit and resulting increases in rent arrears.

4.4.3 In addition, there have been a number of challenges already highlighted to members around workforce, systems and data which have led to some real issues around our ability to work with tenants and leaseholders to effectively collect income and ensure the most vulnerable are supported. In summary, our legacy systems have created a number of challenges in relation to accurate data and the lack of workforce capacity, along with other issues, have exacerbated a backlog of issues.

As such, overall arrears have been increasing with almost 1000 tenants in rent arrears to differing levels, as summarised below:

Level of arrears	Number of tenants
£3000+	55
£1000 - £3000	174
£500 - £1000	168
£1 - £500	566

4.4.4 As part of the housing reorganisation, focus is now on the development of workforce capacity to support our income collection and improve our systems to support this work. Where we identify residents in rent arrears, we are however ensuring that we address this in line with our corporate debt policy and that we signpost people to support and help to sustain tenancies. Our work on Proactive is also being used here to help ensure early help is provided to residents.

4.5 **Current stock condition**

4.5.1 Stock condition surveys have identified that the council needs to invest significantly over the next 5 years to achieve the Decent Homes Standard and address the issues around health and safety as identified within the improvement plan. A significantly increased capital programme of work is being developed to address these issues and to identify a timeline for which the council will need to ensure that all compliance issues are addressed and all of our properties meet the Decent Homes Standard.

4.6 **Impact of new developments**

4.6.1 The council has ambitions to build new homes or extensively refurbish existing properties. To date the focus of this programme has been on existing properties held by the HRA. Whilst in the longer term these improvements will be self-funding - with the costs (including any financing costs) funded by the associated rental streams and the avoided high maintenance costs - in the short term the HRA is faced with lost rental income whilst these properties are redeveloped. The challenges around new developments is compounded by the lack of Homes England grant funding due to the self-referral to the Regulator of Social Housing, detailed below in section 4.7.

4.7 **Self referral to Regulator of Social Housing**

4.7.1 Members are well aware of the factors leading to the self-referral and that finance is critically important to enable the delivery of the improvement plan. Importantly, this plan forms part of the first fundamental steps to reshaping the service and getting it onto a more stable footing by addressing the issues raised to the Regulator of Social Housing (providing properties that meet the Decent Homes

Standard and improving health, safety and compliance) and the delivery of a wider set of actions that address almost every element of the service (tenant/leaseholder management and engagement, improving systems, performance, use of data and good governance)

Alongside this, new revised housing standards (part of the new Social Housing Regulator Act 2023) requires councils to meet new and important requirements by strengthening tenants' rights and ensuring better quality and safer homes for residents.

Longer-term planning is required in order to build an effective plan to invest in our stock. Being a small stock-holding authority, this is particularly challenging given that the council requires the same infrastructure (workforce, systems etc) to serve a smaller stock and associated rental income.

5.0 THE HOUSING REVENUE ACCOUNT FOR 2024/25

5.1 The projected expenditure and income for the HRA in 2024/25 is as follows:

	Estimate 2024/25	
Expenditure	**£'000**	**£'000**
Supervision and management	5,784	
Rent, rates, taxes and other charges	189	
Repairs and maintenance	3,250	
Depreciation	3,533	
Interest payments	2,542	
Movement in provision for bad debt	75	15,373
Income		-16,033
Net (Surplus)/Deficit for the year		**-660**
Contribution to specific reserves		400
Net (Surplus)/Deficit for the year after transfer to reserves		**-260**
Estimated HRA working balance brought forward 1st April 2024		1,079
Contribution to general reserve		260
Balance carried forward 31st March 2025		**1,339**

More detailed estimates for the Housing Revenue Account for 2023/24 and 2024/25 are shown in Appendix 1.

5.2 The challenge faced by the HRA for 2024/25 is three-fold:

- The need to meet the improvement plan priorities and ensure that properties are decent and safe
- The need to address and reduce the level of void properties
- The need to build capacity to rebuild the reserves, transform the service and increase the level of investment in council properties.

6.0 RENT SETTING FOR 2024/25

6.1 Rent setting for the HRA is now governed by the Regulator of Social Housing and the council has the ability to increase rents by CPI (Sept) +1% under normal circumstances. The government has made the commitment for councils to retain the flexibility for at least 5 years.

