Executive Board – 13th February 2024

Subject:	Review Housing Revenue Account (HRA) Business Plan 2024-2053 Update Medium Term Financial Plan (MTFP) 2024 - 2028 HRA Budget 2024/25 – including Rent Setting Public Sector Housing Capital Programme 2024/25 to 2028/29
Corporate Director(s)/Director(s):	Sajeeda Rose, Corporate Director for Growth & City Development Ross Brown, Corporate Director of Finance & Resources Geoff Wharton, Interim Strategic Director of Housing Shabana Kausar, Director of Finance
Portfolio Holder(s):	Cllr Jay Hayes, Portfolio Holder for Housing Cllr Audra Wynter Portfolio Holder for Finance & HR
Report author and contact details:	David Worthington, Interim HRA Accountant
Other colleagues who have provided input:	Sharon Guest, Director of Housing Alison Brown, Director of Property Geetha Blood, Interim Strategic Finance Business Partner, Growth & City Development Tom Shaw, Capital Accountant, Strategic Finance
Subject to call-in: ☐ ☒ No This report is exempt from call in as approved by the Chair of the Overview and Scrutiny Board.	
Key Decision: ☒ Yes ☐ No **Criteria for Key Decision:** **(a)** ☒ Expenditure ☒ Income ☐ Savings of £750,000 or more taking into account the impact of the decision **(b)** Significant impact on communities living or working in two or more wards in the city: ☒ No	
Type of expenditure: ☒ Revenue ☒ Capital If Capital, provide the date considered by Capital Board Date: 6 December 2023	
Total value of the decision: n/a	
Wards affected: All	
Date of consultation with Portfolio Holder(s):	
Relevant Council Plan Key Outcome: Green, Clean and Connected Communities ☐ Keeping Nottingham Working ☐ Carbon Neutral by 2028 ☒ Safer Nottingham ☐ Child-Friendly Nottingham ☒ Living Well in our Communities ☒ Keeping Nottingham Moving ☐ Improve the City Centre ☐ Better Housing ☒ Serving People Well ☒	
Summary of issues (including benefits to citizens/service users): The report provides the Executive Board with	

- An update on key economic indicators and forecasts
- An overview of key developments in national and local housing policy
- The draft HRA Budget 2024/25 including rent setting proposals
- The draft 4-year HRA Medium Term Financial Strategy (MTFS)
- The current 30-year HRA Business Plan 2024-2053
- The proposed Public Sector Housing capital programme 2024/25 – 2027/28

Does this report contain any information that is exempt from publication - No

1. Executive Summary

1.1 On the 29 November 2023 the Section 151 Officer issued a report to all Councillors under section 114 (3) of the Local Government Finance Act 1988 (The Act) The purpose of the report was to formally notify the Council that in his professional opinion that the Council is unable to meet it statutory requirement to deliver a balanced general fund budget in 2023/24. The HRA is a ring-fenced part of the general fund.

1.2 HRA records the transaction of the City Council's landlord's services function. Local housing authorities are required by Section 74 of the Local Government & Housing Act 1989 (the 1989 Act) to keep an HRA. The HRA reflects the statutory obligations to account separately for local authority housing provision. It identifies the major elements of HRA expenditure and how they are funded from rents and service charges.

1.3 This report presents the existing 30-year HRA Business Plan which would need to be updated in 2024/25. It provides an overview of the financial planning that supports the management and operation of the portfolio of 24,756 homes and other commercial assets owned by the Council's HRA. This covers both revenue and capital spending plans and therefore incorporates the Council's Housing strategy and Asset Management Plan (AMP).

1.4 The 30-year HRA business plan helps inform the Medium-Term Financial Plan (MTFP) and the 2024/25 HRA Budget and capital programme. The budget proposals ensure the Council can provide a financially sustainable service model. We continue to invest in services and the existing HRA stock. This is to ensure we create a balance that meets our regulatory and landlord obligations, including maintaining the decent homes standard, and new requirements contained in the Social Housing Regulation act 2023 with improving customers perception of the services received.

1.5 The HRA business plan, MTFP and 2024/25 budget proposals has been prepared using a range of financial information incorporating prudent estimates and financial assumptions to set a balanced budget.

1.6 The operating environment remains challenging with the cost-of-living crisis, rising interest rates, economic uncertainty and financial risks due to the long-term effects of the pandemic, global supply chain issues and other cost pressures. To help maintain and protect levels of service and the future sustainability of the HRA the budget includes a rent increase of 7.7% in line with the Government's current rent policy.

1.7 The operational management and maintenance of the housing stock returned to the City Council on 1st April 2023 after being delegated to Nottingham City Homes for the previous 17 years. All budgets are now managed in-house, and staff TUPE'd back to the Council. In 2024 the Housing Service will be integrated into the One Council operating model. With the development of clear memorandums of undertaking and costed service level agreements to ensure protection of the HRA against general fund pressures.

2. Recommendations

The Executive Board to approve:

Housing Revenue Account (HRA) – Revenue Budget

1. The gross HRA Budget 2024/25 of £128m and note the Medium-Term Financial Plan (MTFP) as set out in Table 1.

2. An average rent increase with effect from 1 April 2024 of:

   a) 7.7% in relation to dwellings in line with the Government's current rent policy;
   b) 7% in relation to garage rents.

