

## **CABINET**

**7 FEBRUARY 2023**

### **HOUSING REVENUE ACCOUNT CAPITAL AND REVENUE BUDGETS 2023/24**

Portfolio Holder: Councillor Howard Doe, Deputy Leader and Portfolio Holder for Housing and Community Services

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#### **Summary**

This report presents the Housing Revenue Account (HRA) capital and revenue budgets for 2023/24 and provides details of proposed rent and service charge levels for 2023/24.

The report also contains the latest revised forecasts of the HRA Business Plan.

The report was considered by the Business Support Overview and Scrutiny Committee at its meeting on 25 January 2023 and its comments will be set out via an addendum report.

1. Budget and policy framework
  - 1.1. The Council is required by law to carry out a review of Council rents from time to time and to ensure that the HRA does not fall into a deficit position.
2. Background
  - 2.1. The 'Self-financing' regime for the HRA came into place on 1 April 2012 and the previous subsidy regime and the complex calculations that accompanied it were then abolished. For the most part, at the time, this left the HRA free of Government intervention and with the responsibility for managing and maintaining the Council's housing stock within the rental stream that the stock generates. This report concentrates on proposals for 2023/24

including:

- Rent and Service Charges
- Performance Management – voids, welfare reform and debt collection
- Expenditure assumptions
- Housing repairs
- 3 Year Capital Budget
- Revised forecasts of the HRA Business Plan
- Borrowing and Debt
- New House Building Programme update
- Revenue Budget for 2023/24

### 3. Rent

- 3.1. The Government announced in the Housing White Paper 'Fixing our Broken Housing Market', in October 2017 that social housing landlords are permitted to increase social and affordable rent by Consumer Price Index (CPI) plus 1% each year from April 2020 for a period of 5 years. This resulted in a return to the rent setting approach, which was to apply for 10 years from 2015, before it was replaced with rent reduction from April 2016 for 4 years in 'Welfare Reform and Work Act 2016'.
- 3.2. In August 2022, the Government consulted the Registered Providers of social housing, with a view on a new direction from the Secretary of State to the Regulator of social housing in relation to social housing rent policy. This consultation focused on the introduction of a rent ceiling from 1<sup>st</sup> April 2023 to 31<sup>st</sup> March 2024 for an upper limit on the maximum amount by which rent can be increased by in 2023/24.
- 3.3. As a result of this consultation, on 17<sup>th</sup> November 2022, the Chancellor, in his Autumn Statement, announced a 7% rent cap for social housing providers for a rent period of 12 months from 1<sup>st</sup> April 2023 to 31<sup>st</sup> March 2024. This means that the Registered Providers may increase rents by up to 7%. This restriction applies to both social rent and affordable rent homes. However, it does not affect the calculation of formula rent or rent caps that apply to social rent properties. September 2022 CPI was 10.1%.
- 3.4. It is, therefore, proposed that the rent for 2023/24 should be increased by 7% of 2022/23 base rent of current tenants.
- 3.5. However, as stated in paragraph 3.3 above, formula rent will be increased by 11.1% (September CPI of 10.1 plus 1%) and rent caps by 11.6% (September CPI of 10.1 plus 1.5%) as per Government's Rent Policy updated on 14<sup>th</sup> December 2022. This will only apply to a property when it becomes empty.
- 3.6. DLUHC's Policy Statement on Rents for Social Housing (issued Feb 2019) states that, at the start of a new affordable rent tenancy, the rent must not exceed 80% of the market rent (inclusive of service charges) and should not

be lower than the potential formula rent. This rent then can be increased by the social housing rent policy each year. When a dwelling of affordable rent is relet to a new tenant, rent must be recalculated again to ensure new rent is no more than 80% of the market rent at that time.

- 3.7. Appendix A (social rent) and Appendix B (affordable rent) set out the details of the proposed average rent increase by property type, which is based on social and affordable housing rent, and is in line with Government's current guidance as detailed above.
- 3.8. The increase in weekly rent of 7% will result in an increase of £1,121,499 in budgeted rental income from dwellings against 2022/23 yearly rental income. This increase includes budgeted rental income of £452,216 from 57 affordable rent properties. 39 of these affordable rent properties are being purchased/built in Q4 of 2022/23 and were not budgeted for in 2022/23 budget, resulting in total rent increase to be higher than expected for 2023/24.
- 3.9. The proposed charges will give an average rent of £93.41 per week for social rent and £153.31 per week for affordable rent, based on 52 weekly payments on current properties. This is an increase of 7% on social rent and 1.8% (due to rent being capped at LHA rate & nil increase on properties released in 2022/23) on affordable rent to 2022/23 proposed weekly rent.
- 3.10. Rents under social rent arrangement exclude service charges, which are charged separately and are based on actual expenditure and any known increases/decreases. Details are set out in section 5 of this report. Affordable rent charges are inclusive of service charges.
- 3.11. As of 03 April 2023, with the implementation of proposed increases of rent capped at 7%, the Council will have all social rent dwellings below formula rent. It is proposed that any new tenancies issued during 2023/24, are set at formula rent or rent cap for social rent dwellings, whichever is lower. New tenancies for affordable rent dwellings to be set at lower of 80% of market rent or the LHA rate, whichever is lower.
- 3.12. It is recognised that during the current cost of living challenges that any rent increase increases strain on households. Unfortunately, the cost of delivering safe and well maintained housing stock is also increasing, nationally, challenges in respect of materials and labour have been widely reported even prior to increases in inflation. However, the Council continues to ensure that its residents are supported with the cost of living.
- 3.13. The Housing Service continues to work closely with colleagues in the Welfare and Benefits team to ensure that tenants that need help get access to the Household Support Fund. The offer of tenancy support is fundamental to the tenancy sign up process and regular drop ins are offered at local community venues to ensure that people can access the welfare services they need.

## 4. Garage Rents

- 4.1. Garage rents are currently £11.43 per week for both council and non-council tenants.
- 4.2. It is proposed that for 2023/24, the baseline rent for all tenants will be increased by 10% to £12.57 per week or £653.64 per annum (£12.57x 52 weeks). Non-council tenants will also pay VAT at the standard rate.
- 4.3. It is estimated that this will generate an additional income of approximately £23,462 based on current letting rates.

## 5. Service Charges

- 5.1. Service charges for 2023/24 have been calculated using estimated costs based on the actual charges for previous years and any known increases or decreases.
- 5.2. Guidance states that whilst social landlords should aim to confine service charge increases to inflation plus 1%, providing charges are fair, transparent and set at a level where they cover costs for a particular service, without profit or subsidising another, then the authority can use its discretion to charge a rate where costs are fully recovered.
- 5.3. In previous years the Council has committed to not increasing average service charges by more than 15% in any given year, even if a larger increase is needed to fully recover costs. However, due to the current increases in gas and electricity prices, it has become necessary that the full cost is recouped to fund the cost of these services to the HRA.
- 5.4. There are some service charges that are so small that even a one pence increase will go over the 15% cap. Therefore, it is proposed that the full cost of all the service charges is charged to the tenants. However, to reduce the financial burden on tenants, it is proposed that 50% of the increase in the cost of gas and electricity is reimbursed to the tenants (tenants that pay gas and electricity service charges) in the form of rebate in 2023/24. This will reduce HRA income from service charges by approximately £140,000.
- 5.5. Overall, the average weekly service charge increase for 2023/24 (excluding housing related support eligible charges), will be £1.17 per week (paid over 52 weekly basis) when compared with 2022/23. Appendix C details the average percentage increase/decrease required against each type of projected weekly service charge in comparison to 2022/23.
- 5.6. During 2019/20 funding to the HRA from the general fund for Homes for Independent Living services was reduced by £100,000. It is now proposed that from 2023/24, HRA will be fully funding this service in full from the HRA budget with the provision of same level of service, costing the HRA approximately £123,000.

5.7. As per previous years to ensure administrative expediency and efficiency, it is proposed to continue the process of rounding service charges to the nearest 5p or 10p for 2023/24.

## 6. Performance Management

6.1. The financial management of the HRA is directly linked to key performance in a number of operational areas (void management, rent collection and arrears recovery).

### 6.2. Void Management

6.2.1. There is a direct correlation between the time a property remains void and the rent foregone.

6.2.2. The target for void property rent loss for 2022/23 was set at 0.49% of the rent debit, equating to £66,572.

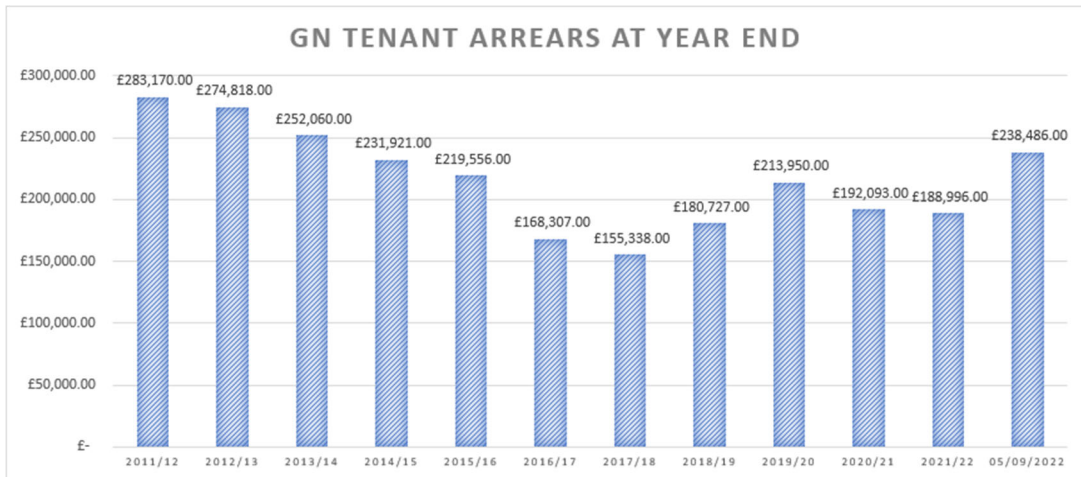
6.2.3. Provision for void rent loss for 2023/24 has been set at 0.68%, against the 2023/24 rent debit or in financial terms £101,673 based on 2022/23 budget monitoring forecast. This gives higher rent loss, comparable with 2022/23 budgeted performance as noted in the paragraph above. The increase in void rent loss is due to the continuous challenges of shortage of repairs material and labour caused by a range of external factors.

### 6.3. Rent Collection/Bad Debt Provision

6.3.1. The collection rate for rent and service charges and the performance in managing rent debt is critical to the financial position of the HRA and has a direct impact on the amount of bad debt provision that must be set aside.

6.3.2. The rent collection rates and current arrears position within the HRA is favourable in terms of performance against other similar organisations.

6.3.3. The chart below shows the year-end comparison (part year for 2022/23) for current tenants' arrears in the general needs stock, including sheltered housing.



6.3.4. It is anticipated that current and former tenant rent arrears (rent and other housing related debt) at year end 2022/23 will be approximately £602,000.

6.3.5. It is estimated that as at 31 March 2023, the projected yearly requirement for bad debt provision will be £448,000. Therefore, the bad debt provisions budget for 2023/24 is set at £85,000 based on current year's performance.

#### 6.4. Universal Credit (UC)

6.4.1. UC has been 'live' in Medway since May 2018, and it currently affects new claimants or existing benefit claimants who have a change in circumstances that triggers a move from the old benefits system to UC. As at the end of September 2022, there were 995 (33% of all tenancies) council tenants on UC.

6.4.2. It is well known that nationally the introduction of UC has led to increased rent arrears for social landlords, and this is proving to be the case in Medway. This is due in part to processing delays but mainly due to the way the housing element of UC is paid. As at end of September 2022, 66.33% of all current rent arrears are attributable to the 42.71% of council tenants on UC (total arrears, £234,880 of which £155,807 attributable to tenants on UC).

