The Housing Revenue Account (HRA) Proposed Budget 2023/24 - 2025/26

1. BACKGROUND

1.1. The HRA is a ring-fenced account which deals with the finances of the Council's social housing stock. Budgets have been prepared in accordance with the budget guidelines and planned programmes of works to housing stock have been updated to take account of progress during 2022/23. The HRA budget must avoid a deficit on reserves over the 30-year HRA Business Plan.

1.2. Following the abolition of the statutory limit on HRA borrowing known as the debt cap in October 2019, the HRA is able to undertake prudential borrowing to support the creation and acquisition of long-term assets, as long as it is prudent, affordable and sustainable within the context of its overall Business Plan. The Current 30-year Business Plan allows for £65.8m of new borrowing under the prudential code in 2023/24-2025/26. The Plan shows that the HRA is able to fund the proposed capital investment which will raise the peak debt in the HRA to £279.9m in 2027/28. However, the Plan demonstrates that the proposed borrowing is prudent, affordable and sustainable as the HRA has the capacity to repay £135.0m of this in later years and that the projected outstanding debt level at year 30 is forecast to be £144.9m.

2. HRA 2023/24 REVENUE BUDGET & MEDIUM TERM FINANCIAL STRATEGY (MTFS)

2.1. The HRA revenue budget for 2023/24 & MTFS for 2024/25 and 2025/26 is shown in Table 1 below and in more detail in Appendix 5 – Annex A.

Table 1. HRA Proposed Budget 2023/24 - 2025/26

	2023/24	2024/25	2025/26
	£000	£000	£000
Total Income	(46,730)	(48,421)	(49,553)
Total Expenditure	49,229	51,351	52,785
Net (Surplus)/Deficit	**2,499**	**2,930**	**3,232**
Opening HRA Balances	**(41,355)**	**(38,856)**	**(35,926)**
Net (Surplus)/Deficit	2,499	2,930	3,232
Closing HRA Balances	**(38,856)**	**(35,926)**	**(32,694)**

PLANNING ASSUMPTIONS

Rents

2.2. In 2023/24 the proposal is to increase rents by 7.0% in line with the maximum rent increase identified in the recent Regulator for Social Housing (RSH) consultation outcome in November 2022. In all future years, rent levels are assumed to increase by CPI plus 1.0%. The long-term expectation for CPI is 2.0%.

2.3. Void Rates & Bad Debts are assumed at 2.0%.

2.4. The Council needs to consider its rent policy each financial year in the context of the HRA's financial viability. The anticipated effect of the 2023/24 rent proposals is therefore expected to be as follows:

Table 2. Average Weekly HRA Rents

	Bedrooms	Forecast 2022/23	Proposed 2023/24	Change	Change
		£	£	£	%
Average Rent per Week	1 Bed	88.95	95.18	6.23	7.0
Average Rent per Week	2 Bed	107.40	114.92	7.52	7.0
Average Rent per Week	3 Bed	119.72	128.10	8.38	7.0
Average Rent per Week	4 Bed	137.57	147.20	9.63	7.0

2.5. For historic reasons current rents are, on average across the stock 4.5% below the social housing formula rent set by Government, known as 'Target Rent'. As previously agreed by the Council, rent levels will be set in line with Target Rent whenever a property is re-let.

2.6. Rent collection performance remains top quartile compared with the Council's comparator group. Rent collection has continued to hold slightly above the budgeted collection rate of 97.50% throughout 2022/23 so far.

2.7. Temporary accommodation is included in the General Fund. Rents are set at 90% of the Local Housing Allowance rate for the relevant unit size.

Right to Buy

2.8. 17 property sales assumed per annum.

Service Charges

2.9. Service charges are assumed to increase by 7% in 2023/24, in line with the proposed rent increase, and by CPI +1% from 2024/25, but charges cannot exceed full cost recovery.

PFI Credit

2.10. Provision of £4.0m relating to 1,280 properties in North Whitley and managed by Affinity Housing until 2034 has been included.

Interest on Balances

2.11. Interest on balances is assumed at 1.85%.

Inflation

2.12. The business plan assumes RPI at 10.8% in 2023/24, 3.6% in 2024/25 and 1.9% in 2025/26. RPI is assumes to increase by 3.0% from 2026/27 in line with the Bank of England long term policy assumption.

Expenditure

2.13. The business plan includes the latest updated 2022/23 forecast outturn. Costs are then increased by RPI in future years in line with the base assumptions outlined in 2.12. The business plan also anticipates any additional costs above the 2022/23 base forecast position where relevant.

2.14. The 2023/24 budget includes the following capital & revenue bids:

Bid	Capital	Revenue (On Going)	Revenue (One Off)
	£000	£000	£000
Housing Community Fund	150		
Improving Customer Excellence Project			414
Housing Repairs Service		241	
NEC Housing IT Implementation Phase 2	553		47
Total	**703**	**241**	**461**

3. RISK IMPLICATIONS

3.1. Many of the risks identified in respect of the General Fund revenue budget also have relevance for the Housing Revenue Account. Particular risks that pertain additionally to the HRA include:

- Rent collection levels that may be affected by any downturn in the local economy, for example the current market inflationary and interest rate pressures impacting on cost of living;
- Further extension and full roll-out of Universal Credit which may impact on rent collection levels;
- Increases in debt financing costs arising from inflationary and interest cost increases in relation to the new build programme; and
- Maintenance cost increases – also impacted by the current market inflationary and interest rate pressures.

4. HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

4.1. The currently proposed HRA Capital Programme is contained within Annex A.

New Build & Acquisitions

4.2. The local authority new build programme for the 2023/24 Budget and MTFS covering 2024/25 and 2025/26 is outlined in table 3 below. This includes investment to develop adult social care assets that are being appropriated into the HRA to deliver joint adults and housing needs:

Table 3. Local Authority New Build Programme (LANB)

	2023/24	2024/25	2025/26		
	£000	£000	£000	Units	Location
LANB Phase 2	184	0	0	0	North Street
LANB Phase 3	10,801	1,852	0	76	Wensley Road, Arthur Hill, Southcote Library
LANB Phase 4	6,613	11,696	4,277	75	Amethyst Lane & Dwyer Road + Others
LANB Assets Review ASC/Housing	14,240	19,215	10,885	104	Battle Street & Hexham Road
Total	**31,838**	**32,763**	**15,162**	**255**	

4.3. The HRA business plan assumes an additional 255 properties are delivered during the 3 years from 2023/24 to 2025/26.

4.4. The business plan benefits from the additional rental income derived from the new properties, at either social rent (target) for properties part funded by grant and adjusted social rent for all other properties, in line with the 2018 policy decision.

Major Repairs - Existing Homes Renewal

4.5. The Council also plans to invest £70.9m in its existing housing stock over the next three years. This includes £31.6m on Major Repairs - Existing Homes Renewal (including Fire Safety Works), £37.2m on Major Repairs – Zero Carbon Retrofit Works and £2.1m on Disabled Adaptations. The major repairs and disabled facility programme (DFG) for the 2023/24 Budget and MTFS covering 2024/25 and 2025/26 are outlined in table 2 below:

Table 4. Major Repairs - Existing Homes Renewal & DFG Programme

	2023/24	2024/25	2025/26
	£000	£000	£000
Major Repairs - Existing Homes Renewal	9,889	10,929	10,820
Major Repairs – Zero Carbon Retrofit Works	13,911	11,582	11,803
Disabled Facility Grant	665	688	701
Total	**24,465**	**23,199**	**23,324**

4.6. The building sector is currently experiencing increases in material costs and labour shortages following the recent market impact on inflation and interest rates. This might be a short term issue, but it will put pressure on the major works and new build programme, as capital programmes may need to be restricted around available funding. It is important therefore that we maximise rental income and available funding to support the capital programmes.

Zero Carbon Retrofit Works

4.7. The housing service is investing £37.2m between 2023/24 and 2025/26 in moving towards zero carbon options in terms of retrofitting existing housing stock in line with the Council's Climate Change ambitions. The existing housing stock benefits from past initiatives which have ensured that most properties are above EPC level C. As such the Council is currently not benefitting from any extra Government funding towards zero carbon initiatives which are predominantly targeted at EPC level D and below. The Council is therefore reliant on the Housing Revenue Account to continue to pursue zero carbon options and therefore any reduction in income will limit the impact on what can be achieved.

4.8. The major repairs zero carbon retrofit programme includes the following works over the 30 year HRA business Plan:

- **External Fabric/Windows £22.2m**– Phase 2 regeneration, including replacement of external fabric, new windows and internal amenities.
- **Crosswalls Flats/Houses £11.5m** – Refurbishment of external fabric, replacement heating systems and new windows.
- **Woodley Crosswalls £2.0m** – External fabric replacement.
- **Granville Road £1.5m** – Heating Replacement.

Other HRA Capital Schemes

4.9. The HRA is investing an additional £0.6m to purchase a new Housing Management System.

5. RISK IMPLICATIONS

5.1. The main risks to the Council's Capital Programme are summarised below:

- Cost overruns would impose additional borrowing costs (and associated financing charges to revenue) if unable to be met from scheme contingencies or other mitigating actions;
- Slippage in realisation of capital receipts impacts on available financing sources, with the potential to lead to additional capital borrowing. In particular, significant slippage could leave insufficient receipts to fully finance the transformation costs – which impacts pound for pound on the revenue account;
- Slippage in delivery of spend to save initiatives results in associated revenue savings not being delivered as anticipated; and
- The cost of delivering the capital projects increases due to inflationary pressures.

6. HRA 30 YEAR BUSINESS PLAN

6.1. The HRA Business plan assumes major repair investment in the existing housing stock, covering planned component replacements (e.g. Kitchens & Bathrooms) and zero carbon initiatives.