3. An average 6.7% increase in tenants and leaseholder service charges with effect from 1st April 2024 as set out in Appendix 4.

4. An average 6.7% increase in other fees levied on other HRA dwellings as set out in Appendix 4.

5. Revenue growth proposals of £6.217m as set out in section 7 and Appendix 2.

Housing Revenue Account – Adequacy of Balances and Reserves

6. To note the following:
   a. Setting of a minimum working balance of £10m informed by the latest financial risk assessment (Section 9)

   b. The level of reserves as set out in Table 2 and Appendix 1 subject to further review by the Section 151 Officer (Corporate Director of Finance and Resources).

Housing Capital Programme

7. To approve the following:

a. Capital planned schemes of £32.764m as set out in section 8 (Table 6) and funded by £8.770m Restricted RTB receipts and £23.994m direct revenue financing over 4 years subject to further investment appraisal and further approval of the schemes.

b. Housing Capital Programme of £69.631m for 2024/25 and noting the £218.018m in the MTFP 2025/26 to 2027/28 and proposed sources of finance (Table 7).

8. Delegate responsibility to the S151 Officer (Corporate Director of Finance and Resources) in consultation with the Corporate Director of Growth and City Development to review the utilisation of restricted RTB receipts and where necessary, to return the receipts to DLUHC to avoid excessive interest charges.

9. Delegate to the Section 151 Officer Corporate Director of Finance and Resources to review and amend the Prudential Indicators as outlined in the Treasury Management Strategy which will be approved by full Council on the 27 February 2024.

3. Reasons for recommendations

3.1 The HRA covers all income and expenditure relating to the portfolio of housing stock owned by the Council. It is required by the 1989 Act to be ring-fenced from the Council's General Fund.

3.2 The legislation specifies that only expenditure relating to the Council's landlord role can be charged to the HRA and by extension, funded by the rents and service charges charged to tenants and leaseholders.

3.3 The Council has a legal duty to ensure that the account remains solvent and to prepare a long-term business plan annually that keeps this under regular review.

3.4 The rent and service charge increases are necessary to ensure the long-term sustainability of the HRA budget and the investment needed to maintain properties to required regulatory standards. The current level of disrepair claims are a reflection of underinvestment in the past and will require a substantial amount of investment in the future. The sustained underinvestment has also resulted in a number of growth bids been submitted this year. Primarily, these bids address the need to get accurate baseline information on the stock and the service to ensure all statutory duties are fully discharged and to meet government guidelines on sound asset knowledge to guide future investment.

Background (including outcomes of the consultation)

4. National and Local Economic Context

4.1 On the 29 November 2023 the Section 151 Officer issued a report to all Councillors under section 114 (3) of the Local Government Finance Act 1988 (The Act). The purpose of the report was to formally notify the Council that in his professional opinion that the Council is unable to meets it statutory requirements to deliver a balanced general fund budget in 2023/24.

4.2 The Chancellor presented the Autumn Statement to Parliament on the 22 November 2023. This included the Government's key priorities of reducing inflation, creating economic growth, and controlling debt. The Government also announced several housing and planning measures to facilitate the provision of new affordable homes.

4.3 There were no announcements on departmental spending limits despite the increased pressure being experienced in the Housing sector. These pressures include construction industry inflation, material shortages and the general lack of affordable housing. The draft budget includes prudent assumptions on inflation rates, the cost of borrowing and the future demand for quality housing.

4.4 The sector is experiencing some of the most significant reform for years and the financial implications of meeting these reforms is still to be determined. Social Housing (Regulation) Act 2023 has introduced new measures to improve the standards, safety and operation of social housing.

4.5 The building and fire safety requirements have put new requirement on landlords to demonstrate compliance. The Housing Ombudsmen is actively promoting in the national and local media a route for customers to complain about their experience of service delivery.

4.6 The introduction of the Tenant satisfaction (perception and management) measures provides a standard methodology for housing organisations to work too. Further change is expected in 2024 with more law, changes to the Decent homes standard including energy efficiency requirements and the review to the Housing Health and rating system. This is coupled with the Housing regulator having greater powers to intervene in organisations where issues are identified.

4.5 The Government has set the targets so that the United Kingdom will reach net zero carbon emissions by 2050. The Council's long-term target for residents and businesses in Nottingham is to reach net zero by 2028. We recognise this target is not achievable, but we are committed to providing new homes at high efficiency levels and will continue to contribute to these aspirations as part of our approach to maintain decency in our housing stock and in our approach to service delivery.

5. HRA 30-year Business Plan

5.1 Preparing a HRA 30-year Business Plan involves an assessment of the long-term financial implications of key strategic objectives alongside ongoing landlord operations and service improvements. The impact of capital investment plans, available capital funding, service resource requirements, legislative changes and other global financial assumptions are modelled to create a detailed financial picture.

5.2 The 30-year HRA business plan is a high-level financial planning tool which provides the financial framework for formulating the MTFP and the annual budget. The business plan sets out the Council's HRA Strategy in financial terms and contains the following key assumptions.