This year's proposed average dwelling rent level

6.2 It is proposed to increase the rents for most tenants by the maximum amount allowable (7.7%) to enable the HRA to tackle the deficit that has been generated from the previous government policy of enforced 1% rent reductions and build capacity to address known issues. This will increase the average rent for general needs tenants by an average of £8.16 to £114.26 per week.

6.3 This rent increase will apply to all current tenants who are at formula rent or below.

6.4 Any rent above formula rent will be increased by 7.7% in line with the guidance issued by the Regulator of Social Housing for affordable rents.

6.5 It is intended to relet vacant properties to new tenants at formula rent which is the maximum allowable under the new rental regime.

Garage Rents

6.6 Garage rents were increased by 10% in 2023/24 to £12.29 per week (plus VAT for non-council tenants). It is proposed that the garage rents be increased in 2024/25 by 6.7% to £13.11 per week which is in line with current inflation rate (September 2023 CPI) of 6.7%. These proposals will maintain current income levels after allowing for increased void loss as a result of proposed development schemes.

7.0 DEBT FINANCING COSTS

7.1 The debt financing costs chargeable to HRA in 2024/25 relate to interest payments.

The costs relate to three types of debt:

i) historic debt of £17.491m in existence at 1 April 2012 (less any subsequent repayments) attributable to the HRA via the "two-pool split" of the council's total debt at that date

ii) debt incurred in 2012 to pay the HRA self-financing settlement payment of £51.185m and any associated refinancing costs

iii) new borrowing for capital expenditure or to refinance existing debt.

7.2 The budgeted costs are:

2024/25 Budget	**Interest £000**
Historic Debt	974
Settlement Debt (including refinancing)	969
New Borrowing	587
Total Budget	**2,531**

8.0 REPAIRS AND MAINTENANCE

8.1 The condition of housing stock is maintained and improved in two ways:-

- Routine revenue repairs of a day-to-day nature and by planned maintenance such as repainting or boiler servicing

- Capital investment programme of refurbishment and improvement on a larger scale.

8.2 An asset management strategy is being developed as part of the improvement plan, which will include a schedule of cyclical maintenance. Regular planned maintenance will reduce the cost of unplanned costly repairs. Targeted changes are planned to improve how we deliver repairs and maintenance. These changes will focus on quality, efficiency and effectiveness of the entire repair and maintenance service. Consequently, the budget for routine repair and maintenance will decrease in real terms over the next 3 - 5 years to reflect the higher level of capital investment and improvements in service management, procurement and contract management.

8.3 **Housing Capital Investment Programme**

8.3.1 The capital investment programme typically comprises refurbishment and improvement on a larger scale for schemes such as fire safety works, replacement roofs and balconies, new central heating and double-glazing as well as new housing development schemes.

8.3.2 Future investment in the council housing stock is funded from:-

(i) revenue contributions to capital expenditure;

(ii) the Major Repairs Reserve. This will increase each year by the depreciation charged to the HRA (£3.5m for 2024/25). This contribution is ring-fenced for repayment of debt or for direct financing of capital expenditure

(iii) capital receipts from the sale of council houses

(iv) prudential borrowing (subject to affordability)

(v) capital grants towards specific programmes of work.

8.3.3 The new programme of schemes to be added to the HRA capital renovation programme for 2024/25 and 2025/26 is due to be approved at £10.08m elsewhere on this agenda. This has increased from £5.6m in the previous year to accommodate capital work projects which need to be urgently progressed.

8.3.4 The programme also includes a continuing development programme of £8.7m over the next year.

8.3.5 A detailed analysis of both the revenue maintenance spend and the capital spend is currently being undertaken to ensure that expenditure is targeted effectively.

9.0 **SERVICE CHARGES – CONTRACT PRICE INCREASES**

9.1 As well as core rent charges, some tenancies are also subject to service charges as they receive services which are specific to their properties. These charges are made in line with actual costs. Contracts in respect of services to tenants, such as door entry maintenance and communal way cleaning, are normally subject to an annual Retail Price Index (RPI) rise. This increase is passed on to tenants receiving those services by way of an equivalent increase in their weekly service charge. Some costs have to be retendered and not all increases are applied at the beginning of a financial year. This means that such increases cannot be incorporated into the annual rent increase process and additional costs are incurred in notifying tenants separately and amending Housing Benefit entitlements when such an increase arises.

9.2 Guidance from the government indicates that the council should as far as practical keep increases to the same level as the rent although this may not be feasible depending on the inflation on the contract prices.