6.2. The plan assumes increased investment of £46.8m in zero carbon initiatives up to 2028, based on available funding.

6.3. As mentioned in 4.7 above, as the majority of our homes are rated above EPC level C, we are not eligible for available government funding at the present time. If funding does become available this would enable more zero carbon initiatives to be carried out.

6.4. The current HRA balance is assumed to be £41.4m at the beginning of 2023/24. The base plan assumes that annual deficits will continue to arise whilst the PFI scheme is in place.

6.5. The PFI scheme is due to end in 2034/35, at which point the properties return to Reading Borough Council. The business plan assumes that the operating costs of the PFI fall away at this point resulting in a return to annual surpluses.

6.6. Additional borrowing is required to part fund the capital programmes. At the beginning of the plan the capital finance requirement is forecast to be £203.3m, additional borrowing of £76.6m is required (including £65.8m during the MTFS period of 2023/24 to 2025/26), taking peak borrowing to £279.9m.

6.7. The plan assumes a loans repayment from 2039/40 once there is a sufficient build up of the HRA balance. Total repayments in the plan are £135.0m, which reduces the loan balance to £144.9m at the end of the plan.

6.8. The local authority new build programme continues in the plan until 2025/26, after which the plan assumes there is no further investment in new build. Right to Buy sales are projected to continue at the level of 17 per annum, which results in a gradual reduction in the number of units from 2026/27.

6.9. The business plan long term assumptions for CPI & RPI follow the latest OBR (Office for Budget Responsibility) forecasts.

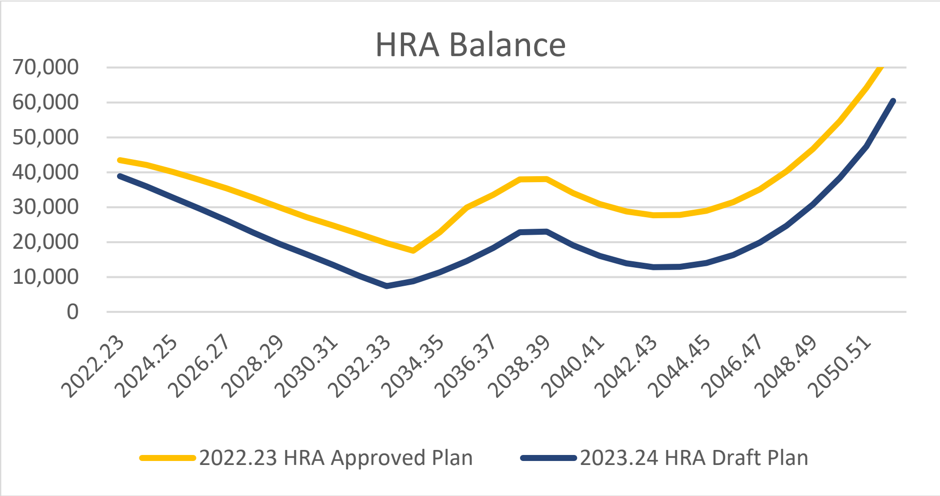
6.10. Repair and build costs are assumed to increase by BCIS (Building cost information service forecast rates.

6.11. Rent & Service charges increases in the plan are assumed to increase by 7% in 2023/24, in line with the RSH rent consultation and by CPI + 1% from 2024/25 for the duration of the plan.

6.12. The long term Bank of England prediction on CPI & RPI is 2% and 3% respectively. As the long term assumption of CPI + 1% is used on Rent & Service charges income, the overall long term impact in the plan is 3% for both CPI & RPI.

6.13. The HRA balance, as shown below, is maintained above the minimum level throughout the duration of the plan. The minimum balance is adjusted in line with CPI annually.

Figure 1. Projected HRA Balance in 30 Year Business Plan



Housing Revenue Account - Revenue Budget 2023/24 to 2025/26 & Reserves

	2023/24 £000	2024/25 £000	2025/26 £000
Dwelling Rents	(40,620)	(42,322)	(43,487)
Service Charges	(1,032)	(1,070)	(1,090)
PFI Credit	(3,997)	(3,997)	(3,997)
Other Income	(346)	(353)	(356)
Interest on Balances	(735)	(679)	(623)
Total Income	**(46,730)**	**(48,421)**	**(49,553)**
Management & Supervision	8,797	9,038	9,220
Special Services	4,403	4,534	4,624
Provision for Bad Debts	405	839	855
Responsive Repairs	4,033	4,174	4,254
Planned Maintenance	3,599	3,249	3,246
Major Repairs/Depreciation	12,870	13,277	13,498
Debt Costs	7,148	7,986	8,678
PFI Costs	7,974	8,254	8,410
Revenue Contrbution to Capital (RCCO)		0	0
Total Expenditure	**49,229**	**51,351**	**52,785**
Net (Surplus) / Deficit	**2,499**	**2,930**	**3,232**
Forecast Opening HRA Balances	**(41,355)**	**(38,856)**	**(35,926)**
Net (Surplus) / Deficit	2,499	2,930	3,232
Forecast Closing HRA Balances	**(38,856)**	**(35,926)**	**(32,694)**