5.3 The HRA business plan incorporates the Government's Rent Standard 2020 as amended by the Rent Standard 2023. This allows all registered providers to increase both social and affordable rents by the Consumer Price Index (CPI) plus 1%. Due to the unprecedented high levels of inflation in September 2022 the Government capped the rent increase at 7% in 2023/24. For 2024/25 the Government has returned to their original policy of CPI plus 1%. The CPI in September 2023 is 6.7% and the business plan assumes a rent increase of 7.7% in 2024/25, for subsequent years the business plan assumes CPI at 2% which is consistent with industry practice.

5.4 The plan assumes that for all non-dwelling rents including garages will increase by 7.0% in 2024/25 and 3% in subsequent years. Commercial properties will be increased by the prevailing open market rents when the lease is renewed.

5.5 The plan assumes that the costs of all services provided to tenants and leaseholders will be fully recovered through service charges. It is assumed that in 2024/25 service charges will increase by 6.7% and by 3% for all subsequent years.

5.6 The plan assumes property maintenance costs will be uplifted annually to reflect the rising costs of labour and materials. It is assumed that for 2024/25, repairs and maintenance inflation will increase by 15% but will reduce to 3% in subsequent years. This is a very conservative figure as materials costs have risen 43% in two years, while labour costs are up by nearly 10%. Data from the ONS points to even faster rates of inflation for individual building materials, particularly those that are energy-intensive, or in high demand. Availability of materials is also impacting on prices. This will be reflected in the review of the HRA business plan in 2024.

5.7 Similarly, with supervision and management costs, it is assumed that the pay award will increase by 4.5% and other costs will increase by an average 5%. In respect of subsequent years, it is assumed that management and supervision costs will increase by an average 3%.

5.8 The business plan considers the forecasts and assumptions contained in the Asset Management Plan (AMP). The AMP is being reviewed in 2024. It will reflect our service offer for customers and our risk-based approach to meet regulatory requirements. Our aim will be to move resources from a reactive service to planned, preventative and proactive approach. This will be driven by improved data intelligence on the condition and deterioration of our assets against available budgets and customers' expectations of their homes. It will set out our approach for the repair, maintenance, replacement and improvement to key building elements and components in individual dwellings, blocks, estates and HRA neighbourhoods. We will use this approach to demonstrate value for money in service delivery.

5.9 Stock numbers are an essential element of the business plan and the current assumption that from 2024/25 onwards is that there will be 260 right to buy (RTB) sales each year based on current numbers. The level of sales is higher than the current new build and acquisitions programme which means that the level of housing stock is diminishing. In 2024 we are conducting a review of our independent living schemes due to an oversupply which could result in options including remodelling of smaller units and developing options to convert hidden homes from within existing blocks and assets.

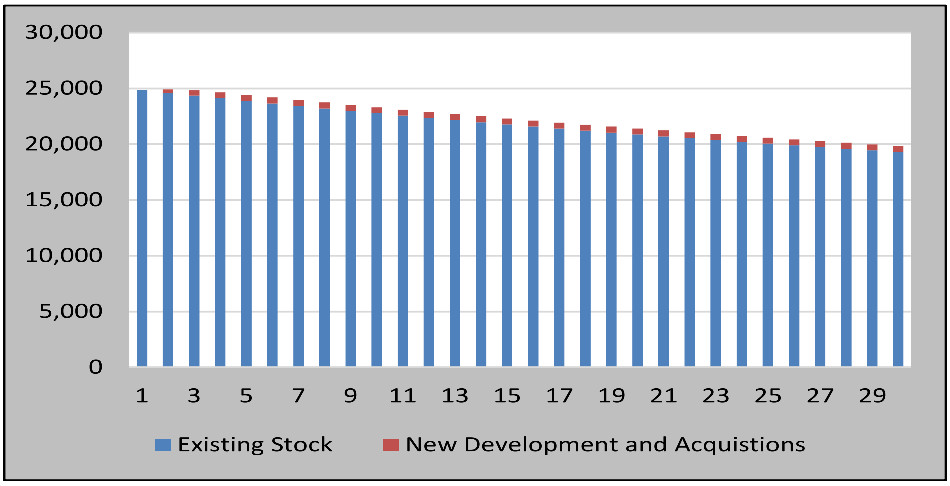
5.10 The business plan incorporates the current Housing Capital Programme (HCP) along with the sources of finance.

5.11 The business plan also incorporates the Council's Treasury Management Strategy (TMSS) which includes the Voluntary Debt Reduction Policy Statement (VDRPS). This means that for the period 2023/24 to 2026/27 there shall be no new borrowing which has a significant impact on the new build and acquisitions programmes.

5.12 The business plan includes a detailed analysis of HRA reserves including requirement to maintain a minimum working balance as well as the Major Repairs Reserve (MRR) and other reserves.

5.13 The VDRPS and the current moratorium on borrowing means that new build and acquisition programme will end in 2026/27. Without any new additions the stock numbers will fall with the consequential loss of rental income. Graph 1 shows the potential reduction in stock numbers over the life of the business plan.

Graph 1 Reduction in stock over the life of the Business Plan



5.14 Following approval of the 2024/25 HRA Budget the 30-year Business Plan will be refreshed and continually reviewed and updated. A further report will be brought to the Executive during 2024/25.

6. HRA Medium Term Financial Plan

6.1 The medium-term financial plan (MTFP) sets out in detail the first four years of the 30-year business plan. The assumptions used in preparing the MTFP are the same as those used in the business plan.

