

# Annex 4

## Housing Revenue Account

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## Annex 4 - Housing Revenue Account (HRA)

### 1 Introduction

1.1 This Annex sets out the detail for both the revenue and capital elements of the HRA.

The HRA is the Council's landlord account, which provides for the management and maintenance of the Council's housing stock. The HRA itself is a client function and always remains under the Council's control, although the management and maintenance of housing stock can be delegated to a managing agent (in the case of NCC, to Nottingham City Homes)

1.2 Legislation requires this account to be ring-fenced within the Council's General Fund and all transactions are similarly ring-fenced. The budget has been set under the HRA self-financing system whereby the HRA is self-sustained from rental income, service charges and certain commercial income from properties held within the HRA.

1.3 The HRA stock at 1 April 2021 was **25,284** (excluding decommissioned properties). The estimated change in stock during 2021/22 is a net reduction of **155** properties resulting from additional stock (**45**) and Right to Buy (RTB) sales (**200**).

1.4 The Council must legally set an HRA budget which is balanced. A working balance is also maintained to deal with emerging pressures and risks. Any year-end balance on the HRA, either positive or negative, has to be carried forward to the following year. This means, for example, that the 2021/22 outturn will impact on the 2022/23 budget through the balance carried forward.

1.5 Nottingham City Homes (NCH) is the appointed managing agent for NCC, responsible for the management and repairs of the housing stock under a refreshed Partnership Agreement with the Council signed in September 2020. Budget managed by NCH are on behalf of NCC. Strategies and policies relating to the HRA are set by NCC. The fees paid by the Council to NCH in relation to HRA properties are a charge on the HRA.

1.6 NCH is able to undertake other work for the Council (e.g. relating to homelessness), but this a charge on the General Fund and costs must not be charged to the HRA. NCH must maintain strict segregation of HRA and non-HRA activities.

1.7 The HRA is under considerable service and financial pressures as a result of national and local policy changes. The following are the key issues affecting the HRA budget in 2022/23:

- Rent and service charges increase of CPI + **1.0%**
- Stock movement reduction resulting from RTB and increase through new build
- Impact of Covid-19 on housing management costs and rental income
- Continued roll out of Universal Credit
- Use of RTB Replacement (1-4-1) Receipts and impact on borrowing levels
- The requirement to adhere to the requirements of the Council's Voluntary Debt Reduction Policy including reduced borrowing debt levels

- Impact of new regulatory requirement including the Fire Safety Act 2021, Building Safety Bill, the Social Housing White Paper and energy efficiency requirements
- Construction industry inflation increases impacting on the costs of repairs and the capital programme
- The recommendations set out in the recently issued S114 notice by the Council's statutory S151 officer were considered at Full Council on 4th January 2022. The recommendations of the Section 151 Officer and the Chartered Institute of Public Finance Accountancy (CIPFA) were set out in the report and accepted in full. These are now being implemented. One immediate ongoing impact is a reduction in the fee payable to NCH of £2.1m per annum, which is of immediate benefit to the HRA
- Phase 2 of this review is currently underway and further changes may be required as a result of this.

- 1.8 Since April 2020 the Council has been able to increase rents by up to CPI + 1.0% in accordance with the relevant Government rules regarding rent setting (Direction of the Rent Standard 2019). This report recommends an increase of the maximum allowed based on the CPI of 3.1% giving a total increase of 4.1%. The budget also takes into account the net reduction in stock.
- 1.9 Based on the experience of other Councils, Universal Credit is likely to result in a significant increase in arrears, however the impact is difficult to model at this time due to the impact of Covid-19. The HRA Working Balance is considered adequate by the Council's Section 151 Officer to cover the likely effect of Universal Credit and other risks.
- 1.10 The Coronavirus pandemic has led to increased management costs by NCH in relation to cleaning and PPE, which were included in the Management Fee in 2021/22 and funded from the Working Balance. The impact of the pandemic is also felt on the rental income of the HRA, through increased rent arrears and void periods, resulting in decreased income, and this risk is managed through the Bad Debt Provision and the Working Balance. The negative financial impacts of the pandemic on NCH are expected to reduce in the future.
- 1.11 In November 2020 the government published its Social Housing White Paper which focuses on the key themes of safe homes, good quality homes and neighbourhoods, greater redress for tenants and publication of sector-wide performance information. This will result in increased regulatory responsibilities and involve a revised Decent Homes Standard, both of which could also have cost implications.
- 1.12 The HRA will need to contribute both to the Government's aim of achieving net zero carbon emissions by 2050, and NCC's aim of being carbon neutral by 2028, both in new build and the retrofit of the current stock by directing appropriate funding to energy efficiency improvements needed to reduce fuel poverty and future proof in terms of regulatory requirements.
- 1.13 The proposed rent increase provides additional income to fund the impact of inflation on costs. However, some sectors are experiencing above average increases, in particular the construction industry rates on both labour and materials will result in cost increases for repairs (revenue costs) and the Public Sector Housing Capital Programme (PSHCP). This is reflected by an increase of above inflation allowed for the Repairs Fee paid to NCH and using latest tendered costs in the PSHCP.

1.14 The financial impact of these changes, where it can be quantified, has been included in proposed budget for 2022/23 and incorporated into the Medium Term Financial Plan (2023/24 to 2025/26).

1.15 The changes affecting the HRA also need to be reflected in the HRA 30 Year Business Plan, which is currently being refreshed, to assess the impact on the continued sustainability and the long term financial plan of the housing service. This work is ongoing but will build upon the work already undertaken in producing a medium term financial plan. This work has been supported by the increase in future rental income by the implementation of the national rent policy, a focus on maximising collection of rents from tenants, reviewing the level of borrowing, re-phasing and reviewing existing capital commitments and maintaining adequate reserves.