6.4.3. Historically, all tenants eligible for help with housing costs had payments of HB credited directly to rent accounts at no cost. The introduction of UC has begun a gradual shift of the current arrangement with the housing element of UC going directly to tenants, which then must be collected by the HRA. The impact is expected to increase through financial year 2023/24.

6.4.4. UC currently only affects working age claimants. Currently the HRA receives approximately 36% of rental income via Housing Benefit, (down from 40% over the same period last year). As of September 2021, HB income accounts for approximately £113,000 per week or roughly £5,876,000 per annum of projected income for 2022/23.

6.4.5. As described above, the changes result in Housing Benefit being paid directly to working aged tenants and there will be the additional costs to the authority

to collect this rent from tenants, in terms of transaction processing costs. These costs will increase as UC is fully rolled out over the next few years, with a predicted full roll out of late 2026. It is also likely that arrears and the consequent provision for bad debt will increase.

- 6.4.6. Work is continuing by the HRA team to mitigate against the effects of UC; this work includes having two specialist Tenancy Sustainment Officers within the Income Team, working to maintain good links with staff and management at DWP, and developing new ways to target effective communications.
- 6.4.7. To assist customers that are struggling with the cost-of-living crisis, the Tenancy Sustainment Team hold a drop-in services for tenants to attend at Twydall library. They will also sign post and assist customers with accessing relevant services such as food banks and applying to the Household Support Fund, for help with energy costs, food, clothing etc.

## 7. HRA Expenditure

- 7.1. Generally, it is expected that expenditure will increase in 2023/24 compared to 2022/23 levels. To reflect the current economic climate and in line with the Medium-Term Financial Plan, various budgets will be realigned, such as rising cost of utility services, materials and labour, contracts that are subject to contractual annual uplifts and contracts which are due to be re-tendered, including any corporate and Government determinations such as increase in staff salaries and cost of implementing various new regulations. Where, through streamlining and service improvement, some budgets have regularly underspent, these have been revised down, as these budget reductions have been achieved through genuine savings.
- 7.2. It has been agreed internally that due to the time difference in preparing the HRA and the GF budgets, the existing SLA recharges between the HRA and the General Fund (GF) services will remain the same as 2021/22 for 2022/23 HRA budget. However, these will be reviewed during the GF budget build and any changes will then be reflected in the HRA budget. Any increase/decrease will be shown as an unidentified expenditure/savings to ensure correct SLA's are charged to the HRA based on the actual costs.
- 7.3. From 2021/22, the Housing Service has started to manage the planned decorating and capital maintenance programmes inhouse, therefore there will be no management fees to the Building and Design Services which were an 8% and 12.5% respectively. Savings from these fees will cover additional resources required to manage these programmes by the HRA.
- 7.4. The revenue expenditure budget funds all general day to day repairs, emergency repairs, repairs to void properties, lift maintenance, estate improvements, repairs programme and central heating maintenance.
- 7.5. Spend on voids budget for 2022/23 for works to bring properties to the let-able standard, has increased. Officers are in regular discussions with Mears to

resolve the increase in void repairs and are piloting a new way of working on this, with an ambition of reducing the spend.

- 7.6. Planned maintenance to HRA stock is driven by stock condition data that determines when components need to be replaced or upgraded. To ensure that tenants homes are safe and repaired to a decent standard, £1.43m budget will be required as a contribution to the capital programme for 2023/24.

## 8. Housing Repairs

- 8.1. The repairs and maintenance contract that was awarded to Mears Ltd for a period of five years from 01 September 2014, concluded in August 2019, and has performed well both in terms of financial benefit to the Council and service delivery to residents. As a result of this excellent performance, this contract has been extended until August 2024. At the time of the extension, it was agreed that no uplifts would be made for the remainder of the term. With the economy in a significantly different position in 2023, the contract will need to be uplifted to ensure that services to tenants can be sustained.

- 8.2. Housing repairs expenditure covers both planned and responsive maintenance, some of which is capital funded. Government guidelines have stated that local authorities should be moving away from responsive repairs and towards increased planned maintenance expenditure, to achieve a spend ratio of 30:70.

- 8.3. Based on the proposed combined capital and revenue work programmes, the financial split in 2023/24 is anticipated as follows:

- Responsive maintenance £2.65m
- Planned/Capital maintenance £5.22m (excluding new build/acquisition and carried forward budgets)

- 8.4. This split will equate to 34:66 spend ratio for 2023/24. This is slightly above the threshold to meet good practice guidelines of 30:70.

### 8.5. Three-Year Capital Works Budget

- 8.5.1. Prior to 2015/16, the capital works budget was set on an annual basis. This approach led to initial on site delays of some projects, as officers could not formally instruct contractors or internal resource until formal budget approval was obtained. This approach also led to lost opportunities of not being able to procure contracts for longer periods for the same work streams, which should otherwise give a greater value for money in terms of procurement for those tendering, to bring savings via reduction in longer-term work programmes and overheads, as well as reduction in administrative costs.

- 8.5.2. 2023/24 will be the third year of the current three-year planned maintenance and disabled adaptations capital works programme (2021/22 to 2023/24) as set out in the table below that was approved in 2021/22 budget build. Included in the table is additional budget that is required for further acquisitions of



properties and phase 5 and 6 of the HRA new build programme. Any under-spend/slippage on the 2022/23 planned maintenance, adaptations capital programme and new build/ acquisition capital programmes will be added to the 2023/24 capital programme.

#### 8.5.3. Three year Planned and Capital Programme Budget.

	<b>2021/22 £000</b>	<b>2022/23 £000</b>	<b>2023/24 £000</b>
<b>Planned Maintenance</b>	£5,419	£4,975	£4,417
<b>Disabled Adaptations</b>	£200	£200	£200
<b>New build/Acquisition programme</b>	£0	£8,200	£12,000
<b>Total</b>	<b>£5,619</b>	<b>£13,375</b>	<b>£16,617</b>

#### 8.5.4. Three year proposed Capital Programme Funding:

	<b>2021/22 £000</b>	<b>2022/23 £000</b>	<b>2023/24 £000</b>
<b>Major Repairs Reserves</b>	£3,608	£3,687	£3,779
<b>Revenue Contribution to Capital</b>	£2,011	£1,488	£838
<b>Borrowing</b>	£0	£5,330	£9,500
<b>Other External funding</b>	£0	£0	£2,000
<b>Contribution from 1-4-1 RTB Capital Receipts for new build/ acquisition programmes</b>	£0	£2,870	£500
<b>Total</b>	<b>£5,619</b>	<b>£13,375</b>	<b>£16,617</b>

8.5.5. Due to the delay in start of phase five new build programme until 2023/24, as well as the, carried forward planned maintenance programme budget, 2022/23 round 3 capital budget monitoring forecast shows budgets carried forward to 2023/24 will be approximately £12.4m.

8.5.6. It is recommended that the remaining budget of £0.3m (included in carried forward as mentioned above) from Phase 4, to be added to Phase 5 budget as the total estimated required budget for phase 5 will be approximately

£9.9m to build approximately 40 new affordable rent properties on two sites, subject to planning approval.

## 9. House Building Development Programme

- 9.1. Previous budget reports have detailed the previous three phases of HRA development. All previous programmes have been delivered from HRA reserves, borrowing and ring fenced Right to Buy (RTB) 1-4-1 capital receipts.
- 9.2. A budget approval was sought during 2019/20 budget build process (with further additional budget of £4.1m in year 2019/20) for a fourth phase of new development. In its most recent iteration this phase will deliver 28 houses/bungalows at three different sites within Medway. Works started in Summer 2021 and the contract will be completed in January 2023.
- 9.3. The removal of the debt cap provides a significant opportunity for Local Authorities to deliver additional rented, affordable housing. Officers have been working to establish a new theoretical headroom for the HRA to inform strategic targets for the HRA development.
- 9.4. Affordable housing delivery is predominantly achieved through the planning process, registered providers in Medway delivered 216 homes in 2020/21, 192 homes in 2021/22 with 255 forecasted to be delivered in 2022/23. In addition to this delivery, the Council will aim to increase council owned housing by 1% year on year after projected right to buy sales over the next ten years. As the HRA has exhausted sites within existing ownership, further growth will be delivered through;
  - Potential purchase opportunities. This relates to units that the HRA previously sold under RTB that have become available to re-purchase.
  - Options to appropriate land and/or assets to the HRA from the general fund.
  - Acquiring/purchasing private land to develop on.
  - Purchasing units from the open market/S106 Units.
  - Major estate regeneration.
  - Joint ventures and partnership opportunities.
- 9.5. On 16 July 2020, the Council approved the addition of £10m budget to the HRA Capital Programme, in order to increase the stock of HRA affordable housing, funded from the borrowing against HRA rents, HRA reserves and Right to Buy 1-4-1 capital receipts or grant funding, where available. 17 units were purchased during 2020/21 at a cost of £3.786m. The remainder of the budget was used to explore further opportunities to bring additional units into the HRA.
- 9.6. The HRA is now looking at bringing forward phases 5 and 6 which once completed, will deliver and additional circa 84 units. Phase 5 consists of two sites with one receiving planning permission and the other currently in the process of having a planning application submitted. Phase 6 is currently on site and due to complete in 2024.

- 9.7. The HRA is also looking at other housing provisions such as Rough Sleepers Accommodation. The HRA successfully obtained funding to purchase 6 units of which 50% of the costs being eligible for grant funding from Homes England.
- 9.8. At the time of presenting the report to the Business Support Overview and Scrutiny Committee, Officers were giving consideration to a number of potential options in relation to government funding streams launched recently by DLUHC as well as specific opportunities to purchase properties to meet specific needs from the market. More time is needed to appraise and develop a business case, but, to enable sufficient headroom to undertake this activity the capital funding requested has been increased from £8.25m to £12m.

## 10. HRA Working Balances

- 10.1. There is a requirement to maintain a working balance to safeguard against unplanned and unavoidable increases in expenditure or losses of income. As of April 2022, the working balance stood at £5.28m. For several years the actual HRA balance has exceeded the recommended good practice guideline of £450,000. Given that the balance of reserves is also designed to cater for future investment, it is recommended that a minimum reserve balance of £750,000 would be appropriate.
- 10.2. Round 2 (2022/23) budget monitoring predicts a balance at 31 March 2023 of £5.26m, with an estimated contribution of Nil to buyback properties previously sold under the right to buy.
- 10.3. The proposed 2023/24 HRA Budget as presented at Appendix D, produces a projected breakeven budget for the year. With a contribution funding of nil amount to the buyback/acquisition budget, the budgeted revenue working balances remain at £5.26m as of 31 March 2024.

## 11. Self-Finance Arrangements - Borrowing and Debt

- 11.1. To comply with Medway Council's provision for debt repayment policy, the HRA debt repayment or minimum revenue provision (MRP) is made on annuity basis. 2023/24 estimated MRP repayment will be £0.358m. There will also be an estimated payment of £0.5m from 1-4-1 capital receipts to repay towards the debt initially being borrowed due to not having sufficient funds in these receipts at the time of purchase/new build properties.
- 11.2. As per 2022/23 R3 budget monitoring, it is estimated that on 01 April 2023, the HRA opening debt will be £51.9m, subject to repayment of 2022/23 MRP payment of £0.374m. With further borrowing for future phases of the new build and housing purchase programmes (including borrowing for 1-4-1 RTB capital receipts and to repay initially borrowed amount from major repairs reserves in the past few years), and subject to 2023/24 MRP payment of £0.358m and £0.5m of 1-4-1 RTB capital receipts, closing debt for year 2023/24 is estimated to be £61.6m.