9.3 Members are therefore requested to delegate to the Assistant Director of Housing Homelessness & Prevention and the Chief Finance Officer, in consultation with the cabinet member for Adur Homes and customer services, the authority to set service charges.

10.0 REALLOCATIONS OF SALARIES AND CENTRAL COSTS

10.1 All salaries, staff expenses, administration buildings and central support services are collated centrally within the Adur and Worthing joint services and the council’s general fund budget. It is then re-allocated to services to show the full cost of service provision. A more detailed explanation of this is included in the Budget Book for Adur & Worthing Councils. The HRA has benefited in recent years from savings achieved from joint shared support services. These costs are reviewed each year as part of the budget-setting process.

11.0 LEVEL OF RESERVE BALANCES

11.1 In line with a more sustainable long-term business approach the HRA is adopting a prudent approach to the level of reserves maintained.

Reserves	Estimated balance at 01/04/23	Increase	Decrease	Forecast balance at year end 2023/24
	£000's	**£000's**	**£000's**	**£000's**
HRA - working balance	1,079	-	-29	1,050
Discretionary Assistance Fund	1	-	-	1
New Development and Acquisition Fund	31	-	-31	-
Business Improvement Fund	84	-	-	84
Major Repairs Reserve	8,695	3,788	-4,650	7,833
TOTAL	**9,890**	**3,788**	**-4,710**	**8,968**

11.2 HRA general reserve balances have been depleted in recent years due to the legacy of rent limitation. The 2024/25 budgeted surplus presents an opportunity to partly replenish these reserves and therefore enable planned investment in the housing stock in line with the improvement plan.

11.3 In the General Fund a target level of balances of between 6-10% of net expenditure has been set. The general principles behind retaining a minimum target level of balances are similar for both the General Fund and HRA in that they should be sufficient to withstand foreseeable 'worst case' scenarios but not so large as to constitute unnecessary retention of tenants' monies.

11.4 Therefore, in principle, given that the large majority of the costs and incomes of the HRA are relatively stable (or effectively fixed at the start of each year) it should be possible to operate on a reserve balance within the 6-10% range.

11.5 The 2024/25 reserve levels are now in line with the 6-10% range. However, the council is still addressing the legacy of rent limitation and the HRA is not expected to remain in surplus in future years due to the increasing pressures of debt financing. Whilst it is predicted that the level of the general reserves will be at the target 6% for 2024/25, the 30-year business plan expects that the reserves will gradually increase to more prudent levels over the next 5 years. To ensure that there are sufficient reserves to manage any risks in this period, it is intended to use the other earmarked reserves only when absolutely necessary. This will help ensure financial stability over the short to medium term.

11.6 Any balance in the Major Repairs Reserve (MRR) is utilised to fund planned capital expenditure or to repay debt. The final position at year end may fluctuate to reflect the spend on the capital programme. Altogether, the 2024/25 capital budget includes provision for £11m to be utilised for financing HRA capital expenditure, comprising the carried forward balances and in-year contribution of £3.5m.

12.0 IMPACT ON FUTURE YEARS

12.1 Attached at appendix 2 is the 30-year financial forecast. The focus for the 2024/25 budget has been to ensure that the HRA remains sustainable in the longer term whilst ensuring that the most important maintenance issues are addressed. The proposed budget allows for a higher level of investment in the maintenance of properties.

12.2 The financial plan assumes that the rent will increase in 2024/25 and thereafter rent increases are in line with the council's rent policy and the government's proposals (i.e. CPI +1%). The legacy of the four years of rent decreases has placed the HRA under significant financial pressure at the very time when the council needs to invest more in maintaining the housing stock and needs to invest in new affordable homes for local residents.

12.3 The HRA has become increasingly reliant on reserves since 2018/19 whilst the rent level remains constrained, drawing down funds from the reserve. Now that rent limitation has come to an end, the council should be able to begin to restore the reserves to the previous levels over the next few years.

	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Actual	2022/23 Actual	2023/34 Expected	2024/25 Expected
	£'000	£'000	£'000	£'000	£'000	£'000	£'000

Balance at the start of the year	1,939	1,752	1,013	349	1,852	1,079	1,050
Expected drawdown (-) / Contribution	-187	-739	-664	+1,503	-773	-29	+260
Balance at the end of the year	1,752	1,013	349	1,852	1,079	1,050	1,310

12.4 To bring all of these considerations together, it is proposed to refresh the Adur Homes Business Plan periodically, and incorporate into the plan an assessment of the future of the housing stock – including the outcome of the feasibility investigation into the new build proposals. This will also include an update to the asset management plan which will validate the assumptions in the 30-year forecast about the capital programme and maintenance provision.

