# Annex 8

## Housing Revenue Account

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# Annex 8 - Housing Revenue Account (HRA)

## 1 Introduction

1.1 This paper sets out the detail for both the revenue and capital elements of the HRA budget for 2023/24 and the strategic outline for the following years.

1.2 The HRA is the Council's landlord account, which provides for the management and maintenance of the Council's housing stock. Legislation requires this account and all the transactions within it to be ring-fenced separately within the Council's General Fund. 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 For the past 17 years, the operational management and maintenance of the housing stock has been delegated to a managing agent, Nottingham City Homes (NCH). This is designated as an Arm's Length Management Organisation (ALMO). In April 2022 the Council decided to bring the operational activities in respect of the housing stock back in-house from April 1st 2023. All the budgetary allocations detailed below from 2023/24 onwards will therefore be managed directly by Nottingham City Council (NCC). NCH staff will move to NCC and a major focus of activity for the NCC management team during 2023/24 and beyond will be the integration of NCH staff and services into the structure of the Council.

1.4 The proposed budget for **2023/24** incorporates the return to in-house provision of the HRA services which have previously been provided by Nottingham City Homes. The recommended level of rent increase for the year is **7%**. This is significantly below the standard inflation-linked level of increase, which would have been **11.1%**. A Hardship Fund will also be established, to provide support to tenants facing financial difficulties.

### Purpose

1.5 The purpose of this Annex is to:
- Set out the proposed HRA budget for **2023/24**.
- Recommend approval of a **7%** rent increase, supported by the establishment of a Hardship Fund for 1 year and to be reviewed annually.
- Recommend that Service Charges be increased by a base amount of **7%**, while continuing to work towards achieving full cost recovery.
- Provide details of all Growth and Service Pressures contained within the proposed budget.
- Recommend approval of an Increase in the level of contribution to the Major Repairs Reserve to maintain the balance at the level required to support the PSH Capital Programme.

### Background

1.6 The HRA stock at 1 April 2022 was **25,082** properties (excluding those decommissioned). The estimated change in stock during 2022/23 is a net reduction of **326** properties resulting from additional stock of **44** and Right to Buy (RtB) sales of **350**. A further net **20** properties will be decommissioned.

1.7 The Council is legally required to set an HRA budget which is balanced. A working balance, or general reserve, must also be 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.

1.8 As noted above, in previous years NCH has been responsible for the management and repairs of the housing stock belonging to NCC, guided by the strategies and polices that are set by the Council. These duties will be undertaken directly in-house by NCC with effect from 1st April 2023.

1.9 NCH has also managed General Fund Housing activities on behalf of the Council, including homelessness services. These will also come back to NCC and will remain a charge on the General Fund and not be paid for by the HRA. In accordance with the ring-fencing requirements, the strict segregation of both the income and the expenditure of HRA and non-HRA activities will be maintained.

1.10 There are a number of challenges facing the HRA over next few years resulting from national and local policy initiatives. The following is a list of key issues and decisions informing the HRA budget in 2023/24:

- Rents and Service Charges are recommended to increase by 7.0%, reflecting the Government's recommendation, following a wide consultation exercise with the outcomes announced by DLUHC in November 2022.
- For comparison, the annual CPI rate for September 2022, announced on 16th December, was 10.1%. Under the Government's standard rent policy, this would have produced a maximum increase in rents of 11.1% (i.e. CPI + 1%). (See also paragraphs 4.9 – 4.13 below.)
- Stock numbers are continuing to fall as a result of Right to Buy (RtB) activity. This trend has not yet been completely offset through the new build development programme. The current building programme itself tails off in 2025/26 and falls to zero the following year.
- This, in turn, has implications for the use of conditionally retained ('1-4-1') RtB replacement receipts, which have to be returned to DLUHC, along with associated interest charges, if they are not applied to fund the building or purchase of new stock..
- The Council has a voluntary debt reduction policy which includes the aim of reducing debt from borrowing. There is a moratorium on an increase in borrowing at present.
- The impact of new regulatory requirements including the Fire Safety Act 2021, Building Safety Bill, the Social Housing White Paper and energy efficiency requirements are reflected in these budgets.
- Construction industry price increases are greater than average inflation due in part to shortages of skilled labour. This impacts on the costs of repairs and the capital programme
- The implementation of the recommendations of the CIPFA report has placed greater scrutiny on General Fund recharges to the HRA and resulted in some reductions to

these charges. Correcting previous years' overcharging has also added to the HRA General Reserve.

- This budget also reflects the extension of that process. General Fund recharges to the HRA are in the process of being updated. To be accepted as a charge to the HRA these now need to be backed by comprehensive supporting evidence, demonstrating that the charges meet relevant criteria in terms of the service provided and the basis of calculation. This again further strengthens the integrity of the HRA ring fence.

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 to future proof in terms of regulatory requirements.

1.13 Many sectors of the economy are experiencing exceptionally high inflationary increases, most notably energy and material costs. The expenditure lines within the budget have been set to best reflect predicted inflation rates as accurately as possible. The proposed rent increase will only partially compensate for these.

1.14 The financial impact of these factors has been estimated and included in the proposed budget for 2023/24 and incorporated into the Medium Term Financial Plan (MTFP) for 2023/24 to 2027/28.

1.15 These factors affecting the budget will also be reflected in the HRA 30 Year Business Plan. This involves a continuing cyclical process of updating plans that aid the strategic management of the HRA and ensure its long term financial viability. The process involves ongoing analysis of the level of borrowing and phasing of loans, as well as reviewing existing capital commitments and maintaining adequate reserves.

**Proposed Rent and Service Charge Increases 2023/24**

1.16 In response to concerns about the cost of living crisis, DLUHC undertook a wide consultation with social housing providers from 31st August 2022 onwards to determine a recommended increase in Council rents. Three possible recommendations were floated. An increase cap of 3%, 5% or 7% for 2023/24. The consultation has resulted in the Government proposing a **7%** rise for 2023/24. This represents a change from the previous policy of increasing rents by up to CPI **+ 1.0%** which would have resulted in a rent rise of 11.1% for 2023/24. This proposal is therefore well short of general inflation levels. This Annex recommends an increase of the maximum allowed of **7%**.

1.17 This recommendation is supported by the following factors:

- In addition to the Government, the 7% increase cap is supported by specialist organisations in the sector, including The Chartered Institute of Housing and The National Housing Federation.
- Even at 7%, the proposed rent cap is well below inflation and it is vital to conserve and support repairs and services expenditure as much as possible to maintain the accommodation and the living conditions of our tenants. Therefore, a 7% cap is needed to sustain the quality of the stock.
- Any increase below 7% would not only affect 2023/24 but the following years as well, because it is unlikely that allowance will be made for a lower level of increase to be recouped in future years. This will have an ongoing effect on the ability of the Council to fulfil its responsibilities for repairs and maintenance as well as capital renewal.
- This also comes at a time of increasing public scrutiny of the maintenance and quality of social housing following high profile cases in the national press.
- The great majority of tenants in Nottingham will have their rent increase met by either Universal Credit or Housing Benefit. Benefits are rising in line with inflation, which is above the rate at which rents are rising. Those getting state support account for 70% of our tenants.
- It is proposed to establish a Tenant Hardship Fund to provide support for tenants getting into difficulties with rental payments. It is likely that most of these will come from the 30% of tenants who do not receive benefits. This mirrors a number of other organisations setting up hardship funds to help their tenants through the present difficulties. This fund will help to ease potential difficulties that tenants may have and will complement the impact of The Tenant Reward Scheme.
- NCC social rents are the lowest in the city and surrounding areas. This remains the case even with a **7%** increase.