1.16 The key headlines in the HRA budget for 2022/23 are as follows:

### **HRA Revenue**

- For the purposes of rent setting, CPI is 3.1%
- An increase in rents of CPI + 1% (**total 4.1%**) for 2022/23
- Funding for a revised Responsible Tenant Reward Scheme of up to **£0.5m** per annum
- A proposed increase of **£2.4m** in the contribution to the Major Repairs Reserve to ensure sufficient funding to meet the costs set out in the stock condition survey
- A general increase in service charges of CPI + 1% (equivalent to 4.1%) noting that as a result of a fundamental review, some charges will remain static or removed. Some charges will also increase at above inflation. The aim remains full cost recovery of all service charges.
- A proposed increase in garage rents of CPI **3.1%**
- An estimated working balance of **£9.3m** to provide for the effects of Covid-19, Universal Credit and early years' deficits of new build

### **HRA Capital**

- The Council is responsible for setting investment priorities as part of its strategic housing role. NCH is the council's delivery arm to achieve this.
- An overall Public Sector Housing Capital Programme of **£230.9m** for the next 5 years of which **£71.0m** relates to 2022/23.
- A provision of **£3.0m** to fund works identified in relation to the Building Safety Bill and Fire Safety Act 2021 has been reallocated from Planned Schemes to the Approved Building Safety Project to enable the specific works be carried out from 2022/23 to 2024/25 as required.
- A new budget of **£0.2m** p.a. in Secure, Warm, Modern to provide for the upkeep of non-dwelling assets.
- An increase to the Lift Replacement Programme of **£0.1m**

- A budget of **£29.9m** is added in 2026/27 for continued maintenance of the housing stock. The budgets are based on stock conditions surveys of the stock, asset management data or allocated amounts for certain budgets (eg major voids works).
- **£20.4m** for 2022/23 has been specifically allocated to regeneration and new build (Building a Better Nottingham)
- **£15.2m** for 2022/23 has been specifically allocated to energy efficiency improvements to reduce carbon emissions

## 2 HRA Forecast Outturn 2021/22

2.1 **Table 1** summarises the HRA budget and forecast outturn for 2021/22.

The key variances for 2021/22 from the budget are as follows:

- Working Balance brought forward from 2020/21 – increased by **£1.6m** from budget
- Income – favourable variance of **£0.3m** due to additional rent
- Expenditure – adverse variance of **£0.6m** due to increased contribution to Major Repairs Reserve by on stock condition survey data; favourable variance due to savings on Retained budgets (**£0.3m**).

<b>Table 1: HRA Forecast Outturn 2021/22 (at Quarter 3)</b>			
<b>Description</b>	<b>Original Budget £m</b>	<b>Estimated Outturn £m</b>	<b>Variance £m</b>
<b>Income</b>			
Rent income	(95.306)	(95.642)	0.336
Service charges & other income	(11.610)	(11.610)	-
<b>Total Income</b>	<b>(106.916)</b>	<b>(107.252)</b>	<b>0.336</b>
<b>Expenditure</b>			
Repairs	26.739	26.739	-
Management (includes Retained)	34.162	33.876	0.286
Capital charges	45.856	46.412	(0.556)
Direct Revenue Financing	0.400	0.400	-
<b>Total Expenditure</b>	<b>107.157</b>	<b>107.427</b>	<b>(0.270)</b>
<b>Deficit / (Surplus)</b>	<b>0.241</b>	<b>0.175</b>	<b>0.066</b>
HRA Working balance B/F	7.870	9.448	1.578
<b>HRA Working Balance C/F</b>	<b>7.629</b>	<b>9.273</b>	<b>1.645</b>

## 3 HRA Budget 2022/23

3.1 The budget for 2022/23 has been refreshed to take account of the permitted increase in rents, increases in service charges, inflation, cost pressures, capital financing costs and changes to assumptions. The budget also reflects changes resulting from the Section 114

Notice in December 2021. **Table 2** below shows the summary of the 2022/23 budget and the movement from 2021/22 original budget.

NOTE	Description	2021/22 Original Budget £m	2022/23 Budget £m	Movement £m
	<b>Income</b>			
3.2	Rent income	(95.306)	(98.879)	3.573
3.3	Service charges & other income	(11.610)	(12.274)	0.664
	<b>Total Income</b>	<b>(106.916)</b>	<b>(111.153)</b>	<b>4.237</b>
	<b>Expenditure</b>			
3.4	Repairs	26.739	27.873	(1.134)
3.5	Management	34.162	32.701	1.461
3.6	Capital Charges	45.856	48.636	(2.780)
3.7	Direct Revenue Financing	0.400	0.600	(0.200)
3.8	Reserves/Contingency	0.000	1.343	(1.343)
	<b>Total Expenditure</b>	<b>107.157</b>	<b>111.153</b>	<b>(3.996)</b>
	<b>Deficit / (Surplus)</b>	<b>0.241</b>	<b>0.000</b>	<b>0.241</b>
	HRA Working balance B/F	9.448	9.272	(0.175)
3.9	<b>HRA Working Balance C/F</b>	<b>9.207</b>	<b>9.272</b>	<b>0.066</b>

These figures include where known the impact of transactions arising from the Section 114 report issued by the Council's Section 151 officer on 15<sup>th</sup> December 2021. Further work is currently underway to validate and confirm the balance to be transferred back from the Council's General Fund. The outcome of the work will be set out in a future report that will need to be considered by Executive Board and will also be subject to a direction from the Department of Levelling Up, Housing and Communities (DLUHC).