13.0 SUMMARY

13.1 The council has the opportunity to increase rents by 7.7% this year. Given the legacy of the rent limitation and the current inflationary pressures, it is critical to increase the rents to enable the HRA to return to financial stability and position itself to improve the housing stock over the medium term. Over the longer term, officers are working hard to ensure that the HRA remains in a financially viable position, is able to invest in its stock to address backlog maintenance and can maintain the development programme. However, caution will need to be exercised over the coming years as the financial position will be difficult for at least another 3 years until the HRA has become financially sustainable with an adequate level of reserves to manage future risks.

14.0 CONSULTATION

14.1 Officers and members have been consulted on the development of the budget.

15.0 FINANCIAL IMPLICATIONS

15.1 The financial implications associated with the development of the budgets are detailed throughout the report.

16.0 LEGAL IMPLICATIONS

16.1 The Local Government and Housing Act 1989 requires the council to maintain a housing revenue account (HRA) in relation to its social housing stock. The HRA operates separately from the council's main budget and accounts. The act also sets out how the HRA is funded and requires the council to set a balanced budget for the HRA each year and to keep that budget under review.

16.2 The council is to have due regard to the Direction on the Rent Standard 2023 issued by the Secretary of State under Section 197(4) and (5) of the Housing and Regeneration Act 2008, which amends and updates the Direction on Rent Standard 2019. The government's Policy Statement on Rents for Social Housing was updated in December 2022.

16.3 The Housing and Planning Act 2016 gives the Secretary of State the power to issue a determination that requires any local housing authority in England to make a payment to the Secretary of State in respect of any given financial year that represents an estimate of:

1. the market value of the authority's interest in any higher value housing that is likely to become vacant during the year, less
2. any costs or other deductions of a kind described in the determination.

16.4 There are no other legal implications arising from the proposed budget other than those relating to the use of capital receipts under Right To Buy regulations, and emanating from the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).

Background Papers:

Reinvigoration the Right to Buy and one for one replacement

Laying the Foundations: A Housing Strategy for England

Regulator of Social Housing [Formula for rent caps]

Guidance On Rents for Social Housing
https://www.gov.uk/government/publications/direction-on-the-rent-standard-from-1-april-2020/policy-statement-on-rents-for-social-housing

Adur Capital Investment Programme 2024/25 - 2026/27

Welfare Work and Reform Act 2016

Falling Behind: Impact of Universal Credit on rent arrears in London (The Smith Institute) July 2020

How the cost of living crisis is impacting social housing tenants - Research by the institute of Chartered Housing How the cost of living crisis is impacting social housing tenants

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SUSTAINABILITY AND RISK ASSESSMENT

1. ECONOMIC

Matter considered and no issues identified

2. SOCIAL

2.1 Social Value

Matter considered and no issues identified

2.2 Equality Issues

Setting a balanced budget for the Housing Revenue Account of Adur Homes will enable the continued provision of safe and secure accommodation to some of the most vulnerable residents within our communities. All equality groups are affected as residents of Adur Homes are vulnerable by virtue of their various housing needs.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified

2.4 Human Rights Issues

Matter considered and no issues identified

3. ENVIRONMENTAL

Matter considered and no issues identified

4. GOVERNANCE

Matter considered and no issues identified

APPENDIX 1

HOUSING REVENUE ACCOUNT		
	ORIGINAL ESTIMATE 2023/24	**ESTIMATE 2024/25**
	£	**£**
EXPENDITURE		
General Management	4,102,590	4,929,680
Special Services (including repairs related to specific properties or groups of tenants)	796,020	853,840
Rent, Rates, Taxes & Other Charges	64,010	189,460
General repairs and Maintenance	3,142,880	3,249,660
Depreciation	4,421,760	3,533,120
Bad/Doubtful Debt	50,000	75,000
Capital Financing Costs		
Interest charges	2,304,920	2,542,090
TOTAL EXPENDITURE	**14,882,180**	**15,372,850**
INCOME		
Dwelling Rents	(13,330,160)	(14,498,500)
Non-Dwelling Rents	(537,320)	(552,130)
Heating and Service Charges	(706,760)	(630,640)
Leaseholder Service Charges	(307,940)	(317,180)
Interest Received	-	(35,000)
TOTAL INCOME	**(14,882,180)**	**(16,033,450)**
NET (SURPLUS) / DEFICIT	-	**(660,600)**
Transfer to / (from) New Development & Acquisitions Reserve	-	200,000
Transfer to / (from) Business Improvement Reserve	-	200,000
Transfer to / (from) General Reserve	-	260,600
	-	**-**