## 12. HRA Business Plan Update

- 12.1. Local authorities are required to produce and maintain a HRA Business Plan that meets the Government's 'fit for purpose' criteria. The Business Plan is also a statement of the viability of the Council's HRA. It does not set the budget for the HRA but reports on the plans already agreed, including those reported to Members in this HRA Budget Report.
- 12.2. The housing stock represents one of Council's highest value assets and its repairs and maintenance is a significant liability, therefore planning for its sustainable future is important.
- 12.3. Effective and efficient management of the housing assets play an important part in delivering many of Council's corporate priorities and strategic objectives and the Asset Management Strategy (AMS) provides the long-term planning, provision and viability of assets.
- 12.4. The Council maintains a set of long-term financial forecasts for its Housing Revenue Account. These forecasts inform the HRA Business Plan, and enable the authority to model the impact of potential changes on the authority's ability to manage its housing stock as well as identifying and helping to mitigate the potential risks it faces.
- 12.5. The HRA Business Plan was last approved by Members of Full Council in February 2022. The HRA Business Plan has recently been revised by Savills Housing Consultancy and details of the 30-year business income and expenditure charts can be found at Appendix E. The assumptions are based on the following optional aspects:
  - High levels of inflation – driving both salary, maintenance and new development costs up by greater increments than assumed
  - Government intervention in respect of capping rent increases by 7%
  - Substantial increases for the cost of new borrowing reflecting both base rate changes and more importantly gilt rate rises
  - Uncertainty in terms of future Government intervention towards energy costs
  - The loss of properties through the Right to Buy
  - The investment into the Development Phases 4,5 and 6 with additional acquisition programmes a total investment in 160 new homes
  - The latest capital investment requirements which total £174.3million, without inflation and adjustment for stock losses and gains, on its existing properties, which is an increase on the previous iteration of the plan of £17.7million.
  - Repayment of loans through an MRP mechanism, based on existing annuity values.
- 12.6. Whilst the business plan is sustainable at its base position and with the development of new stock the funding needed to meet the decarbonisation of the stock requires more borrowing and this would be unsustainable for the

HRA. It is important to note that the position assumes no subsidy for these measures.

- 12.7. The Council will need to bid for funding to undertake the full programme of works needed, equally, more favourable changes in interest rates with improve the position. As recommended in the review, more regular reviews of the business plan may be required on an ongoing basis to make key strategic decisions.

## 13. Benchmarking

- 13.1. As part of the HRA business plan review, the HRA service took part in a national benchmarking exercise with Housemark, a well-known and respected benchmarking organisation. The purpose was to understand costs and performance levels against other similar sized housing organisations as at year end 2021/22, a summary of results is as follows:

- Satisfaction with the last repair = 89.7 5 – 2<sup>nd</sup> quartile
- Average days taken to complete repairs 11 days – top quartile
- % of Rent collected = 100.61% - top quartile
- % of current tenant arrears = 1.4% - top quartile
- Total Cost Per Property Responsive Repair Works £789.84 – 2<sup>nd</sup> quartile
- Former tenant arrears = 1.49% 2<sup>nd</sup> quartile
- Average re-let time = 28 days – 2<sup>nd</sup> quartile
- % Void loss = 1.67% - 2<sup>nd</sup> quartile
- % of dwellings with a valid gas safety certificate = 100% - top quartile
- % of repairs completed at the first visit = 98.3% - top quartile
- % of repair appointments kept = 99.15% - top quartile
- % of ASB properties per 1000 properties = 16.89% - top quartile

Source: Housemark (All providers with a stock size 2,500 to 5,000)

## 14. Advice and Analysis

- 14.1. A Diversity Impact Assessment (DIA) has been completed at Appendix F.
- 14.2. The DIA recommends that proposed budget with the actions detailed put in place to ensure that any adverse impacts are mitigated.
- 14.3. The majority of changes that will be brought into effect in the 2023/24 Budget Report will not impact on our tenants in terms of the protected characteristics. Changes to charges and service delivery will be applied to all relevant tenants, not on an individual basis.
- 14.4. Where dwelling rent charges, service charges and garage rents have been increased there may be some negative impact on lower income groups. The HRA Housing Service will continue to monitor and provide support to those in terms of income and welfare.

- 14.5. Legislation brought in by Government around Universal Credit may have a negative impact on working age residents and lower income households. Whilst these changes are outside of the Council's control it will be up to the Council to implement the necessary mitigating actions to reduce this impact.

## 15. Risk management

Risk	Description	Action to avoid or mitigate risk
HRA Balance.	There is a requirement to ensure that the balance on the HRA does not fall into deficit and a business plan is required to model this need over a thirty-year period. The major factor with the potential to impact on this requirement, is the level of expenditure required for housing repairs.	Ongoing stock condition surveys undertaken to provide a sound basis on which to model future repairs investment.  Regular monitoring by senior officers of the budgets and actions agreed to avoid deficit occurring.
Changes brought about by Welfare Reform.	If fully implemented, Government proposals to introduce UC would mean approximately £4m (based on current figures) being paid direct to tenants, that is currently paid via housing benefit directly to the HRA rent account. This may mean a significant increase in arrears and also additional transaction costs for the HRA	Welfare reform team in place who are working with most vulnerable residents.  Key partners being engaged in process.  Money management training being organised for tenants and debt advice sign posting in place.
No up to date Business Plan in place.	Local authorities are required to produce and maintain a HRA business plan that meets the Governments 'fit for purpose' criteria.	The adoption of the business plan following the full implications of the housing and planning bill, as understood, would allow the Council to continue to meet this requirement.
Significant change in income from rent or service charges affects business plan.	Arrears escalate above predicted 'bad debt' provision.	Dedicated team in place to manage income.  Weekly reports produced to robustly monitor performance and take prompt and effective action.  Weekly and monthly reporting in place for arrears and other income.  Regular reviews undertaken of alternative methods of delivery,

		which may improve customer service and value for money
Covid-19 pressures on budget.	The financial impact of Covid 19 may impact budget provision.	Officers continue to identify budget savings. Assist with and promote support for tenants.
Change of stock Number	Significant change in stock numbers due to increase in Right to Buy or Strategies to review stock retention and assets such as garages.	Significant changes will be monitored, and business plan refreshed as necessary.
Changing regulation and national targets	Changes to regulation from the regulator of social housing, further changes to the decent home's standard and energy efficiency targets	Maximise opportunities to attract external funding to offset considerable energy expenditure. Review existing information and planned work programs to ensure they are aligned to targets.

## 16. Consultation

- 16.1. The Housing Act 1985 requires the issue of written notification to each tenant, a minimum of four weeks in advance of the date any rent charge adjustments become operative. For 2023/24 the latest date for posting the notices is 3rd March 2023.
- 16.2. The Council has developed a resident engagement strategy detailing how officers consult and engage with tenants in partnership with tenants' forums. To ensure tenants are informed of the changes tenants will be consulted on any changes to their rents and service charges. A meeting has been arranged to present the budget proposals for 2023/24 and consult with our Community Representatives Group in January.

## 17. Climate change implications

- 17.1. [The Council declared a climate change emergency in April 2019](#) - item 1038D refers, and has set a target for Medway to become carbon neutral by 2050.
- 17.2. Housing stock represents a significant contributor to Co2 emissions. Improvement to the thermal efficiency and energy consumption of homes presents a significant opportunity to reduce emissions whilst also making homes warmer, more cost efficient and healthier for those that live in them.
- 17.3. The HRA continues to ensure that its properties have decent windows, doors, loft insulation as well as many other components that will help tenants to reduce the amount of energy they consume.
- 17.4. As highlighted in the business plan review, it is estimated that approximately £20,000 will be needed per property for it to become carbon neutral and expected expenditure of over £60m to achieve this across all of the housing

stock. Officers are continuing to assess the areas in the most need of new measures following the nationally accepted “worst first” approach and have instructed for 250 EPC’s to be undertaken to improve data held on these properties

- 17.5. The service has bid into the Social Housing Decarbonisation Fund to achieve funding to make improvements to the fabric of properties, improving their thermal efficiency.

## 18. Financial implications

- 18.1. The financial implications are contained within the body of this report and the appendices.

## 19. Legal implications

- 19.1. Under Section 76 of the Local Government and Housing Act 1989, the Council is required, in advance of the financial year, to formulate proposals which satisfy the requirement that on certain stated assumptions, the HRA for that year does not show a debit balance. The Council is obliged to implement those proposals and from time to time to determine whether the proposals satisfy the 'breakeven' requirement. If not, then the Council shall make such provisions, as are reasonably practicable, towards securing that the proposals, as revised, shall satisfy the requirement.
- 19.2. Under Section 24 of the Housing Act 1985, the Council can make such reasonable charges as it determines for the tenancy or occupation of its houses. The Council is obliged, from time to time, to review rents charged and make such changes, as circumstances may require. This is a decision for Full Council as it forms part of the Council’s budget and policy framework.
- 19.3. A decision to adjust rent constitutes a variation of the terms of a tenancy. Under Section 103 of the Housing Act 1985, in respect of secure tenancies, a notice of variation (specifying the variation and date on which it takes effect) must be served on each tenant. For non-secure tenancies (excluding introductory tenancies), a notice must be served that complies with Section 25 of the Housing Act 1985.
- 19.4. In considering the recommended rent adjustments and other matters proposed in this report, the Cabinet is exercising a public function. It must therefore comply with the duties in section 149 Equality Act 2010 to have 'due regard' to the need to eliminate discrimination, advance equality, and foster good relations between those with a protected characteristic (pregnancy and maternity, age discrimination, disability, gender reassignment, marriage and civil partnerships, race, religion or belief, sex and sexual orientation) and those who do not share it. A Diversity Impact Assessment is annexed to this report at Appendix E to assist committee members to fulfil these duties.
- 19.5. The Cabinet must consider tenants’ human rights, in particular Article 8 of the European Convention on Human Rights (right to respect for a person’s home)



and Article 1 of the First Protocol (right to peaceful enjoyment of possessions), when considering what recommendations to make to Cabinet. Members will need to consider whether the proposals strike a fair balance between the rights of the individuals who may be adversely affected by them, and the legitimate aims of the Council, setting a balanced budget, targeting social housing at those who are most in need and generating income that can be invested back into social housing so that more people in need can benefit from it.

## 20. Recommendations

20.1. The Cabinet is asked to note the comments of the Business Support Overview and Scrutiny Committee, as set out in the addendum report.

20.2. The Cabinet is asked to recommend the following to full Council for approval:

- a) A proposed social rent increase of 7% as per the cap set by the Government for year 2023/24 (which is below the allowed CPI of 10.1 plus 1%) for the social rent housing stock as set out in Appendix A (based on 52 collection weeks) with effect from 03 April 2023. All new tenancies issued during 2023/24, to be set at either the formula rent or rent cap for social rent dwellings, whichever is lower.
- b) A proposed affordable rent increase of lower of LHA rate or 7% (which is below the allowed CPI of 10.1 plus 1%) for the affordable rent properties as set out in Appendix B (based on 52 collection weeks) with effect from 03 April 2023. All new tenancies during 2023/24 to be set at either 80% of market rent or the LHA rate for affordable rent dwellings, whichever is lower.
- c) A proposed rent increase of 10% to be applied to all garage tenure types with effect from 03 April 2023 as stated in section 4.
- d) That the service charges increases/decreases as set out in Appendix C of the report for 2024/23 be approved.
- e) That a 50% rebate on the increase from 2022/23 electricity and gas service charges to be issued to the tenants affected by those increases set out in recommendation D.
- f) That the revenue budget for the HRA service for 2023/24 as per Appendix D be approved.
- g) That the proposed new budget of £12m (as set out in section 8.5.3 & 8.5.4 which is £6.25m for new purchases, £0.5m for Phase 4 and £5.25m for Phase 6 budgets).
- h) A virement of remaining budget (approximately £0.3m) from Phase 4 to Phase 5 new build programme budget be approved.