### 3.2 Rent Income – increase £3.6m

Rent policy – The Government issued a Direction to the Social Housing Regulator that from April 2020 Local Housing Authorities will fall under its Rent Standard. This replaces the previous regime where the government exercised control of rents using the Limit Rent.

The Government has announced that rents can be increased by up to CPI + 1% annually from 2020/2021 for five years.

Applying the proposed rent increase and taking account of the estimated reduction in stock will increase rental income by **£3.6m** per annum. The reduction of council housing stock is due to council housing sales (mainly from Right to Buy) and off-set by addition of new build properties into stock. RTB numbers are assumed to be **250** p.a.; if actual numbers are higher than estimated the rental income achieved will be reduced. Stock numbers are monitored proactively to identify if rental levels are adversely affected and to ensure the HRA stays in balance.

For comparison only, the estimated limit rent for 2022/23 based on an increase of CPI + 1% would be **£80.40** per week (over 52 weeks). The proposed average rent for social rent of **£78.40** gives headroom of **£2.00** per week (24,471 properties; 97% of stock). The Council also charges Affordable Rents on some newly built / acquired properties, where the rent is 80% of market rent. There is an average affordable rent of **£110.43** per week (737 properties; 3% of stock). These rents exclude service charges.

<b>Description</b>	<b>£m</b>
Rent income – 4.1% increase	(3.601)
Rent income - updated stock assumptions since 2021/22 budget	0.028
<b>Rent income (net)</b>	<b>(3.573)</b>

### Bad debt provision

Universal Credit (UC) was rolled out in Nottingham in October 2018 for all new claimants or those with a change in circumstance. UC is not automatically paid to the landlord and also paid in arrears which leads to increased levels of rent arrears. Evidence from the roll out so far has shown average tenants arrears are up to 50% greater for tenants on UC compared to the overall average arrears. Over 30% of tenants are now in receipt of UC and this will continue to grow and impact on the 2022/23 budget and beyond. The contribution to the Bad Debt Provision was increased to **£2.2m** in 2020/21 and the level of contribution will be kept at this higher level to reflect the increased risk of write offs occurring. The level of provision will be kept under review to ensure it is sufficient.

### **3.3 Service charges & other income – increase £0.7m**

Service charges must reflect the costs incurred in delivering the service and guidance recommends an increase no greater than CPI + 1% (but this is not a statutory requirement as with rents).

In late 2021 an independent review of service charges was undertaken and the service charges proposed to be levied in 2022/23 include the impact of recommendations from the review.

In implementing the recommendations charges to tenants will better reflect the current costs of delivering them. In line with the recommendations, it is envisaged that full cost recovery will be achieved within the 4 year period of the MTFP. An incremental approach towards achieving this is reflected in the service charge modelling for future years. Charges which include energy costs are proposed to increase to cover the predicted increase in energy prices. **Appendix A** gives details of the changes in service charges.

Garage rents not included as part of the rent of a dwelling will be increased by **3.1%** (CPI September 2021).

### **3.4 Repairs – increase £1.1m**

Housing repairs are managed by NCH on behalf of NCC in accordance with NCC policies. It is proposed that the housing repairs budget be increased to **£27.9m** as shown in **Table 4**. The increase is a consequence of applying reduction in the stock, inflation and the cost of maintenance of new fire safety equipment in high-rise blocks (e.g. sprinklers).

<b>Table 4: Repairs Fee 2022/23</b>	
<b>Description</b>	<b>£m</b>
Repairs Fee 2021/22	26.739
Reduction due to stock movement	(0.063)
Inflation at 4.1%	1.094
Pressure: fire safety equipment maintenance	0.103
<b>Total Repairs Fee for 2022/23</b>	<b>27.873</b>

### 3.5 Management – decrease £1.5m

The housing management function is managed by NCH on behalf of NCC in accordance with NCC policies to a budget set by NCC. Management costs include services covered by the Management Fee paid to NCH, charges made to the HRA by the General Fund in relation to public realm/CCTV, the Tenant Reward Scheme and budgets within the Council for retained teams and other costs, these are summarised in **Table 5a** and further details given below.

Some changes have been made to Management costs to reflect the following:

- Adjustments to the NCH Management Fee (including those directly relating to the S114 notice) that result in a reduction of **£1.3m**
- Proposal to grow and strengthen the retained client function within the Council and to ensure that an appropriate level of resource is maintained including strategic oversight, performance management and finance (**£0.400m**)
- A proposal to create an Income Maximisation Officer post to ensure that income from solar panels and other sources is maximised (**£0.040m**)
- One-off investment (**£0.607m**) to bring empty properties back into use. This funding will be paid to NCH upon delivery of the works.
- An increase in furnished tenancy costs (**£0.142m**)
- A reduced tenant reward scheme capped at **£0.5m**

<b>Table 5a: Management costs 2022/23</b>			
<b>Description</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>Movement £m</b>
NCH Management Fee	22.852	21.553	(1.299)
Retained Housing services	4.731	5.939	1.208
General Fund charges – Public Realm & CCTV	4.580	4.709	0.130
Tenant Reward Scheme	2.000	0.500	(1.500)
<b>Total Management Fee for 2022/23</b>	<b>34.162</b>	<b>32.701</b>	<b>(1.461)</b>



### NCH Management Fee – decrease £1.3m

It is proposed that the Management Fee paid to NCH will decrease by **£1.3m** to **£21.6m**, as shown in Table 5b. This comprises of reduction due to the declining volume of stock (**£0.3m**), increase for inflation (**£1.1m**), removal of budgets no longer required by NCH (and to reflect the findings of the CIPFA review) (**-£2.9m**), increase for permanent cost pressures (**+£0.7m**) and temporary cost pressures in 2022/23 only (**+£0.2m**). It should be noted that the inflationary uplift reflects a 30% uplift for energy costs.