APPENDIX 2 - 30 YEAR FINANCIAL PLAN

HOUSING REVENUE ACCOUNT	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000
EXPENDITURE										
General Management	4,103	4,930	5,044	5,179	5,300	5,441	5,569	5,716	5,851	6,005
Special Services	796	854	875	897	920	943	966	990	1,015	1,041
Rents, Rates, Taxes & Other Charges	64	189	94	97	99	101	104	107	109	112
OVERALL RUNNING COSTS	4,963	5,973	6,013	6,173	6,319	6,485	6,639	6,813	6,975	7,158
Annual Revenue Maintenance Costs	3,143	3,250	3,364	3,423	3,481	3,617	3,696	3,776	3,859	3,943
Charges for Capital										
Depreciation	4,422	3,533	3,693	3,795	3,897	4,069	4,178	4,290	4,405	4,523
Interest payable										
Interest - on historic debt	974	963	938	932	932	932	932	932	932	932
Interest - on assumed debt	1,218	1,252	1,241	1,181	1,121	1,061	1,001	941	881	821
Interest - on capital programme	112	327	996	1,211	1,237	1,683	2,141	2,416	2,695	2,978
Provisions For Bad Debt	50	75	75	75	75	75	75	75	75	75
TOTAL EXPENDITURE	14,882	15,373	16,320	16,790	17,062	17,922	18,662	19,243	19,822	20,430
INCOME										
Dwelling Rents	-13,330	-14,498	-15,156	-15,441	-15,719	-16,417	-17,144	-17,604	-18,076	-18,561
Other Rents and Charges	-1,552	-1,500	-1,493	-1,533	-1,574	-1,616	-1,659	-1,704	-1,749	-1,796
Interest Received	0	-35	-35	-35	-35	-35	-35	-35	-35	-35
TOTAL INCOME	-14,882	-16,033	-16,684	-17,009	-17,328	-18,068	-18,838	-19,343	-19,860	-20,392
NET COST OF SERVICES	**0**	**-660**	**-364**	**-219**	**-266**	**-146**	**-176**	**-100**	**-38**	**38**
Expected transfer to reserves	0	400	0	0	0	0	0	0	0	0
NET COST AFTER TFR TO RESERVES	**0**	**-260**	**-364**	**-219**	**-266**	**-146**	**-176**	**-100**	**-38**	**38**

HOUSING REVENUE ACCOUNT										
EXPENDITURE	**2033/34 £'000**	**2034/35 £'000**	**2035/36 £'000**	**2036/37 £'000**	**2037/38 £'000**	**2038/39 £'000**	**2039/40 £'000**	**2040/41 £'000**	**2041/42 £'000**	**2042/43 £'000**
General Management	6,147	6,309	6,458	6,628	6,786	6,963	7,129	7,316	7,491	7,686
Special Services	1,067	1,093	1,121	1,149	1,177	1,207	1,237	1,268	1,300	1,332
Rents, Rates, Taxes & Other Charges	115	118	121	124	127	130	133	136	140	143
OVERALL RUNNING COSTS	7,329	7,520	7,700	7,901	8,090	8,300	8,499	8,720	8,931	9,161
Annual Revenue Maintenance Costs	4,029	4,117	4,207	4,298	4,392	4,487	4,585	4,685	4,787	4,891
Charges for Capital										
Depreciation	4,644	4,768	4,896	5,027	5,162	5,300	5,442	5,587	5,736	5,889
Interest payable										
Interest - on historic debt	932	932	932	932	932	932	932	932	932	932
Interest - on assumed debt	762	702	643	586	528	544	417	365	312	274
Interest - on capital programme	3,265	3,556	3,850	4,148	4,449	4,752	5,061	5,378	5,702	6,033
Provisions For Bad Debt	75	75	75	75	75	75	75	75	75	75
TOTAL EXPENDITURE	21,036	21,670	22,303	22,967	23,628	24,390	25,011	25,742	26,475	27,255
INCOME										
Dwelling Rents	-19,058	-19,569	-20,093	-20,631	-21,183	-21,749	-22,331	-22,928	-23,540	-24,169
Other Rents and Charges	-1,844	-1,894	-1,944	-1,996	-2,050	-2,105	-2,161	-2,219	-2,279	-2,340
Interest Received	-35	-35	-35	-35	-35	-35	-35	-35	-35	-35
TOTAL INCOME	-20,937	-21,498	-22,072	-22,662	-23,268	-23,889	-24,527	-25,182	-25,854	-26,544
NET COST OF SERVICES	**99**	**172**	**231**	**305**	**360**	**501**	**484**	**560**	**621**	**711**