1.18 The additional income to the HRA produced by an increase of **7%** is **£6.6m**, comprised as follows:

- rents for council dwellings £5.9m,
- service charges £0.5m, and
- other rents £0.2m.

1.19 Arrears have risen in 2022/23. This is likely to be the result of a mixture of recent economic factors. They will include rising inflation, coupled with recession, the roll out of universal credit and the legacy of a downturn in economic activity from the Covid-19 pandemic. Government forecasts are for recession to continue into 2023/24. It is therefore prudent to budget for an increase in bad debts to manage the likely effects of a continued rise in rent arrears.

1.20 Service charges have been increased in a similar manner to rents, the majority at **7%** to maintain consistency. In some cases the costs of the service are in excess of the charge. In these cases charges have been increased above **7%** to reflect this, typically **10%**. In a few instances, where heating charges are determined by the cost of fuel, they have risen by 30%. This is in line with the recommendations of the independent review of NCC service charges that took place in late 2021.

1.21 Garage rents have also been increased by **7%** for 2023/24.

### HRA General Balance

1.22 The Council is legally required to set an HRA budget which is balanced. In accordance with the Council's Reserves Policy, a general reserve, to deal with emerging pressures and risks, must also be maintained at a minimum level of between **2%** and **3%** of the gross HRA spend (capital and revenue), the precise level within this range being informed by risk assessment with no opening working balance ever being set below the **2%** threshold in an individual year. The proposed gross capital spend for **£83.7m** and that for revenue is **£117.9m**, producing a minimum balance of between **£4m and £6m**. The current and projected balances are significantly higher than this.

1.23 At 1 April 2022, the HRA working balance stood at **£45.5m**. This included **£36.1m** restored to the HRA from the General Fund, in line with the outcomes of the CIPFA and Penn reports. Any year-end surplus or deficit on the HRA has to be carried forward to the following year. After allowing for the currently forecast year-end surplus, which includes a further transfer of **£4.6m** from the General Fund, the balance is expected to be **£55.0m** by 31 March 2023. However, as noted above, there is a requirement to set a revenue budget which is balanced and affordable without the need to use reserves to support overall ongoing expenditure. Options for the use of the funds that have now been restored to the HRA in delivering major investment, to the benefit of tenants, will be incorporated into the revised 30-year Business Plan which is current being developed. One element of this is also included in the 2023/24 budget, in the proposed increase in the level of support to the capital programme (see paragraph 3.7 below).

### Key Headlines – HRA Revenue Budget 2023/24

1.24 The key headlines in the HRA budget for 2023/24 are as follows:

### HRA Revenue

- Rents are recommended to increase by **7%,** in line with DLUHC's recommendation.
- Expenditure budgets have risen by the appropriate level of inflation for each resource type.
- The funding for the responsible tenant reward scheme of **£0.5m** will be maintained and it is recommended that a new tenant hardship scheme also of **£0.5m** be introduced, to support tenants who may, in the current economic climate, find themselves facing difficulties in meeting the increased level of rent.
- A proposed increase in the contribution to the Major Repairs Reserve to bring the total annual allocation to **£35.01m**. This will provide sufficient funding to meet the costs of the 2023/24 HRA capital budget, which in turn reflects the expenditure requirements set out in the stock condition survey and also the need to maintain a minimum balance of £10m on the reserve.
- An increase of **£6.9m** in the revenue contribution to capital expenditure is recommended, with the rise being funded by the use of reserves.
- Service charges are recommended to be increased by at least **7%,** reflecting the rent increase. Where charges do not cover costs, they have been increased by 10% so that they make progress towards the correct charge. In a few instances, where heating charges are determined by the cost of fuel, they have risen by 30%. This is an example of the recommendations of the service charges review being

implemented and further progress is expected to be made across a range of the proposals in **2024/25.**

- It is proposed that rent for garages be raised at **7%** in line with accommodation.
- Working balances currently stand at **£45.5m**, reflecting the reimbursement of funds to the HRA from the General Fund, following the implementation of the recommendations of the CIPFA review and associated work.

**HRA Capital**

1.25 The key points are:

- The Council is responsible for setting investment priorities as part of its strategic housing role. NCH has to date been the council's delivery arm to achieve this. The role of implementation of capital expenditure plans will now pass to NCC internally as NCH staff and services merge into the Council structure.
- An overall Public Sector Housing Capital Programme of **£248.9m** has been set for the next 5 years of which **£83.7m** relates to 2023/24.
- Within the Meeting the Nottingham Decent Homes Standard programme, **£4.0m** of funding has been allocated to safety works in 2023/24 with a further **£8.4m** identified to date across the rest of the 5 year Capital Investment Plan.
- Within the Secure, Warm, Modern section of the above programme **£18.9m** has been allocated in 2023/24 for the replacement of a range of components within the housing stock, including windows, doors, chimneys and heating. A further **£94.3m** allocation has been identified for the following four financial years.

  These allocations are based on the outcomes of stock conditions surveys and asset management data.
- The Build a Better Nottingham (BABN) new build programme has been allocated **£22.7m** for 2023/24. The focus here is on the continuation of a range of regeneration schemes already begun.
- Energy efficiency schemes targeted at tackling fuel poverty and reducing carbon emissions remain a priority. The budget for 2023/24 is **£13.0m**.
- **£12m** has been set aside for acquisitions.
- These allocations are set out in Table **14** which can be found in the Section 5 below.

## 2 HRA Forecast Outturn 2022/23

**2.1** **Table 1** below summarises the HRA budget and forecast outturn for 2022/23 at **Period 9**.

The key variances for 2022/23 from the budget are as follows:

- Income is forecast to be **£0.6m** higher than budgeted. This is the result of reducing the increase to the bad debt provision to reflect updated expectations of the likely debt levels. This is partly offset by lower than budgeted income from PV solar panel rentals.
- Expenditure is predicted to show an underspend of **£4.5m**.
- **£2.3m** of this is the result of charges by the General Fund to the HRA being disallowed following the findings of the CIPFA Review.
- Staff budgets within the Regeneration and Partnership teams are underspending by **£0.6m** and a further **£0.5m** will be recharged to the General Fund for staff who are not working on HRA related projects.
- A contingency budget of **£1.3m,** created to offset any potential shortfall in a range of energy initiatives, will not be required and so will remain unspent.
- The remaining major variances constitute a net overspend of **£0.2m** and include the cost of the transition team for bringing operational activities back in-house, as well as greater than expected Discretionary Housing Payment income, together with an underspend against revenue expenditure ancillary to the Capital Programme.

2.2 In addition to these items

- The amount of revenue contribution to capital expenditure has been increased by **£0.3m** to **£.09m**, with the additional commitment being financed from the HRA General Reserve.
- Following further work on level of General Fund Recharges historically made to the HRA and the identification of additional amounts overcharged, an application is to be made to the Secretary of State for a direction to transfer a further £4.617m from the General Fund to the HRA.

