Adur Executive
1 February 2022
Agenda Item 4

ADUR DISTRICT COUNCIL

Key Decision [Yes/~~No~~]

Ward(s) Affected: All

Housing Revenue Account: 2022/23 Budget

Report by the Director for Digital, Sustainability & Resources

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 2022/23 as set out in the report. The report also considers some of the strategic challenges facing the Housing Revenue Account over the next few years and the impact that these will have over the next 30 years.

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 four years. However, the Council is now permitted to increase rents on social rent properties by up to the September 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 2022/23

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

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

2. Recommendations

2.1 The Executive is recommended to:

(i) consider and approve the Housing Revenue Account estimates for 2022/23 as set out in Appendix 1;

(ii) approve that the rents of Council Dwellings will increase by 4.1% increasing the average council dwelling rent by £3.86 to £97.98 per week (average rent currently £94.12 per week) – (Paragraph 6.2);

(iii) determine the level of associated rents and charges with effect from week one of 2022/23:

(a) **Rents of Council garages** – agree an increase of 4.1% to £11.17. (currently £10.73 per week, plus VAT for non-Council tenants) (Paragraph 6.5)

(b) **Service Charges** - delegate to the Head of Housing and Chief Financial Officer in consultation with the Executive Member for 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 to enable Members to set rent levels for 2022/23.

3.2 The Housing Revenue Account (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 thirty year financial Business Plan showing how the HRA could be run on a self-financing basis. This report updates the Financial Plan which forms part of the overall business plan and informs members of the key budgetary assumptions which underpin the financial projections from 2022/23 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. Nevertheless the impact of the rental limitation is still felt on the HRA and it is not expected that the account will return to financial health until 2023/24 at the earliest.

3.6 The setting of rent levels is now an integral part of the financial planning decision making process. The Council can now increase rents by up to CPI + 1% for a period of at least 5 years. Consequently, officers are recommending the maximum increase of 4.1% to allow the HRA to gradually return to financial stability.

3.7 The Adur Homes Management Board has been briefed on the proposed rent increase. The Adur Tenants Forum members are invited to attend the Executive meeting to relay their views on the budgetary proposals.

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
- Changes to Housing Benefit and Welfare Reform
- Outcome of the condition survey (including fire protection works)
- Impact of new developments

4.2 **Government rent policy**

4.2.1 The rent limitation measures 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.

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 will 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 condition surveys and the ability to invest in new properties. The Council is committed to the redevelopment of Albion Street, Cecil Norris House and small scale development using the land owned by the HRA. In addition, the council is seeking other opportunities to increase the number of homes within the HRA provided that there is a business case for such development.

4.2.4 However, the Council is faced yet again with setting a deficit budget, and will therefore rely on the use of reserves in the coming year, as it grapples with the legacy of the fall in rental income and the need to invest in our council owned homes. Every opportunity will be taken to reduce costs in the interim to limit the call on reserves over the next 5 years.

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 - Estimate	2,537	15		15	2,537
2022/23 - Estimate	2,537			10	2,527

4.3.2 For 2022/23 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 DLUCH restrictions placed under the new RTB arrangements. Underpinning this constraint are the principles contained in the 2012 CLG publication “Reinvigorating Right To Buy and One For One Replacement – Information for Local Authorities”

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 £84,600). The cash cap increases in April every year in line with the Consumer Price Index.

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 whereby:

(i) the retention of receipts only applies to the 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 DLUCH formula

(ii) the Council use 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 constitute no more than 30% of total investment in such homes (net of any contribution from another public body)

(iv) the retained receipts are used within 3 years to provide new affordable homes, otherwise they will be required to be paid into the CLG pool plus accrued compound interest of 4%. Currently due to the impact of the pandemic, the requirement to repay within 3 years has been suspended.

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.

4.3.8 The impact of the Right to Buy 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 Welfare Reform

4.4.1 The Welfare Reform Act received Royal Assent in 2012 and introduced the most significant changes in the welfare system in over 60 years. The reforms reflect the Government's aim to reduce the cost of welfare benefits generally, and is being implemented across the Country. In 2018 Adur residents were included in the full roll out of Universal Credit for new claimants. The Government expects to have fully implemented the change by September 2024.

4.4.2 Experience from other areas suggests that the reforms can increase 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.