HOUSING REVENUE ACCOUNT	2043/44 £'000	2044/45 £'000	2045/46 £'000	2046/47 £'000	2047/48 £'000	2048/49 £'000	2049/50 £'000	2050/51 £'000	2051/52 £'000	2052/53 £'000
EXPENDITURE										
General Management	7,870	8,075	8,269	8,484	8,687	8,913	9,127	9,364	9,590	9,838
Special Services	1,365	1,399	1,434	1,470	1,507	1,545	1,583	1,623	1,663	1,705
Rents, Rates, Taxes & Other Charges	147	151	154	158	162	166	170	175	179	183
OVERALL RUNNING COSTS	9,382	9,625	9,857	10,112	10,356	10,624	10,880	11,162	11,432	11,726
Annual Revenue Maintenance Costs	4,997	5,105	5,216	5,329	5,444	5,562	5,683	5,806	5,931	6,059
Charges for Capital										
Depreciation	6,046	6,207	6,373	6,543	6,717	6,896	7,080	7,268	7,461	7,659
Interest payable										
Interest - on historic debt	932	932	932	932	932	932	932	932	932	919
Interest - on assumed debt	273	273	272	272	272	271	271	271	270	253
Interest - on capital programme	6,370	6,715	7,065	7,423	7,787	8,157	8,535	8,905	9,283	9,676
Provisions For Bad Debt	75	75	75	75	75	75	75	75	75	75
TOTAL EXPENDITURE	28,075	28,932	29,790	30,686	31,583	32,517	33,456	34,419	35,384	36,367
INCOME										
Dwelling Rents	-24,814	-25,476	-26,156	-26,853	-27,569	-28,303	-29,057	-29,830	-30,624	-31,439
Other Rents and Charges	-2,403	-2,467	-2,534	-2,602	-2,671	-2,743	-2,817	-2,893	-2,971	-3,050
Interest Received	-35	-35	-35	-35	-35	-35	-35	-35	-35	-35
TOTAL INCOME	-27,252	-27,978	-28,725	-29,490	-30,275	-31,081	-31,909	-32,758	-33,630	-34,524
NET COST OF SERVICES	**823**	**954**	**1,065**	**1,196**	**1,308**	**1,436**	**1,547**	**1,661**	**1,754**	**1,843**

APPENDIX 3

2024/25 HRA TREASURY MANAGEMENT STRATEGY

1.0 INTRODUCTION

1.1 This appendix sets out the HRA Treasury Management Strategy Statement for 2024/25. The requirement to produce a separate strategy specifically for HRA is a direct consequence of the introduction of the self-financing regime, as it reflects the underlying principle that borrowing and debt management decisions should operate equitably and independently from the General Fund.

1.2 The treasury management and investment strategies presented and proposed for 2024/25 are unchanged from 2023/24, as it has been accepted by the council's external auditors as an appropriate method of apportioning debt management costs and interest accrued from balances and investments between the HRA and General Fund. However, in order to provide additional capital funding to address a backlog of maintenance, the Voluntary Revenue Provision will be suspended until 2025/26 at the earliest.

1.3 Underpinning all treasury management activity of the council is the CIPFA Treasury Management Code of Practice, which was revised in November 2011 to address the implications for introducing HRA self-financing from 2012/13. An updated code published in December 2021 did not include any changes to the HRA guidance.

1.4 The published code identified the need for local authorities "….to allocate existing and future borrowing costs between housing and the General Fund as the current statutory method of apportioning debt charges between the General Fund and HRA will cease".