6.2 The only difference between the MTFP and the business plan is that the MTFP includes the proposed growth and savings being recommended for approval.

6.3 Table 1 sets out the 2024/25 to 2027/2028 revenue MTFP for the HRA. It provides a detailed analysis of income and expenditure which can legitimately be charged to the HRA. The MTFP shows that for each financial year the HRA has a balanced budget with expenditure match income.

Table 1 HRA MTFP 2024/25 to 2027/28

Housing Directorate	Budget 2024/25 £m	Estimates 2025/26 £m	Estimates 2026/27 £m	Estimates 2027/28 £m
Income				
Dwelling Rents	(114.342)	(117.772)	(121.305)	(124.944)
Non-Dwelling Rents	(2.746)	(2.778)	(2.811)	(2.845)
Service Charges	(11.205)	(11.542)	(11.888)	(12.244)
Other Income	(0.222)	(0.222)	(0.222)	(0.222)
Total Income	(128.514)	(132.313)	(136.226)	(140.256)
Expenditure				
Repairs & Maintenance	33.979	29.897	30.946	31.393
Management & Supervision	36.744	36.416	36.927	37.309
Depreciation and Amortisation	30.427	34.279	37.289	38.817
Provision for Bad Debts	2.213	2.213	2.213	2.213
Direct Revenue Financing	7.200	4.734	3.180	3.180
Total Expenditure	110.562	107.539	110.556	112.911
Net Cost of Housing Services	(17.952)	(24.774)	(25.670)	(27.344)
Capital Financing Charges				
Debit Interest Paid	15.279	15.020	14.486	13.810
Credit Interest Received	(5.857)	(5.857)	(5.857)	(5.857)
Total Deficit/(Surplus)	(8.530)	(15.610)	(17.040)	(19.391)
Contribution to Reserves	8.530	15.610	17.040	19.391
Net Total	(0.000)	0.000	0.000	0.000

6.4 Set out in Table 2 is a summary of the forecast HRA reserves over the MTFP a detailed breakdown of each reserve is in Appendix 1

Table 2
HRA Total Reserves 2024/25 to 2027/28

HRA RESERVES	Budget 2024/25 £m	Budget 2025/26 £m	Budget 2026/27 £m	Budget 2027/28 £m
Balance Brought Forward - 1st April	(90.854)	(87.860)	(92.634)	(103.601)
Contributions to the Reserve	(38.957)	(49.889)	(54.829)	(58.208)
Contributions from the Reserve	41.951	45.115	43.863	41.202
Balance Carried Forward - 31st March	(87.860)	(92.634)	(103.601)	(120.606)

6.5 It can be seen from Table 2 that following the Chartered Institute of Public Finance Accountants (CIPFA), Penn review and the Item 9 Determination issued by the Department for Levelling Up, Housing and Communities (DLUHC) that the HRA general reserves are increasing. The increases in reserves reflect the requirement for the NCH (Nottingham City Homes) Group to reimburse the HRA £18m as instructed by the Secretary of State. The viability of the NCH Group will be put at risk if payment is made in full and therefore an arrangement has been made where the General Fund reimburse the HRA over a period of 8-years.

6.6 A key part of 2024/25 budget is the transformation of the housing services. The service plan identifies key areas for improvement and investment including data intelligence, customer experience and information technology (IT). These priorities were informed by a range of activities including customer feedback, complaints, Housing Ombudsmen determinations, self-review of services against the requirements of the Social Housing regulation Act 2023. Working collaboratively within housing and the wider NCC corporate teams, to support improvements in data intelligence and IT, the HRA Budget has included growth items the provision for the development of a risk-based approach to asset data intelligence.

6.7 The MTFP reflects the risks arising from an ageing housing stock and increasing repair costs. The number of disrepair claims is increasing and within the recommendations for growth is the provision to refresh the stock condition survey. Undoubtedly, this will reveal a significant demand for essential repairs which will make a significant demand on reserves.

7. HRA Budget 2024/25

7.1 The HRA budget 2024/25 has been prepared to reflect a cautious approach to reflect the national and global economic outlook. The proposed budget is built on prudent assumptions around inflation, interest rates and the continuing strong demand for social housing. Set out in Table 3 is the draft 2024/25 HRA budget compared with the original 2023/24 budget.

Table 3 HRA Budget 2024/25			
Housing Directorate	**Approved Budget £m**	**Budget 2024/25 £m**	**Movement £m**
Income			
Dwelling Rents	(106.955)	(114.342)	(7.387)
Non-Dwelling Rents	(2.700)	(2.746)	(0.046)
Service Charges	(10.048)	(11.205)	(1.157)
Other Income	(0.222)	(0.222)	0
Total Income	(119.924)	(128.514)	(8.590)
Expenditure			
Repairs & Maintenance	30.136	33.979	3.843
Management & Supervision	34.145	36.744	2.599
Depreciation and Amortisation	35.001	30.427	(4.574)
Provision for Bad Debts	2.213	2.213	0.000
Direct Revenue Financing	0.600	7.200	6.600
Total Expenditure	102.095	110.562	8.468
Net Cost of Housing Services	(17.830)	(17.952)	(0.123)
Capital Financing Charges			
Debit Interest Paid	17.501	15.279	(2.222)
Credit Interest Received	(0.171)	(5.857)	(5.686)
Total Deficit/(Surplus)	(0.500)	(8.530)	(8.031)
Contribution to Reserves	0.500	8.530	8.030
Net Total	0	(0)	(0)

Dwelling Rents

7.2 Rental income is the largest single budget within the HRA and is calculated in accordance with the Rent Standard 2020 as amended by the Rent Standard 2023. This applies to all social landlords including local authorities and Housing Associations.