- i) That the provision for the estimated repayment of debt based on annuity-based payment of £0.358m, on the HRA's outstanding debt for 2023/24 be approved.
- j) That an estimated repayment of £0.5m of debt from 1-4-1 RTB receipts capital (as explained in section 11.1) on the HRA's outstanding debt for 2023/24 be approved.
- k) to delegate authority to the Director of Place and Deputy Chief Executive to agree weekly rental values presented by the Head of Housing for any in-year completed HRA acquisitions and/or new builds during 23/24.
- l) That Members approve the revised 30-year HRA Business Plan model as attached at Appendix E.

## 21. Suggested Reasons for Decision

- 21.1. The Council is required to carry out a review of rents and notify tenants not less than 28 days prior to the proposed date of change. The Council is required under the Local Government and Housing Act 1989 to ensure that the Housing Revenue Account does not fall into a deficit position.

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### Appendices

Appendix A – Average Social Rent Increases by Property Type  
Appendix B – Average Affordable Rent Increases by Property Type  
Appendix C – HRA Average Service Charges Summary  
Appendix D – Revenue Budgets for HRA Service for 2022/23  
Appendix E – Summary of HRA Business Plan  
Appendix F – Diversity Impact Assessment

### Background papers

None

## Appendix A

<b>AVERAGE WEEKLY SOCIAL RENT INCREASES BY PROPERTY TYPE (52 WEEKS)</b>							
Property Type	No of Properties	Actual Rent 2022/23	Formula Rent 2022/23	Proposed Rent 2023/24	Formula Rent 2023/24	Average Increase 2022/23 to 2023/24	Average Percentage Increase 2022/23 to 2023/24
Bedsit Bungalow	45	£69.34	£69.82	£74.19	£77.57	£4.85	7.0%
Bedsit Flat	70	£65.80	£66.23	£70.40	£73.59	£4.60	7.0%
1 Bedroom Bungalow	214	£81.55	£82.21	£87.25	£91.33	£5.71	7.0%
1 Bedroom Flat	472	£76.21	£76.63	£81.54	£85.13	£5.33	7.0%
2 Bedroom Bungalow	20	£98.47	£99.03	£105.36	£110.03	£6.89	7.0%
2 Bedroom House	487	£92.54	£93.07	£99.02	£103.40	£6.48	7.0%
2 Bedroom Flat	533	£85.01	£85.53	£90.96	£95.02	£5.95	7.0%
3 Bedroom Bungalow	1	£98.85	£99.43	£105.77	£110.47	£6.92	7.0%
3 Bedroom House	718	£103.14	£103.75	£110.36	£115.27	£7.22	7.0%
3 Bedroom Flat	108	£95.83	£96.60	£102.54	£107.32	£6.71	7.0%
4 Bedroom House	28	£112.12	£112.78	£119.97	£125.29	£7.85	7.0%
5 Bedroom House	2	£125.21	£129.82	£133.97	£144.22	£8.77	7.0%
Sheltered Bedsit for the Disabled	8	£63.75	£64.15	£68.21	£71.27	£4.46	7.0%
Sheltered Bedsit	188	£63.70	£64.11	£68.16	£71.23	£4.46	7.0%
1 Bedroom Sheltered	67	£72.51	£72.96	£77.59	£81.06	£5.08	7.0%
2 Bedroom Sheltered	6	£83.17	£83.98	£88.99	£93.30	£5.82	7.0%
1 Bedroom Sheltered Bungalow	17	£74.62	£75.12	£79.85	£83.46	£5.22	7.0%
<b>Overall Average*</b>	<b>2,984</b>	<b>£87.30</b>	<b>£87.84</b>	<b>£ 93.41</b>	<b>£ 97.59</b>	<b>£6.11</b>	<b>7.0%</b>
*(Total rental income / total number of properties)							

## Appendix B

AVERAGE WEEKLY AFFORDABLE RENT INCREASES BY PROPERTY TYPE (52 WEEKS)									
Property Type	No of Properties	2022/23 Local Housing Allowance	2022/23 Average Target Rent	2022/23 Actual Affordable Rent	2023/24 Local Housing Allowance	2023/24 Average Target Rent	2023/24 Proposed Affordable Rent	Average Increase 2022/23 to 2023/24	Average Percentage Increase 2022/23 to 2023/24
1 Bedroom Flat	10	£136.93	£79.26	£129.36	£136.93	£88.05	£130.76	£1.40	1.1%
2 Bedroom Flat	19	£172.60	£96.78	£165.44	£172.60	£107.53	£172.50	£7.07	4.3%
3 Bedroom Flat	1	£195.62	£111.18	£188.22	£195.62	£123.52	£195.62	£7.40	3.9%
2 Bedroom House	20	£172.60	£98.58	£172.60	£172.60	£109.52	£172.60	£0.00	0.0%
Shared Accommo	7	£72.24	£63.63	£72.24	£72.24	£70.69	£72.24	£0.00	0.0%
<b>Overall Average*</b>	<b>57</b>	<b>£154.42</b>	<b>£90.52</b>	<b>£150.58</b>	<b>£154.42</b>	<b>£100.57</b>	<b>£153.31</b>	<b>£2.73</b>	<b>1.8%</b>

\*(Total rental income / total number of properties)

## Appendix C

HOUSING REVENUE ACCOUNT - SERVICE CHARGES SUMMARY (52 Weeks)					
	Average Weekly Service Charge 2022/23 (52 weeks) £	Proposed Percentage Increase/(decrease) for 2023/24 %	** Proposed Average Weekly Service Charge 2023/24 (52 weeks) £	weekly increase/ (decrease) fr 2022/23 to 2023/24 £	Projected (Surplus)/ Deficit 2023/24 £'000
<b>a) Eligible for Housing Benefit</b>					
Adult Services Facilities	0.00	0.0%	0.00	0.00	0
Estate Services (Caretaking)	5.14	9.5%	5.63	0.49	0
Communal Electricity	1.36	48.4%	2.01	0.66	0
Grounds Maintenance	0.63	10.4%	0.70	0.07	0
Sheltered Management	20.49	6.7%	21.87	1.38	0
Window Cleaning	0.35	12.4%	0.39	0.04	0
Council Tax	10.86	4.5%	11.36	0.49	0
Laundry Room Sheltered	0.52	7.7%	0.56	0.04	0
Laundry Room General	0.36	13.9%	0.41	0.05	0
Heating - Communal	1.09	316.8%	4.54	3.45	0
Water - Communal	0.84	2.2%	0.86	0.02	0
Communal Lifts	0.61	6.6%	0.65	0.04	0
Communal TV Aerials	0.08	25.0%	0.10	0.02	0
CCTV	1.44	0.0%	1.44	0.00	0
<b>b) Not Eligible for Housing Benefit</b>					
Cooker	0.47	15.6%	0.54	0.07	0
Fridge	0.44	20.5%	0.53	0.09	0
Heating - Residential	4.64	304.2%	18.77	14.13	0
Water - Residential	3.30	2.6%	3.39	0.09	0
<b>Average sections a &amp; b (weekly)</b>	<b>2.92</b>		<b>4.10</b>	<b>1.17</b>	<b>0</b>
<b>c) Housing Related Support Eligible Charges</b>					
Sheltered Helpline	3.49	0.6%	3.51	0.02	0
Community Alarm	8.63	0.0%	8.63	0.00	0
SP Helpline	2.37	0.0%	2.37	0.00	0
Sheltered Support	5.40	0.0%	5.40	0.00	0
<b>Average sections c (weekly)</b>	<b>4.97</b>		<b>4.98</b>	<b>0.01</b>	<b>0</b>
<b>Average all sections (weekly)</b>	<b>3.30</b>		<b>4.26</b>	<b>0.96</b>	<b>0</b>

## Appendix D

<b>HOUSING REVENUE ACCOUNT - BUDGET SUMMARY 2023/24</b>									
Description	Budget 2022/23			R2 Forecast 2022/23			Proposed Budget 2023/24		
	Exp	Income	Net	Exp	Income	Net	Exp	Income	Net
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>HRA Working Balance B/F</b>			<b>(5,462)</b>			<b>(5,283)</b>			<b>(5,261)</b>
HOUSING MAINTENANCE	2,695	0	2,695	2,927	0	2,927	3,249	0	3,249
HOMES FOR INDEPENDANT LIVING	593	(2)	591	575	(0)	574	858	(2)	856
TENANCY SERVICES	1,138	0	1,138	1,113	0	1,113	1,308	0	1,308
ESTATE SERVICE	594	(4)	590	552	(5)	547	571	(5)	566
COMMUNITY DEVELOPMENT	147	0	147	147	0	147	168	0	168
CENTRALISED ACCOUNTS	246	0	246	262	0	262	264	0	264
CLIENT SIDE	1,970	(61)	1,909	2,135	(212)	1,924	2,365	(268)	2,097
CAPITAL DEVELOPMENT PROGRAMME	116	(66)	50	117	(67)	50	120	(70)	50
CAPITAL FINANCING	7,458	0	7,458	7,379	0	7,379	7,839	0	7,839
RENTAL INCOME	0	(14,829)	(14,829)	0	(14,737)	(14,737)	0	(16,157)	(16,157)
OTHER INCOME	0	(196)	(196)	0	(166)	(166)	0	(246)	(246)
<b>Total HOUSING REVENUE ACCOUNT</b>	<b>14,958</b>	<b>(15,159)</b>	<b>(202)</b>	<b>15,208</b>	<b>(15,186)</b>	<b>22</b>	<b>16,742</b>	<b>(16,746)</b>	<b>(5)</b>
Revenue Contribution to Capital Expenditure			<b>241</b>			<b>0</b>			<b>0</b>
<b>HRA Working Balance C/F</b>			<b>(5,423)</b>			<b>(5,261)</b>			<b>(5,265)</b>

## Appendix E

### **MEDWAY COUNCIL HOUSING REVENUE ACCOUNT BUSINESS PLAN 2022/23: UPDATED REVIEW ON PROJECTIONS & CAPACITY – JANUARY 2023**

#### **Introduction**

This revisit of the plan comes after the last review of the plan undertaken in December 2021 taking into account the latest forecasts, assumptions and stock investment requirements.

The model is launched from April 2022 (2022/23 financial year) and runs for 30 years to March 2052. The first year of the plan is balanced exactly to the Round 2 forecasts, with some minor amendments related to changes to capital forecasts and the provisional budgets for 2023/24.

Currently the financial environment surrounding the HRA (and other social housing organisations) is creating some uncertainty in terms of:

- High levels of inflation – driving both salary, maintenance and new development costs up by greater increments than assumed
- Government intervention in respect of capping rent increases by 7%
- Substantial increases for the cost of new borrowing reflecting both base rate changes and more importantly gilt rate rises
- Uncertainty in terms of future Government intervention towards energy costs

These in a sense have created a 'perfect storm' in terms of business planning.

Therefore, we have updated the business plan model, which demonstrates the impact of the above based on the latest budgetary forecasts.

The plan has been developed with regards to the following "big picture" factors:

- The loss of properties through the Right to Buy
- The investment into the Development Phases 4,5 and 6 with additional acquisition programmes a total investment in 160 new homes
- The latest capital investment requirements which total £174.3million, without inflation and adjustment for stock losses and gains, on its existing properties, which is an increase on the previous iteration of the plan of £17.7million.
- Repayment of loans through an MRP mechanism, based on existing annuity values.