<b>Description</b>	<b>£m</b>	<b>£m</b>
Management Fee 2021/22		22.852
Reduction due to stock movement		(0.294)
<b>Management Fee – base for 2022/23</b>		<b>22.558</b>
Inflation		
• Pay 2021/22	0.379	
• Pay 2022/23	0.434	
• Utilities / energy	0.264	1.077
Removal of budgets not needed by NCH		
• Rebate	(2.550)	
• Accommodation	(0.244)	(2.794)
Pressures – permanent		
• Employer National Insurance Increase	0.423	
• Disrepair & Damp Manager	0.043	
• Internal Audit	0.056	
• Fire Safety Inspections	0.040	0.562
<b>Ongoing budget</b>		<b>21.403</b>
Pressures – temporary		
• Disrepair cases and legal costs		0.150
<b>Total Management Fee for 2022/23</b>		<b>21.553</b>

### Retained Housing – increase £1.2m

HRA budgets which are managed by the Council are set in line with General Fund assumptions, i.e. pay award (3.75%), with non-pay costs contained within existing resources. One-off investment (**£0.607m**) to bring empty properties back into use has also been included. This funding will be paid to NCH upon delivery of the works.

**HRA Landlord & Client Function** – in light of the recent review into the use of HRA resources NCC's Chief Executive and Corporate Director for Growth and City Development have recommended enhancing the Council's capacity as landlord and client role to NCH. A budget of **£0.400m** has been added to Retained Housing for 2022/23, whilst the details of the team's remit and structure are developed. The creation of the new team will be subject to a separate report and approval.

**Furnished tenancies** – in 2017 the Council introduced the option of furnished tenancies, with a budget approved via a Delegated Decision (D2847) for the purchase of furniture. Tenants pay a service charge, which is used to recover the cost of the furniture, loss, damage and early termination of tenancies. This income is included in the budget for service

charge income. The estimated cost of furniture purchase has been budgeted to increase from £0.384m to £0.525m based on current trends.

The budget in 2021/22 was subject to the provision of an updated business case from NCH to confirm the furnished tenancy scheme is both viable for the Council and complies with rules around service charges. Assumptions have been updated and are subject to submission of a business case and further approval.

**General Fund Charges – Public Realm & CCTV - increase £0.1m**

It is proposed that these recharges for services provided by the Council are increased from £4.6m to £4.7m to fund inflation.

**Responsible Tenant Reward scheme £0.5m**

The scheme rewards tenants who pay rent on time, behave responsibly and show respect to their neighbours and NCH staff. The cost of the scheme in 2021/22 was **£1.9m** with successful tenants receiving **£100** each. Due to the design of the scheme it has frequently been overspent. Following a value for money review it is proposed that a new scheme be developed that continues to reward and recognises good tenant behaviour but within a revised capped budget of **£0.5m**. This approach ensures that the budget is controllable and reduces the risk of overspend. It is envisaged that the funding available for the scheme will reduce over time and this will be subject to future reviews. Until these reviews have been completed, no further budget changes have been assumed.

**3.6 Capital charges – increase of £2.8m**

The introduction of self-financing of the HRA requires the HRA to generate sufficient resources to finance the capital investment to maintain the existing housing stock and tenant priorities.

<b>Table 6: Capital Financing Costs</b>			
<b>Description</b>	<b>Original Budget 2021/22 £m</b>	<b>Budget 2022/23 £m</b>	<b>Movement £m</b>
Contribution to Major Repairs Reserve (depreciation)	29.554	31.968	2.414
Debt charges	16.302	16.668	0.366
<b>Total</b>	<b>45.856</b>	<b>48.636</b>	<b>2.780</b>

Contribution to Major Repairs Reserve (MRR) The sum that accumulates in the Major Repairs Reserve is based on the depreciation charge and is only available for investment in major repairs of the stock and cannot be used to support the overall rent level. The value of the contribution to the provision in 2022/23 budget is **£32.0m**. Based on stock condition

data a further **£0.9m** will need to be added to this budget in 2023/24 to ensure that an appropriate level of funding is available to meet the anticipated future costs.

### Debt charges

The HRA continues to benefit from historically low interest rates, with the estimated average rate to be applied in 2022/23 being **4.35%**, although interest rates are now on the rise. The increase in debt charges is due to the Prudential Borrowing taken out to fund new build and property acquisitions in the Building a Better Nottingham division of the Public Sector Housing Capital Programme. The budget of **£16.7m** includes the estimated interest and principal repayments, assuming schemes progress as planned. Over the life of the MTFP the long term average interest rates of between **3.5%** and **4.5%** are expected to be valid for the HRA 30 Year Business Plan.

The HRA, like the General Fund is subject to the Council's voluntary policy to freeze debt levels and has to rely on internally generated funds and capital receipts to fund spending.

### **3.7 Direct Revenue Financing – increase of £0.2m**

Due to the need to fund certain schemes in the capital programme direct revenue financing is included at **£0.6m** in 2022/23. Together with the contributions to the MRR, this increases the resources available in the HRA to finance capital investment.