4.4.3 For working age people, a Universal Credit has replaced a number of former out of work benefits, including housing benefit, income support, job seekers allowance, income related employment and support allowance, child benefit, child tax credit, and carer's allowance. Universal Credit will be paid directly to claimants rather than the current arrangement of direct payment to the Local Authority as landlord unless an Alternative Payment Arrangement is agreed. Consequently, the decision that any funds will be spent on rent, as opposed to other expenditure, is in the hands of the individual recipient.

4.4.5 Research undertaken by the London Councils who own 13% of all social housing stock in England indicates that:

'for the majority of tenants the experience of claiming Universal Credit is accompanied by a significant increase in rent arrears. Arrears rise sharply in the weeks immediately following a Universal Credit claim, before plateauing after approximately 12 weeks. Although arrears generally stop increasing further, they do not get paid down, suggesting that the five-week wait creates a spike in claimant debt that they are then unable to pay off.'

The impact of Universal credit on the level of arrears will present the Council with financial challenges as the level of bad debt will need to be addressed. This will continue to be a key focus of work for 2022.

4.4.6 The recent trend in Adur District Council shows that overall arrears have been increasing since the welfare changes:

As at 31st March	2017	2018	2019	2020	2021	2022 (as at 31/12)
Current tenant arrears (as % of rent due)	3.36%	3.37%	3.57%	3.63%	3.90%	3.79%

Approximately 1,024 or 40% of Adur Homes tenants are in receipt of Housing Benefit. This has fallen in recent years due to the impact of Universal Credit. The Council does not know how many of it's tenants are in receipt of Universal Credit.

4.4.7 The benefit changes continue to present a challenge. There is a continuing risk that more households will fall into arrears. This will impact on the levels of rent collected and subsequently the overall position of the Housing Revenue Account. No tenancies were terminated in 2020/21. 3 tenancies have been terminated to date this year. Recent data analysis work with Policy in Practice has produced data at a granular level that can help the Councils provide targeted support for Adur Homes households. This includes support for self-employed tenants and for non-dependants who are unemployed.

4.4.8 Some mitigation is in place to reduce tenants' arrears from growing, with a greater emphasis on tenancy sustainment. The number of tenants with rent arrears over £3,000 was 26 at the end of last year (2020/21). Adur Homes stock has been split into patches, with an officer dedicated to each patch. This will ensure residents falling into rent arrears are identified early and provided with appropriate support. An Income Support Officer will be recruited to focus on tenants with significant rent arrears.

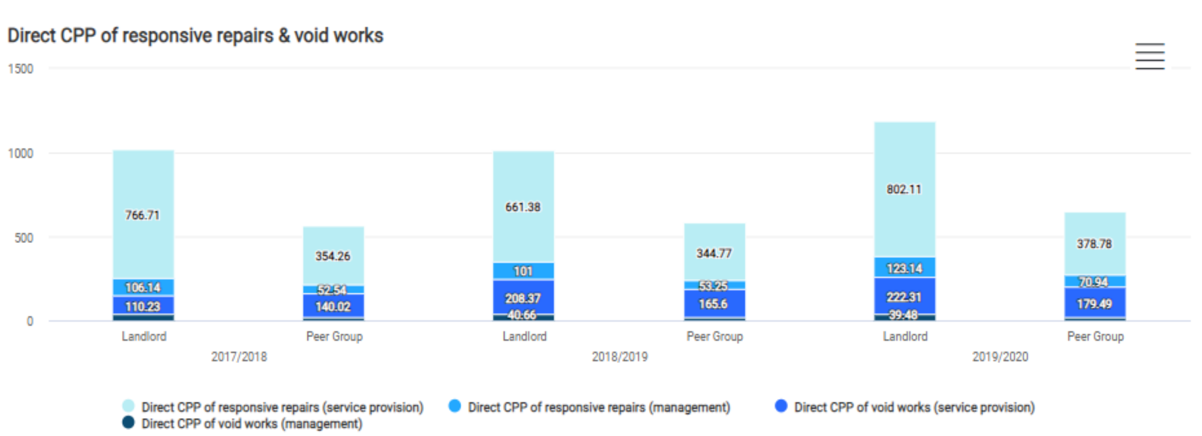
4.5 Outcome of the condition survey

4.5.1 Stock condition surveys have identified that the Council needs to invest at least £40m over the next 5 years. Additional investment will also be required to make the stock compliant with the Regulatory Reform (Fire Safety) Order 2005 and the Fire Safety Bill if passed into law. This had already been recognised within the Council's capital strategy which has recommended increasing the level of investment in new schemes from £3.7m in 2016/17 rising to £5.6m in 2021/22 and beyond, an increase of £1.9m per year. However this will not be sufficient to meet the immediate investment needs of the housing stock especially in light of the additional fire safety investment needed. As the financial position of the HRA recovers, additional sums will need to be set aside for maintenance.