#### **Overall Headlines – Baseline Position**

The previous plan, based on the assumptions, data and budgets at that time projected a relatively balanced position in that:

- HRA Surpluses were projected at £52.7million
- HRACFR (Debt) was projected at £53.6million

Therefore there was scope to increase the repayment of debt, if so required.

In overall terms, the updated plan is able to be fully funded over the 30-year term, generating surpluses in the HRA totalling **£16.0million**, and a closing debt balance of **£72.1million**. This compares to an opening HRA balance of £5.3million and debt of £40.6million. The plan, therefore, has had significant impact on account of a number of factors which are discussed below. In summary forecast borrowing has increased by £18.5million and reserve balances reduced by £36.7million.

As part of this review we have modelled a scenario that takes into account the costs of development ensuring that stock numbers grow year on year by a net 1%, for 7 years, after allowing for right to buys and also implementing additional energy efficiency works.

### Key Baseline Assumptions

The following schedule is not exhaustive - however this lists the main assumptions affecting the viability of the plan.

#### HRA Budget assumptions

The table below shows the revised 2022.23 budgets and proposed budgets for 2023.24 to which the plan is initially based upon:

	2022/23	2023/24
Dwelling rents	£13,454,758	£14,710,687
Non-dwelling rents	£249,800	£243,709
Service charge income	£1,127,728	£1,302,063
Other income and contributions	£70,216	£40,525
<b>Total Income</b>	<b>£14,902,502</b>	<b>£16,296,984</b>
Repairs & maintenance	-£2,927,263	-£3,249,447
Management (incl RRT)	-£4,567,683	-£5,259,383
Bad debts	-£50,000	-£50,000
Dwelling Depreciation	-£3,686,770	-£3,686,770
Debt management	-£63,364	-£63,364
	-	-
<b>Total costs</b>	<b>£11,295,080</b>	<b>£12,308,964</b>
Debt Repayment (MRP)	-£373,720	-£357,933
Interest payable	-£1,821,444	-£2,300,715
Interest income	£0	£105,217
Revenue Contributions to Capital	-£1,488,230	-£1,430,081
Opening Balance	£5,283,000	£5,207,028
Surplus / (Deficit)	-£75,972	£4,508
<b>Closing Balance</b>	<b>£5,207,028</b>	<b>£5,211,536</b>

In overall terms the HRA is forecast to make £75,972 deficit this financial year according to round two forecasts and a £4,508 surplus in 2023/24 on account of increased operating costs offset by a 7% rent increase.

1. The model is launched with opening properties of 2,993 with right to buy sales adjusted to reflect the 11 projected in 2022/23 and 2023/24, then a further 10 per annum for 3 years then reducing by 1 every five 5 years – total loss 238 properties over the 30 years of the plan. Stock additions total 160.
2. Net stock loss over the term is therefore 7.5%, though at this stage the model does not assume a reduction in base costs for management, repair costs for these losses (only capital works).
3. Average stock rents are £87.29/week at April 2022, for social rents and £159.18 for affordable rents and both increase by 7.0% for 2023.24. CPI is assumed at 3% for 2024.25 and therefore rents increase by 4.0% and at CPI thereafter (2.5% then 2.0% onwards).
4. Long-term void rates are 0.5% and bad debt provision of £50,000 is included within the management costs equivalent to 0.4% of net rental income.
5. The forecast management costs are based on latest forecast. In overall terms they increase by 15.1% on account on account of allowances for inflation, particularly in respect of service costs.
6. Repairs expenditure increases by 11% for 2023.24 and is not reduced in line with net reducing stock levels as a prudent assumption moving forward. A real increase of 0.8% above CPI is modelled for 2024.25.
7. The stock condition survey-based capital maintenance expenditure into the existing stock is based on outputs from the Codeman database, which is continually updated. The required levels of works are summarised below and are without any inflation or uplift allowances. The costs of the backlog works have been modelled for 5 years commencing in 2024.25.

	Backlog	2022/23	2023/24	2024/25	2025/26	2026/27	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30	Total
Major Works (Codeman)	£13,247,196	£4,513,243	£4,232,457	£6,186,780	£4,531,095	£5,515,611	£21,077,529	£13,609,314	£13,463,703	£16,751,693	£16,201,190	<b>£119,329,808</b>
Other Works	£0	£680,666	£500,666	£316,666	£316,666	£316,666	£1,583,330	£1,583,330	£375,000	£1,583,330	£1,583,330	<b>£8,839,650</b>
Fire Risk Assessments	£0	£400,000	£400,000	£200,000	£150,000	£150,000	£750,000	£750,000	£1,958,330	£750,000	£750,000	<b>£6,258,330</b>
Disabled Facilities Grants	£0	£200,000	£200,000	£200,000	£200,000	£200,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	<b>£6,000,000</b>
Energy Works	£0	£400,000	£400,000	£400,000	£400,000	£400,000	£2,400,000	£4,000,000	£4,000,000	£4,000,000	£4,000,000	<b>£20,400,000</b>
Contingency Sum	£0	£200,000	£200,000	£200,000	£200,000	£200,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	<b>£6,000,000</b>
Professional Fees	£0	£250,000	£250,000	£250,000	£250,000	£250,000	£1,250,000	£1,250,000	£1,250,000	£1,250,000	£1,250,000	<b>£7,500,000</b>
<b>Total</b>	<b>£13,247,196</b>	<b>£6,643,909</b>	<b>£6,183,123</b>	<b>£7,753,446</b>	<b>£6,047,761</b>	<b>£7,032,277</b>	<b>£29,060,859</b>	<b>£23,192,644</b>	<b>£23,047,033</b>	<b>£26,335,023</b>	<b>£25,784,520</b>	<b>£174,327,788</b>

8. For 2022.23 and 2023.24 we have matched the provisional capital expenditure and funding for both investment in existing stock and new developments. In addition we have modelled the small shortfall when comparing 2022.23 to 2023.24 capital expenditure when compared to the table above.

	2022/23	2023/24
Capital Programme (existing stock)	£7.809m	£7.081m
Acquisitions & New Developments	£7.747m	£13.224m
<b>Total</b>	<b>£15.556m</b>	<b>£20.305m</b>



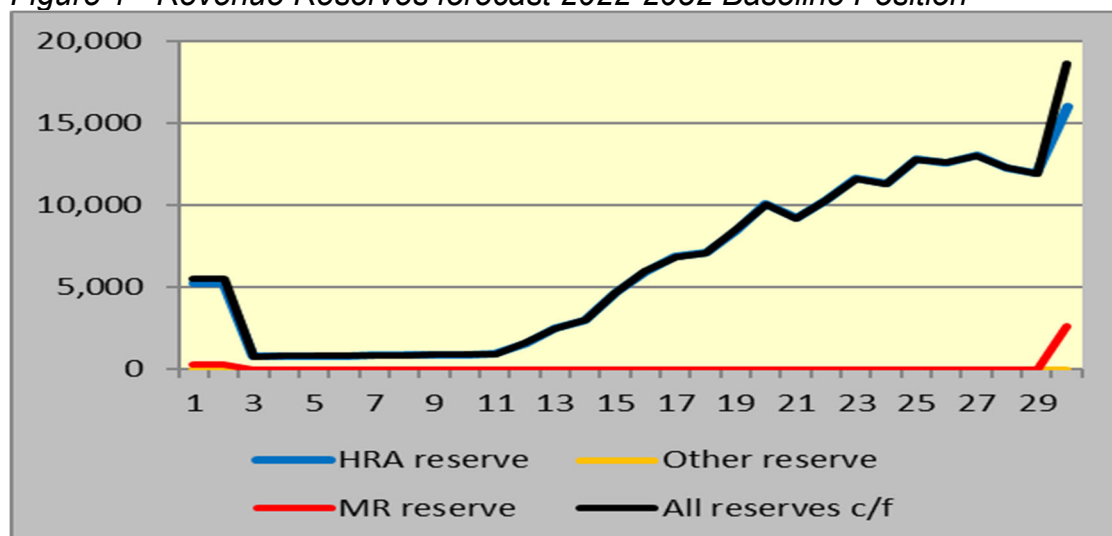
9. Given that gross stock losses are estimated at 8% the investment costs have been adjusted to reflect stock losses by a 50% variable factor, which provides a small level of contingency.
10. Total investment into existing stock is £174.3million at current prices and equates to £58.2k per unit over 30 years. This is based on all categories of work to establish the base position for the model and test its viability in order meet these investment needs throughout the scenarios modelled. A core reason for the increase is in respect to energy efficiency works. Costs will increase by CPI, with an additional 1.8% applied in 2024.25.
11. Depreciation to finance existing stock improvements is charged to the HRA at an equivalent £1,230 per unit, which is adjusted for inflation on a unit-cost basis throughout the plan.
12. Rent income from the developments and acquisitions are included, with a standard range of costs added to existing repair and investment budgets. Development and acquisition expenditure is funded, where possible, via retained '1-4-1' receipts and £0.5million Homes England Grant.
13. The average interest rate applied to the HRA existing debt level is c4.2% throughout. Any new borrowing will be at c4.0% based on long-term forecasts.
14. In line with previous iterations, the business plan does make provision for the part-repayment of loans as part of an MRP mechanism. The values have been calculated on annuity values provided by officers. It should be recognised that there is no statutory requirement for the repayment of debt, but given the 'one-pool' nature of the council's treasury management for both the HRA and General Fund, there may be need to revisit this as future borrowing is required.

## The Baseline Summary Outputs

The charts below summarise the forecast:

- Revenue reserves forecast over 30 years
- Capital programme forecast over 30 years
- HRA Debt forecast over 30 years.

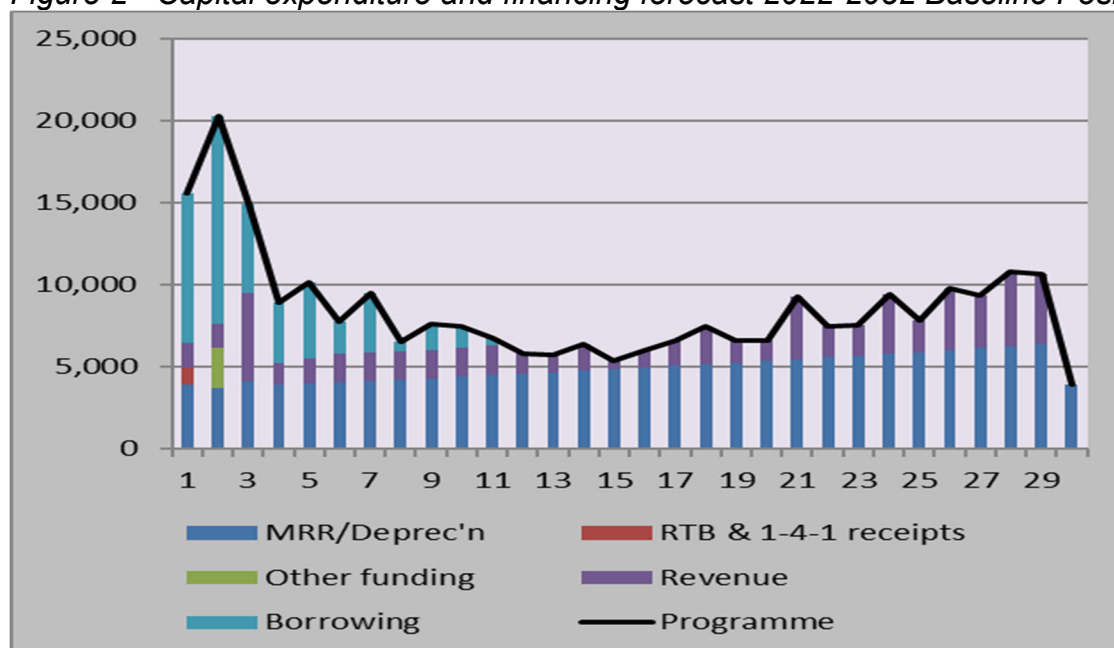
Figure 1 - Revenue Reserves forecast 2022-2052 Baseline Position



The main outputs from the revenue forecast are as follows.