### **3.8 Reserves/Contingency – increase of £1.4m**

The HRA is the primary source of funding for delivering capital works to the Council's housing stock (e.g. windows, doors, roofs) via the annual contribution to the Major Repairs Reserve. The contributions to the Reserve are calculated based on stock condition surveys which cover the cost of replacing existing elements on a like for like basis and not for improvements/meeting new standards.

There will be increased costs from complying with new legislation including the Fire Safety Act 2021, Building Safety Bill and the Social Housing White Paper (e.g. revised Decent Homes Standard).

The largest challenge facing the HRA is the need to improve the energy efficiency of homes (over 5,000 homes that are un-insulated) whilst contributing to carbon neutral requirements (e.g. replacement of c 19,000 gas boilers). Whilst neither of these are yet subject to regulatory requirements, legislation is anticipated. The cost of the required investment is thought to be in the region of £500m in the next ten years if all properties are brought up to the energy efficiency standard EPC C and are converted to heating that is carbon neutral. Whilst some of this cost may already be funded from the Major Repairs Reserve there will be costs over and above the reserve.

A review of the HRA budget was commissioned by the Council and the work is still underway following the issue of a Section 114 notice. The recommendations from the initial findings have been reflected in adjustments to the NCH management fee. Until Phase 2 of the work has concluded, there is a risk that other issues may be identified which could have an impact on the ongoing budget. Furthermore, NCC's General Fund cannot make payment back to the HRA until a direction is received from DLUHC.

The reserves/contingency budget reflects the significant capital costs that are anticipated in future years and also helps to manage the significant risks inherent within the HRA budget.

### 3.9 HRA Working Balance

Under HRA self-financing the Council has taken on new risks arising from the HRA being dependent upon rental income to sustain future investment in the housing stock. The working balance acts as a contingency to cover unexpected significant expenditure or unplanned major additional expenditure.

The Working Balance has been built up to manage the additional risks of Universal Credit, early year deficits resulting from the new build programme and the impact of the Covid-19 pandemic. The Working Balance is estimated to be **£9.3m** at 31/3/2022 and it will be maintained at least this value at 31/3/2023.

## 4 HRA Medium Term Financial Plan (MTFP) 2022/23 to 2025/26

4.1 The HRA MTFP 4 year projections have been updated to reflect the above changes. **Table 7** shows the HRA MTFP for 2022/23 to 2025/26. The future years' projections are based on information currently available but subject to ongoing review. The projections incorporate the following assumptions:

- Net rental income has been assumed to increase within the parameters set by the new rent regime (CPI **2.0%** + **1.0%** p.a. for 2023 and CPI **1.0%** + **1.0%** p.a. from 2024 to 2025). Net rental income reflect the net stock changes resulting from sales and new build
- General inflation is only allowed for where appropriate. Inflation at **2.0%** has been assumed for the Management Fee and Repairs budgets for 2023/24 onwards; the fees have been adjusted for projected stock movements
- Financing costs take account of the existing and projected borrowing required
- The contribution to the Major Repairs Reserve charges are based on asset life spans and replacement costs data provided by NCH
- A continuation of funding for the Responsible Tenants Reward Scheme at **£0.5m** pending further reviews to reduce the cost in future years.
- Working balance remains at least **£9.3m** as a safeguard during the rollout of Universal Credit, the impact of Covid-19, and to fund the early years deficits resulting from investment in new council housing
- The one -off budget for empty properties (**0.607m**) be transferred from the retained budget from 2023/24 and added to the reserves/contingency budget. The level of reserves/contingency required in future years will be subject to annual updates.

<b>Table 7: HRA – Medium Term Financial Plan (MTFP)</b>				
<b>Description</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>
Rental Income	(101.092)	(102.651)	(104.045)	(105.543)
Provision for Bad Debts	2.213	2.213	2.213	2.213
Service charges	(9.552)	(9.745)	(9.943)	(10.144)
Other rents (inc garage)	(2.469)	(2.469)	(2.469)	(2.469)
Other income including interest	(0.253)	(0.253)	(0.253)	(0.253)
<b>Total Income</b>	<b>(111.153)</b>	<b>(112.905)</b>	<b>(114.496)</b>	<b>(116.195)</b>
Repairs to Dwellings	27.873	28.256	28.706	29.016
NCH Management Fee	21.553	22.131	22.484	22.727
Tenant Reward Scheme	0.500	0.500	0.500	0.500
Public Realm	3.208	3.252	3.304	3.340
CCTV	1.501	1.522	1.546	1.563
Retained Housing	5.939	5.357	5.382	5.408
Depreciation (to Major Repairs)	31.968	33.000	34.000	35.000
Debt Charges	18.668	16.564	16.035	15.889
Direct Revenue Financing	0.600	0.600	0.600	0.600
Reserves / Contingency	1.343	1.723	1.939	2.153
<b>Total Expenditure</b>	<b>111.153</b>	<b>112.905</b>	<b>114.496</b>	<b>116.195</b>
<b>Deficit / (Surplus)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
Add Working Balance B/F	9.273	9.273	9.273	9.273
<b>WORKING BALANCE C/F</b>	<b>10.615</b>	<b>9.273</b>	<b>9.273</b>	<b>9.273</b>

## 5 Public Sector Housing Capital Programme

- 5.1 HRA capital expenditure is financed from a variety of resources generated from Major Repairs Reserve or other revenue, grants, capital receipts or prudential borrowing. All borrowing must comply with the Prudential Code, the Council's Capital Strategy and the Voluntary Debt Reduction Policy.
- 5.2 The impact of an annual 1% reduction to rents from 2016 until 2019, resulted in a revised Asset Management Plan (AMP) to ensure that the HRA 30 Year Business Plan continued to be sustainable. The HRA 30 Year Business Plan needs to be refreshed in the coming months to take into account new legislation on building safety and energy efficiency and ensure it remains viable whilst meeting the Council's statutory obligations and aspirations to provide new homes. As more information becomes available on these requirements, the business plan will need to be updated on an ongoing basis to ensure affordability.