4.5.2 The dilemma that the Council faces is how to balance the need to spend more on the current stock with the need to provide more Council housing to meet local needs at a time when the HRA is in deficit. However, the lack of investment in the current stock has significant implications.

4.5.3 The Council currently spends £2.893m (£1,140.37 per property) on revenue maintenance. Overall our direct spend on responsive repairs in 2020/21 was £1,080.28 per property which is significantly higher than the benchmark figure of £650.37. The benchmark is based on housing providers in the South East and South West of England with less than 10,000 properties. The level of spend partially reflects the under investment in the condition of the properties in previous years when the old housing subsidy system severely limited the annual amount of annual investment. However, the current transformation programme is looking to reduce costs by:

- Improving procurement of repairs provided by sub-contractors; and
- Improving cost effectiveness of the repairs service.



Source: 2019/20 Housemark Survey

4.5.4 The capital programme funding for property maintenance has been significantly increased over the last few years from £3.7m in 2016/17 to £5.6m in 2021/22 which is specifically to address the issues raised by the condition survey. However a significant proportion of the capital budget is now being utilised to address fire safety issues. Increasing the capital programme should ultimately reduce the level of spend on day-to-day revenue maintenance in future. Consequently, the 30 year business plan assumes that the level of capital investment will continue to increase over the next few years with a reducing level of revenue maintenance as the capital investment begins to impact on demand for the responsive repair service as follows:

Proposed budgets	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital maintenance programme	5,600	5,600	5,600	5,700	5,800
Proposed increase			-	100	100
Total revenue maintenance	2,653	3,008	2,888	2,959	3,033
Estimated cash increase (+) / reduction (-) per year		+455	-120	+71	+84

4.5.5 By addressing the capital maintenance issues, it is expected that with time the cost of day to day maintenance should reduce.

4.5.6 Once the backlog maintenance issues have been addressed, the level of capital investment required each year will need to be reassessed.

4.5.7 The capital funding for 2022/23 will be used to fund the following improvements:

- Significant programme of fire safety works
- External works programme to a number of blocks
- A rolling programme of boiler replacements and kitchen and bathroom improvements.
- Works to support tenants with disabilities

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, 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. In the current development programme, there are several schemes of this type with the following financial implications for the HRA:

	2021/22 £'000	2022/23 £'000
Albion Street - Rental income	82	82
Hidden Homes - Garage rents	137	137
Ashcroft - Rental income	106	106
Total lost income	323	323

The Council has a New Development and Acquisition reserve of £1,640,290 (as at 31st March 2021) and it is proposed to use this reserve to fund the losses associated with the development programme over the next few years together with the initial costs associated with considering the future of the Southwick Estate. In the longer term, it is intended to build in a revenue provision within the HRA to better manage the revenue impact of any major refurbishment works and any new development proposals.

5.0 **THE HOUSING REVENUE ACCOUNT FOR 2022/23**

5.1 The projected expenditure and income for the HRA in 2022/23 is as follows:

	Estimate 2022/23	
Expenditure	**£'000**	**£'000**
Supervision and management	4,824	
Rent, rates, taxes and other charges	61	
Repairs and maintenance	3,008	
Depreciation	4,422	
Interest payments	2,262	
Movement in provision for bad debt	50	14,627
Income		-14,218
Net (Surplus)/Deficit for the year		**409**
Estimated HRA working balance brought forward 1st April, 2022		-464
Balance carried forward 31st March, 2023		**-55**

More detailed estimates for the Housing Revenue Account for 2021/22 and 2022/23 are shown in Appendix 1.

5.2 The challenge faced by the HRA for 2022/23 is twofold:

- The need to address the deficit in the light of the level of reserves;
- The need to build capacity to transform the service and increase the level of investment in Council properties.