1. There is a call on revenue reserves modelled from year 3 - this is to assist the financing of the stock investment in existing stock, new homes and prior years slippage. Medway does, of course, have the opportunity to borrow rather than utilise reserves. The HRA does not go below the pre-set minimum balance of £0.750million (inflated on an annual basis) in any year of the plan. The overall trajectory of revenue reserves is however upwards towards the end of the 30-year term. Revenue reserves are part-called on to repay loans through the MRP mechanism, but this could be revisited to increase the level of debt repaid thus reducing revenue balances but also the level of debt at the end of the plan.
2. The Major Repairs Reserve is fully utilised in the early years of the plan to assist in the funding of the Codeman in-year works and backlog repairs; thereafter the trajectory (blue line) is upwards suggesting that long-term investment costs are able to be covered more than fully.
3. The overall level of reserves (black line) is positive at the end of term highlighting that the plan generates sufficient revenue to meet all its obligations (but could not fully repay the full value of the HRA debt outstanding if the council so wished).

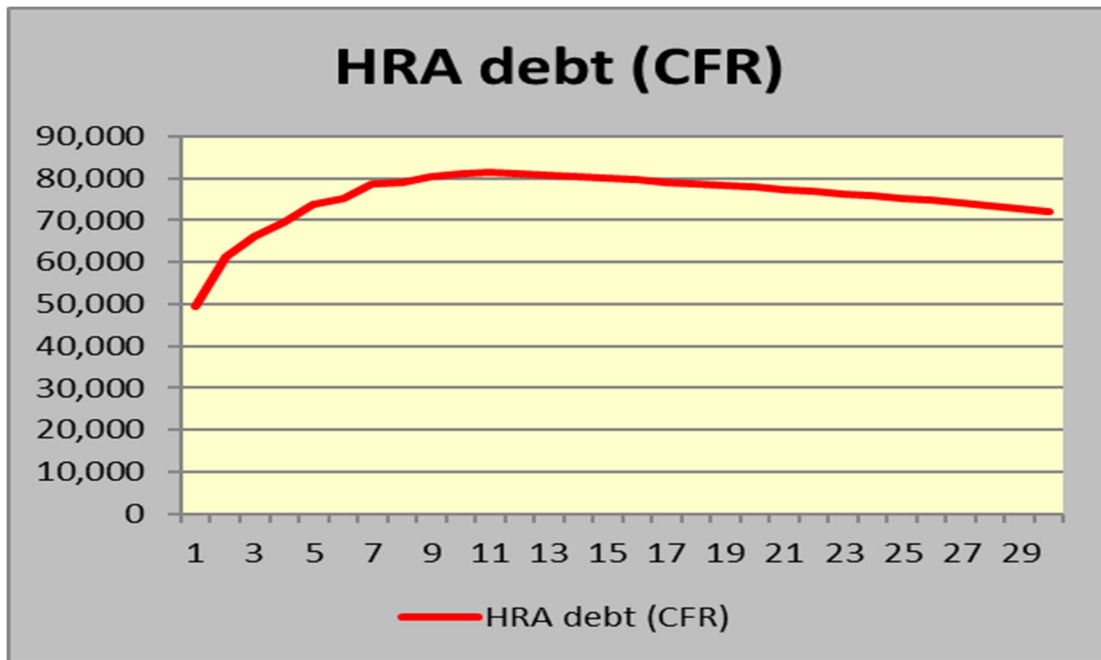
Figure 2 - Capital expenditure and financing forecast 2022-2052 Baseline Position



The capital forecast is fully financed as follows.

1. The total programme over 30 years is £232.4million (at outturn prices - which is £174.3million at today's prices), excluding the £25.4million budgeted for development and acquisition programme (which extends into year 3, 2024/25)
2. Between years 1 and 10 borrowing is required to cover investment in the stock identified in section 7 above and developments phases 4 and 5.
3. Other reserve balances are used to part fund the 2023/24 programme.

Figure 3 - HRA Debt forecast 2022-2052 Baseline Position



In summary, the debt forecast highlights the following.

1. Following a short to medium period in which borrowing is drawn to assist in financing the stock investment programme, loan repayments are scheduled based on the annuity calculations.
2. There are alternative approaches to the repayment of loan balances based on the treasury management position for the council. An alternative plan, such as increasing the annuity payments would affect the level of reserves, debt and funding/investment profile within the plan.
3. However, the plan provides for the repayment of c£13.7million of debt balances, set against borrowing of £45.2million during the term which is in addition to the reduction of c£36million of reserves. Taken together, this presents a relatively positive position in that 22% of debt balances can potentially be covered (or repaid) over the duration of the plan, allowing for the HRA minimum balance requirement.

## Scenarios

### 1. Impact of Growth to the Plan

As with previous reviews we have assessed the impact of additional development within the plan.

The initial modelling results in an additional 128 units delivered from 2026/27 to 2029/30, in addition to the 160 properties within phases 4, 5 and 6 and other properties acquired. Expenditure split 50:50 where appropriate over the prior and year of delivery. The key assumptions are as follows:

Year	Scheme	Properties	Cost
2025/26 – 2029/30	Unidentified Sites	128	£28.8m*

Note \* Inflation excluded

Subsidy by way of 1-4-1 receipts, limited at 10% of development cost.

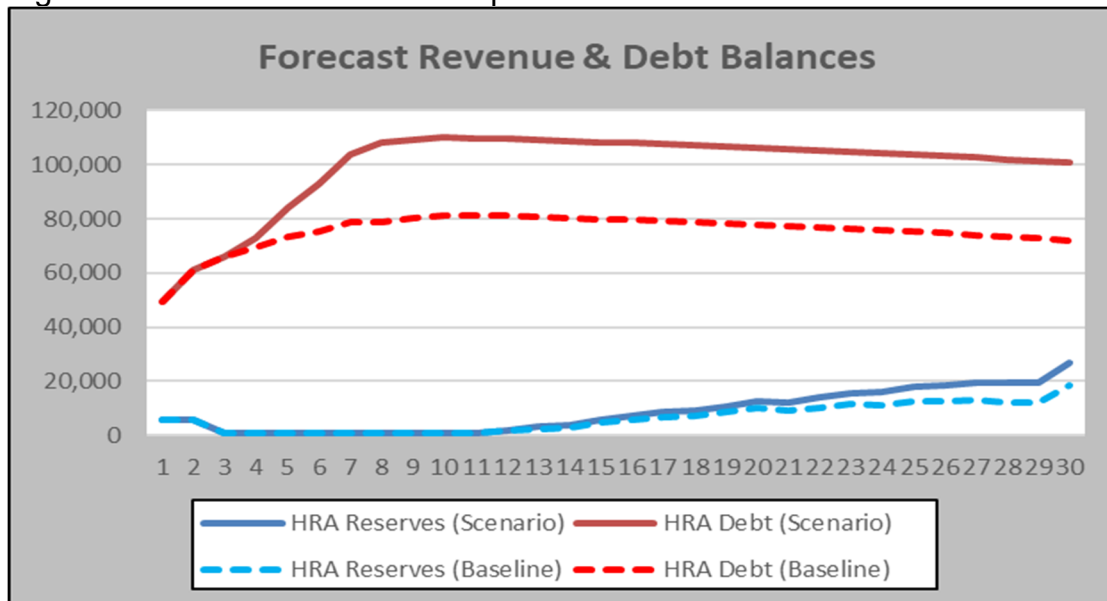
New Borrowing based on an adjusted interest rate of 4.0%

Rents: Based at affordable rent levels

Operational Costs (per unit): Management £0, Repairs £680 and Life-Cycle Costs £1,000 (year 11 onwards)

The impacts is as follows:

Figure 4 : Additional New Build Impact



The introduction of the additional units increase forecast reserve balances to £27.1million (£8.5million) at the expense of an increase of borrowing of £28.5million to £100.7million.

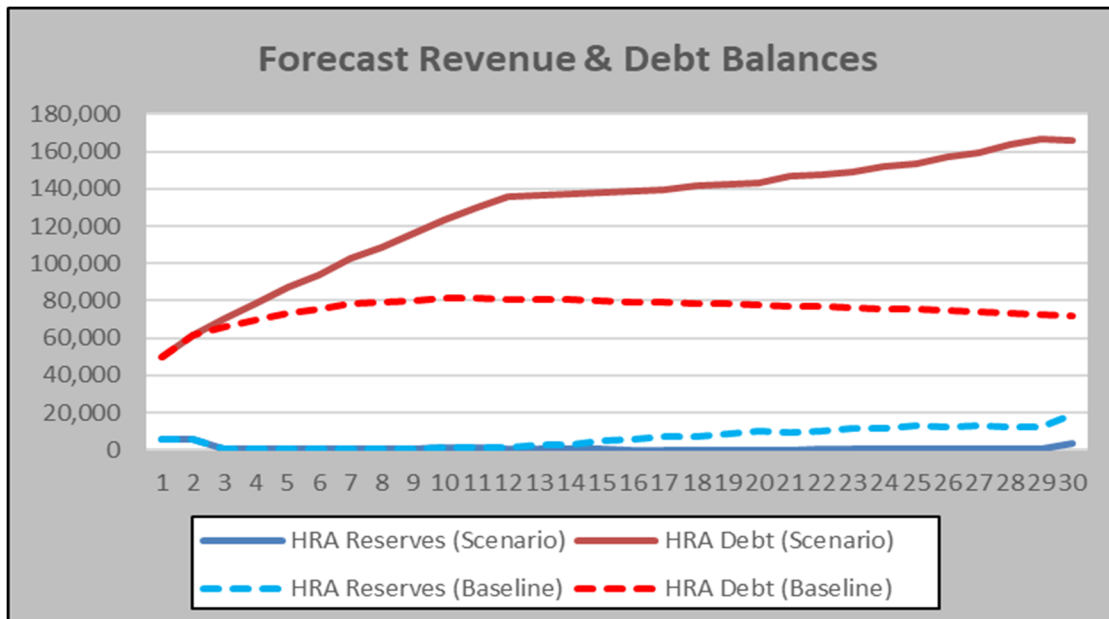
### Impact of De-Carbonising the Stock to the Plan

The recent Social Housing White Paper reiterated the focus on climate change and along with the Council declaring a climate emergency we have modelled the potential impact for improving the energy efficiency of the current stock.

Drawing upon our national modelling for the Local Government Association we have assumed an average cost of £20,000 per property based on a programme spread over a 10-year period commencing 2024/25, less £6,800 due to the existing provision within the baseline model.

We have assumed no form of Government subsidy for these works.

Figure 5 – Additional Zero Carbon



The inclusion of these works has a significant impact to the plan. We have modelled the existing levels of annuity payments made to reduce debt in order to maximise the revenue position. In addition, we have followed the same principles in the stock growth scenario where new borrowing is factored in at 4.0%.

Debt balances increase by £94.2million on account on meeting the costs of zero-carbon but also maintaining the capital programme for existing stock.

Reserve balances fall, but remain in a positive position, albeit below the minimum balance level set.

In order to mitigate this it is possible that some form of subsidy may be made available and that the Council could consider reducing its investment of all priority categories for existing stock as per section 7.

### Capacity Analysis

In previous reviews we have considered the potential for borrowing capacity within the plan.

As a reference we have used the interest cover ratio as a guide to borrowing limits as described below.