### 5.3 The Programme

The Public Sector Housing Capital Programme sets out the five year investment in the housing stock. Management of the stock was transferred to NCH under a management agreement but the Council retains ownership. The allocation of these funds to individual schemes is agreed between the Council and NCH. **Table 7** shows the level of investment to 2026/27 against the existing capital programme approved to 2025/26.

<b>Programme Movement</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>Total £m</b>
Existing programme	52.855	78.839	52.217	34.497	29.512	0.000	<b>247.920</b>
New/amended schemes	(8.805)	(7.836)	2.047	10.145	1.586	29.882	<b>27.019</b>
<b>Total Programme</b>	<b>44.050</b>	<b>71.003</b>	<b>54.264</b>	<b>44.642</b>	<b>31.099</b>	<b>29.882</b>	<b>274.940</b>
<b>Funding</b>							
Prudential Borrowing	(8.003)	(12.115)	(7.404)	(6.923)	0.000	0.000	<b>(34.445)</b>
Grants & Contributions	(2.726)	(8.158)	(0.191)	(0.150)	0.000	0.000	<b>(11.225)</b>
Major Repairs Reserve	(27.816)	(40.885)	(37.563)	(33.061)	(31.064)	(29.847)	<b>(200.236)</b>
Revenue Resources	0.000	0.000	0.000	0.000	0.000	0.000	<b>0.000</b>
Capital Receipts – HRA	(0.294)	(1.670)	(2.503)	(0.703)	(0.035)	(0.035)	<b>(5.240)</b>
RTB (1-4-1) replacement capital receipts	(5.211)	(8.175)	(6.603)	(3.805)	0.000	0.000	<b>(23.794)</b>
<b>Total Funding</b>	<b>(44.050)</b>	<b>(71.003)</b>	<b>(54.264)</b>	<b>(44.642)</b>	<b>(31.099)</b>	<b>(29.882)</b>	<b>(274.940)</b>

5.4 The detailed programme is shown in **Annex 3 – Capital Programme (Appendix D)** and is based on existing approved commitments, new projects and amendments to existing schemes. **Annex 3 – Capital Programme (Appendix D)** sets out those new/amended schemes recommended for inclusion within the programme. Some schemes/programmes are delegated to NCH to award contracts up to the approved value of the scheme/programme.

5.5 Schemes within the programme that are not delegated to NCH, including Building a Better Nottingham, energy efficiency improvements and other improvements (included those listed under Planned Schemes), will require further approval within the Council at the appropriate level for their value. Each scheme will require development of a business case to demonstrate outputs, impacts on revenue costs and affordability.

5.6 The Public Sector Housing Capital Programme supports the housing objectives within the Strategic Council Plan 2021-23 and the emerging themes in the city's housing strategy 2022-2025, which is currently being developed.

5.7 The programme takes account of the NCH AMP (refreshed to 2026/27), known commitments from schemes in progress, health and safety issues (including the Fire Safety Act 2021 and the Building Safety Bill) and other service investment needs. The AMP has been reviewed and works have been profiled to match resource availability. For a summary of resources identified to support the programme see **Table 7** above.

5.8 The summary HRA capital programme for 2022/23 is shown in **Table 8**.

<b>Table 9: 2022/23 Summary Capital Programme</b>	
<b>Description</b>	<b>£m</b>
Maintaining the Nottingham Decent Homes Standard	23.058
Additional tenant priorities:	
- City wide energy efficiency	15.193
- Additional improvements	9.480
Building a Better Nottingham	20.434
Planned (not approved)	2.835
<b>Total</b>	<b>71.003</b>

## 5.9 Amendments to the Programme

Additions are shown in **Annex 3 – Capital Programme (Appendix A)**; these are mainly including one further year i.e. 2026/27 based on the Asset Management Plan. Specific changes needing approval are listed below.

Additional net budget of **£29.9m** has been added to the programme which includes budgets for 2026/27 for continued maintenance of the housing stock. The budgets are based on stock conditions surveys of the stock and asset management data or where part of the Asset Management Plan's annual managed budget (e.g. roofs and chimneys, major voids works). The 2026/27 budget consists of: Safe (**£1.1m**), Secure, Warm, Modern (**£20.0m**), Decent Neighbourhoods (**£4.1m**), Existing Stock Investment (**£2.6m**) and Adaptations (**£2.1m**), Sanctuary project (**£0.04m**).