1.5 The council has adopted the "Two-Pooled Approach". This entailed allocating historic debt at 31 March 2012 between the HRA and General Fund, with any new debt acquired after this date to be assigned to the HRA or General Fund according to the purpose for which it is acquired.

1.6 Additionally, the strategy aims to achieve borrowing outcomes that are affordable, sustainable and prudent in keeping with the requirements of the Prudential Code for Capital Finance in Local Authorities. This code requires the council to consider the impact of borrowing as well as address a number of other fundamental principles, being:

(i) The splitting of loans (i.e. debt) at the HRA settlement transition date must be of no detriment to the General Fund

(ii) The council is required to deliver a solution that is broadly equitable between the HRA and the General Fund

(iii) Future charges to the HRA in relation to borrowing are not influenced by General Fund decisions, giving the HRA greater freedom, independence, certainty and control

(iv) Uninvested balance sheet resources which allow borrowing to be below the CFR are properly identified between General Fund and the HRA.

1.6 Points (i) – (iii) above were addressed by adopting the "Two-Pool Approach". The last point is met in the strategy in accordance with the CIPFA Treasury Management Code recommendation that the effect should be included in the interest on balances calculation to appropriately allocate the respective portions to the HRA and General Fund.

1.7 With these background principles and approaches in place the HRA Treasury Management Strategy aims to cover:

- Overall Objectives
- The Current & Future Position – Underlying Need to Borrow compared to Actual Borrowing
- The Debt Maturity Profile
- How to allocate debt and attributable financing costs between HRA and General Fund equitably
- How to recognise HRA cash balances and reserves which form part of the council's total investments
- How to recognise any costs or revenues generated from over/under borrowing

1.8 Accordingly, these aspects of the strategy are approached in turn.

2.0 OVERALL OBJECTIVES OF THE HRA TREASURY MANAGEMENT STRATEGY

The central aim of the strategy agreed for 2023/24 and unchanged for 2024/25 is:

- to provide borrowing that is affordable, sustainable and prudent, as required by The Prudential Code, and which underpins the requirements of the HRA Capital Investment Programme, 30-year Business Plan, and any other corporate plans

- to manage the HRA investments and cash flows, its banking, money market and capital market transactions within the purview of the council's overall Treasury Management Strategy, and to provide effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks

- to support budget and service delivery objectives for the benefit of tenants at no detriment to the General Fund or council taxpayers generally.

3.0 THE CURRENT POSITION – UNDERLYING NEED TO BORROW COMPARED TO ACTUAL BORROWING

3.1 The underlying need to borrow for capital investment is called the Capital Financing Requirement (CFR) and relates to the amount of planned capital expenditure that is not financed from internal resources, which for the HRA are primarily capital receipts, revenue contributions and the Major Repairs Reserve.

3.2 Capital expenditure in any year above the amount allocated to be used from these resources must be financed from borrowing or other credit arrangements (e.g. leasing), and results in an increase to the CFR. By comparing the CFR to the amount of actual borrowing, the extent to which the council is under or over borrowed is determined, and this provides a key prudential indicator for performance management. The current estimates, based on the capital investment programme for the next three years, are shown in the table below:

Adur District Council	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Financing Requirement (CFR)					
General Fund	107.073	108.987	161.080	161.197	163.908
Housing Revenue Account (HRA)	67.354	80.306	94.291	99.955	106.419
Total CFR	174.427	189.293	255.371	261.152	270.327
Actual Debt					
General Fund	(97.344)	(101.258)	(153.351)	(153.468)	(156.179)
Housing Revenue Account	(66.960)	(79.912)	(93.897)	(99.561)	(106.025)
Total Debt Amount	(164.962)	(181.170)	(247.248)	(253.029)	(262.204)
(Over)/Under Borrowing					
General Fund	9.090	7.729	7.729	7.729	7.729
Housing Revenue Account	0.390	0.394	0.394	0.394	0.394
Total	9.485	8.12	8.12	8.12	8.12

(Note that the General Fund position is shown for comparative purposes and is extracted from the Annual Treasury Management & Annual Investment Strategy Report 2024/25-2026/27 submitted to the meeting of the Joint Strategic Committee on 8th February 2024).