Together with the operating surplus of **£5.2m**, these produce a forecast net increase in the HRA General Balance of **£9.5m**.

| **Table 1a: HRA Forecast Outturn 2022/23 At Period 9** | | | |
|---|---|---|---|
| **Description** | **Original Budget £m** | **Estimated Outturn £m** | **Variance £m** |
| **Income** | | | |
| Rent Income | (98.879) | (99.521) | (0.642) |
| Service Charges & Other Income | (12.273) | (12.273) | 0.000 |
| **Total Income** | **(111.152)** | **(111.794)** | **(0.642)** |
| **Expenditure** | | | |
| Repairs | 27.873 | 27.873 | 0.000 |
| Management (Includes Retained) | 34.043 | 29.511 | (4.532) |
| Capital Charges | 48.636 | 48.636 | 0.000 |
| Direct Revenue Financing | 0.600 | 0.897 | 0.297 |
| **Total Expenditure** | **111.152** | **106.917** | **(4.235)** |
| **(Surplus)/Deficit** | **0.000** | **(4.877)** | **(4.877)** |
| Financing From Reserves | 0.000 | (0.297) | (0.297) |
| **(Surplus)/Deficit After Financing From Reserves** | **0.000** | **(5.174)** | **(5.174)** |

| Table 1b: Movement in HRA Working Balance 2022/23 | | | |
|---|---|---|---|
| **Description** | **Original Budget £m** | **Estimated Outturn £m** | **Variance £m** |
| **Balance Brought Forward (before receipt of Item 9 Direction)** | **(9.449)** | | |
| Item 9 Credit: Transfer from General Fund (1) | (36.051) | | |
| **Balance Brought Forward (after receipt of Item 9 Direction)** | **(45.500)** | **(45.500)** | **0.000** |
| (Surplus)/Deficit as above | 0.000 | (5.174) | (5.174) |
| Amounts applied during year | 0.000 | 0.297 | 0.297 |
| Item 9 Credit: Transfer from General Fund (2) | 0.000 | (4.617) | (4.617) |
| **HRA Working Balance Carried Forward** | **(45.500)** | **(54.994)** | **(9.494)** |

The initial working balance at 1 April 2022 was **£9.4m**, but this was before the implementation of the ministerial direction for the repayment of funds from the General, in line with the outcomes of the CIPFA review. Following this, the opening balance was increased by **£36.1m**, to **£45.5m**. With the addition of the forecast underspend for the year, together with the forecast use of reserves and the amount to be subject to an application for a further ministerial direction, this is projected to rise to **£55.0m** by 31 March 2023.

## 3 HRA Budget 2023/24

3.1 The budget for 2023/24 includes: -

- inflationary increases in rents and service charges,
- estimates of likely inflation for expenditure,
- growth needs and cost pressures,
- changes resulting from the CIPFA and Penn reviews,
- recommended growth and savings proposals,
- recommended increase in the level of revenue contribution to capital,
- allowance for the level of contribution needed to support the planned capital programme, and
- capital financing costs.

**Table 2** below shows the summary of the 2023/24 draft budget and the movement from the allocations rolled over from 2022/23.

The key adjustments built into the 2023/24 budget are listed below and are discussed in greater detail in the paragraphs that follow: -

- The NCH ALMO budgets have been brought back in house and merged with those of the Council. The primary effect of this is to:-
    - Remove the repairs and management fee budgets.
    - Replace them with a range of detailed budget heads covering the activities that formerly took place within the ALMO.
- Pay and non-pay inflation have been estimated and included, based on the most recent statistics.
- Growth requirements and cost pressures have been identified.
- Savings proposals have been identified.
- General Fund recharges to the HRA that were scrutinised in the CIPFA review and deemed to be inappropriate have been disallowed.
- The remaining GF recharges to the HRA have been recalculated and evidenced prior to being accepted.

| Note | Table 2a - HRA Budget 2023/24 - 7% Rent Increase | | | | | |
|---|---|---|---|---|---|---|
| Note | Description | 2022/23 Original Budget NCC £m | 2022/23 Original Budget NCH £m | 2022/23 Original Budget Combined £m | 2023/24 Budget £m | Total Movement £m |
| | **Income** | | | | | |
| 3.2 | Rental Income | (100.942) | 0.000 | (100.942) | (106.924) | (5.982) |
| | Voids | 2.063 | 0.000 | 2.063 | 2.183 | 0.120 |
| 3.3 | Service Charges & Other Income | (12.273) | 0.000 | (12.273) | (13.140) | (0.867) |
| | **Total Income** | **(111.153)** | **0.000** | **(111.153)** | **(117.882)** | **(6.729)** |
| | **Expenditure** | | | | | |
| 3.4 | Repairs | 28.480 | (2.341) | 26.139 | 30.136 | 3.997 |
| 3.5 | Management | 32.094 | 1.000 | 33.095 | 34.144 | 1.050 |
| 3.6 | Capital Charges | 48.636 | 0.000 | 48.636 | 52.502 | 3.865 |
| 3.7 | Direct Revenue Financing | 0.600 | 0.000 | 0.600 | 7.518 | 6.918 |
| 3.8 | Contingency | 1.342 | 0.000 | 1.342 | 0.500 | (0.842) |
| | **Total Expenditure** | **111.153** | **(1.340)** | **109.812** | **124.800** | **14.988** |
| | **(Surplus)/Deficit** | **0.000** | **(1.340)** | **(1.340)** | **6.918** | **8.258** |
| | Financing From Reserves | 0.000 | 0.000 | 0.000 | (6.918) | (6.918) |
| | **(Surplus)/Deficit after financing from Reserves** | **0.000** | **(1.340)** | **(1.340)** | **(0.000)** | **1.340** |

| | Table 2b: Movement in HRA Working Balance | | | |
|---|---|---|---|---|
| | Description | 2022/23 Original Budget Combined £m | 2022/23 Estimated Outturn £m | 2023/24 Budget £m |
| | **Balance Brought Forward (before receipt of Item 9 Direction)** | **(9.449)** | | |
| | Item 9 Credit: Transfer from General Fund (1) | (36.051) | | |
| | **Balance Brought Forward (after receipt of Item 9 Direction)** | **(45.500)** | **(45.500)** | **(54.994)** |
| | Forecast Operating (Surplus)/Deficit | | (5.174) | 0.000 |
| | Amounts applied during year | | 0.297 | 6.918 |
| | Item 9 Credit: Transfer from General Fund (2) | | (4.617) | 0.000 |
| | | | | |
| 3.9 | **HRA Working Balance Carried Forward** | **(45.500)** | **(54.994)** | **(48.076)** |

## 3.2 Rent Income from council dwellings – increase £5.9m

Following consultation, the Government has announced that rents can be increased by up to **7%** for the 2023/24 financial year.

This replaces, for one year only, the previous rent policy that was in place from April 2020, where the annual rent increase was CPI plus 1%. This change for 2023/24 is in response to the larger than expected inflation rate and consequent pressure on cost of living, especially as it affects those on low incomes.

The previous policy would have resulted in a rent increase of 11.1%.

The proposed 7% rent rise will increase income from dwellings by **£5.9m**. This figure is estimated net of stock reductions, mostly due to Right to Buy sales, and increases to stock from new developments and acquisitions.

RtB sales are assumed to be **250** p.a. Changes from assumed stock levels will affect rental income, as will void levels.

Rental income is closely monitored throughout the financial year, as it is the main source of revenue funding for the HRA and any adverse movements can limit the efficiency and effectiveness of the housing service.

For comparison with 2022/23, the proposed average social rent for 2023/24 is **£83.82** per week. This was **£78.34** in 2022/23. Social rent accounts for 24,237 properties, which is 97% of total stock. Average affordable rent for 2023/24 is **£115.95** per week compared with **£108.37** in 2022/23. There are 831 of these properties, which is 3% of stock. Typically, affordable rent is charged at 80% of market rates and applies to rental property that has been developed with the help of grants from Homes England.

The figures shown above are based on 52 weekly payments per annum. In practice, our tenants actually pay a slightly increased weekly amount over just 50 weeks, with two weeks 'rent-free', to arrive at the same total annual rent.