#### *Interest Cover Ratio (ICR)*

This is the ratio of operating surplus divided by interest costs, and represents the cover that the HRA has against its interest cost liabilities in any year; the ICR is set to a minimum which provides comfort that if there were a sudden drop in income or increase in operating costs, there would be sufficient headroom to continue to cover debt interest. For housing associations, the usual definition of operating surplus is EBITDA (Earnings before Interest, Tax, Depreciation and Appropriations). The average ICR for the HA sector in 2019/20 was around 1.38; typical lending covenants vary between 1.10 and 1.50 depending on the size and nature of the HA, with 1.25 being a typical expectation.

For the HRA, this is best defined as:

- Turnover (dwelling rents, other rents, service charges, contributions)
- Less
- Operating Costs (general management, special management, other management, repairs & maintenance, major repairs)

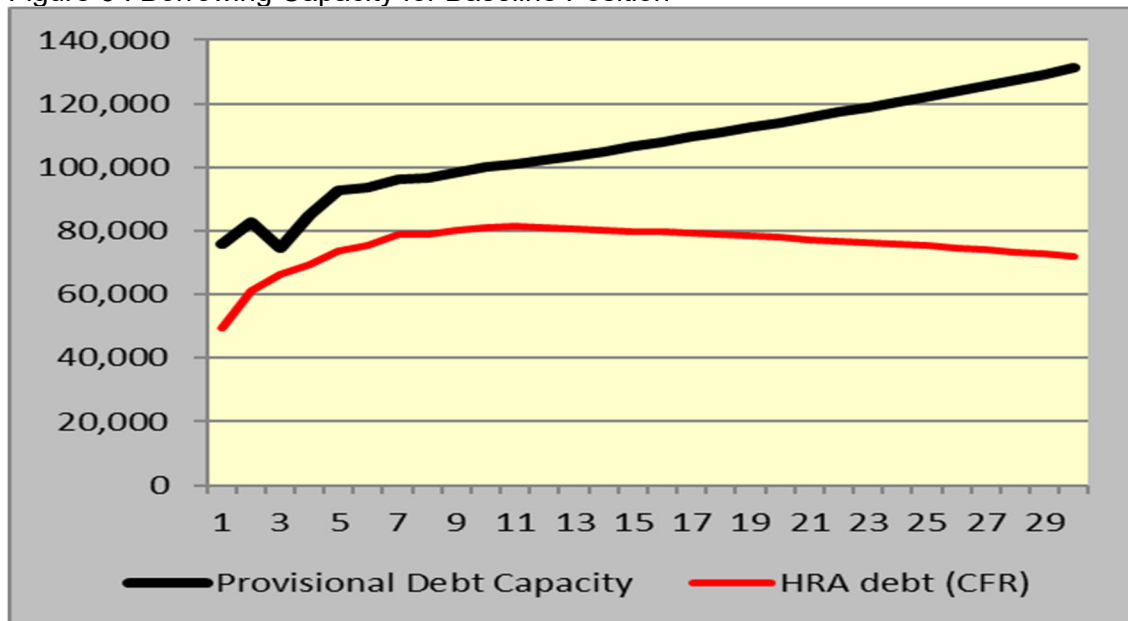
For housing associations, depreciation is not a cash transaction. In the HRA, because of the treatment of depreciation as a cash transfer to the MRR plus or minus an adjustment to reflect actual transfers to MRR, it is essential to include the net amount transferred to MRR in the calculation. This represents the revenue expenditure on major repairs made legitimately as part of operating costs. Notwithstanding that these are subsequently treated as part of the capital programme, they are funded from revenue and property an operating cost. Whilst transfers to the MRR may not be spent in-year, our experience is that the majority of balances carried in the MRR tend to be from expenditure slippage.

The above definition of ICR works in the HRA context as it determines the revenue surplus before interest, appropriations, and other “below the line” adjustments.

We have assumed a “golden rule” in that the ICR does not fall below 1.25.

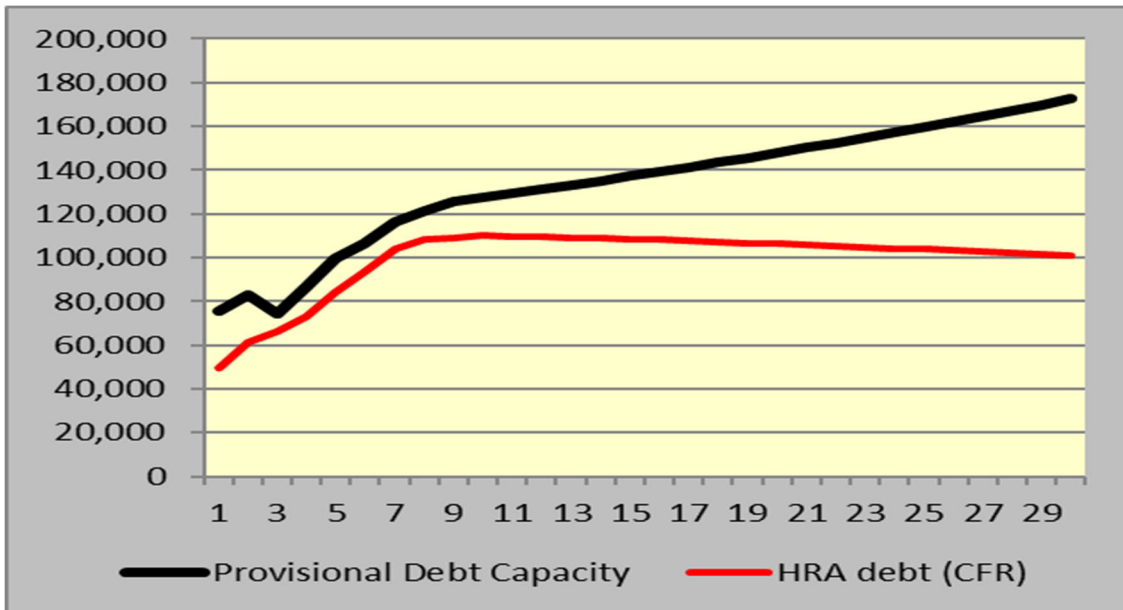
In order to provide context we have demonstrated borrowing capacity for the baseline position and 2 scenarios below.

Figure 6 : Borrowing Capacity for Baseline Position



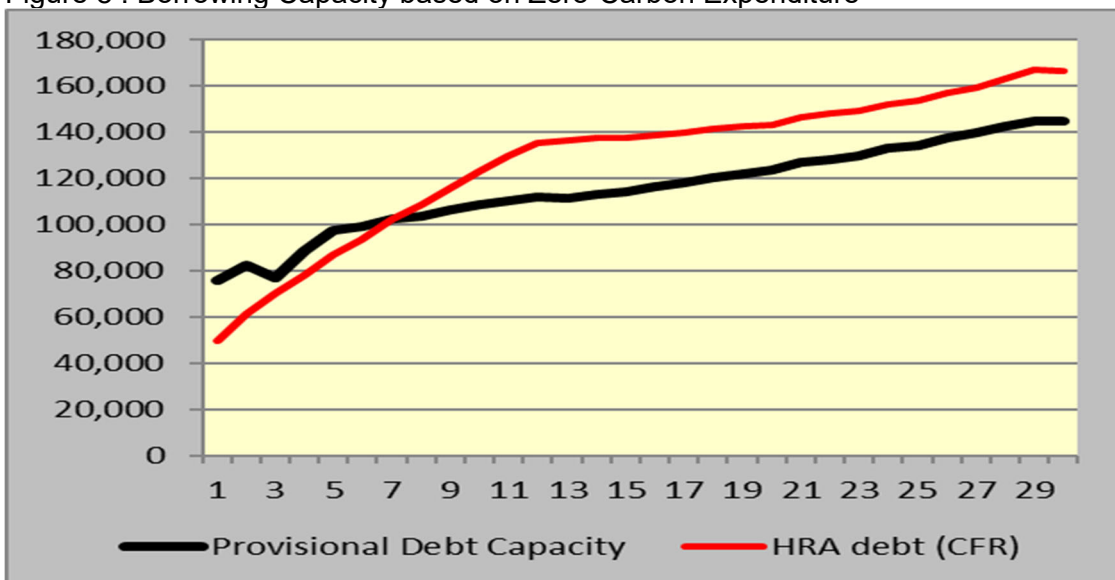
This demonstrates that there is borrowing capacity, the differential between the black and red line. At its minimum, borrowing capacity is estimated at £8.1million in year 3.

Figure 7 : Borrowing Capacity with Additional New Build



Whilst borrowing increases on account of additional development, the new properties generate additional rental income contributing to borrowing capacity. The minimum level of borrowing capacity remains at £8.1million in year 3 but continues to grow at a steady rate beyond the development phase.

Figure 8 : Borrowing Capacity based on Zero-Carbon Expenditure



The increase in costs to meet zero carbon without any form of subsidy of additional income results in the “golden-rule” applied being exceeded beyond year 7.

## **Overall Summary**

This review has demonstrated that a combination of:

- Increased capital expenditure (on account of core energy efficiency works and inflation)
- Above rent increase inflation on management costs(particularly service costs)
- Above rent increase inflation on repair costs
- Higher interest rates for new borrowing

Have resulted in the plan requiring additional borrowing and lower forecast reserves.

Other external factors will play heavily upon on the future of this plan and could result in the need to revisit the plan more often in order to make strategic decisions moving forward.

Simon Smith  
January 2023



## Diversity Impact Assessment

<b>TITLE</b> Name / description of the issue being assessed	HRA Budget Setting 2023/2024
<b>DATE</b> Date the DIA is completed	December 2022
	Katherine Bishop/Aisling Sims – Policy and Partnership Manager (HRA)

**1. Summary description of the proposed change**

- What is the change to policy / service / new project that is being proposed?
- How does it compare with the current situation?

In setting its budget, the Council is exercising a public function and must therefore comply with the duties in section 149 of the Equality Act 2010.

The Budget report for 2023/2024 presents the Housing Revenue Account (HRA) revenue and capital budget for 2023/2024 and details and updates:

- On the proposed rent and service charges levels for 2023/2024;
- The HRA Business Plan which is an integral part of the strategic planning and setting of priorities for the HRA Service.

Only the parts of the report that will have a direct financial impact on existing tenants are included for comment in this DIA. The main budgetary changes that will impact on tenants over the coming year and which the budget report and DIA will consider are:

- The ongoing roll out of Universal Credit in Medway (introduced by The Welfare Reform Act 2013)
- Dwelling rent increase of CPI plus 1% (as directed by the Housing White Paper 'Fixing our Broken Housing Market' 2017)
- Garage rent increase by 5%
- Service Charge increase (internal decision)

**Government implementations and changes to the budget that will directly impact on residents.****Universal Credit (UC) in Medway**

Universal Credit is a single payment for people who are looking for work on a low income and replaces a number of existing welfare payments. Universal Credit is a Government initiative that commenced full roll out in Medway on 30 May 2018. Tenants on Universal Credit who previously had Housing Benefit paid directly to Housing Services are now responsible for managing their Universal Credit payment (that may include a housing element towards their rent) and ensuring their rent is paid in full and on time.

### **Dwelling rent increase**

In October 2017, the Government announced in the Housing White Paper 'Fixing our Broken Housing Market', that social housing landlords are permitted to increase social and affordable rent by Consumer Price Index (CPI) plus 1% each year from April 2020 for a period of 5 years. This makes a return to the rent setting approach which was to apply for 10 year from 2015, before it was replaced with rent reduction from April 2016 for 4 years in 'Welfare Reform and Work Act 2016'.

It is proposed to increase rents by 7% of 2022/23 base rent of current tenants. Medway HRA will have all their social rent dwellings below formula rent. This will leave 100% or 2,984 properties below the formula rent. It is proposed that any new tenancies issued during 2023/24, are set at lower of formula rent or rent cap for social rent dwellings. New tenancies for affordable rent dwellings to be set at lower of 80% of market rent or the LHA rate.