5.3 For 2022/23 the council is expecting a number of new cost pressures that will need to be funded which have contributed to the overall position:

- General inflation £89,000
- Impact of additional 1.25% in national insurance contributions £19,000;
- Acceleration of electrical testing and asbestos inspections to ensure that homes are safe with a net cost of £134,000. This has a one-off impact in 2022/23;
- Increase in the level of void losses as empty properties are being used as interim accommodation to support resident decant during the inner rooms fire safety project £79,000

- Impact of the capital programme - the Council is currently funding a capital programme of £5.6m per year and a development programme; consequently we will need to fund the associated debt charges £81,000
- Increase to depreciation following construction of new assets and latest review of property values £242,000

Overall total cost pressures of £644,000 have been identified.

5.4 To offset these pressures, it is recommended that a 4.1% rental increase is approved.

5.5 The Council has also embarked on a housing transformation programme which is expected to reduce costs associated with the service going forward and contribute to the future sustainability of the service. This programme of work will also seek to put the tenant at the heart of the service, improving service standards and efficiency

5.6 The main changes can be summarised as follows:

Expenditure:		**£'000**
2021/22 budget		14,072
Impact of inflation		89
Impact of increase in national insurance contributions		19
Increase in depreciation to reflect current level of capital investment, property values and overall increase in property numbers.		242
Impact of additional electrical testing and asbestos surveys		224
Increase in charges from central support and corporate and democratic core		11
Increase in interest charges due to the financing of the capital programme		81
Increase in vacancy provision		-111
2022/23 expenditure budget		**14,627**

Income:		£'000
2021/22 budget		-13,692
Impact of 4.1% rent increase		-536
Increase in service charges to fund communal area additional maintenance		-79
Impact of increased voids		89
2022/23 income budget		**-14,218**

5.7 Looking ahead to 2023/24, the overall position will gradually improve as rental level continues to increase faster than other inflationary pressures. The financial position of the HRA is expected to gradually improve albeit over a period of 3 years although the delivery of the transformation programme is critical in ensuring that the position will improve.

6.0 RENT SETTING FOR 2022/23

6.1 Rent setting for the HRA is now governed by the The Regulator of Social Housing and the Council has the ability to increase rents by CPI (Sept) + 1%. Over the last 10 years, the Council has increased rents by 9.42% whilst inflation has increased by 15.56%, consequently historically our rents have not kept pace with the associated inflationary pressures.

<u>This year's proposed average dwelling rent level</u>

6.2 It is proposed to increase the rents by the maximum amount allowable (4.1%) to enable the HRA to tackle the deficit that has been generated from the previous government policy of enforced 1% rent reductions. This will increase the average rent by £3.86 to £97.98 per week. This rent increase will apply to all current tenants who are at formula rent or below.

6.3 Any rent above formula rent will be increased by 3.1% in line with the guidance issued by the Regulator of Social Housing for affordable rents.

6.4 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

6.5 Garage rents were increased by 1.50% in 2020/21 to £10.73 per week (plus VAT for non-Council tenants). It is proposed that the garage rents be increased in 2022/23 by 4.10% to £11.17 per week which is in line with current inflation rate (CPI) of 3.1% plus 1%. These proposals will generate an extra £24,230 in net income after allowing for voids.

7.0 DEBT FINANCING COSTS

7.1 The debt financing costs chargeable to HRA in 2022/23 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, for which there will be a balance of £33.27m outstanding at 31st March 2022;

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

7.2 The budgeted costs are:

2022/23 Budget	**Interest £000**
Historic Debt	974
Settlement Debt	1,163
New Borrowing	125
Total Budget	**2,262**

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 Planned capital investment to buildings such as Rock Close and Lock Court which is scheduled to begin later this year, will result in a reduction in unplanned major works. An asset management strategy, which will include a schedule of cyclical maintenance, will be developed in the coming year. 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 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 the depreciation charged to the HRA (£4.4m). 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); and

(v) capital grants towards specific programmes of work.

8.3.3 The new HRA capital renovation programme for 2022/23 and 2023/24 was approved at £5.6m by the Joint Strategic Committee at its meeting of 7th December, 2021. This reflected the recent condition survey and concerns about affordability due to the on-going deficit within the HRA.