Please note that all rents exclude service charges.

| **Table 3: Movement of Rental Income 2023/24** | |
|---|---|
| **Description** | **£m** |
| 7% increase in weekly rent | (6.922) |
| Adjustments to Stock | 1.060 |
| **Rental Income** | **(5.862)** |

Bad Debt Provision

In previous years, a range of macro-economic factors provided evidence that tenants could face increasing difficulties maintaining rental payments, and that arrears and subsequently levels of bad debt would rise. These issues included the roll out of Universal Credit and the COVID 19 pandemic and may be exacerbated by current cost of living pressures. Over these years, an annual provision of **£2.2m** has been made for an increase in estimated bad debts. In practice, the full provision has ultimately not been required over recent years, given the continued economic circumstances, it is considered prudent to retain the full provision of **£2.2m** for 2023/24.

To complement this provision, a hardship fund of **£0.5m** has been created to help tenants who get into difficulties with their rental payments. This is intended to support all tenants who experience hardship and may be particularly helpful to the 30% of our tenants who receive no benefits.

### 3.3 Service Charges & Other Income – Increase £0.7m

Service charges have been increased in a similar manner to rents, the majority at 7% to maintain consistency. In some cases the costs of the service are in excess of the charge. In these cases charges have been increased above 7% to reflect this, typically 10%.

In a few instances, where heating charges are determined by the cost of fuel, they have risen by 30%.

This mirrors the recommendations of the independent review of NCC service charges that took place in late 2021.

In 2022/23 a great deal of progress was made in implementing the findings of the review. The core issue raised by the review was the need to achieve full cost recovery for service charges, which should be priced neither above nor below cost. Consistency of both price and costing methodology should also be followed. Progress will be maintained in 2023/24 with a view to full cost recovery being achieved within 3 years. An incremental approach has been adopted in order to avoid unnecessary hardship in the interim.

**Appendix A** lists the service charges for 2023/24.

Garage rents have also been increased by **7%** for 2023/24.

### 3.4 Repairs – Increase £4.0m

In previous years housing repairs were managed by NCH on behalf of the Council in accordance with NCC policies. The service will be brought in house for 2023/24 and managed by NCC directly from thereon. In the Council's own base budget for 2022/23, repairs were funded through a base fee of **£27.9m** paid to NCH and a further top up of **£0.6m**. In calculating the amalgamated base budget for this report, this has been reduced by **£2.3m** to address underlying movements in the detailed base figures that occurred during 2022/23 The total allocation for repairs budgets in 2023/24 totals **£30.1m**. The make-up of this figure is shown in **Table 4** below.

The level and efficiency of repairs expenditure is central to the success of asset management in the Council. Correctly applied it can: -

- Reduce arrears, thereby increasing available accommodation and rent flow.
- Prolong the life of assets, reducing the need for replacement.
- Enhance the quality of life of tenants.

| Table 4: Repairs Budgets 2023/24 | 2022/23 | 2023/24 |
|---|---|---|
| **Description** | **£m** | **£m** |
| Repairs Fee 2022/23 | 27.873 | |
| Additional Repairs Allocation | 0.607 | |
| Adjustments on amalgamation of budgets | (2.341) | |
| NCH Repairs Base Budget Allocation 2023/24 | | 26.589 |
| Non-Pay Inflation 2023/24 | | 2.093 |
| Growth Items 2023/24 | | 1.454 |
| **Total Repairs Allocation For 2023/24** | **26.139** | **30.136** |

## 3.5 Housing Management Budgets – Increase £1.0m

In previous years housing management services were provided by NCH on behalf of the Council in accordance with NCC policies. The service will be brought in house for 2023/24 and delivered by NCC directly. In 2022/23 these services were funded through a management fee of £22.533m paid to NCH, together with some elements of HRA management that remained directly managed by NCC. These included recharged budgets for Public Realm services and CCTV together with HRA budgets for retained services, the Tenant Reward Scheme and certain other ad hoc budgets.

Adjustments to management costs are summarised in **Table 5a** below.

They include: -

- Movement from paying NCH a management fee to in-house control of detailed budget heads.
- Moving Housing Partnership and Housing Development budgets to GF and recharge HRA a proportion of staff time for HRA activity.
- Remove Street Lighting from Public Realm Recharge.
- Retain the tenant reward scheme of **£0.5m**.
- Introduce a tenant hardship fund of **£0.5m**.
- The introduction of a salary savings target, calculated in line with the corresponding targets included in the budgets for all other Council services, of **£1.7m**. This budget is to initially be held within Management Costs, with provision later being allocated to other headings, eg Repairs, as appropriate.
- The inclusion of a budget for overtime costs of **£0.7m.** Again, this is to initially be held under Management Costs.
- Provision of a budget of **£0.5m** for the ongoing costs of the transition to an in-house service.

| Table 5: Total Management Costs 2023/24 | 2022/23 | 2023/24 |
|---|---|---|
| **Description** | **£m** | **£m** |
| Management Fee 2022/23 | 22.553 | |
| Retained Housing Services | 5.332 | 2.820 |
| General Fund Recharges - Public Realm & CCTV | 4.709 | 5.383 |
| Tenant Reward Scheme | 0.500 | 0.500 |
| Introduction of Staff Savings Target, in line with other Council services | | (1.700) |
| Overtime | | 0.700 |
| Service Transition Costs | | 0.500 |
| Former NCH Management Services<br>(Includes Tenant Hardship Fund of £0.500m) | | 25.941 |
| **Total Management Costs** | **33.095** | **34.144** |

<u>Retained Housing – Decrease **£2.5m**</u>

General Fund recharges to the HRA that have been recalculated or disallowed make up the reason for the decrease in budget. The following are the main elements: -

- **£0.63m** Housing Development staffing budgets moving to the General Fund.
- **£0.31m** Core and Democratic Services recharge reduction.
- **£0.23m** Housing Partnership staffing budgets also moved to General Fund.
- **£0.95m** Reintroduction of rebate on Public Realm charges.
- **£0.20m** Contribution to FIT costs disallowed.
- **£0.28m** Recharge for Welfare Rights disallowed.

The Furnished Tenancy Scheme has been increased by £0.25m to £0.55m.

<u>General Fund Recharges</u>

The core finding of the CIPFA/Penn review was that the HRA ringfence had been not been adhered to. One aspect of this was the overcharging of the HRA, by the General Fund, for recharged services. A range of recharges were therefore directly disallowed by the review.

The management response to this has been to critically reassess all recharges from the GF to the HRA. In many cases these charges had been based on out of date historical data. Going forward, all recharges to the HRA must be robustly evidenced. A scrutiny process has been instituted to ensure that any recharges clearly demonstrate that:

- The charge is for a service that the HRA is receiving.
- It is expenditure that should be correctly charged to the HRA.
- The costs of that service have been correctly and transparently costed and any apportionments have been made on a fair and reasonable basis.
- Any increases in costs within the charge have been agreed with the HRA.