7.3 The Rent Standard 2020 allows all registered providers to increase both social and affordable rent by CPI plus 1%. The CPI is published by the Office of National Statistics (ONS) in the September prior to the year of increase. The Rent Standard 2023 amended this policy for 2023/24 only and after consultation capped the rent increase at 7%.

7.4 The Rent Standard 2023 allows registered providers to return to the initial policy and increase rents by CPI plus 1%. The CPI for September 2023 is 6.7% and therefore it is proposed to increase the rents by 7.7%.

7.5 Social rents are calculated in accordance with the agreed formula set out in the Rent Standard 2020. The formula rent considers such factors as the national average rent, the relative earnings of Nottinghamshire the number of bedrooms and the relative property value. The Council operates a policy so where current rents are below formula rent the rents are moved to formula rent when the property is re-let.

7.6 The full increase in dwelling rents is essential to ensure the continuing investment in high quality housing services for our tenants. Failure to increase the rents by the statutory amount will not only have a significant impact on income in the current year but also for each year going forward.

Garage Rents

7.7 The HRA manages and maintains a total of 3,072 garages at 1st April 2023. It is proposed to increase garage rents by an average 7%. This will increase the average rent per garage from £10.15 to £10.88 per week. The proposed increase has been reflected in the draft budget.

Service Charges to Tenants and Leaseholders

78 The schedule of draft service charges is set out in Appendix 4. The level of service charges should be set to enable the full recovery of the cost of providing the service. It is proposed that general service charges are increased by an average 6.7% in line with the September 2023 CPI.

7.9 A key feature in the calculation of tenant and leaseholder service charges is that initially they pay for the service based on estimates. Then when the final costs are known their accounts are adjusted accordingly.

Property Maintenance

7.10 The repairs and maintenance service is under review through a combination of more effective use of existing resources and additional support to bring in temporary capacity to help deliver transformation. An example of this is within the 2024/25 services plans to review the offer to customers. This is to agree a balance between customer expectations and the Council's regulatory, statutory and landlord obligations.

7.11 This approach will be informed by considering the implementation of a dynamic risk assessment of individual properties, against the four decent homes criteria and against the needs of the tenant. This will be underpinned by robust intelligence on property condition and sound judgements on reasons for deterioration against n established criteria. This will inform priorities for investment and shape the scope of future work programmes.

7.12 This work in 2024 will be engaging with customers to develop the delivery model for the service offer including an option for multi-disciplinary teams rotating on an area-based model. This type of delivery model if adopted would address a wide range of issues highlighted through customer feedback including having a greater visible presence and reducing the volume of jobs needed to be made.

7.13 Having a single contact point rather than being passed across different teams within property services, reduces the problem of having no access and ensures appointments are kept. It can provide greater assurance on quality of work and enable solutions to resolve identified deficiencies within agreed timescales to prevent breeches in our landlord repair obligations and any future disrepair claims.

7.14 This type of model would help reduce service demand for reactive repairs and improve understanding for the reasons for deterioration of building elements, components and subcomponents. This area-based preventative and proactive work will highlight issues that need to be addressed and reduce reactive repairs.

7.15 This approach to review resources required to support the delivery and reshape the service. It provides a tool to evidence compliance with the required outcomes and specific expectations contained in the Housing Consumer Standards as specified in Social Housing Regulation act 2023. The proposals will be developed with tenants during 2024.

7.16 The focus in the first half of 2024/25 will be to address legacy repairs through increased internal capacity and support from two new external contractors.

Management and Supervision

7.17 The management of the housing stock was taken back in-house in 2023/24. These costs included tenancy management, rent and service charge collection and other support to tenants. They also include such services as concierge, caretaking, cleaning and ground maintenance. The costs of providing these services have also increased sharply due to inflation and on average budgets have increased by 6% to reflect these pressures. The management and supervision budget also reflects the annual £2.315m refund from the General Fund to the HRA.

General Fund Recharges to the HRA

7.18 The core finding of the CIPFA/Penn reviews was that the HRA had been incorrectly recharged by the General Fund for services provided. Following the publication of the review findings, the management response has been to critically assess all services provided by the general fund to the HRA. Each recharge has been reviewed to ensure that the evidence on which it is based is robust and is a justifiable charge to the HRA. The revised recharges have been incorporated in the budget.

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Welfare Reform, Rent Arrears and Provision for Bad Debts

7.19 The Council continues to monitor closely the impact of welfare reforms, the current cost of living concerns on rent collection and the level of rent and service charge arrears. The level of arrears and the required bad debt provision will continue to be reviewed but the latest estimates show that the current provision is sufficient.

Hardship Payments

7.20 As part of the 2023/24 budget process Members approved the creation of a £500k hardship fund to help tenants struggling with increased rent arrears. A hardship panel has been set up to assess claims and approve the writing-off of tenant rent arrears and reduce the risk of them becoming homeless.