5.10 In addition to this, there are some changes required to increase other years of the programme that reflect new information or revised demand, which are detailed below:

- A new Building Safety Compliance Policy was agreed in 2019 between NCH & NCC, to ensure all of the Council homes meet all current standards. The policy is reviewed on an ongoing basis to ensure compliance with new or changing regulation. Ongoing surveys will inform how the upcoming changes resulting from the Social Housing white paper, the Building Safety Bill and the Fire Safety Act 2021 will affect the Council's homes, especially the high-rise. It is recommended that a budget of **£1.0m** p.a. is moved from Planned to Approved schemes in years 2022/23, 2023/24 and 2024/25 of the PSHCP for building safety works identified by the ongoing surveys. This is to enable urgent works to be completed without any delay that could put our residents at risk.
- A recommended increase to the lift replacement programme budget of **£0.1m** due works required that had not been included when the budget was originally set.
- A recommended additional budget for non-dwelling assets of **£1.0m (£0.2m p.a.)** to provide for works to HRA land and buildings including shops, retaining walls / structures etc. This will supplement the existing annual revenue budget of £0.1m used to pay for minor repairs to HRA land. The use and adequacy of the budget will be kept under review by NCC and NCH officers.
- Three new planned schemes have been proposed by NCH: Solar PV panel bird protection, creation of scooter stores, and provision of CCTV at a sheltered living

scheme. These schemes have been included in the PSHCP as Planned Schemes. Each of proposals will require NCH to submit a business case, including project objectives, accurate costs and details of funding for review and Council approval to proceed.

### **5.11 Maintaining the Nottingham Decent Homes Standard**

Nottingham City Council, through its delivery agent NCH, has achieved the Decent Homes standard in the council's housing stock. The Council is committed to maintaining decency and have developed a programme which invests **£110.0m** over 5 years to deliver the Nottingham Standard for decent homes.

### **5.12 Energy Efficiency and Tackling Fuel Poverty**

Over the 5 years of the programme **£20.4m**, is being invested in energy efficiency measures to reduce energy costs and improve living standards for tenants. New and on-going schemes, confirmed to date will benefit around **293** council homes through the roll out of the innovative deep retro-fit solutions including "Energiesprong" to around **134** hard to treat homes (ie those where conventional external wall insulation is unsuitable) and Destination Zero (i.e. achieving zero net carbon emissions) to **164** homes. These investments will be supported by grants from ERDF (DREeM), BEIS (Whole House Retrofit and the Social Housing Decarbonisation Fund Demonstrator wave). The current cost of the deep retrofit solutions are only affordable with Government subsidy and the roll out of such solutions to the remainder of the stock will be dependent on continued grant subsidy or equivalent cost decreases. All investment decisions require a full business case including cash flow forecast to demonstrate that they are affordable in the context of the 30 year business plan and the Major Repairs Reserve is maintained at an adequate level.

### **5.13 Building a Better Nottingham**

The HRA's Public Sector Housing Capital Programme includes **£48.5m** for additional council housing, which supports the aim of the renewed Strategic Council Plan 2021-23 of increasing the number of social, affordable homes and homes for the homeless.

The overall programme needs to be affordable and sustainable, with the early year deficits from schemes being funded from schemes with better financial profiles and through the Working Balance.

5.14 The new build programme is partially funded by use of Replacement ("1-4-1") Right to Buy capital receipts (see para 5.22 and Table 10) with the balance financed from prudential borrowing. Due to the Council's Voluntary Debt Reduction Policy, additional new build schemes can only be approved if the borrowing requirement is not increased. This could be achieved by new resources such as identifying additional capital receipts to pay down debt.

### **5.15 HRA Capital Receipts**

As part of the self-financing introduced in 2012, Councils were able to borrow under the Prudential Borrowing rules for investment in their housing stock. Whilst for the General Fund, any such debt must have a compulsory set aside to towards the repayment of principal, within the HRA it is voluntary.



- 5.16 It is Council policy that RTB receipts available will be retained to voluntarily set aside against HRA debt. This keeps the level of capital charges below **12.5%** of the HRA turnover to ensure sustainability.
- 5.17 Due to the increase in new build housing and acquisitions to contribute to the Council Plan, the ratio is projected to increase. This results from the delay between borrowing taken out and rental income being generated. As schemes are delivered the ratios should reduce, provided they are delivered in budget. Due to the scale of the programme this ratio will be monitored to ensure these higher levels of debt remain viable.
- 5.18 Any other capital receipts, i.e. from disposals other than RTB, may be used to finance capital expenditure in accordance with capital finance and accounting regulations. Previously approved Council policy on the allocation of capital receipts will require these sums to be used for the Public Sector Housing Capital Programme.
- 5.19 From 1 April 2012, DLUHC introduced changes to the treatment of capital receipts arising from RTB sales as part of a 'reinvigoration' of the scheme.

Where RTB sales exceed the sales predicted prior to the government's reinvigoration of RTB, the Council may keep an additional proportion of the receipt (known as the "1-4-1" receipt) to spend on replacement homes for those sold under the RTB. Funding must be spent on creating additional social housing (either new build or purchase of properties) and the Council must contribute at least 60% of the cost and spend within 5 years of receipt (new relaxed rules from April 2021). These "1-4-1" receipts will be used to support the new build programme within the HRA.

- 5.20 The amount required to fund approved schemes in the capital programme is **£23.8m** of 1-4-1 receipts. The Council currently has **£17.7m** of 1-4-1 receipts available to spend, and a requirement to secure a further **£6.1m**. The level of RTB sales is difficult to predict, but based on historic levels it is possible that this level will be reached. The projected receipts will need to be monitored and alternative funding put in place if they are not realised. Receipts unspent within five years must be returned with interest to DLUHC for re-allocation, so it is important for the Council to monitor receipts and plan for their use.