There will be a continuing process of gathering further improved information to support recharges and strengthen the maintenance of the HRA ringfence. As detailed above, within the 2023/24 HRA revenue budgets, the total cost of GF recharges has fallen by **£2.1m** compared with the 2022/23 budget as set out in **Table 6** below.

| Table 6: General Fund Recharge Budgets 2023/24 | 2022/23 | 2023/24 | Movement |
|---|---|---|---|
| **Description** | **£m** | **£m** | **£m** |
| **Reharge Changes Mandated by CIPFA Review** | | | |
| Welfare Rights | 0.283 | 0.000 | (0.283) |
| Corporate & Democratic Core | 0.465 | 0.155 | (0.310) |
| HRA Contribution for Solar Panels | 0.200 | 0.000 | (0.200) |
| Removal of Street Lighting Charge | 0.295 | 0.000 | (0.295) |
| Removal of Pest Control Charge | 0.044 | 0.000 | (0.044) |
| Reintroduction of Rebate on Public Realm Charges for RtB Activity | 0.000 | (1.302) | (1.302) |
| Occupational Therapy Adaptations Recharge | 0.021 | 0.000 | (0.021) |
| **Recharges Recalculated Following CIPFA Review** | | | |
| Housing Regeneration | 1.141 | 0.513 | (0.627) |
| Housing Partnerships | 0.409 | 0.184 | (0.225) |
| Corporate Director | 0.023 | 0.039 | 0.016 |
| Public Realm (Excluding Street Lighting Charge - Dealt With Above) | 2.877 | 3.807 | 0.929 |
| CCTV & Security | 1.501 | 1.576 | 0.075 |
| Property Services | 0.092 | 0.082 | (0.010) |
| **Central Overhead Department Recharges** | | | |
| Finance | 0.621 | 0.621 | 0.000 |
| Performance Management & Major Works | 0.062 | 0.062 | 0.000 |
| EMSS Recharges | 0.033 | 0.033 | 0.000 |
| IT Recharges | 0.271 | 0.271 | 0.000 |
| Human Resources | 0.224 | 0.224 | 0.000 |
| Legal Charges | 0.149 | 0.331 | 0.182 |
| Debt Management Charge | 0.050 | 0.053 | 0.003 |
| **Total General Fund Recharges To The HRA For 2023/24** | **8.762** | **6.649** | **(2.113)** |

### 3.6 Capital Charges – Increase of £3.8m

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.

| **Table 7: Capital Financing Costs 2023/24** | | | |
|---|---|---|---|
| **Description** | **Original Budget 2022/23 £m** | **Budget 2023/24 £m** | **Movement £m** |
| Contribution to Major Repairs Reserve (Depreciation) | 31.968 | 35.001 | 3.033 |
| Debt Charges | 16.668 | 17.501 | 0.833 |
| **Total** | **48.636** | **52.502** | **3.866** |

<u>Contribution to Major Repairs Reserve (MRR)</u>

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. It cannot be used to support the overall rent level. The value of the contribution to the provision in 2023/24 budget is **£35.0m**. Based on stock condition data, this will need to rise to **£37.7m** for 2024/25, in order to ensure that an appropriate level of funding is available to meet the anticipated future costs.

<u>Debt Charges</u>

Interest rates began to rise in 2022 and have now reached their highest levels since late 2008. The Bank of England Base Rate rose from 0.1% in January 2022 to 3.5% in December, with further rises predicted by the market to around 4.8% by July 2023. This means that the HRA will no longer continue to benefit from historically low interest rates. 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 component of the Public Sector Housing Capital Programme. The budget of **£17.45m** 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 of Capital Expenditure – increase of £6.918m

Due to the need to fund certain schemes in the capital programme direct revenue financing is included at **£7.5m** in 2023/24. The amount of such contributions can vary significantly from year to year, dependent on both the levels of planned capital expenditure and the availability of other capital resources. Based on the current capital expenditure plans, the level of contribution required will reduce to **£6.0m** in 2024/25, before returning to **£0.9m**, close to the 2022/23 base level of **£0.6m**, for 2025/26. Together with the contributions to the MRR, this increases the resources available in the HRA to finance capital investment.

## 3.8 Contingency – Reduction of £0.9m

The **£1.34m** reserve and contingency budget was implemented in 2022/23 to offset any potential shortfall in a range of energy initiatives. No specific such shortfalls have been identified and costs associated with energy efficiency and carbon neutrality are built into the detail of the expenditure budgets. This contingency is, therefore, no longer required. However, with the service for the management and maintenance of the stock transferring back in-house with effect from 1 April 2023, in addition to the specific budget of **£0.5m** (see paragraph 3.5 above) for ongoing costs of transition, a contingency of **£0.5m** will be retained to provide for any unforeseen costs that may arise over the first months of the new arrangements.

## 3.9 HRA Working Balance

The Council is legally required to set an HRA budget which is balanced. In accordance with the Council's Reserves Policy. A general reserve, to deal with emerging pressures and risks, must also be maintained at a minimum level of between 2% and 3% of the gross HRA spend (capital and revenue)

The working balance acts as a contingency. It has been built up to manage the risks of unforeseen exceptional expenditure or loss of income. The Working Balance is estimated to be **£55.0m** at 31/3/2023. This represents a significant rise from **£9.4m** at 31/3/2022, but this latter figure was increased by **£36.1m**, to **£45.5m**, as a result of the restoration to the HRA of monies previously credited to the General Fund, in line with the outcomes of the CIPFA review and receipt of the associated ministerial direction. The balance is forecast to be £55.0m at 31 March 2023. Details of the forecast movements in the balance during 2022/23 are shown in Section 2 above.

## 3.10 Growth and Savings Proposals

The draft **2023/24** budget contains growth and service pressure items totalling **£6.9m** and these are set out in the tables below. The proposals are split between non-recurring items, which will be included for **2023/24** only and recurring items which will be incorporated into the base budget for future years.

| Table 8: Non recurring Growth Proposals 2023/24 | | | | |
|---|---|---|---|---|
| **Theme** | **Type** | **FTE's** | **Description** | **£** |
| Cost of living | Service Pressure | | Hardship Fund for tenants to be introduced alongside the Government proposal to cap rent increase at 7% | 500,000 |
| Cost of living | Demand Led | 2.0 | Costs of Living (COL) Crisis worker, to help residents with advice and service delivery during the COL crisis . Temporary for 1 year. | 72,520 |
| IT | Invest to Save | | Scheduling software, to enable 'in the field' appointments to be made with customers for follow on work. This will reduce missed appointments, abortive visits and enhance right first time. Will ultimately deliver cost savings-to be monitored. | 100,000 |
| IT | Invest to Save | | Video call functionality, to improve accuracy of diagnosis of repairs. Housing colleagues taking repairs calls will be able use tennats mobile phone camera to diagnose faults remotely. Improving likelihood of right first time fix and correct prioritisation of work | 30,000 |
| IT | Inflation | | IT / Inflation / £19400:Unavoidable pressure relating to Microsoft (licence and subscription) and 1 year extension to existing telephony support agreement. | 19,400 |
| Voids | Demand Led | 3.0 | Lettings Officer / Homelink Adviser / Works Planner - temporary posts for 1 year to support with letting of additional voids to reduce backlog | 95,394 |
| **Grand Total** | | **5.0** | | **817,314** |

| Table 9: Recurring Growth and Service Pressures Proposals 2023/24 | | | | |
|---|---|---|---|---|
| **Theme** | **Type of Growth** | **FTE's** | **Description** | **£** |
| Compliance | Demand Led | 9.5 | Increase in establishment to meet new legislative rquirements and compliance obligations. This relates to investment required to improve compliance performance and to also meet new requirements in relation to building safety such as emergency lighting (£45k), fire safety (£169k) and electrical safety (£200k). | 573,528 |
| Disrepair | Demand Led | 5.5 | Increase in disrepair claims (39 claims risen to 259 in 1 year). Growth request to cover cost of additional staff, increase in legal costs and administrative costs. | 398,401 |
| Regulation | Service Pressure | 2 | To support regulatory changes arising from the White Paper, including introduction of Tenant Satisfaction Measures. We will need to conduct annual surveys on tenants perspective and satisfaction. | 128,520 |
| Repairs & Maintenance | Service Pressure | | Following detailed service review and costs analysis increase in grounds maintenance and public realm services chargeable to HRA. | 631,227 |
| Repairs & Maintenance | Service Pressure | | Increase to MRR to support capital expenditure and maintain minimum level of reserve. | 3,032,221 |
| Repairs & Maintenance | Invest to Save | 11 | Develop proactive planned replacement programmes for the replacement of internal pipework within properties, painting communal areas, external elements of buildings and mechanical stop taps. This work is only undertaken currently as responsive and so exposes tenants and landlord to risk. | 605,000 |
| Safeguard income | Service Pressure | 1 | Resource to support continued Universal Credit roll-out, minimise rent arrears and support cost of living impact and court costs for income recovery. The additional post is £36,260. | 86,720 |
| Staffing/Resource | New growth | 13 | Regional Senior Area Housing Managers and Housing Trainees to bolster tenancy sustainment and complex tenants needs, providing essential service requirements to support the changes to the NCC model of regional hubs and the requirements of the Social Housing White Paper | 420,573 |
| Voids | Demand Led | 0.4 | Primarily relates to the increased number of void properties (particularly IL voids) and the knock-on impact on Council Tax costs (£140k) and utility costs / standing charges (£20k). Small (0.4 FTE) increase in staffing at circa £13k | 234,778 |
| | | **42.4** | **Grand Total** | **6,110,968** |