Item 8 Debit Interest

7.21 Interest is payable on all HRA debt which is split between long-term and short-term. The interest payable all long-term debt is fixed and only changes when debt is refinanced or repaid. The interest charged on all short-term debt is variable and the rate charged reflects the latest market conditions. The current budget reflects the planned repayment of high interest Public Works Loan Board (PWLB) and Lender Options, Borrower Option (LOBO) loans

7.22 The amount of interest payable is also dependent on the capital programme and how it is financed. The current capital takes account of the VDRPS and the present moratorium on new borrowing.

Item 8 Credit Interest

7.23 Under the Item 8 Debit and Credit Determinations the HRA is allowed to receive interest on all capital receipts and other HRA reserves. The level of reserves is substantial as shown in Table 2 and interest rates have increased due to Bank of England intervention to curb inflation.

Revenue Contributions to Finance Capital Expenditure

7.24 The revenue contribution to finance capital expenditure is required where there is a shortfall between the total capital expenditure and the availability of other capital resources. Based on the 2024/25 proposed capital programme, the application of VDRPS and the estimated contribution from reserves, the revenue contribution is £7.2m.

Revenue Growth and Investment Proposals

7.25 Set in Appendix 2 is a list of growth, and investment proposals. These revenue proposals are split between non-recurring items which only relate to 2024/25 and recurring items which are incorporated in the base budget for future years.

8. Capital Programme

8.1 The Capital Programme can be broken down into two sections:

8.1.1 **Approved Programme** – are schemes where the funding has been secured and the project has been formally approved

8.1.2 **Planned Programme** – where schemes have been approved in principal and the Council is awaiting secured funding followed by a robust investment appraisal

8.2 The HRA is asset driven and capital expenditure is essential to maintain decency as well as delivering the remaining approved new energy efficient affordable homes. Table 4 shows the movement in the capital programme since it was approved by full Council in February 2023.

Capital Programme Summary	Capital Programme 2023/24 2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
HRA	65.622	40.043	36.220	0	**141.885**
Approved Capital Budget	**65.622**	**40.043**	**36.220**	**0.000**	**141.885**
Project Slippage / Over & Underspend	(5.869)	4.798	5.778	18.896	**23.603**
Additions	9.878	6.800	6.800	29.115	**52.593**
Revised Programme Budget	**69.631**	**51.641**	**48.798**	**48.011**	**218.081**
Capital Financing					
Prudential Borrowing	(6.352)	0	0	0	(6.352)
Grants & Contributions	(3.222)	0	0	0	(3.222)
Major Repairs Reserve	(39.252)	(44.115)	(43.863)	(41.202)	(168.432)
Revenue Contributions	(7.200)	(4.734)	(3.180)	(3.180)	(18.294)
Other Capital Receipts	(6.644)	(1.072)	(0.035)	(1.910)	(9.661)
Restricted RTB Receipts	(6.961)	(1.720)	(1.720)	(1.719)	(12.120)
Total Capital Financing	**(69.631)**	**(51.641)**	**(48.798)**	**(48.011)**	**(218.081)**

Table 4 Movement in Housing Capital Programme

8.3 The delivery of the 2023/24 programme has been significantly impacted by two external contractors (new build and maintenance contractor) going into receivership and the time taken to procure and approve replacement contractors. This has put additional pressure on the reactive repairs service and is a contributory factor into decreasing customers perception of the service as we haven't been able to deliver improvement to homes when we said we would. The budget does not reflect actual identified need within from the stock condition and is representative of a managed approach.

8.4 Included in Table 5 is a list of al planned schemes.

Table 5 Planned Capital Schemes 2024/25 to 2027/28

Programme/Category	Estimate 2024/25 £m	Estimate 2025/26 £m	Estimate 2026/27 £m	Estimate 2027/28 £m	Estimate Total £m
Replacement of fleet Vehicles	0.625	2.500	2.500	1.875	7.500
Replacement of fork lift truck	0.025	0	0	0	0.025
Heating Interface Replacement	0.205	0	0	0	0.205
Oakdene Development	0.424	0	0	0	0.424
Scooter Stores	0.120	0	0	0	0.12
IT Equipment	0.140	0.130	0.130	0	0.400
Feasability Studies	0	2.590	0	0	2.590
Acquisitions	8.600	4.300	4.300	4.300	21.500
Total Capital Growth Bids	**10.139**	**9.520**	**6.930**	**6.175**	**32.764**
Financed by:					
Restricted 1-4-1 Receipts	3.610	1.720	1.720	1.720	8.770
Direct Revenue Financing	6.530	7.800	5.210	4.455	23.995
Total Financing	**10.139**	**9.520**	**6.930**	**6.175**	**32.764**

Details of the planned schemes can be summarised as follows:

a. The fleet replacement programme is required to ensure obsolete vehicles are replaced be efficient new vehicles in accordance with agreed programme. The fleet replacement programme is funded from direct revenue contributions.

b. The forklift truck at the depot is becoming unreliable and requires constant maintenance. The vehicle needs to be replaced to avoid high maintenance costs. The cost of the replacement of such plant and equipment is funded from direct revenue contributions.

c. Additional provision is required to complete the heating interface replacement programme at HIU Palmer Court. This includes replacing the current system of under-floor heating units which is unpopular with residents at the development. The cost of such improvements will be financed from the major repairs reserve.