3.3 The comparison shows the HRA was under-borrowed at the end of 2022/23 by £0.390m, reflecting the amount by which debt outstanding and Minimum Revenue Provision (MRP) has reduced over and above the incidence of new capital expenditure financed from borrowing since 2012/13. The suspension of Voluntary Revenue Provision means that debt is not being repaid and therefore will increase in line with the Capital Financing Requirement.

3.4 The propensity to bring actual borrowing into line with the CFR was previously constrained by the requirement to stay within the HRA Debt Limit of £68.912m imposed by the government. However this cap was removed in October 2018. For all years from 2023/24 to 2025/26 the HRA CFR is projected to be above the debt as reflected in the capital investment proposals to be approved by the meeting of the Joint Strategic Committee on 8th February 2024.

4.0 HOW TO ALLOCATE DEBT AND ATTRIBUTABLE FINANCING COSTS BETWEEN THE HRA AND GENERAL FUND EQUITABLY – THE TWO-POOLED APPROACH

4.1 The methodology adopted in the Strategy draws upon CIPFA guidance relating to the Two -Pooled Approach, the essence of which is:

– to disaggregate historic debt at the HRA Debt Settlement transition date by the CIPFA methodology and allocate the respective portions to the HRA and General Fund. To each share is added new debt arising after the transition date according to the purpose for which it was incurred.

4.2 In adopting this methodology, the council was mindful of its treasury management consultant's comments that "The two pool approach is the preferred option by CIPFA and DCLG. It is relatively simple and allows the HRA to present a preferred funding structure to the treasury management team. It allocates a greater proportion of fixed rate borrowing to the HRA, which may suit its needs as it provides a greater degree of certainty over initial costs".

4.3 Another reason for adopting the two pool approach was that an assessment was made of the impact of the resultant financing costs at transition on the HRA and it was concluded that the effect was negligible.

4.4 For historic debt at the transition date, the two pooled approach assumed the HRA was fully borrowed at the level of its CFR, with the residual debt attributed to the General Fund. Thus, any over-borrowing at that date was attributed to the General Fund, rather than shared with the HRA. The effect at 31 March 2012 of applying the two pooled approach was:

CFR Allocations at Transition Date		Debt Allocations at Transition Date	
	£000		£000
HRA	68,676	HRA	68,676
General Fund	11,160	General Fund	13,430
TOTAL	79,836	TOTAL DEBT	82,106

5.0 HOW TO RECOGNISE HRA CASH BALANCES AND RESERVES WHICH FORM PART OF THE COUNCIL'S TOTAL INVESTMENTS

5.1 Before 2012/13, the former subsidy system provided for a statutory determination – the Item 8 credit – to attribute interest on notional average HRA cash balances to the HRA Comprehensive Income and Expenditure statement.

5.2 This recognised the general principle that the HRA should benefit from its cash balances and reserves, and the introduction of the self-financing arrangements did not alter this principle.

5.3 The strategy adopts the CIPFA recommended approach for all investments to be pooled, since it states that the "interest on cash balances calculation can be used to manage the charge between HRA and General Fund". Accordingly, to do this the strategy retains the use of the notional average cash balance approach used within the former Statutory Item 8 calculation as the basis for crediting the HRA share of interest receivable.

6.0 HOW TO RECOGNISE ANY COSTS OR REVENUES GENERATED FROM OVER/UNDER BORROWING

6.1 In practice it is recognised that there will be timing differences between the council's underlying need to borrow (the CFR) and actual borrowing.

6.2 Where under-borrowing occurs, the council is drawing upon internal reserves and balances to fund capital expenditure, and therefore bears the cost of interest foregone on the amount of cash consumed that might otherwise be invested.

6.3 Conversely, where over-borrowing occurs surplus cash to requirements is held that forms part of surplus cash available for investment. This may arise where borrowing for capital expenditure is undertaken in advance of actual expenditure to take advantage of low interest rates.

6.4 In both scenarios the CIPFA Treasury Management code states that the effect should be included in the interest on balances calculation to appropriately allocate the respective portions to the HRA and General Fund.

6.5 Accordingly, the strategy adopts the approach whereby the relevant credit or debit shall be computed with reference to the difference between the HRA and General Fund CFR and the respective actual debt during the year. Where an over-borrowing position occurs interest shall be credited at the average rate of interest on all investments prevailing for the period during which the over-borrowing was sustained. For an under-borrowed position, interest shall be charged to reflect the interest foregone through consumption of internal resources and at the average rate of all investments achieved during the period of under-borrowing.