8.3.4 The programme also includes a development programme of £32.9m over the next 3 years.

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 circumstances. 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) or equivalent increase. 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 Members are therefore requested to delegate to the Head of Housing and the Chief Financial Officer in consultation with the Executive Member, Customer Services, 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 and Worthing Councils. The Housing Revenue Account 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 01/04/22**	**Increase**	**Decrease**	**Forecast balance at year end 2022/23**
	£000's	**£000's**	**£000's**	**£000's**
HRA - working balance	464	-	-409	55
Discretionary Assistance Fund	116	-	-	116
New Development and Acquisition Fund	296	-	-	296
Business Dev. Fund	84	-	-	84
Major Repairs Reserve	7,747	4,202	-3,900	8,049
TOTAL	**8,707**	**4,202**	**-4,307**	**8,602**

11.2 HRA general reserve balances are forecast to be £0.056m at 1st April 2023. This is significantly under the target level explained in detail in paragraph 11.3 below, but reflective of the current use of reserves to support the HRA to manage the consequences of rent limitation and the development programme. To bolster the reserves in the interim, it is proposed to transfer the residual New Development and Acquisition Fund into the working balance.

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 it 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 However, the council is still addressing the legacy of rent limitation and the HRA is not expected to return to surplus until 2023/24 at the earliest. Whilst it is predicted that the level of the general reserves will be below the target 6% for 2022/23, the 30 year business plan expects that the reserves will gradually return 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

11.5 Any balance in the Major Repairs Reserve (MRR) is utilised to fund in-year capital expenditure or to repay debt. The final position at year end may fluctuate to reflect the spend on the capital programme. Altogether, the 2022/23 capital budget includes provision for £3.9m to be utilised for financing HRA capital expenditure, comprising the carried forward balances and in-year contributions.

12.0 IMPACT ON FUTURE YEARS

12.1 Attached at appendix 2 is the 30-year financial forecast. The focus for the 2022/23 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 high level of investment in the maintenance of properties than has been afforded prior to the self-financing regime. The first priority for the new freedoms has to be the continued maintenance of the Council homes for the benefit of our existing tenants with priority currently given to fire safety and external maintenance issues.

12.2 The financial plan assumes that the rent will increase in 2022/23 and thereafter rent increases are in line with the Council's rent policy and the Government's proposals (i.e. CPI plus 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 Council has managed the impact of the falling rent levels in the first two years of rent limitation, setting a balanced budget in 2016/17 and with only a limited withdrawal from reserves in 2017/18. However 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.

	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Expected	2022/23 Expected	2023/34 Expected
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at the start of the year	2,074	1,939	1,752	1,013	349	464	55
Expected drawdown (-) / Contribution	-135	-187	-739	-664	+115	-409	+161
Balance at the end of the year	1,939	1,752	1,013	349	464	55	216

12.6 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 4.1% this year. Given the legacy of the rent limitation, it is critical to increase the rents to enable the HRA to return to financial stability. Over the longer term, the HRA remains in a financially viable position able to invest in it's stock to address backlog maintenance and to maintain a development programme. However, caution will need to be exercised over the coming years as the financial position will be difficult for at least another 5 years until the HRA has become financially sustainable with an adequate level of reserves to manage future risks.

14.0 CONSULTATION

14.1 The proposed rental increase has been shared with members of the Adur Homes Management Board which comprises of the Executive Member for Customer Services and representatives from the Adur Tenants Forum.

14.2 Adur Tenants Forum members are invited to attend the Executive meeting to relay their views on the budgetary proposals.

14.3 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 Government has issued the Direction on the Rent Standard 2019 under the Housing and Regeneration Act 2008. This allows the Council to increase social rents by no more than CPI plus 1% each year. The direction also sets out how social rents are to be calculated.

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

Guidance On Rents for Social Housing

Direction on Rent Standard 2019

Adur Capital Investment Programme 2021/22 - 2023/24

Welfare Work and Reform Act 2016

2020/21 Housemark Benchmarking Survey

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

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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**
Matter considered and no issues identified

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 2021/22	ESTIMATE 2022/23
	£	£
EXPENDITURE		
General Management	4,141,350	4,075,920
Special Services (including repairs related to specific properties or groups of tenants)	748,440	748,080
Rent, Rates, Taxes & Other Charges	58,150	61,100
General repairs and Maintenance	2,711,490	3,008,370
Depreciation	4,179,980	4,421,760
Bad/Doubtful Debt	51,000	50,000
Capital Financing Costs		
Interest charges	2,181,360	2,262,200
TOTAL EXPENDITURE	**14,071,770**	**14,627,430**
INCOME		
Dwelling Rents	(12,320,460)	(12,750,170)
Non-Dwelling Rents	(535,010)	(550,510)
Heating and Service Charges	(547,580)	(623,110)
Leaseholder Service Charges	(260,620)	(265,940)
Interest Received	(28,000)	(28,000)
TOTAL INCOME	**(13,691,670)**	**(14,217,730)**
NET (SURPLUS)/DEFICIENCY	**380,100**	**409,730**