d. The Oakdene development had to be retendered and the second round produced bids which were £0.865m higher than in the original approved budget. These additional costs will be financed by reallocating the budget from projects which were under-spent. The additional costs will be financed 40% from restricted RTB receipts and direct revenue contributions.

e. It is proposed to restart the acquisitions programme so that restricted RTB receipts can be used. DLUHC have placed a cap on the number of acquisitions that an authority can make in any one year and this is dependent on the number of new-build completions. It is estimated that in 2024/25 the number of acquisitions will be capped at 40. From 2025/26 onwards the capital programme assumes no new build and therefore the number of acquisitions will be restricted to 20 each year. The acquisitions programme will be financed 40% from restricted RTB receipts and direct revenue contributions. This will be subject to a further report to Executive Board.

8.5 Set out in table 5 is the capital programme 2024/25 to 2027/28. A detailed breakdown of each scheme is set out in Appendix 3.

Table 6 Capital MTFP 2024-25 to 2027-28

Programme/Category	Budget 2024/25 £m	Estimate 2025/26 £m	Estimate 2026/27 £m	Estimate 2027/28 £m	Estimate Total £m
Approved Schemes					
Safe	4.107	6.087	6.614	6.841	23.649
Secure Warm & Modern	19.292	22.504	22.689	24.260	88.745
Energy Efficiency	9.079	1.890	1.566	0	12.535
Older People	1.289	0	0	0	1.289
Decent Neighbourhoods	3.250	6.605	5.964	5.700	21.519
Existing Stock Investment	3.937	2.900	2.900	2.900	12.637
Build a Better Nottingham	16.230	0	0	0	16.230
Adaptations	2.310	2.135	2.135	2.135	8.715
Total Approved Schemes	59.493	42.121	41.868	41.836	185.318
Planned Schemes	10.138	9.520	6.930	6.175	32.763
Total Capital Programme	**69.631**	**51.641**	**48.798**	**48.011**	**218.081**
Capital Financing					
Prudential Borrowing	(6.352)	0	0	0	(6.352)
Grants & Contributions	(3.222)	0	0	0	(3.222)
Major Repairs Reserve	(39.252)	(44.115)	(43.863)	(41.202)	(168.432)
Revenue Contributions	(7.200)	(4.734)	(3.180)	(3.180)	(18.294)
Other Capital Receipts	(6.644)	(1.072)	(0.035)	(1.910)	(9.661)
Restricted RTB Receipts	(6.961)	(1.720)	(1.720)	(1.719)	(12.120)
Total Capital Financing	**(69.631)**	**(51.641)**	**(48.798)**	**(48.011)**	**(218.081)**

8.6 The draft estimate reflects ongoing investment in existing Council dwellings as well as the delivery of new affordable homes under the “Build a Better Nottingham” programme. Schemes under this programme can be 40% funded by restricted RTB receipts.

a. The increase in the Safe, Secure and Warm programmes reflect the recent legislation regarding the building and fire safety standard. The Fire Safety Regulations 2022 make it a legal requirement from the 23 January 2023 that all registered providers of high-rise residential buildings in England provide their local Fire & Rescue services with information regarding the design and materials used in external walls.

b. The statutory fire risk assessment and the necessary investment to remove and replace non-compliant materials will have a significant impact on the medium-term capital programme. The assessment is ongoing and estimates will be refined as the full extent of the risks are known.

c. Built into the current Energy Efficiency programme is the investment in decarbonisation. Successful funding bids to the Governments Social Housing Decarbonisation Fund (SHDF) has enabled the scope of the planned investment programme to be optimised into to a whole retrofit programme. The current Wave 2 schemes is due to end in 2024/25.

d. As part of the SHDF Wave 2 grant funding the Council as the accountable body has entered a Memorandum of Understanding (MOU) with the Department of Energy Security and Net Zero (DESNZ). The MOU sets out the conditions that the Council must adhere to when it accepts the grant including monthly invoicing and reporting requirements.

e. It can be seen from Appendix 3 that there are no approved schemes in the Build a Better Nottingham Programme for 2025/26 and subsequent years. This programme is designed to provide the Council's new build developments along with any other acquisitions. All new build schemes and acquisitions can be 40% restricted RTB receipts.

Right to Buy Receipts

8.7 The current reinvigorated RTB regime started in 2012/13 and set out in Table 7 is the receipts received and used up until 30 December 2023.

Table 7

RTB Receipts Received and Used to 31/12/2023

Year	Number of Sales Nos	Balance b/f £m	Receipts Received £m	Receipts Used £m	Balance c/f £m
2012/13	134	0	(1.190)	0.247	(0.943)
2013/14	154	(0.943)	(1.363)	1.799	(0.507)
2014/15	217	(0.507)	(2.505)	0.784	(2.228)
2015/16	362	(2.228)	(4.693)	0.075	(6.846)
2016/17	276	(6.846)	(3.819)	3.782	(6.882)
2017/18	438	(6.882)	(8.295)	4.543	(10.634)
2018/19	346	(10.634)	(6.821)	2.024	(15.431)
2019/20	247	(15.431)	(4.877)	3.719	(16.590)
2020/21	173	(16.590)	(2.856)	4.436	(15.010)
2021/22	232	(15.010)	(5.387)	4.620	(15.777)
2022/23	358	(15.777)	(13.415)	5.661	(23.531)
2023/24 to Dec'23	196	(23.531)	(8.123)	6.905	(24.750)
Totals	**3133**		**63.343)**	**38.594**	

8.8 The receipts received in 2022/23 are significantly higher than in previous years not only because of the increased number of sales but in March 2023 the Department of Levelling Up, Housing and Communities (DLUHC) notified all local authorities that for 2022/23 and 2023/24 only they could retain the Treasury Share of the RTB receipts. The annual Treasury Share for the City Council is £2.083m.