The following savings items are also incorporated into the 2023/24 budget.

| **Table 10: Recurring Savings 2023/24** | |
|---|---|
| **Description** | **£** |
| Reduction in Contingency | (887,149) |
| Contingency held on the HRA budget (NCH) | (800,000) |
| **Grand Total** | **(1,687,149)** |

## 4 HRA Medium Term Financial Plan (MTFP) 2023/24 to 2026/27

4.1 The HRA MTFP 4-year projections have been updated to reflect the budget process described above. **Table 8** shows the HRA MTFP for 2023/24 to 2027/28. The future years' projections are based on information currently available and are subject to ongoing review. The projections incorporate the following assumptions:

- Net rental income will be increased by 7% in 2023/24. Thereafter, it is assumed to have risen within the parameters set by the new rent regime, which is CPI plus **1.0%** p.a. from 2024/25 onwards. Net rental income reflects the estimated net stock changes resulting from sales and new build.
- General inflation has been estimated at **2.0%** for 2023/24 onwards.
- All non-recurring growth items budgeted for in 2023/24 have been removed for future years.
- Financing costs take account of the existing and projected borrowing required.
- The contribution to the Major Repairs Reserve charges is based on asset life spans and replacement cost data provided by the capital delivery team.
- The Responsible Tenants Reward Scheme will continue at **£0.5m** pending further reviews to reduce the cost in future years.
- The working balance must remain at least at between 2% and 3% of gross expenditure (both capital and revenue. For 2023/24, this produces a minimum balance of **between £4m and £6m.** This is to cover any unforeseen cash flow difficulties. The present cost of living crisis being the biggest known threat to income streams. The working balance is significantly in excess of this at present, due to the return of funds from the General Fund that had been wrongly charged to the HRA.
- The figures shown include the direct integration of all budgets for the management and maintenance of the housing stock into the Council's own budgetary and financial management processes. The Management and Repairs Fees previously paid to NCH are now replaced by detailed, directly managed budgets.

| Table 11: HRA – Medium Term Financial Plan (MTFP) | | | | |
|---|---|---|---|---|
| **Description** | **2023/24 £m** | **2024/25 £m** | **2025/26 £m** | **2026/27 £m** |
| **Income** | | | | |
| Rental Income | (109.137) | (112.411) | (115.784) | (119.257) |
| Voids | 2.183 | 2.248 | 2.316 | 2.385 |
| Bad Debt Provision | 2.213 | 2.213 | 2.213 | 2.213 |
| Service Charge Income | (10.048) | (10.349) | (10.660) | (10.980) |
| Non-Dwelling Rents | (2.700) | (2.733) | (2.767) | (2.802) |
| Other Income Including Interest | (0.392) | (0.392) | (0.392) | (0.392) |
| **Total Income** | **(117.882)** | **(121.425)** | **(125.074)** | **(128.833)** |
| **Expenditure** | | | | |
| Repairs to Dwellings | 30.136 | 30.666 | 31.279 | 31.905 |
| Management Costs | 25.441 | 25.730 | 26.244 | 26.769 |
| Tenant Incentive Scheme | 0.500 | 0.500 | 0.500 | 0.500 |
| Public Realm (Greenspace) | 3.807 | 3.883 | 3.961 | 4.040 |
| CCTV | 1.576 | 1.608 | 1.640 | 1.673 |
| Retained Housing | 2.820 | 2.898 | 2.956 | 3.015 |
| Depreciation (to Major Repairs) | 35.001 | 37.690 | 39.686 | 41.759 |
| Debt Charges | 17.501 | 17.851 | 18.208 | 19.172 |
| Direct Revenue Financing | 7.518 | 6.006 | 0.930 | 0.000 |
| Contingency | 0.500 | 0.000 | 0.000 | 0.000 |
| **Total Expenditure** | **124.800** | **126.831** | **125.404** | **128.833** |
| **Deficit/(Surplus)** | **6.918** | **5.406** | **0.330** | **0.000** |
| Add Working Balance B/F | 54.994 | 48.076 | 42.670 | 42.340 |
| **Working Balance C/F** | **48.076** | **42.670** | **42.340** | **42.340** |

## 5 Public Sector Housing Capital Programme

5.1 HRA capital expenditure is financed from a variety of sources, covering the Major Repairs Reserve, other revenue contributions, grants and other external contributions, capital receipts and prudential borrowing. All borrowing must comply with the Prudential Code, the Council's Capital Strategy and the Voluntary Debt Reduction Policy.

5.2 **The Programme**

The Public Sector Housing Capital Programme sets out the five year investment in the housing stock. Management of the stock will transfer back to the Council from NCH on 1st April 2023. The allocation of the capital budget is broadly divided between major works on existing assets and the creation of new assets through building or acquisition. **Table 12** shows the level of investment to 2027/28 against the existing capital programme approved to 2026/27.

**Table 12: HRA Capital Programme 2022/23 – 2026/27**

| Programme Movement | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | Total £m |
|---|---|---|---|---|---|---|
| Existing programme (P6) | 57.535 | 59.976 | 47.575 | 37.447 | 32.899 | **235.432** |
| New/amended schemes | 1.105 | 23.675 | 7.984 | (0.269) | 1.252 | **33.747** |
| **Total Programme** | **58.640** | **83.651** | **55.559** | **37.178** | **34.151** | **269.179** |
| **Funding** | | | | | | |
| Prudential Borrowing | (10.786) | (11.567) | (3.903) | (0.217) | 0.000 | **(26.473)** |
| Grants & Contributions | (5.275) | (4.044) | (0.083) | 0.000 | 0.000 | **(9.402)** |
| Major Repairs Reserve | (32.466) | (42.522) | (38.433) | (35.032) | (33.916) | **(182.369)** |
| Revenue Resources | (0.897) | (7.518) | (6.006) | (0.930) | 0.000 | **(15.351)** |
| Capital Receipts – HRA | (1.858) | (3.899) | (0.473) | (0.235) | (0.235) | **(6.700)** |
| RTB (1-4-1) replacement capital receipts | (7.358) | (14.101) | (6.661) | (0.764) | 0.000 | **(28.884)** |
| **Total Funding** | **(58.640)** | **(83.651)** | **(55.559)** | **(37.178)** | **(34.151)** | **(269.179)** |

5.3 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 sets out those new and amended schemes recommended for inclusion within the programme. Some schemes and programmes are delegated to the capital delivery team to award contracts up to the approved budget for the project.

5.4 All of the schemes within the programme, apart from those that are delegated, including Building a Better Nottingham, energy efficiency improvements and other projects (included those listed under Planned Schemes), will require further approval within the Council at the appropriate level for their value. Each scheme will require the development of a business case to demonstrate outputs, impacts on revenue costs and affordability.

5.5 The Public Sector Housing Capital Programme supports the housing objectives within the Strategic Council Plan and the themes contained in the city's housing.