### **Garage rents**

In 2018 it was agreed that garage rents would be aligned in a cascade approach. In April 2020 all garage rents were set at the same level regardless of tenure type.

For the 2023/24 year it is proposed to increase the garage rent by 10% to make a standard rent of £12.57 per week or £653.64 per annum. Non council tenants will also be required to pay VAT at the standard rate

It is estimated that this will generate an additional income of approximately £23,462 based on current letting rates.

### **Service Charges**

Overall the average service charge for 2023/24 will increase by £ 1.17 per week. For those eligible for Housing Related report the service charge will increase by £0.96.

Appendix C details the percentage increase required against each type of projected weekly service charge in comparison to current charges.

Member's preference has been not to increase average service charges by more than 15% in any given year, even if a larger increase is needed to fully recover costs.

However, due to the current increases in gas and electricity prices, it has become necessary that the full cost is recouped to fund the cost of these services to the HRA. There are some service charges that are so small that even a one pence increase will go over this cap.

It is proposed that the full cost of all the service charges is charged to the tenants. To reduce the financial burden on tenants, it is proposed that 50% of

the increase in the cost of gas and electricity is reimbursed to the tenants (tenants that pay gas and electricity service charges) in the form of rebate in 2023/24. This will reduce HRA income from service charges by approximately £140,000.

Some charges for Sheltered Housing are funded through a Housing Related Support fund via a Service Level Agreement (SLA). If this fund were discontinued, the charges would be payable by the tenants. As at December 2023 this would affect 211 tenants with payments totaling £1348.30. There are 98 tenants who receive SP payments for their telecare alarm totaling £845.74.

There will be no new additional service charges implemented in 2023/24 that would affect existing tenants.

## **2. Summary of evidence used to support this assessment**

- Eg: Feedback from consultation, performance information, service user records etc.
- Eg: Comparison of service user profile with Medway Community Profile

### **Consultation**

Tenant consultation on the budget is held annually. A meeting has been arranged to present the budget proposals to customers in January 2023. Due to current restrictions, it is anticipated that this meeting will take place virtually, with information distributed to those who are not able to attend.

In addition, the Housing Act 1985 requires the issue of written notification to each tenant a minimum of four weeks in advance of the date that rent changes become operative. For 2023/24 the latest date for posting the notices is 3 March 2023.

### **Universal Credit (UC) in Medway**

UC has been 'live' in Medway since May 2018, and it currently affects new claimants and existing benefit claimants who have submitted a change in circumstances. Currently the HRA receives approximately 36% of rental income via Housing Benefit. As at September 2022 HB accounts for roughly £ 113,000 of our weekly rental income.

As of October 2022, there were a total of 998 tenants receiving UC (this is an increase of 25% compared to the same time last year) It is well known that nationally the introduction of UC is leading to increased rent arrears and this is likely to continue as more claims move to the system.

### **Dwelling rent increase**

From April 2023 the proposed rental increase will raise the average weekly social rent to £153.31 based on 52 weekly payments. This is an increase of 7% on social rent and 1.8% (due to rent being capped at LHA rate & Nil

increase on properties released in 2022/23) on affordable rent to 2022/23 proposed weekly rent.

The effect of the dwelling rent increase will have most impact on those tenants who are not on full housing benefit. As of 13 Jan 2023 around 20% tenants are on full housing benefit, which is paid directly to the service, with the other 80% receiving either partial or no housing benefit. The proposed average increase is £6.11 per week depending on the type and size of property.

It is estimated that over the next year the rent increase could generate an additional £352,267 of income based on 52 rent weeks, in comparison to the current year and this includes £148,996 from the 18 affordable rent properties.

### Service Charges

All service charges are covered for those in receipt of housing benefit, except for cookers, fridges, heating (non-communal) and water rates (non-communal) charges.

Residents receiving supporting people elements have their charges covered by Housing Related Support funding. If this fund were discontinued, the charges would be payable by the tenants. As at December 2022 this would affect 211 tenants.

### Garage Rents

As of October 2022, there were 576 garages let.

In April 2023, it is proposed to uplift garage rents by 10% to £12.57 per week or £653.64 per annum (£12.57x 52 weeks). Non-council tenants will also pay VAT at the standard rate.

There are a couple of tenants that have more than garage linked to their tenancy so they would be liable for the increase for each garage rented.

### 3. What is the likely impact of the proposed change?

Is it likely to :

- Adversely impact on one or more of the protected characteristic groups?
- Advance equality of opportunity for one or more of the protected characteristic groups?
- Foster good relations between people who share a protected characteristic and those who don't?

Protected characteristic groups (Equality Act 2010)	Adverse impact	Advance equality	Foster good relations
Age	✓		
Disability			
Gender reassignment			

<b>Marriage/civil partnership</b>			
<b>Pregnancy/maternity</b>			
<b>Race</b>			
<b>Religion/belief</b>			
<b>Sex</b>			
<b>Sexual orientation</b>			
<b>Other (e.g. low income groups)</b>	✓		

#### 4. Summary of the likely impacts

- Who will be affected?
- How will they be affected?

#### Universal Credit in Medway

Medway Council is already starting to see the impact of Universal Credit on tenant arrears, largely due to delays in payments. At the end of quarter 2, a total of 998 households on Universal Credit which is 33.96% of all council households. Working age tenants are more likely to be impacted by Universal Credit and in turn more likely to be at risk of rent arrears etc. Resources and support need to be targeted to this age group to ensure they are not adversely affected.

Universal Credit will have to be claimed online. This may mean that some of our residents with barriers to internet access will struggle to make UC claims.

#### Dwelling rent increase

The dwelling rent increase will be applied to all tenants equally and as previously stated this is more likely to affect those who are not on full housing benefit claims.

Currently there are a total of 1594 tenants (around 55%) who receive no housing benefit and are the group who will feel the greatest impact. Additionally, with the gradual move to Universal Credit it is likely there is the potential for this number to increase over the coming year. These households will need to be monitored particularly and preventative actions undertaken to avoid financial hardship.

Rent charges are based on the property type and size, so the dwelling rent increase will also have more impact on larger households (perhaps families with children) who typically will reside in the larger properties.

### **Garage rent increase**

The beginning of the last financial year garage rents were aligned, so that council and non-council tenants were charged the same rent. The 10% uplift proposed for 2023/24 will be applied to all garage tenants equally. Private tenants will be subject to VAT.

### **Service Charges**

Service charges will be applied to all applicable residents regardless of their protected characteristics. Whilst some of the service charges are optional for tenants the majority of charges are for a necessary service that would be charged for regardless of the characteristics of the household or the type of housing provider.

Some charges for Sheltered Housing are funded through a Housing Related Support fund via a Service Level Agreement (SLA). If this fund were discontinued, the charges would be payable by the tenants. As at December 2022 this would affect 211 tenants.

Any tenants identified as having an above average increase will be monitored to ensure these are paid and supported should any financial issues arise.

### **Summary of impacts**

The majority of changes that will be brought into effect in the 2023/24 Budget Report will not impact on our tenants in terms of the protected characteristics. Changes to charges and service delivery will be applied to all relevant tenants, not on an individual basis.

Where dwelling rent charges, service charges and garage rents have been increased there may be some negative impact on lower income groups. The HRA Housing Service will continue to monitor and provide support to those in terms of income and welfare.

Legislation brought in by Government around Universal Credit may have a negative impact on working age residents and lower income households. Whilst these changes are however outside our jurisdiction it will be up to the Council to implement the necessary mitigating actions to reduce this impact.

## **5. What actions can be taken to mitigate likely adverse impacts, improve equality of opportunity or foster good relations?**

- What alternative ways can the Council provide the service?
- Are there alternative providers?
- Can demand for services be managed differently?

The majority of the changes being implemented are Government directed, and out of Medway Councils control. Housing Services will follow

Government process in order to ensure that compliance is met and implement the following mitigating action to ensure that any negative impacts are kept to a minimum.

### **Consultation**

To ensure tenants are informed of the change's tenants will be consulted on any changes to their rents and service charges. A meeting has been scheduled for January 2023 to consult customers on the proposed changes.

Additionally, each tenant will receive a written notification a minimum of four weeks in advance of the date any rent charge adjustments become operative.

### **Universal Credit (UC)**

Where Universal Credit or financial problems impact on our tenants Housing Services will signpost them to the HRA Welfare Reform Team who will provide them with help and advice. This team also sign post tenants to other debt advice agencies. The HRA has a communications strategy via the internet, leaflets, newsletters, social media and tenants handbook for advertising the impact of benefit changes. The HRA Housing Team is a prominent member of the Corporate Welfare Reform Steering Group where partnership working has been developed with the Department of Works and Pensions and work streams agreed around communication, identifying vulnerable customers and development of digital inclusion initiatives.

Where residents struggle to claim UC through barriers to internet access Housing Services will signpost to appropriate training agencies, in addition to signposting to free internet access sites like libraries. Housing Services will also work with providers to get resident help and guidance to get back into employment.

Housing Services can request direct payment of UC for the Housing element if it is identified that the tenant would struggle to pay their rent directly to the Council. This will help prevent vulnerable tenants from getting into rent arrears and face the possibility of eviction.

### **Rent and Service Charges**

Housing Services will need to proactively monitor the rent accounts of those households that will see an increase in their overall rent and/or service charges in 2023/24 and support offered to the tenants where necessary.

The rent arrears policy sets out the process that will be taken by Housing Services should a rent account fall into arrears, and this is available on the internet.

Any household struggling with rent payments or requiring debt advice will be signposted to our Welfare Reform Team. Housing Services also produces publications, such as the tenants' handbook and Christmas rent campaign that promote debt advice helplines. We also have our own website and Facebook page that tenants can access for help and advice.

The service can assist with property moves including mutual exchanges to ensure that residents live in a property that best meets their household's needs and size.

Tenant and Leaseholders who pay services charges will be written to informing them of the exact changes to their contributions.

Leaseholders can apply to Housing Services for a mandatory or discretionary loan to help them manage the payback of their service charges.

### Garage rent increase

Garage rent arrears are monitored on a weekly basis, should a tenant (council or private) fall into arrears then the Housing Management Team will make contact within 1 week. If an account is still in debt after 4 weeks then repossession process will start.

The deposit can be retained if the tenancy is terminated with arrears on the account.

## 6. Action plan

- Actions to mitigate adverse impact, improve equality of opportunity or foster good relations and/or obtain new evidence

Action	Lead	Deadline or review date
Consult tenants on the budget	Policy and Partnership Manager	January 2023
If changes agreed, update the Rent Setting Policy to reflect everything highlighted in HRA Budget Report.	Policy and Partnership Manager	February 2023
Continue to identify, support and prevent financial hardship	Income Manager/Welfare Reform Team	Ongoing
Monitor all arrears associated with Rent, service charges and garages	Housing Manager/Policy and partnership Manager	Ongoing
Monitor the number of households on Universal Credit and the impact on rent arrears	Housing Manager/Policy and partnership Manager	Ongoing

## 7. Recommendation

The recommendation by the lead officer should be stated below. This may be:

- to proceed with the change, implementing the Action Plan if appropriate
- consider alternatives
- gather further evidence

If the recommendation is to proceed with the change and there are no actions that can be taken to mitigate likely adverse impact, it is important to state why.

The recommendation is to proceed with implementing the proposed budget and Action plan and mitigating actions in this DIA.



## **8. Authorisation**

The authorising officer is consenting that:

- the recommendation can be implemented
- sufficient evidence has been obtained and appropriate mitigation is planned
- the Action Plan will be incorporated into the relevant Service Plan and monitored

**Assistant Director**

**Date**

**January 2023**