8.9 Local authorities have 5 years in which to spend their restricted RTB receipts and set out in Table 9` is the target expenditure each year based on the capital receipt already received up until 2022/23.

Table 8

Approved Schemes Compared with Targeted CAPEX

Description	Estimate 2024/25 £m	Estimate 2025/26 £m	Estimate 2026/27 £m	Estimate 2027/28 £m
CAPEX in Excess of Target Brought Forward	(30.485)	(35.695)	(32.855)	(23.688)
Target CAPEX for year	12.193	7.140	13.467	33.537
Estimate Approved Schemes	(17.404)	(4.300)	(4.300)	(4.300)
CAPEX in Excess of Target Carried Forward	**(35.695)**	**(32.855)**	**(23.688)**	**5.549**

8.10 It can be seen from Table 8 that as at 1 April 2024 actual capital expenditure will be £30.485m ahead of the Government's target for expenditure on the replacement of affordable homes. The approved schemes in 2024/25 will exceed the Government's target but going forward the lack of affordable schemes will mean that the Council will not meet the target in 2027/28. This means that the Council will have to pay back the receipts to the Government.

8.11 Interest is charged on the late repayment of RTB receipts at 4% above bank rate compounded annually. The bank rate is currently 5.25% which means that if the receipts are not repaid until the end of the five-year period the interest paid is considerable. It is therefore recommended that the Council does not accept the Government's offer to retain the Treasury Share and repay the 2022/23 element.

Unrestricted RTB Receipts

8.12 There is an element of the RTB receipts which are not restricted and can be used for any capital purpose or repay debt. Set out in Table 10 is an estimate of the unrestricted RTB receipts which will accumulate because of the RTB sales. It is assumed that all unrestricted receipts will be used to repay debt of finance the capital programme.

Table 9
Use of Unrestricted RTB Receipts

Unrestricted RTB Receipts	Estimate 2024/25 £m	Estimate 2025/26 £m	Estimate 2026/27 £m	Estimate 2027/28 £m
Balance as at 1st April	0.00	0.00	0.00	0.00
Unrestricted Receipts Received	(4.333)	(4.401)	(4.469)	(4.538)
Receipts used to repay debt	4.333	4.401	4.469	4.538
Balance as at 31st March	**0.00**	**0.00**	**0.00**	**0.00**

9 Level of HRA Working Balances

9.1 A prudent level of working balances along with the appropriate application of HRA reserves should be part of the budget setting process. Section 25 of the Local Government Act 2003 places a duty on the Section 151 Officer to report on the adequacy of general and earmarked reserves.

9.2 The Corporate Director of Finance and Resources has reviewed the level of working balances and recommends that it remains at £10m which approximately 10% or rental income. It can be seen from Table 10 that the working balance remains at £10m with any surpluses credited to general HRA reserves9.3 The minimum level of working balance is in place to cope with unpredictable circumstances which cannot be addressed by management and policy action within the year.

Table 10
HRA Working Balance 2024/25 to 2027/28

HRA WORKING BALANCES	Budget 2024/25 £m	Budget 2025/26 £m	Budget 2026/27 £m	Budget 2027/28 £m
Balance Brought Forward - 1st April	(10.000)	(10.000)	(10.000)	(10.000)
Contributions to the Working Balance	-	-	-	-
Contributions from the Working Balance	-	-	-	-
Balance Carried Forward - 31st March	(10.000)	(10.000)	(10.000)	(10.000)

Other options considered in making recommendations

10. Consideration of Risk

Risk comments are contained within the body of the report**,** details of specific risks and robustness of the budget and adequacy of reserves are shown in the Appendices. Inflationary pressures cannot be foreseen at this time due to the volatility of the market.

11. Equality Impact Assessment

A high level view was undertaken but a detailed EIA will be undertaken as part of the service delivery of the budget before implementation of the increase in rent and service charges. As part of the high level review, mitigations will include the Hardship Fund and support through the Tenancy sustainment team to discuss affordability with tenants.

12. Best Value Considerations, including consideration of Make or Buy where appropriate

Value for money is considered throughout the budget process in identifying budget savings and minimising growth items.

13. Finance colleague comments (including implications and value for money/VAT)

The financial implications are set out in full in the body of the report.

14. Legal comments

The body of the report alludes to the relevant legislative framework underpinning the proposed recommendations. In all other regards the report raises no significant legal issues.

Malcolm R. Townroe – Director of Legal and Governance – 28 December 2023

15. Procurement comments

Not applicable

16. Crime and Disorder Implications (If Applicable)

Not applicable

17. Social value considerations (If Applicable)

Not applicable

18. Data Protection Impact Assessment

Not applicable