5.6 The programme takes account of the Asset Management Plan (AMP) (refreshed to 2027/28), 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. A summary of resources identified to support the programme is set out in **Table 12** above.

5.7 A summary of the HRA Capital programme for 2023/24 is shown in **Table 10** below**.**

| **Table 13: 2023/24 Summary Capital Programme** | |
|---|---|
| **Description** | **£m** |
| Maintaining the Nottingham Decent Homes Standard | 22.898 |
| Additional tenant priorities: | |
| - City wide energy efficiency | 13.001 |
| - Additional improvements | 9.530 |
| Building a Better Nottingham | 22.722 |
| Planned (not approved) | 15.500 |
| **Total** | **83.651** |

5.8 Amendments to the Programme

Additions are shown in **Annex 3 – Capital Programme (Appendix A)**; these are mainly based on the Asset Management Plan and include one further year, 2027/28.

The total budget over the life of the Capital Programme has increased by a net **£32.6m** compared with the programme agreed a year ago, beginning at 2022/23. Estimates have been added to the programme which now includes budgets for 2027/28. These budgets are based on stock condition surveys and asset management data or where it is detailed in the longer term Asset Management Plan. Details of the 2027/28 budget are shown in **Table 14** below which summarises the capital programme by category and 2027/28 budgets can be compared with corresponding allocations for all years of the programme.

| Table 14: HRA Capital Programme By Category 2022/23 – 2026/27 | | | | | | |
|---|---|---|---|---|---|---|
| **Programme Category** | **2022/23 £m** | **2023/24 £m** | **2024/25 £m** | **2025/26 £m** | **2026/27 £m** | **Total £m** |
| **NCC Decent Homes Std** | | | | | | |
| Safe | 3.305 | 4.024 | 2.558 | 2.007 | 1.425 | **13.319** |
| Secure, Warm & Modern | 14.603 | 18.874 | 20.932 | 23.374 | 23.333 | **101.115** |
| **Sub-Total** | 17.908 | 22.898 | 23.489 | 25.380 | 24.759 | **114.434** |
| **Further Tenant Priorities** | | | | | | |
| Energy Efficiency | 11.550 | 13.001 | 4.836 | 0.000 | 0.000 | **29.387** |
| Older People | 0.869 | 1.327 | 0.788 | 0.000 | 0.000 | **2.984** |
| Decent Neighbourhoods | 2.724 | 4.665 | 4.657 | 4.651 | 4.158 | **20.855** |
| **Sub-Total** | 15.143 | 18.993 | 10.281 | 4.651 | 4.158 | **53.226** |
| **Existing Stock Investment** | 3.130 | 3.538 | 2.800 | 2.900 | 2.900 | **15.269** |
| **Build A Better Nottingham** | 18.865 | 22.722 | 6.643 | 0.361 | 0.000 | **48.591** |
| **Adaptations** | 2.594 | 2.650 | 2.135 | 2.135 | 2.135 | **11.649** |
| **Planned Schemes** | 1.000 | 12.850 | 10.210 | 1.750 | 0.200 | **26.010** |
| **Total Programme** | **58.640** | **83.651** | **55.559** | **37.178** | **34.151** | **269.179** |

5.9 There are some notable changes to the programme from 2023/24 onwards, as follows: -

- Opportunities have been identified to boost the expenditure on 1-4-1 replacement properties over the 2023/24 to 2025/26 financial years, largely through acquisitions.
    - Potential new schemes totalling **£24.09m** would enable **£9.64m** of retained receipts to be utilised. This would push back any possible repayment of Right to Buy receipts to central government into 2028/29.
    - **£17.9m**, the majority of this expenditure would be on acquisitions of which **£16.5m** relates to buy backs. **£6.2m** is new build encompassing sites at Robin Hood Chase, the United Reform Church and former garages.
    - This would result in **165** additional units. **42** of these being new builds and **123** purchased.
- £0.85m has been budgeted for damp and mould expenditure within the ‘Safe’ schemes allocation.

5.10 Maintaining the Nottingham Decent Homes Standard

NCC has achieved the Decent Homes standard in the Council's housing stock and is committed to maintaining this. The Council has developed a programme which invests **£125.5m** over 5 years (2023/24 to 2027/28) to achieve this. **£12.4m** relates to the Safe element of the programme and **£113.1m** to the Secure, Warm and Modern.

Areas of emphasis in the 2023/24 programme include fire alarms £1.5m, damp and mould £0.85m, doors and windows £5.5m, warmth £3.5m and external fabric also £3.5m.

5.11 Energy Efficiency, Tackling Fuel Poverty and Decent Neighbourhoods

Over the 5 years of the programme, **£17.8m** is being invested in energy efficiency measures to reduce costs and improve living standards for tenants. This includes decarbonisation and retrofit works. Grants from ERDF (DREeM), BEIS (Whole House Retrofit and the Social Housing Decarbonisation Fund Demonstrator wave) help to fund these schemes and are required to make them cost effective. Each scheme requires a business case before it is approved.

There is a £22.3m for Decent Neighbourhoods including city wide environmental work and estate specific impact schemes.

5.12 Building a Better Nottingham

The HRA's Public Sector Housing Capital Programme includes **£22.7m** for additional council housing in the next financial year, which supports the strategic aim of increasing the number of social and affordable homes as well as provision for the homeless.

In 2023/24 there is a focus on acquiring buy back properties and the completion of new schemes at Eastglade, Keiron Hill and Oakdene. The bulk of the work at Beckhampton Road will take place in 2023/24 and completion is planned for 2024/25.

5.13 Additions to Council Housing numbers from new builds and acquisitions are funded by a mixture of capital receipts from the sale of housing stock and prudential borrowing. General HRA reserves can also be used where available. Borrowing is limited by the Council's Voluntary Debt Reduction Policy. New schemes can only be approved if the overall borrowing requirement is not increased. Each scheme must also have a business case illustrating that it makes a surplus over the course of the Business Plan.

Council policy dictates that RtB receipts will be retained to voluntarily set aside against HRA debt. This allows for the level of capital charges to be kept below **12.5%** of the HRA turnover to ensure sustainability. This is intended to mirror General Fund borrowing policy.

5.14 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.

5.15 The Government overhauled the RtB rules from April 2012 in order to boost council house sales. Since that date, where RtB activity exceeds that prior to the changes, the Council may keep an additional proportion of the receipt. This must be spent on the creation of a replacement social housing, either new build or purchased property and the Council must contribute at least 60% of the cost and spend within 5 years of receipt. These “1-4-1” receipts will be used to support the new build programme within the HRA.

5.16 The capital programme from 2022/23 to 2027/28 requires **£28.9m** of 1-4-1 receipts. At the start of 2022/23 the Council had **£17.8m** of 1-4-1 receipts available to spend, and a requirement to secure a further **£5.0m**. 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.

5.17 HRA Prudential Borrowing.

The Council borrows to fund additional social housing stock either through new build or acquisitions. Borrowing is no longer limited by the HRA debt cap, which was a specific limit on each Council’s borrowing. This was abolished by the government to allow councils to increase house building. However, all borrowing, must comply with the Prudential Code, including the “Treasury Management Strategy 2022/23”. 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.

5.18 The Capital Strategy and Debt Reduction Policy directs that all projects are accounted for within the allocation of available resources over a medium term planning horizon. Borrowing levels must be kept prudently within the Debt Cap. This is illustrated in **Table 12** below.