30 YEAR PLAN **APPENDIX 2**

HOUSING REVENUE ACCOUNT	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000
EXPENDITURE										
General Management	4,112	4,076	4,048	4,158	4,253	4,368	4,468	4,589	4,695	4,821
Special Services	764	748	767	786	806	826	846	868	889	911
Rents, Rates, Taxes & Other Charges	73	61	63	64	66	67	69	71	73	74
OVERALL RUNNING COSTS	4,949	4,884	4,878	5,008	5,125	5,261	5,383	5,528	5,657	5,806
Annual Revenue Maintenance Costs	2,653	3,008	2,888	2,959	3,033	3,108	3,175	3,245	3,316	3,388
Revenue Contribution to Capital	0	0	0	100	150	500	600	700	800	850
Charges for Capital										
Depreciation	4,180	4,422	4,583	4,696	4,812	4,931	5,039	5,149	5,261	5,376
Interest payable										
Interest - on historic debt	974	974	974	963	938	932	932	932	932	932
Interest - on assumed debt	1,246	1,163	1,157	1,124	1,069	1,015	960	906	851	797
Interest - on capital programme	31	125	284	323	369	409	448	484	516	546
Provisions For Bad Debt	51	50	50	50	50	50	50	50	50	50
TOTAL EXPENDITURE	14,084	14,627	14,814	15,223	15,546	16,206	16,587	16,994	17,383	17,745
INCOME										
Dwelling Rents	-12,115	-12,750	-13,346	-13,888	-14,371	-14,871	-15,270	-15,680	-16,100	-16,532
Other Rents and Charges	-1,360	-1,440	-1,446	-1,452	-1,491	-1,530	-1,571	-1,614	-1,657	-1,701
Interest Received	-30	-28	-28	-28	-28	-28	-28	-28	-28	-28
TOTAL INCOME	-13,505	-14,218	-14,820	-15,368	-15,890	-16,429	-16,869	-17,322	-17,785	-18,261
NET COST OF SERVICES	**579**	**409**	**-6**	**-145**	**-344**	**-223**	**-282**	**-328**	**-402**	**-516**

HOUSING REVENUE ACCOUNT										
EXPENDITURE	**2031/32 £'000**	**2032/33 £'000**	**2033/34 £'000**	**2034/35 £'000**	**2035/36 £'000**	**2036/37 £'000**	**2037/38 £'000**	**2038/39 £'000**	**2039/40 £'000**	**2040/41 £'000**
General Management	4,933	5,065	5,183	5,321	5,445	5,590	5,721	5,873	6,011	6,170
Special Services	934	958	982	1,006	1,031	1,057	1,083	1,111	1,138	1,167
Rents, Rates, Taxes & Other Charges	76	78	80	82	84	86	89	91	93	95
OVERALL RUNNING COSTS	5,943	6,101	6,245	6,409	6,560	6,733	6,893	7,075	7,242	7,432
Annual Revenue Maintenance Costs	3,462	3,537	3,615	3,693	3,774	3,856	3,940	4,025	4,113	4,202
Revenue Contribution to Capital	930	1,030	1,130	1,230	1,330	1,480	1,680	1,780	1,980	2,130
Charges for Capital										
Depreciation	5,493	5,613	5,735	5,860	5,988	6,118	6,251	6,387	6,526	6,668
Interest payable										
Interest - on historic debt	932	932	932	932	932	932	932	932	932	932
Interest - on assumed debt	742	687	633	578	525	473	421	369	317	265
Interest - on capital programme	573	595	614	628	639	643	640	632	616	593
Provisions For Bad Debt	50	50	50	50	50	50	50	50	50	50
TOTAL EXPENDITURE	18,125	18,545	18,954	19,380	19,798	20,285	20,807	21,250	21,776	22,272
INCOME										
Dwelling Rents	-16,975	-17,430	-17,896	-18,375	-18,867	-19,372	-19,890	-20,421	-20,967	-21,527
Other Rents and Charges	-1,747	-1,794	-1,842	-1,891	-1,942	-1,994	-2,048	-2,103	-2,159	-2,217
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
TOTAL INCOME	-18,750	-19,252	-19,766	-20,294	-20,837	-21,394	-21,966	-22,552	-23,154	-23,772
NET COST OF SERVICES	**-625**	**-707**	**-812**	**-914**	**-1,039**	**-1,109**	**-1,159**	**-1,302**	**-1,378**	**-1,500**