## **5.21 HRA Prudential Borrowing**

The Council borrows to fund additional social housing stock either through new build or acquisitions. Until October 2018 the amount of borrowing was limited to the HRA debt cap, which was a specific maximum amount of borrowing that a Council was permitted. This was abolished by the government to allow councils to increase house building. Although there is no longer a limit on borrowing, because all council house building is partly funded from Prudential Borrowing, all schemes still need to comply with the principals of the Prudential Code, including the "Treasury Management Strategy 2022/23" submitted for approval to the Executive Board in February 2022. All debt must be affordable and sustainable within the rental income of the HRA over the 30 year business plan while being compliant with the Council's Voluntary Debt Reduction Policy.

5.22 The revised Capital Strategy and Debt Reduction Policy ensures that all projects are accounted for in the allocation of available resources over a medium term planning horizon and that no additional borrowing is being taken.

As a reference the headroom to the Debt Cap is shown in **Table 12** below, this being the gap between the previously permitted and projected level of debt. The planned repayment is the principal associated with the HRA share of annuity loans, thereby reducing the Capital Financing Requirement (CFR) in year:-

<b>Table 10: HRA Debt Position</b>	
<b>Description</b>	<b>£m</b>
HRA CFR at 1 April 2021	298.047
Add: borrowing proposed to be taken out 2021/22	8.003
Less: debt planned to be repaid in year	(5.283)
<b>HRA CFR at 1 April 2022</b>	<b>300.767</b>
<b>Debt cap</b>	<b>319.784</b>
<b>Estimated headroom at 1 April 2022</b>	<b>19.017</b>

5.23 The MTFP assumes the use of borrowing over the life of the plan to support investment in replacement social housing – see **Table 13** for impact on the debt cap. Currently the business plan is in balance such that any additional borrowing would need to generate sufficient revenue resources to fund the repayment of the borrowing and interest.

<b>Table 11: HRA Debt Position - Projected</b>	
<b>Description</b>	<b>£m</b>
HRA CFR at 1 April 2022	300.767
Add: borrowing taken out over 5 year investment plan	26.442
Less: debt planned to be repaid over 5 years	29.528
<b>HRA CFR at 1 April 2027</b>	<b>297.681</b>
<b>Debt cap</b>	<b>319.784</b>
<b>Estimated headroom at 1 April 2027</b>	<b>22.103</b>

## Appendix A – Service Charges Changes 2022/23

### Service charges

Following an independent review of service charges the Council is implementing the recommendations made, including moving to a full cost recovery model. This results in some charges being reduced, removed or kept the same and others increasing. Increases will be made in a phased manner where appropriate (e.g. for energy costs). The general increase applied to remaining charges (marked \*) is **4.1%** (CPI September 2021 + 1%).

**Table 1** lists the range of services provided to specific groups of tenants.

<b>Table 1: Weekly Service Charge (over 50 weeks)</b>			
<b>Service</b>	<b>Current 2021/22 £</b>	<b>Proposed 2022/23 £</b>	<b>Increase / Decrease £</b>
Block Maintenance	3.28	4.56	1.28
Caretaking	6.39	6.86	0.47
Cleaning Service	3.76	4.89	1.13
Communal lighting	0.67	1.91	1.24
Communal TV Aerial Maintenance	1.13	0.11	(1.02)
Driveway (additional)	6.00	6.25	0.25
Estate Maintenance	3.80	4.41	0.61
Homewatch	0.65	0.00	(0.65)
Security (CCTV) *	5.94	6.18	0.24

There are a variety of furnished tenancy service charges and these will not be increased for 2022/23.

### Independent Living Charges

Tenants in Independent Living schemes pay additional charges for services that are necessary to assist tenants in retaining their independence

In schemes where tenants are charged for block maintenance, this has been separated into two components – Independent Living Scheme Maintenance and Grander Designs. The Grander Designs service charge pays for the upgrading and future maintenance of the communal areas of Independent Living schemes.

It is proposed that the total Independent Living service charges are increased as in **Table 2** below.

**Table 2: Independent Living Charges (over 50 weeks)**

<b>Charge</b>	<b>Current 2021/22 £</b>	<b>Proposed 2022/23 £</b>	<b>Increase £</b>
Independent Living *	3.44	3.58	0.14
Intensive Housing Management (IHM)	11.62	12.81	1.19
Independent Living Facilities Management charge (no IHM)	3.62	4.48	0.86
Emergency / Care Alarm *	2.79	2.90	0.11
"I'm OK" system (eligible) *	5.55	5.78	0.23
"I'm OK" system (ineligible) *	1.52	1.58	0.06
Scooter storage *	1.15	1.20	0.05
Laundry facilities	1.51	1.51	0.00
ILS Scheme (Block) Maintenance	1.37	1.68	0.31
ILS Scheme (Estate) Maintenance	1.37	1.67	0.30
ILS Grander Designs *	1.27	1.32	0.05

### Scheme Charges

A number of schemes have specific charges and following the review it is recommended they are amended as set out in **Table 3**.

<b>Table 3: Scheme Specific Charges (over 50 weeks)</b>			
<b>Type</b>	<b>Current 2021/22 £</b>	<b>Proposed 2022/23 £</b>	<b>Change £</b>
<b>Foxton Gardens: Service Charges</b>			
One bed	33.55	27.95	(5.60)
Two bed	35.32	27.95	(7.37)
<b>Foxton Gardens: Water</b>			
One bed (*)	3.35	3.49	0.14
Two bed (*)	4.65	4.84	0.19
<b>Foxton Gardens: Heating</b>			
One bed	16.32	16.13	(0.19)
Two bed	22.14	20.97	(1.17)
<b>Winwood: Extra Care Charge (*)</b>	33.02	34.37	1.35
<b>Communal Heating</b>	4.13	4.94	0.81
<b>Sutton House: Heating</b>	7.66	10.01	2.35