The Capital Financing Requirement (CFR) illustrates the projected level of debt of the HRA and the movement over 2022/23.

| **Table 15: HRA Debt Position** | |
|---|---|
| **Description** | **£m** |
| HRA CFR at 1 April 2022 | 298.732 |
| Add: borrowing proposed to be taken out 2022/23 | 10.786 |
| Less: debt planned to be repaid in year | (5.458) |
| **HRA CFR at 1 April 2023** | **304.060** |

5.19 The MTFP assumes the use of borrowing over the life of the plan to support investment in replacement social housing – see **Table 13** below for the planned movement in CFR over the 5 years of the capital programme.

| **Table 16: HRA Debt Position – Projected** | |
|---|---|
| **Description** | **£m** |
| HRA CFR at 1 April 2023 | 304.060 |
| Add: borrowing taken out over 5 year investment plan | 15.687 |
| Less: debt planned to be repaid over 5 years | (29.692) |
| **HRA CFR at 1 April 2028** | **290.055** |

## 6 Reserves

6.1 The HRA operates just four reserves:

- A General Reserve (also referred to as the Working Balance), to act as a general contingency fund to meet unexpected costs. Any operating surplus or deficit for a financial here is also transferred to/from here. The Council's Reserves Policy requires that a minimum balance be maintained on the reserve of between 2% and 3% of the combined gross cost of HRA revenue expenditure and capital expenditure on the housing stock. The current balance is well in excess of this amount and is projected to remain so throughout the term of MTFP. (See also paragraph 3.9 above.)
- Two Earmarked Reserves, set aside specifically for use in respect of lift maintenance and pre-start costs on major capital schemes.
- The Major Repairs Reserve, where a sum is set aside each year for major maintenance works to and refurbishment of the current housing stock. The annual contribution is based on the estimated depreciation of the stock and the reserve can only be used to fund capital works. (See also paragraph 3.6 above.)

6.2 The projected movements in and balances on the reserves, from 2022/23 to 2027/28, are set out in the Table 17 below:

| Table 17: Housing Revenue Account Reserves 2022/23 TO 2026/27 | | | | | |
|---|---|---|---|---|---|
| | **2022/23** | **2023/24** | **2024/25** | **2025/26** | **2026/27** |
| | £m | £m | £m | £m | £m |
| **General Reserve (Working Balance)** | | | | | |
| Balance Brought Forward | (45.500) | (54.994) | (48.076) | (42.670) | (42.340) |
| Item 9 Transfer From General Fund | (4.617) | 0.000 | 0.000 | 0.000 | 0.000 |
| OtherTransfers In | (5.174) | 0.000 | 0.000 | 0.000 | 0.000 |
| Contribution to Capital Expenditure | 0.297 | 6.918 | 5.406 | 0.330 | 0.000 |
| Other Transfers Out | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **Balance Carried Forward** | **(54.994)** | **(48.076)** | **(42.670)** | **(42.340)** | **(42.340)** |
| **Earmarked Reserves** | | | | | |
| ***Lift Replacement Reserve*** | | | | | |
| Balance Brought Forward | (0.332) | (0.332) | (0.332) | (0.332) | (0.332) |
| Transfers In | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Transfers Out | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Balance Carried Forward | (0.332) | (0.332) | (0.332) | (0.332) | (0.332) |
| ***Pre-Start Reserve*** | | | | | |
| Balance Brought Forward | (0.266) | (0.266) | (0.266) | (0.266) | (0.266) |
| Transfers In | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Transfers Out | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Balance Carried Forward | (0.266) | (0.266) | (0.266) | (0.266) | (0.266) |
| **Total Earmarked Reserves** | **(0.598)** | **(0.598)** | **(0.598)** | **(0.598)** | **(0.598)** |
| **Total Revenue Reserves** | **(55.592)** | **(48.674)** | **(43.268)** | **(42.938)** | **(42.938)** |
| **Major Repairs Reserve** | | | | | |
| Balance Brought Forward | (38.773) | (37.476) | (29.955) | (29.212) | (33.866) |
| Transfers In | (31.169) | (35.001) | (37.690) | (39.686) | (41.759) |
| Transfers Out | 32.466 | 42.522 | 38.433 | 35.032 | 33.916 |
| **Balance Carried Forward** | **(37.476)** | **(29.955)** | **(29.212)** | **(33.866)** | **(41.709)** |
| **TOTAL RESERVES** | **(93.068)** | **(78.629)** | **(72.480)** | **(76.804)** | **(84.647)** |

## Appendix A – Service Charges Changes 2023/24

### Service charges

The general increase applied to Service Charges, is **7%** in line with the rise for weekly rents. In some instances, where costs are not being fully recovered the rise will be greater, typically 10%. This move towards the correct charge needs to be phased in over more than one year, in order to avoid potential hardship. Where costs have not risen at the average rate of inflation, a lower increase has been applied. In a few instances, where heating charges are determined by the cost of fuel, they have risen by 30%. This follows the independent review of service charges which made a range of recommendations, which the Council has made significant progress in implementing. NCC will look to complete the process in 2023/24. Among the proposals from the review, moving to a full cost recovery model is a central aim of NCC.

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

| **Table 1: Weekly Service Charge (over 50 weeks)** | | | |
|---|---|---|---|
| **Service** | **Current 2022/23 £** | **Proposed 2023/24 £** | **Increase £** |
| Block Maintenance | 4.56 | 5.02 | 0.46 |
| Caretaking | 6.86 | 7.34 | 0.48 |
| Cleaning Service | 4.89 | 5.38 | 0.49 |
| Communal lighting | 1.91 | 2.48 | 0.57 |
| Communal TV Aerial Maintenance | 0.11 | 0.12 | 0.01 |
| Driveway (additional) | 6.25 | 6.56 | 0.31 |
| Estate Maintenance | 4.41 | 4.72 | 0.31 |
| Security (CCTV) | 6.18 | 6.61 | 0.43 |

There are a variety of furnished tenancy service charges and these will not be increased for 2023/24.

### 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) | | | |
|---|---|---|---|
| **Charge** | **Current 2022/23 £** | **Proposed 2023/24 £** | **Increase £** |
| Independent Living | 3.58 | 3.83 | 0.25 |
| Intensive Housing Management (IHM) | 12.81 | 13.71 | 0.90 |
| Independent Living Facilities Management charge (no IHM) | 4.48 | 4.79 | 0.31 |
| Emergency / Care Alarm | 2.90 | 3.25 | 0.35 |
| "I'm OK" system (eligible) | 5.78 | 6.18 | 0.40 |
| "I'm OK" system (ineligible) | 1.58 | 1.69 | 0.11 |
| Scooter storage | 1.20 | 1.28 | 0.08 |
| Laundry facilities | 1.51 | 1.56 | 0.05 |
| ILS Scheme (Block) Maintenance | 1.68 | 1.85 | 0.17 |
| ILS Scheme (Estate) Maintenance | 1.67 | 1.79 | 0.12 |
| ILS Grander Designs | 1.32 | 1.45 | 0.13 |

**Scheme Charges**

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

| Table 3: Scheme Specific Charges (over 50 weeks) | | | |
|---|---|---|---|
| **Type** | **Current 2022/23 £** | **Proposed 2023/24 £** | **Change £** |
| **Foxton Gardens: Service Charges** | | | |
| One bed | 27.95 | 25.99 | -1.96 |
| Two bed | 27.95 | 25.99 | -1.96 |
| **Foxton Gardens: Water** | | | |
| One bed | 3.49 | 3.66 | 0.17 |
| Two bed | 4.84 | 5.08 | 0.24 |
| **Foxton Gardens: Heating** | | | |
| One bed | 16.13 | 20.97 | 4.84 |
| Two bed | 20.97 | 27.26 | 6.29 |
| **Winwood: Extra Care Charge** | 34.37 | 36.78 | 2.41 |
| **Communal Heating** | 4.94 | 6.42 | 1.48 |
| **Sutton House: Heating** | 10.01 | 13.01 | 3.01 |