HOUSING REVENUE ACCOUNT										
	2041/42 £'000	2042/43 £'000	2043/44 £'000	2044/45 £'000	2045/46 £'000	2046/47 £'000	2047/48 £'000	2048/49 £'000	2049/50 £'000	2050/51 £'000
EXPENDITURE										
General Management	6,315	6,482	6,635	6,810	6,971	7,155	7,325	7,517	7,696	7,897
Special Services	1,196	1,226	1,256	1,288	1,320	1,353	1,387	1,422	1,457	1,494
Rents, Rates, Taxes & Other Charges	98	100	103	105	108	111	113	116	119	122
OVERALL RUNNING COSTS	7,609	7,808	7,994	8,203	8,399	8,619	8,825	9,055	9,272	9,513
Annual Revenue Maintenance Costs	4,293	4,387	4,482	4,579	4,678	4,779	4,883	4,989	5,096	5,207
Revenue Contributution to Capital	2,330	2,580	2,780	2,980	3,230	3,430	3,730	4,030	4,330	4,680
Depreciation	6,813	6,961	7,112	7,266	7,423	7,584	7,748	7,916	8,087	8,262
Interest payable										
Interest - on historic debt	932	932	932	932	932	932	932	932	932	932
Interest - on assumed debt	213	174	173	173	173	172	172	172	171	171
Interest - on capital programme	563	522	473	424	374	324	282	240	198	158
Provisions For Bad Debt	50	50	50	50	50	50	50	50	50	50
TOTAL EXPENDITURE	22,803	23,414	23,996	24,607	25,259	25,890	26,622	27,384	28,136	28,973
INCOME										
Dwelling Rents	-22,101	-22,691	-23,297	-23,918	-24,555	-25,209	-25,881	-26,570	-27,277	-28,002
Other Rents and Charges	-2,277	-2,338	-2,401	-2,465	-2,532	-2,600	-2,670	-2,742	-2,815	-2,891
Interest Received	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28
TOTAL INCOME	-24,406	-25,057	-25,726	-26,411	-27,115	-27,837	-28,579	-29,340	-30,120	-30,921
NET COST OF SERVICES	**-1,603**	**-1,643**	**-1,730**	**-1,804**	**-1,856**	**-1,947**	**-1,957**	**-1,956**	**-1,984**	**-1,948**

APPENDIX 3

2022/23 HRA TREASURY MANAGEMENT STRATEGY

1.0 INTRODUCTION

1.1 This Appendix sets out the HRA Treasury Management Strategy Statement for 2022/23. 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 2022/23 are unchanged from 2021/22, 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 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 2023/24.

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 2017 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 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 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 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 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 2022/22 and unchanged for 2022/23 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 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	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Financing Requirement (CFR)					
General Fund	106.905	112.363	161.638	160.830	159.372
Housing Revenue Account	61.591	79.713	95.226	96.826	98.426
Total CFR	168.496	192.076	256.864	257.656	257.798
Actual Debt					
General Fund	(98.460)	(103.918)	(153.193)	(152.385)	(150.927)
Housing Revenue Account	(60.476)	(78.598)	(94.111)	(95.711)	(97.311)
Total Debt Amount	(158.936)	(182.516)	(247.304)	(248.096)	(248.238)
(Over)/Under Borrowing					
General Fund	8.445	8.445	8.445	8.445	8.445
Housing Revenue Account	1.115	1.115	1.115	1.115	1.115
Total	9.560	9.560	9.560	9.560	9.560

(Note that the General Fund position is shown for comparative purposes and is extracted from the Annual Treasury Management & Annual Investment Strategy Report 2022/23-2024/25 submitted to the meeting of the Joint Strategic Committee on 8th February 2022).

3.3 The comparison shows the HRA was under borrowed at the end of 2020/21 by £1.115.m, 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. In the following years the amount by which actual borrowing is below CFR changes as the value of debt repaid in each year exceeds the amount of new borrowing anticipated to fund capital investment. 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 Central Government. However this cap was removed in October 2018. For all years from 2022/23 to 2024/25 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 2022.

4.0 HOW TO ALLOCATE DEBT AND ATTRIBUTABLE FINANCING COSTS BETWEEN 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 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.